

# CA INTER

**NEW SYLLABUS**

# AUDITING & ETHICS

**Handwritten  
Class Notes  
By- Student**

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A portrait of a man with a beard and mustache, wearing a dark grey blazer over a white button-down shirt. He is looking directly at the camera with a slight smile. The background is a solid dark blue.



# CA INTERMEDIATE

## Auditing and Ethics

Hand Written Class Notes

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**Disclaimer:**

These are class notes written by a student of RJ Sir from regular lectures. Kindly ignore spelling and grammatical errors if any. These are shared only for the benefit of Inter students preparing for M24 exams.





General Purpose of Financial Statement :

- 1> Balance Sheet
- 2> Statement of profit and loss Account
- 3> Cash flow Statement
- 4> Notes to A/c's including Significant accounting policies
- 5> Statement of changes in Equity.

Users of Financial Statement :

- 1> Management
- 2> Owners
- 3> Prospective investor
- 4> Suppliers etc

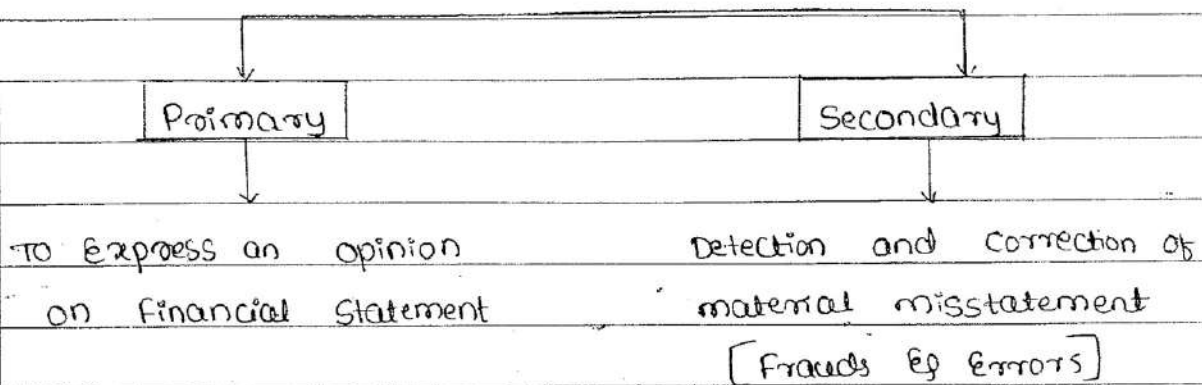
Definition of audit [FS Audit, external audit or statutory audit]

Audit is an independent examination of financial information for any entity whether profit oriented or not and irrespective of its size or legal structure with a view to express an opinion thereon.

Steps involved in a statutory audit

- 1> Understanding the entities business and its environment.
- 2> Agreeing the terms of engagement.
- 3> Audit Planning.
- 4> Execution / implementation of audit plan.
- 5> Audit Reporting and conclusion.

## Objectives of an audit :



## Notes

## 1. Meaning of misstatement :

misstatement refers to difference between amount, classification, presentation or disclosure of an reported FS items and the amount, classification, presentation, or disclosures that is required for that respective items as per applicable FRF [Financial Reporting Framework]

## 2. Meaning of material misstatement :

If an auditor judgement a misstatement can influence the decision of its users of FS than auditor should consider such misstatements as material misstatement.

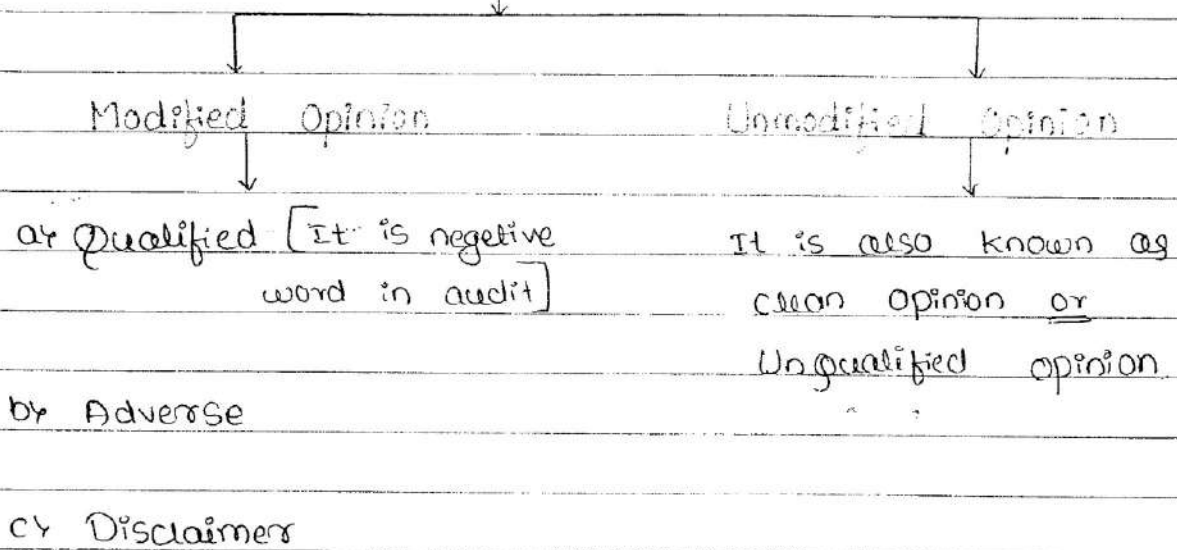
3. As per SA 200, the Overall objective of an independent auditor is to obtain reasonable assurance that whether FS are free from material misstatements and they are prepared in accordance with applicable FRF before expressing his opinion in the audit Report.



# SA - 700

## Forming and Opinion and Reporting an Financial Statement.

### Types of Opinion





# Old Audit Report Format

Contains and Elements :-

1> Title : Independent Auditors Report

2> Addressee : Members and Shareholders of the Company

3> Introductory Paragraph :

4> Scope Paragraph : It includes Mgt Responsibility for preparation of financial statement and auditors responsibility to express an opinion on these financial statement.

5> Basis for Modified Opinion :

This paragraph will come only in case of modified opinion [SA 705]

6> Opinion Paragraph :

7> Emphasis of Matter Paragraph :

SA - 706

8> Other matter Paragraph :

9> Report on other legal and Regulatory Requirements :  
Sec 143 (3) & (ii)

10> Audit firms Name

11> Firm Registration Number





12) Partners Name :

13) Partners Membership Number :

14) place and date :

## Revised Audit Report Format

Contains and elements :-

1) Title :- Independent Auditors Report

2) Addressee :

3) Include a Statement that its a report on audit of FS

4) Opinion paragraph : In the Revised audit Report opinion heading includes the following paragraphs

a) Introductory Paragraph :

This will include the following

i) identify the Entity whose FS have been audited

ii) State that FS have been audited

iii) Identify the title of each Statement comprising the FS  
eg : BIS , PPL , CFS etc

iv) Refer to the notes including Summary of Significant accounting policies

v) Specifies the date of or period covered by each FS

by Auditor's opinion on the FS :

it can be either modified or unmodified

5x Basis for opinion paragraph :

In revised audit report format Basis for opinion paragraph should be included even if auditor is expressing a clean opinion or unmodified opinion.

Notes :

3x In case of Clean opinion "Basis for opinion" will be included the following

a) A statement that auditor has conducted audit in accordance with SA's

b) Refer to the Sec of auditor's report which describes "audited responsibilities" under the SA's

c) include a statement that auditor is independent of the entity, in accordance with relevant ethical requirements as per code of ethics issued by ICAI and auditor has also fulfilled all the requirements of applicable provisions of the Companies Act 2013

d) State that auditor believes that audit evidence obtained is sufficient and appropriate to provide the basis for his opinion [SA 500]

2x In case of Modified opinion "Basis for modified opinion" will include the following





4\* Reasons for Modification i.e. misstatement identified by audit or possible misstatement not identified by auditor [SA - 705]

by same 4 points as maintained above From not - ①

6\* Material Uncertainty related to Going Concern [SA - 570]

7\* Key Audit Matter Paragraph [KAM] [SA - 701]

8\* Emphasis of matter paragraph [SA - 706]

9\* Management Responsibility for FS

10\* Auditor Responsibility for audit of FS

11\* Other Matter paragraph [SA - 706]

12\* Reporting on Other legal and regulatory requirements [Sec 14.3 (3) and (ii)]

13\* Audit firms Name

14\* Firm Registration Number

15\* Partners Name

16\* Partners Membership Number

## SA - 705

Modification To The Opinion

1. Circumstances when a modification to the auditor's opinion is required :

a) when auditor concludes, based on his audit evidence are obtained that FS as a whole are not free from material misstatement

b) when auditor is unable to obtain sufficient and appropriate audit evidences to conclude that FS as a whole are free from material misstatement there can be possible misstatement

2. Types of Modification :

a) Qualified

b) Adverse

c) disclaimer

3. which Modification is appropriate Under what Circumstances :

Nature of Matter giving rise to the Modification	Material but Not Pervasive	Material as well as Pervasive
FS are materially misstated	Qualified	Adverse
when auditor Unable to obtain Sufficient and appropriate audit	Qualified	Disclaimer [Generally we use when there is a restriction





Notes :-

2) Meaning of pervasive :-

Pervasive is used only in the context of misstatement to describe the effects or possible effects of misstatement on the FS. Pervasive effect on FS are those that in auditor's judgement fulfills any of the following categories:

i) The effect or possible effect is not confined to a specific A/c balance, element, or items of FS

ii) If the effect or possible effect is confined to a specific element or A/c Bal of FS but represents or could represent a substantial proportion of FS

iii) In relation to disclosure the effects or possible effects are fundamental to the users' understanding of FS eg: Significant A/c<sup>n</sup> policy in note to A/c's

2) Meaning of Qualified opinion :

The auditor expresses a Qualified Opinion when:

a) The auditor having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive to the FS or

b) The auditor is unable to obtain SAAE on which to base the opinion but the auditor concludes that the possible effect on the FS of



undetected misstatement if any could be material but not pervasive

3x Adverse opinion :-

The auditor shall express an adverse opinion when the auditor having obtained SAAE concludes that misstatements individually or in the aggregate are both material and pervasive to the FS

4x Disclaimer of opinion :-

ax The auditor shall disclaim an opinion when he is unable to obtain SAAE and he concludes that the possible misstatement could be both material and pervasive

bx Auditor shall disclaim an opinion in extremely rare circumstances, which may involve multiple uncertainties in this case auditor concludes that not withstanding having obtain SAAE regarding each of the individual uncertainties, it is not possible to form an opinion on the overall FS due to potential interaction of uncertainty and their possible cumulative effect on FS

This point just for opu

5x Before modifying his audit opinion, auditor should communicate to TCWG and Mgt as SA 260 regarding the misstatements identified during the course of audit and provide them a reasonable opportunity to adjust or current the same



- mp 6x Factors / Matters which will help in deciding which modification is appropriate under what circumstances :
- a) The Nature of matter Giving rise to modifications such as FS are materially misstated, whether auditor is unable to obtain sufficient and appropriate Audit Evidence
  - b) The auditor judgement about pervasiveness of the effect or possible effect of the matter on FS i.e whether it is material but not pervasive or it is material as well as pervasive

### Lecture - 5 , Date - 06-12-2023

⇒ Changes in audit Report Forman when there is a disclaimer :

a) Changes in opinion heading :

i) Auditor should use "we were engaged in audit" instead of "we have audited"

ii) Auditor should use a statement that "we have not been able to obtain sufficient and appropriate Audit Evidence to base our opinion"

iii) Auditor should use "we do not express an opinion on the FS"





by changes Basis for opinion paragraph :

Auditor should include only reasons for modification

∴ General points Regarding Compliances of SA's  
independents and Ethical requirements etc are  
not included in the paragraph

Imp of changes in auditor Responsibility Paragraph :

A statement that the auditor's responsibility to conduct  
an audit of the Entity's FS in accordance with  
Standards on Auditing and to issue an auditor's  
report





SA - 706

## Emphasis Of Matter Paragraph And Other Matter Paragraph

EOM Paragraph :-

- 1) As per SA 706 A paragraph included in the auditor's report that refers to a matter which is appropriately presented and disclosed in the FS and that in auditor's judgement is important for the fundamental understanding of FS for the users.
- 2) Examples of matters which can be included in EOM :
  - 1) Future outcome of exceptional litigation or regulatory actions
  - 2) A significant subsequent event [non adjustment event] [SA 560]
  - 3) A major catastrophe or natural calamity which may significantly affect entity's financial position
  - 4) A change in accounting policy or an early adoption a new AS
- 3) Auditor should include an appropriate matter in the EOM paragraph, provided ;

i) Auditor is not required to modify his opinion on the same matter as per SA 705

ii) when SA 701 becomes applicable [KAM Paragraph] auditor is not required to include above matter under KAM

4) EOM is not a substitute the following:

i) when 705 is required

ii) when there is a material uncertainty related to Going Concern [SA 570]

iii) Required disclosure in the FS as per applicable FRF

5) EOM Paragraph may include the following:

i) A brief description of the concerned matter along with a clear reference where relevant disclosures have been included in the FS i.e. reference of respective notes to accounts

ii) Auditor should include the paragraph within a separate section of auditor's report. Generally auditor uses the terms "Emphasis of matter" he can also include sub-headings in case of multiple matters

iii) Auditor should include a statement that our opinion is not modified in respect of matters specified under EOM





### 6. Drafting of EOM

we draw attention to Note 05 of the FS which describes the effect of a pending litigation in the Company. Our opinion is not modified.

\* As per revised SA 706 auditor may include EOM paragraph either directly before or after the KAM paragraph. It is purely different upon auditor judgement that how significant is the information included in EOM.

### Other Matter Paragraph :-

1. It is a paragraph included in the auditor's report that refers to a matter other than those presented or disclose in the FS and in auditor's judgement these matter are important for users understanding of auditor's report, auditor's responsibility or his opinion.

2. Auditor should include an appropriate matter in the OM paragraph provided :-

- It is not prohibited by law or regulation and when SA 701 becomes applicable auditor has not determined to include above matter under KAM paragraph.

3. Examples of Other Matter paragraph :-

i. SA 510 "Initial audit engagement"

ii. SA 600 "Using the work of another auditor" :-

when a CFS Auditor uses the audit report of Separately appointed Branch auditor

## SA - 210

Agreeing The Terms Of Audit Engagement

Points to be included in the

- A) Scope and objective of the auditor [That is nature of services to be provided, eg. Stat audit & Tax audit]
- B) Auditor Responsibility  
 Note : Auditor should also include his inherent limitations of audit with his responsibilities in the engagement letter.
- C) Management Responsibility for Preparation of FS [called as Pre conditions for an audit]
- D) Identification of applicable FRF for the preparation of FS
- E) Reference to Excepted from and contain of any reports to be issued by the auditor and a statement that there can be circumstance in which a report may differ from its accepted form and contain.



## PRE - CONDITIONS

27 As per SA 210 Pre Conditions for an audit can be defined as Used by Mgt of an acceptable FRF to prepare FS an an Acknowledgement or agreement that they will consider the following :

a) They will provide access to all the information which is required for the purpose of audit of FS. Eg : BOA, Docs, records etc

b) They will provide unrestricted access to the person within the Entity from whom auditor determines that it is necessary to obtain Audit Evidence.

c) Access to additional information that auditor may request from the mgt for the purpose of audit

28 Mgt should also Acknowledge that they are responsible for internal control which are required to prepare FS Free from material misstatement.

31 It is the Responsibility of mgt to Compliance with all applicable laws and regulations [SA 250]

Notes :-

a) Limitations on auditor scope Prior to audit Engagement acceptance :

If Mgt or TCWG imposes a limitation on the Scope of auditors work and auditor believes such limitation will result into a situation where auditor will be required to give disclaimer of opinion as

per SA 705, then auditor should not accept such limited scope engagement.

b) If any of the above maintained Pre Conditions are missing [H.W.]:

The auditor not accept the proposal of engagement if the auditor is determined that FRF are not applied in FS.

ii) If the mgt is not obtained the matter relating to

- Understanding the responsibility of Mgt on preparation of its internal control, for preparation of FS
- Provide access of all info to auditor
- Unrestricted access to persons within the Entity

## RECURRING AUDIT

1) In case Recurring Auditor is not required to provide new/ Revised Engagement letter Every Year, However there can be certain Circumstances which may required for auditor to revise the existing terms of Engagement

2) Following Factors may required an auditors to revise the terms of Engagement

- 1) when there is a change in senior Mgt / BOD
- 2) when there is a significant change in ownership
- 3) Change in applicable FRF
- 4) Change in applicable legal & Regulatory requirement
- 5) Change in Nature of Entity's Business



Tax audit, Limited Review [LR] of listed company  
 & when there is any indication that the Entity  
 misunderstands the objective and scope of audit

## Acceptance Of Change in Engagement

### Terms During The Course Of Audit

A) General Contains as per SA 210

1) Auditor should not accept to a revision in engagement terms during the course of audit unless there is reasonable justification for the revision

2) If the revised terms results a lower level of assurance in comparison with the original terms then auditor should not except the revised term

3) If auditor unable to agree to a change in terms of engagement then he should request the Mgt to continue with the original terms if mgt does not permit to continue with the original term the auditor should

- withdraw from the engagement unless prohibited by law's and regulation and

- he should determined whether there is any obligation to report about his withdrawn to the 3rd parties / Regulator as per laws and regulations



4) If auditor concludes that there is reasonable justification to the change of engagement terms, then auditor may accept the change in terms and they should record the new terms of engagement in an engagement letter.

5) when auditor accepts the change in terms to avoid confusion for the readers auditor should not include reference original audit engagement or any procedure that may have been performed in the original audit engagement.

③ Reasons for change in terms of engagement by Mgt :

A Request from the Entity for the auditor to change the term of the audit engagement [T.W]

i) A change in circumstances affecting the need for the services

ii) A misunderstanding as to the nature of an audit as originally requested

iii) A restriction on the scope of the audit Mgt whether imposed by Mgt or caused by other circumstance



## Other Important Points

- a) Auditors shall agree the terms of audit engagement with mgt / TCWA
- b) As per SA 210 it is important that both auditor and client should be clear about the nature of engagement. ∴ Engagement terms should be recorded either in the engagement letter or any other suitable form of written agreement.
- c) If law / Regulation prescribes in sufficient details the terms of audit engagement then auditor need not record them in a written agreement except for the fact that such law / regulation applies and mgt acknowledges and understands its responsibility.





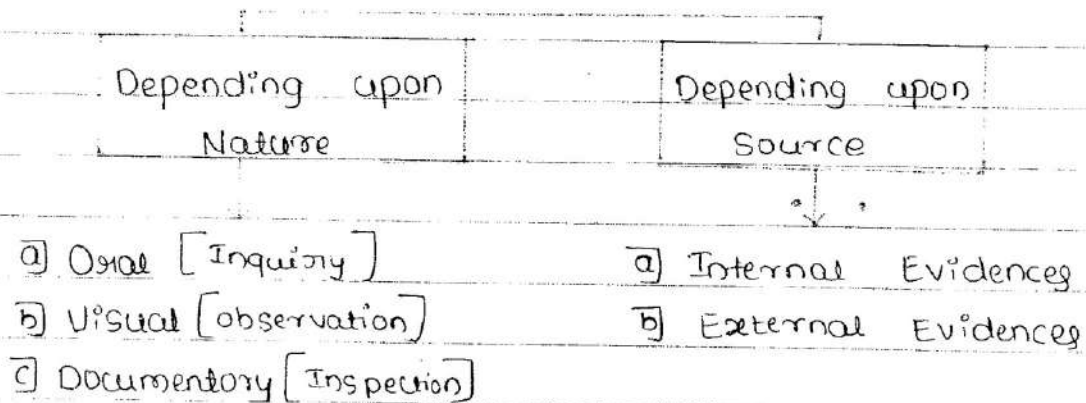
## SA - 500

## AUDIT EVIDENCE

1) Definition :-

Audit Evidence can be defined as any information used by the auditor to arrive at his conclusion i.e. on the basis of which audit opinion is expressed.

