



dronacharya

FOR
CA INTERMEDIATE

2024

**Audit of Items of
Financial Statements**

Auditing & Ethics

ONE SHOT



Ankit Mundra Sir



Topic: Introduction



Explicit Implicit

Assertion → Representation → By mgt. → used by Auditor

↓
Embodied in F.S.

↓
To consider difference types of MM

↓
That May Occur

Auditor → To draw → Audit Programme

↓
To VERIFY assertions made by Mgt.

↓
by obtaining Suff. + Appro. A.E. → for claims

- CoT
- A/c. Bal.
- Disclosures




Topic: Income Statement Captions Comprising Revenue & Expense Balances



Assertions

Explanations

Occurrence

Transactions 

Completeness

Transactions → supposed to be Recorded


Recognized

Not Omitted

Cut-off

Transactions → correct A/c period
Separate Assertion → Substantive Procedures

↓
Different



Topic: Income Statement Captions Comprising Revenue & Expense Balances



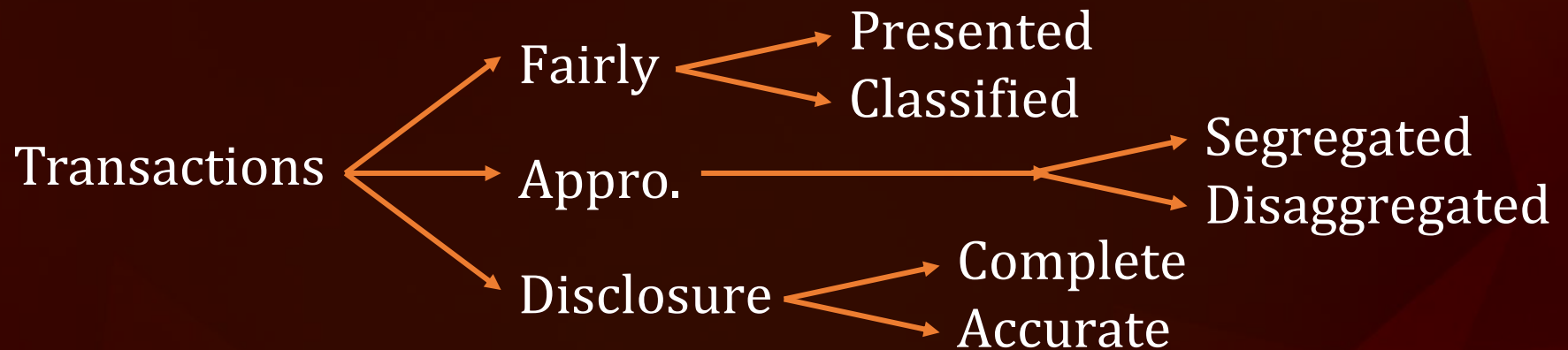
Assertions

Explanations

Measurement





Presentation
&
Disclosure





Topic: Balance Sheet Captions Comprising Assets, Liabilities And Equity Balances



Assertions	Explanations
Existence	Balances → EXISTS
Completeness	Balances → Supposed to be Recorded 
Cut-off	Balances → Correct A/c. Period
Valuation	Balances → Appro. Valued 



Topic: Balance Sheet Captions Comprising Assets, Liabilities And Equity Balances



Assertions

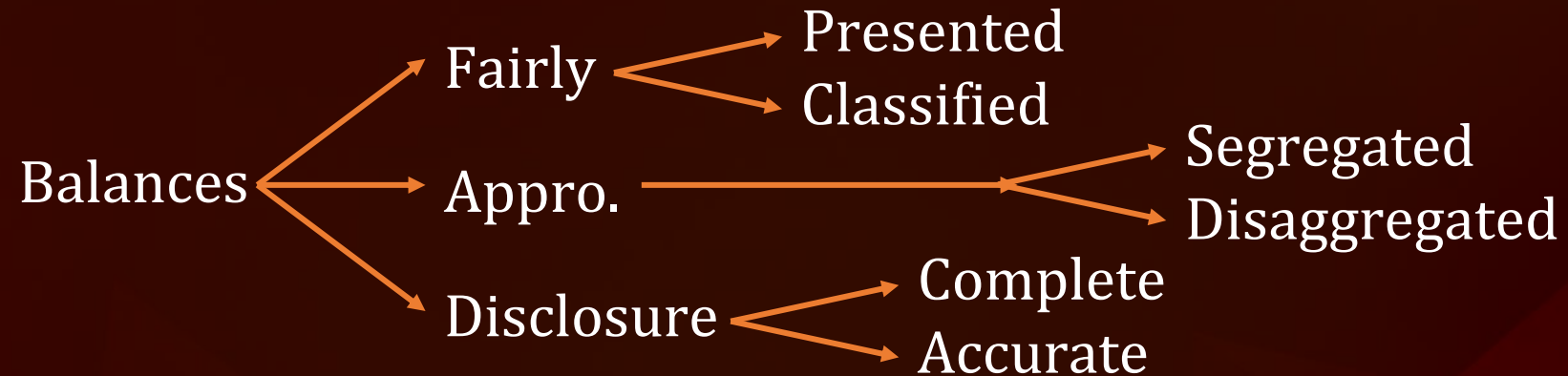
Rights &
Obligation

Explanations

Assets → Rights 

Liabilities → Entity's Obligations

Presentation
&
Disclosure

Balances 



Topic: Balance Sheet Captions





Topic: Share Capital

Share Capital → Existence + Completeness + Valuation

(1) Tally → Period and Balance

(2)  Yes → Verify → Limits → Authorised Capital → MoA

(3)  No → Obtain W.R. ← Company Secretary

(4) Obtain → Copies of Resolution

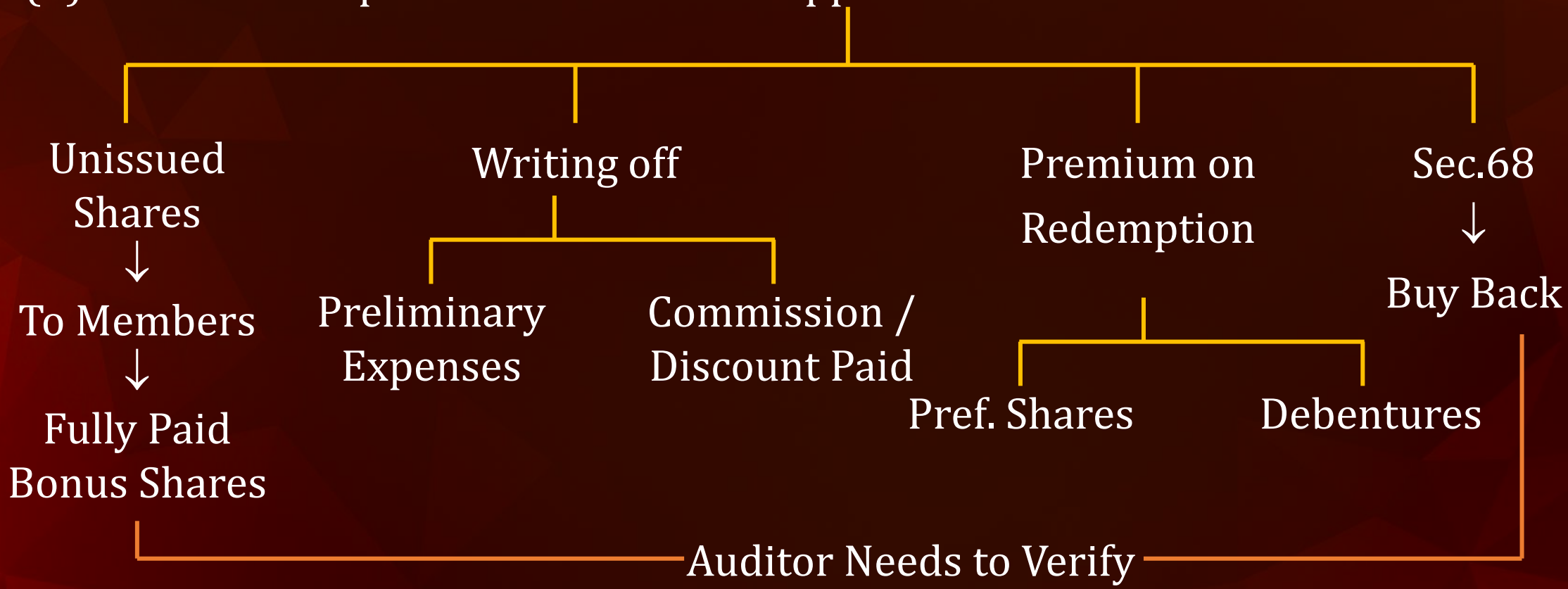
(5) Compliance 

- The Companies Act, 2013
- SEBI Regulations
- MCA Guidelines



Topic: Shares Issued @ Premium

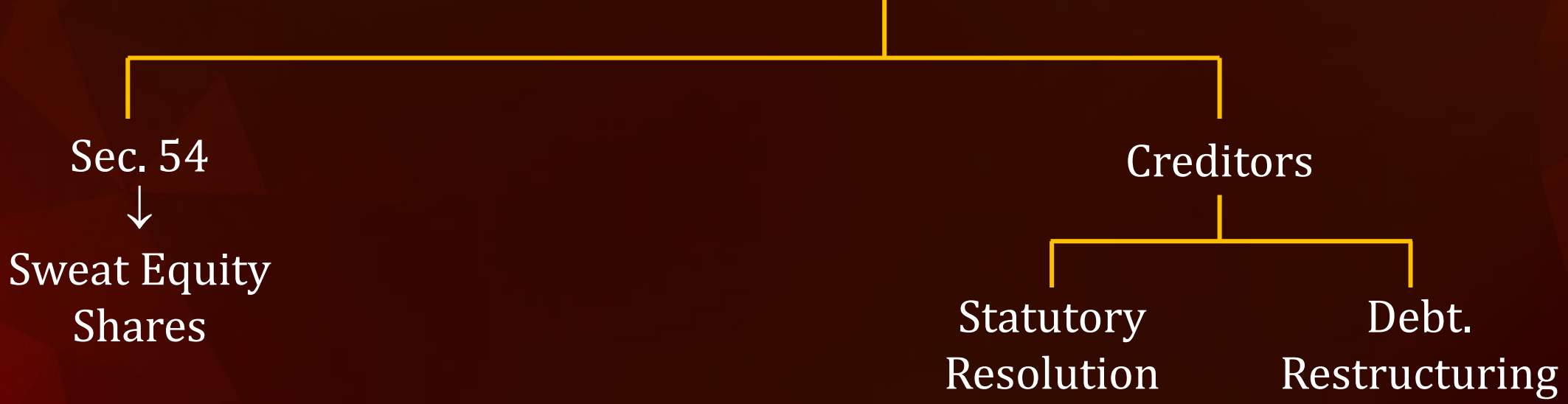
- (1) Compliance → Sec.52
- (2) Transfer → Amount → Securities Premium A/c.
- (3) State → Purpose → Amount to be applied





