ULTIMATE CA

CA INTERMEDIATE

SUMMARY BOOK

Auditing & Ethics

SEP 24 & ONWARDS

COVERING ALL THE IMPORTANT CONCEPTS OF AUDIT IN MOST CRISP MANNER

Best book for
super quick revison of
Auditing and Ethics

CA DEEPIKA RATHI
(CA, B.Com)

CA INTERMEDIATE

AUDITING AND ETHICS

Summary Book

BY CA DEEPIKA RATHI

AS PER NEW ICAI SYLLABUS

First Edition June 2024

Relevant For September 2024 and Onwards

Enroll in for Auditing and Law Classes on www.ultimateca.com

DEDICATED

To My Parents

for raising me to believe that anything was possible

Disclaimer

While every effort has been taken to avoid errors, the author, publishers and their agents/dealers are not responsible for the consequences of any action taken on the basis of this book.

©Deepika Rathi

All rights reserved. No part of this book may be reproduced, stored in a retrieval system or transmitted, in any form, or by any mean, electronic, mechanical, photocopying, or otherwise without prior permission, in writing from Deepika Rathi.

PREFACE

- I have great pleasure in placing this book before the aspirants of CA Intermediate.
- This book has been compiled with intention to provide a quick summary of "Standards on Auditing" appliable to CA Intermediate level (New Syllabus).
- This Book all 11 Chapters as applicable at CA Intermediate level for the purpose of Quick Revisions.
- Key features of the book are :
  - An examination orientated compilation conceived especially for students of CA Intermediate course.
  - Strictly as per ICAI new Syllabus
  - Use of charts, Table and Summaries for easy understanding and retention purpose of students.
  - Colorful and Attractive and Catchy Presentation.
  - Written in simple, lucid and succinct manner.

I hope that this book serves the purpose of its readers. Valuable suggestions and constructive feedback form learners is welcome and would be gratefully acknowledge please feel free to e-mail your feedback, problems or suggestions to us on drathi31@gmail.com.

All the Best !!

Happy Learning and Happy Studying

CA Deepika Rathi

INDEX

Chapter 1 : Nature , Objective and Scope of Audit

Chapter 2 : Audit Strategy Audit Planning and Audit Programme

Chapter 3 : Risk Assessment and Internal Control

Chapter 4 : Audit Evidence

Chapter 5 : Audit of Items of Financial Statements

Chapter 6 : Audit Evidence

Chapter 7 : Completion and Review

Chapter 8 : Audit Report

Chapter 9 : Special Features of Audit of Different Types of Entities

Chapter 10 : Audit of Banks

Chapter 11 : Ethics and Terms of Audit Engagements

Hello Everyone !!
How are u all ??

1 NATURE, OBJECTIVE AND SCOPE OF AUDIT

Origin of Auditing

Reference to auditing is found in *Kautilya's Arthshastra* even in *4th century BC.*

- ✓ The word *"audit"* originates from Latin word *"audire"* meaning "to hear".
- ✓ In medieval times, auditors used to hear the accounts read out to them to check that employees were not careless and negligent.
- ✓ *first Auditor General of India was appointed in British India in 1860* having both *accounting and auditing functions.*
- ✓ Comptroller and Auditor General of India is an independent constitutional authority responsible for auditing government receipts and expenditures.
- ✓ *ICAI* was established as a statutory body under an Act of Parliament in 1949 for regulating the profession of Chartered Accountancy in the country.

Meaning and Nature of Auditing

Audit is an → *independent examination* → *financial information*

of any entity, → *- whether profit oriented or not, - and irrespective of its size or legal form* → *to expressing an opinion thereon*

Person conducting audit shall ensure that financial statements do not MISLEAD anybody he shall verify :

- Accounts have been drawn up with the reference of → Entries in the books of accounts
- Entries in the books of accounts
  - Are adequately supported by sufficient and appropriate evidence
  - Has not been omitted in the process of compilation.
- information conveyed by the statements → Clear and unambiguous
- F.S. amounts are properly → classified, described and disclosed → in conformity of AS
- Statement of accounts presents true and fair picture.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Objective of the Auditor as per SA 200

- **To obtain reasonable assurance** That F.S. are free from material misstatement
- **To Express opinion** That F.S. are as per Financial Reporting Framework
- **To Report on F.S.**
- **To Communicate as required by the SAs**

Scope of Audit

Cover

- **Auditor shall cover all aspect of entity relevant for F.S.**
- **Reliability & Sufficiency of F.S.**
  - Auditor should be reasonably satisfied that
    - information contained in underlying accounting records and other *source* data (like bills, vouchers, documents etc.)
    - is ***reliable and sufficient*** basis for preparation of financial statements
  - Auditor makes a judgment of reliability and sufficiency of financial information
    - by making a study and assessment of accounting systems and internal controls
    - by carrying out appropriate tests, enquiries and procedures
- **Disclosure of financial information in F.S.**

Scope of Audit – What it does not include ?

Does not Include

- Auditor is not expected to perform duties which fall outside domain of his competence.
- An auditor is not an expert in authentication of documents.
- An audit is not an official *investigation* into alleged wrong doing.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Audit is distinct from investigation.

Investigation	Audit
• Investigation is a ***critical examination*** of the accounts with a special purpose.	The objective of audit is - to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement.
• Scope : → Specific and Narrow.	• Scope : General and Broad.

Inherent Limitations of Audit

1. Nature of financial reporting

- Management prepares F.S. as per FRF which requires management to use its judgement while preparation of F.S.
- The judgement can be subjective and uncertain.

2. The nature of Audit Procedure

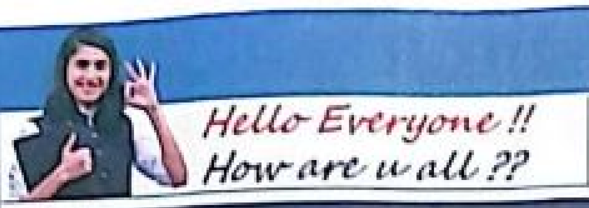
- Auditor applies audit procedures to obtain evidences on F.S.
- ***Management may not provide complete information*** relevant for preparation and presentation of FS.
- Management may be involved in fraud, it may have been designed carefully & Sophistically to conceal the fraud.
- An auditor is not an expert in authentication of documents
- Related party transactions may have happened on paper & not in reality.

3. Not in Nature of Investigation

- Audit is not an official investigation
- Hence there can be no absolute assurance that F.S. are free from Material Misstatement.

4. Future Events

- Future events may affect the business adversely e.g. COVID
- The business may ceases to exists in coming future due to changes in market conditions, new business models etc.



5. Timeliness of financial reporting and decrease in relevance of information over time:

- Relevance of information decreases over the time and auditor can not verify each and every matter.

What is an Engagement ?

A formal agreement between auditor and client under which auditor agrees to provide auditing services.

Benefits of Audit

B- Audited financial statements **can be relied upon by lenders, bankers for making their credit decisions**

I- Audited accounts provide high quality **information** and confidence to users that information on which they are relying is qualitative and accounts are prepared as per AS

G- Audited financial statements are **helpful to government authorities** for determining tax liabilities.

S- Shareholders are the owners of the company hence an independent examination of F.S. will safe guard the interest.

C- Auditor reviews the existences & operations of controls and points out deficiencies

A

M- **Moral check on employees**

AUDIT DETECTS FRAUDS & ERRORS

Audit Mandatory or Voluntary ?

- ✓ Audit is not always mandatory.
- ✓ Many entities may get their accounts audited voluntarily because of benefits from the process of audit.
- ✓ Many such concerns have their internal rules requiring audit due to advantages flowing from an audit.

Hello Everyone !!
How are u all ??

Different Types of Engagements

- Assurance Related
  - In relation to Historical F.S.
    - Reasonable Assurance Engagement → Audit → Based on Standards on Auditing → High level of Assurance
    - Limited Assurance Engagement → Review → Based Review Engagement
  - Other than Historical F.S. Financial / Non Financial matters
    - Examination of Prospective F.S. / Internal Control → Based Standard of Assurance Engagement → Moderate Assurance
- Non- Assurance Related
  - Not giving Opinion → To help in preparation of F.S.

Note : ***Prospective F.S. are statements prepared on basis of future events which may or may not occur.***

Elements of Assurance Engagements

1. Assurance engagement involves three parties

A Practitioner	Responsible Party	Intended users
Provides the assurance.	Responsible for Preparation of subject matter	Person who use report for decision making

2.An appropriate subject matter → Information to be examined by the practitioner.

Hello Everyone !!
How are u all ??

3.Suitable Criteria → Benchmarks used to evaluate the subject matter like standards, guidance, laws, rules and regulations.

4. Sufficient appropriate evidence

- **"Sufficient" : Quantity of evidence**
- **"Appropriate" : Quality of evidence**

5. A written assurance report in appropriate form → **Conclusion that conveys the assurance**

Difference between Audit & Review

Audit	Review
• Audit is a *reasonable assurance* engagement. • It provides reasonable assurance.	• Review is a *limited assurance* engagement. • It provides lower level of assurance than audit.
However, both "audit" and "review" are related to financial statements prepared on the basis of historical financial information.	

Difference between Reasonable Assurance Engagement & Limited Assurance Engagement

Reasonable Assurance Engagement	Limited Assurance Engagement
• It provides ***high level of assurance***.	• It provides ***lower level of ass***urance than reasonable assurance engagement.
• It performs elaborate and extensive procedures to obtain sufficient appropriate evidence.	• It performs fewer procedures as compared to reasonable assurance engagement.
• It draws reasonable conclusions on the basis of sufficient appropriate evidence.	• It involves obtaining sufficient appropriate evidence to draw limited conclusions.
• Example : An audit engagement.	• Example : Review engagement.

Hello Everyone !!
How are u all ??

Qualities of Auditor

- Tact, caution, firmness, good temper, integrity, discretion, industry, judgement, patience, clear headedness and reliability are some of qualities which an auditor should have. In short, all those personal qualities that go to make a good businessman contribute to the making of a good auditor.
- He must have the shine of culture for attaining a great height.
- He must have the highest degree of integrity backed by adequate independence.
- The auditor, who holds a position of trust, must have the basic human qualities apart from the technical requirement of professional training and education.
- He is called upon constantly to *critically* review financial statements and it is obviously useless for him to attempt that task unless his own knowledge is that of an expert.
- An exhaustive knowledge of accounting in all its branches is the *sine qua non* of the practice of auditing.
- He must know thoroughly all accounting principles and techniques.

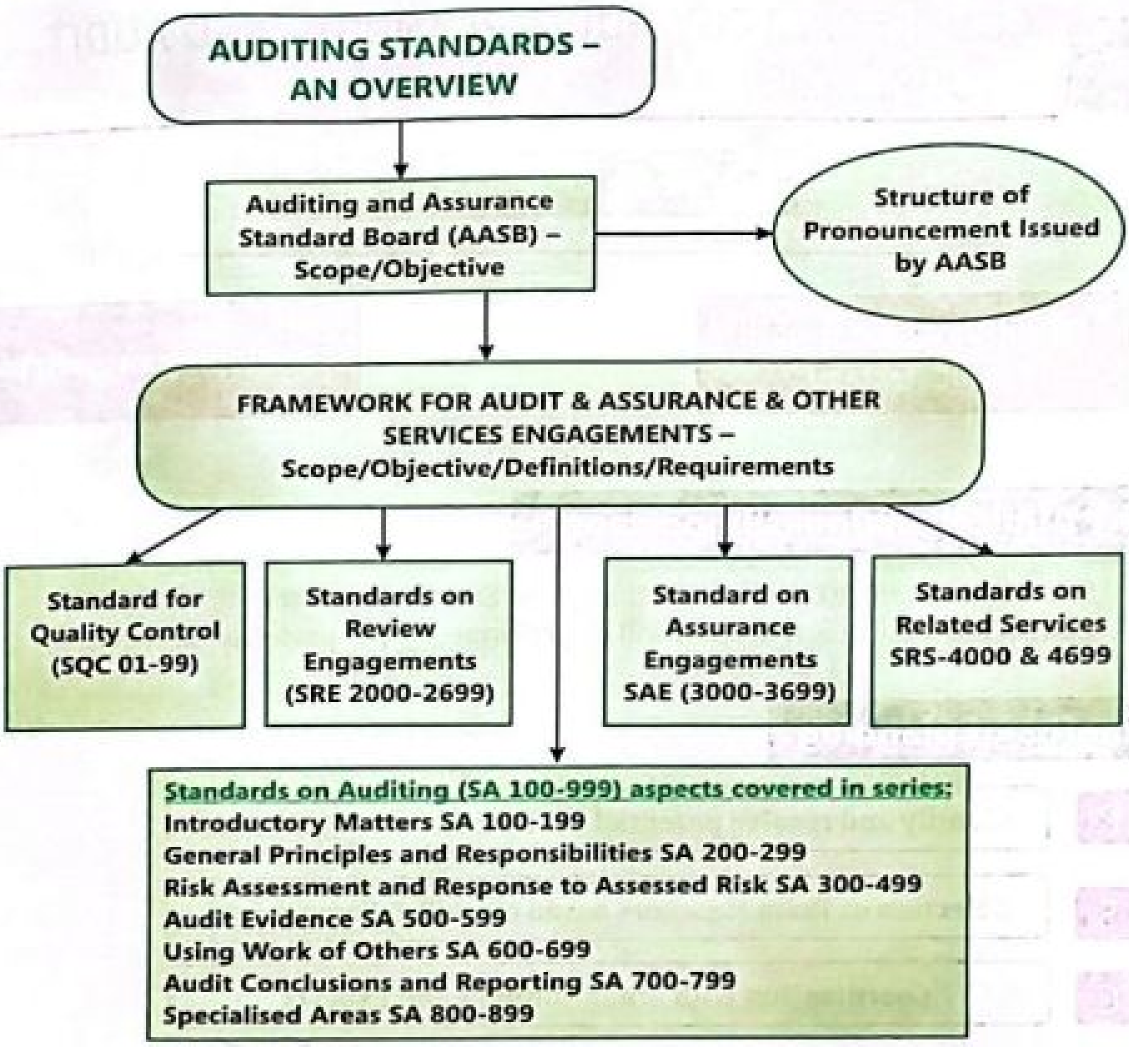
Summary :
All the qualities of a good business man, Independent, Integrity, Theoretical education and practical training, Knowledge of business under audit, Knowledge of law, Knowledge of accounting principles,

Engagement & Quality Control Standards an Overview

SAs	apply in the audit of historical financial information.
SREs	apply in the review of historical financial information.
SAEs	apply in assurance engagements, dealing with subject matters other than historical financial information.
SRSs	apply to engagements to apply agreed upon procedures to information and other related services engagements such as compilation engagements.

Standards on Quality control (SQC) apply for all services covered by engagement standards i.e. SAs, SREs, SAEs and SRSs.

Hello Everyone !!
How are u all ??



Why Standards needed ?

Standard

- Ensure carrying out of audit against established benchmarks at par with global practices
- Improve quality of financial reporting
- Promote uniformity as audit of financial statements
- Equip professional accountants with professional knowledge and skill
- Ensure audit quality.

Hello Everyone !!
How are u all ??

2 AUDIT STRATEGY AUDIT PLANNING AND AUDIT PROGRAMME

Planning An Audit Involves

- Establishing the overall audit strategy
- Developing an audit plan

Why Audit Planning is Important ?

- So that work can be conducted in timely and Effective manner
- Benefit of Planning is that audit will be performed as per professional standards

Benefits of planning

- **P** – Identify and resolve potential problems in timely manner
- **S** – Selection of Team Members based on skill & Competence
- **C** – Coordination with other Auditors and Experts
- **A** – Appropriate attention to important area
- **M** – Managing & Organizing the work done so that audit is conducted in Efficient and Effective Audit
- **S** – Direction and Supervision of team & Review of Work

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Audit Procedures that needs to be completed prior to preparing further audit procedures

- 1. Risk Assessment procedures.
- 2.Obtaining a general understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework.
- 3. The performance of other risk assessment procedures.
- 4. The determination of materiality.
- 5. The involvement of experts.

Audit Plan shall include a description of

- Nature Time & Extent of Planned Risk Assessment Procedures
- Nature Time & Extent of Planned Further Audit Procedures
- Other Planned procedures so that the audit compiles with SAs

Planning Involves

- A Preliminary Engagement Activities
- B Planning Activities

A. Preliminary Engagement Activities

1. Performing audit procedures regarding acceptance or continuance of client relationship and audit engagement

Auditor shall perform Audit Procedure to obtain information regarding

- **Integrity of Owners/ key management**
- **Competence of Engagement team members**
- **In initial audit engagements auditor shall also communicate with predecessor auditor**

Hello Everyone !!
How are u all ??

2. Evaluating compliance with ethical requirements including independence

↓

Engagement partner shall make enquiries make observation

↓

If the Engagement team members are in compliance with ethical requirements and are performing audit independently

↓

To evaluate compliance with independence the engagement partner shall

- **1. Obtain relevant information about circumstances to identify threats on independences**
- **2. Evaluate the information to see if there are threat to independence**
- **3. If there are threats on independence**
  - **Auditor shall take appropriate action to eliminate threats** OR **Withdraw form the engagement if permitted by law**

3. Establishing an understanding of terms of engagement

↓

Before commencement of audit the auditor shall prepare & send engagement letter to client to avoid any confusion

B. Preliminary Engagement Activities

1. Overall audit strategies sets the *scope, timing* and *direction* of audit

↓

How audit strategy assist the auditor

What ?	How much ?	When ?	How ?
Resources to deploy for specific audit areas E.g. Experienced team members, experts etc.	Amount of resources required for specific audit area E.g. No. of team members for inventory counting	When to deploy these resources [Key cut off dates, Interim audit stage]	How are the resources to be managed supervised & directed [Team briefing expected to be held]

Hello Everyone !!
How are u all ??

2. Development of Audit Plan

- Understanding client's business is the most important principal in developing audit plan.
- Without proper knowledge of business proper audit is not possible

Factors to be taken into consideration by auditor for establishing audit strategy

a. Identify the characteristics of the engagement that define its scope

- Applicable FRF
- Nature of business segment
- Industry specific reporting requirements
- Expected use of audit evidence obtained in previous audits

b. Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required.

- The entity's timetable for reporting
- **Discuss with management**

Nature/ time/ scope of Audit work

Type & Timing of Audit Report

Type & Timing of Audit Report

- Expected timing for meeting of engagement team members

C. Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts

- Volume of transactions to determine if its efficient to rely on internal control
- Changes in FRF

FRF such as change in AS

Legal environment affecting the entity

Industry Regulations

d. Consider the result of preliminary engagement activities and where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant

Hello Everyone !!
How are u all ??

e. ***Ascertain the nature, timing and extent of resources necessary to perform the engagement.***

- **Selection of engagement team members and assigning work to them**
- **Devoting more time to areas with high risk of material misstatements**
- **Assigning areas of high risk of material misstatement to experienced team members**

Relationship between Audit Strategy and Audit Plan

- Audit strategy determines ***scope, timing and direction*** of audit and describes how strategyis going to be implemented.
- The audit plan is more detailed than the overall audit strategy because Audit Planning ascertains nature timing & extent of Audit
- Audit Plan & Audit Strategy are Not discrete & not Sequential Process. They are closely inter-related.
- Changes in one will result in change in another

Overall Audit Strategy and The Audit Plan the Auditor's Responsibility

- **The overall audit strategy and the audit plan remain the auditor's responsibility**

Changes to Planning Decisions during the Course of Audit

Because of

- Unexpected Events
- Changes in conditions
- New Audit Evidences obtain from Audit Procedures

Hello Everyone !!
How are u all ??

Planning Supervision and Review of Work of Engagement Team Members

The NTE of the direction and supervision of engagement team members

- **C** – Capabilities and competence of the individual team members performing the audit work.
- **A** – Area of the audit.
- **R** – assessed risks of material misstatement
- **S** – size and complexity of the entity.

Documentation

(a) The Overall audit Strategy

is a record of
- key decisions considered necessary to properly plan the audit and
- to communicate significant matters to the engagement team

(b) The Audit Plan

Record of Nature time / Extent of Risk Assessment Procedures performed, further audit procedures performed

(C) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes

Record of response of auditor obtaining new information & evidences during audit

Hello Everyone !!
How are u all ??

Audit Programme

An audit programme consists of
- A series of verification procedures to be applied
- On the financial statements and accounts of an entity to obtain sufficient audit evidence
- to express an opinion on financial statements.

Characteristics of Audit Programme

Evolving one audit programme –Not Practicable for all the businesses

- Business may vary in size nature/ composition
- Work which is suitable for one business might not suit another business
- Every entity's efficiency & operation of intended control is different

The Assistant to Keep an Open Mind

- Assistant to think beyond audit programme
- Include relevant matter not originally not include in audit programme
- Drop irrelevant matters in audit programme
- Report significant matters to seniors /partner

Periodic review of the audit programme

- To find out if Audit programme is sufficient to obtain audit evidences and Knowledge about transactions
- Client's business policy may change which the auditor may not be aware of and hance he will follow an outdate programme and audit will be conducted negligently and auditor may face legal consequences
- Periodic review helps in removing inadequacy in audit programme.

Establishing an audit programme

SEECV WO
Points to be kept in mind while construction of Audit programme
S- Stay within the scope and limitation of the assignment
E- Consider allpossibilitiesof error.
E- Determine the evidence reasonably available and identify the best evidence
C- Co-ordinate the procedures to be applied to related items.
V- Apply only those steps and procedures which are useful in accomplishing the verification purpose in the specific situation.
W- Written audit programme
O- Include audit objective of each area

Hello Everyone !!
How are u all ??

Audit Programme – Designed to Provide Audit Evidence

Auditor picks up evidence from a variety of fields

Examination
- Physical
- Documentary

Statement & Explanation
- Management/Employees
- Third Party

- Minutes
- Inter-relationship of the various accounting data
- State of internal controls and internal checks
- Subsidiary and memorandum records

Arithmetical Accuracy

CA DEEPIKA RATHI

Advantages and Disadvantages of an audit Programme

The advantages of an audit programme are: -

a. Lays down clear set of instructions for assistant carrying out audit

b. **provide a total perspective** ofthe work to be performed.

c. Assignign jobs for the works which is rationally planned, defined and segregated.

d. Carrying audit on basis of mental plan becomes significantly danger in audit. Thus a written audit programme reduces chances of developing ignoring or overlooking

e. Assistants, can signature on programme, accept the responsibility for the work carried out by them individually and, if necessary, the work done may be traced back to the assistant.

f. Principal can control the progress of the various audits in hand by examination of audit programmes initiated by the assistants deputed to the jobs for completed work

f. Act as a guide for audits to be carried out in the succeeding year.

g. Acts as a evidence in case of negligence

Hello Everyone !!
How are u all ??

The Disadvantages are :-

a. The work may become mechanical as assistant may follow parts of the programme without any understanding of the object

b. If not reviewed periodically the audit programme may become rigied and inflexible

c. Assistants
   - May kill the initiative of efficient assitants
   - Inefficient assistants may take shelters of Audit programme & defend deficiencies in work

---

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

3 RISK ASSESSMENT AND INTERNAL CONTROL

AUDIT RISK

What is Audit Risk ?

"Audit risk means the risk that the auditor gives an inappropriate audit opinion when the financial statements are materially misstated."

It means that : → Auditor expresses an unmodified opinion when financial statements are materially misstated.

Audit risk is a function of the risks of material misstatement and detection risk.

Audit Risk – What is not Included

- Audit risk is a technical term related to process of auditing .

It does not refer to
Auditor's business risks such as loss from litigation, adverse publicity, or other events arising in connection with the audit of F.S.

Audit risk does not include
Risk that auditor might express an opinion that the F.S. are materially misstated when they are not. This risk is ordinarily insignificant

Risks of Material Misstatement

SA 200 states that risk of material statement is
- The risk that the financial statements are materially misstated prior to audit.

There is a probability of frauds or errors in financial statements before audit.

What is meant by Misstatement ?

Misstatement refers to
- A difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable FRF.

Misstatements can arise from error or fraud.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Example of Misstatements

- Charging of an item of capital expenditure to revenue or vice-versa
- Difference in disclosure of a F.S. item vis-à-vis its requirement in applicable FRF
- Selection or application of inappropriate accounting policies
- Difference in accounting estimate of a F.S. item vis-à-vis its appropriateness in applicable FRF
- Intentional booking of fake expenses in statement of profit and loss
- Overstating
  - Of receivables in financial statements by not writing off irrecoverabledebts
  - Or understating inventories

The risks of material misstatement may exist at two levels

At Overall financial statement level

Risks of material misstatement at the overall financial statement level refer to
- Risks of material misstatement that relate pervasively
- to the F.S. as a whole and potentially affect many assertions.

At the assertion level

- **Risks of material misstatement at the assertion level** are assessed in order to determine the nature, timing, and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence.
- This evidence enables the auditor to express an opinion on the financial statements at an acceptably low level of audit risk.

ROMM at assertion level consist of two components

- Inherent Risk
- Control Risk

- **Both inherent and control risk are entity's risks and they exist independently of audit of F.S.**
- **Inherent and control risk are influenced by the client not influenced by the auditor.**

Hello Everyone !!
How are u all ??

Components of Risks of Material Misstatement

1. Inherent Risk | **2. Control Risk** | **3. Detection Risk**

1. Inherent Risk

Susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, assuming that there were no related internal controls.

There is always a risk that before considering any existence of internal control in an entity,
- A particular transaction, balance of an account or a disclosure
- required to be made in the financial statements of an entity
- Have a chance of being misstated and
- Such misstatement can be material.

This risk is known as inherent risk.

Inherent risk factors are considered while designing
- tests of controls &
- substantive procedures.

Category of auditor's assessment lower or higher, each category covers a range of degrees of inherent risk.

Auditor may assess the inherent risk of two different assertions as lower while recognizing that one assertion has less inherent risk than the other, although both have been assessed as lower.

Inherent risk is higher for some assertions & related classes of transactions, account balances, and disclosures than for others

It is important to consider reason for each identified inherent risk even if risk is lower, when auditor designs TOCs & substantive procedures.