2) Types :-



3) Audit Evidence includes both information contained in accounting records and other information that authenticates the accounting records

Notes :-

- A) Information contained in accounting records may include different invoices, contracts, agreements, internal work-sheets such as attendance sheet, leave records etc
- B) Other information may include summary of BOD, SH's minutes of the meetings, written representation as per







Internal control manual describing the process etc

4) Inconsistency in or or doubt over reliability of AE :

For Doubt over the reliability of AE also refer SA 580

5) Reliability of Audit Evidence :

A) General assumption / Generalisation about reliability of Audit Evidence may include the following [H.W]

i) Reliability increased when AE is obtained from independent sources outside the Entity

ii) AE obtained directly by the auditor is more reliable

iii) AE in documentary form is more reliable

iv) AE provided by original documents is more reliable

v)

B) Generalisation about reliability of audit evidence are also subject to important exceptions :-

when obtaining information from an independent external source may not be reliable if the source is not knowledgeable or colludes with mgt

Some times a mgt expert may also lack of objectivity



e) Audit Procedure or Methods to obtain audit Evidences

a) Inquiry :-

Inquiry consists of seeking information from a knowledgeable person, information can be either financial or non financial and person can be within the Entity or outside the Entity

Note : All though inquiry may provide important audit evidences however inquiry alone ordinarily does not provide sufficient and appropriate audit evidence.  $\therefore$  auditor may use a combination of inquiry and observation or inquiry and inspection

b) Observation :-

Observation consists of looking at a process or procedure being performed by others

Eg : Auditor may observe a physical verification of inventory conducted by mgt Generally at period end date.

c) Inspection :-

Inspection involves Examination of records or documents. It also covers Physical verification of an Entity's asset.

d) External Confirmation : SA - 505

e) Analytical Procedures : SA - 520

f) Recalculation and Recomputation :

Recalculation consists of checking mathematical accuracy

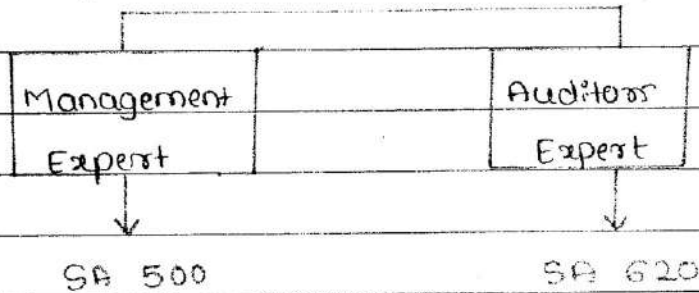




¶) Reperformance :

Reperformance involves auditor's independent execution of procedures that were originally performed by the entity eg: Re-performing the reconciliation of Bank Statement.

¶) Types of Experts :-



Lecture - 09 , Date : 11-12-2023

Using the Work of Management Expert [KAM]

As per SA 500 "Audit Evidence" Before Using the work or report of management expert as an audit evidence auditor should consider the following aspects

A) Auditor should evaluate the competence, capability and objectivity of Mgt expert :

- i) whether experts are employed / engaged by the entity
- ii) extent of influence or control over expert by mgt
- iii) experts qualification, membership of a professional body or an industry association
- iv) Auditor previous experience with the mgt expert



B) Auditor should obtain an understanding of the work of that expert

i) whether auditor has expertise to evaluate the work of Management Experts

ii) whether any professional or other standard and regulatory / legal requirement apply.

iii) Evaluate the nature of internal / external data used by Mgt Expert. data used should be relevant, complete and accurate

iv) Evaluate the methods and assumption used by Mgt Experts.

C) Auditor should evaluate the appropriateness of Mgt Experts work to be used as an audit evidence for relevant assertion - [chapter 5]

Experts findings and conclusions should be relevant and reasonable.

Note - If auditor decides not to rely / used Mgt Expert report as an audit evidence then he should perform alternative / additional procedure to obtain SAAE. Sometime auditor can also use the work of auditor Expert as per SA 620.

- Audit Evidence should be sufficient and appropriate. Sufficiency is measure of Qty and appropriate is measure of Quality.



SA - 505

## External Confirmation

1) Definition :

External Confirmation can be defined as an audit evidence that is obtained as a direct return response to the auditor from a 3<sup>rd</sup> party i.e. Confirming party in the form of paper or Electronic mode.

2) Determining info to be Confirmed or requested :

As per SA 505 auditor may ask a 3<sup>rd</sup> party to Confirm the following information :

- outstanding Balances [B/R, B/P, Loans & Advances]
- Transaction between the Entity and 3<sup>rd</sup> party
- Terms of agreements or Contracts
- Sometimes 505 can be used to Confirm absence of certain conditions such as side agreements or vendor kick back

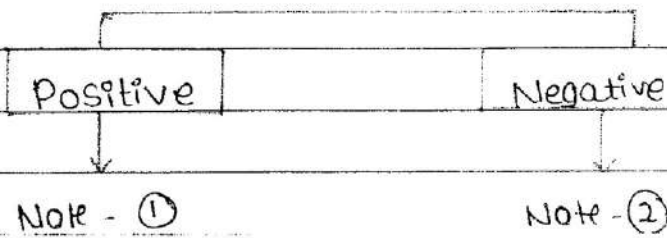
3) External Confirmation Procedure : [H.W]

Auditor shall maintain control over External Confirmation requests including :

- i) Determining the info to be Confirmed
- ii) Selecting the appropriate Confirmed party
- iii) Designing the Confirmation request [Properly addressed]
- iv) Sending the requests including follow up requests



## 47 Types or Forms of External Confirmation



## Notes

- a) A positive Confirmation request required the Confirming party to respond directly to the auditor indicating whether they agree/disagree with the info provided the request or provide the requested information
- b) Positive Confirmation will provide more reliable AE if Confirming party responds appropriately. However there is always risk that Confirming party may replay to the Confirmation request without verifying that the information is correct or not.
- c) To Reduce the above risk auditor may use the positive Confirmation request that do not state the amt or info in the request letter and auditor should ask the Confirming party to fill in the amt or provide the requested info
- d) when auditor use "Blank Confirmation request" he may receive less responses because of additional effect that is required on part of Confirming party





- (2)
- a) In case of negative Confirmation request auditor wants the confirming party to respond directly to the auditor only if confirming party disagree with the info provided in the request letter.
- b) Negative Confirmation Request Provides less persuasive audit evidence than positive Confirmation.
- c) Auditor shall not use negative Confirmation request as the sole substantive audit procedure for a specific area unless all of the following conditions are fulfilled
- i) In auditor's judgement risk of materials misstatement is low [ROMM] [SA-315]
  - ii) In auditor's judgements relevant internal controls are operating effectively [Compliance Procedures]
  - iii) Population of items comprises large number of small, homogeneous transactions or balances
  - iv) Auditor is expecting a very low Exception rate
  - v) Auditor has no reason to believe that the confirming party will disregard his confirmation request
- 5) Mgt refusal to allowed the auditor to send a Confirmation



## 6x Meaning Of Exception :-

The response that indicates difference between information requested to be confirmed or info contained in the Entity's AC<sup>n</sup> records and information provided by confirming party as a response.

## 7x Factors to be kept in mind while designing Confirmation request

i) layout and presentation of Confirmation request

ii) Method of Communication 
 ↙ In Paper form  
 ↘ Electronic mode

iii) Identified ROMM [36: 315]

iv) Mgt authorisation or encouragement to the confirming party to respond to the party

v) The ability for intended confirming party to confirm or to provide the requested information

vi) Assertions being addressed [chapter - 5]

## 8x Evaluating the Evidence obtained :

As per SA 505 Auditor should evaluate the results of external confirmation request. Result can be classified into following categories

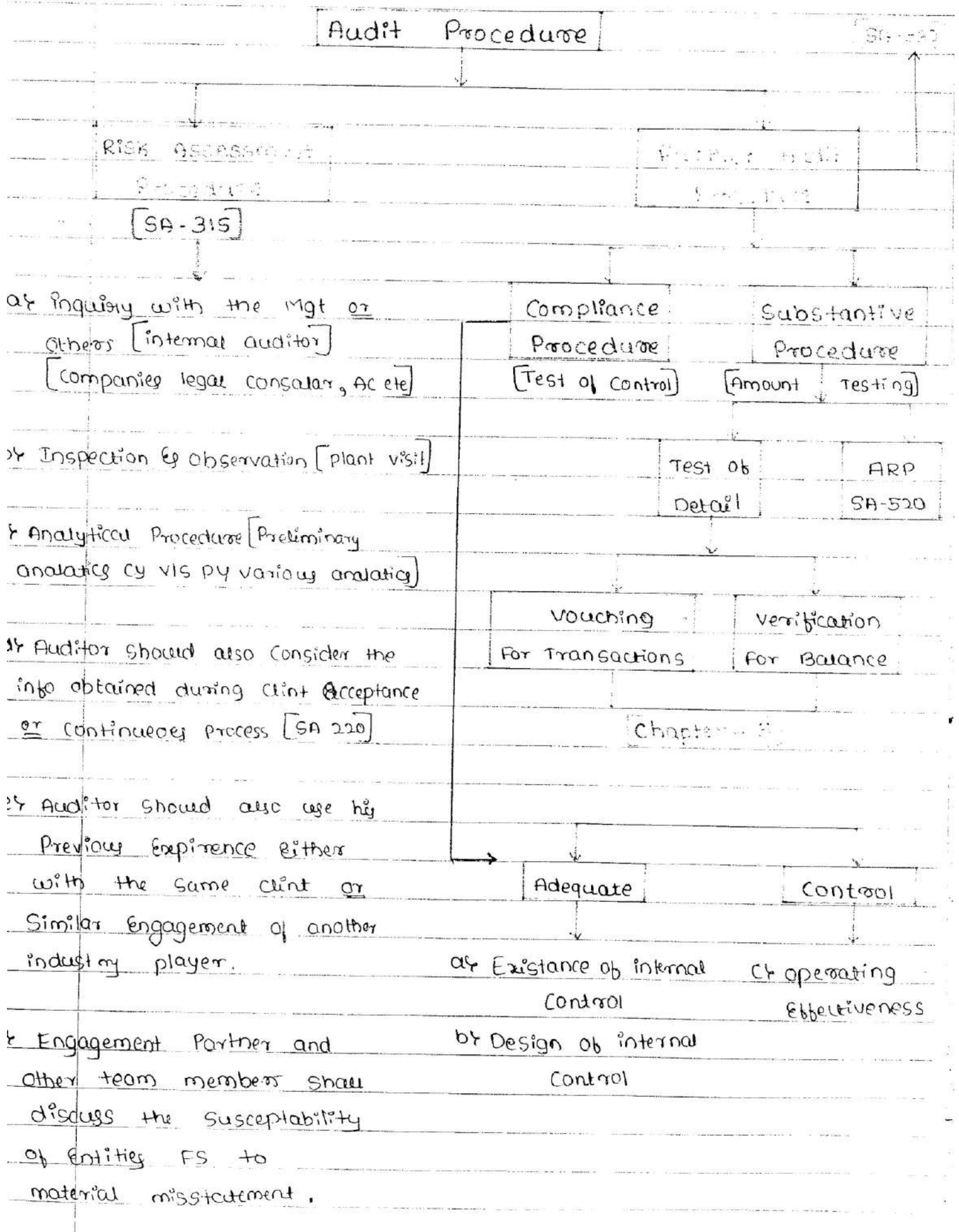
i) A Non Response

ii) A response stated incomplete [related with ...]



- iii) A response indicating an Exception
- iv) A response indicating agreement with the information as per Confirmation request are provided the requested information.







SA - 315

## Identifying And Assessing The ROMM Through Understanding The Entity And It's Environment

1) Auditor should identify and assess the ROMM by applying a procedure i.e. risk assessment procedure

2) Risk Assessment procedure may include the following  
[Refer Chart in PNO - 39] [Module PNO - 1B.20]

Note : Risk Assessment Procedure by themselves do not provide SAAE to base your audit opinion.

3) Auditor should obtain an understanding of the Entity & its Environment including Entity's internal control

a) Relevant industry, Regulatory Framework and other external factors such as applicable FRF

b) Nature of the Entity's Business including its operations

c) Entity's Ownership Structure and Sources of Finance

d) Types of Investments made by the Entity

e) Entity's Goals and objectives, also related business risk which may result into material misstatement

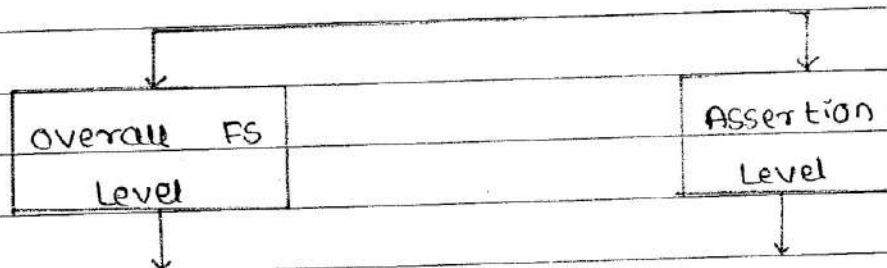


f) measurement and review of Entity's financial performance

g) Selection and application of Accounting policies

Lecture -12, Date : 14-12-2023

4) Auditor should identify and assess the ROMM at the following levels



These risks are pervasive in nature. They may affect multiple assertions or entire FS

It may include risk for a class of transaction or A/c Balance or Presentation and disclosure.

Notes :-

i) Classification of Risk on the above levels with help in auditor in designing and performing further audit procedure [also known as responses to the assessed risk]

ii) After performing Risk Assessment procedure auditor can design and perform further audit procedure i.e. Compliance and substantive procedure.

XAM 5) Significant Risk :-

If Auditor comes across Significant Risk during risk assessment procedure then he should consider





Special audit Consideration i.e. detailed Compliances and Substantive procedure to address the risk.

Note :-

Following Factors or Considerations will help an Auditor to identify Significant Risk :

- a) Risk of fraud
- b) Complexity of Transaction
- c) Transactions with related party
- d) Unusual Significant Transaction
- e) Degree of Subjectivity involved in measurement of a FS Items, Eg : Difference Accounting Estimates such as warranty provision.
- f) Risk Related to present Significant accounting, legal or Economic development.

Ex Sometimes auditor may come across risk of which Substantive procedure alone do not provide SAAE  
 Eg :- Companies may have highly automated internal Controls with very little or no manual intervention for processing certain transactions. ∴ It is essential for the auditor to understand and Evaluate these Controls through Compliance procedure before amt testing

Lecture - 14 , Date : 16-12-2023

Ex while Understanding and Evaluating Internal Control auditor may come across Significant deficiency or material weakness in the design of internal Control he should Communicate the same to TCWG and

Note :

Now a days auditor is also required to express his opinion on internal financial Control [IFC's] which are relevant for financial Reporting as per Sec 143 (3)(i)

87 As per SA 315 the objective of the auditor is to identify and assess ROMM [whether due to fraud and Error] at the FS level and assertion level

Through understanding the Entity and its Environment including related internal Controls, this will help the auditor in designing and implementing further audit procedure i.e. responses to the assessed Risks

88 To achieve the objective of the SA 315, auditor may follow the following steps :

a) Auditor should identify Risk throughout the process of understanding the Entity and its Environment including related Controls

b) Auditor should assess the identified risk and evaluate whether they are pervasive to the FS or not

c) Auditor should consider the likelihood of misstatement including the possibility of multiple misstatement and whether the potential misstatement could result into a material misstatement.

d) Auditor should relate identified risks to what can go wrong at the assertion level and take into A/c relevant internal Controls.





# Audit Risk

[Note - 01]



## Assessment of Control Risk

Stage 1 : Preliminary Assessment of CR

Low

High

General Assumption

In extremely rare circumstances auditor will except such engagement where control are assumed to be not reliable in such cases auditor should plan to perform detailed substantive procedure only.

Stage 2 : Perform compliance procedure to test the above assumptions

Stage 3 : Final assessment of Control Risk

High

Low

auditor should revise his continue with the existing nature, timing & extent of plan of audit procedure  
Extent [NTE] of planned



Notes :-

14 a) Audit Risk means the risk that auditor gives an inappropriate opinion when FS are material misstated.

b) In other words auditor express unmodified opinion when FS are materially misstated.

c) For the purpose of SA 315 audit Risk does not include the risk that auditor might express an opinion on FS that they are materially misstated when they are not. In other words audit Risk does not include a situation that auditor will express a modified opinion when he should have given an unmodified opinion.

27 Inherent Risk :

a) Inherent Risk is the susceptibility of an assertion about a class of transactions, Ac Balance or disclosure to a misstatement that could be material either individually or when aggregated with others assuming that there are no related internal controls in place.

b) There is always a risk that before considering any existing of internal control in an organisation, a particular transaction or account Balance or a disclosure has a change of being misstated and such misstatement and such misstatement can be material. This risk is known as inherent risk.



c) Inherent risk is higher for some assertions than for others. For Eg: Inherent risk will be high in case of unusual transactions or complex transactions.

d) Inherent risk factor should be considered while designing test of controls and substantive procedures i.e. further audit procedure.

### 3) Control Risk

a) Control Risk is a risk that a misstatement that could occur in an assertion about a class of transactions, A/c Balance or disclosure that could be material either individually or when aggregated with others, will not be prevented or detected and corrected on a timely basis by Entity's internal control.

b) Control Risk is a risk that internal controls existing and operating in an entity will not be efficient enough to stop from happening [Preventive], or find [Detective] and then rectify [corrective] in an appropriate time, any material misstatement relative to an assertion.

c) There is an inverse relation between Control Risk and Efficiency of internal control.

d) Therefore when Efficiency of internal control is high, then Control Risk is low.

### 4) Detection Risk

a) Detection Risk is a risk that procedure performed



by the auditor to reduce audit risk to an acceptably low level, will not detect a misstatement that exist and that could be material either individually or when aggregated with other misstatements

b) Auditor should design and perform appropriate audit procedure to reduce the audit risk to an acceptably low level in Statutory audit, audit risk can not be reduce to zero due to "inherent limitations of audit" [SA-200]

for 5r  
standing

Relationship between IR, CR and DR

for AM  
a) Auditor should make a combined assessment of IR and CR, since mgt designs, implements and maintains adequate and effective internal controls to reduce the impact of inherent risk.

b) If IR for an assertion is high and related internal controls are highly efficient then control risk for that area [assertion] will become low and it will also make inherent risk low

c) If IR + CR is high then auditor should keep his DR low, to reduce audit risk to an acceptability low level

d) Audit Risk is a function of ROMM & Detection Risk  

$$AR = ROMM \times DR \quad \text{--- (1)}$$

e) ROMM has following components  
 of Inherent Risk





$$ROMM = IR \times CR \quad \text{--- (2)}$$

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

1] Detection Risk Comprises Sampling & non Sampling risk  
DR = F.S.

2] Auditor can only influence detection risk. IR and CR belong to the Entity can be influenced only by the Mgt Entity.

3] Detection Risk may be reduced by increasing extent of checking i.e. increasing the sample size and involving competent and experience team member in the engagement team.

4] What is not included in Audit Risk

It is a technical team related to the process of auditing it does not refer to the auditor's business risk such as

- a] Loss from litigation
- b] adverse publicity or
- c] Other events arising in the connection with the audit of FS

ii] For purpose of the SA's audit risk does not include the risk that the auditor might express an opinion that the FS are materially misstated when they are not. This risk is ordinarily insignificant.



77 Assessment of risk is a matter of professional  
Judgement rather than a matter Capable of  
precise measurement.





SA - 230

## AUDIT DOCUMENTATION

2x Definition :-

Audit Documentation [AD] refers to record of audit procedures performed, Audit Evidences [AE] obtained and conclusions drawn. AD is also known as auditors working paper or works paper.

2x Nature or Objective of the auditor for AD :-

The objectives of the auditor is prepare AD that provides:

- a) A sufficient and appropriate of record as Basis for Auditor Conclusion or report.
- b) An evidence that audit was planned and performed in accordance with applicable SA's and legal requirement.