Topic: Shares Issued @ Discount

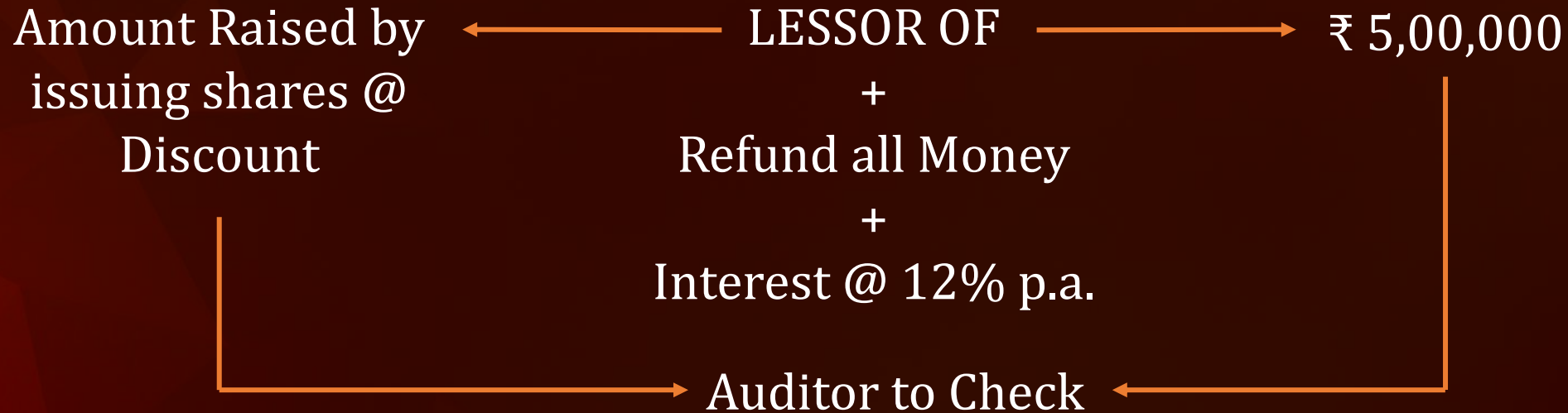
- (1) Compliance → Sec.53
- (2) Shall Not Issue Shares @ Discount → EXCEPT





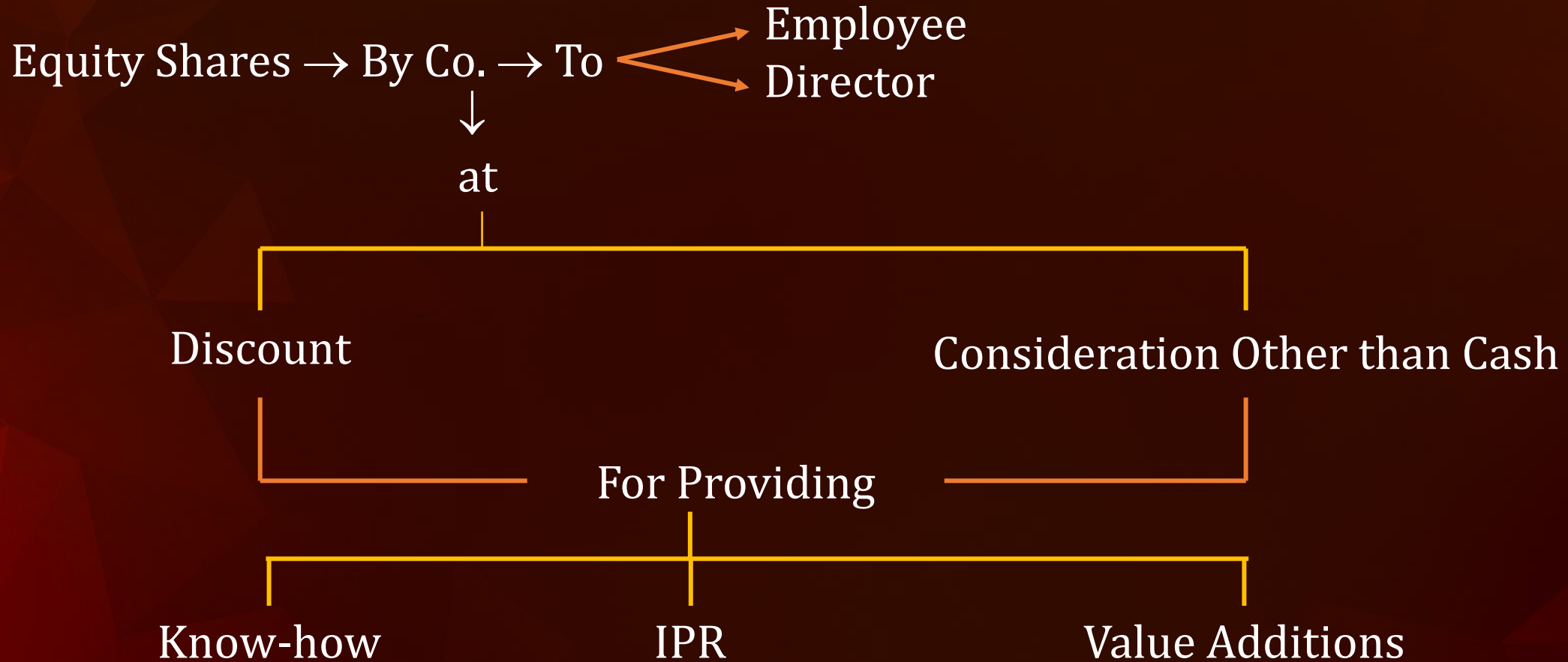
Topic: Shares Issued @ Discount

(3) Co. → Fails to Comply $\begin{matrix} \nearrow \\ \searrow \end{matrix}$ $\begin{matrix} \text{Co.} \\ \text{Every Officer} \end{matrix}$ $\begin{matrix} \nwarrow \\ \swarrow \end{matrix}$ Penalty





Topic: Issue of Sweat Equity Shares

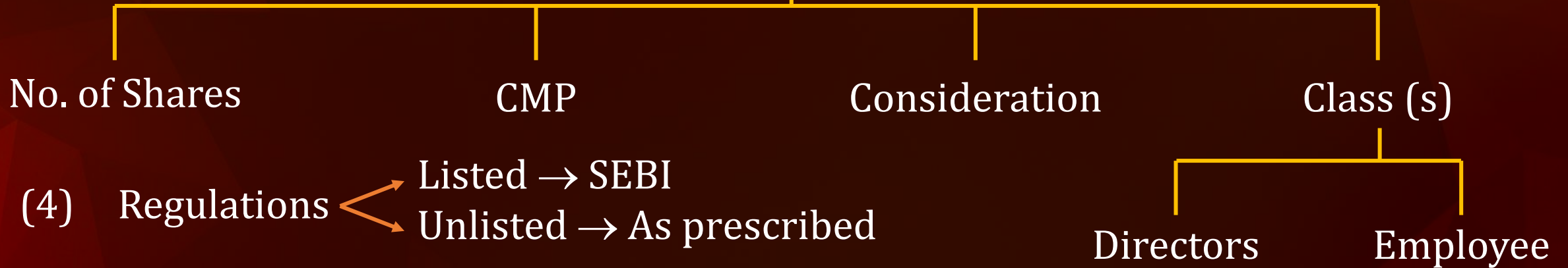




Topic: Issue of Sweat Equity Shares

→ Auditor needs to Verify

- (1) Compliance → Sec. 54
- (2) SR → Passed by Co.
- (3) Specifies





Topic: Reduction of Capital

- (1) Compliance → Sec. 66
- (2) Meeting of Share Holders
 - Properly Convened
 - S. R. Passed
- (3) Verify → AoA

- (4) No Defaults
 - Repayment of Deposits
 - Payment of Interest on Deposits
- (5) Examine
 - Order of Tribunal
 - MoM
 - Filed with RoC

- (6) RoC Certificate
- (7) A/c. Entries
- (8) Revaluation of Assets → Properly Disclosed



Topic: Share Capital



Disclosure



Schedule III (Part-I) of The Companies Act, 2013

Share Capital → Additional Regulatory Info.