Examples of Inherent Risk

- An accounting standard provides guidance on some complex issue which might not be understood by the management. Therefore, recording of this issue in financial statements carries inherent risk of being misstated.
- There are large number of business failures in an industry. Therefore, assertions in financial statements of an entity operating in such an industry carry an inherent risk of being misstated.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

2. Control Risk

The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

Control risk is a risk that

↓

- internal control existing and operating in an entity

↓

- would not be efficient enough

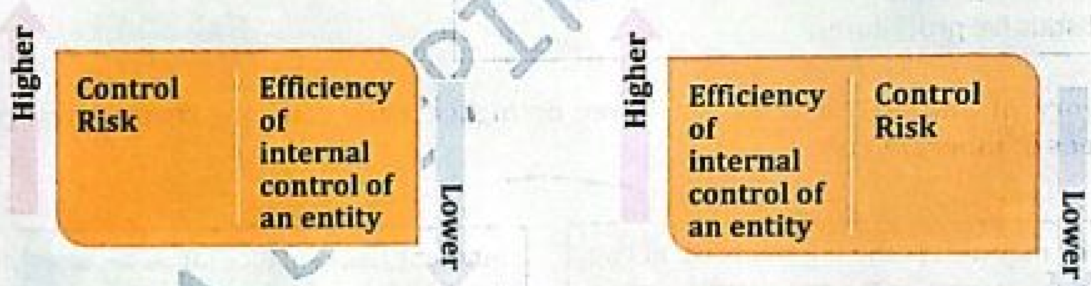
↓

- to stop from happening, or find and then rectify in an appropriate time,

↓

- any material misstatement relating to a transaction, balance of an account or disclosure required to be made in the financial statements of that entity.

- There exists an ***inverse relation between control risk and efficiency of internal control of an entity.***



Examples of Control Risk

- ✓ A company has devised control that cash and cheque books should be kept in a locked safe and access is granted to authorized personnel only. There is risk that control is not being followed.
- ✓ An entity has devised a control that fire extinguishers and smoke detectors are in place and are in working condition at all times to reduce the risk of damage to inventories caused by fire. There is a risk that fire extinguishers in place are expired and are not being refilled. Similarly, there is a possibility that smoke detectors are not working.
- ✓ A company has devised a control relating to petty cash that items of expenditure of only less than Rs.10000 should be routed through impress system of petty cash. There is a risk that control is not being followed.

Hello Everyone !!
How are u all ??

Detection risk Comprises

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

(Risk that procedures performed by the auditor fails to detect material misstatement.)

Detection risk comprises

Sampling Risk	Non Sampling Risk
Risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure.	Risk that auditor reaches an erroneous conclusion for any reason not related to sampling risk. **For example:** Using inappropriate audit procedure.

- **Auditor must reduce detection risk in order to keep audit risk at low level.**
- **Detection risk may be reduced by increasing area of checking, testing larger samples and by including competent and experienced persons in ET.**

Example of Detection Risk

- Sizeable work-in-progress inventories are expected in financial statements of a company. However, auditor of the company does not devote time to attending inventory count. Instead, he chooses to rely upon alternative audit procedures.
- The auditor of a company has audited revenue of a company by taking a sample. However, there is a risk that sample of revenue is not representativeof overall revenue.

Assessment of Risks – A matter of Professional Judgement

Audit Risk

- **Risks of Material Misstatement**
  - Inherent Risk
  - Control Risk
- **Detection Risk**
  - Sampling Risk
  - Non- Sampling Risk

Hello Everyone !!
How are u all ??

- **Audit risk is a function of ROMM and detection risk.**
- Assessment of risks is based on audit procedures performed to obtain information necessary for that purpose and evidence obtained throughout the audit.
- • Assessment of risks is a matter of professional judgment, rather than a matter capable of precise measurement.
  • Professional judgment exercised by an auditor is based on his training, knowledge and experience.

Combined Assessment of Risk of Material Misstatement

- SAs do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the "ROMM".
- However, auditor may make separate or combined assessments of inherent and control risk depending on audit techniques or methodologies and practical considerations.
- Assessment of ROMM may be expressed in quantitative terms, such as in percentages, or in non-quantitative terms.
  - **Audit risk = Risks of material misstatement × Detection risk**
  - **Audit risk = Inherent risk × Control risk × Detection risk**

Identifying and Assessing the Risks of Material Misstatement

SA 315 "Identifying & Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment"

Objective of the Auditor

Objective of the auditor as stated in SA 315 is to identify & assess ROMM. The auditor shall identify and assess the ROMM at :

- The financial statement level
- The assertion level for classes of transactions, account balances, anddisclosures

To provide a basis for designing and performing further audit procedures

Hello Everyone !!
How are u all ??

Risk Assessment Process

Auditor shall

- **Identify risks** throughout the process of obtaining an understandingof the entity and its environment, including relevant controls
- • **Assess identified risks, &** • **Evaluate** →whether they relate more pervasively to the F.S. as a whole & potentially affect many assertions
- Relate identified risks to what can go wrong at the assertion level, taking account of relevant controls
- Consider likelihood of misstatement & whether potential misstatement is of a magnitude that could result in a material misstatement.

Risk Assessment Procedures

Meaning

- Audit procedures performed to obtain an understanding of entity and its environment, including internal control,
- To identify and assess the ROMM, whether due to fraud or error, at the F.S. and assertion levels.

It Includes

a. Inquiry of mngt.& others

- Much of the information is obtained through inquiry from management and those responsible for financial reporting.
- However, auditor may also obtain information through inquiries of others within the entity & employees.

b. Analytical Procedures

- AP may identify aspects of the entity of which the auditor was unaware and may assist in assessing ROMM in order to provide a basis for designing and implementing responses to the assessed risks.
- AP may include both financial and non-financial information.
- AP may help identify existence of unusual transactions or events, and amounts, ratios, and trends that might indicate matters that have audit implications.
- Unusual or unexpected relationships that are identified may assist the auditor in identifying ROMM, especially ROMM due to fraud.

c. Observation & Inspection

Information obtained by performing risk assessment procedures- Used as Audit Evidence

- Information obtained by performing risk assessment procedures and related activities may be used by the auditor as audit evidence to support assessments of the risks of material misstatement.

- In addition, auditor may obtain audit evidence about classes of transactions, account balances or disclosures and about operating effectiveness of controls, even though such procedures were not specifically planned as Substantive Procedures or as Tests of Controls.

- The auditor also may choose to perform substantive procedures or tests of controls concurrently with risk assessment procedures because it is efficient todo so.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

MATERIALITY

What is meant by Materiality ?

- *SA 320 Materiality in Planning and Performing an Audit states that misstatements,* →including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
- **Materiality is not always a matter of relative size.**
- **For example,** a small amount lost by fraudulent practices of certain employees can indicate a serious flaw in the enterprise's internal control system requiring immediate attention to avoid greater losses in future.

Materiality in Planning and Performing an Audit – Auditor's Responsibility

A

Concept of materiality is applied by the auditor both in

- **Planning & performing the audit**
- Evaluating the
  - effect of identified misstatements on the audit and of uncorrected misstatements, if any,
  - on the financial statements and
  - in forming the opinion in the auditor's report.

B

- FRF often discuss the concept of materiality in the context of the preparation and presentation of F.S.
- If FRF does not include a discussion, following can be referred:

A	B	C
Misstatements including omissions expected to influence the economic decision of users	Size or nature of misstatement & the surrounding circumstances	Common financial information needs of the users as a group.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

C

- In planning the audit, auditor makes judgments about the size of misstatements that will be considered material.
- These judgments provide a basis for:

Determining NTE of risk assessment procedures

Identifying and assessing the ROMM

Determining NTE of further audit procedures

D

- If there is any statutory requirement of disclosure, it is to be considered material irrespective of the value of amount.
- Example :

As per Division I of schedule III of Companies Act, 2013,
Any item of income or expenditure which exceeds 1% of the revenue from operations or Rs.1,00,000, whichever is higher, needs to be disclosed separately.

As per requirements of Division I of Schedule III of Companies Act,2013.
A company should disclose in notes to accounts, shares in the company held by each shareholder holding more than 5 % shares specifying the number of shares held

Determination of Materiality – A matter of Professional Judgement

- Auditor's determination of materiality is a matter of professional judgment, and is affected by the auditor's perception of the financial information needs of users of the F.S.
- In this context, it is reasonable for the auditor to assume that users:

Have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the F.S. with reasonable diligence

Understand that F.S. are prepared, presented and audited to levels of materiality

Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events

Make reasonable economic decisions on the basis of information in the F.S.

Performance Materiality

- The amount or amounts set by the auditor at,
- Less than materiality for the F.S. as a whole
- To reduce to an appropriately low level,
- The probability that the aggregate of uncorrected and undetected misstatements
- Exceeds materiality for the F.S. as a whole.

If applicable, performance materiality also refers

to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures

Determining Materiality and Performance Materiality when Planning the Audit

Upon establishing the overall audit strategy, the auditor shall
- Determine materiality for the financial statements as a whole.

Auditor shall also determine the materiality level or levels for
- specific transactions for which misstatements of lesser amounts than the materiality for the F.S. as a whole

Use of Benchmarks in Determining Materiality for the Financial Statements as a Whole

- Determining materiality involves the exercise of professional judgment.
- A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole.

Factors that may affect the identification of an appropriate benchmark include the following:

1. Elements of the F.S.
2. Whether there are items on which attention of the users of the particular entity's financial statements tends to be focused
3. Nature of the entity, where the entity is at in its life cycle, and the industry and economic environment in which the entity operates
4. Entity's ownership structure and the way it is financed
5. Relative volatility of the benchmark.

Example of Benchmark

- Profit before tax
- Total revenue
- Gross profit and total expenses
- Total equity or net asset value

✓ Profit before tax from continuing operations is often used for profit- oriented entities.

✓ When profit before tax from continuing operations is volatile, other benchmarks may be more appropriate, such as gross profit or total revenues.

Hello Everyone !!
How are u all ??

Chosen Benchmark Relevant Financial Data

Financial data in relation to chosen benchmark ordinarily includes

- Prior periods' financial results and financial positions
- Period to date financial results and financial position
- Budgets or forecasts for the current period, adjusted for significant changes in circumstances of the and relevant changes of conditions in the industry or economic environment in which the entity operates.

Determining a Percentage to be applied to a Chosen Benchmark involves the exercise of professional judgement

- There is a relationship between the percentage and the chosen benchmark,
- A percentage applied to profit before tax from continuing operations will normally be higher than a percentage applied to total revenue.

Materiality Level for Particular Classes of Transactions Account Balances or Disclosures

Factors that may indicate existence of one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the F.S. as a whole could reasonably be expected to influence economic decisions of users taken on the basis of the F.S. include the following :

1. Whether law, regulations or applicable FRF affect users expectations regarding the measurement or disclosure of certain items like in case of related party transactions and theremuneration of management and TCWG.
2. Key disclosures in relation to industry in which the entity operates. For example, research and development costs for a pharmaceutical company.
3. Whether attention is focused on a particular aspect of the entity's business that is separately disclosed in the F.S. like in case of newly acquired business.

Revision in Materiality Level as the Audit Progresses

Materiality for the F.S. as a whole may need to be revised as a result of a

- **A. change in circumstances that occurred during audit**
- **B. New information**
- **C.** Change in auditor's understanding of the entity and its operations as a result of performing further audit procedures.

Hello Everyone !!
How are u all ??

If auditor concludes that a lower materiality for the F.S. as a whole than that initially determined is appropriate
He shall determine→ whether it is necessary to revise performance materiality, and whether the NTE of further audit procedures remain appropriate.

Documentation

Audit documentation shall include the following amounts and the factors considered in their determination:

- **A** — Materiality for the financial statements as a whole
- **B** — If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures
- **C** — Performance materiality
- **D** — Any revision of (a) to (c) as the audit progressed.

Materiality and Audit Risk

Materiality and audit risk are considered throughout the audit, in particular, when:

- Identifying and assessing the risks of material misstatement
- Determining NTE of further audit procedures
- Evaluating the effect of uncorrected misstatements, if any, on the financial statementsand in forming the opinion in the auditor's report.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT

As per SA 315 auditor should an understanding of the following:

- Relevant industry, regulatory, and other external factors including applicable FRF
- Nature of the entity, including
  - its operations
  - its ownership and governance structures
  - the types of investments that the entity is making and plan to make
  - the way that the entity is structured and how it is financed
- Entity's selection and application of accounting policies, including the reasons for changesthereto
- Entity's objectives and strategies, and those related business risks that may result in risks of material misstatement.
- Measurement and review of the entity's financial performance.

Relevant, Industry , Regulatory, and other external factors including applicable FRF

- **Relevant industry factors:** include industry conditions such as competitive environment, supplier and customer relationships and technological developments.
- **Examples :** Auditor may consider include market and competition, whether entity is engaged in seasonal activities, product technology relating to entity's products.

- **Relevant regulatory factors:** include regulatory environment, applicable FRF and legal and political environment.
- **Examples :** Auditor may consider include accounting principles, industry specific practices, regulatory framework for a regulated industry, legislation and regulation that significantly affect the entity's operations, taxation, government policies, environmental requirements affecting the industry and the entity's business.

- **Other external factors:** include general economic conditions, interest rates and availability of financing, inflation etc.

Examples of matters that may be considered for understanding of nature of entity

- Business operations
- Investment and investment activities
- Financing and financing activities
- Financial reporting

Entity's selection and application of accounting policies

Auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable FRF and accounting policies used in the relevant industry.

Hello Everyone !!
How are u all ??

Examples of matters that may be considered for understanding of entity's objectives, strategies and related business risks

- Industry developments
- New products and services
- Expansion of the business

Examples for measuring and reviewing financial performance

- Key performance indicators (financial and non-financial) and key ratios, trends and operating statistics.
- Period-on-period financial performance analyses
- Budgets, forecasts, variance analyses, and departmental or other level performance reports
- Credit rating agency reports

Significance of understanding of Entity

- Understanding of entity and its environment helps the auditor in planning the audit and inidentifying areas requiring special attention.
- Gaining knowledge about client's business is one of the important principles in developing an overall audit plan.

Understanding the entity – A Continuous Process

- Obtaining an understanding of the entity and its environment, including the entity's internal control is a continuous, dynamic process of gathering, updating and analysing information throughout the audit.

The understanding establishes a frame of reference within which the auditor plans the audit and exercises professional judgment throughout the audit, for example, when:

- Assessing risks of material misstatement of the F.S.
- Determining materiality in accordance with SA 320
- Considering the appropriateness of the selection and application of accounting policies
- Identifying areas where special audit consideration may be necessary
- Developing expectations for use when performing analytical procedures
- Evaluating the sufficiency and appropriateness of audit evidence

Hello Everyone !!
How are u all ??

INTERNAL CONTROL

Meaning of and Purpose of Internal Control

SA 315 defines the term internal control as

"The process designed, implemented and maintained by TCWG, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to

- Reliability of financial reporting
- Effectiveness and efficiency of operations
- Safeguarding of assets
- Compliance with applicable laws and regulations

Controls Means : ***Any aspects of one or more of the components of internal control***

Benefits of Understanding of Internal Control

An understanding of internal control assists the auditor in

1. **Identifying types of potential misstatements**
2. **Identifying factors that affect the risks of material misstatement**
3. **Designing the nature, timing, and extent of further audit procedures**

Limitation of Internal Control

a. **Internal control can provide only reasonable assurance:** Internal control, no matter how effective, can provide an entity with only reasonable assurance about achieving the entity's financial reporting objectives.

b. **Human judgment in decision-making**: Realities that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human error.

c. **Lack of understanding the purpose**: Operation of a control may not be effective, if information produced for the purposes of internal control is not effectively used.

d. **Collusion among People**: Controls can be circumvented by the collusion of two or more people or inappropriate management override of internal control.

e. **Judgments by Management**: In designing and implementing controls, management may make judgments on the nature and extent of the controls it chooses to implement, and the nature and extent of the risks it chooses to assume.

f. **Limitations in case of Small Entities**: Smaller entities often have fewer employees due to which segregation of duties is not practicable. However, in a small owner-managed entity, the owner-manager may be more able to override controls because the system of internal control is less structured.

Hello Everyone !!
How are u all ??

5 Components of Internal Control

- Control Environment
- Entity's risk assessment process
- Information System and Communication
- Control Activities
- Monitoring of Activities

1. Control Environment

- **Auditor shall obtain an understanding of control environment.**
- **As part of obtaining this understanding, auditor shall evaluate whether**

Management has created & maintained a culture of honesty and ethical behaviour

And

Strengths in control environment elements collectively provide an appropriate foundation for the other components of internal control

Control environment includes

Governance and management functions

And

Attitudes, awareness, and actions of TCWG and management.

Control environment sets the tone of an organization, influencing the control consciousness of its people.

Control environment includes the following elements:

1. Communication and enforcement of integrity and ethical values	Influence effectiveness of design, administration & monitoring of controls
2. Commitment to Competence	Management's consideration of the competence levels for particular jobs and how those levels translate into requisite skills and knowledge.
3. Participation by TCWG	It includes attributes of TCWG such as their independence from management, their experience, extent of their involvement and the information they receive, and the scrutiny of activities.

4. Management's philosophy and operating style — It comprises of management characteristics such as:

- Approach to taking and managing business risks.
- Attitudes and actions toward financial reporting.
- Attitudes toward information processing and accounting functions and personnel.

5. Organizational Structure — Framework within which an entity's activities for achieving its objectives are planned, executed, controlled, and reviewed.

6. Assignment of authority and responsibility — Matters such as
- how authority and responsibility for operating activities are assigned and
- how reporting relationships and authorisation hierarchies are established

7. Human resource policies and practices — Policies & practices that relate to, e.g., recruitment, orientation, training, evaluation, counselling, promotion, compensation, and remedial actions

Impact of Satisfactory Control environment

- Existence of a satisfactory control environment work as a positive factor when the auditor assesses ROMM.
- it is to be kept in mind ***that a satisfactory control environment is not an absolute deterrent to fraud.***
- Deficiencies in the control environment may undermine the effectiveness of controls, in particular in relation to fraud.
- Control environment in itself does not prevent, or detect and correct, a material misstatement.
- It may, however, influence auditor's evaluation of the effectiveness of other controls and thereby, the auditor's assessment of ROMM.

2. Entity Risk Assessment Process

Auditor shall obtain an understanding of whether the entity has a process for :

- Identifying business risks relevant to financial reporting objectives
- Estimating the significance of the risks
- Assessing the likelihood of their occurrence
- Deciding about actions to address those risks

Hello Everyone !!
How are u all ??

- Entity's risk assessment process forms the basis for how management determines the risks to be managed. If that process is appropriate, it assists the auditor in identifying RoMM.
- Risks can arise or change due to factor such as new technology, new business models, products or activities, changes in operating environment etc.

3. Information System including related business processes, relevant to financial reporting and communication

Auditor shall obtain

- Understanding of the information system
- Including the related business processes, relevant to financial reporting
- Including the following areas

a. Classes of transactions in entity's operations that are significant to F.S.
b. Procedures by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the F.S.
c. Related accounting records, supporting information and specific accounts in the F.S. that are used to initiate, record, process and report transactions.
d. How information system captures events and conditions that are significant to the F.S.
e. Financial reporting process used to prepare the entity's F.S.
f. Controls surrounding journal entries.

4. Control Activities Relevant to Audit

- Auditor shall obtain an understanding of→ ***control activities relevant to the audit, which he considers necessary to assess ROMM.***
- Control activities are policies and procedures that help ensure that management directives are carried out.
- Control activities, whether within IT or manual systems, have various objectives & are applied at various organisational and functional levels.
- Examples of specific control activities include those relating to the following:
    a. Authorisation
    b. Segregation of Duties
    c. Physical Controls
    d. Performance Reviews
    e. Information processing

Hello Everyone !!
How are u all ??

5. Monitoring of Controls

- Auditor shall obtain an understanding of → ***the major activities that the entity uses to monitor internal control over financial reporting***
- **Following point merit consideration in this regard**
  a. Monitoring of controls is a *process to assess effectiveness of internal control performance over time.*
  b. It *involves assessing the effectiveness of controls on a timely basis and taking necessary corrective actions.*
  c. Management accomplishes monitoring of controls through ongoing activities, separate evaluations, or a combination of the two. Ongoing monitoring activities are often built into the normal recurring activities of an entity and include regular management and supervisory activities.
  d. Management's monitoring activities may also include using information from communications from external parties such as customer complaints and regulator comments that may indicate problems or highlight areas in need of improvement.

Are all Controls Relevant to the audit ?

- There is a direct relationship between an entity's objectives and the controls it implements to provide reasonable assurance about their achievement.

- Entity's objectives and controls relate to financial reporting, operations and compliance; however, not all of these objectives and controls are relevant to the auditor's risk assessment.

- Factors relevant to the auditor's judgment about whether a control, individually or in combination with others, is relevant to the audit may include such matters as the following:
  a. Materiality.
  b. The significance of the related risk.
  c. The size of the entity.
  d. The nature of the entity's business, including its organisation and ownership characteristics.
  e. The diversity and complexity of the entity's operations.
  f. Applicable legal and regulatory requirements.
  g. The circumstances and the applicable component of internal control.
  h. The nature and complexity of the systems that are part of the entity's internal control, including the use of service organisations.
  i. Whether, and how, a specific control, individually or in combination with others, prevents,or detects and corrects, material misstatement.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Controls over the completeness and accuracy of information

Controls over completeness and accuracy of information may be relevant to audit
- if auditor intends to make use of the information in designing and performing further procedures.

Controls relating to operations and compliance objectives may also be relevant to an audit
- if they relate to data the auditor evaluates or uses in applying audit procedures.

Internal control over safeguarding of assets

- Internal control over safeguarding of assets against unauthorised acquisition, use or disposition may include controls relating to both financial reporting & operations objectives.
- Auditor's consideration of such controls is generally limited to those relevant to reliability of financial reporting e.g., use of access controls, such as passwords, that limit access to data and programs that process cash disbursements may be relevant to F.S. audit.
- Safeguarding controls relating to operations objectives, such as controls to prevent excessive use of materials in production, → **generally are not relevant to F.S. audit.**

Controls relating to objectives that are not relevant to an audit

- An entity generally has controls relating to objectives that are not relevant to an audit and therefore need not be considered.
- Further, although internal control applies to entire entity or to any of its operating units or business processes, an understanding of internal control relating to each of the entity's operating units and business processes **may not be relevant to the audit.**
- In certain circumstances, the statute or the regulation governing the entity may require the auditor to report on compliance with certain specific aspects of internal controls as a result, the auditor's review of internal control may be broader and more detailed.

Nature and Extent of the Understanding of Relevant Controls

- Evaluating the design of a control involves considering
  - ✓ whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements.
- Implementation of a control means that → the control exists and that the entity is using it.
- There is little point in assessing the implementation of a control that is not effective, and so the design of a control is considered first.
- An improperly designed control may represent a material weakness in the entity's internal control.

Hello Everyone !!
How are u all ??

Risk assessment procedures to obtain audit evidence about the design and implementation of relevant controls may include:

- Inquiring of entity personnel
- Observing the application of specific controls
- Inspecting documents and reports
- Tracing transactions through the information system relevant to financial reporting

RISK THAT REQUIRE SPECIAL AUDIT

In exercising judgment as to which risks are significant risks, the auditor shall consider at least the following:

a) Whether the risk is a risk of fraud
b) Whether the risk is related to recent significant economic, accounting, or other developments like changes in regulatory environment, etc., and, therefore, requires specific attention
c) The complexity of transactions
d) Whether the risk involves significant transactions with related parties
e) The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty and
f) Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

Identifying Significant Risks

- Significant risks often relate to significant non-routine transactions or judgmental matters.
- Judgmental matters may include the development of accounting estimates for which thereis significant measurement uncertainty.

Risks of Material Misstatement – Greater for Significant Non- Routine Transactions

Arising from matters such as thefollowing:

- Greater management intervention to specify the accounting treatment
- Greater manual intervention for data collection and processing
- Complex calculations or accounting principles
- The nature of non-routine transactions, which may make it difficult for the entity toimplement effective controls over the risks.

Hello Everyone !!
How are u all ??

Risks of Material Misstatement – Greater for Significant Judgmental Matters

RoMM may be greater for significant judgmental matters that require development of accounting estimates, arising from matters such as the following:

- Accounting principles for accounting estimates or revenue recognition may be subject to differing interpretation.
- Required judgment may be subjective or complex, or require assumptions about the effects of future events, for example, judgment about fair value.

EVALUATION OF INTERNAL CONTROL SYSTEM

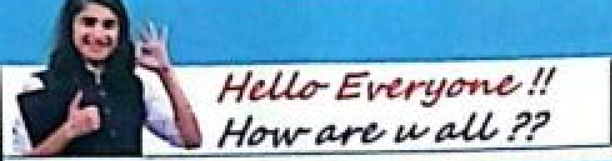
Need for Review

- The auditor needs reasonable assurance
  - That the accounting system is adequate and
  - That all the accounting information which should be recorded has in fact been recorded.
- Internal control normally contributes to such assurance.

Benefits of Evaluation of Internal Control to the Auditor

Review of internal controls will enable the auditor to know:

1. whether errors & frauds are likely to be located in ordinary course of operations of business
2. whether adequate internal control system is in use & operating as planned by management
3. whether an effective internal auditing department is operating
4. whether any administrative control has a bearing on his work
5. whether the controls adequately safeguard the assets;
6. how far and how adequately the management is discharging its function in so far as correctrecording of transactions is concerned
7. how reliable the reports, records and the certificates to the management can be
8. extent and the depth of the examination that he needs to carry out in the different areas ofaccounting
9. what would be appropriate audit technique and audit procedure in given circumstances
10. what are the areas where control is weak and where it is excessive and
11. whether some worthwhile suggestions can be given to improve the control system.



Formulate Audit Program after understanding Internal control

- Auditor can formulate his entire audit programme only after he has had a satisfactory understanding of the internal control systems and their actual operation.
- Extent and nature of audit programme is substantially influenced by internal control system in operation.
- In a situation where internal controls are considered weak in some areas, auditor might choose an auditing procedure or test that otherwise might not be required.

Methods of Evaluation of Internal Control

1.The Narrative Record

- It is a complete and exhaustive description of the system as found in operation by the auditor.
- Actual testing and observation are necessary before such a record can be developed.
- It may be recommended in cases where no formal control system in operation and would be more suited to small business.
- Disadvantages of narrative records are:
  i. To comprehend the system in operation is quite difficult
  ii. To identify weaknesses or gaps in the system
  iii. To incorporate changes arising on account of reshuffling of manpower, etc.