3x Purpose or Benefits of AD :-

a) It will assist the engagement team to appropriately planned and Perform the audit.

b) It will help the engagement team in using appropriate Responsibilities i.e making them Accountable work  
(Responsible)

c) Documentation will help in <sup>maintaining</sup> retaining a record of matters which may be significant for future audits  
eg: Pending transactions <sup>proper</sup>



d) Documentation will also help the Engagement team in providing directions, ensure regular supervision and discharging review responsibilities

e) Documentation will help in conducting quality control reviews and inspection as per SA 220 and SQC-2 [Std on Quality Control]

4) Ownership of AD :-

i) As per SQC-2, AD is the property of auditor

ii) It is at the auditor discretion to make portion of, or extracts from audit documentation available to clients or 3<sup>rd</sup> party, [only when it is required by law Permitted by client]

np

AM 5) Form, Content and Extent of AD :-

i) Auditor shall prepare Audit documentation i.e sufficient to enable an experienced auditor having no previous connection with the audit to understand the following

a) Nature, Timing and Extent of audit procedure performed.

b) The results of audit procedures performed and details of AE obtain.

c) Significant matter arising during the audit and conclusions reached thereon. Auditor should also document significant Professional Judgements used



to arriving those conclusion.

ii) while documenting nature, timing and extent of audit procedure performed auditor shall record the following

a) who performed the work and date such was completed

b) who received the work along with the date and extent of review.

iii) If auditor identified info i.e. inconsistency with the auditor conclusion regarding a significant matter then auditor should document how he addressed such inconsistency

iv) Auditor should also document discussion of significant matters with mgt and TCWG

eg: Significant deficiency is in internal control, going concern related problems, Subsequent events, Employee fraud etc [Ref: 230]

H.W) 6) Factors affecting Form, Content and Extent of AD :-

a) Size and Complexity of the Entity

b) Nature of the audit procedures to be performed.

c) Identified ROMM

d) Significance of the audit evidence obtained

e) Nature and Extent of exceptions identified

f) Audit methodology and tools used



∅	→	Assembly of Final Audit File := (Permanent, current)
x	a)	<p>Meaning of Audit file :</p> <p>Audit file can be define as one or more folder in physical or Electronic form which contains audit documentation for Specific Engagement. (maintain up to 7 years)</p>
	b)	As per SPC 1 Audit firms should establish policy & procedure for timely completion of the Assembly of Audit files.
	c)	An appropriate time limit as per Engagement Standards is ordinary not more 60 day from the date of audit report
	d)	Completion of Assemble of Final Audit file is an administrative process, ∴ it does not include performance of new audit procedure or drawing new conclusions.
op	e)	<p>Above administrative Process include following :</p> <ol style="list-style-type: none"> <li>1&gt; Deleting or Discarding Superseded documentation</li> <li>2&gt; Sorting and Cross-referencing working paper Eg : Reference of physical document in the Electronic working paper</li> <li>3&gt; Signing Off on completion Checklists relating final assembly process</li> <li>4&gt; Documenting Audit Evidences which auditor has already obtained, discussed and agreed with a relevant Engagement team member before the date of audit report.</li> </ol>







## SA - 200

# Overall Objectives Of An Independent Auditor And The Conduct Of Audit in Accordance with Standards On Auditing

27 Overall Objectives of the Auditor = [H.W]

27 while auditing the financial statement the auditor has following objectives :

a) To obtain reasonable assurance whether FS are free from material misstatements ; thereby auditor enable to express an opinion whether FS are prepared as per applicable FRF

b) To Report on FS and communicate as per SA's  
[SA 200 & 240]

27 if can not be obtain reasonable assurance and qualified opinion is insufficient then auditor should either disclaim the opinion or withdraw from engagement.



27 Ethical Requirements :- ನೈತಿಕ ಅಪೇಕ್ಷಾಕರಣ

Auditor shall comply with ethical requirements including independence. these ethical requirements include following fundamental principles as per code of ethics issued by ICAI

Fundamental Principles :-

- a) Integrity [ಪೂರ್ಣತೆ, ಐಕ್ಯತೆ]
- b) Objectivity [being fair under different circumstances]
- c) Professional Competence and due care (Qualify & Experienced) (carefully) (work with Sincerely)
- d) Confidentiality (info maintain by confidential)
- e) Professional behavior  
[refer chapter -11 in Module -2]

37 Professional Judgment :

It is necessary for the auditor to make appropriate decisions during the course of audit.  $\therefore$  auditor should use his professional judgement for the following matters

- i) Deciding Materiality
- ii) Reducing the Audit Risk
- iii) Nature, timing and extent of Audit procedure to be performed
- iv) Determining SAAE

47 Purpose of an Audit as per SA 200 :

- a) To enhance the confidence of users
- b) To form an opinion whether FS gives a True & fair view



cy Auditor's opinion does not assure about future viability of entity's business or that whether mgt has conducted the affairs of the entity effectively and efficiently.

Note: Now a day's auditor is required to express his opinion on internal financial control which are relevant for financial reporting as per Sec 143 (3) (i).

5x Inherent Limitations of Audit :-

The process of audit suffers from certain inherent limitation becz of which auditor can not obtain an absolute assurance on FS or can not reduce his audit risk to zero.

(a) Nature of Financial Reporting :-

- Preparation of FS involves use of judgement by mgt eg: use of AIC<sup>n</sup> estimates while making PDD, warranty provision, Provision for Pending litigation
- Judgement may involved subjective decisions or a degree of uncertainty. ∴ auditor will not be able to obtain absolute assurance
- Stat auditor work on assumption that mgt is responsible for preparing FS and designing appropriate internal control for such FS.

However such controls may not be perfect.



due to its inherent limitation.

eg: Employee's in a dept may collude to by pass or override the internal control.

b) Nature of audit Procedure :- Lecture -

Date - 19-12-2023

i) Auditor may plan and performed his audit procedure in accordance with SA's but still there are practical & legal limitation on his ability to obtain SAAE.

ii) Auditor does not check all transactions & Balances he may use Sampling and analytic review procedure to arrive at his conclusion.  $\therefore$  it is a practical limitation.

iii) Mgt may not provide complete info as requested by the auditor & auditor can not force mgt to provide requested info.  $\therefore$  it is a legal limitation on auditory ability.

iv) Mgt may be engaged in <sup>hide</sup> concealing fraud by designing <sup>smart</sup> sophisticated & carefully organized schemes which may not be possible for the auditor to detect in the ordinary course of audit.

Eg: auditor is not an expert in authentication of document.  $\therefore$  he may accept invalid or fake audit evidence which may lead to wrong conclusion.





Need c) Not in nature of Investigation :

∴ Audit is not an official investigation ∴ Auditor can not obtain absolute assurance that FS are free from material misstatements.

Not imp d) Timeliness of Financial Reporting and decrease in relevance of information over time.

∴ The Relevance of info decreases over time and auditor can not verify each & every matter ∴ he should strike a balance between cost of obtaining the info and reliability of info [intended benefit to be derived from it]

ii) [Not in ICAI module. Just for understanding]  
There is always a time constrain in the stat audit process but it can not be used as an excuse for not performing an audit procedure for which there is no alternative procedure

e) Future Events :

∴ Future Events or Conditions may affect an entity adversely, sometimes it may impact the entity's ability to continue as a going concern ∴ an auditor can not provide guarantee the FS are free from material misstatement.

ICAI may ask the que. on : That Audit Risk can not be zero due to inherent & limitation of an audit.





SA-701

## KEY AUDIT MATTERS

1> Meaning :-

Those matters that in auditors professional judgement were of most significance in the audit - can be included under KAM.

KAM are selected from matters communicated with TCWG and mgt [as per SA 260]

2> Purpose of Communicating KAM :- [2.0]

i> AS per SA 701 "Communicating KAM in the auditors report", The purpose of Communicating KAM is to enhance the Communicative value of the auditors report by providing Clarity or Transparency about the audit that was performed.

ii> KAM will also provide additional information to the intended users to assist them in understanding those matters that in auditors professional judgement were most significant in the audit.

iii> KAM will also assist the intended users will understand the Entity and areas of significant mgt judgement in the audited FS eg: AIC<sup>n</sup> estimates with high estimation uncertainty such as pending litigation.



3> Determining KAM :- [50]

a) In making Determination that what matters should be included under KAM Auditor shall take into A/c the following factors

i) Areas of higher assessed ROMM or Significant Risks identified as per SA 315

ii) Areas of FS that involves Significant Mgt and Auditor's Judgement i.e A/c<sup>n</sup> Estimates with high Estimation Uncertainty.

iii) Effect on audit of Significant Events or transaction that occurred during the period

Note : ∴ Subsequent Events i.e Events after BIS date is not covered in KAM rather they are covered under BOM Paragraph

Q 4> Communicating KAM in the auditor's report is not [H.W]

a) A Substitute for disclosure in the FS that the applicable FRF

b) A Substitute for the auditor Expressing a modified opinion when required by the Circumstances of a Specific audit Engagement AS per SA 705

c) A Substitute for reporting in accordance with SA 570 when a material Uncertainty exists relating to Events or Conditions that may cast Significant doubt on an Entity's ability to continue as a going concern



d) A Separate opinion on individual matters

Lecture = , Date : 20-12-2023

Ex Communication with TCWG

a) Before including matters under KAM auditor should communicate these matters TCWG and Mgt

b) If applicable, depending upon facts and circumstances audit may communicate to TCWG that there are no KAM to be included in the auditors report.

Ex Introductory language in the auditors reports for KAM

a) Definition of KAM

b) These matters were address in the context of audit of the FS as a whole and informing the auditors opinion, Auditor does not provide a separate opinion on these matters

Note : Auditor should include each KAM using an appropriate sub-heading under the main heading "KAM"

He should also include details about audit procedures performed to address each such matter





SA - 580

## WRITTEN REPRESENTATIONS

1&gt; Introduction :-

It is a auditor responsibility to obtain written representations from the mgt and where appropriate TCWC.

2&gt; Meaning :-

written representations can be defined as a written statement by the mgt provided to the auditor to confirm certain matters or to support another audit evidence

3> written representations provides audit evidences but do not provide SAAE on their own.

4> :- The fact that mgt has provided reliable written representations does not affect the nature, timing and extent of normal audit procedures to be performed to obtain required audit evidences

5> The date of written representation shall be as near as practicable to the date of auditor's report. The date WR should not be after the date of auditor's report. becz WR's provides necessary audit evidences and auditor can not express his opinion before obtaining SAAE to form his opinion





- 6) Requested written Representation Not Provided by Mgt :-  
Mgt does not provide WR to auditor Then,
- Discuss the matter with mgt
  - Re-evaluate the integrity of mgt and  
Re-evaluate the effect on reliability of Representation  
and audit Evidence.
  - Take appropriate actions, including possible effect  
on the opinion as per SA 705.
- 7) Doubt about the reliability of written Representation:-
- When WR are inconsistent with other AE the auditor may have concerns about the competence, integrity, ethical values or diligence of mgt or about Mgt Commitment to its responsibility
  - Auditor should perform additional and alternative procedure to resolve the matter, if the matter unresolved the auditor should reconsider his assessment of mgt competence, integrity, ethical value or diligence etc.
  - If auditor concludes that the written Representation are not reliable then he should take appropriate action i.e he should consider its possible effect on his opinion as per SA 705



Qr Disclaimer of opinion in the following cases :-

- a) when mgt does not provide the requested WR to the auditor regarding fulfillment of mgt responsibility for preparation of FS and other info to be provided to the auditor and compliance of transaction in FS
- b) when auditor concludes that there is sufficient doubt about integrity of mgt that WR provided by Mgt about responsibility for FS, info to be provided and compliance for transactions is not reliable.

Qr Objectives of SA 580 :-

Lecture -

Date - 21-12-2023

a) To obtain written representation :-

To obtain WR from the Mgt. WR may include a statement that Mgt has fulfilled its responsibility to prepare and present FS and they have provided requested information to the auditor.

b) To Support Other Evidences :-

WR can act as a support for other AE i.e. obtained during the course for FS audit. Generally auditor performs his audit procedure for specific assertions.

c) To Respond Appropriately :-

Auditor should respond appropriately when mgt provides the requested WR and also when Mgt does not provide requested WR.



10) Form of WR :

a) auditor should obtain WR in form of a representation letter addressed to the auditor

b)

11) Responsibility of Mgt in WR :

A) For preparation of FS :

i) Auditor shall request the Mgt to provide a WR that it has fulfilled its responsibility to prepare FS as per applicable FRF, as agreed in the terms of engagement

ii) Generally Mgt has responsible for preparation and conducting the Entity's Business  
∴ They are expected to sufficient knowledge about the process that was followed for preparation for FS.

iii) Sometimes Mgt may decide may inquiries with others [individually with specialised knowledge, i.e, Mgt expert used for FS] Eg: Actuary, Entity's internal legal counsel, engineer etc

iv) Sometimes Mgt may include Qualifying language in the WR, auditor may accept such wordings if he believes that the representation made by the Mgt & the language included is appropriate



12] Info provided and Completeness of transactions :-

i] Auditor shall request the mgt to provide a WR that it has provided the auditor with all relevant info and access to the people as agreed in the engagement terms

ii] Auditor should ask mgt to include in WR that they have recorded all transactions in the FS that have taken place during the period.

12] Why WR about Mgt responsibility is necessary ?

a] AE obtain the during the audit that mgt has fulfilled its responsibility for FS and completeness of transactions is not sufficient without obtaining confirmation from mgt in a WR that they have fulfilled it.

b] Auditor will not be able to conclude that mgt has provided all required information as agreed to the auditor unless he obtains a confirmation from mgt in WR regarding the same

13] In Exceptional Circumstancy Auditor may also ask mgt to reconfirm its Acknowledgement and understanding of responsibilities in WR

Eg :

a] Those who signed terms on behalf of Company are no longer in charge

b] The Terms were prepared in P.Y

c] There is a indication that mgt misunderstands its



SA - 300 read with ICAI Module

## AUDIT PLANNING

⇒ why planning an audit is necessary? [H.W]

a) It helps in performing audit engagement effectively.

b) Adequate planning benefits the audit of FS including the following;

i) Helping the auditor to devote appropriate attention to important areas of the audit

ii) Helping the auditor identify and resolve potential problems on a timely basis

iii) Helping the auditor properly organize and manage the audit engagement

iv) Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them

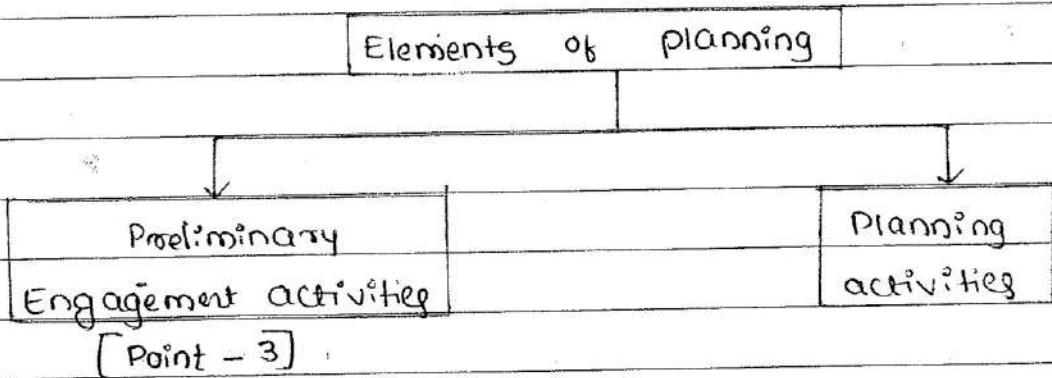
v) Facilitating the direction and supervision of engagement team members and the review of their work

vi) Assisting, where applicable, in co-ordination of work done by auditors of components and experts



Note :- When audit work is appropriately planned it will reduce the risk of expressing and inappropriate opinion.  
 In other words it will reduce audit risk to an acceptably low level.

27 Elements of planning.



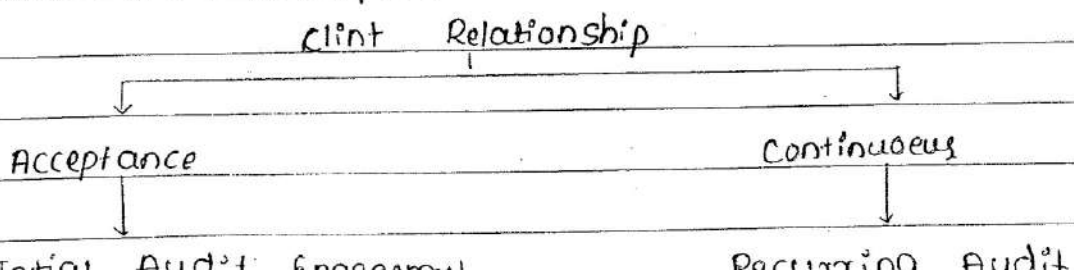
37 Preliminary Engagement Activities :-

It includes the following (acceptance & continuous analysis)

- Step - ① a) Performing procedure regarding the Continuity of Client relationship (Engagement Continue ಮಾಡಿಕೊಡುವ ಅಥವಾ ಬಿಡುವುದು)
- Chapter - 11 b) Evaluating Compliances with Ethical requirements including independence. (PNO. 62, Ethical requirements)
- Section - 220
- Step - ② c) Establishing an understanding of terms of Engagement

Notes :-

38 Performing procedure regarding the Continuous of Client relationship :





17 Auditor should ensure that appropriate procedures regarding acceptance and continuation of client relationship has been performed and conclusion reached are appropriate.

27 Auditor should obtain necessary info to conclude whether to accept a new client, to continue an existing client or to accept a new engagement with existing client.

Info may include the following : [SA 220]

a) Integrity of principal owners and key Mgt people  
 b) Competence of engagement team to perform the audit engagement (audit engagement agreement & competence)

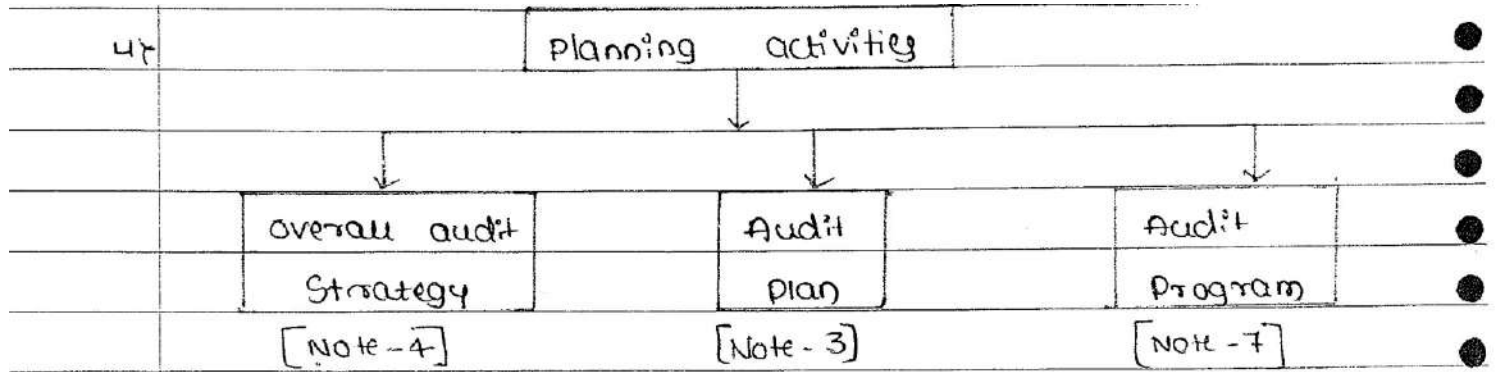
c) Implications or effects of matters that have arisen during current and previous audit engagements

27 Establishing an understanding of terms of engagement :

a) Auditor should send an engagement letter to the client before commencement of audit to avoid misunderstanding or confusion relating to engagement terms

b) Engagement terms when agreed will assist the auditor in appropriately planning and performing of audit procedure to obtain SAE





## Notes

## 37 Developing Audit plan :-

Auditor shall develop an audit plan that shall include the description of

a) Nature, timing and extent of planned risk assessment procedure as determined under SA 315

b) Nature, timing and extent of planned further audit procedure as determined under SA 330

c) other planned audit procedure that are required to be carried out so that audit engagement complies all applicable SA's

Eg : There are specific SA's such as

240 for frauds, 550 for related party

560 for subsequent event.

570 for going concern etc.



#### 4) Establishing overall audit strategy :

Its meaning :-

Auditor shall establish and overall audit strategy that says the scope, timing and direction of audit and also guides in the development of audit plan.

2) In establishing the overall audit strategy auditor shall consider the following :

a) Auditor should identify characteristics of engagement that defines its scope [PNO-1B.5, 4 points]

b) Auditor should ascertain the reporting objectives of the engagement to plan the timing of audit and nature of communication required.

c) Auditor should consider the factors that are significant in directing engagement teams efforts.

d) Auditor should also consider the results of preliminary engagement activities and where applicable whether knowledge gained on other engagements is relevant.

e) Auditor should consider the nature, timing & extent of resources which are necessary to performed the engagement.





(v) Or Nature, Timing and Extent of Resources or Benefits of overall audit Strategy :

a) Employment of qualitative Resources :

The resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas

b) Allocation of Quantity of Resources :

The amount of resources to allocate to specific audit areas, such as the number of team members assigned to observe the inventory count at material locations the extent of review of other auditors work in the case of group audits or the audit budget in hours to allocate to high risk areas.

c) Timing of Deployment of Resources :

When these resources are to be deployed, such as whether at an interim audit stage or at key cut-off dates eg: close to report date.

d) Mgt of Resources :

How much resources are managed, directed and supervised, such as when team briefing and debriefing meetings are expected to be held how engagement partner and manager reviews are expected to take place and whether to complete engagement quality control reviews.