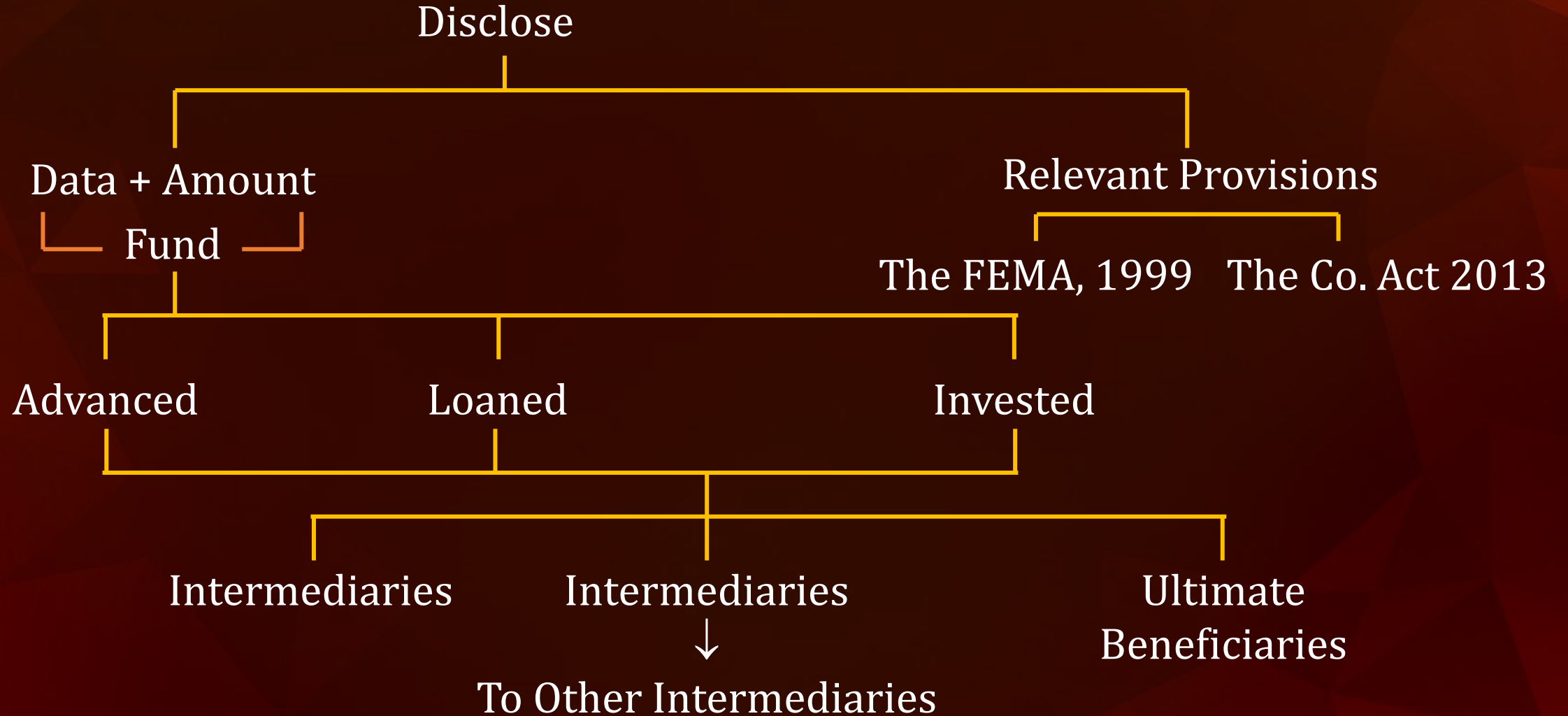
Sec. 143(3) (j) (d) [Ch.8 → Audit Report]



Disclose



Topic: Share Capital





Topic: Reserves and Surplus

Amounts → Appropriated → Out of Profits



Not Intended to Meet any

Liability

Contingency

Commitment

Diminution in
Value of Assets

Know to Exist → As at the B/s date



Topic: Reserves and Surplus



Existence



Trace
Tally ← Opening Bal. → Previous Yr.

Profit & Loss → Completeness + valuation



Trace the Movement → St. of P/L
→ St. of Δ in Equity



Verify Boards Resolution

→ Disclosure

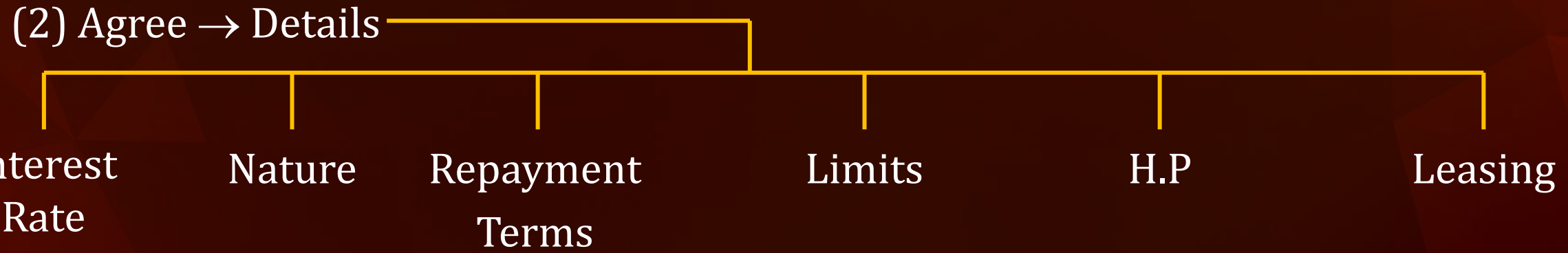


Schedule III (Part I) of The Companies Act, 2013



Topic: Borrowings

Existence → (1) Review → Board MoM → Agreement
↓
Authorised



(3) Bal. Confirmation → SA 505
→ SA 580

(4) In Case of Debenture → Deb. Trust Deed



Topic: Borrowings



Completeness → (1) Sch. of  Short Term
Long Term Borrowings

(2) Additional Debt.

Board MoM

Contracts

Confirmations

Disbursements

(3) Trace → Cl. Bal.

(4) Unrecorded?

(5) Correct Period?