2.Check List

- A series of instructions and/or questions which a member of the auditing staff must follow and/or answer.
- This is an on the job requirement and instructions are framed having regard to the desirable elements of control.
- A few examples of check list instructions are:
  - ✓ Are tenders called before placing orders ?
  - ✓ Are the purchases made on the basis of a written order ?
  - ✓ Is the purchase order form standardized ?
  - ✓ Are purchase order forms pre-numbered ?
  - ✓ Are the inventory control accounts maintained by persons who have nothing to do with custody of work, receipt of inventory, inspection of inventory and purchase of inventory ?

3.Internal Control Questionnaire (ICQ)

- It comprises of comprehensive series of questions concerning internal control.
- Most widely used form for collecting information about the existence, operation and efficiency of internal control.
- All internal control evaluation can be completed at one time or in sections.

CA SEJAL KARAT

- Review can more easily be made on an interim basis.
- In ICQ, questions are so framed that a 'Yes' answer denotes satisfactory position and a 'No' answer suggests weakness.
- Provision is made for an explanation or further details of 'No' answers. In respect of questions not relevant to the business, 'Not Applicable' reply is given.
- ICQ is usually issued to the client and the client is requested to get it filled by the concerned executives and employees.
- If on a perusal of answers, inconsistencies noticed, matter is further discussed with the client.

4. FLOW CHART

- Graphic presentation of each part of internal control and is considered to be the most concise way of recording of review of the system.
- Minimises narrative explanations and thereby achieves a consideration or presentation not possible in any other form.
- Gives bird's eye view of system and flow of transactions and integration.
- It is necessary for auditor to study significant features of business carried on by the concern, nature of its activities and various channels of goods and materials as well as cash, both inward and outward and also a comprehensive study of entire process of manufacturing, trading and administration.
- This will help him to understand and evaluate the internal controls in the correct perspective.

TESTING OF INTERNAL CONTROL

Testing of IC System

After assimilating internal control system, auditor needs to examine

- ✓ **whether and how far the same is actually in operation.**
- ✓ **For this, he resorts to actual testing of the system in operation.**
- ✓ **This he does on a selective basis.**

Purposes of performing ToCs

Test of controls are performed to obtain audit evidence about the effectiveness of the :

- Design of the accounting and internal control system
- Operation of the internal control throughout the period

Elements of ToCs

Tests of control may include

- Inspection of documents supporting transactions to gain audit evidence that internal controls have operated properly,
- Inquiries and observation of internal controls which leave no audit trail
- Re-performance of procedures or controls that were originally performed as part of the entity's internal control
- Testing of internal control operating on specific computerised applications or over the overall IT function

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

AUTOMATED ENVIRONMENT

Meaning of Automated Environment

A business environment where the

- processes,
- operations,
- accounting and
- decisions

→ are being carried out by using computer systems → also known as Information Systems (IS) or Information Technology (IT) systems.

- Fundamental principle of an automated environment is the ability to carry out business with less manual intervention and more system driven.
- Complexity of a business environment depends on the level of automation → ***if a business environment is more automated, it is likely to be more complex.***
- If a company uses an integrated enterprise resource planning system (ERP) viz., SAP, Oracle etc., then → ***it is considered more complex to audit.***
- If company is using an off-the-shelf accounting software, then it is likely to be less automated and hence → ***less complex environment.***

Key features of an Automated Environment

- Enables faster business operation
- Accuracy in data processing & computation
- Ability to process large volume of transactions
- Integration amongst business operations
- Better security and controls
- Less prone to human errors
- Provides latest information
- Connectivity & networking capability

Hello Everyone !!
How are u all ??

Understanding & Documenting Automated Environment

Auditor should consider the following points

- Information systems being used (one or more application systems and what they are).
- Their purpose (financial and non-financial).
- Location of IT systems - local vs global.
- Architecture (desktop based, client-server, web application, cloud based).
- Version (functions and risks could vary in different versions of same application).
- Interfaces within systems (in case multiple systems exist).
- In-house vs Packaged.
- Outsourced activities (IT maintenance and support).
- Key persons (CIO, CISO, Administrators).

Auditor is required to document the understanding of automated environment.

Risks arising from use of IT Systems

Auditor is required to consider the following risk that may arise due to use of IT Systems:

i. Inaccurate processing of data, processing inaccurate data, or both.

ii. Unauthorized access to data.

iii. Direct data changes (backend changes).

iv. Excessive access/Privileged access (super users).

v. Lack of adequate segregation of duties.

vi. Unauthorized changes to systems or programs.

vii. Failure to make necessary changes to systems or programs.

viii. Loss of data

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Impact of IT Related Risks

On Substantive Audit

- Inability to address IT related risks may lead to non-reliance of data obtained from systems.
- In such a case, all information, data, and reports would have to be testedthoroughly for their completeness and accuracy.
- It could lead to increased substantive checking i.e., detailed checking.

On Controls

- It can lead to non-reliance on automated controls, system calculationsand accounting procedures built into applications
- It may result in additional audit work.

On Reporting

Due to regulatory requirements in respect of IFC in case of companies, it may lead to modification of auditor's report in some instances.

Types of Controls in an Automated Environment

- A. General IT controls
- B. Application controls
- C. IT-dependent controls

A. General IT Controls

- General IT Controls are policies and procedures that relate to many applications and support the effective functioning of application controls.
- General IT Controls that maintain the integrity of information and security of data commonly include controls over the following:
  - Data center and network operations
  - Program change
  - Access security.
  - Application system acquisition, development, and maintenance.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

i. Objectives & activities of Data Center and Network Operations

Objective

To ensure that production systems are processed to meet financial reporting objectives.

Activities

1. Overall Management of Computer Operations Activities;
2. Batch jobs – preparing, scheduling and executing;
3. Backups – monitoring, storage & retention;
4. Performance Monitoring – operating system, database and networks; and
5. Recovery from Failures – BCP, DRP.

ii. Objectives & Activities of Program Change

Objective

To ensure that modified systems continue to meet financial reporting objectives.

Activities

1. Change Management Process;
2. Change Requests – record, manage, track; and
3. Making and testing changes.

iii. Objectives & Activities of Access Security

Objective

To ensure that access to programs and data is authenticated and authorized to meet financial reporting objectives.

Activities

1. Security Organization & Management
2. Security Policies & Procedures;
3. Application Security;
4. Data Security;
5. Operating System Security;
6. Network Security; and
7. Physical Security.

CA DEEPIKA RATHI

iv. Objectives & Activities of Application system acquisition, development and maintenance

Objective

To ensure that systems are developed, configured and implemented to meet financial reporting objectives.

Activities

1. Overall Management of Development Activities;
2. Project Initiation
3. Analysis & Design
4. Construction; and
5. Testing & Quality Assurance.

B. Application Controls

- Application controls are manual or automated procedures that typically operate at a business process level.
- Such controls are embedded into IT applications viz., ERPs and help in ensuring completeness, accuracy and integrity of data.
- Examples of Application controls include the following:
  - Edit checks and Validation of input data.
  - Sequence Number checks.
  - User Limit Checks.
  - Reasonable Checks.
  - Mandatory Data Fields.

C. IT Dependent Controls

- These are manual controls that make use of some form of data or information or report produced from IT systems and applications.
- Though the control is performed manually, the design and effectiveness of such controls depend on the reliability of source data.
- Due to inherent dependency on IT, effectiveness and reliability of application and IT dependent controls require General IT controls to be effective.

D. General IT Control vs. Application Controls

- These two categories of control over IT systems are interrelated.
- Relationship between application controls and General IT Controls is such that General IT Controls are needed to support the functioning of application controls, and both are needed to ensure complete and accurate information processing through IT systems.

Hello Everyone !!
How are u all ??

Testing Methods

There are basically four types of audit tests that should be used:

a. Inquiry
b. Observation
c. Inspection
d. Reperformance

Things to be consider while selecting testing methods

- Inquiry is the most efficient audit test but it gives least audit evidence.
- Therefore, inquiry should be used in combination with other audit testing methods.
- Inquiry alone is not sufficient.
- Applying inquiry in combination with inspection gives the most effective and efficient audit evidence.

- Reperformance is most effective as an audit test and gives the best audit evidence.
- However, it will be very time consuming and least efficient most of the time.

- Auditor should document → the nature of test (or combination of tests) applied along with the judgments in the audit file.

Commonly used methods

- Obtain an understanding of how an automated transaction is processed by doing a walkthrough of one end-to-end transaction using a combination of inquiry, observation and inspection.
- Observe how a user processes transaction under different scenarios.
- Inspect the configuration defined in an application.

CHARACTERISTICS OF MANUAL AND AUTOMATED ELEMENTS OF INTERNAL CONTROL RELEVANT TO THE AUDITOR'S RISK ASSESSMENT

Manual and IT Elements

- An entity's system of internal control contains manual and automated elements.
- Characteristics of manual or automated elements are relevant to auditor's risk assessment and further audit procedures based thereon.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

- Use of manual or automated elements in internal control also affects the manner in which transactions are initiated, recorded, processed and reported:

A

- Controls in a manual system may include such procedures as approvals & reviews of transactions, reconciliations and follow-up of reconciling items.
- Alternatively, automated procedures may be used to initiate, record, process, and report transactions.

B

Controls in IT systems consist of a combination of automated controls (for example, controls embedded in computer programs) and manual controls.

Further, manual controls may be independent of IT, may use information produced by IT, or may be limited to monitoring the effective functioning of IT and of automated controls, and to handling exceptions.

Manual Elements vs Automated Elements in Entity's Internal Control

Circumstances in which Manual Elements are suitable	Circumstances in which Manual Elements are Less suitable
1. Large, unusual or non-recurring transactions. 2. Circumstances where errors are difficult to define, anticipate or predict. 3. In changing circumstances that require a control response outside the scope of an existing automated control. 4. In monitoring the effectiveness of automated controls.	1. High volume or recurring transactions, or in situations where errors that can be anticipated or predicted can be prevented, or detected and corrected, by control parameters that are automated. 2. Control activities where the specific ways to perform the control can be adequately designed and automated.

AUDIT APPOROACH IN AN AUTOMATED ENVIRONMENT

Risk Assessment → Understand and Evaluate → Test for Operating Effectiveness → Reporting

Hello Everyone !!
How are u all ??

Risk Assessment	• Identify Significant Accounts and Disclosures; • Qualitative and Quantitative Characteristics; • Relevant F.S. Assertions; • Identify Likely sources of Misstatements; and • Consider Risk arising from use of IT Systems.
Understand and Evaluate	• Document Understanding of business processes using flowcharts/Narratives. • Prepare Risk and Control Matrices (RCM); • Understand design of controls by performing walkthroughs of end-to-end process; • Process wide considerations for Entity Level Controls, Segregation of Duties; and • IT General Controls and Application Controls.
Test for Operating Effectiveness	• Assess NTE of controls testing; • Assess reliability of source data and completeness of population; • Testing of key reports and Spreadsheets • Sample testing; and • Consider competence and independence of staff/team performing controls testing.
Reporting	• Evaluate Control Deficiencies; • Significant deficiencies and Material Weaknesses; • Reconciliation of Control Weaknesses; • Internal Controls Memo (ICM) of Management letter; and • Auditor's Report

CA DEEPIKA RATHI

DATA ANALYTICS FOR AUDIT

What is Data Analytics ?

- The combination of processes, tools and techniques that are used to tap vast amounts of electronic data to obtain meaningful information is called data analytics.
- The tools and techniques that auditors use in applying the principles of data analytics are known as Computer Assisted Auditing Techniques or CAATs in short.

Hello Everyone !!
How are u all ??

- Data analytics can be used in testing of electronic records and data residing in IT systems using spreadsheets and specialised audit tools viz., IDEA and ACL to perform the following
  - ✓ Check completeness of data and population that is used in either test ofcontrols or substantive audit tests.
  - ✓ Selection of audit samples – random sampling, systematic sampling.
  - ✓ Re-computation of balances – reconstruction of trial balance from transactiondata.
  - ✓ Reperformance of mathematical calculations – depreciation, bank interestcalculation.
  - ✓ Analysis of journal entries
  - ✓ Fraud investigation.
  - ✓ Evaluating impact of control deficiencies.

DIGITAL AUDIT

- Entities are embracing digitization as part of their operations to keep pace with changing times.
- New technologies are helping companies revamp their operations and rethink the way business is conducted.
- Companies are restructuring their business models driven by technology.
- Automation is key to digitization.
- In such a business environment, use of digital technology is being made by auditors right from planning to expression of final opinion.
- Auditors are making use of artificial intelligence, data analytics and other latest technologies to help understand business processes in a better way.
- By using such tools, auditors can conduct audit in a better way and devote more attention to areas requiring greater focus.
- Digital audit is helping auditors to better identify risks making use of technology.

INTERNAL FINANCIAL CONTROLS AS PER REGULATORY REQUIREMENTS

Meaning of IFC

Policies and procedures adopted by the company for ensuring:

- Reliability of financial reporting
- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Safeguarding of assets
- Prevention and detection of frauds

Hello Everyone !!
How are u all ??

Reporting Requirements

Relevant Provision of Companies Act 2013	Nature of Responsibility
Sec.134(5)(e)	In case of listed companies, Directors' Responsibility Statement shall state that the directors, have laid down IFC to be followed by the company and that such controls are adequate and operating effectively.
Sec. 143(3)(i)	Auditor is required to report whether the company has adequate internal financial controls with reference to financial statements in place and the operating effectiveness of such controls. Reporting requirement on adequacy of IFCs shall not be applicable to a private company which: i. is a OPC or Small company or ii. has turnover less than ₹ 50 crore as per latest audited F.S And • and having aggregate borrowings from banks or financial institutions or anybody corporate at any point of time during the financial year less than ₹ 25 crore.
Sec. 177(4)(vii)	Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include - evaluation of IFC and risk management systems.
Sec. 149(8)	• Company & independent directors shall abide by provisions specified in Schedule IV which lays down the Code for independent Directors. • As per this code, role and functions of independent directors include that they shall satisfy themselves on integrity of financial information and that financial controls and the systems of risk management are robust and defensible.

Point to Remember : Directors & management have primary responsibility of implementing and maintaining an effective internal controls framework & auditors are expected to evaluate, validate andreport on the design and operating effectiveness of IFCs.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

DOCUMENTING THE RISKS

The Auditor shall document

- **A.** Discussion among the engagement team and the significant decisions reached
- **B.** Key elements of the understanding obtained regarding
  - Each of the aspects of the entity and its environment
  - Each of the internal control components,
  - The sources of information from which the understanding was obtained
  - The risk assessment procedures performed
- **C.** Identified and assessed RoMM at the F.S. level and at the assertion level
- **D.** Risks identified and related controls about which auditor has obtained an understanding.

ASSESS AND REPORT AUDIT FINDINGS

Considerations While assessing the Findings

At the conclusion of each audit, it is possible that there will be certain findings or exceptions in IT environment and IT controls of the company that need to be assessed and reported to relevant stakeholders including management and TCWG viz., Board of directors, Audit committee

- Are there any weaknesses in IT controls ?
- What is the impact of these weaknesses on overall audit?
- Report deficiencies to management – Internal controls memo or Management letter.
- Communicate in writing any significant deficiencies to TCWG

Assessment of Findings

- Auditor needs to assess each finding or exception to determine impact on the audit and evaluate if the exception results in a deficiency in internal control.
- As per SA 265, a deficiency in internal control exits if a control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in thefinancial statements on a timely basis; or the control is missing.
- Evaluation & assessment of audit findings and control deficiencies involves applying professional judgment that include considerations for quantitative and qualitative measures. Each finding should be looked at individually and in the aggregate by combining with other findings/deficiencies.

Hello Everyone !!
How are u all ??

THE AUDITOR'S RESPONSES TO ASSESSED RISKS

SA 330 deals with the → Auditor's responsibility to design and implement responses to the RoMM identified &assessed by the auditor in accordance with SA 315.

Objective of Auditor

To obtain SAAE about the assessed RoMM, through designing and implementing appropriateresponses to those risks.

Requirements of SA 330

- Auditor shall design and implement overall responses to address the assessed RoMM at the F.S. level.

- Auditor shall design and perform further audit procedures whose NTE are based on and are responsive to the assessed RoMM at the assertion level.

In designing further audit procedures, auditor shall:

a. Consider reasons for the assessment given to the RoMM at the assertion level for each class of transactions, account balance, and disclosure, including

i. Likelihood of material misstatement due to particular characteristics of relevant class of transactions, account balance, or disclosure (inherent risk); and

ii. Whether risk assessment takes into account the relevant controls (i.e., the control risk), thereby requiring him to obtain audit evidence to determine whether the controls are operating effectively;

b. Obtain more persuasive audit evidence the higher the auditor's assessment of risk.

Hello Everyone !!
How are u all ??

Audit Procedures Covered in SA 330

A. Test of Controls (ToC)

Audit procedure designed to evaluate operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at theassertion level.

B. Substantive Procedure

Audit procedure designed to detect material misstatements at assertion level.Substantive procedures comprise:

I. Tests of details (of classes of transactions, account balances, anddisclosures), and
II. Substantive analytical procedures. (SAP)

Test of Controls

Auditor shall design and perform ToC to obtain SAAE as to the operating effectiveness of relevant controls when:

- A. Auditor expects that controls are operating effectively
- B. Substantive procedures alone cannot provide SAAE at the assertion level.

Nature and Extent of tests of controls

In designing and performing ToC, auditor shall

1. Perform other audit procedures in combination with inquiry to obtain audit evidence about operating effectiveness of controls, including
   - How the controls were applied at relevant times during the audit.
   - Consistency with which they are applied.
   - By whom or by what means they were applied.
2. • Determine whether controls to be tested depend upon other controls

   AND

   • if so, whether it is necessary to obtain audit evidence supporting the effective operation of those indirect controls.
3. • Inquiry alone is not sufficient to test operating effectiveness of controls
   • other audit procedures are performed in combination with inquiry.
   • Inquiry combined with inspection or reperformance may provide more assurance than inquiry and observation, since an observation is pertinent only at the point in time at which it is made.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Matters to be considered in determining the extent of tests of controls

- Frequency of performance of the control by the entity during the period.
- Length of time during the audit period that the auditor is relying on the operating effectiveness of the control.
- Expected rate of deviation from a control.
- Relevance and reliability of audit evidence to be obtained regarding the operating effectiveness of the control at the assertion level.
- Extent to which audit evidence is obtained from tests of other controls related to the assertion.

Timing of Tests of Controls

- Auditor shall test controls for the particular time, or throughout the period for which the auditor intends to rely on those controls.
- Audit evidence pertaining only to a point in time may be sufficient for the auditor's purpose,
- If, on the other hand, auditor intends to rely on a control over a period, tests that are capable of providing audit evidence that control operated effectively at relevant times during that period are appropriate.
- Such tests may include tests of the entity's monitoring of controls.

Using Audit Evidence Obtained in previous audits

- In determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits.
- Auditor shall consider the following

a. Effectiveness of other elements of internal control, including the control environment, the entity's monitoring of controls, and the entity's risk assessment process;

b. Risks arising from the characteristics of the control, including whether it is manual or automated;

c. Effectiveness of general IT-controls;

d. Effectiveness of the control and its application by the entity, including the nature and extent of deviations in the application of the control noted in previous audits, and whether there have been personnel changes that significantly affect the application of the control;

e. Whether the lack of a change in a particular control poses a risk due to changing circumstances; and

f. RoMM and the extent of reliance on the control.

If auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls, he shall

- Establish the continuing relevance of that evidence by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit.

Evaluating Operating Effectiveness of Controls

When evaluating operating effectiveness of relevant controls, auditor shall

Evaluate whether

- Misstatements that have been detected by substantive procedures indicate that controls are not operating effectively

- Absence of misstatements detected by substantive procedures, however, does not provide audit evidence that controls related to the assertion being tested are effective.
- A material misstatement detected by auditor's procedures is a strong indicator of the existence of a significant deficiency in internal control.

Specific Inquiries by Auditors when deviations from controls are detected

When deviations from controls upon which the auditor intends to rely are detected, the auditor shall

- Make specific inquiries to understand these matters and their potential consequences,

and

Shall determine whether

- The test of controls that have been performed provide an appropriate basis for reliance on the controls
- Additional test of controls is necessary
- Potential risks of misstatement need to be addressed using substantive procedures

Irrespective of the assessed risks of material misstatement, the auditor shall

- Design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

This requirement reflects the facts that:

i. the auditor's assessment of risk is judgmental and so may not identify all risks of material misstatement and

ii. there are inherent limitations to internal control, including management override.

Test of Details

Tests of details are further classified into

Tests of transactions i.e., vouching

- For example, : a purchase transaction may be verified by examining the related purchase invoice, goods received note, inward gate entry register.
- Such tests of transactions help in establishing the authenticity of transactions recorded in books of accounts.

Tests of balances i.e., verification

Tests of balances consist of verification of assets as well as liabilities.

- Verification of an item of fixed asset, for example, would help in establishing existence of that asset as on date of balance sheet.
- This may be obtained by reviewing entity's plan for performing physical verification of fixed assets and obtaining evidence for performance of physical verification of fixed assets by management.

Substantive Procedures

Substantive procedures comprise

Tests of details (of classes of transactions, account balances, and disclosures)

Substantive analytical procedures

Irrespective of the assessed RoMM, auditor shall

- Design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

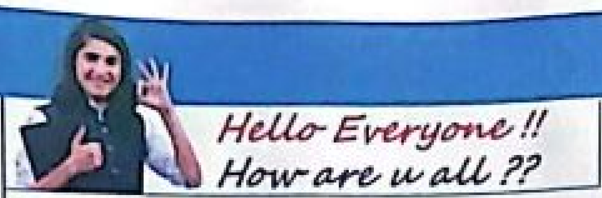
Depending on the circumstances, auditor may determine that:

- Performing only substantive analytical procedures will be sufficient to reduce audit risk to an acceptably low level
- Only tests of details are appropriate.
- A combination of substantive analytical procedures and tests of details are most responsive to the assessed risks.

- Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time.
- Because the assessment of the risk of material misstatement takes account of internal control, the extent of substantive procedures may need to be increased when the results from tests of controls are unsatisfactory.
- However, increasing the extent of an audit procedure is appropriate only if the audit procedure itself is relevant to the specific risk.
- In designing tests of details, the extent of testing is ordinarily thought of in terms of the sample size.

Substantive Analytical Procedures

- Analytical procedures used as substantive procedures by auditor.
- Analytical Procedures means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.
- Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.
- Analytical procedures involving, for example, the prediction of total rental income on a building divided into apartments, taking the rental rates, the number of apartments and vacancy rates into consideration, can provide persuasive evidence and may eliminate the need for further verification by means of tests of details.
- Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time.



4 AUDIT EVIDENCE

AUDIT EVIDENCE [SA-500]

As per SA 500 the objective of the auditor

Design and perform Audit Procedure to enable auditor :-

- To obtain sufficient appropriate audit evidence
- To be able to draw reasonable conclusions on which to base auditor's opinion

Meaning of Audit Evidence as per SA 500

- Information used by auditor
- In arriving at the conclusion
- On which auditor's opinion is based.

Includes

Accounting Records

- Accounting Entries & Supporting records
- Invoices
- Contracts
- General & Subsidiary ledgers, Journal Entries, Other adjustments not reflated in journal entries
- Work sheet & spreadsheet supporting cost allocation, computation reconciliation and disclosure

Other Information

- Minutes of the meeting
- Written confirmations
- Internal Control manuals

Hello Everyone !!
How are u all ??

Types of Audit Evidence

Depending upon nature

Visual Evidence
- Evidences in form of observation
- **Example :** Inventory count observation

Oral Evidence
- Evidence having no physical existence
- **Example :** Discussion with management & TCWG

Documentary Evidence
- Evidence in form of written document
- **Example :** Sales Bill , FD Certificate, Loan Agreement

Depending upon source

Internal Evidence
- Evidences which originates within the organization being audited in the internal evidence
- **Example :**
  - Sales Invoice
  - Copies of sales challan & forwarding notes
  - Goodes received notes
  - Inspection report
  - Copies of cash memo
  - Debit & Credit notes

External Evidence
- Evidences one which originates form outside the clients organization.
- **Example :**
  - Purchase Invoice
  - Supplier's challan & forwarding notes
  - Debit & Credit notes
  - Quotations
  - Confirmations etc.

CA DEEPIKA RATHI

Relevance and Reliability of Audit Evidence

Relevance

- Deals with the **logical connection** with the **purpose of the audit procedure** and where appropriate the **assertion under consideration.**
- The **relevance of information to be used** as Audit Evidence **may affected by the direction of testing.**
- A given set of audit procedures may provide Audit Evidence that is relevant to certain assertions but not others.

Hello Everyone !!
How are u all ??

Reliability

- The reliability of information to be used as Audit Evidence is influenced by
  - its source and its nature
  - **Circumstances under which it is obtained** including controls over its preparation & maintenance where relevant.
- While recognizing that exceptions may exist, the following generalization about the reliability of audit evidence may be useful.

Reliability of Audit Evidence

Increases when

- Obtained from independent sources
- Related Control are effective
- Obtained directly by the auditor
- Obtained in documentary form
- Provided by Original Documents

Sufficient Appropriate Audit Evidence

- **Sufficiency and Appropriateness are interrelated**

Sufficiency of Audit Evidence

- Sufficiency is the measure of Quantity of A.E.
- **Quantity of A.E. is affected by**
  - Auditor's Assessment of Risk of Misstatement & Quality of Audit Evidence
- **Obtaining more A.E. may not compensate for its poor quality.**

Factors affecting auditor's judgement as to sufficiency of A.E. MJS

Materiality	Risk of Material Misstatement	Size & Characteristics of the population
If assertions are material to the users of F.S. → More A.E. Required	If assertions has high RMM. → More A.E. Required	Small Homogeneous Population → Less A.E. Required
If assertions are not material to the users of F.S. → Less A.E. Required	If assertions has Low RMM. → Less A.E. Required	Large Heterogeneous Population → More A.E. Required

Hello Everyone !!
How are u all ??

Appropriateness of Audit Evidence

- **Appropriateness** is measure of Quality of A.E.
- Reliability of evidence is influenced by its
  - Source & nature
  - &
  - Dependent on individual circumstances under which it is obtained.
- Its relevance & reliability in providing support for conclusions on which the auditor's opinion is based.