6) Relation between overall audit strategy and audit plan :

a) Overall audit strategy sets the broad approach to the audit by indicating the scope, time and direction of audit engagement.

b) Audit strategy will help in developing the plan to address various matters identified during the strategic phase.

c) Audit plan is more detail than the overall strategy since it includes the nature, timing and extent of audit procedure to be performed.

d) The establishment of overall audit strategy and audit plan are not necessarily discrete or sequential processes but are closely inter-related. ∴ change in one will also impact the other.

7) Audit Program :

a) Audit program includes series of verification steps to be applied to a specific account balance of the FS to obtain SAAE so that auditor can express an informed opinion on these FS.

b) Advantages of Audit Program

i) Total and clear set of instruction for assistants



ii) Selection of assistance for the job easier

iii) Engagement partner & principle can control the progress of various audit

iv) It will serve as a Guide for audit of succeeding year

v) It will serve as an evidence in the event of any charge of negligence brought against the auditor

vi) Audit staff can be made accountable for the work carried by them

or disadvantages audit program.

i) Work may become mechanical and assistance may follow the steps without understanding object of audit

ii) Program may become rigid & inflexible  
∴ if there any change in business operation staff may carry out the audit with old program itself

iii) Inefficient assistance may take shelter behind the program to defend their deficiency

iv) A hand of past audit program may kill the initiative of efficient assistance



Note: All these disadvantages may be eliminated by Imaginative Supervision of the work Carried out by assistance. also auditor must have a receptive attitude regarding the assistance i.e. we should encourage the assistance to observe the matters objectively and bring significant matters to the notice of Engagement partner

dr Business may vary in terms of size, nature, efficiency of internal control etc. ∴ it is not possible to evolve one audit program applicable for all business

er Periodic Review of the audit programme

it Auditor should periodically review the audit programme to assess whether it is appropriate to continue with the old audit program or it is required to be revise.

ii) If periodic review not performed auditor may carry out his audit procedure on the basis of obsolete programme and the overall audit may be negligently conducted and auditor may face legal consequences for face

iii) The utility of audit program can be retained and enhanced by periodical review i.e. removing the inadequacies or redundancies from the program on the basis of changes in entities business operations and internal control

6/11/20





tr Assistant should be instructed to keep  
an open mind [H.W]

gr For the purpose of Construction of audit program  
following points should be kept in mind [Factors]

i> stay within the scope and limitation

ii> prepare a written audit program

iii> determine what audit evidences can be  
reasonably obtained and planned the  
procedure to obtain reasonable assurance  
same

iv> Consider all possibilities of error i.e ROMM

v> Co-ordinate the procedure to be applied to  
related items eg: in a manufacturing business



Inventory checking will required comfort over purchases and sales

8. Changes to planning decision during Course of Audit

Auditor shall update and change overall audit strategy and audit plan if they come across unexpected event / change in condition or the audit evidence obtained from results of audit procedure performed. eg: Audit evidences for substantive procedure may contradict with audit evidence from test of control.

9. Nature, timing and extent of directions of supervision of engagement team member and review their work.

Factors :

a. Size and complexity of Business

b. Assessed ROMM

c. Capability and competence of individual team members

d. Area of Audit



SA-299

## Responsibility Of Joint Auditors

1) Meaning :-

When 2 or more auditors are appointed for the audit of a FS for an organization, it can be termed as joint audit.

\* Common Engagement letter and MRL  
(230) (580)

\* Separate Audit Report will arise bec of diff opinion

2) Audit planning, Risk Assessment and allocation of work

4) Joint auditors shall jointly establish an overall audit strategy that defines the scope, timing and direction of audit, it will also guide in the development of audit plan

5) While developing the Joint audit plan the joint auditors shall consider the following: [Factors]

i) identify division of audit areas and common audit areas

ii) Ascertain the reporting objectives of the engagement

iii) Communicate among all joint auditors that factors are significant



iv) Consider the results of preliminary engagement activities of similar engagement performed earlier

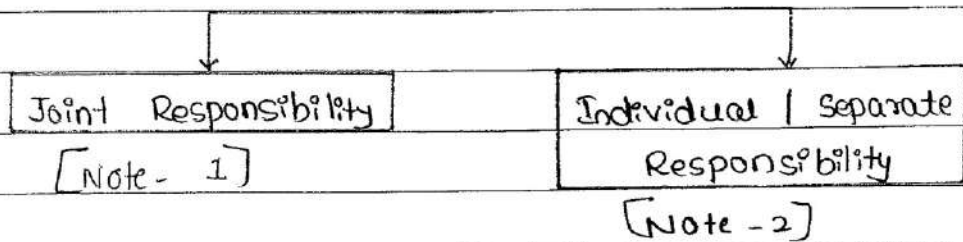
v) Ascertain the nature, timing and extent of resources necessary to accomplish the engagement

c) Joint auditors shall obtain a common engagement letter and a common MRL

d) In the common engagement letter it is important to identify and allocate the work among joint auditors, such a documentation of allocation of work will help in avoiding and dispute or confusions among the joint auditor

✓, x/ e) ROMM need to be considered and assessed by each joint auditor and should be communicated to other joint auditors [for specific areas allocated to them]

### 3) Responsibility of Joint auditors :





## Notes

1) Joint auditors are jointly and severally responsible following :

a) For the audit work which is not divided among the joint audit and is carried out by an auditor.

b) For examining that the FS complies with requirements of relevant Statute i.e. applicable laws and regulations.

c) For examining whether FS complies with presentation and disclosure requirements as per applicable FRF.

d) For ensuring that the audit report complies with applicable SA's, relevant provisions of Companies Act and other pronouncements issued by ICAI. (Provisions)

*translate requirement*

e) For the decisions taken by all the joint auditors under joint audit planning in respect of common audit areas concerning the NFE of audit procedure to be performed by each joint auditor.

f) Matters which are brought to the notice of all other joint auditors by any one of the joint auditors and there was an agreement among all the joint auditors.



27 Individual Responsibilities :

or Each Joint auditor individually responsible for the following :

i) Determining the NTE of audit procedure to be performed for specific areas allotted to them.

ii) For executing the above audit procedure

iii) For maintaining appropriate audit document

48 Audit Reporting and Conclusion

i) Joint auditor should issue a common audit report

ii) However, in case of disagreement a joint auditor is not bound by the views of majority of the joint auditor. ∴ he can express his opinion in a separate audit report. [only in case of disagreement]

MCO  
✓, x

iii) In case of separate reports auditor should include a reference that a separate audit report is issued by other joint auditor under OM Paragraph [SA 106]

iv) before modifying their opinion or included EOM and OM matters in the audit report



auditor should communicate TCWG and Mgt about the same.

## 5. Advantages and Disadvantages of Joint audit [H.W.]

### \* Advantages :

- i) Sharing of expertise
- ii) Advantage of mutual consultation
- iii) Lower workload
- iv) Better quality of performance
- v) Improved service to the client
- vi) Lower staff development costs

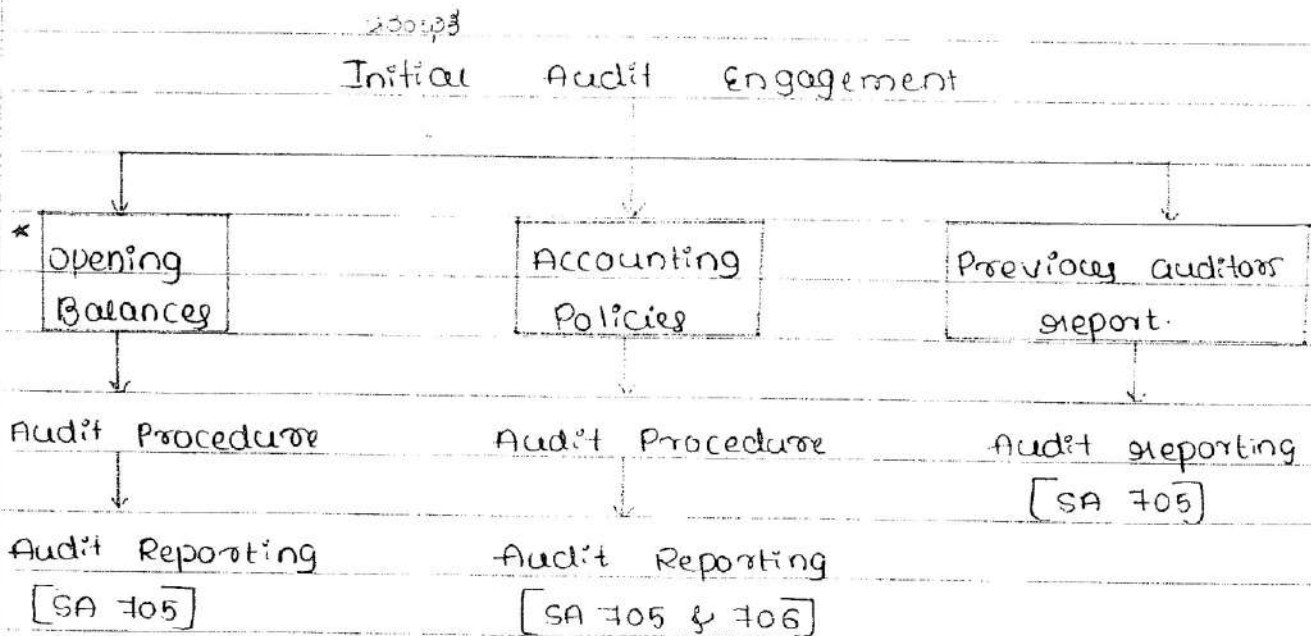
### \* Disadvantages :

- i) The fees being shared
- ii) Psychological problem where firms of different standing are associated in the joint audit
- iii) General superiority complexes of some auditors.
- iv) problems of co-ordination of the work
- v) Areas of work of common concern being neglected
- vi) Uncertainty about the liability for the work done



# SA - 510

## Initial Audit Engagement



⇒ Opening Balances :-

⇒ Audit procedure regarding Opening Balances :

a) auditor shall obtain SAAE that opening balances are free from material misstatement or not.  
i.e. whether there are any misstatement in opening balances that may materially affect CY FS.

b) auditor may use the following procedure regarding

i) Determine whether prior periods closing Bal are consistently brought forward to current period.



ii) Determine whether opening Balance sheet is appropriate AIC<sup>n</sup> policies which are consistency followed in current period also

iii) If the prior period numbers were audited then auditor should obtain & evaluate the copy of audited FS and other relevant documents which are available. Such as WR, communication by previous auditor to TCWG & mgt etc

iv) Auditor should also plan to perform certain audit procedure in the current period which may provide evidence about opening balances.

v) Auditor may also plan to perform specific audit procedure regarding opening balances.

27 Reporting Requirement : [H.W]

a) If the auditor is unable to obtain SAE regarding the opening balances, the auditor shall express a qualified or disclaimer of opinion, as appropriate in accordance with SA 705

b) If the auditor conclude that the opening balances contain a misstatement that materially affects the current period FS & that effect of the misstatement is not properly accounted, presented or disclosed, then auditor shall express a qualified or adverse opinion [SA 705]



## 2> Consistency of Accounting policies :-

### 1> Audit procedure

Auditors shall obtain SAE that whether A/c<sup>n</sup> policies reflected in opening Balance are consistently followed in the current year if there are any changes in the A/c<sup>n</sup> policy then auditor should evaluate whether it is appropriately accounted & disclosed as per applicable FRF.

### 2> Audit reporting requirement : (14.3)

or The current period's A/c<sup>n</sup> policies are not consistently applied in relation to opening balance in accordance with the applicable FRF.

or A change in A/c<sup>n</sup> policies is not properly accounted for or not presented or disclosed in accordance with applicable FRF.

Note : Then the auditor shall express a qualified opinion or an adverse opinion as appropriate in accordance with SA 705.

### 3> Predecessor auditor's report :

1> If the PY FS were audited by a predecessor auditor and there was a modification in their report then auditor should evaluate the effect of such matter in the current period FS considering SA 315.



27 If auditor concludes that the modification in the PY auditor's report is relevant and material in the current period FS then he should modify his audit opinion as per 705 [also refer SA 710]

Imp Note := [New concept in syllabus]

The nature and extent of audit procedure to be performed to obtain SAE regarding opening balances depends the following factors / matters :

- a) The accounting policies followed by the Entity.
- b) Nature of Transaction, A/c balances and disclosure [assertions] and the ROMM in the current period FS
- c) Significance of opening balances in relation to current period FS.
- d) whether prior period FS were audited and whether modified opinion was given by predecessor auditor



## SA - 501

SPECIFIC CONSIDERATION FOR  
SELECTED ITEMS.

17 Inventory :

a) Auditor should obtain SAE regarding the Existence and Condition of Inventory.

b) When inventory is material to FS for obtaining SAE auditor should attend Physical inventory Counting. It may involve the following

i) Auditor should evaluate mgt instruction and procedure for inventory counting & also see whether employee's are compliance with such instruction and procedure.

ii) observe the performance mgt count procedure

iii) auditor should inspect the inventory by performing test count, this will help in obtaining reliable audit evidences regarding existence and conditions of inventory.



i] If physical inventory counting is conducted by mgt on a date other than the date of FS

ii] If inventory counting is conducted at a date other than the date of FS, then auditor should perform additional procedure to  
 • evidences about changes in inventory b/w the count date and date of FS.

iii] auditor may consider the following aspects while performing these additional procedure:

- whether perpetual inventory record are properly adjusted.
- whether these records are reliable.
- Reasons for diff between info obtain during physical count & perpetual inventory records.

d] If auditor is unable to attend physical inventory counting due to unforeseen circumstances.  
 (ಅನಿರೀಕ್ಷಿತ ಸಂದರ್ಭಗಳು)

Auditor should perform on and alternative date & perform audit procedure on intervening transaction [i.e transaction b/w inventory count date & auditor inventory inspection date]



50] If attendance of physical inventory counting is impracticable.

i) If attendance of Physical inventory counting is impracticable, then, auditor shall perform alternative procedure to obtain SAAE regarding existing and condition of inventory.

ii) If auditor is not able to obtain SAAE he should consider its effect on his audit opinion as per SA 705.

iii) In some cases attendance may be impracticable due to factors such as nature & location of inventory e.g. uncertain mining areas there can be risk / threat of safety of the auditor.

iv) Matter of General inconvenience to the auditor is not sufficient to support the decision that attendance is impracticable. As per SA 200 auditor can not use Time constraint, cost involved as valid excuse for not performing an audit procedure for which there is no alternative procedure.

v) Alternative procedure may include inspection of documentary record such as subsequent sales invoices, purchase invoices dated before inventory counting date, logistic documents supporting goods inward and outward date etc.



b) When inventory under the custody and control of a third party :-

a) when inventory is under the custody & control of a third party auditor may perform the following procedure

i) Request Confirmation for 3<sup>rd</sup> party regarding Qty and condition of inventory [SA 505]

ii) Perform inspection i.e. physical verification of inventory

iii) Other audit procedure such as ;

- inspecting documentation regarding inventory held by 3<sup>rd</sup> party
- Request Confirmation from other parties if inventory has been pledged & given as collateral
- attend or arranged another auditor to attend physical inventory counting performed by 3<sup>rd</sup> party.
- Obtain another auditor's report i.e. whether 3<sup>rd</sup> party has adequate controls for inventory recording & safeguard.



gt Matters Relevant in planning Attendance at  
physical Inventory counting [H.W]

or Nature of inventory.

or Stages of completion of work in progress.

or The ROMM related to inventory

or The Nature of internal control related to inventory

or whether proper instructions issued for physical  
inventory counting

or The timing of physical inventory counting

or whether the entity maintaining a perpetual inventory  
System.

or whether the assistance of an auditor's  
Experts is needed





## 27 Litigation and Claims :-

a) Auditor shall design and perform audit procedure to identify litigation and claims which may give rise to ROMM. These procedure may include as following

i) inquiry with the mgt & with others within the Entity.

ii) Auditor can also inquire in house legal counsel [if applicable]

iii) Review minutes of meetings of TCWG & BOD

iv) Auditor should also review the correspondence or communication b/w the Entity and their external legal counsel.

v) Review legal exp acc's [in this sampling is not allowed]

Note: Above mentioned procedure will help the Auditor in examining the completeness of claims and litigation involving the Entity.

b) when there are indication that material claim and litigation exist and Mgt is trying to hide the same from auditor.

Imp if auditor assesses a ROMM regarding claims and litigations and believe that



material litigation may exist which is not informed by the Mgt then auditor should plan to obtain a direct confirmation or communication with the Entity's External legal Counsel.

ii) Auditor can send a letter of inquiry to the Entity's External legal counsel and request them to respond discreetly with the auditor.

iii) Sometimes Entity's external legal counsel may not be able to respond bec'z it's prohibited by law or Regulation or professional body may not permit or recommend reply to General letter of inquiries.

iv) In such cases auditor should consider performing alternative audit procedure or may be sending a specific letter of inquiry, which may include the following

- a list of claims and litigation.
- Mgt Assessment of Outcome for each litigation and estimate financial implication i.e., cost involved.
- a request that External legal counsel to confirm whether mgt Assessment is reasonable or not



Note : In certain Circumstance auditor may conclude that it is necessary to meet the Entity External legal counsel to discuss about likely outcome of the litigation.

Generally following matters or factors are responsible for such Conclusion. 3

a) The matter is complex

b) There is significant Risk is involved

c) Disagreement b/w mgt & Entity's External legal Council.

Imp \* Mgt permission will be needed and there representative should be present during such meetings

g) Auditor should obtain a WR for the Mgt that all known or possible litigation has been disclosed to the auditor and are appropriately accounted for [Provisions are made] and disclosed in the FS as per applicable FRF.

### 3) SEGMENT INFORMATION :-

\* Auditor should design and perform audit Procedure to evaluate whether entity has presented and disclosed Segment info in the FS as per applicable FRF [i.e AS 17 and Ind AS 108]



- Auditor is not required to perform audit procedure for segment info presented on standalone basis since 501 requires auditor's responsibility for FS entirely



SA - 320

## Materiality in Planning And Performing an Audit

- 1) If an auditor Judgement any transaction / Event can influence the decision of users of FS, it should be considered as material.
- 2) Similarly if auditor come across a misstatement which in his Judgement can influence users of FS then it can be considered as Material Misstatement.
- 3) Materiality depends upon the following factors
  - a) Size of the item i.e. amt involved.  
(for normal business transactions)
  - b) Nature of transaction (eg Payment to a lawyer)
  - c) applicability of laws and regulation i.e. Statutory provisions
  - d) Industries specific disclosure requirement
  - e) Any other factor which may be relevant for the users of FS.



\* 4) Materiality helps in

\* a) Planning & performing the audit of FS  
i.e. determining the NTE of audit procedure  
to be performed. [SA 315 & 330]

\* b) In evaluating whether the misstatement  
identified are material or not. [SA 450]

5) Materiality should be defined at the following levels

a) Overall FS level and (overall materiality)

b) Assertion level. [A/c Bal, Transaction or disclosure]  
(Performance materiality)

6) Aggregate uncorrected misstatement: [AUM]

a) Identified uncorrected misstatement

b) Unidentified uncorrected misstatement  
(from untested population)

c) Net effect of P4 identified uncorrected misstatement  
in cy

$$\therefore AUM = a + b + c$$

Note :- Auditor should make a list of  
all the misstatement identified during the  
audit & evaluate them to consider its  
effects on FS. If the aggregate uncorrected



misstatement exceeds the materiality levels as per SA 320 then auditor should consider such misstatement as material misstatement. Auditor should request the Mgt to make adjustment or correct the same, if they disagree then SA 705 will be applied.

\* 78 Examples of Benchmarks :-

99

- 1) Profit Before Tax
- 2) Total Revenue
- 3) Gross profit eg Total Expenses
- 4) Net Asset Value
- 5) Total Equity

89 Auditor should determine percentage to be applied to a chosen benchmark on the basis of professional judgement

Eg :- he may use 5% of PBT or 1% or even less for Total Revenue.

\* 99 Factors that may affect identification of appropriate Benchmark. H.W

- 1) Elements of FS like assets, liability, equity etc
- 2) These are items on which the attention of the users of the entity's FS tends to be focused
- 3) Nature of the entity. i.e industry and economic environment in which the entity operates
- 4) Entity's ownership structure
- 5) Relative volatility of the benchmark



10x 5x	10x	Performance Materiality :
	a)	Performance Materiality means amount <u>or</u> amounts set by the auditor at less than materiality for FS as a whole [overall materiality], to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements may exceed the overall materiality.
	b)	If applicable performance Materiality also refer to amount <u>or</u> amounts set by the auditor at less than the materiality for FS as whole i.e. defining materiality for all balances, transactions, is performance materiality.
	11x	Relevant Financial data for Chosen Benchmark :
		a) Prior period financial result
		b) Period to date i.e. Current period financial result
		c) Budgeted <u>or</u> forecasted number for current period
		d) Adjustments for significant changes in business circumstances eg: Subsequent event which required adjustment.
	12x	Auditor may need to revise his materiality level during the course of audit if he comes across new info, diff b/w amt included in FS and actual amt. any other change in circumstances.