* Direct Confirmation Procedure

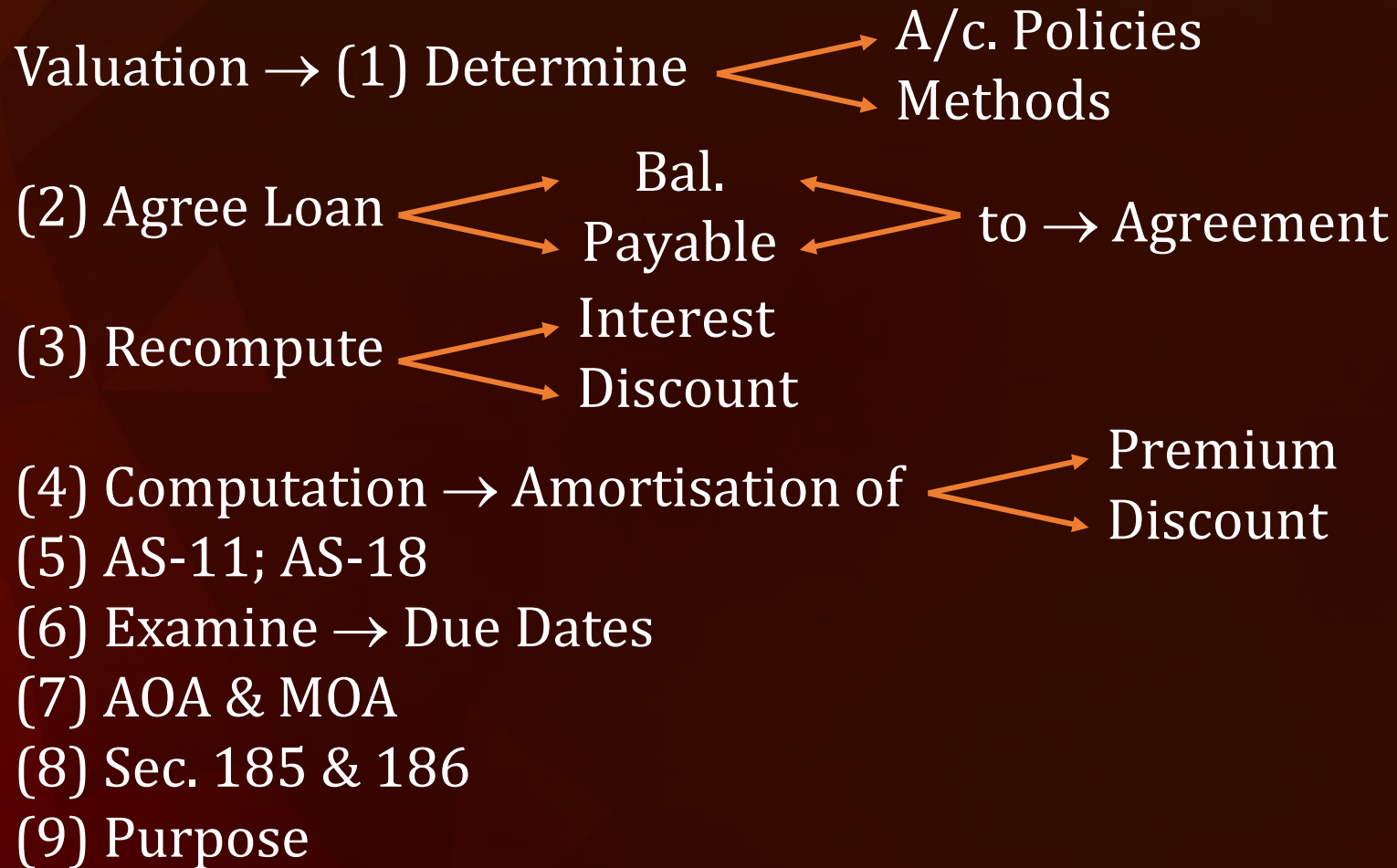
(1) Ascertain → Confirmation ask

(2) Reminders → Non-Replies

(3) Compare Bal. → Books → Confirmations

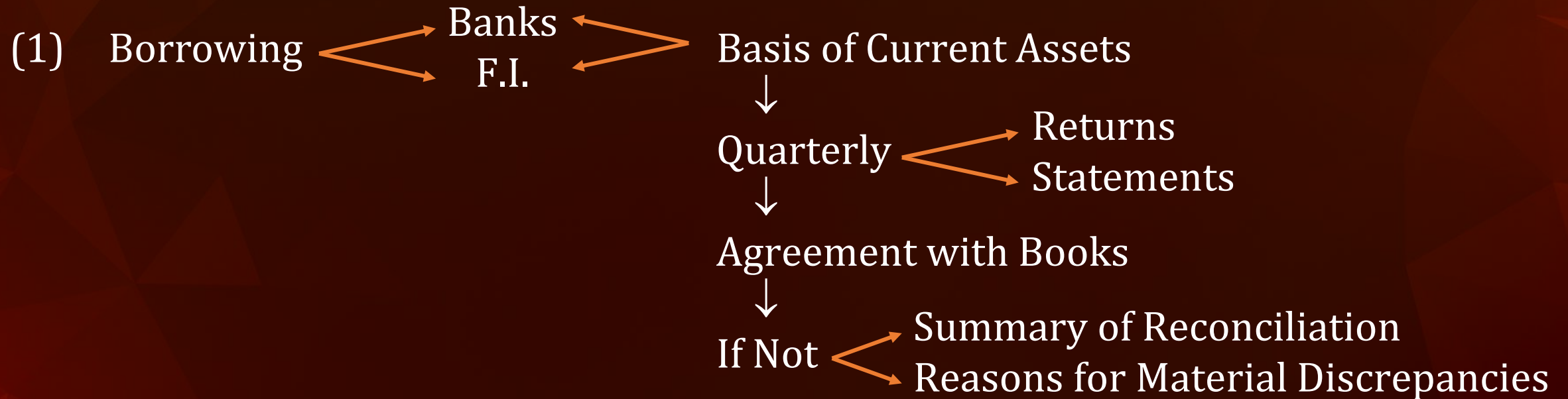


Topic: Borrowings



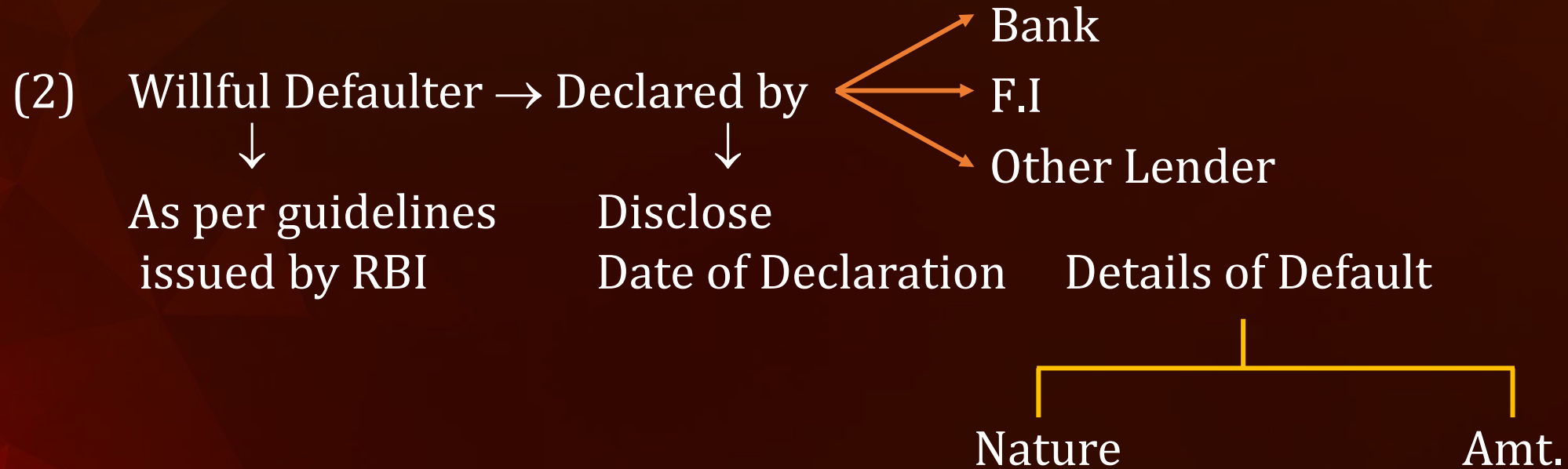


Topic: Additional Regulatory Info. Disclosure





Topic: Additional Regulatory Info. Disclosure





Topic: Additional Regulatory Info. Disclosure

(3) Charges / Satisfaction → Registration → Pending



RoC

Beyond Statutory pd.



DISCLOSE

Details

Reasons

(4) Utilisation of

↓

Sec 143 (3) (j) (d) [Ch. 8] → Audit Reports]

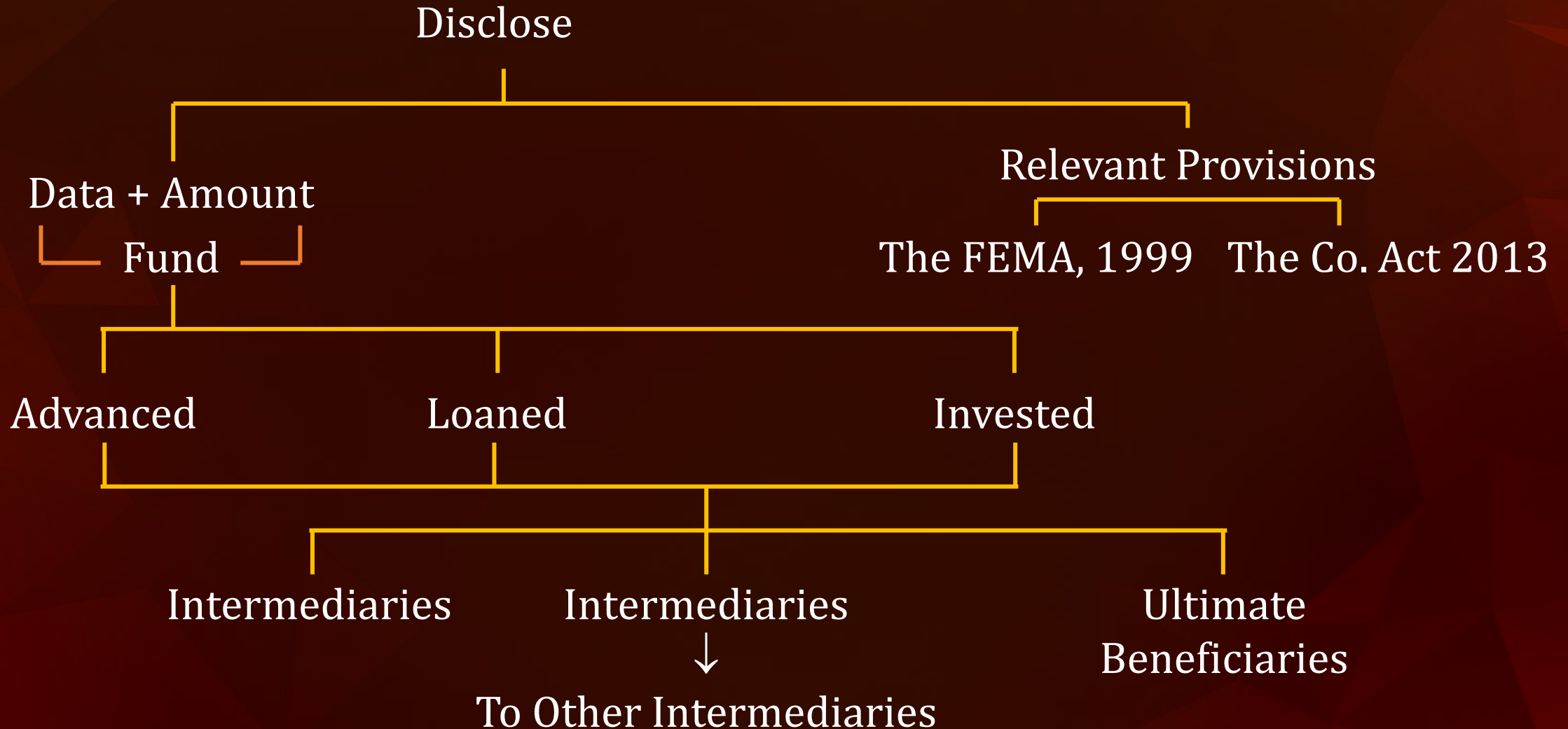


Disclose

Borrowed Funds
Securities Premium



Topic: Additional Regulatory Info. Disclosure





Topic: Trade Receivables

- Existence → (1) Check Controls
 - Invoices not recorded twice
 - Receivables Bal. → Automatically Recorded
- (2) A/c. Receivable Ageing Report
- (3) Realisation → Invoice wise?
- (4) Reason
 - ← Overdue → Large Bal.
- Justification
 - ← Overdue → Large Bal.

* Direct Confirmation Procedure

- (1) With the consent of the Entity
 - (2) Form of Requesting Confirmation
 - With
 - Without
 - (3) Method of Selection
 - (4) Discrepancies → Revealed by the Confirmation
- ← Bal.



Topic: Trade Receivables

(5) No Reply Received → Perform Alternate Procedure

Agreeing Bal. to Cash
Received

Preparing Detailed
Analysis of Bal.

(6) Related Party Receivables

* Completeness

(1) Invoices Issued → Last few days

(2) All Dispatched Goods → Invoiced

(3) Match Invoices → Shipping / Dispatch Log

(4) Review Process → Discount
→ Incentives

(5) Review → Credit Memos



Topic: Trade Receivables

* Valuation

- (1) Obtain → Ageing Report
- (2) List of Debtors → Under Litigation
- (3) Provisions → Made at appro. Rate
- (4) Sch. Of Movements of Bad Debts
- (5) Check → Write - Offs.

* Disclosure

- (1) As 11
- (2) As 18
- (3) Sec. 189
- (4) CARO, 2020



Topic: Cash and Cash Equivalents

Existence + Completeness

(1) Checked by Surprise → Last Day of the year

+

Again after few days

(2) Desirable for the cashier to be present



Made to Sign



(4) Perform → Cash Sensitivity Analysis



Topic: Cash and Cash Equivalents

(5) B.R.S → For all bank A/c.

Tally the Bal. as per
Bank Book

Cheques issued but not
presented for payments

Checking of all materials
Reconciling Items

* Direct Confirmation Procedure

(1) Contact $\begin{matrix} \nearrow \\ \searrow \end{matrix}$ Bank
F.I. $\begin{matrix} \nwarrow \\ \swarrow \end{matrix}$ Confirm → Amounts

Current
A/c.

Deposit
A/c.

Exchange Earners Foreign
Currency (EEFC) A/c.

CC A/c.

Restrictive use A/c.

Dividend A/c.

Escrow A/c.



Topic: Cash and Cash Equivalents

(2) Investigate & Reconcile → Discrepancies + Seek W.R.

(3) Emphasis on → 100% Bank A/c. Bal. Confirmation

↓
No REPLY RECEIVED

↓
Additional Procedures

Agree the Bal.



Bank St.