Sufficiency	•Measures of quantity of audit evidence
Appropriateness	•Measures of quality of audit evidence

Obtaining Sufficient and Appropriate Audit Evidence by the Auditor

Audit Evidence Necessary to support the auditor's opinion and report (MCQ)

- Cumulative in nature
- Primarily obtained form audit procedures performed during audit.
- Also include information obtained from other sources such as
  - ✓ Previous audit
  - ✓ Inside or outside the entity
  - ✓ Accounting records
  - ✓ Using the work of management's expert.
- Comprises both information that supports & corroborates (MCQ)
  - ✓ Management's assertions &
  - ✓ Any information that contradicts such assertions.
- In some cases the absence of information (for example management's refusal to provide a requested representation) is used by the auditor also constitute A.E.
- Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

Source of Audit Evidence

- Some audit evidence is obtained by performing audit procedures to test the accounting records, for example,
  - A. Through analysis and review
  - B. Reperforming procedures followed in the financial reporting process
  - C. Reconciling related types and applications of the same information
- Through the performance of such audit procedures, the auditor may determine that
  - Accounting records are internally consistent
  - And
  - Agree to the financial statements.

Hello Everyone !!
How are u all ??

More assurance is ordinarily obtained from
- consistent audit evidence obtained from different sources or of a different nature
- than from items of audit evidence considered individually.

Information from sources independent of the entity that the auditor may use as audit evidence may include
- ✓ confirmations from third parties,
- ✓ analysts' reports, and
- ✓ comparable data about competitors. (iio RARE)

Audit Procedures for obtaining audit evidence

Procedure to obtain A.E.
- A. Risk assessment procedures (RAP)
- B. Further Audit procedures (FAP)
  - Test of Controls
  - Substantive Procedures
    - Test of Details
    - Substantive Analytical Procedure
      - Test of Transactions
      - Test of Balances

Nature & Timing of the Audit Procedures Affected by
- **Availability of audit evidence in electronic form only**
- **Availability of audit evidence at certain points/periods in time.**
- Certain electronic information may not be retrievable after a specified period oftime.

Methods to obtain A.E.
- Inspection
- Observation
- External Confirmation
- Recalculation
- Reperformance
- Analytical Procedure
- Inquiry

Methods to Obtain Audit Evidence

Inspection
- Involves **examining records or documents**
  - Whether **internal or external**
  - **In paper form, electronic form** or **other media** or
  - **Physical examination** of an asset

Observation
- Consists of looking at a process or procedure being performed by others.
- **Example** : Inventory Counting
- Provides A.E. but is limited to the point in time at which the observation takes place and the fact that the act of being observed may affect how the process or procedure is performed.

Hello Everyone !!
How are u all ??

External Confirmation

Represents Audit Evidence

- Obtained by the auditor as direct written response to the auditor from a third party.
- In paper form or by electronic or other medium.
- Not be restricted to account balances only

Re-performance

- Auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.

Recalculation

- Consist of
  - Checking mathematical accuracy of documents or records.
  - May performed manually or electronically

Analytical Procedures

- Evaluation of financial information made by a study of plausible relationships among both financial and non-financial data.

Inquiry

- **Meaning** : Consists of seeking information of knowledgeable persons, both financial and non-financial within the entity or outside the entity.
- **Use** :
  - Used extensively throughout the audit in addition to other audit procedures.
  - May range from Formal written inquiries to informal oral inquiries.
  - In case of oral inquires auditor may consider it necessary to obtain written representations from management or TCWG.
- **Responses to Inquiry** :
  - Evaluating responses to inquiries is an integral part of the inquiry process.
  - May provide the auditor with information not previously possessed or with corroborative audit evidence.
  - Alternatively responses might provide information that differs significantly from other information that the auditor has obtained.
  - In some cases responses to inquiries provide a basis for the auditor to modify or perform additional audit procedure.

Hello Everyone !!
How are u all ??

Audit Procedures to obtain Audit Evidence

Risk Assessment Procedure

Audit Procedure performed

- To obtain an understanding of the entity and its environment, including the entity's internal control.
- To identify & assess the risk of MM whether due to fraud or error at the financial statement & assertion levels.

Further Audit Procedure

(A) Test of controls

Audit Procedure designed
- To evaluate the operating effectiveness of controls
- In preventing or detecting & correcting MM at assertion level.

(B) Substantive Procedures

Audit Procedure designed
- To Detect Material Misstatement
- at assertion level.

Test of Details

Tests of details (of classes of transactions, account balances, and disclosures),

Substantive Analytical Procedure

Assertions

Meaning of Assertions

Representations by management,
- explicit or otherwise
- that are embodied in the F.S

➡

as used by the auditor
- to consider the different types of potential misstatements that may occur.

Assertions contained in the Financial Statements

1. To represent that F.S. are in accordance with the applicable FRF management implicitly or explicitly makes assertions regarding
   - Recognition,
   - Measurement,
   - Presentation and
   - Disclosure

   of various elements of F. S. & Disclosures.

Hello Everyone !!
How are u all ??

2. Assertions used by auditor to consider the different types of potential misstatements that may occur fall into the following three categories and may take the following forms.

Class of Transactions and events	Account Balances	Presentation & Disclosures
Occurrence	Existence	Occurrence and Rights and Obligations
Completeness	Rights & Obligation	Completeness
Accuracy	Completeness	Classification and Understandability
Cut-Off	Valuation and allocation	Accuracy & Valuation
Classification		

3. **Auditor may use the assertions or may express them differently provided all aspects have been covered**
   Example : Auditor may choose to combine the assertions about transactions and events with the assertions about account balances.

4. **When making assertions about the financial statements of certain entities especially.**
   For Example : Where the Government is a major stakeholder in addition those assertions set out in point 2 above management may often assert that transactions and events have been carried out in accordance with legislation or proper authority. Such assertions may fall within the scope of the financial audit.

Audit Trail

- **Meaning :→ An audit trail** is a documented flow of a transaction.
- It is a step-by-step record by which accounting, trade details, or other financial data can be traced to their source
- **Use of Audit Trail**

  - ***used to investigate how a source document was translated into an account entry and from there it was inserted into financial statement of an entity.***
  - used as audit evidence to ***establish authentication*** and ***integrity of a transaction***
  - used to verify and track many types of transactions including accounting and financial transactions

Purpose :→ Audit trails (or audit logs) act as record-keepers that document evidence of certain events, procedures or operations because their ***purpose is to reduce***

- fraud,
- material errors, and
- unauthorized use.

Hello Everyone !!
How are u all ??

❖ **Audit Trails**

- Help to enhance internal controls and data security
- Can help in fixing responsibility, rebuilding events and in thorough analysis of problem areas.

Limitations of Audit Trail

- Involve costs
- The cost is not only in terms of system expenditure but also in terms of time involved in analysing data made available by audit trails.

Information to be used as Audit Evidence

When information to be used as audit evidence has been prepared using the work of a management's expert , the nature , timing and extent of audit procedures may be affected by such matters

- Nature and complexity of the matter to which the management's expert relates.
- Risks of material misstatement in the matter.
- Availability of alternative sources of audit evidence.
- Nature, scope and objectives of the management's expert's work
- Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services
- Extent to which management can exercise control or influence over the work of the management's expert.
- Whether the management's expert is subject to technical performance standards or other professional or industry requirements.
- Nature and extent of any controls within the entity over the management'sexpert's work.
- Auditor's knowledge and experience of the management's expert's field of expertise.
- Auditor's previous experience of the work of that expert.

When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purpose, including as necessary in the circumstances :

a. Obtaining audit evidence about the accuracy and completeness of the information

And

b. Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.

Hello Everyone !!
How are u all ??

Selecting Items for Testing to Obtain Audit Evidence

When designing tests of controls and tests of details, the auditor shall determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure.

The means available to the auditor for selecting items for testing are :

- A. Selecting all items (100% examination)
- B. Selecting specific items
- C. Audit sampling

The application of any one or combination of these means may be appropriate depending on the auditors' judgement to obtain audit evidence.

A. Selecting all items (100% examination)

- **The auditor may decide to examine the entire population of items .**
- **100% examination is unlikely in the case of tests of controls. However more common for tests of details.**
- **100% examination may be appropriate when**
  - Population constitutes a small number of large value items
  - There is a significant risk and other means do not provide SAAE
  - The repetitive nature of a calculation or other process performed automatically by an information system makes a 100% examination cost effective.

B. Selecting Specific Items

- **The auditor may decide to select specific items from a population.**
- **The judgmental selection of specific items is subject to non-sampling risk.**

Specific items selected may include

High value or key items

Auditor may decide to select specific items within a population because they are of
- **high value, or**
- **exhibit some other characteristic**

Example : Items that are suspicious, unusual, particularly risk-prone or that have ahistory of error.

All items over a certain amount

Auditor may decide **to examine items whose recorded values exceeda certain amount** so as to verify a large proportion of the total amount of a class of transactions or account balance.

Items to obtain information

The auditor may examine items to obtain information about matters **such as the nature of the entity or the nature of transactions.**

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

C. Audit Sampling

Audit sampling is designed to enable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it.

Inconsistency in or Doubts over Reliability of Audit Evidence

If:

a. Audit evidence obtained from one source is inconsistent with that obtained from another or

b. The auditor has doubts over the reliability of information to be used as audit evidence

The auditor shall determine

- what modifications or additions to audit procedures are necessary to resolve the matter,

And

- shall consider the effect of the matter, if any, on other aspects of the audit.

Who is Management's Expert ?

An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.

Relying on the work of a management's Expert

When information to be used as audit evidence has been prepared using the work of a management's expert,

The auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes

- **A. Evaluate the competence, capabilities and objectivity of that expert**
- **B. Obtain an understanding of the work of that expert**
- **C. Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion**

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Evaluation of Audit Evidence

SA 500 "Audit Evidence" is applicable to all the audit evidence obtained during the course of the audit

↓

to enable the auditor

↓

to obtain **sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.**

Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

↓

The auditor has to conclude

↓

whether **sufficient appropriate audit evidence** has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgment.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

USING THE WORK OF INTERNAL AUDITORS [SA-610]

Definition of Internal Audit Function

Meaning

Internal audit function refers to

A function of an entity that → performs assurance and consulting activities designed to evaluate	**And**	improve the effectiveness of the entity's governance, riskmanagement and internal control processes.

Objectives and Scope of Internal Audit Functions

The objectives and scope of internal audit functions typically include ***assurance and consulting activities designed to evaluate*** **and** ***improve the effectiveness of the entity's***

- ***Governance Processes,***
- ***Risk Management*** **and**
- ***Internal Control***

(1) Activities Relating to Governance

Internal audit function may assess the governance process in its accomplishment of objectives on

- Ethics and values,
- Accountability and
- Communicating risk to appropriate areas of the organization.

(2) Activities Relating to Risk Management

The internal audit function

- **may assist the entity by identifying and evaluating significant exposures to risk &**
- contributing to the improvement of risk management and internal control
- may perform procedures **to assist the entity in the detection of fraud.**

(3) Activities Relating to Internal Control

- **Evaluation of Internal Control**
- **Examination of Financial and Operating information**
- **Review of operating activities.**
- **Review of compliance with laws and regulations**

Scope of SA 610

Using the work of the internal audit function in obtaining audit evidence	Using internal auditors to provide - direct assistance under - the direction, supervision and review of the external auditor.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

External Auditor's Responsibility for the Audit

The external auditor has
- sole responsibility for the audit opinion expressed, and
- that responsibility is not reduced by the external auditor's use of the work of the internal audit function or internal auditors to provide direct assistance on the engagement.

Objective of the External Auditor, Where the Entity has an Internal Audit Function

(a) To determine
- ***whether***→ the work of the internal audit function or direct assistance from internal auditors can be used, &
- ***if so***, →in which areas and to what extent; and having made that determination.

(b) If using the work of the internal audit function,
To determine
- → Whether that work is adequate for purposes of the audit.

(c) If using internal auditors
- to provide direct assistance,
- to appropriately direct, supervise and review their work.

Evaluating the Internal Audit Function

The external auditor shall determine whether the work of the internal audit function can be used for purposes of the audit by evaluating the following:

A. The extent to which the internal audit function's organizational status and relevant policies and procedures support the **objectivity** of the internal auditors

B. level of **competence** of the internal audit function

C. Whether the internal audit function applies a **systematic and disciplined approach, including quality control.**

A. Objectivity and Its Evaluation

Meaning of Objectivity

Objectivity refers to the → **ability to perform those tasks without allowing bias, conflict of interest or undue influence of others to override professional judgments.**

Factors that may affect the external auditor's evaluation in relation to Objectivity include the following:

1. *Whether the*
- organizational status of the internal audit function, including
- the function's authority and accountability,

→ **Supports** → ***the ability of the function to be free from bias, conflict of interest or undue influence of others*** to override professional judgments.

Hello Everyone !!
How are u all ??

2. Whether TCWG → ***oversee employment decisions*** related to the internal audit function.

3. Whether there are →***any constraints or restrictions*** placed on the internal audit function by **management or TCWG**

4. Whether the internal audit function is ***free of any conflicting responsibilities***

B. Competence and Its Evaluation

Competence of the internal audit function refers to
- The attainment and maintenance of knowledge and skills of the function as a whole
- at the level required to enable assigned tasks to be performed diligently and in accordance with applicable professional standards.

Factors that may affect the external auditor's determination in relation to competence include the following:

Whether
- Internal audit function is ***adequately and appropriately resourced***
- There are ***established policies for hiring, training and assigning internal auditors to internal audit engagements.***
- ***Internal Auditors***
  - have ***adequate technical training and proficiency in auditing***
  - Possess the required ***knowledge relating to the entity's financial reporting and the applicable FRF.***

Objectivity and competence may be viewed as a continuum.

C. Application of a Systematic and Disciplined Approach

The application of a systematic and disciplined approach

↓

to planning, performing, supervising, reviewing and documenting its activities distinguishes

↓

the activities of the internal audit function from other monitoring control activities that may be performed within the entity.

Factors that may affect the external auditor's determination of whether the internal audit function applies a systematic and disciplined approach include the following:

- **The existence, adequacy and use of documented internal audit procedures or guidance.**
- Internal audit function has→ **appropriate quality control policies and procedures.**

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Circumstances When Work of the Internal Audit Function Cannot Be Used

External auditor shall not use the work of the internal audit function if determines that

- organizational status and relevant policies and procedures do not adequately support the objectivity of internal auditors
- function lacks sufficient competence
- function does not apply a systematic and disciplined approach, includingquality control.

Determining the Nature and Extent of Work of the Internal Audit Function that Can be Used

External auditor shall consider

- The nature and scope of the work that has been performed, or is planned to be performed, by the internal audit function

And

- Its relevance to the external auditor's overall audit strategy and audit plan.

Examples of work of the internal audit function that can be used by the external auditor include the following:

1. Testing of the operating effectiveness of controls.
2. Substantive procedures involving limited judgment.
3. Observations of inventory counts.
4. Tracing transactions through the information system relevant to financialreporting.
5. Testing of compliance with regulatory requirements.

Circumstances in which the external auditor shall Plan to use less of the work of the Internal Audit Function and Perform more of the work directly if

- The more judgment is involved in
  - Planning and performing relevant audit procedures
  - Evaluating the audit evidence gathered
- The higher the assessed risk of MM at the assertion level,
- The less the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity
- lower the level of competence of the internal audit function.

Hello Everyone !!
How are u all ??

Using the Work of the Internal Audit Function

The External Auditor Shall

- **A. Discuss the planned use of Internal Audit Function.**
  - **Discussion and Coordination with the Internal Audit Function**
  - **In discussing the planned use of internal audit function it may be useful to address the following:**
    1. Timing of such work.
    2. Nature of the work performed.
    3. Extent of audit coverage.
    4. Materiality for the F.S. as a whole and performance materiality.
    5. Proposed methods of item selection and sample sizes.
    6. Documentation of the work performed.
    7. Review and reporting procedures.
- **B. Read the report of Internal Audit Function**
- **C. Perform sufficient audit procedures to evaluate the internal audit function**

Determining Whether, in Which Areas, and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance

Meaning of Direct Assistance

→ **the use of internal auditors to perform audit procedures under the direction, supervision and review of the external auditor.**

❖ External auditor **may be prohibited by law or regulation** from obtaining direct assistance from internal auditors.

❖ If External Auditor **not prohibited by law or regulation**

shall evaluate

- the existence and significance of threats to objectivity
  - shall include
    - inquiry of the internal auditors regarding
      - ➢ interests and relationships that may create a threat to their objectivity.

And

- the level of competence of the internal auditors

Hello Everyone !!
How are u all ??

The External Auditor Shall Not Use an Internal Auditor to Provide Direct Assistance if

- There are significant threats to the objectivity of the internal auditor

OR

- The internal auditor lacks sufficient competence to perform the proposed work

The External Auditor Shall Not Use an Internal Auditor to Provide Direct Assistance to Perform Procedure that

- Involve making **significant judgments** in the audit
- Relate to higher assessed risks of material misstatement
- Relate to work with which internal auditors have been involved
- Relate to decisions, external auditor makes in accordance with this SAregarding the internal audit function and the use of its work or direct assistance.

Prior to using internal auditors to provide direct assistance for the purposes of the audit, the external auditor shall

Obtain written agreement from an authorized representative of the entity

- Internal auditors will be allowed to follow the external auditor's instructions
- the entity will not intervene in the work the internal auditor performs for the external auditor

Obtain written agreement from the internal auditors that

- they will keep confidential specific matters as instructed by the external auditor
- Inform the external auditor of any threat to their objectivity.

Distinction between Internal Financial Control and Internal Control over Financial Reporting

Internal Financial Controls (IFC)	Internal controls over financial reporting
• The policies and procedures put in place by companies for ensuring - reliability of financial reporting, - effectiveness and efficiency of operations, - compliance with applicable laws and regulations, - safeguarding of assets and - prevention and detection of frauds. • "internal financial control" is a wider term where as "internal controls over financial reporting"	where auditors are required to express an opinion on the effectiveness of an entity's internal controls over financial reporting, *such opinion is in addition to and distinct from the opinion expressed by the auditor on the financial statements.*

Hello Everyone !!
How are u all ??

AUDIT SAMPLING [SA-530]

Meaning of Audit Sampling

- **Application of audit procedures to < 100 % of items within a population such that all sampling units have a chance of selection** in order to provide the auditor with a reasonable basis on which todraw conclusions about the entire population.

Objective of the Auditor

To provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected

Scope of SA 530

This standard deals with the auditor's use of -

Statistical | **Non-statistical sampling**

when designing and selecting the
i. audit sample,
ii. performing tests of controls and tests of details, and
iii. evaluating the results from the sample.

Population

Refers to
- The entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.

Auditor should select sample items in such a way that the sample can be expected to be representative of the population. This requires that all items in the population have an opportunity of being selected.

Characteristics of Population

Appropriateness	Completeness	Reliable
Means population from which the samples are drawn shall be *relevant* for the specific objective under audit.	• Population also needs to be complete • If population is complete the conclusions drawn on the population will be considered to be reasonable	Auditor performs audit procedures to ensure that the information upon which the audit sampling is performed is sufficiently complete and accurate.

Hello Everyone !!
How are u all ??

Sampling Unit

- The *individual items that make up the population* are known as *sampling units.*
- population can be divided into sampling units in a variety of ways.
- It is a selection from the population that is used as an extrapolation of the population.
- Audit procedures are applied on these units and the conclusions drawn from them are projected on the population.
- Conclusions drawn on the sample becomes the conclusion of the population from where it is drawn.

Sample Must be Representative

Whatever may be the approach non-statistical or statistical sampling, the sample must be representative.

Sampling Process is performed on

- **Tests of controls** — to identify deviations fromexpected internal controls
- **Tests of details** — to identify misstatements of account balances and class oftransactions

Approaches to Sampling

Statistical Sampling

Meaning

An approach to sampling that has
- The random selection of the sample units and
- The use of probability theory to evaluate sample results,
- Including measurement of sampling risk characteristics.

Characteristics : An Approach to Sampling that has

- Random selections of the sample items
- Use of probability theory to evaluate sample result
- including measurement of sampling risk characteristics

Non- Statistical Sampling

Meaning

A sampling approach that does not have characteristics of random selection and use of probability theory is considered as non-statistical sampling

Characteristics

- Sample size and its composition are determined on the basis of (personal experience and knowledge of the auditor.)

Limitation

- Criticized on the grounds that it is neither objective nor scientific.
- Expected degree of objectivity cannot be assured in non- statistical sampling because the risk of personal bias in selection of sample items cannot be eliminated.

Hello Everyone !!
How are u all ??

Statistical Sampling - More Scientific

- This approach is more scientific than testing based entirely on the auditor's own judgment because it involves use of ***mathematical laws of probability.***
- It has ***reasonably wide application.***
- There is ***no personal bias*** of the auditor in case of statistical sampling.

In larger organisations, with huge transactions, statistical sampling is always recommended as it is unbiased and the samples selected are not prejudged.

The factors that should be considered for deciding upon the extent of checking on a sampling plan are following:

- Size of the organisation under audit.
- State of the internal control.
- Adequacy and reliability of books and records.
- Tolerable error range.
- Degree of the desired confidence.

T SAMD

Appropriateness of Sampling Approaches

The advantages of statistical sampling may be summarized as follows -

- Sample size does not increase in relation to the increase in the size of the area to be tested
- It is more defensible and objective
- Provides a means of estimating minimum sample size
- Provides means for deriving a calculated risk and accuracy
- Provide a better description of a large mass of data

Hello Everyone !!
How are u all ??

Sampling Process

SAMPLE DESIGN
↓
SAMPLE SIZE
↓
SAMPLE SELECTION
↓
AUDIT PROCEDURES
↓
NATURE AND CAUSE OF DEVIATION AND
↓
PROJECTING
↓
EVALUATING RESULTS OF AUDIT

Sample Design, Size and Selection of Items for Testing

When designing an audit sample, the auditor shall

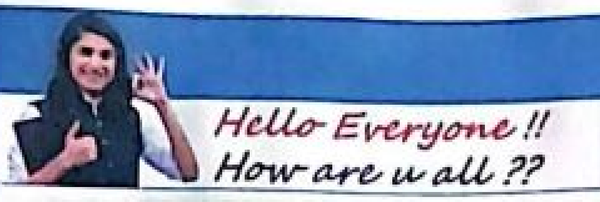
- **Consider**
  - The purpose of the audit procedures and
  - The characteristics of the population from which the sample will be drawn.
- **Determine**
  A sample size sufficient to reduce sampling risk to an acceptably low level.
- **Select items for the sample** in such a way that each sampling unit in the population has a chance of selection.

Sample Design

When designing an audit sample the auditor's consideration includes

- The *specific purpose* to be achieved
  and
  The *combination of audit procedures* that is likely to best achieve that purpose.
- *Nature of the audit evidence* sought and possible deviation / misstatement conditions /other characteristics relating to that A.E. will assist the auditor in defining
  - What constitutes a deviation or misstatement &
  - what population to use for sampling.
- **The auditor performs audit procedures** to obtain evidence that the population from which the audit sample is drawn is complete.

CA DEEPIKA RATHI

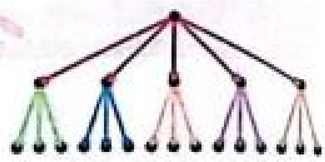


While considering, the characteristics of a population:

For Test of Control	For Test of Details
The Auditor shall assess • The expected rate of deviation based on the auditor's understanding of the relevant controls **or** • The examination of population.	**The Auditor shall** • make an assessment of the expected misstatement in the population

In considering the characteristics of the population from which the sample will be drawn, the auditor may determine that stratification or value-weighted selection is appropriate.

Stratification



- Stratification is dividing the population into discrete sub-populations which have an identifying characteristic.
- **Objective of stratification is**
  - To *reduce the variability of items* within each stratum and
  - Allow sample size to be reduced without increasing sampling risk.
- **When performing tests of details, the population is often stratified by monetary value.** This allows greater audit effort to be directed to the larger value items, as these items may contain the greatest potential misstatement in terms of overstatement.
- A population may be stratified according to a particular characteristic that indicates a higher risk of misstatement.
  - **Example :** When testing the allowance for doubtful accounts in the valuation of accounts receivable, balances may be stratified by age.
- The results of samples from the units drawn under each sub population are projected to that respective stratum.
- Projected misstatements of each stratum will be combined together to consider the possible effect of misstatement in the account balances and class of transactions.

Stratification: Dividing a population into discrete sub population which have identifying characteristics is called as Stratification. Each Sub population is called as Stratum and units under those sub population are referred to as Strata.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Value – Weighted Selection

- When performing tests of details, it may be efficient to identify the sampling unit as the individual monetary units that make up the population.
- Having selected specific monetary units from within the population,
  - **Example :** The accounts receivable balance,

  The auditor may then examine the particular items,
  - **Example :** Individual balances, that contain those monetary units.
- One benefit of this approach to defining the sampling unit is that audit effort is directed to the larger value items because they have a greater chance of selection, and can result in smaller sample sizes

In value weighted selection, :→ the sample size, its selection and evaluation will result in a conclusion in monetary amounts.

Sample Size

- The level of sampling risk that the auditor is willing to accept affects the sample size required.
- The lower the risk the auditor is willing to accept, the greater the sample size will need to be.

- The sample size can be determined by the application of a statistically-based formula or through the exercise of professional judgment.

(A) Examples of Factors Influencing Sample Size for Test of Controls

Sample Size will be increased	• **If the auditor wants to obtain high assurance from the operating effectiveness of controls**
Sample Size will be decreased	• **If the auditor can tolerate high rate of deviation.**
Sample Size will be increased	• **If the rate of deviation of the population to be tested is higher than expected**
Sample Size will be increased	• **If the auditor desires greater level of assurance than the tolerable** Error does not Exceed the actual deviation

Hello Everyone !!
How are u all ??

(B) Examples of Factors Influencing Sample Size for Test of Details

Sample Size will be increased	• If the auditor avaluates that the risk of material misstatement is high.
Sample Size will be decreased	• If the auditor increase's the use of other substantive procedures.
Sample Size will be increased	• If auditor's level of tolerable misstatement is less than the actual level of misstatement.
Sample Size will be increased	• If the amount of misstatement is greater than the auditor expects to find in the population.
Sample Size will be decreased	• If the auditor stratifies the population appropriatly.