Imp  
134

Factors that may indicate existence of a transaction A/c Bal, or disclosure for which misstatement of lesser amounts than the materiality levels defined by the auditor could reasonably influence the decision of users.

a) whether laws and regulation or applicable FRF affects users expectation regarding certain amt's or disclosure Eg: related party transactions not yet at arms length price, payment of managerial remuneration beyond a permitted limit of Companies Act 2013

b) key disclosure required for a specific industry  
Ex: research & development cost for pharma company, classification of advances and provision as per RBI Guidelines by banking company

c) whether attention is focused on a particular aspect on entity

Eg: any major subsequent event it may require disclosure in FS

144 Materiality and Audit Risk : [H.W]

If the concept of materiality is applied by the auditor both in planning and performing the audit and in evaluating the effect of identified misstatements on the audit or of uncorrected misstatement, if any, on the FS and in forming the opinion in the auditor's report.





- 2) Conducting an audit, the overall objectives of the auditor are to obtain reasonable assurance about whether the FS as a whole are free from material misstatement.
- Thereby enabling the auditor to express an opinion on whether FS are prepared by applicable FRF or not.
- 3) The auditor obtains reasonable assurance by obtaining SAAE to reduce audit risk.
- 4) Audit Risk is the risk that the auditor express an inappropriate audit opinion when the FS are materially misstated.
- 5) Audit Risk is a function of the risks of material misstatement and detection risk.
- 6) Materiality and audit risk are considered throughout the audit, in particular when
- a) Identifying and assessing the risks of material misstatement.
  - b) Determining the NTE of further audit procedures.
  - c) Evaluating the effect of uncorrected misstatements if any on the FS & in forming the opinion the auditors report.



Imp

158 Auditors Assumption while Determining Materiality :-

auditors determination of materiality is a matter of professional judgement in this context it is reasonable for the auditor to assume the following about the users.

a) users have a reasonable knowledge of entities business and these economic activities also they are willing to study all significant information related to financial statement.

b) users should understand that the FS are prepared, presented and audited to the levels of materiality.

c) users should recognize that there can be uncertainty regarding measurement of amounts such as "Atc" estimation which are based on judgement.

d) users will make reasonable economic decisions on the basis of info contained in the FS.

Note :-

If ICAI Que include reference of relationship b/w materiality & audit risk then the suggested ans will "There is a unimprovement relationship b/w materiality and degree of audit risk."



## SA - 450

# Evaluation Of Misstatements Identified During The Audit

- 1) Deals with the auditor Responsibility to Evaluate the Effect of identified and uncorrected misstatements on the FS.
- 2) Auditor should accumulate all the misstatement identified during the course of audit [other than those that are clearly trivial] extremely small misstatement
- 3) Auditor shall determine whether overall audit Strategy and audit plan meets to be revised if the effect of identified misstatements could be material either individually or it may indicate that there can be other misstatement which may prove to be material if when aggregate.
- 4) Auditor should request the mgt to examine transactions or A/c balances in detail to understand the actual cause of misstatement identified by the auditor. Auditor may be requested to perform additional procedure to conclude whether the identified misstatement actually represents a misstatement in the FS.



5> Auditor shall communicate on a timely basis about all the misstatements identified during the audit to the appropriate level of mgt

6> Auditor should request the mgt to correct all communicated misstatements. If mgt refuses to correct the same auditor should understand the reasons and consider its effect on his opinion as per SA 705

7> Auditor should also obtain a WR from the Mgt stating that they believe the effects of uncorrected misstatement are not material either individually or when aggregated with others. A summary of such items should be included or attached with the WR

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Note : Evaluating the effect of uncorrected misstatement

a> Before evaluating the effect of uncorrected misstatement auditor should reassess that whether materiality level determined under SA 320 are still appropriate

b> Auditor should consider the following while determined that whether a misstatement is material either individual or when aggregated with others.

- i> Consider the size & nature of misstatement
- ii> " " Effect of uncorrected misstatement



relating to prior period in the CY FS.

If auditor concludes that the aggregate of identified of uncorrected misstatements exceeds the materiality levels defined under SA 320, he should communicate by request the mgt to correct the same. If they refuse the correct he can consider its effect on his opinion as per SA 705





SA - 520

Analytical Procedures

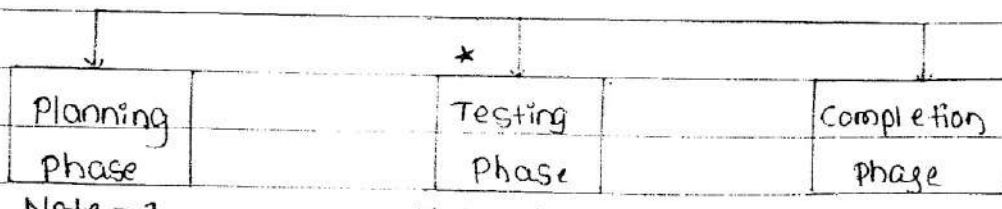
i) Meaning :-

The Term Analytical procedures means Evaluation of Financial info through analysis of plausible relationship b/w among Financial & non - Financial data  
(अर्थसंबन्धी) (some logical)

ii) Analytical procedure can be Segregated in following types

- i) Comparison with client data with industry data
- ii) " of client CY data with there PY data
- iii) " of " " " " CY budgeted data
- iv) " " " data with the auditor's expected data
- v) " of clients Financial data on the basis of expected data from non-financial data.

iii) Timing of Analytical procedure



Note - 1





Notes :

1. It Analytical procedure in planning phase :-

a) Analytical procedure [AP] will assist the auditor in understanding the client business and in identifying the areas in potential risks which auditor may be previously unaware of.

b) It will also help the auditor in determining NTE of further audit procedure to be performed.

c) AP in planning may use both financial & non-financial data. eg: No of employees, No of units manufacture, overall space taken on lease in terms of Sq Feet, etc.

2) Substantive analytical procedure :-

As per SA 520 it is the objective of the auditor to obtain reliable & relevant audit evidences when using SAP.

eg: using SAP to check payroll expenses, Interest income, rental expenses etc.

3) As per SA 520 the objective of the auditor is to design and perform analytic procedure near end of audit that will assist auditor when forming an overall conclusion that whether auditor understanding of FS is consistent with the actual FS.



b) AP are intended to corroborate conclusions formed during the auditor so that auditor can base his opinion  
(so primary AE hai usko support karna)

c) In same circumstances auditor may have revise his ROMM assessment and also modified his further Audit procedure

4) Purpose of AP :-

a) AP is uses comparisons and relationships to assess that whether account Balances or other data appears to be reasonable

eg: Expenses incurred by the Co, during the year,  
No of Employees as per Employee master data  
(didn't change anytime)

b) AP will help in identifying the existence of unusual transactions, or events, amounts included, Trends that may indicate an implication on the overall audit.

c) AP helps in identifying areas where ROMM can be high so that auditor can plan his further audit procedure accordingly.

## Substantive Analytical Procedures

Q.1 Steps involved in a SAP :-

- Determine the suitability of a particular SAP for a given assertion [A/c Bal, Transaction] on the basis of auditor's assessed ROMM and Test of detail- [if planned & executed]
- Auditor should evaluate the "Reliability of data" (Note 4) from which auditor expectations of recorded amount is developed
- Develop an expectation of recorded amt and evaluate whether the expectation is sufficiently precise to identify a misstatement [it can be material either individually or when aggregated with others]
- Auditor should determine the amt of any diff of recorded amount's from expected values to be considered as immaterial i.e. acceptable without further investigation.  
(ಅಂದರೆ ಯಾವ limit set ಮಾಡಬೇಕು, ಆ limit ದ ಕೆಳಗೆ ಬಿದ್ದರೆ immaterial ಅಂತೆ consider ಮಾಡಬೇಕು)



Note

### Imp 4) Reliability of Data :-

Auditor should consider the following factors to determine reliability of data before using such data for developing his such data from SAP

[H.W]

a) Source of info available eg: info be more reliable when it is obtained from independent sources outside the entity

b) Comparability of the information available  
eg: Board industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialised products

c) Nature and relevance of the information available  
eg: whether budget have been established as assets to be expected rather than as goals to be achieved

d) Controls over the preparation of the information  
eg: review and maintenance of budget.

### 5) Factors affecting Substantive AP :-

a) Availability of data :-

Availability of reliable and relevant data will affect the effectiveness of SAP



by Disaggregation :-

Degree of Disaggregation in available data can directly affect its usefulness in detecting misstatement while using SAP.

Cr Account Type :-

Certain acc tend to be more predictable

Such as income statement line items since they include accumulated transaction for a period.

∴ They are directly comparable with a prior period numbers.

dr Source or Nature of Transaction :-

Routine nature transactions tend to be more predictable ∴ it will be more effective to use SAP in comparison to non-routine and those significant class of transactions which requires estimation since they will be more difficult to predict.

e) Nature of Assertion :-



↳ Inherent Risk | "what can go wrong"

If auditor's assessment for a specific assertion conclude that ROMM is high the auditor should plan to rely on test of details to address this high ROMM area.

Performing only SAP on such area may not be appropriate.

↳ Following matters <sup>relevant</sup> are the Auditor's Evaluation of whether expectation could be developed so significantly precise that will help in identifying all the misstatements:

a) Degree to which info can be disaggregated

b) availability of info for predication. it includes both financial and non financial info

c) The accuracy with which accepted results of SAP can be predict.

Imp ↳ When auditor identifies significant diff or variances after performing SAP

Auditor shall investigate about such diff using the following procedure

a) he should inquiry with mgt & obtain appropriate audit evidence relevant to mgt responses. while obtaining evidences regarding mgt responses he should evaluate

whether they are consistent with the audit for understanding the Entity Business and other audit evidences obtained during course of audit.

by Perform other audit procedure as necessary in the Circumstances. Generally other audit Procedure are required to be performed when mgt unable to provide required explanation or in Auditor Judgement mgt explanation and appropriate evidences supporting those explanation are not adequate

87 Techniques available as per SAP

by Trend Analysis

i) A commonly used Technique

ii) The Comparison of current data with the prior period balance

by Ratio Analysis

i) It Useful for analysis of assets and liabilities A/c's as well as Revenue and Expenses A/c

ii) An Individual BIS A/c is difficult to Predict

iii) Ratios can also be compared over time.



### CF Reasonableness tests :-

i) This analytical procedure does not rely on events of prior periods, but upon non-financial data for the audit period under consideration.

ii) Applicable to Income Statement Accounts and certain accrual or prepayment accounts

iii) These tests are made by reviewing the relationship of certain account balances to other balances for reasonableness of amounts

### dt Structural modeling :-

A modeling tool constructs a statistical model from financial or non-financial data of prior Ac<sup>o</sup> periods to predict current Ac balances



SA - 530

## Audit Sampling

27. Meaning of Audit Sampling :-

Audit Sampling means : application of audit procedure to less than 100% of items within a population.

28. The samples selected should be true representative entire population because auditor draw his conclusion on the entire population on the basis of sample selected.

37. Population :

It refers to entire set of data from which a sample is selected and about which auditor wishes to draw conclusion.

Auditor should consider the following characteristics of population before considering sampling.

### (a) Appropriateness

Auditor should determine that the population from which samples will be drawn should be appropriate for the specific audit objective.  
eg: If auditor's objective is to examine overstatement of A/c's receivable then the population could be defined as detail listing of A/c Receivable.  
However if auditor wants to examine understatement of A/c's payable then the detail listing of A/c's



Payable may not be appropriate in this case  
 Auditor should check subsequent payment  
 disbursements, unpaid invoices, Suppliers  
 Statements, logistic documents etc

### (b) Completeness :-

Auditor should ensure that the population  
 from which samples will be drawn  
 should be complete. Auditor should evaluate  
 respective internal control to ensure that  
 all transactions or activities relative to the  
 population is appropriately recorded

### (c) Reliable :-

Auditor should ensure that the population  
 selected from sampling contains reliable  
 information.

### 4) Methods of Sampling :-

- a) Random Sampling [Note-2]
- b) Systematic Sampling
- c) Monetary unit Sampling [MUS] [Note-1]
- d) Block Sampling
- e) Haphazard Sampling



Notes :-

1) Monetary Unit Sampling :-

It is a type of Value-weighted selection in which Sample Size, Selection and Evaluation results in a Conclusion in monetary amounts.

Imp 2) Random Sampling :- [H.W]

Simple Random Sampling

Stratified Sampling

a) Each unit of the whole population has an equal chance of being selected.

a) Dividing the whole population to be tested in a few separate groups called strata.

b) Involved random number tables are simple and easy to use

b) Each stratum is treated as if it was a separate population

c) Population is selected either with a help of computer or picking up a number in a random way.

c) No's of groups for whole population has to be divided is determined on the basis of auditor judgment.

d) Today using various applications on the cellphones like the random number generator.

d) The reasoning behind the stratified sampling is that for a highly diversified population, weights should be allocated to

e) It considered appropriate provided the population to be sampled consist of



reasonably similar units and fall within a reasonable range i.e., it is suitable for a homogeneous population having a similar range

reflect these differences.

### 3) Interval / Systematic Sampling :-

a) In this method auditor should first find out a sampling interval which can be calculated as following

$$= \frac{\text{Total Number of line items}}{\text{Sample size}}$$

b) After calculating sampling intervals auditor start selecting sampling units from the population in a haphazard manner

c) To reduce auditor's bias he may select samples using multiple starting points

d) This method is suitable for homogeneous population

### 4) Block Sampling :-

This method involves selection of a block of continuous items from the population for the purpose of audit procedure eg: selecting first



100 Sales transaction From April , last 50 transaction From march.

### 5\* Haphazard Sampling :-

a) In this method auditor selects the sample without following structure and technique

b) all though no structured technique is used auditor should try to ensure that any kind of predictability or his bias should be avoidable

c) In this method there is no structured approach. No use of random number table and even auditor's judgement should not be involved

### 5\* Factors Affecting on Sample Size :-

Chart on next page.









## Notes

- 21 In case of situation "a" and situation "c" there is a risk that auditor's opinion can go wrong therefore it will affect the effectiveness of audit
- 22 In case of situation "b" and situation "d" Probability of auditor's opinion going wrong is very low, this will only lead to additional work for the auditor  $\therefore$  affecting the efficiency of audit
- 31 As per ICAI Module Sampling risk can lead to two types of erroneous conclusion.
- 21 In case of Test of Controls auditor may conclude that controls are effective while they in reality they may not be effective
- In case of Test of audit details auditor may conclude that material misstatement doesn't exist
- In Both these cases auditor may give an inappropriate opinion. Hence affecting effectiveness of audit



4) If auditor wants to reduce acceptable Sampling risk to a low level than comparatively a larger Sample size will be needed.

6) Concept of Non-Sampling Risk :-

The Risk that auditor reaches a wrong conclusion for any reason not related to Sampling risk can be termed as non-Sampling risk. Following examples of sources of non-Sampling risks

- i) Human mistakes
- ii) Misinterpretation the sample results
- iii) Applying audit procedure which are not appropriated the audit object.

⇒ Nature and causes of Deviation and misstatement :-

i) Auditor should analysis the deviations and misstatements identified during sampling, he should try to understand are there any common features in this mistakes such as a type of transaction, location, a specific time period etc

ii) While analysing these mistakes auditor should try to identify all the items in the population which may have those common features.



iii) In extremely rare circumstances auditor may consider a mistake to be an anomaly [when a mistake does not represent any other mistake in the population it can be termed anomaly]

iv) Auditor shall obtain SAAE to conclude whether a mistake should be considered as anomaly or not.

### 8) Projection of Misstatement :-

a) Auditor should project the identified misstatement for the entire population

eg: if auditor detects misstatement amounting 6 L, in 50% of population he should project them for the entire population.

b) while projecting misstatement auditor may exclude anomalous misstatements.

c) However while calculating total misstatement he should include even the anomalous misstatement. he also consider Net Effect of PY IUM in the CY

Lecture : 30, Date : 04-01-2024

### 9) Meaning of Stratification and Value-weighted Selection :-

#### Stratification

a) Stratification means dividing the total population into discrete sub-population which have an identified characteristic.



by while performing the Test of detail population is often stratified by monetary value i.e greater audit effort to be directed towards large value items.

or Auditor can also stratify the total population on the basis of any other factor which indicates high ROMM

eg: In case of T/R auditor can stratify the population on the basis of number of dates since amt is receivable.

or when auditor uses stratification he should perform detailed sampling procedure for each sub-population i.e stratum & he should evaluate the misstatements identified during sampling and perform projection for each stratum separately.

or To form an overall conclusion on the entire population he should combine the results of above procedure for all the strata.

### Value - Weighted Selection

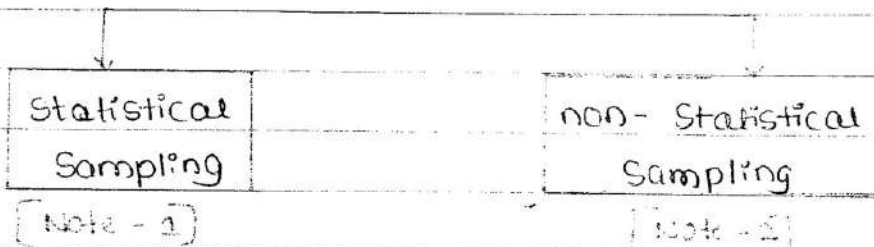
or When performing Test of Detail auditor may identify sampling unit for purpose of audit procedure on the basis of monetary amt / value involved in a specific unit

or The major advantage to this approach is that auditor is able to direct his effort to



Those areas where ROMM can be high

107 Types of Sampling :-



Notes :

17 a) SS is an approach to sampling that focuses on random selection of sample item and

b) It emphasizes the use of probability theory i.e. considering sampling risk while evaluating the sample result

c) In case of SS there is no personal bias of the auditor since its scientific approach for sample selection and evaluation.

d) In larger organisations where volume of transactions is high, SS approach is always recommended.

27 Non-Statistical Sampling

a) In this approach auditor may determine sample size and sample select on the basis of his personal experience & knowledge

b) This approach is very simple to apply and



Can be suitable when engagement of the members do not have sufficient knowledge have scientific approach

CY NBS is criticized on the grounds that it is neither objective nor scientific.  $\therefore$  auditor personal bias may affect the sampling process.

3x Advantages of Statistical Sampling := [H.W]

a) The amt of testing does not increase in proportion to the increase in size of the area tested.

b) The sample selection is more objective and thereby more defensible.

c) The method provides a means of estimating the minimum sample size associated with a specified risk and precision.

d) It may provide a better description of a large mass of data for complete examination of all data.

e) It is widely accepted way of sampling as it is more scientific, without personal bias and the result of sample can be evaluated and projected in more reliable way.



ii) Examples of Factors Affecting Sample Size :-

A) For Test of Control :-

- i) Tolerable rate of Deviation [inverse relationship]
- ii) Expected rate of Deviation [Direct relationship]
- iii) Sampling risk [inverse relationship]
- iv) increase in size of population [Negligible effect on Sampling Size]
- v) Expected assurance level on internal control of operating effectiveness [Direct relationship]

B) For Test of Details :-

- i) Higher the assessment of ROMM larger the Sample Size will be needed.
- ii) If auditor is relying more on other substantive procedure such as SA 505 and SA 520 then the assurance required from sampling will be less and  $\therefore$  smaller sample size will be needed.
- iii) Tolerable error [inverse relationship]
- iv) Expected rate of misstatement [Direct relationship]
- v) Sampling risk [inverse relationship]
- vi) If stratification is appropriate in the population then the sample size will decrease.
- vii) There will be negligible effect on sample size due to number of sampling units in the population.



SA - 570

Going Concern

2x Meaning of Going Concern :-

General purpose FS are prepared using Going Concern basis of A/c<sup>n</sup> unless mgt either intends to liquidate the business or to cease the operations or they have realistic alternative but to do so. (winding up of Co)

2x Objectives of the auditor regarding GC includes the following

a) auditor should obtain SAAE regarding and conclude on, the appropriateness of Mgt use of GC basis of A/c<sup>n</sup> in preparation of FS.

b) To conclude based on audit evidences obtain that whether a material uncertainty exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a GC

c) To Report in accordance with this SA i.e., consider its implication on the auditor report.