Internet / Online Login



Auditor's Personal Presence

Sending Audit team Member + Entity Personnel



Bank Branch



Topic: Cash and Cash Equivalents

Valuation → Bank A/c. → Holding F.C. → Cl. Exchange Rates

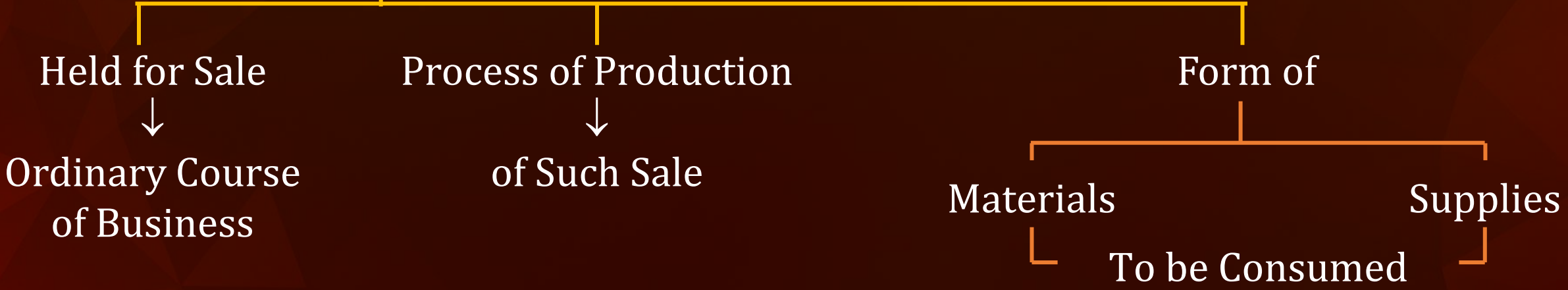
Disclosure



Schedule III (Part I) of The Companies Act, 2013



Topic: Inventories



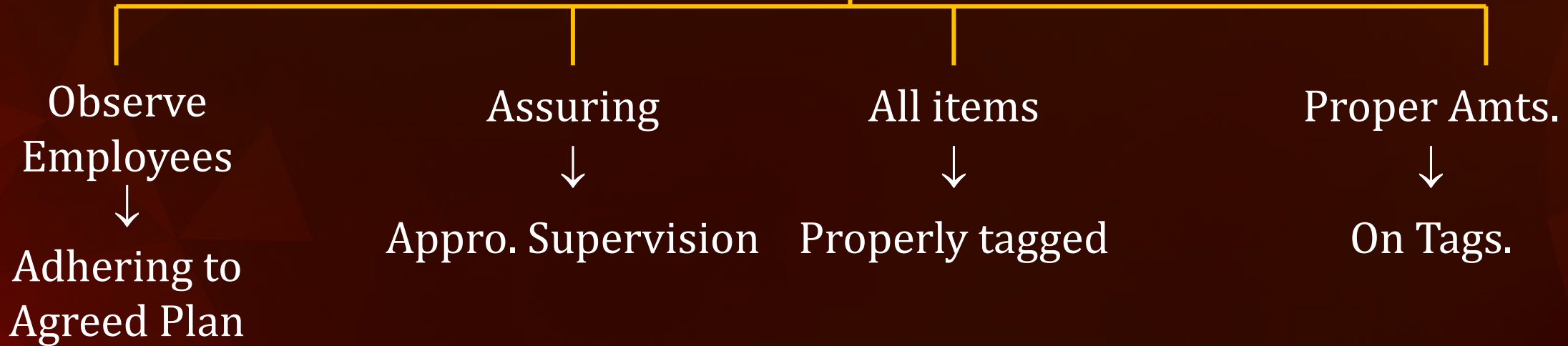
Existence → (1) Review → Entity's Plan → Inventory Count
+
Participate
(2) Ensure → Consigned Goods → Segregated



Topic: Inventories



(3) Test Count → Inventory



Completeness → (1) Perform → Analytical Procedure





Topic: Inventories

- (2) Examine → Non Financial Info.
- (3) Purchase → Cut-off test
- Sale →
- (4) Clerical → Accuracy
- Arithmetical →
- (5) Reconciliation

Rights

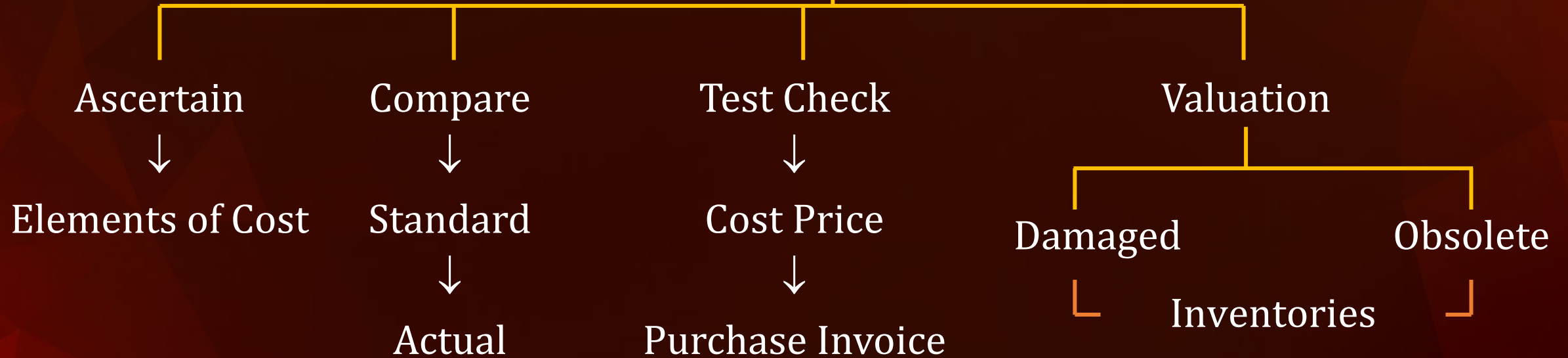
- (1) Documentation
- (2) Client Correspondence
- (3) Collateral Agreements
- (4) External Confirmation



Topic: Inventories



Valuation → Raw Materials

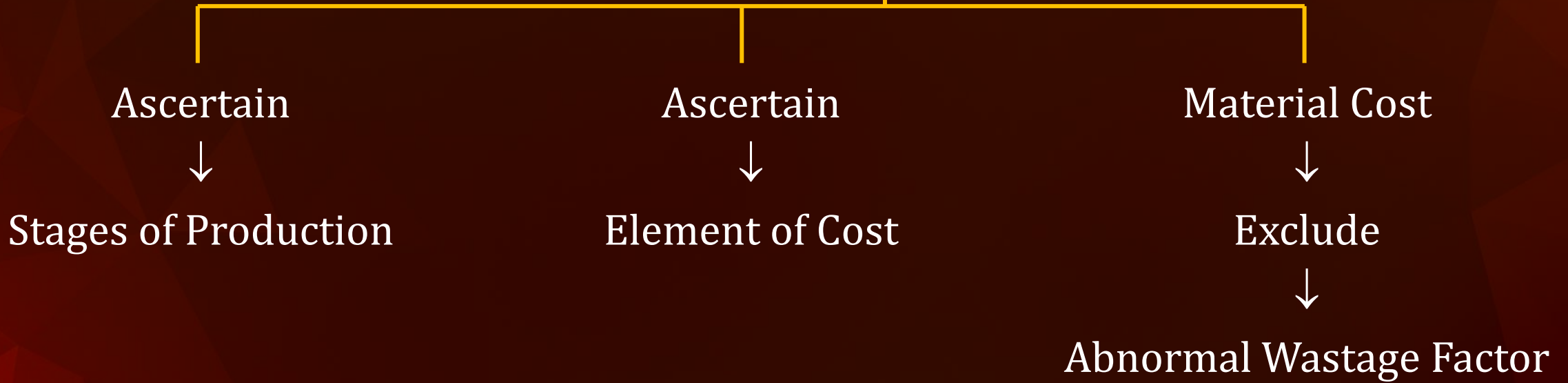




Topic: Inventories



Work in Progress





Topic: Inventories



→ Finished Goods → Ensure

Included Costs

Valued @ N.R.V.

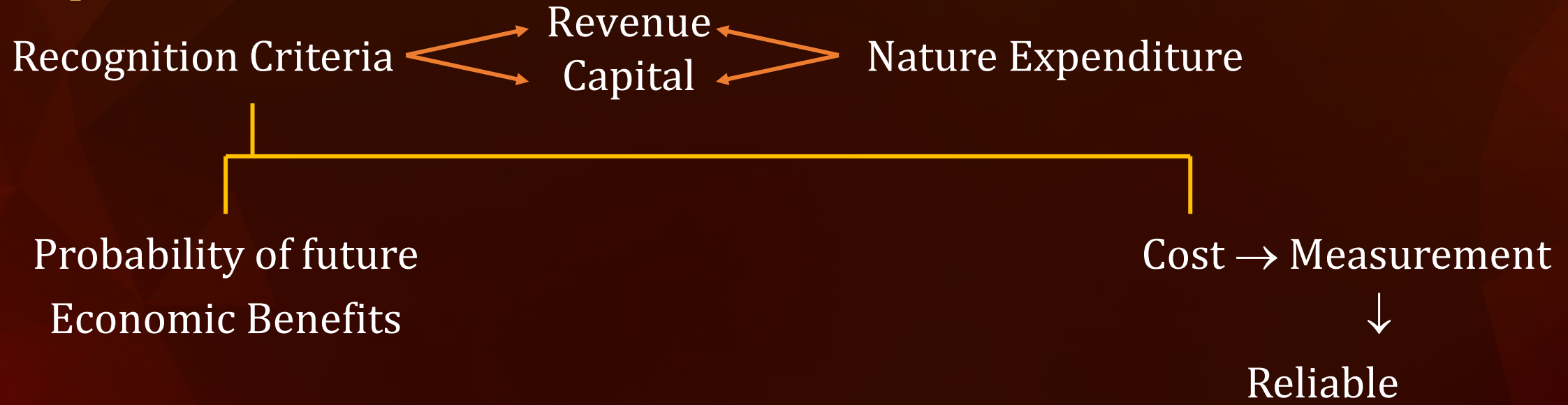
Reasonable

Disclosure

Schedule III (Part I) of The Companies Act, 2013.



Topic: PPE





Topic: PPE

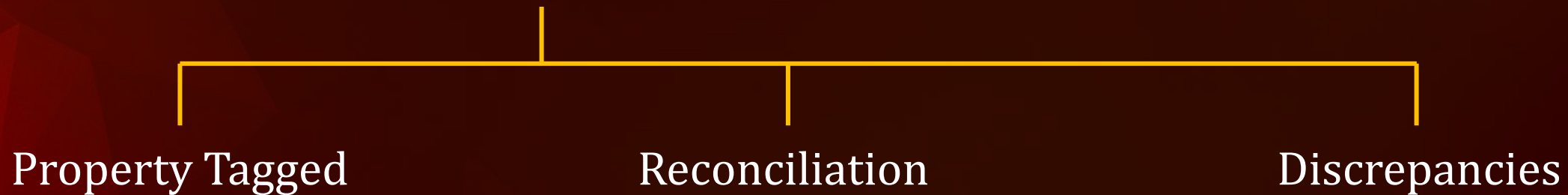


Existence → (1) Review → Entity's Plan → Physical Ver.