Sample Selection Methods

- Random Sampling
  - Simple Random Sampling
  - Stratified Sampling
- Interval Sampling
- Monetary Unit Sampling
- Haphazard Sampling
- Block Sampling

1. Random Sampling

- It ensures that all items in the population or within each stratum have a known chance of selection.
- It may involve use of random number tables

Random sampling includes two methods

Simple Random Sampling	Stratified Sampling
• Under this method each unit of the whole population has an equal chance of being selected • Each item in a population is selected by use of random number table either with a help of computer or picking up a number in a random way (may be randomly from a drum).	• This method involves dividing the whole population to be tested in a few separate groups called strata and taking a sample from each of them. • Each stratum is treated as if it was a separate population and if proportionate of items are selected from each of these stratum.

Hello Everyone !!
How are u all ??

- This method is considered appropriate provided the population to be sampled consists of reasonably similar units and fall within a reasonable range i.e it is suitable for a homogeneous population having a similar range.

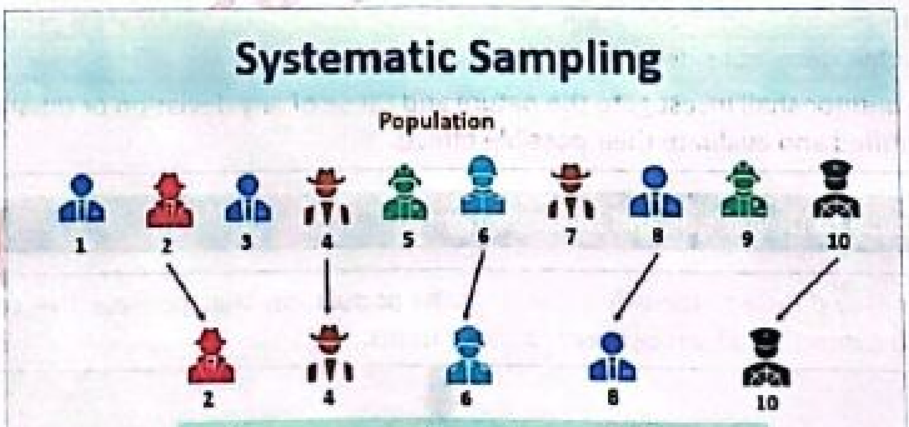
- The number of groups into which the whole population has to be divided is determined on the basis of auditor judgment.

Stratification means dividing heterogeneous (Diversified) population into Homogeneous (having similar characteristics) subpopulation, where samples are drawn from each sub population.

2. Interval Sampling or Systematic Sampling

- Systematic selection is a selection method in which the number of sampling units in the population is divided by the sample size to give a sampling interval.
- When using systematic selection, the auditor would need to determine that sampling units within the population are not structured in such a way that the sampling interval corresponds with a particular pattern in the population.

Total Number of Sampling Units ÷ Sample Size



In this case, every second person in systematically selected.

3. 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.

Hello Everyone !!
How are u all ??

4. Haphazard Sampling

- Haphazard selection, in which the auditor selects the sample without following a structured technique.
- Although no structured technique is used, the auditor would nonetheless avoid any conscious bias or predictability and thus attempt to ensure that all items in the population have a chance of selection.
- It has no structured approach, does not involve judgement and does not even use the random number tables.

5. Block Sampling

- This method involves selection of a block(s) of contiguous items from within the population.
- Block selection cannot ordinarily be used in audit sampling because most populations are structured such that items in a sequence can be expected to have similar characteristics to each other, but different characteristics from items elsewhere in the population.

Performing Audit Procedures

(i) Perform audit procedures, appropriate to the purpose, on each item selected.

(ii) If the audit procedure is not applicable to selected item, perform the procedure on a replacement item.

(iii) If the auditor is unable to apply designed audit procedures/alternative procedure to a selected item, consider that item as a deviation.

(iv) The auditor shall investigate the nature and cause of any deviation or misstatements identified and evaluate their possible effects.

Nature and Cause of Deviations and Misstatements

The auditor may decide to identify all items in the population that possess the common feature, and extend audit procedures to those items.

↓

the auditor shall investigate

The nature and causes of any deviations or misstatements identified,	And	Evaluate their possible effect on the purpose of the audit procedure and on other areas of the audit.

Hello Everyone !!
How are u all ??

In the extremely rare circumstances when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, Rare

the auditor shall by performing additionalaudit procedures

- **Obtain a high degree of certainty that** such misstatement or deviation is not representative of the population.
- **Obtain sufficient appropriate audit evidence** that the misstatement or deviation does not affect the remainder of the population.

Projecting Misstatements

- Auditor is required to project misstatements for the population to obtain a broad view of the scale of misstatement.
- When a misstatement has been established as an anomaly, it may be excluded when projecting misstatements to the population.
- **For tests of details** : the auditor shall project misstatements found in the sample to the population.
- **For tests of controls** : No explicit projection of deviations is necessary since the sample deviation rate is also the projected deviation rate for the population as a whole.

Evaluating Results of Audit Sampling

The auditor shall evaluate

- **The results of the sample**
- Whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

AUDIT EVIDENCE- SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS [SA-501]

Meaning of Audit Evidence – Specific Consideration for Selected Items

SA 501 deals with specific considerations by the auditor in obtaining SAAE with respect to certain aspects of
- **Inventory**
- **Litigation and Claims &**
- **Segment Information**

in an audit of F.S.

Objective of the Auditor

To obtain sufficient appropriate audit evidence regarding
- **Existence and condition of inventory**
- **Completeness of litigation and claims involving the entity**
- **Presentation and disclosure of segment information** in accordance with the applicable FRF.

Inventory

When inventory is material to the F.S.

↓

Auditor shall obtain SAAE regarding the **existence and condition** of inventory by

A. Attendance at physical inventory counting, unless impracticable, to
- Evaluate management instructions & procedures for recording & controlling the results of the entity's physical inventory counting
- Observe the performance of management's count procedures
- Inspect the inventory
- Perform test counts

B. Performing audit procedures over the entity's final inventory records

→ To determine whether they accurately reflect actual inventory count results.

A. Attendance at Physical Inventory Counting

Inspecting the inventory
- to ascertain its existence and
- evaluate its condition, and
- performing test counts

Observing compliance
- with management's instructions and
- performance of procedures for recording and controlling the results of the physical inventory count

Obtaining Audit Evidence as to the reliability of management's count procedures

Hello Everyone !!
How are u all ??

Matters Relevant in Planning Attendance at Physical Inventory Counting

Memory Techniques : WIN TRIPPLE

W- Work in progress
I- Internal control related to inventory
N- Nature of inventory
T- Timing of physical inventory counting
R- Risks of material misstatements related to inventory
I-
P- Perpetual inventory system if maintained
P- Procedures for physical inventory counting
L- Location at which inventory is held

Physical Inventory Counting Conducted Other Than at the date of the Financial Statements

The Auditor Shall → **Perform audit procedures to obtain audit evidence**

↓

about whether changes in inventory between the count date and the date of the F.S. are properly recorded.

↓

Relevant matters for consideration in this regard

- Whether the perpetual inventory records are properly adjusted
- Reliability of the entity's perpetual inventory records
- Reasons for significant differences between the information obtained during the physical count and the perpetual inventory records

If the Auditor Unable to Attend Physical Inventory Counting due to Unforeseen Circumstances

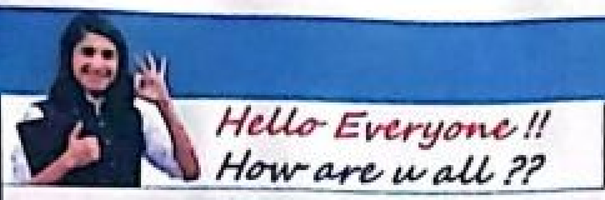
Make or observe some physical counts on an alternative date, **And** perform audit procedures on intervening transactions

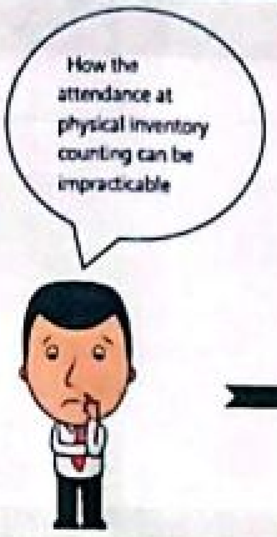
Attendance at Physical Inventory Counting becomes impractical

Auditor Shall

↓

Perform alternative audit procedures to obtain S.A.A.E. regarding existence and condition of inventory. → If it is not possible to do so → Modify the opinion in the auditor's report in accordance with SA 705.





For example, where inventory is held in a location that may pose threats to the safety of the auditor

When inventory under the custody and control of a third party – What will the auditor do ?

Auditor Shall Obtain S.A.A.E by performing the following :

- **a. Request confirmation from third party**
- **b. Perform Inspection/other audit procedure**

Example of Other Audit Procedure

- Inspecting documentation regarding inventory held by third parties
- Requesting confirmation from other parties when inventory has beenpledged as collateral.
- Attending, or arranging for another auditor to attend, the third party's physical counting of inventory, if practicable.
- Obtaining another auditor's report, or a service auditor's report, on the adequacy of the third party's internal control for ensuring that inventory is properly counted and adequately safeguarded.

Litigation and Claims

Auditor is required to identify litigation and claims by following procedures:

- **A. Inquiry:** of Mngt. & others within entity, including in house legal counsel.
- **B. Review** – minutes of meetings of TCWG, communication between entity & external legal counsel.
- **C. Review** – legal expenses account.

Hello Everyone !!
How are u all ??

If the Auditor Assess a Risk of Material Misstatement regarding Litigation or Claims – Communication with the Entity's External Legal Counsel

- If the auditor assesses RMM regarding litigation or claims that have been identified, **OR**
- when audit procedures performed indicate that other material litigation or claims may exist

↓

Auditor shall, in addition to the procedures required by other SAs seek

↓

- Direct **communication with the entity's external legal counsel**
- Through a **letter of inquiry requesting the entity's external legal counsel to communicate directly with the auditor.**

If law, regulation or the respective legal professional body prohibits the entity's external legal counsel from communicating directly with the auditor

The auditor shall perform → alternative audit procedures.

If it is considered unlikely that the entity's external legal counsel will respond appropriately to a letter of general inquiry,
for example if the professional body to which the external legal counsel belongs prohibits response to such a letter, the auditor may seek direct communication through a letter of specific inquiry.

letter of specific inquiry includes:

- **A list of litigation and claims**
- Management's assessment of the outcome of each of the identified litigation and claims **and**
  its estimate of the financial implications, including costs involved
- **A request that**
  - The entity's external legal counsel confirm the reasonableness of management's assessments
    and
  - Provide the auditor with further information

  if the list is considered by the entity's external legal counsel tobe incomplete or incorrect.

In certain circumstances, the auditor also may judge it necessary to meet with the entity's external legal counsel to discuss the likely outcome of the litigation or claims where

- Auditor determines that the matter is a significant risk.
- matter is complex
- There is disagreement between management and the entity's external legal counsel

Hello Everyone !!
How are u all ??

- Management Refusesto Permit auditor to communicate
- External LegalCounsel Refuses respond appropriately
- Auditor unable to collect SAAE fromalternate procedures

→ **Auditor Shall**
Modify Opinion in accordance with SA 705

Segment Information

Definition of segment information
Segment Information refers *to information about different types of products andservices of an enterprise and its operations in different geographical areas.*

Obtaining Sufficient Appropriate Audit Evidence Regarding the Presentation and Disclosure of Segment Information

Obtain SAAE regarding presentation & disclosure of segment information in accordance with the applicable FRF by:

A. *Obtaining an understanding of the methods used by management in determining segment information,*
&
- Evaluating whether such methods are likely to result in disclosure in accordance withthe applicable FRF and
- Where appropriate, testing the application of such methods

B. Performing analytical procedures or other audit procedures appropriate in the circumstances.

Auditor's Responsibility Regarding the Presentation and Disclosure of Segment Information

- The auditor's responsibility regarding the presentation and disclosure of segment information is in relation to the financial statements → taken as a whole.
- The auditor is not required to perform audit procedures that would be necessary to express an opinion on the segment information presented on a stand alone basis.

Hello Everyone !!
How are u all ??

Understanding of the Methods Used by Management

Example of matters that may be relevant when obtaining an understanding of the methods used by management in determining segment information and whether such methods are likely to result in disclosure in accordance with the applicable FRF

i. Sales, transfers and charges between segments, and elimination of intersegment amounts.
ii. Comparisons with budgets and other expected results, for example, operating profits as a percentage of sales.
iii. The allocation of assets and costs among segments.
iv. Consistency with prior periods, and the adequacy of the disclosures withrespect to inconsistencies.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

EXTERNAL CONFIRMATION [SA-505]

Scope

- SA deals with the **auditor's use of external confirmation procedures to obtain audit evidence .**
- Audit evidence in the form of external confirmations may be more reliable than evidence generated internally by the entity.
- SA505 is intended to assist the auditor in designing and performing external confirmations procedures.

Objective of the Auditor

When using external confirmation procedures,is
- To design and perform such procedures to obtain relevant and reliable audit evidence.

Definition of External Confirmation

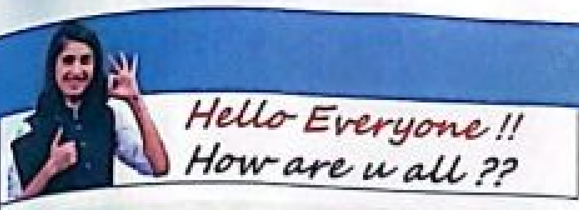
Audit Evidence obtained
- as a direct written response to auditor
- from 3rd Party (confirming party)
- in Paper/Electronic/Other form.

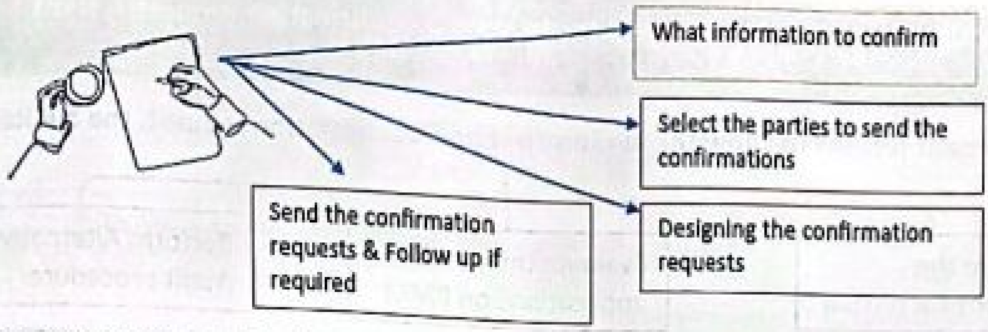
Types of External Confirmation

Positive Confirmation Request	Negative Confirmation request	Non Response	Exception
Request that Confirming Party	Request that Confirming Party	A failure of the confirming party	A response
respond directly to auditor	respond directly to auditor	to respond or fully respond	that indicates a difference between information requested
indicating whether it agrees or disagrees	only if it disagrees	to a positive confirmation request or a confirmation request	and information provided by the confirming party.
With the info in request **or** providing requested info.	with the information in the request	returned undelivered.	

External Confirmation Procedures adopted by the Auditor to Obtain Audit Evidence

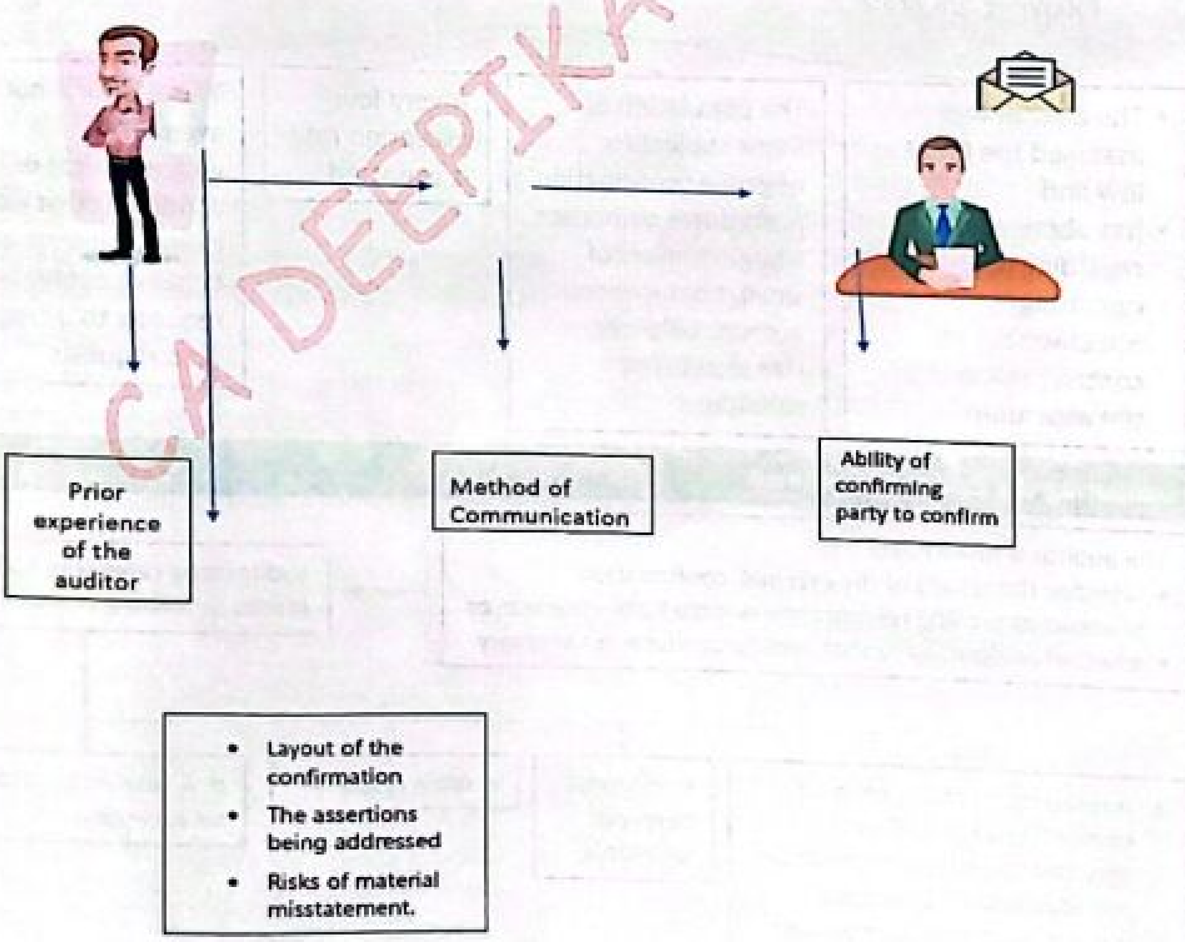
Determining the information to be confirmed or requested → Selecting the Appropriate Confirming Party → Designing the confirmation Requests → Sending the request including follow up.





Factors to consider when designing confirmation requests

- Assertions being addressed.
- Specific identified RMM.
- Layout and presentation of request.
- Prior Experience of audit.
- Method of Communication.
- Management Authorization.
- Ability of confirming party to provide the requested information



CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Management's refusal to allow the auditor to send a confirmation request – steps taken by the Auditor

If management refuses to allow the auditor to send a confirmation request, the auditor shall

- Inquire the reasons for refusal
- Evaluate the implications on RMM
- Perform Alternative Audit procedure

Refusal appears to be unreasonable → Auditor Shall Communicate to TCWG
Unable to Obtain Audit Evidences → Determine its affect on Opinion

Negative Confirmations

- Negative confirmations provide less persuasive audit evidence than positive confirmations.
- Auditor shall not use negative confirmation requests as the sole substantive audit procedure to address an assessed risk of material misstatementat the assertion level unless all of the following are present:

1. - The auditor has assessed the RMM as low and
   - has obtained SAAE regarding the operating effectiveness of controls relevant to the assertion
2. The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous, account balances, transactions or conditions
3. A very low exception rate is expected
4. The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests

Evaluating the Evidence Obtained

The auditor shall evaluate
- whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or
- whether performing further audit procedures is necessary.

→ auditor may categorise such results as follows

a. A response by the appropriate confirming party indicating agreement withthe information provided in the confirmation request, or providing requested information without exception

b. response deemed unreliable

c. Anon-response

d. A response indicating an exception.

Hello Everyone !!
How are u all ??

INITIAL AUDIT ENGAGEMENTS – OPENING BALANCES [SA-510]

Objective of the Auditor

To obtain sufficient appropriate audit evidence about whether:

- **(a) Opening balances contain misstatements that materially affect the current period's F.S**
- **(b) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's F.S.**

  or

  Changes in the accounting policies are properly accounted for and adequately presentedand disclosed in accordance with the applicable FRF.

Initial Audit Engagement

An engagement in which F.S. for the prior period are either:
a. not audited or
b. were audited by a predecessor auditor.

Predecessor Auditor

The auditor from a different audit firm, who audited the F.S. of an entity in the prior period and who has been replaced by the current auditor.

Opening Balances

Those account balances that exist at the beginning of the period.

- Are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period.
- Also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.

Hello Everyone !!
How are u all ??

Obtaining Sufficient Appropriate Audit Evidence about Opening Balances by the Auditor

The auditor shall obtain SAAE about whether the opening balances contain misstatements that materially affect the current period's financial statements by

- **Determining** whether the prior period's closing balances have been correctly brought forward to the current period
- **Determining** whether the opening balances reflect the application of appropriate accounting policies
- **Performing one or more of the following**
  - **Where the prior year F.S. were audited**
    - perusing the copies of the audited F.S
  - **Evaluating** whether audit procedures performed in the current period provide evidence relevant to the opening balances
  - **Performing specific audit procedures**

- If opening balances contain misstatement detected → ***perform additional procedures to determine their effect on current Period F.S.***
- If misstatement exists in Current Period F.S. → ***communicate to Mngt. & TCWG.***

Procedures Adopted by the Auditor to Obtain Audit Evidences regarding opening balances

Nature and Extent of Audit Procedures depend on such matters as :

- Accounting policies followed by the entity
- Nature of the account balances, classes of transactions and disclosures and the risks of material misstatement in the current period's F.S.
- Significance of the opening balances relative to the current period's F.S.
- Whether the prior period's financial statements were audited and, if so, whether the predecessor auditor's opinion was modified.

If the prior period's financial statement were audited by the predecessor auditor

The auditor may be able to obtain sufficient appropriate audit evidence regarding the opening balances by →

- **Perusing the copies of the audited F.S.**
  &
- **Other relevant documents relating to the prior period F.S.→ such as supporting schedules to the audited F.S.**

Hello Everyone !!
How are u all ??

For Current Assets and Liabilities

- **For current assets and liabilities**, some audit evidence about opening balances may be obtained as part of the current period's audit procedures.

- **Inventories**

  The current period's audit procedures on the closing inventory balance provide little Audit evidence regarding inventory on hand at the beginning of the period.

  Therefore, additional audit procedures may be necessary, and one or more of the following may provide sufficient appropriate audit evidence:

  - Observing a current physical inventory count and reconciling it to the opening inventory quantities.
  - Performing audit procedures on the valuation of the opening inventory items.
  - Performing audit procedures on gross profit and cut-off

For Non - Current Assets and Liabilities

- Audit evidence may be obtained
  - ✓ **by examining the accounting records and other information**
  - ✓ **through confirmation with third parties.**

Consistency of Accounting Policies relating to Opening Balances

Auditor shall obtain sufficient appropriate audit evidence about

- whether the accounting policies reflected in the opening balances have been consistently applied in the current period's F.S.

And

- whether changes in the accounting policies have been properly accounted for and adequately presented and disclosed in accordance with the applicable FRF.

Auditor Concludes

- **Accounting policies are not consistently applied**
- **A change in accounting policies** is not properly accounted for

→ Express
- **A Qualified Opinion** *or*
- **An Adverse Opinion**

as per SA 705

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Reporting by the Auditor with regards to Opening Balances

Unable to obtain sufficient appropriate audit evidence regarding the opening balances	Qualified or Disclaimer of opinion, as appropriate
Auditor concludes • Opening balances contain material misstatements whose effect has not been reflected / disclosed and • The effect of the misstatement is not properly accounted for or not adequately presented or disclosed	Qualified or Adverse opinion, as appropriate

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

RELATED PARTIES [SA-550]

Scope of this SA

SA deals with auditor's responsibilities regarding
- **Related Party Relationships and Transactions**
- Specifically, in relation to **risks of material misstatement associated with related party relationships and transactions**

Definition of Related Party

EITHER

Related party as defined in applicable FRF

OR

Where applicable FRF establishes minimal or no Related Party requirements

- **A.** A person/entity having control/ significant influence, over reporting entity
- **B.** Entity over which reporting entity has control / significant influence,
- **C.** Entity under common control with the reporting entity through
  - Common controlling ownership
  - Owners who are close family members
  - Common key Mngt.

Meaning of Control and Significant Influence in reference to related party

FRF discuss the concepts of control and significant influence.

Generally Explain

A. Control
- The power to govern the financial and operating policies of an entity to obtain benefits from its activities.

And

B. Significant influence
- The power to participate in the financial and operating policy decisions of an entity, but is not control over those policies

Existence of the following relationships may indicate the presence of control or significant influence

- Direct / Indirect equity holdings or other financial interests.
- The entity's holdings of direct or indirect equity or other financial interests in other entities.
- Being part of TCWG or key Mngt.
  - A close family members
  - Having a significant business relationship

Hello Everyone !!
How are u all ??

Meaning of Related Parties with Dominant Influence

- Related parties, by virtue of ability to exert control or significant influence, may be in a position to exert dominant influence over the entity or its management.
- Consideration of such behaviour is relevant when identifying and assessing the RMM due to fraud.

Meaning of Special – Purpose Entities as Related Parties

- A special-purpose entity may be a related party of the entity because the entity may in substance control it, even if the entity owns little or none of the special- purpose entity's equity.

Nature of Related Party Relationship and Transactions

- Many related party transactions are in the normal course of business and may carry no higher risk of material misstatement
- However in some circumstances may give rise to higher risks of material misstatement.
- **Example :**

Related parties may operate through an extensive and complex range of relationships and structures.	Information systems may be ineffective at identifying or summarising transactions and outstanding balances.	Related party transactions may not be conducted under normal market terms and conditions

Understanding the Entity's Related Party Relationships & Transactions

Auditor to inquire management regarding

- Identity of entity's Related Parties , changes from prior period
- Nature of relationships between entity and Related Parties
- Type & purpose of transactions with Related Parties.

Obtain understanding whether mngt. has established controls to

- Identify, account for & disclose Related Parties relationships & transactions
- Authorise & approve significant transactions with Related Parties.
- Authorise & approve significant transactions outside normal course of business.