Notes :=

1) Responsibilities of auditor

i) It is the auditor's responsibility

a) To obtain SAE [same as objective "a"]

b) To conclude about material uncertainty [same as objective "b"]

ii) As per SA 200 [inherent limitations of audit], there will be a chance that auditor may not be able to detect certain material misstatement due to future events or conditions that may cause an entity to cease to continue as a GO.

iii) Auditor can not predict future events or conditions. ∴ if auditor does not include any reference of material uncertainty in his audit report then it can not be viewed as a guarantee about the entity's ability to continue GO.

2) Risk Assessment Procedures and related activity:

i) Auditor should determine whether mgt has already performed a preliminary assessment of the entity's ability to continue as a GO.



ii) If Mgt has performed such an assessment than auditor shall discussed about the same with the mgt. Eg also determined whether mgt has identified such events or conditions which may cast significant doubt on the Entity's ability to continue as a GC

iii) If mgt has not performed such an assessment the auditor should asked the mgt that what is your basis for intended use of GC basis of Accounting

iv) Auditor should remain alert through out the audit for those audit evidences which may indicate company may have GC issue

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v) Auditor should also consider the impact of these matters on his assessment of ROMM under SA 315  
Eg: Sometime auditor may come across certain matters which may required the auditor to revise his assessment of ROMM as well as revision in existing planned in further audit procedure



### 38 Evaluating Mgt Assessment

- i) Auditor should evaluate mgt Assessment of Entity's ability to continue as a Going Concern
- ii) It is not the auditor responsibility to rectify lack of analysis of mgt
- iii) Auditor should evaluate the process followed by mgt to make such GC Assessment of GC he should also consider the assumption used for such assessment are feasible or not.
- iv) While evaluating the mgt Assessment auditor should cover the same period for which Assessment has made, if mgt has not covered atleast 12 months from the date of FS then auditor should request the mgt to extend there Assessment.

\*\* 49 Events or Conditions that may cast significant doubt on the Entity's ability to continue as a GC [H.W]

### 39 Financial

- 1) Net liability or Net current liability position
- 2) Indications of withdrawal of financial support by creditors
- 3) Adverse key financial ratios
- 4) Inability to pay creditors on due dates
- Inability to comply with the terms of loan agreements.



5) Change from Credit to cash-on-delivery transactions with Suppliers.

2) Operating :-

1) Mgt intentions to liquidate the Entity or to Cease operations

2) Loss of a major market, key customer, franchise, license, or principal Supplier

3) Loss of Key Mgt without replacement.

4) Labor difficulties.

5) Emergence of a highly Successful Competitor

3) Other :-

1) Non-Compliance with other Statutory or regulatory requirements

2) Pending legal or regulatory proceedings against the Entity

3) changes in law / Regulation or govt policy Expected to adversely affect the Entity

4) Uninsured or Underinsured Catastrophes when they Occur



\* 5. Additional audit Procedure when Events or Conditions are identified :

or If auditor comes across any Events or conditions are identified then he should perform additional procedure to understand and evaluate the impact of these Events or conditions.

Imp Example b) These additional procedure may include the following

i) Discuss and analyse future cash flows and other relevant forecast with the mgmt

ii) Confirm the existence, terms and adequacy of borrowing facilities

iii) Read the minutes of meeting of shareholders and TCWG for reference to financing difficulties.

iv) Obtain and analyse entity latest available interim FS

v) inquire with entity's legal counsel regarding pending claims and litigation, also whether Mgt assessment regarding these outcomes is reasonable or not.

vi) adequacy of support for any planned disposal of assets.



c) Evaluate Mgt's plan for future actions in relation to the outcomes of GC assessment.

d) where Entity has prepare a cash flow forecast then auditor should evaluate the reliability of underline data on the basis of which forecast is prepare.

e) request for WR from the mgt regarding there future action plans and feasibility of those plans

\*\* 6) Implication for the auditor's report

[Part of para 25, 29, 30]

7) Auditor's Conclusion on GC :

a) Auditor should conclude on appropriance of Mgt use on GC basis.

b) Auditor should conclude on a situation that whether material uncertainty exist.

c) If Material uncertainty exists then assess its potential impact and likelihood of occurrence.



SA - 560

## SUBSEQUENT EVENTS. [SE]

1. Subsequent Event as per SA 560 includes the following

1. Events b/w the date of FS & Date of auditor's report.

2. Facts becomes known to auditor after the date of auditor's report.

Facts known to auditor after auditor report date but before FS issued date

Facts become known to auditor after FS issued date

2. Auditor procedure relating to events occurring b/w the date of FS and the date of auditor's report.

at auditor shall perform audit procedure to obtain SAAE regarding all the SE b/w the date of FS & the date of auditor's reports which requires either adjustment or disclosure in the FS as per applicable FRF

3. while identifying SE auditor should consider the following procedure as part of risk



i) he should understand procedure used by mgt to identified SE

ii) he should perform important inquiry with the mgt and TCWG that whether any SE'S have occurred or not.

iii) Auditor should also read the minutes of meeting of owners, mgt, TCWG which have taken place after the date of FS

iv) Auditor should also read Entity's latest subsequent interim FS if any available

c) After evaluating his AE auditor should conclude whether mgt has complied with applicable FRF for all SE'S i.e whether appropriate adjustments or disclosure have been made accordingly auditor should consider its effect on his opinion as per SA 700, 705, 706

3) Audit Procedure when facts become known to auditor after the auditor's Report date

a) Auditor has No obligation to perform any audit Procedure regarding FS after the date of auditor report

b) However when after the date of Auditor's report a fact becomes known to the auditor that, had it been known to the auditor at the date of auditor's



report may have caused the auditor to amend his audit report then he should consider the following

i) Discuss the matter with mgt & TCWG  
[where appropriate]

ii) Determined whether FS need any amendment  
if so inquire with the mgt about how they intend to address this matter in the FS.

4) Obtain WR from mgt <sup>or</sup> that all SE for which adjustments or disclosure is required as per applicable FRF has been adjusted or disclosed <sup>as</sup>

5) Read Note - 1 PNO = 10.78

6) ~~...~~ is ~~...~~ Part 3

4) If Mgt amends the FS then auditor shall consider the following

i) auditor should carry out audit procedure which are necessary in the circumstances regarding the amendment

ii) Auditor should also <sup>review</sup> the steps taken by Mgt to ensure that any one who has received previously issued FS along with old auditor report have been informed about this situation



iii) unless there is a Exceptional Circumstances

[steps note - ①]

Auditor should extend his audit procedure till the date of new audit report, he should provide a new audit report on the amended FS and a new audit report shall not be dated earlier than the date of approval of amended FS

Notes :

2) Exceptional Circumstances [Para 12 of SA 560]

when Law, regulation or FRF does not prohibit the mgt from restricting the amendment of FS to consider the effects of SE's and BOD (responsible authority) is also not prohibited to approve such restricted amendment in FS then auditor shall either

i) Provide a new audit report along with a statement under EOM or OM Paragraph that convince his audit procedure is restricted solely to the amendment of FS [Reference of respected NOTY to account should be given]

ii) Auditor can amend his audit report to include an additional date [dual dating] to indicate that his audit procedure are restricted solely on amended FS [only approved SE]



2.

a) In some entities mgt may not be required to issue amended FS as per applicable laws and regulation and  $\therefore$  auditor is also not required to provide an amended or new audit report.

b) However when mgt does not amend the FS & auditor believes that FS should be amended than auditor should

i) Modify his opinion as per SA 705 if auditor's report is not yet provided to the entity

ii) If auditor's report is already provided to the entity than auditor should notify the mgt and request them not to issue FS and his report to the users without such amendment.

\* If mgt still issues on FS and audit report without considering the amendment than auditor should take appropriate action i.e. he should prevent reliance on auditor report.



# Chapter - 5

## Audit Of Items Of FS

### 17. Meaning of Assertion :-

Assertion applied to (like check points)  $\left\{ \begin{array}{l} \text{Mgt.} \rightarrow \text{ensure by mgt} \\ \text{Auditor} \rightarrow \text{check by auditor} \end{array} \right.$

As it refers to the representation by mgt either explicit or otherwise that are embodied in the FS, Auditor will use these (integrated) assertions to consider diff types of Potential misstatements that may occur.

### by Classification of Assertion

Assertion for Income Statement Caption
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[Note - 1]

Assertion for BIS Caption
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[Note - 2]

Assertion for Presentation & Disclosure
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Notes :-

i) Assertion of Income Statement Caption :-

ii) Occurrence :-

Auditor should evaluate whether transactions recognized in FS have actually occurred and relate to the entity's business.

iii) Completeness :-

Auditor should evaluate whether all transactions that were supposed to be recorded have been recognized in the FS.

In other words Auditor should evaluate that is there any error of omission.

iiii) Measurement: [accuracy]

Auditor should evaluate that whether transactions have been recorded accurately at their appropriate amounts.

v) Cut-off Assertion :-

Auditor should evaluate whether all income and expenses are recorded in correct A/c<sup>n</sup> period.

Note :- In Stat audit cut-off as a separate assertion to perform substantive procedures for certain specific areas, such as purchase, sales, inventory, certain other exp also.

vi) Presentation and disclosure assertion

Auditor should evaluate whether the Co. has complied with all the applicable requirements of presentation and disclosure as per applicable





FRF, laws and regulation etc

27 Assertion of BIS Caption :-

i) Existence :-

Auditor should verify whether assets, liabilities and Equity Balances exist as at the period end date

eg :- attendance of physical verification of inventory  
[SA 501]

ii) Completeness :-

Auditor should verify whether all assets, liabilities & Equity Balances that were supposed to be recorded have been recognized in the FS.

iii) Cut-off assertion :-

Appropriate period

iv) Valuation :- [allocation]

Auditor should verify whether all assets, liabilities & Equity Balance have been appropriately valued i.e. in compliance with applicable FRF.

or any specific valuation required stated by the regulation

Auditor should ensure that there is no over stated and under stated.

v) Rights and obligation :-

Auditor should verify that whether Entity has rights to the assets included in BIS and an obligation to make payment for the all



the liabilities included in FS.

v/v Presentation and disclosure :-

Note :- Meaning of Negative Assertion

If it is clearly stated that there is no contingent liability it will be expressed negative assertion. On the other hand if a company does not include any amt under a line item say "building" it is an implied negative assertion that the entity does not own any "building".

As per SA 315 for Income Statement Caption

Auditor should also consider classification.

i.e. whether transactions and event value have been recorded in A/c.

## Income Statement Caption

Other Expenses :-

eg: Rent, Power and fuel, legal and professional

Mention certain attributes which auditor should verify while examining other expenses. ? [H.W]

a) whether the expenditure pertained to current period under audit

b) whether the expenditure qualified as a revenue and not capital expenditure





c) whether the expenditure had a valid supporting documents like travel tickets, insurance policy, third party invoice etc.

d) whether the expenditure has been classified under the correct expenses head

e) whether the expenditure was authorised as per the delegation of authority matrix

f) whether the expenditure was in relation to the entity's business and not a personal expenditure

Audit procedure for specific expenses such as Power and fuel, legal and professional fees and rental expenses

27 Audit Procedure for specific expenses Rent Expenses

i) Obtain a month wise Expenses Schedule along with the rent agreements

ii) Verify if Exp has been recorded and whether the rent amt is as per the underlying agreement.

iii) Specific consideration should be given to Escalation clause in the agreement to verify.

iv) Verify if the agreement is in the name of the Entity and whether the expenses pertains to premises used for running business operations of the Entity.



### 2) Power and fuel Expense :-

a) Obtain a month wise Expense Schedule along with the power bills

b) Verify if Expenses has been recorded.

c) Compile a month wise Summary of Power units consumed.

d) Analyse the monthly power units consumed by linking it to units of finished goods produced and investigate reasons for variance in monthly trends.

### 3) Insurance Expense :-

i) obtain a Summary of insurance policies taken along with their validity period

ii) verify if the exp has been correctly classified between prepaid and Expense

### 4) Legal and professional Expenses :-

i) obtain a month wise and Consultant wise Summary

ii) In case of monthly retainer ship agreements, verify if the expenditure for all 12 months has been recorded correctly.

iii) For non-recurring Expenses, select a sample and vouch for the attributes discussed above.

iv) The auditor should be cautious while vouching for legal exp as the same may highlight a dispute for which the Entity may not have made any provision and the matter may also not have been discussed to the auditor.





7) Following is the lists of General points which students can include for purchases, sales, Employee Benefits, Expenses etc.

8) Auditor should understand and evaluate relevant internal control by performing compliance procedure. Conclusion of this compliance procedure [control testing] will help in determining the NTE of substantive procedure to be performed.

In other words if respective controls are effective auditor can reduce the extent of substantive testing.

9) Auditor should select certain sample on random basis and examines the related documents such as appointment letters, appraisal letters, attendance records, leave records, internal HR policies etc.

10) performing substantive procedure must. Auditor can perform analytical procedure such as comparison of CY numbers with the PY numbers or using suitable base data auditor can develop and expectation eg compare his expected amt with the actual amt [as per entity's income statement]



Q 27 A SQ on Controls of Employee benefit Expenses  
Can be asked

- i) maintenance of attendance record
- ii) Employee master data
- iii) authorisation & approval of monthly payroll
- iv) Disbursement Process
- v) Compliance with difference Employee deduction
- vi) consideration of retainerment Benefits

37 other audit procedure to examine payroll Exp  
(i.e. TOO)

- i) selects samples from list of new hires
- ii) " " of resigned Employee to  
check their full and final settlement
- iii) If auditor has any doubt about fictitious Employee  
he can meet Employees in person.

iv) Auditor should obtain monthly Salary register  
as on a sample basis he should examine  
computation of payroll for a specific month

v) You will examine compliance with diff taxes.  
or deduction,

vi) Payment of appropriate dues. Example of PF  
Professional Tax

vii) auditor should perform analytical procedure to  
analyse overall reasonableness of Employee benefit Expenses  
eg: units produced per Employee for manufacturing



Eg of Other Income

- i) Int on FD
- ii) Gain / loss of Sale of investment
- iii) Dividend received

ICAI can ask a SQ on How to check Int Income on FD H.W.

1) Obtain a list of Fixed deposits opened during the period

2) Verify the arithmetical accuracy of the interest calculation

3) Trace the same to the direct confirmation obtained from the respective Bank

4) Obtain a confirmation of interest income from the bank and verify that

5) also obtain a copy of 26AS



Revenue i.e. Sale of products and Services :-

27 All General points related to internal control testing, Substantive analytical procedure will be similar to the points written under Employee Benefit Expenses.

27 SQ on Overstatement of Revenue (5D.3)  
(Jul-21)

a) Check whether a single sales invoice is recorded twice or a cancelled sales invoice could also be recorded

b) Check few invoices with their relevant entries in sales Journal

c) Obtain Confirmation from few customers to ensure genuineness of sales transaction

d) whether unearned revenue recorded as earned

e) whether any substantial uncertainty exists about collectability.

37 Other General procedure to examine revenue from operation

a) Calculate eg Review Ratio of Sales return to Sales

b) Review those unusual transactions which are beyond ordinary course of business





c) Perform appropriate cut-off procedure to evaluate whether revenue transactions are recognised in appropriate accounting period.

d) Sometimes to achieve performance targets sales employees can make fictitious sales.

\* e) In case of international sales transaction evaluate compliance with AS - 11

\* f) In case of related (or) party transactions evaluate whether their transactions are at arms-length price and are approved by appropriate authority. i.e. BOD and TCWG.

g) Auditor should trace few sales transaction from inspection to completion i.e. evaluating every underlying document involved in the sales process.

## Balance Sheet Caption :-

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### Trade Receivables :-

1) Auditor should perform direct confirmation procedure (e) i.e. SA 505 to confirm the amt's of receivable from diff party as on B/S date

2) Auditor should obtain an ageing analysis (v) report which should include details of customer wise receivable amt in the following format

0-30, 30-60, 60-90, 90-180, 180-365 more than



Completeness & Cut-off

3> Auditor should also perform proper cut-off (c-c) procedure to evaluate whether credit sales are recognized in the appropriate AC<sup>o</sup> period i.e. credit sales should not be overstated and understated.

4> In case of related party receivable auditor should verify whether these transactions are appropriately authorised and have taken place at arms-length price.

5> Auditor should obtain a schedule of items related to provision for doubtful debts he should also evaluate whether company has made reasonable estimate for allowances for doubtful accounts.

6> Auditor should also obtain a list of debtors under litigation and compare this with the P/L. In case of major changes he should ensure that whether Co. has appropriately estimate, provided and disclosed for doubtful debts.

7> In case of foreign currency transaction auditor should evaluate compliance with AS 11

8> Auditor should evaluate whether entity has complied with all required presentation & disclosure requirement as per Schedule III (P&B)

Presentation & disclosure







It Specific procedures or points to be considered in respect of TIR.

i) only bona fide sales lead to TIR.

ii) all such sales are made to approved customer.

iii) " " " " Properly recorded in the BOA's.

iv) Debts are collected on time.

v) Balances are regularly reviewed.

2) Steps involved in direct confirmation procedure for receivable. Read p.No 5C.3





## Cash and Cash Equivalents :-

1> Auditor should perform physical verification of cash balance as on 31<sup>st</sup> March i.e. period end date. for the purpose of surprise element any other date is also selected to verify whether cash balance as per books and cash held physically is matching

2> After performing physical verification auditor should obtain a cash certificate from the mgt

3> Auditor should also perform external confirmation procedure to confirm the balances O/S with the Banking Co. as on B/S date. 100% checking should be done that means no sampling & reply is also required in any cost.

4> Auditor should also perform a cash sensitivity analysis i.e. analysing all inflows & outflows of cash on monthly basis. and comparing with a months of PY as well as CY. to identify if there is any unusual trend.

5> Auditor should verify the Bank reconciliation statement, prepared by the company. he should scrutinize all reconciling items bec a small items of diff may represent multiple errors

6> if Co, maintains any foreign currency Bank A/c the auditor should evaluate whether a closing Bal has been restated at the Exchange rate





as per applicable FRF [RBI Exchange rate considered]

75 Presentation and disclosure as Per Schedule III

Property, Plant and Equipment :-

1> Auditor should inquire with the Mgt and understand that whether they have perform Physical verification of PPE in india Generally Physical verification of PPE is conducted once in two or 3 years

2> Auditor should obtain the PPE Physical verification report along with relevant doc's or work sheets to understand How the verification was performed, list of differences or discrepancies noted, whether mgt has properly adjusted these identified diff etc

3> Auditor should obtain the PPE Schedule and verify the movement in Balance on A/c of addition or deletions during the year

$$\boxed{\text{Ope bal} + \text{Add} - \text{Dele} = \text{Clo Bal}}$$

SP 4> Auditor should obtain a list of all additions from the mgt and perform specific procedure to evaluate the same

a) For all material additions, verify if such expenditure meets the criteria of PPE as per AIS 10.

b) These cost include costs incurred initially to acquire or construct an item of PPE

where



c) Verify that cost of an item of PPE as per AS-10

d) Verify and ensure that items such as spare parts, stand-by equipment and servicing equipment are recognised in AS-10

e) Ensure that the entity is not recognizing costs of the day-to-day servicing in the carrying amt

f) Test the purchase invoice, installation certificate etc.

g) Verify whether the PPE additions have been approved

h) Verify whether proper internal processes and procedures were followed.

5) Auditor should obtain a list of deletions and perform specific audit procedure to evaluate the same (H.W)

a) understand from the mgt the reason and rationale for deletion of old asset.

b) obtain the mgt approval and discard note authorising disposal of the asset from its active use

c) Verify the process followed for sale of discarded PPE

d) Verify the Mgt has accurately recorded the deletion of PPE





- 6) Auditor should understand and verified whether Entity is compliance with dep and amortisation policy for tangible & intangible Assets
- 7) Auditor should inquired with mgt and understand about their impairment assessment for PPE to comply with the requirements of AS 28
- 8) Auditor should obtain documentary evidences to evaluate whether the titles deeds or invoices or registration documents or in the name of Entity
- 9) In case of immovable property's to verify or confirm original title deeds auditor can obtain direct confirmation letter from respective lenders auditor should also verify Entity's registers of charge
- 10) Auditor should verify whether Entity has complied with the presentation & disclosure of Schedule - III and applicable AS & Ind AS

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1) obtain a detailed schedule of O/S loans and advances as on B/S date and verify the movement during the year

2) Obtain direct confirmation from 3rd parties.



3> Auditor should also verify respective loan agreement and acknowledgement of parties to whom loan has been given.

4> In case of related Party transaction [for loans and advances] Auditor should evaluate whether such transactions are properly authorised and taken place of arms-length price.

5> For foreign currency transactions [AS-11]

6> Obtain aging report for loans and advances.