(2) Evidence → Appro. Supervision

(3) Verification Report + Working Sheet





Topic: PPE

Completeness → (1) Movement in PPE Schedule



$$\text{Opp. Bal.} + \text{Addition} - \text{Deletion} = \text{Cl. Bal.}$$

- (2) Arithmetical Accuracy
- (3) As per As 10
- (4) Rationale → For Deletion

Valuation → (1) Depreciation (Unless Non-Depreciable)

- (2) Method
- (3) Impairment → AS 28



Topic: PPE

Rights & Obligation →

- (1) Land / Bldg. → Conveyance / Sale Deed
- (2) Original Title Deed
- (3) Register of Charges

Disclosure



Schedule III (Part I) of The Companies Act, 2013



Topic: PPE

Additional Regulatory Info.

(1) Title Deed → Not In The Name of Co.

Relevant Line item in B/s.	Description	Gross Carrying Value	Title Deed in the name of	Holder ↓ Promoter ↓ Director ↓ Relative	Held Since	Reason
----------------------------	-------------	----------------------	---------------------------	---	------------	--------



Topic: I.A.

Identifiable → Non-Monetary Asset



Without → Physical Substance



Existence → (1) Verify → Active in use

- Yes
- No

Deletion Recorded?



Post Approval

Amortization Charges



Stopped



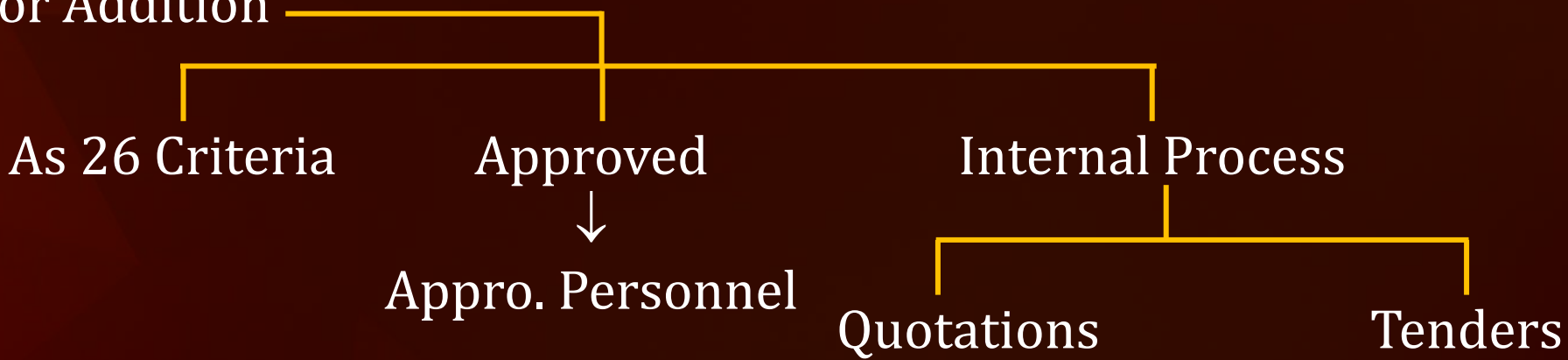
Topic: I.A.

Completeness → (1) Verify → Movement

$$\text{Op. Bal.} + \text{Addition} - \text{Deletion} = \text{Cl. Bal.}$$

(2) Check → Arithmetical Accuracy

(3) For Addition

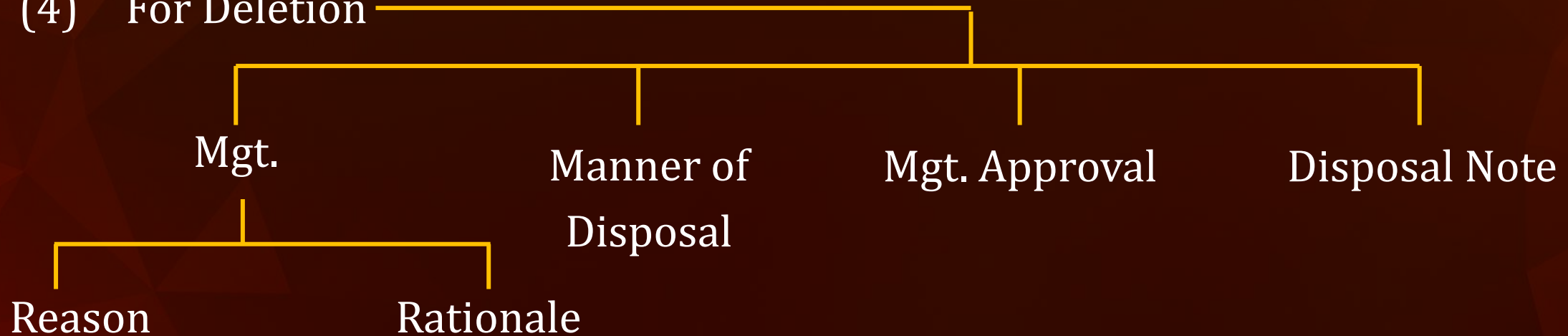




Topic: I.A.



(4) For Deletion



Valuation →

(1) Charged Amortization



(2) Method

(3) Impairment → AS 28



Topic: I.A.

Rights & Obligation → Legal Title of Ownership → Entity

Disclosure



Schedule III (Part I) of The Companies Act, 2013

→ Additional Regulatory Info.

(1) Ageing Schedule

< 1 year	1 – 2 Year	2 – 3 Year	> 3 year
----------	------------	------------	----------



Topic: Trade Payables & Other Current Liabilities

Existence → (1) Controls → To Ensure

Purchase / Expense



Not Recorded more
than once

Payable Bal.



Automatically Recorded



General Ledger

(2) Obtain → Ageing Report

(3) Related Party Payables



Topic: Trade Payables & Other Current Liabilities

* Direct Confirmation Procedure

(1) Contact Vendors Directly
Independently

(2) For → All Significant Account

(3) Consent of the Entity

(4) Creditors → Confirm Bal. Date of B/s.
Any other Reasonably Close Date

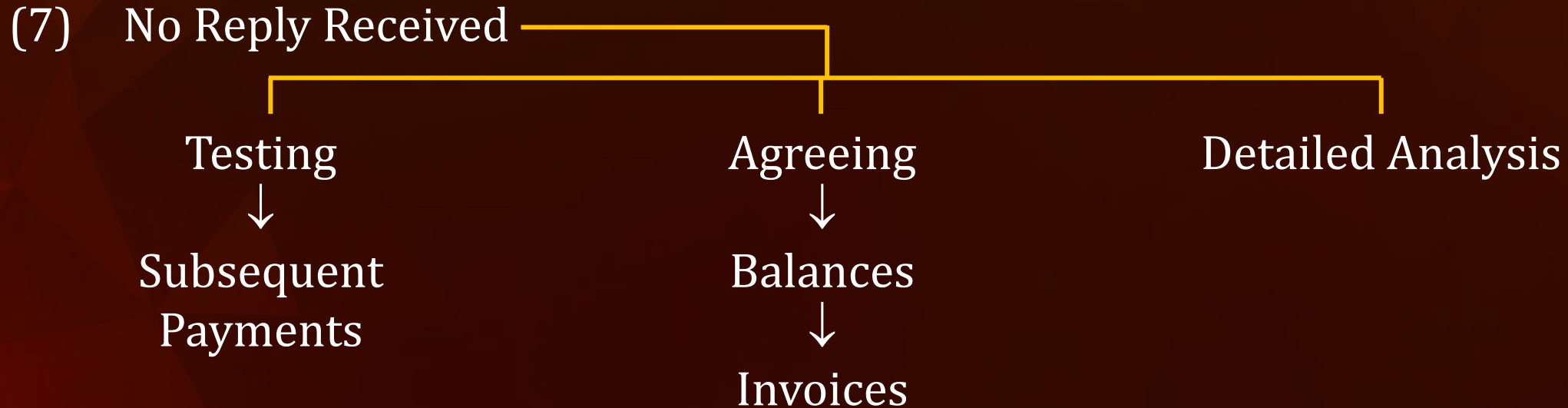
↓
Decided by Auditor ↔ Consultation with Co.

(5) Method of Selection

(6) Investigate → Discrepancies



Topic: Trade Payables & Other Current Liabilities

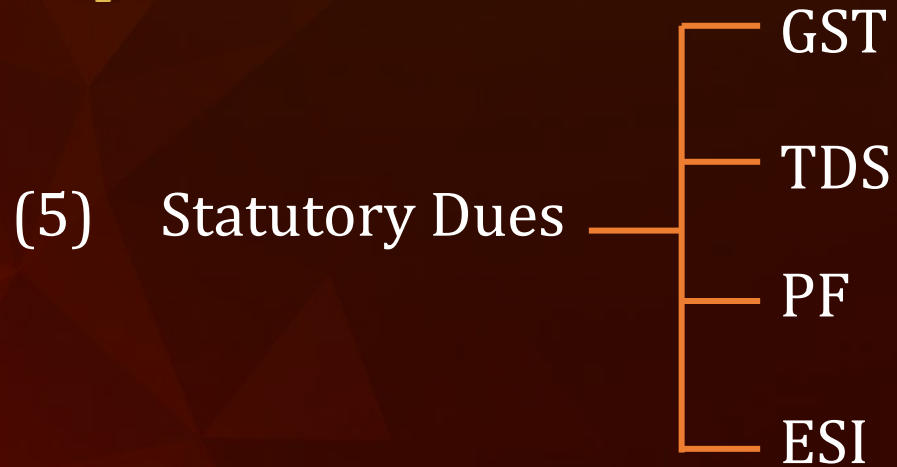


Completeness

- (1) Last 5 Invoices
- (2) Prior pd. Goods → Received → Booked
- (3) Sample Basis
- (4) Purchase Date ← MATCH → Gate Entry Date



Topic: Trade Payables & Other Current Liabilities



Valuation

- (1) Old Creditor → Written Back → Process
- (2) Ageing of Payable
- (3) Write Back → Approved → CEO / MD
- (4) Foreign Currency → AS 11

Disclosure → Schedule III (Part I) of The Companies Act. 2013




Topic: Loans & Advances & Other Current Assets

Existence

- (1) Direct Confirmation Procedures

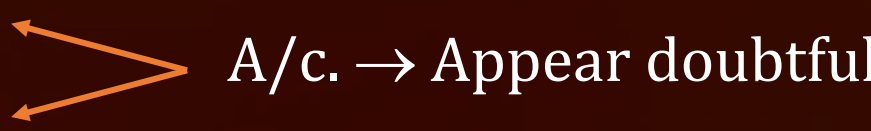
Completeness

- (1) List of Advances
- (2) Verify → Loan Agreement
- (3) Authorized 
 - MoA
 - AoA
- (4) Inspect → Board's MoM
- (5) Related Party Loans
- (6) Balance with Statutory Authorities
- (7) Statutory Returns → Filed?