Considerations Specific to Smaller Entities by the Auditor

- Role of governance may be undertaken directly by the owner
- Control activities in smaller entities are likely to be less formal and smaller entities.
- Entities may have no documented processes for dealing with related party relationships and transactions.
- **An owner-manager** may mitigate some of the risks arising from related partytransactions, or potentially increase those risks, through active involvement in allthe main aspects of the transactions.

Hello Everyone !!
How are u all ??

- Auditor may obtain an understanding of the related party relationships and transactions, and any controls that may exist over these,
  → **through inquiry of management combined with other procedures,**
  → **such as observation** of management's oversight and **review activities**, and inspection of available relevant documentation.

Question :- How can an auditor verify the existence of related party relationships and transactions?

- During the audit, the auditor should maintain alertness for related party information.
- Auditor may inspect following records or documents that may provide information about related party relationships and transactions,
  Example :
  ✓ Entity income tax returns
  ✓ Information supplied by the entity to regulatory authorities
  ✓ Shareholder registers.
  ✓ Statements of conflicts of interest.
  ✓ Records of the entity's investments
  ✓ Contracts and agreements with key management or TCWG.
  ✓ Significant contracts and agreements not in the entity's ordinary course ofbusiness.
  ✓ Specific invoices and correspondence from the entity's professional advisors.
  ✓ Life insurance policies acquired by the entity.
  ✓ Significant contracts re-negotiated by the entity during the period.
  ✓ Internal auditors' reports.
  ✓ Documents associated with the entity's filings with a securities regulator.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

ANALYTICAL PROCEDURES [SA-520]

Meaning of Analytical Procedures

Evaluation of Financial Information → Through analysis of relationships → Among both financial & non financial data

AND

Also encompass such investigation → identified fluctuations or relationships → that are inconsistent with → other relevant information

OR

→ that differ from expected values by a significant amount.

Analytical procedures include the consideration of comparisons of the entity's financial information with as well as consideration of relationships.

Consideration of comparisons of Financial Information with
- Comparable information for prior periods
- Anticipated results
- Similar industry information

+

Consideration of relationships among
- Elements of financial information
- Financial information and relevant non financial information

+

Various other procedures
- Using advanced statistical techniques.

Types of Analytical Procedures

Client data → **Compare with** →
- **Industry data**
- **Similar prior period data**
- **Auditor's determined expected results**
- **Expected results using non financial data**
- **Client's determined expected results**

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

objective

~~Scope~~ of SA 520

- To obtain relevant & reliable audit evidence when using substantive analytical procedures

And

- To design and perform analytical procedures near the end of the audit
  - that assist the auditor when forming an overall conclusion as to whether the F.S. are consistent with auditor's understanding of the entity.

Purpose and timing of Analytical Procedures

A. Purpose of Analytical Procedures

✓ Analytical Procedures use → Comparisons & Relationships → To assess reasonableness of → Account balances/ other data

Balances of Balance sheets	⟷ Establishing Relationship ⟷	Balances of Profit & Loss	Comparisons →	Same set of Balances in previous years
Physical balances of Assets	Reconciliation with →			Financial Records
Obtain Accounts →	Bankers, Account receivables, Account payables		Reconciliation →	Balances in books of Accounts
Outstanding Income & Expenses	Confirming Amounts →			By preparing reconciliation statements

All are helpful in detection of unusual state of affairs and mistakes in accounts

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Differences

				Differences
Balances of profit & loss of entity	Comparison →	Balances of Profit & Loss A/c of another entity for same period & time	To find →	Variation in rate of Profitability
Balances of Profit & loss of Current Year	Comparison →	Balances of Previous year of Profit & Loss	To find →	Increase/ Decrease of profit
Setting expenses ratios in Profit & Loss of Current year	Comparison →	Setting expenses ratios in Profit & Loss of Previous Year	To find →	Increase/ Decrease in expenditures in relation to sales & trading profit

If these differences are found Material Auditor would
- Ascertain the reasons
- Assess whether accounts have been manipulated to inflate or suppress profit

B. Timing of Analytical Procedures

- A. Planning Phase
- B. Testing Phase
- C. Completion Phase

C. Analytical Procedures in Planning the Audit

In planning stage analytical procedures assist the auditor in following
- Understanding the client's business.
- Identifying areas of potential risk.
- Determining the nature, timing and extent of his other auditprocedures

Substantive Analytical Procedures

Auditor determine to perform (by using Professional Judgement)
- Only Substantive Analytical Procedure
- Only Test of details
- Combination of
  - Substantive Analytical Procedure or
  - Test of Details

- To reduce audit risk to an acceptably low level
- To response to assessed risk.

Hello Everyone !!
How are u all ??

Factors to be considered for Substantive Audit Procedures

(i) Availability of Data →
- Reliable and relevant data will facilitate effective analytical procedures.

(ii) Disaggregation →
- Degree of disaggregation directly affect the degree of usefulness in detecting misstatements

(iii) Account Type →
- Substantive analytical procedures are more useful for the certain types of accounts then others
- Income statements accounts are more predictable reflect accumulated transactions
- Balance sheet accounts represent net effects subject to management judgement

(iv) Source →
- Some class of transactions are more predictable because of similar transactions
- Non routine & estimations are subject to management judgement therefore difficult to predict.

(v) Predictability →
- Substantive analytical procedures are more appropriate when an account balance or relationships between items of data are predictable.

(vi) Nature of Assertion →
- Substantive analytical procedure may be more effective in providing evidence for some assertions than for others

(vii) Inherent Risk →
- Design audit procedure to address Inherent Risk consider nature of Risk of MM to determine Substantive Analytical Procedure to obtain evidences
- When Inherent Risk is higher design Test of details to address that higher risk
- When Significant risk identified audit evidence obtained from SAP is unlikely to be Sufficient.

Techniques available as Substantive Analytical Procedures

(i) Trend Analysis →
- Trend analysis is most commonly used technique which involves comparison of current data with the prior period balance or with a trend intwo or more prior period balances.
- The auditor evaluates whether the current balance of an account moves in line with the trend established with previous balances for that account.

Hello Everyone !!
How are u all ??

- Trend analysis implies analysing account fluctuations by comparing current year to prior years.

(ii) Ratio Analysis →

- Ratio analysis involves analysing revenue and capital items forming part ofbalance sheet and profit and loss account.
- Ratios can also be compared over a period of time or to the ratios of otherentities within the industry.
- **Example :** Financial ratios may include:
  - ✓ Trade receivables or inventory turnover
  - ✓ Freight expense as a percentage of sales revenue

(iii) Reasonableness Tests →

- Unlike trend analysis, this analytical procedure does not rely on events of prior periods, but upon non-financial data for the audit period under consideration.
- These tests are generally more applicable to income statement accounts and certain accrual or prepayment accounts.

(iv) Structural modelling →

A modelling tool constructs a statistical model from financial and/or non-financial data of prior accounting periods to predict current account balances (e.g., linear regression).

Analytical Procedures used as Substantive Tests

Determine Suitability of Analytical Procedure
- For given assertions
- Taking account of assessed risk of MM & Test of Details

Evaluate reliability of Data
- Taking account of source comparability nature and relevance of information available and controls over preparation

Develop an expectation
- Of recorded amounts/ ratios and evaluate whether the expectations is sufficiently precise to identify material misstatement

Determine acceptable differences
- Of recorded amounts from expected values that is acceptable without further investigation

Suitability of Particular analytical procedures for given assertions

- Generally more applicable to <u>large volumes of transactions</u> that are tend to be <u>predictable</u> overtime
- Its application is based on <u>expectation</u> that <u>relationship</u> among data exist & continue unless found contrary
- Suitability will depend upon <u>Auditor's assessment</u> how effectively it will be detecting a misstatement
- In some cases even an <u>unsophisticated predicative model</u> may be effective
- **Different types of Analytical procedures Provides Different level of Assurance**

Hello Everyone !!
How are u all ??

- The determination of the suitability of particular substantive analytical procedure is influenced by the nature of the assertion and the auditor's assessment of the risk of material misstatement.
- Particular substantive analytical procedures may also be considered suitable when tests of details are performed on the same assertion.

The Reliability of DATA

Following factors affects the reliability:

Source of information	**For example,** Information may be more reliable when it is obtained from independent sources outside the entity
Comparability of the information	**For example,** broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialised products.
Nature and relevance	**For example,** whether budgets have been established as results to be expected rather than as goals to be achieved
Controls over the preparation of the information	**For example,** controls over the preparation, review and maintenance of budgets.

Evaluation of whether the expectation is sufficiently precise

To identify a misstatement that when aggregated with other misstatements
May cause the financial statement to be materially misstated

- The accuracy with which the expected results of substantive analytical procedures can be predicated
- The degree to which information can be disaggregated
- The availability of the information both Financial & Non financial

Amount of Differences of recorded amounts from expected values that is acceptable

Amount of differences from the expectation that can be accepted without further investigation influenced by

- **A. Materiality**

And

- **B.** Consistency with the desired level of assurance, taking account of the possibility that a misstatement, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Amount of differences considered acceptable without Investigation — Decrease / Higher — Auditors Assessment of Risk — Higher / Pervasive — Audit evidence required

Investigating Results of Analytical Procedures

Identify fluctuation or relationships that differ from expected values.

The Auditor shall investigate such difference by

- **a) Inquiring of management and obtaining appropriate audit evidence relevant to management's response**
- **b) Preforming other audit procedures as necessary in the circumstances**

Analytical Procedures that assist when forming an Overall conclusion

Conclusions from results of Analytical Procedures — **Corroborate** — Conclusions formed of individual components or elements

↓

Assist auditor to Draw Reasonable conclusion

↓

To base Auditor's Opinion

Result of Analytical Procedures → **Unrecognized** → **Risk of Material Misstatement**

↓

Auditor will revise Risk Assessment Procedure (SA 315)

Hello Everyone !!
How are u all ??

5 AUDIT OF ITEMS OF FINANCIAL STATEMENTS

Definition of Assertions

Refers to the → Representations by management explicit or otherwise, that are embodied *in the financial statements*, as used by the auditor to consider the different types of potential misstatements that may occur.

In preparing financial statements, company's management makes various implicit or explicit claims (i.e. assertions) regarding:

- Completeness
- cut-off
- existence/ occurrence
- valuation/ measurement
- rights and obligations and
- presentation and disclosure

→ Of **Assets, Liabilities, Equity, Income, Expenses and Disclosures** in accordance with the applicable accounting standards.

INCOME STATEMENT

a. **Occurrence**: Transactions recognized in the income statement have occurred and relate to the entity.

b. **Completeness**: All transactions that were supposed to be recorded have been recognized in the income statement and further, transactions have been recognized in the correct accounting periods.

c. **Cut-off**: Whether all income and expenses are reported in the correct accounting period. Cut-off is a separate assertion because the substantive procedures to verify it are typically different from those applied to the other components of completeness.

d. **Measurement**: Transactions have been recorded accurately at their appropriate amounts and further, transactions have been classified and presented fairly in the income statement.

e. **Presentation and Disclosure**: Transactions have been classified and presented fairly in the financial statements. Presentation and disclosure assertions are considered during the course of the audit to determine that disclosures are complete and accurate.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

BALANCE SHEET

a. **Existence:** Assets, liabilities and equity balances exist as at the period end.

b. **Completeness:** All assets, equity and liabilities balances that were supposed to be recorded have been recognized in the balance sheet.

c. **Cut-off:** Whether all assets and liabilities are reported in the appropriate period.

d. **Valuation:** Assets, liabilities and equity balances have been appropriately valued i.e., the amounts at which they are recorded are appropriate. There has been no overstatement or understatement.

e. **Rights & Obligations:** Entity has the right to ownership or use of the recognized assets, and the liabilities recognized in the balance sheet represent the obligations of the entity.

f. **Presentation and Disclosure:** Whether particular items in the F.S. are properly classified, described and disclosed. Presentation and disclosure assertions are considered during the course of the audit to determine that disclosures are complete and accurate.

A. BALANCE SHEET CAPTIONS

1. Share Capital

1. Assertion to be Examined : EXISTENCE, COMPLETENESS, VALUATION

A. Fresh Issue of Shares

Tally the period-end share capital balance- authorized, issued and paid up, to the previous year audited financial statements.

In case there in no change during the year

Obtain a written confirmation/ representation from the Company Secretary that there were no changes to entity's capital structure during the year.

In case there is any change

Verify whether the paid up capital as at the period-end is within the limits of authorized capital.

Obtain → The certified copies of relevant resolutions passed authorising the increase/ decrease in authorized share capital.

Hello Everyone !!
How are u all ??

- In case of **Fresh issue** check with compliance of Companies Act 2013 with regard
  - Return of Allotment
  - Minimum Subscription
  - Minimum application money to be collected
  - maintenance of separate Bank account
  - payment of underwriting commission as per Sec 40 etc.
  - No shares have been issued at Discount (Sec. 53 of Companies Act)
  - Check if Shares are issued for cash or for Consideration other than cash.
  - Compliance with SEBI regulations and Guidelines.

- **Obtain and Verify copies of forms filed with**

Ministry of Corporate Affairs (MCA)

- Form SH-7, notice to Registrar of any alteration of share capital
- Form PAS 3 company making allotment of shares/ securities required to file a return of allotment to the Registrar

Reserve Bank of India (RBI)

- Form FCGPR in case of Foreign Direct Investment (FDI) by a Non-resident shareholder

- **Verify the number of securities issued along with the issue price.**
- **verify whether the Company has accurately calculated the required fee and stamp duty payable to MCA.**

B. Shares Issued at Premium

Section 52 of the Companies Act, 2013

- Company shall transfer the amount received as premium to securities premium account
- State the purpose for which the amount in the account can be applied.

❖ There is no restriction or conditions prescribed in the Act for issue of shares at premium.

Hello Everyone !!
How are u all ??

Application of Securities Premium Account

- Towards the issue of unissued shares of the company as fully paid bonus shares
- writing off the preliminary expenses
- writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company
- In providing for the premium payable on the redemption of any redeemable preference shares or of any debentures of the company
- For the purchase of its own shares or other securities under Section 68.(Buyback)

Prescribed Class of Companies are permitted to apply Securities Premium Account

- Towards the issue of unissued shares of the company as fully paid bonus shares
- writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company
- For the purchase of its own shares orother securities under Section 68.(Buyback)

Auditor needs to verify

- Premium received on shares, if any, has been transferred to a "securities premium account"
- Application of any amount out of the said "securities premium account" is only for the purposes mentioned above.

C. Shares Issued at Discount

Section 53 of the Companies Act 2013 :

Issuing shares at discount is STRICTLY PROHIBITED except

- Sweat equity shares U/s 54
- Discounted shares issued to creditors when its debt is converted to shares under 'Statutory Resolution Plan ' or 'Debt Restructuring Scheme' as per RBI Act 1934 or Banking Regulation Act 1949.

Liable	Penalty
Every officer who is in default	Up to an amount equal to the amount raised through the issue of shares at a discount or ₹5 lakh whichever is less.
Company	Refund all monies received with interest at the rate of 12% per annum from the date of issue of such shares.

Auditor needs to

- **Check** →Movement in share capital during the year and wherever there is any issue.

- **Verify**→ that the Company has not issued any of its shares at a discount by reading the minutes of meeting issue of share capital and the issue price.

- **Verify**→ that whether the Company has issued shares at a discount to its creditors in pursuance of any statutory resolution plan or debt restructuring scheme in accordance with any guidelines or directions or regulations specified by RBI .

D. Issue of Sweat Equity Shares

- Section 54 of the Companies Act, 2013, : Employees may be compensated in the form of 'Sweat Equity Shares".
- Sweat Equity Shares" mean equity shares issued by the company to **employees or directors** at a
  i. discount or
  ii. for consideration other than cash

  for providing know-how or making available right in the nature of intellectual property rightsor value additions, by whatever name called.

Auditor needs to verify

- Sweat Equity Shares issued by the company are of a class of shares already issued.

- Following conditions have been complied with (as per Section 54)
  - ➢ Issue is authorized by a special resolution passed by the company
  - ➢ Resolution specifies the
    - number of shares,
    - current market price,
    - consideration, if any, and
    - the class or classes of directors or employees to whom such equity shares are to be issued

  - ➢ **Equity shares of the company are listed on a recognized stock exchange :→** Are issued in accordance with the regulations made by SEBI.

  - ➢ **If not so listed :→** Are issued in as may be prescribed.

  - ➢ **Right, Limitations, Restrictions:→** as applicable to equity shares shall be applicable to the sweat equity shares.

  - ➢ Holders of such shares shall rank pari passu with other equity shareholders.

Hello Everyone !!
How are u all ??

E. REDUCTION OF CAPITAL (Section 66)

Auditor needs to verify

- Examine whether the company has followed the specific requirements as required by Section 66 of the Companies Act, 2013.

Audit Procedures

- Verify→ meeting of the shareholders held to pass the special resolution was properly convened and proposal was circularized in advance to all the shareholders.
- Verify→ Articles of Association authorises reduction of capital
- Examine→ There has been no default w.r.t repayment of deposits accepted by company or payment of interest on such deposits. Reduction of capital shall not be affected if such default exists.
- Examine→ Order of the Tribunal confirming the reduction
- Verify → A copy of the order and the minutes have been registered and filed with the Registrar of Companies
- Check→ Registrar's Certificate as regards to reduction of capital
- Vouch→ Accounting entries recorded to reduce the capital and to write down the assets by reference to the resolution of shareholders and other documentary evidence;
- Also check→ whether the requirements of Schedule III, Part I, have been complied with in relation to presentation.
- Confirm → whether the revaluation of assets has been properly disclosed in the Balance Sheet.
- Verify→ the adjustment made in the members' accounts in the Register of Members and confirm that either the paid-up amount shown on the old share certificates has been altered or new certificates have been issued in lieu of the old, and the old ones have been cancelled
- Confirm→ that the words "and reduced", if required by the order of the Tribunal, have been added to the name of thecompany in the Balance Sheet.
- Check → if the company have complied with all the terms and conditions imposed by the tribunal while confirming reduction ofshare capital.
- Verify→ that the Memorandum of Association of the company has been suitably altered

CA DEEPIKA RATHI

2. Disclosure

Ensure whether the following disclosure requirements of **Schedule III (Part I)** to Companies Act, 2013 have been complied with:

- Number and amount of shares authorized
- Number of shares issued, subscribed and fully paid, and subscribed but not fully paid
- Par value per share
- Reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period
- Rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital
- Shares in respect of each class in the company held by its holding company or its ultimate holding company including shares held by or by subsidiaries or associates of the holding company or the ultimate holding company in aggregate
- Shares in the company held by each shareholder holding more than 5 percent. shares specifying the number of shares held.
- Shares reserved for issue under options and contracts/commitments for the sale of shares/disinvestment, including the terms and amounts. For the period of 5 years immediately preceding the date as at which the Balance Sheet is prepared :
    a. Aggregate number and class of shares allotted as fully paid-up pursuant to contract(s) withoutpayment being received in cash.
    b. Aggregate number and class of shares allotted as fully paid-up by way of bonus shares.
    c. Aggregate number and class of shares bought back.
- Terms of any securities convertible into equity/preference shares issued along with the earliest date of conversion in descending order starting from the farthest such date
- Calls unpaid (showing aggregate valueof calls unpaid by Directors andofficers);
- Forfeited shares (amount originally paid-up).
- A company shall disclose Shareholding of Promoters* as below:

Shares held by promoters at the end of the year				% Changeduring the year***
S. No.	Promoter Name	No. ofshares	% of total shares**	
Total				

Where in respect of an issue of the whole or part of the amount has not been used for the specific purpose at the balance sheet date, there shall be indicated by way of note how such unutilized amounts have been used or invested.

Hello Everyone !!
How are u all ??

NOTES

Utilization of Borrowed funds and share premium:

A. Where company has advanced or loaned or invested funds (either borrowed funds or share premium or any other sources or kind of funds) to any other person(s) or entity(ies), including foreign entities (Intermediaries) with the understanding (whether recorded in writing or otherwise) that the Intermediary shall

   i. directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company (Ultimate Beneficiaries) or

   ii. provide any guarantee, security or the like to or on behalf of the Ultimate Beneficiaries;

   The company shall disclose the following:-

   I. Date and amount of fund advanced or loaned or invested in Intermediaries with complete details of each Intermediary.

   II. Date and amount of fund further advanced or loaned or invested by such Intermediaries to other intermediaries or Ultimate Beneficiaries along with complete details of the ultimate beneficiaries.

   III. Date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries

   IV. Declaration that relevant provisions of the Foreign Exchange Management Act, 1999 (42 of 1999) and Companies Act has been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering act, 2002 (15 of 2003);

B. Where a company has received any fund from any person(s) or entity(ies), including foreign entities (Funding Party) with the understanding (whether recorded in writing or otherwise) that the company shall

   i. Directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (Ultimate Beneficiaries) or

   ii. Provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries, the company shall disclose the following:-

      I. Date and amount of fund received from Funding parties with complete details of each Funding party.

      II. Date and amount of fund further advanced or loaned or invested other intermediaries or Ultimate Beneficiaries along with complete details of the other intermediaries or ultimate beneficiaries.

      III. Date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries

      IV. Declaration that relevant provisions of the Foreign Exchange Management Act, 1999 (42 of 1999) and Companies Act has been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering act, 2002 (15 of 2003).]

Hello Everyone !!
How are u all ??

2. Reserves & Surplus

Reserves are the amounts appropriated out of profits that are not intended

- To meet any liability
- contingency
- Commitment
- Diminution in the value of assets known to exist as at the date of the Balance Sheet.

The reserves can be segregated as **revenue or capital reserves**.

Revenue reserves represent profits that are available for distribution to shareholders or below purposes such as :

- to supplement divisible profits in lean years,
- to finance an extension of business,
- to augment the working capital of the business or
- to generally strengthen the company's financial position.

Capital Reserve represents a reserve which does not include any amount regarded as free for distribution. They can be utilized only for certain limited purposes.

1. Assertion to be Examined : EXISTENCE, COMPLETENESS, VALUATION

Audit Procedures

❖ Trace and tally the opening balance of reserves and surplus to the previous year audited financial statements.

For addition/utilization in current year, in case of Profit and Loss balance.

- Trace the movement to surplus/ deficit as per the Statement of profit and loss for the year under audit.
- Movement should be traced in the Statement of Changes in Equity
- **Dividend**
  - ❖ Verify the resolution passed by the board of directors regarding recommendation of dividend, resolution passed by shareholders declaring the dividend.
  - ❖ As per AS-4 (Revised)or IND AS 10, if dividends to holders of equity instruments are proposed or declared after the balance sheet date, an entity should not recognize those dividends as a liability as at the balance sheet date.
- **Securities Premium**
  - It needs to be confirmed that the company has issued shares in excess of the nominal value of the shares
  - Auditor should obtain and verify the resolution passed by the board of directors

Hello Everyone !!
How are u all ??

2. Assertion to be Examined : DISCLOSURES

Ensure whether the following disclosure requirements of Schedule III (Part I) to Companies Act, 2013 have been complied with:

I. **Reserves and Surplus shall beclassified as:**
   a. Capital Reserves
   b. Capital Redemption Reserve
   c. Securities Premium 8 [Omitted];
   d. Debenture RedemptionReserve
   e. Revaluation Reserve
   f. Share Options OutstandingAccount
   g. Other Reserves- (specify the nature and purpose of each reserve and the amount in respect thereof)
   h. Surplus

II. A reserve specifically represented by earmarked investments shall be termed as a "fund".

III. Debit balance of statement of profit and loss shall be shown as a negative figure under the head "Surplus".

IV. Balance of "Reserves and Surplus", after adjusting negative balance of surplus, if any, shall be shown under the head "Reserves and Surplus" even if the resulting figure is in the negative.

3. Borrowings

1. Assertion to be Examined : EXISTENCE

- Review → Board minutes for approval of new lending agreements.
- Ensure→ New loan agreements or bond issuances were authorized.
- Ensure→ significant debt commitments were approved by the board of directors.
- Agree→ details of loans recorded (Interest rate, nature and repayment terms) to the loan agreement.
- Verify→ borrowing limits, if any, imposed by agreements are not exceeded.
- Roll out and obtain independent balance confirmations (SA 505) in respect of all the borrowings from the lender.
- Obtain→ Written Representation that all the liabilities which have been recorded represent a valid claim by the lenders.

CA DEEPIKA RATHI

2. Assertion to be Examined : COMPLETENESS

Obtain a schedule of short term and long-term borrowings showing beginning and ending balances and borrowings taken and repaid during the year

And

Perform the following

A

Consider any evidence of additional debt obtained through examination of
- minutes of the board of directors,
- significant contracts,
- confirmations from banks/lenders,
- support for subsequent cash disbursements (when testing payables) etc.

B

Trace the closing balances as per the schedules to the general ledger.

❖ **Review subsequent transactions :→** After the end of the reporting period to determine if there are unrecorded liabilities at year end and the transactions are recorded in the correct period.

Direct Confirmation Procedures

Roll out and obtain independent balance confirmations in respect of all the borrowings from the lender (banks/ financial institutions etc.)

And

Perform the following

- Ascertain that the confirmation asks for all information likely to be relevant to the tests of debt and related interest balances
- Send reminders for non-replies.
- Compare the balances are per the confirmations obtained to the books of account.
- Ask for reconciliations, if there are any differences and test the supporting documents for the reconciling items on a test check basis.

Hello Everyone !!
How are u all ??

3. Assertion to be Examined : VALUATION

- Determine→ Accounting policies and methods of recording debt are appropriate and applied consistently.

- Agree→ loan balance and loan payables to the loan agreement.

- Recompute→ Interest and discount or premium on redemption, if any

- Check→ computation of the amortization of premium or discount, if any.

- For foreign currency loans, check the closing exchange rate(s) used and verify the computations of the restatements of foreign currency balances outstanding at year end. (As per AS 11).

- Read the provisions in loan and debt agreements and perform the following:

Test that the entity is in compliance with loan covenants and other significant provisions of the agreements.	If there are any provisions with which the entity is not in compliance, determine whether the debt should be classified as current.

- Examine the due dates on loans for proper classification between long-term and short-term.

- Where instalments of long-term loans falling due within the next 12 months have been disclosed in the financial statements
  - Verify → correctness of the amount of such instalments.