7> Presentation and disclosure as per Schedule III

8> Inspect the minutes of meeting of BOD or TCWG for the approval of material loans and advances.

### Inventories :-

80 1> For the purpose of existence Auditor should attend a physical inventory counting process by mgt [SA 501] [50.10]

2> If the inventory is lying with the 3<sup>rd</sup> party Auditor should perform detailed audit procedure as per SA 501





3) Auditor should perform appropriate cut-off procedure during purchases and sale testing

4) Auditor should also perform certain analytical procedure such as

a) compute and compare inventory to ratio

by vertical analysis i.e. inventory value compared to total asset value.

b) compare actual inventory with the budgeted numbers

5) Auditor should verify purchase doc's, shipping doc's, different consignment contracts, supplier agreement to confirm whether the inventory is rightfully owned by Co, or not.

6) Presentation and disclosure as per AS-2 & Schedule III

7) For Raw materials and consumables

a) identify what all elements of cost are included in raw material valuation eg: logistic costs, duties etc

b) on a test basis Auditor should check the cost basis from the purchase invoices.

c) on aging analysis & physical verification auditor may come across slow moving items, damaged



or absolute inventory, etc. In such cases he should verify whether the realistic NRV is below cost or not.

d) If std cost data is available then Auditor should compare actual cost with the std cost and understand the reasons for variances.

ii) For work in progress

a) Auditor should inquire with the mgt and understand various stages of prod<sup>n</sup> and value addition along with basis of estimation i.e. How much additional cost is incurred at which stage of raw material conversion.

b) Auditor should understand and verify through documentary evidences about diff elements of cost which is included to estimate the value of WIP.

c) If certain OH included auditor should understand & verify the basis of which such OH are included.

d) All abnormal costs or wastage should be excluded for the purpose of valuation.

iii) For Finished Goods [H.W]

a) Enquire as to what costs are included





b) Ensure that inventories are valued at NRV

c) Verify if the relevant Semi/Partly processed inventories

d) Follow up for items that are obsolete, damaged, slow moving and ascertain the possible realizable value of such items

e) Examine the valuation of obsolete & damaged inventory also request the client to provide inventory ageing and follow up any inventories which at time of observance of physical counting were noted as being damaged or obsolete

f) Verify the correct application of lower-of-cost-or-net-realizable-value principles

Provisions for Impairment of Assets

17 SQ on using the work of mgmt's experts eg: actuarial valuation report [SA 500 & PNO 5B.23 & 28]

27 Presentation and disclosure requirement IS per SA 29 [5B.24]

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## Borrowings :-

- a) Auditor should obtain a detailed Schedule of borrowing to understand a movement during the year, Schedule should have a proper classification b/w short-term and long-term borrowing.
- b) For additional borrowings which have taken place during the year auditor should verify whether they are approved by appropriate authority eg :- BOD can approved Entity's Borrowing unless sec 180's Company act consent of members is also required.
- c) Auditor should verify appropriate documentary evidences such as loan agreements or deeds signed with lenders to understand important terms agreed by the company. this may include Rate of int, Securities provided, repayment schedule.
- d) Borrowings are related parties.
- e) Has company borrowed in foreign co,
- f) Perform direct confirmation procedure
- g) Obtain WR from the mgt
- h) Auditor should evaluate whether Entity's has given certain Asset as a security loan



the purpose of borrowing & the value of such security is below the amt of loan outstanding

17 Presentation and Disclosure as per Schedule-3

### Reserves and Surplus :-

17 Meaning of Revenue Reserve and Capital Reserve :-  
(P.NO - 5B.8)

18 MCQ Regarding Dividend AS 4 or IND AS 10  
(P.NO - 5B.9)

19 Utilisation of Bal or Amt in the SPA as per Companies Act  
(P.NO - 5B.10)

### Trade Payable :-

1) Auditor should obtain direct confirmation from the third party confirming the amt of Trade payable

2) Auditor should obtain document in the related party transactions and verify whether these transactions are appropriately authorised.

3) Auditor should also perform cut-off procedure to properly evaluate whether credit purchase recognized in the appropriately in A/c period i.e. credit purchase could not be overstated and understated



4) Auditor should obtain a list of creditors and compare this with the P.Y. it whether major changes are arising than auditors. Ensure the company has properly estimated or not.

5) In case of foreign currency transaction auditor should evaluate the compliance of AS - 11

6) Auditor should evaluate the whether co should presentation and disclosure as per Schedule - III

Questions :-

1) Short - Note on direct Confirmation procedure for payable.

2) If No response is received for direct Confirmation procedure than what should be additional Procedure.

- check Subsequent Payments

- check respective Vendor invoices eg Shipping documents

- Perform appropriate analysis to identify if there are any transactions which have not occurred but are recorded or vice-versa





3) In an organization there can be certain statutory dues which are payable as on 31-march but the actual payment can be made subsequently i.e. next financial year. Auditor should verify the payment Challans and receipts filed to confirm the liability amt as on B/S date.  
[like note]

For eg : Payment of GST, TDS, PF, EST etc

2) Specific audit procedure to check additions during the year for Intangible assets [P.NO - 5C.22]

2) Specific audit Procedure for check deletions during the year for Intangible assets [P.NO - 5C.22]

2) Examples of analytical procedure that can be performed by auditor.

a) Stock Composition analysis

Auditor should understand eg verify composition of inventory i.e. out of total inventory, how much is RM, WIP & FG, This should also be compare with the PY inventory composition to identify unusual trend

b) Ratio analysis

perform Stock T/O Ratio & Creditor T/O ratios



Or quantitative reconciliation of closing Stock along with opening Stock, purchase and Consumption during the year.

Or Consumption Analysis

Auditor should scrutinize the RM consumed during the year as per manufacturing A/c and compare this with the PY numbers to identify if there are any material changes.

Depreciation and Amortisation :-

Auditor should keep in mind certain attributes while verifying depreciation and amortisation exp  
 $P.N = P.S.D.$





## Chapter - 5

## Audit Report

Sec 143 : Powers and Duties of the Auditor

1) Rights of the auditor U/s 143 (1)

a) Right to access BOA [In case of CFS audit this right is also relevant for Subsidiaries, associates and Joint Ventures]

b) Right to obtain info and explanation

c) Right to receive notices for GM and duty to attend to such GM

d) Right to report to the members of the company

e) Right to lien.

\* 2) Duty to make inquiries as per U/s 143 (1)

a) loans and advances made, are they secured, terms are prejudicial

b) whether transactions are merely book entries and prejudicial.

c) If the Co, is selling these asset such as shares, debenture at a price less than

these Cost price [Not relevant for Banking Business and Investment Business]

dy loans and advances shown as deposits  
[intentionally wrong classification]

ey Personal Exp charged to Revenue A/c

ty If Shares have been allotted have in cash check whether cash is actually received and allotted for otherwise this can be misleading

Note: As per opinion of research Committee auditor is not required to report on these matter specified under 143 (1) unless he has any special comments to make for any specific items. eg :- If he comes across any material misstatements then it can be included in 705

3r Duty to report on FS u/s 143 (2)

Auditor shall make report to the members of the Co, on the A/c's examined by him, before making his report he should ensure compliances with provisions of Companies Act AS, Ind AS, SAS or any other regulatory requirements.

• True and fair view of FS.

\* 4r Duty to report on principle assertion u/s 143 (3)

ay whether Auditor has obtain all the info and explanation necessary for the audit if not maintained the details along with its effects on



by whether in auditor's opinion proper BOA have been maintained as required by the law. In case of Branches auditor should examine whether proper reports returns have received Head office.

by Whether the report on A/c's of any branch office audited by a person other than Co's auditor [Branch or component auditor] has been sent to the Companies Auditor and how he has dealt with those reports while preparing his own report.

by whether B/S and P/L agreed with BOA and Branch returns.

by whether FS complied with AS.

by whether any director disqualified from being appointed as a director of the Co, U/S 164 (2) [if the associated Co has not filed Annual returns for 3 year or Co, has defaulted regarding dividend payment, Repayment from debenture etc for more than a year].  
[Auditor's Generally obtains a WR regarding same]

by whether auditor has come across any matters or transactions which may have adverse effect on the functioning of the Co, Auditor observations or comments should be included as per Guidance note issued by ICAI.



by Any qualification, reservation or adverse remark  
 [Similar to modification as per 705] relating  
 to maintenance of A/c's and other matters  
 connected therewith.

Imp ii) IFC's Clause (Internal Financial Control) :-  
 whether Co has adequate internal financial  
 control with reference to FS and whether  
 such controls are operating effectively

Note : Reporting on IFC's with reference to FS  
 shall not apply to a private Hd if: [H.W]

i) OPC

ii) Small Co.

iii) TLO < 50 Cr and

aggregate Borrowing < 25 Cr

Lecture = 39 Date = 15-01-2024

\* j) Such other matters as prescribed in Rule 11

\* Rule - 11.

a) Auditor shall evaluate whether Co has disclosed  
 the impact of all pending litigations on  
 its financial position in the FS.

b) whether Co, has made provisions as required  
 by applicable by law or AS for all  
 material foreseeable losses.

c) whether there has been any delay in  
 transferring amt to the investor education  
 and protection fund [IEPF]





dt  
 ✓ whether dividend declared or paid by the co,  
 in compliance with Sec 123

MO2  
 ✓ whether co has used such A/c<sup>n</sup> software for  
 maintaining such BOA which has a feature  
 of recording audit trail [i.e. log record of  
 every activity] and the same has been operated  
 through out the year for all the transaction  
 and such audit trail feature has not been  
 tampered. (Relevant form 1<sup>st</sup> April 2022)

✓ UBO clause :-  
 whether Mgt has represent that other than what  
 is disclosed in notes, no funds have been  
 advanced / loaned / invested by the co, to any  
 person (including foreign entity) whether understanding  
 is recorded in writing or not and such funds  
 are invested / advanced / loaned to any other  
 person on behalf of ultimate beneficiary  
 [in this case co, we are audited]

✓ No funds have been received by company

✓ based on appropriate audit procedure auditor may  
 conclude nothing has come to our notice that  
 has caused to us believe that the above  
 representation contains any material misstatement



57 143 (4) :-

where any of the matter which are required to be included in the audit report is answered in the negative or with a qualification than report shall include reasons for the same.

\* 67 143 (5), (6), (7) :

Powers of CAG with respect to a Govt Co,  
(read with Chapter 9)

78 143 (8) : Branch audit

We should refer SA 600 along with 143(8)  
from SA module P.NO 1E.4 to 2 to 4

Imp Points :-

\* \* who can be appointed as a Branch auditor?  
[When the Branch is outside India]

\* Branch auditor should send his report to the Companies Auditor & he should deal with Branch auditor report as per his judgement while finalising the audit report the overall Entity.

\* Powers & duties of Branch auditor are similar to any other statutory auditor as per Sec 143 including reporting of fraud U/s 143 (12)







87 143 (9) : Duty of auditor to comply with all applicable SA's while conducting Stat audit

97 143 (11) :

Auditor is required to include a statement along with his audit report if required by CG

for certain class of companies

eg : CARO 2020

107 143 (12) : Reporting of fraud by an auditor

CARO - 2020

(P.No - 211)





SA - 600

Us

### 27 Important Definitions [H.W.]

Principal auditor :

Principal auditor means the auditor with responsibility for reporting on the financial information of an entity when that financial information includes the financial information of one or more components audited by another auditor.

Other auditor :

Other auditor means an auditor, other than the principal auditor when responsibility for reporting on the financial information of a component which is included in the financial information audited by the principal auditor.

Component :

Component means a division, branch, subsidiary, JV, associated enterprises or other entity whose financial information is included in the financial information audited by the principal auditor.

### 27 List of Imp Procedure or Consideration

a) If Co, has appointed a branch auditor i.e person other than Co's auditor for the purpose of Stat audit for a component whose financial information will be included in the FS of Overall Co, then principal auditor or Co's auditor should keep in mind SA 600

in case



b) In Certain Situation applicable laws Governing the Entity's may provide the right to principle auditor regarding visiting the Branch offices i.e. Components and Examining the records of Such components [UIS 143 (8)]

c) When another auditor has been appointed for the component, the principal auditor would normally be entitled to rely upon work performed by Such another Auditor unless there are Special Circumstances which makes Essential for the principal to visit a branch and Examine.

d) When using the work of another auditor principal auditor should perform following procedure

i) advise the other auditor that his work will be used by principal auditor

ii) principal auditor should make sufficient arrangements for co-ordination with other auditor at the planning stage itself so that other auditor report is available for timely basis

iii) Principal auditor should inform other auditor about those matters which may require Special audit Consideration  
eg: Inter Component transaction



iv) Advise the other auditor about compliance of applicable AS, SA, Provisions of Companies Act, Guidance notes etc.

ii) Principle Auditor may discuss with other auditor about the audit procedures performed he may also obtain a signed questionnaire from the other auditor to understand audit procedure performed eg SAAE obtain by other auditor.

iii) If Principle Auditor is not able to obtain reasonable assurance on the basis of other auditors work, then he should perform specific audit procedures on the component to obtain SAAE before considering SA 705.



Discreption of CARO - 2020 clause :

\* ii) Property, Plant and Equipment :

a) maintaining proper records showing full particulars of tangible and intangible assets including quantitative details and situation.

b) Physical verification by mgt at reasonable interval and material discrepancies are properly dealt in the BOA

c) Title deeds for all immovable properties should be in the company's name, if not provide details

d) whether revaluation has been done by a reg valuer and specified the amt of change if it is 10% or more in aggregate of Net carrying value of each class of PPE.

e) any proceeding initiated or pending relating to benami property then appropriate disclosure will be need

\* iii) Inventory :-

a) whether auditor conduct the Physical Verification then be coverage and procedure of such verification by the mgt is appropriate. If finds discrepancy 10% or more than aggregate than



Verify they have been properly dealt with the BOA

by Company has been sanctioned working capital limits in excess of 5 cr from the basis of security of current assets. If quarterly returns or statement filed than agreement of the BOA of the Co, if not, give details

vii) Statutory dues :-

Undisputed

- 1) Co. should be regular in payment of such dues
- 2) If any amt is O/S for more than 6m as on the last day of FY from the due date. Then it should be reported by auditor

Disputed

- 1) In case of disputed status auditor should disclose the amt involved, nature of dues, forums where dispute is pending and other details as may be required

x) usage of funds :-

whether money raised by IPO, FPO or through PP than evaluate whether provisions of Companies act have been complied and funds have been used for the purpose specifically stated.



'y	
xiii)	Related party Transactions :-
	Compliance with Sec 177 and 188 and disclosures as per AS 18
xiv)	Internal audit :-
	whether Internal audit System is appropriate / adequate in terms of Entity's size and nature of Business. Auditor should consider reports of internal auditor during his audit procedure
xv)	Non cash transactions :-
	If there are any non cash transaction with directors or person connected with directors than Compliance of 192 i.e approval by member should be checked by the auditor
* xvii)	Cash losses :-
	If co, has incurred cash losses during the year and immediately preceding FY than state the amt involved.
* xviii)	
	If during the year there is any resignation of the Stat auditor, then the auditor should consider issues, objections, or concerns raised by outgoing auditor.
* xix)	
	on the basis of financial ratio, aging details, expected date of realisation of financial assets



and Payment of liabilities, other information / auditors knowledge of BOD and Mgt Plan whether auditor of the opinion that No material uncertainty exists as on the date of audit report to meet obligations or liabilities which fall due on BIS date and within a period of one year from BIS date.

\* xx> CSR clause :- [H.W]

a) whether in respect of other than outgoing projects, then the Co. has transferred unspent amt to a fund specified in Schedule VII within 6 months of the expiry of the FY

b) whether any amt remaining unspent under Sec 135 (5), pursuant to any ongoing project has been transferred to Special A/c in compliance with the provision of sub section 6 of section 135 of the companies act.

xxii> CFS :-

a) CARO 2020 shall not apply to the auditors report on CFS except clause xxi

b) clause xxi requires CFS auditor to include name of Co's and respective paragraph number with the clause where their respective auditor have provided qualification or adverse remarks in their respective CARO's included with their audit reports

infow



H.W. iii) During the Year company has made investments in provided any Guarantee or Security or Granted any loans or advances in the nature of loans Secured or unsecured, to companies, firms, LLP. or any other party, if so:

or whether during the year the Co, has Provided loans or advances in the nature of loans, or Guarantee or Security to any other entity. if so, indicate  
if the aggregate amt during the year



xiii) Nidhi Company :-

or whether Co. has maintained Net own funds to deposits in the ratio of 2:20

or Nidhi Co. is maintaining lot unencumbered i.e. free of charge term deposit as SLR requirement

or whether Nidhi Co. has made any default in the payment of interest or repayment of deposits then details should be provided.





## Audit of Different Types of Entities

### Audit of Co-operative Societies :-

#### 1. Qualification of auditor

a) Apart from a CA some of the State co-operative acts have permitted persons holding a Govt diploma in co-operative A/c's and a person who has served as an auditor the co-operative dept of Govt to can also act as an auditor.

b) Registrar shall audit arr cause to be audited by some person authorised by it.

c) The appointed auditor shall submit his report to the registrar and also to the Society.

d) Audit fees is decided on the basis of Statutory scale prescribed by the registrar depending upon the category of Society.

#### 2. BOA and Other Records

a) BOA for all sales and purchase transactions

b) BOA for all assets and liabilities to related transactions and Balances



c) BOA for all Sums received & Spent by Society

d) Depending upon nature & objective of Society diff kind of Books and register can be maintained such as daily Cash Sales register, register for loans to members etc.

### 3) Special Features :-

a) Overdue debts for a period from 6m to 5 Years and more than 5 Year should be classified and should be reported by an Auditor. Auditor should analysis these overdue debts and consider what are the chances of recovery.

b) A special feature regarding bad debts as per certain state Co-operative society is that bad debts should be certified by the auditor. If no such requirements exists then managing committee must authorised the same.

c) Overdue int should be excluded from int.ols while calculating the profit.

d) Verification of Assets and liabilities

We should write vouching & verification point keeping in mind the relevant Assertion & General Understanding of Chapter 5



## er Special Report to The Registrar

Auditor notices that there are some serious irregularities in the working of the Society, he may report these special matters to the registrar, drawing his specific attention to the points. In the following cases, for instance a special report may become necessary:

a) Personal profiteering by members of managing Committee in transactions of the Society, which are ultimately detrimental to the interest of the Society.

b) Detection of fraud relating to exp, purchases, property & stores of the Society.

c) Specific eg of mis-mgt like decision of mgt against co-operative principles

d) In case of urban co-operative banks disproportionate advances to vested interest groups, such as relatives of mgt, and deliberate negligence about the recovery thereof. Cases of reckless advancing, w

e) Auditor should evaluate whether the Society has complied with all applicable laws & regulation  
eg: There can be restriction on investments, max share holding by a member, Transfer to Reserves, Transfer to charitable purpose

f) Verification of members registers and Passbooks to examine amt of loan O/S, repayment received etc.



4r Before Finalising the audit report, Auditor should discuss the matter with mgt committee if there are any minor irregularities may be got settled and rectified.

4r Audit of Multi-State Co-operative Societies :-

a) SQ on BOA

[Ans is same as Point 2 + maintenance of Cost record]

b) MCQ or correct or Incorrect regarding qualification of auditor, appointment of first auditor, subsequent auditor, casual vacancy etc

c) A SQ on duty to make inquiries

[we also write rights of the auditor vis 143(1)]

d) write a short-note on contents of audit report while auditing a multi state co-operating society

[we should write contents as per 143(2) and 143(3) → only first 4 clauses] and 143(4)

e) Special audit for multi-state co-operative society

i) CG can appoint a CA or may ask the existing auditor may conduct a special audit under their direction.

ii) CG shall order for special audit only if CG or SG by itself or in combination holds 51% or more PUSC in the society.





ii) If CG is opt the opinion

- Affairs of the Society are not being managed in accordance with self-help, mutual aid co-operative principles or with sound business principles
- Society is being managed in a manner that it may caused serious injury or damaged to the overall industry.
- Financial position of the Society is not great i.e. approaching insolvency.

iv) Powers and duties of the auditor will be similar to the Stat auditor of the Society. while reporting the report shall be made to CG.

v) If CG does not take any action on the report within 4 months than Govt should send the report to the Society and ask them to Circulate a copy of the report to all the members or read out the same in next General meeting.