Topic: Loans & Advances & Other Current Assets

Valuation

- (1) Allowance for Doubtful A/c.
- (2) Ageing Report
- (3) Identify & Analyse  A/c. → Appear doubtful
- (4) Write - offs
- (5) Schedule of Movement
- (6) Foreign Currency Loans → AS 11

Disclosure

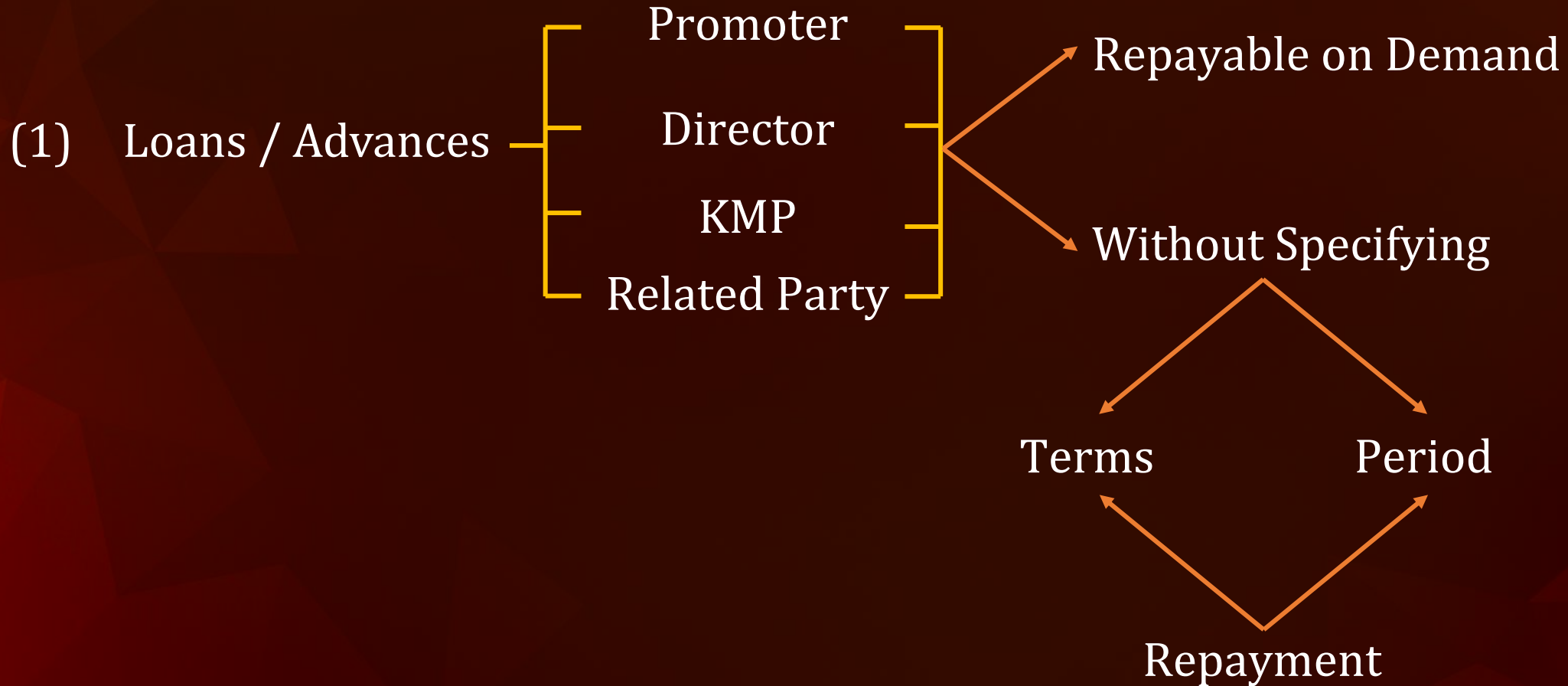


Schedule III (Part – I) of The companies Act, 2013



Topic: Loans & Advances & Other Current Assets

→ Additional Regulatory Info.





Topic: Provisions and Contingent Liabilities

* Measured → Substantial degree of estimation

* Recognized

Present Obligation



Result



Past event

Probable Outflow of
resources



Settle the obligation

Reliable estimate



Amount of obligation



Topic: Provisions and Contingent Liabilities

Contingent Liabilities

Possible Obligation → Past Event

Existence will be confirmed

But not recognised

Occurrence

Non-Occurrence

Not probable

Amount

Uncertain Future Events

Outflow of Resources

Cannot be measured

Not in Control of Entity

To Settle Obligation

Suff. Reliability



Topic: Provisions and Contingent Liabilities

Existence →

(1) Obtain → List of all provision



Compare → Ledger Balances

(2) Inspect → Underlying Agreement



Warranty
Commitments

Legal / Other Claims



Topic: Provisions and Contingent Liabilities

Valuation →

- (1) Working + Basis → Provisions mode
- (2) Expert Report → Required



- (3) Obtain → W.R. → Mgt. → Made → All provisions which were required to be made



Topic: Provisions and Contingent Liabilities

Disclosure



Schedule III (Part I) of The Companies Act, 2013

→ Additional Regulatory Info.

(1) Details of Benami Property held



Disclose





Topic: Provisions and Contingent Liabilities

(2) Relation with struck-off Companies



Disclose

Name of Struck
off Co.

Nature of
Transaction with
struck off Co.

Bal. O/s.

Relationship with
struck off Co.



Topic: Statement of Profit and Loss-Captions





Topic: Sale of Products and Services


Sale of Products and Services

- (1) Understanding of
 - Organisation
 - Revenue Centres
 - I.C.
- (2) ToC → Accordingly → Reduce Substantive Testing
- (3) Select → Random Selection of Sample
- (4) Perform → SAP



Topic: Sale of Products and Services

Occurrence


- (1) Revenue → Not overstated
 - (i) Single Invoice → Recorded Twice
Cancelled Invoice → Recorded
 - (ii) Test Check → Few Invoice → Entries
 - (iii) External Confirmation
 - (iv) Fictitious 
 - Customer
 - Sale
 - (v) Uncertainty → Collectability
 - (vi) Customer's Obligation → Contingent
- (2) Sequence of Journal Entries



Topic: Sale of Products and Services

- (3) Entries for unusual transactions
- (4) Sales Return to Sales Ratio

Completeness

- (1) Verify → Credit Notes
- (2) Trace → Shipping Docs.
- (3) Reconciliation → $\frac{\text{Total Sales}}{\text{Goods Dispatched}}$
- (4) GST 
 - Tax
 - Returns



Topic: Sale of Products and Services

Measurement

(1) Trace few transaction



Inception to Completion

(2) Export Sales → AS 11

(3) Understanding  Client Operation
GAAP

Disclosure



Schedule III (Part II) of The companies Act, 2013.



Topic: Other Income comprising interest income, dividend income, Gain/ Loss on sale of investments etc.

Interest Income on FD

Occurrence + Completeness + Measurement

- (1) Obtain → List of FD + App. Interest Rates + No. of Days
- (2) Arithmetical Accuracy
- (3) Deposits o/s as at pd. end
- (4) Confirmation of Interest Income → from Bank
- (5) Copy of Form 26 AS



Topic: Other Income comprising interest income, dividend income, Gain/ Loss on sale of investments etc.

Dividends

- (1) Recognized in → P/L
Only when Right To Receive → established
- (2) Verify → Gain / (Loss) → Recorded as → Other Income
- (3) Obtain → Mutual Fund st.

Disclosure



Schedule III (Part II) of The companies Act, 2013

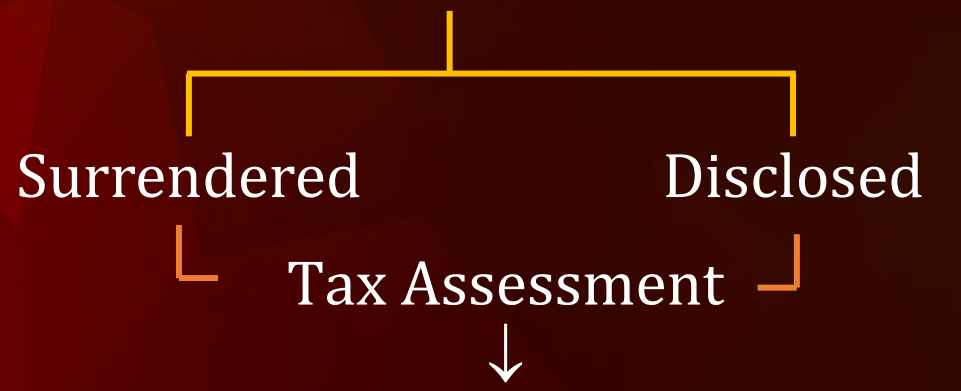


Topic: Other Income comprising interest income, dividend income, Gain/ Loss on sale of investments etc.