- Restrictive Covenant
  - Examine →Debt agreements for any restrictive covenants.
  - Review→ Restrictive covenant and provisions relating to default and ensure disclosure thereof in the financial statements

- Charge
  - **Examine→** the important terms in the loan agreements and the documents, if any, evidencing charge in respect of such loans and advances.
  - **Examine→** whether the requirements of the applicable statute regarding creation and registration of charges have been complied with including disclosure of the same to the extent mandated by statute.

- Value of the security falls below the amount of the loan outstanding
  - **Examine →** whether the loan is classified as secured only to the extent of the market value of the security.

CA DEEPIKA RATHI

- Hire Purchase
  - Examine → Hire purchase agreements for the purchase of assets by the entity and ensure the correctness of the amounts shown as outstanding in the accounts, and also examine the security aspect

- **Related party : Review→** borrowings from related parties and ensure compliance with AS 18 or IND AS 24.

- **Verify→** Whether liabilities towards bank in respect of bills discounted, bills negotiated, cheques discounted, etc. are correctly reflected and disclosed in the financial statements.

- **Verify→** Amount borrowed is within the borrowing powers of the company as laid down by the Articles of Association and Memorandum of Association.

- **Verify→** Company has not contravened the restrictions laid down by Section 180 of the Companies Act, in respect of the borrowings of the company. Also, check compliance of Sections 185 and 186 of the Companies Act, 2013.

- **Examine→** Purpose for which the amount is borrowed and ensure that the amount isnot used against the interest of the company.

- **Deposits : Examine →** whether the directives issued by the Reserve Bank of India or other appropriate authority have been complied with.

4. Assertion to be Examined : DISCLOSURE

Long Term Borrowings

i. Long-term borrowings shall be classified as:
   a. Bonds/debentures;
   b. Term loans: (A) from banks. (B) from other parties.
   c. Deferred payment liabilities;
   d. Deposits;
   e. Loans and advances from related parties;
   f. Long term maturities of finance lease obligations;
   g. Other loans and advances (specify nature).

ii. Borrowings shall further be sub-classified as
   - secured and unsecured.
   - Nature of security shall be specified separately in each case.

iii. Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.

iv. Bonds/debentures (along with the rate of interest and particulars of redemption or conversion, as the case may be) shall be stated in
   - Descending order of maturity or conversion, starting from farthest redemption or conversion date, as the case may be.
   - Where bonds/debentures are redeemable by instalments, the date of maturity for this purpose must be reckoned as the date on which the first instalment becomes due.

v. Particulars of any redeemed bonds/debentures which the company has power to reissue shall be disclosed.

vi. Terms of repayment of term loans and other loans shall be stated.

vii. Period and amount of continuing default as on the balance sheet date in repayment of loans and interest, shall be specified separately in each case.

Other Long Term Liabilities

Other Long term Liabilities shall be classified as:

a. Trade Payables
b. Others

Short Term Borrowings

i. Short-term borrowings shall be classified as:
   a. Loans repayable on demand; (A) from banks. (B) from other parties.
   b. Loans and advances from related parties;
   c. Deposits;
   d. Other loans and advances (specify nature).

ii. Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.

iii. Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.

iv. Period and amount of default as on the balance sheet date in repayment of loans and interest, shall be specified separately in each case.

v. Current maturities of long-term borrowings shall be disclosed separately.

CA DEEPIKA RATHI

Additional Disclosures

(1) Where the Company has borrowings from banks or financial institutions on the basis of security of current assets, it shall disclosethe following:

- (a) whether quarterly returns or statements of current assets filed by the Company with banks or financial institutions are in agreement with the books of account.
- (b) if not, summary of reconciliation and reasons of material discrepancies, if any to be adequately disclosed.

(2) **Wilful Defaulter**: Where a company is a declared wilful defaulter by any bank or financial institution or other lender, following details shall be given:

- (a) Date of declaration as wilful defaulter,
- (b) Details of defaults (amount and nature of defaults).

(3) **Registration of charges or satisfaction with Registrar of Companies**: Where any charges or satisfaction yet to be registered with Registrar of Companies beyond the statutory period, details and reasons thereof shall be disclosed.

(4) **Utilization of Borrowed funds and share premium :**

Same disclosure as given in topic Disclosure requirements of Share Capital

4. Trade Receivables

Essential features of internal Controls of trade receivables

- Carry out Test of Controls for checking the effectiveness of internal control over sales as a part of the debtors' audit procedure.
- Following points need to be considered in respect of trade receivables:
  - Only *bona fide* sales lead to trade receivables
    - ➢ All such sales are made to approved customers
    - ➢ All such sales are made to approved customers
  - Once recorded, the debtors can be settled only by receipt of cash or on the authority of aresponsible official.
  - Segregation of duties at every point in sales transaction.
  - Debtors are collected on time.
  - In case debtors are not collected in time, sending reminders and taking legal actions ifrequired.
  - Balances are regularly reviewed.
  - A proper system of follow up exists and if necessary, adequate provision for bad debt shouldbe made by preparing adequate ageing schedule of the debtors.

Hello Everyone !!
How are u all ??

1. Assertion to be Examined : EXISTENCE

- Check→
  - ➢ whether there are controls in place to ensure that invoices cannot be recorded more than once and
  - ➢ receivable balances are automatically recorded in the general ledger from the original invoice.
- Ask for
  - ➢ A period-end accounts receivable ageing report
  - ➢ Trace the balance as per the report to the general ledger.
- Check
  - ➢ whether → realization is recorded invoice-wise or not.
  - ➢ If not,→ Check that money received from debtors is adjusted chronologically invoice-wise and on FIFO basis *i.e.* previous bill is adjusted first.
- If any large balance is due for a long time, auditor should
  - ➢ Ask for reasons and justification for the same.

Direct confirmation procedures

- Auditor employs direct confirmation procedure with the consent of the entity under audit.
- This should necessarily bedone for all significant account balances as atthe period- end.
- Contact customers directly and ask them to confirm the amounts of unpaid accounts receivable as of the end of the reportingperiod under audit.
- There may be situations where the management of the entity requests the auditor not to seek confirmation from certaintrade receivables.

Auditor should consider whether there are valid grounds for such a request	Also need to reconsider the NTE of his audit procedures including the degree of planned reliance on management'srepresentations

- Trade Receivables may be requested to confirm the balances either
  - a. as at the dateof the balance sheet, or
  - b. as at any other selected date which is reasonably close to the date of the balance sheet.
- Date should be decided by the auditor in consultation with the Company
- Form of requesting confirmation from the trade receivables may be either in

Form with balance outstanding amount as per the company, • wherein the trade receivable is requested to respond whether or not he is inagreement with the balance shown,	Form without any balance mentioned therein, • wherein the trade receivable is requested to respond with the balance outstanding as perhis records.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

- Method of selection of the trade receivables to be circularised should not be revealed to the Company until the trial balance of the trade receivables' ledger is handed over to the auditor.

- A list of trade receivables selected for confirmation should be given to the entity for preparing request letters for confirmation which should be properly addressed.

- Auditor should maintain strict control to ensure the correctness and proper dispatch of request letters.

- It should be ensured that confirmations as well as any undelivered letters are returned to the auditor and not tothe client.

- Any discrepancies revealed by the confirmations received or by the additional tests carried out by the auditor may have a bearing on other accounts not included in the original sample.

- Company should be asked to investigate and reconcile the discrepancies, if any.

- Where no reply is received, the auditor should perform alternate procedures regarding the balances.
  - ➢ This could include
    - Agreeing the balance to cash received subsequently
    - Preparing a detailed analysis of the balance, ensuring it consists of identifiable transactions and confirming that these revenue transactions actually occurred.

- Related Party Receivables
  - Review them for collectability as well as whether they were properly authorized
  - The value of such transactions were reasonable and at arm's length.

Perform Analytical Procedures

- Review→ A trend line of sales and accounts receivable, or a comparison of the two over time, to check if there are any unusual trends.
- To check the reasonableness of balances
- Measurethe average collection period
- Make inquiries about reasons for changes in trends with the management and document the same in audit work papers.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

2. Assertion to be Examined : COMPLETENESS

Cut off procedure

- For the invoices issued during the last few days (last 5 days of the reporting year) i.e. cut-off date and which have been included in the debtors
- Check→ that the goods should have been dispatched and not lying with the Company
- Ensure → All goods dispatched prior to the period/ year-end have been invoiced and included in debtors on a test check basis
- Ensure → No goods dispatched after the year- end have been invoiced and included in debtors for the period under audit.

Invoices

- Test invoices listed in receivable report.
- Select few invoices from the accounts receivable ageing report and compare them to supporting documentation to see if they were billed with the correct amounts, to the correct customers, and on the correct dates.
- Match invoices to shipping/ dispatch log.
- Match invoice dates to the shipment dates for those items in the shipping/ dispatch log, to see if sales are being recorded in the correct accounting period.
- This can include an examination of invoices issued subsequent to the period being audited, to see if they shouldhave been included in the period under audit.

- If there is a situation where the Company is billing customers for sales despite still retaining thegoods on-site (known as "bill and hold"),
  - Examine→ supporting documentation to determine whether a sale has actually taken place or not.
- Review the receiving log to see if the Company has recorded an in ordinately large amount of customer returns after the audit period, which would suggest that the Company may have shipped more goods near the end of the audit period than what the customers had authorized to inflate the profits of the company.
- Review the process of giving discounts/ incentives and check whether the same were given as per the Company's policy/ general industry trends.
- Review the process of giving discounts/ incentives and check whether the same were given as per the Company's policy/ general industry trends.

Hello Everyone !!
How are u all ??

- Review credit memos, on a sample basis, issued during the audit period to see if they were properly authorized and whether they were issued in the correct period.

- Review credit memos issued after the period end to see if they relate to transactions belonging tothe period under audit.

- Where any deduction has been made against a bill, check the reason and correspondence for the same.

3. Assertion to be Examined : VALUATION

- Review → Process followed by the Company to derive an allowance for doubtful accounts.
-
- Obtain → Ageing report of accounts receivable (both Dr/Cr balance).

- Obtain → List of debtors under litigation and compare with previous year.

- Scrutinize the analysis and identify those debtors which appear doubtful;

Discuss with management about reasons as to why these debtors are not included in the provision for bad debts.	Perform further testing where any disputes exist.

- Check if provisions are made at appropriate rates considering the recoverability of amounts due.

- Prepare schedule of movements of bad debts.

- Provision accounts and debts written off and compare the proportion of bad debt expense to sales for the current year in comparison to prior years to see if the current expense appears reasonable.

- Check that write-offs of the receivable balances have been approved by an appropriate authority i.e. the Board of Directors in case of a company.

4. Assertion to be Examined : DISCLOSURE

- Check that the restatement of foreign currency trade receivables has been done properly in accordance with AS 11.

- Proper disclosure of Related Party Transactions as per AS 18 or IND AS 24.

- Ensure that the transactions with parties covered under Section 189 (Register of Contracts or Arrangements in which Directors are interested) of the Companies Act, 2013 are reported properly in Companies Auditors'Report Order (CARO),2020.

Hello Everyone !!
How are u all ??

- Ensure whether the following disclosures as required under Schedule III (Part I) to Companies Act, 2013 are made for each amount disclosed under the heading "Trade Receivables"

(i) Trade Receivables ageing schedule

						(Amount in Rs.)
Particulars	**Outstanding for following periods fromdue date of payment#**					
	Less than 6 months	**6 months-1year**	**1-2 years**	**2-3 years**	**More than 3 years**	**Total**
(i) UndisputedTrade receivables–considered good						
(ii) UndisputedTrade Receivable-considered doubtful						
(iii) Disputed Trade Receivables considered good						
(iv) Disputed Trade Receivables considered doubtful						

 # similar information shall be given where no due date of payment is specified, in that case disclosure shall be fromthe date of the transaction.
Unbilled dues shall be disclosed separately.

(ii) Trade receivables shall be sub-classified as:

a. Secured, considered good;
b. Unsecured, considered good;
c. Doubtful.

(iii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.

(vi) Debts due by

- *directors or other officers of the company or any of them either severally or jointly with anyother person or*
- *firms or private companies respectively in which any director is a partner or a director ora member should be separately stated.*

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

5. Cash & Cash Equivalents

1. Assertion to be Examined : EXISTENCE, COMPLETENESS

- Unless Cash are checked by surprise, there can be no certainty that the cash produced for inspection was in fact held by the custodian.

- Cash should be checked not only on the last day of the year, but also checked again sometime after the close ofthe year without giving notice of the auditor's visit either to the entity or to his staff. (Surprise check)

- If there are more than one cash balances
  - when there is a cashier,
  - A petty cashier,
  - A branch cashier and, in addition,
  - there are imprest balances with employees

All ofthem should be checked simultaneously → so that the shortage in one balance is not made good by transfer of amount from the others.

- It is desirable for the cashier
  - To be present while cash is being counted
  - He should be made to sign the statement prepared containing details of the cash balance counted along with denomination of cash.

↓

If he is absent at the time the cash is being verified

↓

he may hold the auditor responsible for the shortage, if any, in cash.

- If there is any rough Cash Book or details of daily balance are separately kept,
  - Auditor should → Test entries from the rough Cash Book with those in the Cash Book to prove that entries in the Cash Book are correct.

- If the auditor finds any slip, chit or I.O.U.s in respect of temporary advances paid to the employees included as part of the cash balance,
  - Auditor should→ Check whether those are approved by an authorized official and recorded in the appropriate accounts.

- The auditor should also perform
  - **A cash sensitivity analysis→** by compiling a summary of total cash receipts and payments each month and
  - **Analyzing the trends→** to see if there have been variations in any specific month and request brief descriptions fromthe management.

Hello Everyone !!
How are u all ??

Verification of Bank Reconciliation Statement

- Obtain bank reconciliation statements (BRS) for all bank accounts maintained by the entity as at the reporting period.
- Understand the client's process and periodicity of making the BRS.
- Ensure that BRS is signed by the authorized personnel so that he is able to assign responsibility in case of any errors.

Verification of BRS shall entail the following

1. Tallying the balance as per bank book to the bank confirmation/statement.
2. Checking of all material reconciling items included under ***cheques issued but presented for payment to the underlying bank book forming part of books of account.***

The auditor should
- Request for bank statements of subsequent period and
- Verify if the cheques issued have subsequently been cleared by the bank.

Where cheques have become stale i.e. 3 months or more have lapsed since the issue date
- Same should not appear in the BRS and should instead be taken back to liabilities

3. Checking of all material reconciling items included under ***cheques deposited but not credited by bank***

The Auditor Should
- Request for bank deposit slips, duly acknowledged by bank
&
- Verifying if the balances were credited by bank subsequently by tallying to the bank statement of subsequent period.

For any instances related to cheques not cleared beyond reasonable time, the auditor should
- Seek brief descriptions from the management
- In case such explanations are found to be unsatisfactory
  - ✓ Verify → The revenue recognition related to such parties was in order and as per the Company's revenue recognition policy.

4. Checking of all material reconciling items included under **amounts or charges debited/credited by bank but not accounted**

Auditor should
- Requesting for bank statements for the period under audit &
- Tallying the same.

If the amounts are found to be material
- Ensure that the management records the adjustments for the same in its books of account.
- If management does not adjust, the auditor shall consider to qualify his report.

Hello Everyone !!
How are u all ??

Direct confirmation procedures

- Auditor is required to confirm all year end account balance maintained with the bank.
- In case of any discrepancies, client should be asked to investigate and reconcile the discrepancies, including seeking written explanations/clarifications from the banks/financial institutionson any unresolved queries.
- Auditor should emphasize for confirmation of 100% of bank account balances.
- In remote situations were no reply is received, the auditor should perform additional testing regarding thebalances.

This testing could include

- Agreeing the balance to bank statement received by the Company or internet/online login to account in auditor's personal presence
- Prepare a final summary of the results of the circularization and draw the final conclusion.

2. Assertion to be Examined : VALUED

The auditor should ensure
- All bank accounts holding foreign currency have been restated at the closing exchange rates as per applicable FRF.

3. Assertion to be Examined : DISCLOSURE

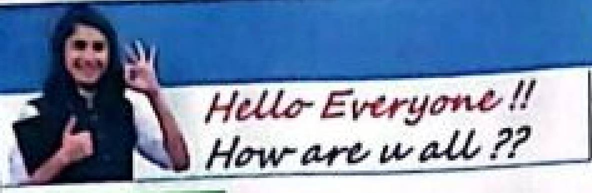
(i) Cash and cash equivalents shall be classified as:
   (a) Balances with banks;
   (b) Cheques, drafts on hand;
   (c) Cash on hand;
   (d) Others (specify nature).

(ii) Earmarked balances with banks (for example, for unpaid dividend) shall be separately stated.

(iii) Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately.

(iv) Repatriation restrictions, if any, in respect of cash and bank balances shall be separately stated.

(v) Bank deposits with more than 12 months' maturity shall be disclosed separately.



6. Inventories

1. Assertion to be Examined : EXISTENCE

1. Review entity's plan for performing inventory count.
2. Ensure that consigned goods have been segregated.
3. Auditor should participate in the inventory count with themanagement.
4. Test counts of inventory by auditor should include:
   - Observing employees are adhering to the agreed plan.
   - Assuring that all items are properly tagged.
   - Assuring that there is appropriate supervision on the countprocedure.
   - Observing that proper amounts are shown on tags.
   - Determining that tags and summary sheets are controlled andreconciled.
   - Reconciliation of test counts with tags and summary sheets and discrepancies noted, if any, are summarized and agreed with client personnel.
   - Staying alert at all times and specifically being cautious about empty boxes, etc. and obsolete items.
   - Performing cut-off testing by documenting last 5-10 receiving reports and shipping documents as of the period end.
   - Ensuring exclusion of third-party stock and damaged or obsolete stock.
   - Ensuring the accounting of all stock sheets.
   - Investigating any significant differences between the physical stock take and the stock records as per books. Further, the auditor should ask the entity's personnel to sign all stock count sheets and also agree the variances observed, if any, to avoid any conflicts.
5. When the entity uses periodic system for inventory count,
   - it should be undertaken at the end of the period.
   - If the entity uses perpetual system with proper and adequate records, inventory may be counted at interimdates.
6. Confirm or investigate → Any inventory of the entity lying with a third party (specifically relevant for cases where the entity gets job work done in its process of production).

2. Assertion to be Examined : COMPLETENESS

- Perform analytical procedures (comparison tests with industry averages, budgets, prior years, trend analysis, etc.).

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

- Compute inventory turnover ratio(COGS/ average inventory)
- Perform vertical analysis (inventory/ total assets)
- Compare budgetary expectationsvis-à-vis actuals

- Examine non-financial information related to inventory, such as weights and other measurements.
- Perform purchase and sales cut-off tests.
  - Trace shipping documents (bills of lading and receiving reports, warehouse records, and inventory records) to accounting records immediately before and after year-end
- With respect to tagged inventory, perform tests for omitted transactions and tests for invalid transactions.
- Verify → the clerical and arithmetical accuracy of inventory listings.
- Reconcile
  - Physical inventory amounts with perpetual records.
  - Physical counts with general ledger control totals
  - Inventories which belong to client but are held with third parties like transporters, warehouses, port authorities etc.

3. Assertion to be Examined : RIGHTS

- Vouch → recorded purchases to underlying documentation.
- Evaluate→ the consigned goods.
- Examine→ client correspondence, sales andreceivables records, purchase documents.
- Determine→ existence of collateral agreements.
- Review→ consignment agreements.
- Review→ material purchase commitmentagreements.
- Examine→ invoices for evidence of ownership i.e. the invoices shall be in the name of the client.
- Auditor shall obtain confirmation forsignificant items of inventory.

4. Assertion to be Examined : VALUATION

- Depending on how the business operates, the management may value inventory using First-in first-out (FIFO) or weighted average basis.
- Consider the reasonableness of the method adopted.

CA DEEPIKA RATHI

1. For Raw materials and consumables

- Ascertain what elements of cost are included
- **If standard costs are used,**
  - Enquire into basis of standards;
  - How these are compared with actual costs and
  - How variances are analyzed and accounted for/ treated in accounting records.
- **Test check**
  Cost prices used with purchase invoices received in the month(s) prior to counting.
- Follow up valuation of all damaged or obsolete inventories noted during observance of physical counting with a view to establishing a realistic net realizable value.

2. For Work in progress

- **Ascertain**
  - how the various stages of production/ value additions are measured and
  - In case estimates are made, understand the basis for such estimates.
- **Ascertain** →what elements of cost are included.
  - If overheads are included, ascertain the basis on which they are included and
  - Compare suchbasis with the available costing and financial data/ informationmaintained by the entity.
- **Ensure**
  that material costs exclude any abnormal wastage factors.

3. For Finished goods and goods for resale

- Enquire
  - what costs are included, how these have been established and

  Ensure
  - Overheads included have been determined based on normal costs and appear reasonable in relation to the information disclosed in the financial statements.
- Ensure
  - ➢ that inventories are valued at net realizable value if they are likely to fetch a value lower than their cost.
- For any such items, also verify if the relevant semi/ partly processed inventories (work in progress) and raw materials have also been written down.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Obsolete,Damaged, Slow moving Inventory

- Follow up for items that are obsolete, damaged, slow moving and ascertain the possible realizable value of such items.
- Examine the valuation of obsolete and damaged inventory.
- Request the client to provide inventory ageing split and follow up for any inventories which at time of observance of physical counting were noted as being damaged or obsolete.

> Compare → Recorded costs with replacement costs.
>
> Examine→ Vendor price lists to determine if recorded cost is less than current prices.
>
> Calculate→ inventory turnover ratio. Obsolete inventory may be revealed if ratio is significantly lower.
>
> In manufacturing environments, test overhead allocation rates and ensure that only direct labor, direct material andoverhead have been included.
>
> Verify → correct application of lower-of-cost-or-net realizable value principles.

4. Assertion to be Examined : DISCLOSURES

Ensure whether the following disclosures as required under Schedule III (Part I) to the Companies Act, 2013 have been made:

- Whether inventory has been classified as:
  - Raw materials
  - Work-in-progress
  - Finished goods
  - Stock-in-trade (goods acquired fortrading)
  - Stores and spares
  - Loose tools
  - Others (specify nature).
- Whether goods-in-transit have been disclosed separately under each sub-head of inventories.
- Mode of valuation shall be stated.

Hello Everyone !!
How are u all ??

1. Assertion to be Examined : EXISTENCE

- Review entity's plan for performing physical verification of PPE
  - whether performed by own staff or by a third party and the policy regarding periodicity
  - whether physical verification shall be done on annual basis or once in two years/ three years.
- Evidence of appropriate supervision of those performing physical verification of PPE should be examined.
- Obtain PPE physical verification report backed by the working sheets from the entity and perform the following procedures
  - Assess if all items of PPE are
    - Properly tagged
    - Carry identification marks/ numbers
    - Physical verification work papers do capture the asset identification numbers for assets physically verified.
  - Reconciliation of items of PPE as physically verified with the fixed asset register maintained by the entity as at the date/ period of undertaking physicalverification.
  - Specifically verify if the PPE additions up to the date of physical verification have been updated in the fixed asset register.
  - Verify
    - Discrepancies noted, based on physical verification undertaken and
    - Manner in which such discrepancies have been dealt with in the entity's books and financial statements.

2. Assertion to be Examined : COMPLETENESS

- Verify the movement in the PPE schedule (asset class-wise like building, Plant & machinery etc.) compiled by the management

  Opening balances + Additions during the period – Deletions during the period = Closing balances.

- Tally the closing balance to the entity's books of account.
- Check the arithmetical accuracy of the movement in PPE schedule.
- Tally the opening balances to the previous year audited financial statements.
- Obtain a listing of all additions from the management and perform the following procedures: Verify→ if such expenditure meets the criteria of PPE as per AS 10 (Revised).

Hello Everyone !!
How are u all ??

7. Land, Building, Plant & Equipment, Furniture & Fixtures, Vehicles, Office Equipment, Computers etc. referred to AS "Property, Plant And Equipment" ("PPE")

Recognition Criteria for PPE

Cost of an item of PPE should be recognised as an asset if, and only if:

- It is probable that future economic benefits associated with the item will flowto the enterprise,

And

- The cost of the item can be measured reliably.

- An enterprise evaluates under this recognition principle all its costs on property, plant and equipment at the time they are incurred.
- These costs include costs incurred:
  - Initially to acquire or construct an item of property, plant and equipment
  - Subsequently to add to, replace part of, or service it.

Measurement at Recognition

- An item of property, plant and equipment that qualifies for recognition as an asset should be measured at its cost.

Elements of Cost

Cost of an item of property, plant and equipment comprises

- Purchase price
  + Import duties
  + Non refundable purchase taxes
  - Trade discounts & rebates)

+

- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

+

- Initial estimate of the costs of dismantling, removing the item and restoring the site on which it is located

- The expenses have to be analyzed and properly classified.
- The revenue expense like regular repairs on assets have to be charged off to the Statement of Profit and Loss.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

- Verify that the cost of an item of property, plant and equipment is as per AS 10(Revised).
  - ➢ Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with AS10 (Revised) when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.
  - ➢ Ensure→ Entity is not recognizing costs of the day-to-day servicing in the carrying amount of an item of property, plant and equipment.
  - ➢ Test→ Purchase invoice, installation certificate or report or other similar documentation maintained by the entity to verify the date of addition, for all additions samples of PPE during theperiod under audit.
  - ➢ Verify→ Whether the PPE additions have been approved by authorized personnel.
  - ➢ Verify→ Whether proper internal processes and procedures like inviting competitive quotations/ floating tenders etc. were followed prior to finalising the vendor for procuring items of PPE/ awarding of work contract for capital projects by checking the supporting documents of the samples selected.
- In relation to deletions to PPE

Understand from the management the reason and rationale for deletion	AND	Manner of disposal

- Obtain → Management approval and discard note authoring disposal of the asset from its active use.
- Verify → Process followed for sale of discarded PPE, for example - inviting competitive quotes, tenders and the basis of calculation of sales proceeds.
- Verify →
  - ➢ Management has accurately recorded the deletion of PPE (original cost and accumulated depreciation up to the date of disposal) and
  - ➢ Resultant gain/ loss on disposal of PPE item in theentity's books of account.

3. Assertion to be Examined : VALUATION

- Verify → Entity has charged depreciation on all items of PPE unless any item of PPE is non-depreciable like freehold land.
- Assess that the depreciation method used reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.
  ➢It could be
  - Straight line method,
  - diminishing value method,
  - unit of production method,

Hello Everyone !!
How are u all ??