\* vi) The Exp of Special Audit shall be determined by the CG and paid by Society.

vi) Inquiry and or inspection of multi-State co-operative Society.

i) Power is with Central Registrar.

ii) who can request the Central Registrar

iii) Powers given for inquiry and inspection to the authorised person.

iv) OOBH → 15 days



(y)

It Sp on restriction for investment of funds in  
Case of Co-operative Society [H.W]

i) In the Central or State co-operative Bank

ii) In any of the securities specified in Sec 20 of  
the Indian trust act 1882 i.e. Govt Securities

iii) In the Shares, Securities, bonds or debentures of  
any other society with limited liability.

iv) any co-operative bank other than Central or  
State co-operative bank, as approved by the  
Registrar

v) any other money's permitted by the Central  
or State Govt.





## Government

17. Meaning of Govt audit :-

Govt audit means Systematic, Objective, Professional and independent Examination of Financial, Administrative and other operations of a public Entity.

This process is followed after execution is done by the Govt Entity to evaluate and verify whether there are any issues, inconsistency or concerns

24. After execution of audit procedures Govt Auditor should present a report which will include the following :

It will include auditor's findings along with his conclusions and recommendation for future action to be taken by responsible official

His report will also include an appropriate professional opinion regarding fairness of presentation of FS

37. Short Note on C&AG :- [H.W.]

(i) Appointed by President of India

(ii) Salary Equivalent to that of a Judge of the Supreme Court.

(iii) Parliament is make laws to determine Salary and other Conditions of Service.

above



7

iv) CAG shall hold office for  
at Six Years } whichever  
or upto age of 65 Years } is earlier.

v) Removal or Resignation :

or removed from } If proven mis-behaviour  
the office only } or incapacity

or Decided by each house of parliament

or majority of at least  $2/3^{\text{rd}}$  of the members Present  
voting

or resign any time → through resignation letter  
addressed to the President



## 4. Govt Expenditure Audit

(i) Audit against Rules and orders \* [Regularity Audit]

(ii) Audit of Sanctions

(iii) Audit against Provision of Funds

(iv) Propriety audit \*

(v) Performance audit \*

### Notes

(i) Audit against Rules and orders :-

a) Auditor should ensure whether the expenditure incurred in accordance with

a) Relevant Provisions of Constitutions

b) Financial Rules, Regulations issued by C&G

c) Orders or Rules made by any other competent authority.

b) Auditor does not have the authority to prescribe Rules or regulations, rather he should identify and understand the applicable Laws & Rules and examine whether they have been complied while spending the Public money

c) while carrying out his regularity audit then auditor should consider the following

a) whether expenditure incurred is not in accordance with any provisions of the constitution



by whether Expenditure incurred Conflict or does not Conflict with any rules or order made by higher authority

c) whether they are Consistance with Essential require-ments of audit and accounts determined by

(ii) Audit of Sanctions :-

Auditor should evaluate whether each item of Expenditure is covered by a sanction. it can be either Special or General.

Auditor should identify the appropriate authority matter i.e. who is allowed to sanction what.

(iii) Audit against Provision of funds :-

Auditor should evaluate whether Expenditure incurred Exceeds the provision made for the same

(iv) Propriety Audit :- Imp

a) A transaction may satisfy all the requirements of regularity audit. But it can still be highly wasteful.  $\therefore$  regularity audit alone may not be sufficient to protect the Public interest.

b) Propriety Audit helps the auditor in finding out improper, avoidable and ineffective Govt Expenditure cases.

c) Auditor should examine publ: financial morality by looking into wisdom and economy of Transactions.

5000



d) It is difficult to define precise rules for the purpose of proprietary audit. However some general principles have been laid down in the audit Code.

Auditor should check whether the expenditure incurred complies with the following principles

(i) Expenditure should not be prima facie more than what vocation demands

(ii) authority should not use its sanctioning power for expenses which are directly or indirectly for their own advantage

(iii) Public money should not be utilized for the benefit of a particular person or a section of community \*

\* Note : Exception

- Amt is insignificant
- Amt could be enforced in a court of law
- Expenditure is in pursuance with recognised policy or custom
- any allowances given are not a source of profit to the recipient.

Note : Sec 143 (i) duty to make inquiries provides a propriety element for the Stat auditor under companies act.



(v) Performance Audit :- Imp

a) Under Performance audit we evaluate various programs, schemes, and projects where large financial expenditure has been incurred in an economical manner and whether they are yielding results as expected.

b) In Performance audit auditor focuses the following aspects

i) Economy audit

ie whether Govt has used financial, human and physical resources in an economical manner

ii) Effectiveness audit

whether the projects or programs were able to achieve targeted objects i.e purpose of which expenditure was incurred

iii) Efficiency audit

whether projects are executed economically and they are yielding the expected results

Steps in the procedure for conducting performance audit

- a) Identification of topic i.e project or program
- b) Preliminary Study
- c) Planning
- d) Execution of audit
- e) Reporting



\* 5] Special powers of C&AG with respect to Govt Company :-

(1) 143 (5)

a) Govt co's auditor should submit a copy of report to C&AG

b) C&AG shall direct the auditor about the manner in which A/c's needs to be audited

c) auditor should include directions given by C&AG, actions taken by the auditor and its impacts on FS in the audit report.

(2) 143 (6)

a) C&AG shall within 60 days from the date of receipt of audit report have the following rights.

(i) To conduct supplementary audit by such person as he may authorised. It can be the existing auditor or any other person.

(ii) C&AG can also comment upon or supplement such audit report.

(3) 143 (7)

a) CPAA By an order because test audit to be conducted A/c's of such Co, which



or

## ⑤ General Powers and Duties of C&AG :-

### (i) Duties of C&AG :-

or Compilation and Submission of Alc's and Union/State / U.T to President / Governor / administrator.

or Audits of Receipts and Expenditure of any body which has been substantially financed from Consolidated Fund of India / State / U.T

Note :- If the amt of loan or Grant is less than Rs not less than

or 25 L [Lakhs]

or 75% of total Expenditure of that body

or Audit of receipts of Union / State / UT

or Audit of Govt Co's as per Companies Act 2013

or Audit of Alc's of Stores or Inventory kept in any office or dept of Union / State / UT

or It is a duty of C&AG to ensure all Expenditures from Consolidated fund of India State UT are audited and important Sid's or principles for Govt Expenditure audit are considered.

or Audit of Commercial Alc's i.e all trading, P&L Alc's and B/s kept in any dept or office of Union / State / UT

from



2

(ii) Powers of C&amp;AG:

a) Inspection of any A/c's under any office of Union / state / U.T

b) Transmission of any A/c's, records, Books which are under audit.

c) Power to inquire or call for any info.

d) C&AG can apply sample check or limited check for any A/c's or transactions which he may determine to necessary.

e) Special powers for Govt Co's are given under 14.3 (5), (6) & (7)

7] Reporting Procedures

as effectiveness of audit depends upon on reporting results on proper authority so that appropriate actions to rectify problems can be take

by AS per Indian Constitution C&AG shall report on the A/c's of Union, State to the president / Governor

c) The report need not only be presented to the legislature but also publicised adequately in order to create a proper climate of public opinion.



In India The reporting is factual and conclusions are left to be drawn by the reader.

87. Audit of Stores and Inventories :-

Refer P.No 98.10

88. Audit of Receipts :- [H.W]

The audit of receipts is neither all pervasive or as old as audit of expenditure but has come to stay in some countries. Such an audit provides for checking:

- (1) whether all transactions have been correctly assessed, realised and credited to Govt A/c
- (2) whether adequate regulations and procedures have been framed by the dept to secure an effective check on assessment.
- (3) whether such regulations and procedures are actually being carried out.
- (4) whether adequate checks imposed to ensure the prompt detection and investigation of irregularities, double refunds, fraudulents etc
- (5) Review of Systems and procedures to see that the internal procedures adequately secure correct and regular A/c<sup>n</sup> of demands collection and refunds.
- (6) Planning, executing and reporting of work is directed and monitored at middle and Top levels of the audit hierarchy.

Dear



(17)

10) Objectives of Govt Audit

a) Facilitate Alc<sup>n</sup> for public fund

b) appraisal of Govt policy so that Accountability is assigned to right official

c) audit observations will act as a base for a corrective action (auditor will only recommends)



# Audit of Different Types of Entities.

17 General Steps involved in an audit :-

a) Auditor should examine the Constitution of organization [Compliance of by laws, rules or regulations, Powers of members and minute book of managing committee]

b) Understand and evaluate the internal control system of organization

c) Auditor should examine various receipts of the organization keeping in mind appropriate assertion.

d) Auditor should examine various expenditures of the organization keeping in mind appropriate assertion.

e) Verification of assets and liability

f) Provide an appropriate audit report.

27 Q on Internal Controls for Corporate Share ?

37 Audit of a Partnership Firm

Partnership Firm audit → Not compulsory → voluntary

(i) Advantages of audit of a Partnership Firm or  
why would a Partnership Firm Get there BOA ?

a) Audited FS will help in settling A/c's and or disputes b/w partners

above





b) In case of retirement or death of partner audited FS will help in computing the amt due to them

c) If firm is borrowing money from bank. Then it will required audited FS.

d) In case of admission new partner audited FS will help in negotiation and calculation of new capital contribution and also valuation

e) It will act as an effective safeguard against undue advantage if any being taken by a working partner.

(ii) matters to be considered before starting audit of a partnership firm

a) name and style

b) Duration of the partnership

c) amt of capital that shall be contributed by each partner

d) Proportions of Profits and losses

e) Provisions as regarding BOA

f) Borrowing capacity of the partnership

g) Rate of Interest

h) Duties of the partners

(iii) matters which should be specially considered while during audit of Partnership Firm

a) letter of appointment

b) Identify & examine imp partnership firm document



Such as minute book, Partnership deed etc for  
Examine diff transactions during the Year

- ☞ Verify whether Business carried out is inline with the object clause with partnership firm
- ☞ verify whether proper BOA have been maintained, appropriate Provision taxes have made & Profits have been distributed as per agreed term

#### 4) Audit of LLP

- (i) Appointment of Auditor for LLP
- (ii) Applicability of Stat audit for LLP
- \* (iii) Advantages or purpose or need of Stat audit for LLP
  - ☞ helpful in detecting Errors and Frauds
  - ☞ Settling disputes
  - ☞ Better Compliance by mgt in LLP
  - ☞ useful when Borrowing money from Bank
  - ☞ useful for setting A/c's at the time of admission retirement and death
- (iv) Auditor's duty regarding audit of LLP
  - ☞ Agree the terms of engagement i.e engagement letter
  - ☞ Examine the minute books of partners meeting
  - ☞ Obtain LLP agreement and evaluate all terms of the agreement.
  - ☞ Auditor should provide his audit Report and maintained that whether a BOA are reliable & appropriate, whether he was able to obtain required info and Explanation



57 Audit of a Local Body

- (i) Types of Revenue Grants ?  
 (ii) Objective of the auditor while performing audit of a LB?  
 (iii) Write a short note on audit program for a LB or  
 Steps to Examine Expenditure incurred by a LB ?

appointment :-

Local Fund audit wing of SG will  
 incharge for audit of LB. bigger municipalities  
 may have the power to appoint their own  
 external auditors

objectives of auditor :

a) Fairness of FS

b) Strength and weakness i.e. Effectiveness of internal  
 Control System

c) To detect errors and fraud and misuse of resources

d) whether value is being fully received on the money  
 spend

e) adherence to legal administrative requirements

Steps to Examine Expenditure incurred by a LB

a) Audit against rules and orders

b) audit of sanctions

c) audit against provisions of fund

d) Performance audit

(iv) Financial administration of a LB

a) Budgetary procedure

b) Control over Expenditure

c) appropriate A/c<sup>n</sup> System



6) Sp on audit procedure while auditing Hire Purchase Transactions : [Point -3, PNO -9A.23]

7) Audit of leasing companies

(i) Difference b/w operating lease and Financial Lease  
[Refer P.No - 9A.26]

(ii) Audit Procedure

a) Understand the Objective of Leasing Company

b) Evaluate whether proper internal control exists for credit analysis of lessee

c) Obtain and examine the details from lease agreement eg: Assets, details of lesser and lessee, Tenure, amt to be paid for every installment or other terms.

d) Examine the copies of insurance policy and acceptance letter that asset has been received by lessee



# Chapter - 1

## Nature, Objective And Scope Of Audit.

3> Meaning and Nature of auditing

a> Definition of Stat audit

b> Auditor should be independent i.e. he should form his opinion without being affected by any influence.

c> FS audits are performed for all types of organizations such as partnership firms, Pvt Ltd, LLP

d> Mgt is responsible to prepare and present FS.

2> Following points should be kept in mind while auditing FS so that they don't mislead anyone.

a> No omission of entries

b> All entries are supported by SAAE

c> FS presents a true & fair picture

d> Amt's are properly classified, described & disclosed in compliance with AS



er info conveyed in FS is clear and unambiguous

3) Objective of an Audit :-

a) maintain overall objective of the Auditor as per SA 200 write properly.

b) Reasonable Assurance is a high level assurance but it is not an absolute assurance [complete assurance] ∴ auditor can not give currently that the FS are free from material misstatements.

c) Auditor performs his audit procedure in accordance with SA's to obtain SAE so that he can reduce his audit risk to an acceptably low level.

d) misstatement can occur due to Fraud or Error or both

e) Auditor should express an opinion that whether FS are free from material misstatement or not through written report.

4) Qualities of an Auditor :-





5) Benefits of stat audit i.e why audit is needed?

a) Audited A/c's provide high quality information.

b) An audit acts as a moral check on employees from committing frauds.

c) Audited FS are helpful to Govt authority for determining tax liabilities.

d) Audited FS can be relied upon by lenders, bankers for making their credit decisions.

e) An audit may also detect fraud or error or both.

6) Meaning of engagement :-

It is formal agreement b/w auditor and client.

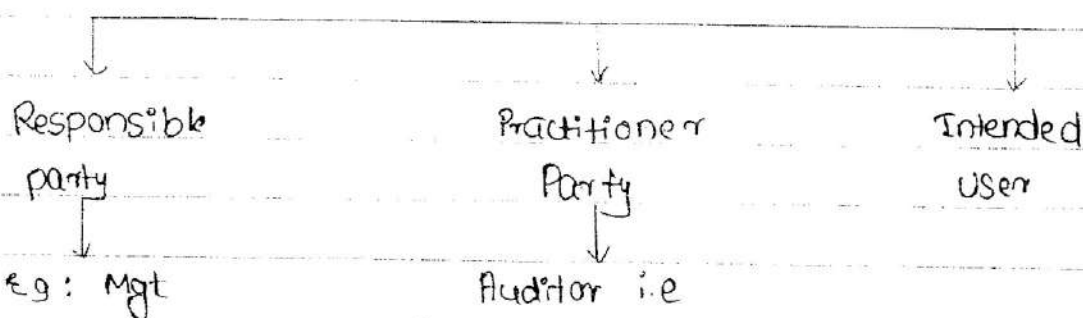
Generally these terms are included in a letter termed as engagement letter.

7) Auditing vs Investigation :-

Read P.No - 7.7 for MCG & V, X.

8) Elements of an assurance engagement :-

a) 3 Important parties





b) Subject matter :

For Eg : FS or info that should be prepared by responsible party i.e mgt.

c) Suitable Criteria :

it refers to the benchmark used to evaluate the subject matter

Eg : To evaluate FS criteria's can be AS, Ind AS, Guidance note, applicable laws and regulations etc.

d) obtain sufficient and appropriate evidence :-

Quantity | Quality

e) A written assurance report in appropriate form





10) Meaning of Assurance Engagement:-

Assurance Engagement means an engagement in which practitioner expresses a conclusion which is designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of evaluation of subject matter against suitable criteria.

Old or assurance engagement

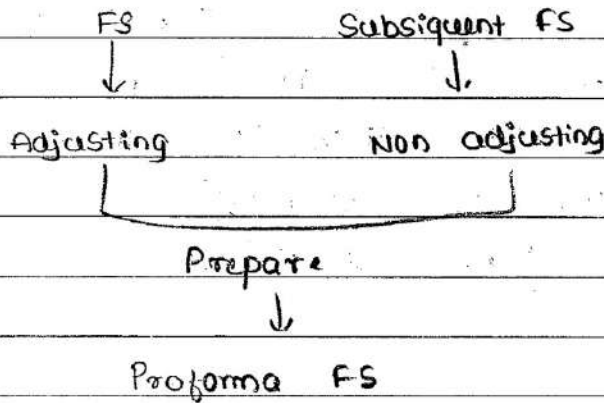
Dr. SAE 3400 → Assurance on prospective financial information  
 and with purpose prospective financial information prepared by party



Dr. ICAI 3400 → Assurance on Internal Control of Similar Organizations



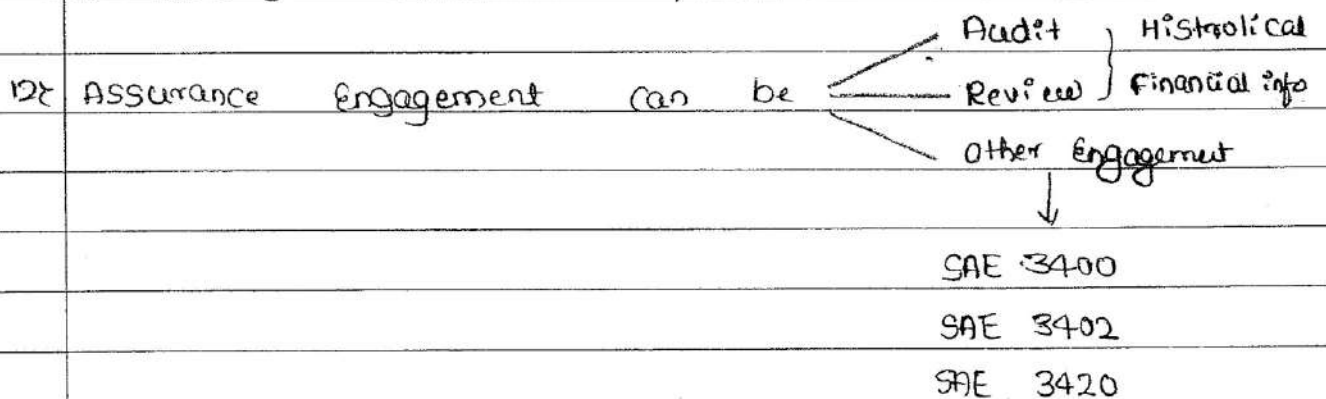
SAE 3420 = Proforma Financial Statement



10) Difference b/w audit and Review Engagement or Reasonable Assurance vs limited Assurance Engagement  
Refer P.N.O 2.12

11) Difference b/w Historical and Prospective financial info

- Historical financial info relates to Events, transaction and conditions which have occurred in Past
- Prospective financial info relates to future Events and possible actions by the Entity, this info is based on assumptions







13) Write a short note on SRE and SAE

Refer P.NO 1.15

14) SRS [Std on related Services]

a) It will apply in case of Engagements either to perform agreed upon procedure regarding financial info or perform comparison of financial info

b) In such Engagement we can also assist the mgt in the preparation and presentation of financial info without obtaining assurance

c) ∴ while issuing report for compilation Engagement practitioner should clearly state for it is not an assurance Engagement and no opinion is being expressed

d) ex : SRS 4400 — TO Perform agreed-upon Procedure  
SRS 4410 — Compilation Engagement

15) List of Engagement Std

a) SA's	}	Std on quality control
b) SAE's		
c) SRE's		
d) SRS		

16) Why Std's are needed? Refer P.NO 1.17





SA - 220

## Quality Control For an Audit Of FS.

- 1) AS per SA 220 the objective of the auditors is to implement Quality Control procedures at the Engagement level that provides the auditor with reasonable assurance regarding the following
- 1) The audit Complies with all professional and Technical Standards and legal & regulatory requirements
  - 2) The audit Report issued is appropriate in Circumstance
- 2) Engagement Partner is responsible for following matters
- a) Leadership responsibilities for quality on audit.
  - b) Compliance with applicable ethical requirements including independence.
  - c) acceptance and continuity of client relationship.
  - d) assignment of appropriate Engagement team members
  - e) For overall Engagement performance monitoring



Notes :-

## 1&gt; Leadership Responsibility for Quality on audit

(i) Engagement partner should take responsibility for overall quality on each audit engagement.

(ii) Engagement partner should emphasis for following aspect to ensure audit quality.

(a) Performing work that complies with applicable professional standard and legal requirements.

(b) Issuing audit report i.e. appropriate in the circumstances

(c) Complying with firms quality control policies and procedures eg: completion of final audit file should be done in within 45 days

## 2&gt; Relevant Ethical requirements :-

Engagement partner should ensure that all the team members complies with applicable independence and ethical requirements, In case of any threat to independence engagement partner should try to apply safeguard to independence so that such threats can be eliminated or reduce.

In case of extreme circumstance engagement partner may consider withdrawal.