Additional Info

(1) Undisclosed Income Co.
↓

Give Details → Any transactions
↓
NOT Recorded as Income



Unless Immunity → Any Scheme

State → whether
↓
Previously



During the year



Topic: Purchases





- (1) Understanding of
 - Organisation
 - Production Centres
 - I.C.
- (2) Identify → Controls → Over Purchase
- (3) ToC → Purchase Cycle → Determine → Control
 - Effective
 - Not
- (4) Random Selection → Transactions
- (5) Performing → SAP



Topic: Purchases



Occurrence

- (1) Purchase → Not  Stated
- (i) Fictitious Vendors
 - (ii) Entry → Security Gate → Inward Register
 - (iii) Quality Inspection
 - (iv) GRN 
- (2) Original Purchase Invoice
- (3) Invoice → Booked → Only ONCE
- ↓
- (4) Name of the Entity



Topic: Purchases

- (5) Input Tax
- (6) Related Party Transactions

Completeness + Measurement

- (1) Cutoff Test → Correct A/c. pd.
- (2) Check → Last 5 transaction
- (3) Correct → A/c. Treatment
- (4) Obtain → W.R.
- (5) Perform → Analytical Procedure





Topic: Purchases

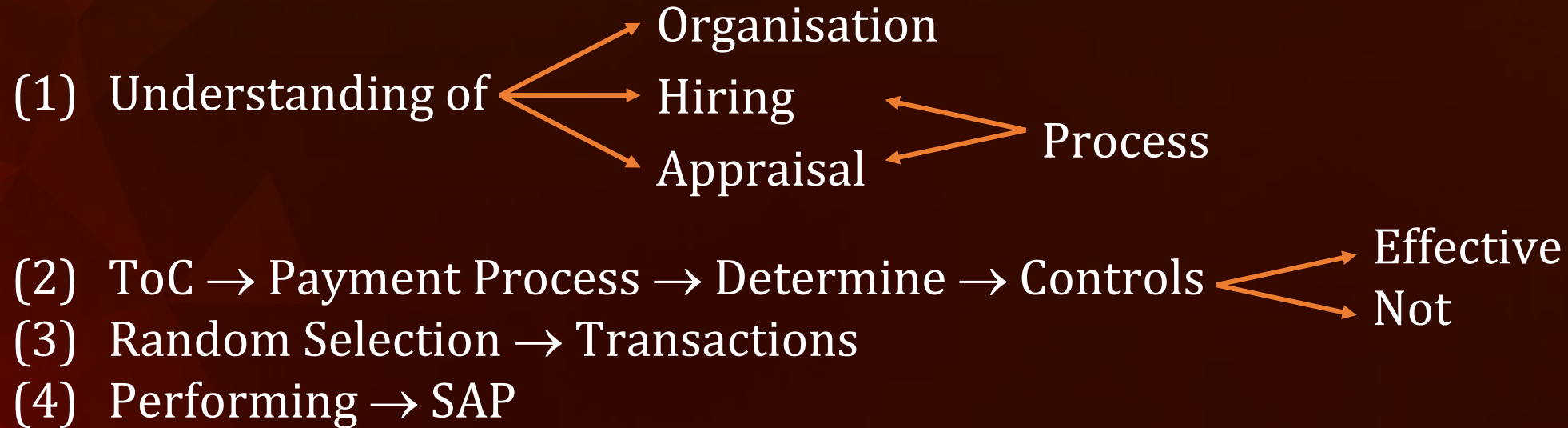
Disclosure



Schedule III (Pat II) of the Companies Act, 2013.



Topic: Employee Benefits Expenses

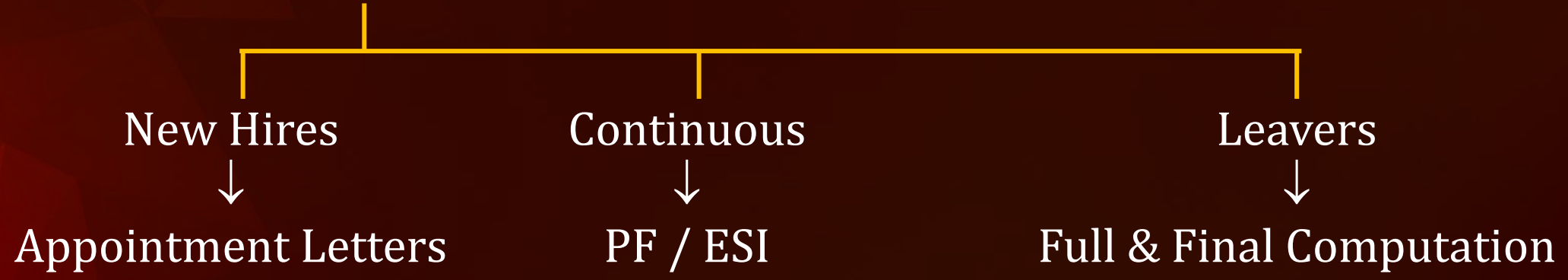




Topic: Employee Benefits Expenses

Occurrence + Completeness + Measurements

- (1) Process of capturing attendance
- (2) Fictitious Employees
- (3) Sample of Employees ↙ Bank Details
↘ ID Proofs
- (4) List of Employees



(5) Perform → Analytical Procedure
Disclosure

↓
Schedule III (Part II) of The Companies Act, 2013



Topic: Depreciation and Amortisation

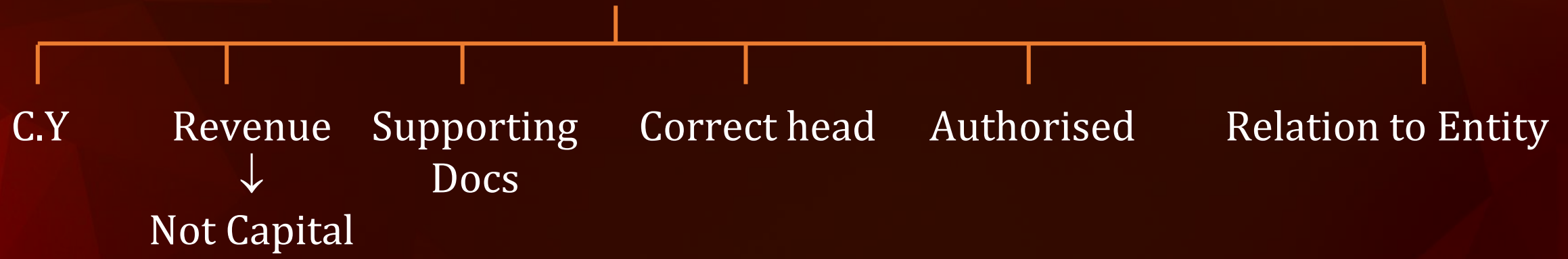
- (1) Entity's → A/c. Policy
 - Depreciation
 - Amortisation
- (2) As per
 - The Companies Act, 2013
 - As
- (3) Policy
 - Applied Consistently
 - Δ → Adequately Disclosed
- (4) Depreciation / Amortisation → CHARGES
 - Valid
 - Accurately Calculated
 - Appro. Pd.
- (5) Obtain → F.A.R.
- (6) Perform → Analytical Procedure



Topic: Other Expenses like Power and Fuel, Rent, Repair to Building, Plant and Machinery, Insurance, Travelling, Legal and Professional, Miscellaneous Expenses

Combined Question

Expenditure





Topic: Depreciation and Amortisation



* Rent Expense

- (i) Month wise schedule + Rent Agreement
- (ii) Recorded → For all 12 months
- (iii) Escalation Clause
- (iv) Agreement → Name of the Entity

* Power & Fuel Expense

- (i) Month wise schedule + Power Bills
- (ii) Recorded → For all 12 months
- (iii) Summary
 - Power units Consumed
 - Applicable Rate


+

Arithmetical Accuracy
- (iv) Monthly Trends




Topic: Depreciation and Amortisation

* Insurance Expense

- (i) Summary of Policies
 - (ii) Validity pd.
 - (iii) Classification
- Prepaid
C.Y
- Correct?
- 

* Legal & Professional Expense

- (i) Month
Consultant
 - Wise → Summary
 - (ii) Monthly Retainership Agreement
 - +
 - 12 month Expenditure → Recorded Correctly
 - (iii) Sample → Non-recurring exp.
- 



Topic: Depreciation and Amortisation

(iv) May highlight → dispute → Entity

Not made any Provision

Not have been discussed to Auditor

* Travel, Repair & Maintenance, Printing & Stationery, Misc. Exp.

(i) Sample Basis

(ii) Monthly Summary

(iii) Perform Analytical Procedure

(iv) Compare

```
graph LR; Compare --> PY[P.Y]; Compare --> PresentIndustry[Present Industry]; PY --> Trends[trends + Significant Variation]; PresentIndustry --> Trends;
```



Topic: Depreciation and Amortisation

Additional Info.

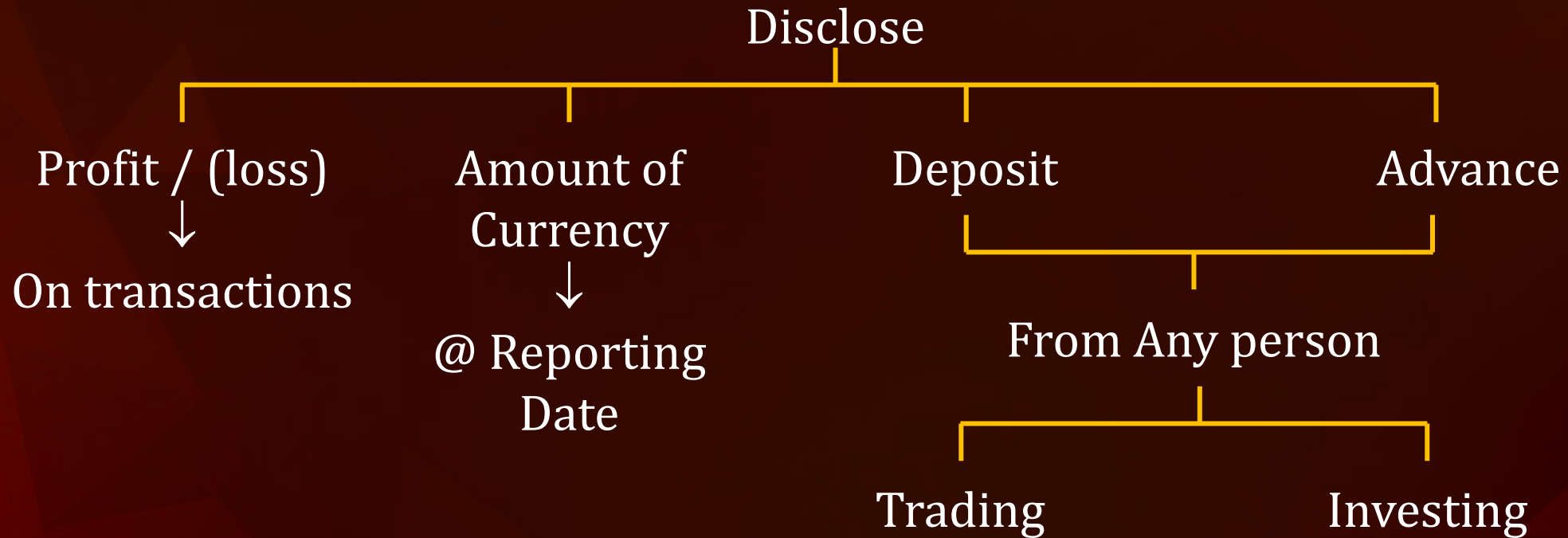
(1) C.S.R. → Sec. 135 → Disclose → Amount





Topic: Depreciation and Amortisation

(2) Details of  Crypto Virtual  Currency





thank you