- The auditor should also verify →
  - ➢ Whether the management has done an impairment assessment
  - ➢ to determine whether an item of property, plant and equipment is impaired as per the requirements of AS 28 - Impairment of Assets.

4. Assertion to be Examined : RIGHTS & OBLIGATION

- In addition to the procedures undertaken for verifying completeness of additions to PPE during the period under audit
  The auditor while performing testing of additions should also verify
  - ➢ All PPE purchase invoices are in the name of the entity that entitles legal title of ownership to the respective entity.

- ***For all additions to land and building in particular, the auditor should***
  - ➢ Check the conveyance deed/sale deed to verify whether the entity is the legal and valid owner or not.

- ***The auditor should***
  - ➢ Insist and verify the original title deeds for all immovable properties held as at the balance sheet date.

- ***In case the entity has given such immoveable property as security for any borrowings and the original title deeds are not available with the entity***
  The auditor should
  - ➢ **Request→** Entity's management for obtaining a confirmation from the respective lenders that they are holding the original title deeds of immoveable property as security.
  - ➢ **Verify→** Register of charges, available with the entity to assess that any charge has been created against the PPE.

5. Assertion to be Examined : DISCLOSURES

Ensure whether the following disclosures as required under Schedule III (Part I) to Companies Act, 2013 have been made **under the heading "Property, Plant and Equipment":**

(i) Classification shall be given as:

- Land
- Buildings
- Plant and Equipment
- Furniture and Fixtures
- Vehicles
- Office equipment
- Others (specify nature)

(ii) Assets under lease shall be separately specified under each class of asset.

CA DEEPIKA RATHI

- The auditor should also verify →
  - ➢ Whether the management has done an impairment assessment
  - ➢ to determine whether an item of property, plant and equipment is impaired as per the requirements of AS 28 - Impairment of Assets.

4. Assertion to be Examined : RIGHTS & OBLIGATION

- In addition to the procedures undertaken for verifying completeness of additions to PPE during the period under audit
  The auditor while performing testing of additions should also verify
  - ➢ All PPE purchase invoices are in the name of the entity that entitles legal title of ownership to the respective entity.

- ***For all additions to land and building in particular, the auditor should***
  - ➢ Check the conveyance deed/sale deed to verify whether the entity is the legal and valid owner or not.

- ***The auditor should***
  - ➢ Insist and verify the original title deeds for all immovable properties held as at the balance sheet date.

- ***In case the entity has given such immoveable property as security for any borrowings and the original title deeds are not available with the entity***
  The auditor should
  - ➢ **Request→** Entity's management for obtaining a confirmation from the respective lenders that they are holding the original title deeds of immoveable property as security.
  - ➢ **Verify→** Register of charges, available with the entity to assess that any charge has been created against the PPE.

5. Assertion to be Examined : DISCLOSURES

Ensure whether the following disclosures as required under Schedule III (Part I) to Companies Act, 2013 have been made **under the heading "Property, Plant and Equipment":**

(i) Classification shall be given as:

- Land
- Buildings
- Plant and Equipment
- Furniture and Fixtures
- Vehicles
- Office equipment
- Others (specify nature)

(ii) Assets under lease shall be separately specified under each class of asset.

CA DEEPIKA RATHI

iii. A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations, amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment) and other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately.

iv. Where sums have been written-off on a reduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every balance sheet subsequent to date of such write-off, or addition shall show the reduced or increased figures as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date thereof for the first five years subsequent to the date of such reduction or increase.

To be disclosed as Additional Regulatory Information

i. Title deeds of Immovable Property not held in name of the Company

The company shall provide the details of all the immovable property (other than properties where the Company is the lessee and the lease agreements are duly executed in favour of the lessee) whose title deeds are not held in the name of the company in format given below and where such immovable property is jointly held with others, details are required to be given to the extent of the company's share.

Relevant line item in the Balance sheet	Description of item of property	Gross carrying value	Title deeds held in the name of	Whether title deed holder is a promoter, director or relative# of promoter*/director or employee of promoter/director	Property held since which date	Reason for not being held in the name of the company**
PPE -	Land Building	-	-	-	-	**also indicate if in dispute
Investment property	Land Building					
PPE retired from active use and held for disposal-	Land Building					
Others						

 # Relative here means relative as defined in the Companies Act, 2013

* Promoter here means promoter as defined in the Companies Act, 2013.

ii. Where the Company has revalued its Property, Plant and Equipment, the company shall disclose as to whether the revaluation is based on the valuation by a registered valuer as defined under rule 2 of the Companies (Registered Valuers and Valuation) Rules, 2017.

Hello Everyone !!
How are u all ??

iii. Capital-Work-in Progress (CWIP)

a. For Capital-work-in progress, following ageing schedule shall be given:
CWIP ageing schedule

(Amount in Rs.)

	Amount in CWIP for a period of				Total*
CWIP	Less than1 year	1-2 years	2-3 years	More than3 years	
Projects in Progress					
Projects temporarily suspended					

Total shall tally with CWIP amount in the balance sheet.

(b) For capital-work-in progress, whose completion is overdue or has exceeded its cost compared to its original plan, following CWIP completion schedule shall be given**

(Amount in Rs.)

	To be completed in			
CWIP	Less than 1 year	1-2 years	2-3 years	More than 3 years
Project 1				
Project 2				

8. Intangible Assets (Comprising Goodwill, Brand/ Trademark, Computer Software etc.)

- An intangible asset is an
  - identifiable non-monetary asset,
  - without physical substance,
  - held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.
- Examples: Computer software, patents, copyrights, motion picture films, franchises, marketing rights etc.
- As per AS 26 – Intangible Assets, internally generated goodwill should not be recognized as an asset.

1. Assertion to be Examined : EXISTENCE

Auditor should ensure that intangible asset should be recognised only if

- it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise.
- The cost of the asset can be measured reliably.

- Ensure that

At initial stages	**After initial recognition**
Intangible asset should be measured at cost.	An intangible asset should be carried at its cost less any accumulated amortisation and any impairment losses.

- For verifying the existence of software, the auditor should

Verify →Whether such software is in active use by the entity	Verify→ The sale of related services/goods during the period under audit, in which such software has been used.

- For verifying the existence of design/drawings, the auditor should
  - ➢ Verify→ the production data to establish if such products for which the design/drawings were purchased, are being produced and sold by the entity.

- In case any intangible asset is not in active use, deletion should have been recorded in the books of account post approvals by the entity's management and amortization charge should have ceased to be charged beyond the date of deletion.

2. Assertion to be Examined : COMPLETENESS

1. Verify the movement in the intangible assets schedule compiled by the management i.e. Opening balances + Additions – Deletions = Closing balances.

2. Tally the closing balances to the entity's books of account.

3. Check the arithmetical accuracy of the movement in intangible assets schedule.

For additions during the period under audit, obtain a list of all additions from the management and undertake the following procedures:

i. **For all material additions, Verify→** Whether such expenditure meets the criterion for recognition of an intangible asset as per AS 26.

ii. **Ensure →** No cost related to research gets recognized as intangible asset.

iii. **Check→** Certificate or report or other similar documentation maintained by the entity to verify the date of use of the intangible which could be linked to date of commencement of commercial production/economic use to the entity, for all additions to intangible assets during the period under audit.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

- Verify→ whether the additions (acquisitions) have been approved by appropriate entity's personnel.

- Verify→ whether proper internal processes and procedures like inviting competitive quotations/proper tenders etc. were followed prior to finalizing the vendor for procuring item of intangible assets by testingthose documents on a sample basis.

- In relation to deletions of intangible assets, understand from the management the reason and rationale for deletion and the manner of disposal.
  - Obtain→ the management approval and disposal note authoring disposal of the asset from its active use.

- Verify→ The process followed for sale of discarded asset, Example→ inviting competitive quotes, tenders and the basis of calculation of sales proceeds.

- Verify→ That the management has accurately recorded the deletion of intangible asset (original cost and accumulated amortization up to the date of disposal) and the resultant gain/loss on disposal in the entity'sbooks of account.

3. Assertion to be Examined : VALUATION

- Verify → Entity has charged amortization on all intangible assets.
- Verify → Amortization method used reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.
- The auditor should also verify→ Whether the management has done an impairment assessment to determine whether an intangible asset is impaired.

For this purpose, the auditor needs to
- Verify whether → The entity has applied AS 28 - Impairment of Assets for determining the manner of reviewing the carrying amount of its intangible asset, determining the recoverable amount of the asset to determine impairment loss, if any.

4. Assertion to be Examined : RIGHTS & OBLIGATION

- The auditor while performing testing of additions should also verify that all expense invoices/ purchase contracts are in the name of the entity that entitles legal title of ownership to the entity.

5. Assertion to be Examined : DISCLOSURES

Ensure that the following disclosures as requiredunder Schedule III (Part I) to Companies Act, 2013 have been made ***under the heading "Intangible Assets":***

Hello Everyone !!
How are u all ??

1. Classification of Intangible Assets into:
   - ✓ Goodwill
   - ✓ Brands/trademarks
   - ✓ Computer software
   - ✓ Mastheads and publishing titles
   - ✓ Mining rights
   - ✓ Copyrights and patents and other Intellectual property rights, services and operatingrights
   - ✓ Recipes, formulae, models, designs and prototypes
   - ✓ Licenses and franchises
   - ✓ Others (specifying nature)

2. A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations, amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of intangible assets) and other adjustments and the related depreciation and impairment losses or reversals shall be disclosed separately.

3. Where sums have been written-off on a reduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every balance sheet subsequent to date of such write-off, or addition shall show the reduced or increased figures as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date thereof for the first 5 years subsequent to the date of such reduction or increase.

To be disclosed as Additional Regulatory Information

Intangible assets under development:

a. For Intangible assets under development, following ageing schedule shall be given:

Intangible assets under development ageing schedule

					(Amount in ₹)
	Amount in CWIP for a period of				Total*
Intangible assetunder development	Less than 1year	1-2 years	2-3 years	More than3 years	
Projects in Progress					
Projects temporarily suspended					

**** Total shall tally with the amount of Intangible assets under development in the balance sheet.***

Hello Everyone !!
How are u all ??

b. For Intangible assets under development, whose completion is overdue or has exceeded its cost compared to its original plan, following Intangible assets under development completion schedule shall be given**.

(Amount in Rs.)

	To be completed in			
Intangible asset under development	Less than 1year	1-2 years	2-3 years	More than 3 years
Project 1				
Project 2				

9. Trade Payables and Others Current Liabilities

1. Assertion to be Examined : EXISTENCE

Check whether
- There are controls in place to ensure that any purchase/ expense invoice does not get recorded more than once and
- Payable balances are automatically recorded in the general ledger at the time of recording of expense.

- Obtain the accounts payable ageing report and trace its balances to the general ledger.
- If there are any differences, investigate reconciling items. Journal entries specially for large amounts should be carefully examined.

Direct confirmation procedures

- The auditor employs direct confirmation procedure with the consent ofthe entity under audit.
- There may be situations where the management of the entity requests the auditor not to seek confirmation from certain trade payables.

In such cases, the auditor should consider whether there are valid grounds for such a request.

The auditor may also need to reconsider the N.T.E of his audit procedures including the degree of planned reliance on management's representations.

Before accepting a refusal asjustified, the auditor should
- Examine any available evidence to support the management's explanations, e.g., correspondence between the entity and the trade payables.

Hello Everyone !!
How are u all ??

- The trade creditors may be requested to confirm the balances either

As at the date of the balance sheet	OR	As at any other selected date which is reasonably close to the date of the balance sheet.

- The date should bedecided by the auditor in consultation with the Company.
- The form of requesting confirmation from thetrade creditor may be either

Form with balance as at year end wherein the trade creditor is requested to respond whether or not he is in agreement with the balance shown	• Form with no balance wherein the trade creditor is requested to respond the balance as per his records. • The use of the form with no balance is preferable

- The method of selection of the trade creditors to be circularized should not be revealed to the Company until the trial balance of the trade payables' ledger is handed over to the auditor.
- A list of trade creditors selected for confirmation should be given to the entity for preparing request letters for confirmation which should be properly addressed.
- The auditor should maintain strict control to ensure the correctness and proper dispatch of request letters.
- In the alternative, the auditor may request the client to furnish duly authorised confirmation letters and the auditor may fill in the names, addresses and the amounts relating to trade creditors selected by him and mail the letters directly.
- Confirmations as well as any undelivered letters are returned to the auditor and not to the client.
- Any discrepancies revealed by the confirmations received or by the additional tests carried out by the auditor, may have a bearing on other accounts not included in the original sample.
- The entity should be asked to investigate and reconcile the discrepancies.
- In addition, the auditor should also consider what further tests he can carry out in order to satisfy himself as to the correctness of the amount of trade payables taken as a whole.
- Where no reply is received, the auditor should perform additional testing regarding the balances.

✓ This testing could include:

- Testing of subsequent payments in respect of the trade payables to whom confirmations were rolled out but no replies received
- Agreeing the details of the respective balance to the underlying vendor invoices
- Preparing a detailed analysis of the balance, ensuring it consists of identifiable transactions and confirming that these purchases/ expense transactions actually occurred.

- If there are any related party payables, reviewwhether they were properly authorized and the value of such transactions were reasonable and at arm's length.
- Review→ A trend line of purchases/ expenses and accounts payable, or a comparison of thetwo over time, to see if there are any unusual trends.
- Make inquiries→ about reasons for changes in trends from the management.

3. Assertion to be Examined : COMPLETENESS

The auditor needs to perform the following cut off procedures

- For the last 5 invoices received/recorded at the end of the reporting date (cut off date) and which have been included in the trade payables; the goods should have been received/risk and rewards of ownership in goods should have been transferred in favour of the entity
- All goods received prior to the period/ year-end should have been booked in the form of purchases and included in trade creditors.

- Test purchases/expenses on a sample basis selecting the same from the accounts payable ledgers and checking their supporting documents to ensure that the purchases were recorded at the correct amounts and correct dates.
- Match purchase invoice dates to the gate entry (inward) dates to check whether the purchases are being recorded in the correct accounting period.
- This can include an examination of purchase/ expense invoices received subsequent to the period being audited, to see if they should have been included in the period under audit.

- **Review**

Subsequent expense vouchers	Review all material expense vouchers recorded post the balance sheet date to see if they relate to transactions from within the audit period.

- For advance received from customers/revenue received in advance, obtain the customer wise listing along with its ageing and the nature.
- Verify if any advances are outstanding beyond 6 months.
- Enquire from the entity's management if there has been any dispute with the customer and if there is any additional liability to be recorded.
- For all such advances, the auditor should verify the underlying documentation based on which the entity had received the advance.

4. Assertion to be Examined : VALUATION

- Review→ the process followed by the Company to identify if any old creditor balance/liability needs to be written back.
- This will include a consistency comparison with the method used in the last year, and a determination of whether the method is appropriate for the underlying business environment.
- Obtain→ the ageing of payable balances, and the list of vendors with whom the Company has disputes and any claims from customers, under litigation and compare with previous year.
- Check→ that write backs in the liability balances assessed as no longer payable have been approved by an appropriate and authorised member of senior management, for example – CEO/MD.
- Check→ that the restatement of foreign currency trade payables has been doneproperly in accordance with AS 11.
- Understand management's process to identify the principal amount and the interest due thereon (if any) remaining unpaid to any Micro, Small and Medium Sized Enterprises suppliers at the end of accounting year.
- Test check the management process to assess if the auditor could rely on the management process.

Hello Everyone !!
How are u all ??

5. Assertion to be Examined : DISCLOSURES

Ensure whether the following disclosures as required under Schedule III (Part I) to Companies Act, 2013 have been made:

- Whether the Company has disclosed the following details relating to micro and small enterprises in the notes:
  - Principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier at theend of each accounting year.
  - Amount of interest paid by the buyer in terms of section 16 of the Micro, Small and Medium Enterprises Development Act, 2006, along with the amount of the payment made to the supplier beyond the appointed day during each accounting year.
  - Amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the Micro, Small and Medium Enterprises Development Act, 2006.
  - Amount of interest accrued and remaining unpaid at the end of each accounting year.
  - Amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues above are actually paid to the small enterprise, for the purpose of disallowance of a deductible expenditure under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006.

- ***Trade payables due for payment***

  The following ageing schedule shall be given for Trade payables due for payment :-

  Trade payables ageing table

					(Amount in Rs.)
Particulars	Outstanding for following periods from due date of payment#				
	Less than 1 year	1-2 years	2-3 years	More than 3 years	Total
(i) MSME					
(ii) Others					
(iii) Disputed Dues-MSME					
(iv) Disputed DuesOthers					

 # similar information shall be given where no due date of payment is specified in that case disclosure shall be from the date of the transaction Unbilled dues shall be disclosed separately.

Other Current Liabilities

The amounts shall be classified as:

1. Current maturities of finance lease obligations.
2. Interest accrued but not due on borrowings.
3. Interest accrued and due on borrowings.
4. Income received in advance.
5. Unpaid Dividends.
6. Application money received for allotment of securities and due for refund and interest accrued thereon. Share application money includes advances towards allotment of share capital.
   Further, the period for which the share application money has been pending beyond the period for allotment as mentioned in the documentinviting application for shares along with the reason for such share application money being pending shall be disclosed.
7. Unpaid matured deposits/debentures and interest accrued thereon.
8. Unpaid matured debentures and interest accrued thereon.
9. Others (specify nature).

10. Loan and Advances and Other Current Assets

1. Assertion to be Examined : EXISTENCE

- For establishing existence of loans and advances, direct confirmation procedures, similar to those performed for Accounts receivable balances are should be performed with the only difference that while performing circularisation of direct confirmations, in addition to the principal amount, interest receivable, if any, as per the agreed terms between the parties, may also be included as part of the balance to be confirmed.

2. Assertion to be Examined : COMPLETENESS

- Obtain a list of all advances and other current assets and compare them with balances in the ledger.
- Verify loan agreements and acknowledgements of parties in respect of outstanding loans.

A loan or an advance, if material, is granted only if authorised by the Memorandum and Articles of Association in the case of Company.

In addition, the auditor should confirm that the loans advanced were within the competence of persons who had advanced the same directors in the case of a Company, partners in the case of a firm and trustees in the case of a trust

Hello Everyone !!
How are u all ??

- Inspect → Minutes of meeting of BoD to confirm if all material loans and advances were approved by the BoD.

- Verify → Loan has been acknowledged by the party and in addition, inspect if any security has been deposited against due repayment of the loan. Ascertain if loans are being recovered regularly as per agreed instalments.

- *If there are any related party loans and advances,*
  - Review→ whether they were properly authorized and the value of such transactions were reasonable and at arm's length.

- In relation to balances with statutory authorities like GST input credit,
  - Prepare→ a reasonability with respect to purchases/expenses by applying the applicable rate to the purchases/expenses and in case of any variance with the asset recorded by the entity, reasons for variance should be requested from the entity.

- Further, the auditor should
  - Obtain→ statutory returns filed with the authorities like GST returns &
  - Verify→ whether the amount recorded as per books of account tallies with the claim made with the authorities.

3. Assertion to be Examined : VALUATION

- Assess→ the allowance for doubtful accounts. Review the process followed by the Company to derive an allowance for doubtful accounts.

- Consistency comparison with the method used in the last year, and a determination of whether the method is appropriate forthe underlying business environment.

- Obtain→ the ageing report of loans and advances. Also, obtain the list of loans and advances under litigation and compare with previous year.

- Scrutinize→ the analysis and identify those loans and advances that appear doubtful; discuss with management about the reasons as to why these loans/ advances are not included in the provision for doubtful balances.

- Assess→ bad loans/ advances write-offs. Prepare schedule of movements on Bad loans/ advances – Provision Accounts and loans/ advances written off.

- Check → that write-offs or other reductions in the recoverable balances have been approved by the authorized andappropriate senior authority

- Check →that the restatement of foreign currency loans and advances/ other current assets has been done properly in accordance with AS 11.

4. Assertion to be Examined : DISCLOSURES

Ensure whether the following disclosures as required under Schedule III (Part I) to Companies Act, 2013 have been made:

Long Term loans & Advances

i. ***Long-term loans and advances shall beclassified as:***
   - *Capital Advances*
   - *Loans and advances to related parties(giving details thereof);*
   - *Other loans and advances (specify nature).*

ii. ***The above shall also be separately sub-classified as:***
   a. *Secured, considered good;*
   b. *Unsecured, considered good;*
   c. *Doubtful.*

iii. ***Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.***

iv. ***Loans and advances due by***
   - *Directors or other officers of the company or any of them either severally or jointly with any other persons or*
   - *amounts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.*

Short-term loans and advances

i. *Short-term loans and advances shall be classified as:*
   a. *Loans and advances to related parties (giving details thereof);*
   b. *Others (specify nature).*

ii. *The above shall also be sub-classified as:*
   a. *Secured, considered good;*
   b. *Unsecured, considered good;*
   c. *Doubtful.*

iii. *Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.*

iv. *Loans and advances due by*
   - *directors or other officers of the company or any of them either severally or jointly with any other person or*
   - *amounts due by firms or private companies respectively in which any director is a partner or a director or a member shall be separately stated.*

Hello Everyone !!
How are u all ??

11. Provisions and Contingent Liabilities

Provision

- A provision is a liability which can be measured only by using a substantial degreeof estimation.
- A provision is recognised when:

An entity has a present obligation (legal or constructive) as a result of a pastevent	It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation	A reliable estimate can be made of the amount of the obligation.

If the above conditions are not met, no provision is recognised.

Contingent Liability

A contingent liability is:

A possible obligation • that arises from past events and • whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or	A present obligation that arises from past events but is not recognized because: • It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or • The amount of the obligation cannot be measured with sufficient reliability.

1. Assertion to be Examined : EXISTENCE, COMPLETENESS,VALUATION

- Obtain a list of all provisions and compare them with balances in the ledger.
- Inspect the underlying agreements like agreement with customers to assess warranty commitments, any legal and other claims on the entity i.e. litigations.
- Obtain → the underlying working and the basis for each of the provisions made, from the management and verify whether the same is complete and accurate.
- Wherever required, obtain → Expert's report, calculation and underlying working for the provision amount.
- Auditor may request the management to share the actuarial valuation report and in case of any matter under legal dispute.

- The auditor should request→ for assessment made by a legal expert in relation to likelihood of a liability devolving on the entity i.e. whether probable or possible or remote as defined above

- The auditor should then verify → the underlying assumptions used by the expert with the data shared by the management.

2. Assertion to be Examined : DISCLOSURE

Ensure whether the following disclosures as required under Schedule III (Part I) to Companies Act, 2013 have been made:

Long-term provisions

The amounts shall be classified as:

a. *Provision for employee benefits;*
b. *Others (specify nature).*

Short-term provisions

The amounts shall be classified as:

a. *Provision for employee benefits.*
b. *Others (specify nature).*

Contingent liabilities and commitments (tothe extent not provided for)

i. *Contingent liabilities shall be classifiedas:*
   a. *Claims against the company not acknowledged as debt*
   b. *Guarantees*
   c. *Other money for which the company iscontingently liable*
ii. *Commitments shall be classified as:*
   a. *Estimated amount of contracts remaining to be executed on capital account and not provided for*
   b. *Uncalled liability on shares and other investments partly paid*
   c. *Other commitments (specify nature).*

In terms of AS 29, "Provisions, Contingent Liabilities and Contingent Assets", ensure whether following disclosures have been made:

- **For each class of provision, an enterprise shall disclose:**
  - ✓ the carrying amount at the beginning and end of the period
  - ✓ additional provisions made in the period, including increases toexisting provisions
  - ✓ amounts used (i.e. incurred and charged against the provision) during the period
  - ✓ unused amounts reversed during *the period*

- **An enterprise shall disclose thefollowing for each class of provision:**
  - ✓ A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits
  - ✓ An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events and
  - ✓ The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.

- Unless the possibility of any outflow in settlement is remote, *an enterprise should disclose for each class of contingent liability at the balance sheet* date a brief description of the nature of the contingent liability and, where practicable:
  - ✓ an estimate of its financial effect
  - ✓ an indication of the uncertainties relating to *any outflow*; and
  - ✓ the possibility of any reimbursement.

  Where any of the information required by above paragraph is not disclosed because it is not practicable to do so,that fact should be stated.

Other information as per requirement of Part I, Schedule III, to be disclosed as Additional Regulatory Information

1. Details of Benami Property held

Where any proceedings have been initiated or pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and the rules made thereunder, the company shall disclose the following:-

a. Details of such property, including year of acquisition
b. Amount thereof
c. Details of Beneficiaries
d. If property is in the books, then reference to the item in the Balance Sheet
e. If property is not in the books, then the fact shall be stated with reasons
f. Where there are proceedings against the company under this law as an abetter of the transaction or as the transferor then the details shall be provided
g. Nature of proceedings, status of same and company's view on same.

2. Relationship with Struck off Companies

Where the company has any transactions with companies struck off under section 248 of the Companies Act, 2013 or section 560 of Companies Act, 1956, the Company shall disclose the following details :-

Name of struck off Company	Nature of transactions with struck off Company	Balance outstanding	Relationship with the Struck off company, if any, tobe disclosed
	Investments in securities		
	Receivables		
	Payables		
	Shares held by stuck off company		
	Other outstandingbalances (to be specified)		

1. Ratios to be Disclosed

a. Current Ratio
b. Debt-Equity Ratio
c. Debt Service Coverage Ratio
d. Return on Equity Ratio
e. Inventory turnover ratio,
f. Trade Receivables turnover ratio
g. Trade payables turnover ratio
h. Net capital turnover ratio
i. Net profit ratio
j. Return on Capital employed
k. Return on investment.

- The company shall explain the items included in numerator and denominator for computing the above ratios.
- Further explanation shall be provided for any change in the ratio by more than 25% as compared to the preceding year.

CA DEEPIKA RA

Hello Everyone !!
How are u all ??

B. STATEMENT OF PROFIT AND LOSS CAPTIONS

1. Sales of Products and Services

Auditor needs to obtain a clear understanding about the organization and its revenue centers.

General Steps to be performed

1. Identify the control points over sales
2. Tests the identified controls to determine how strong and reliable they are.
   - If controls are assessed as strong, the auditor can reduce the amount of substantive testing.
3. Selects a random sample of transactions and examines the related customer purchase orders, invoices and customer statements.
4. Performing substantive audit procedures like vouching and Substantive Analytical Procedure (SAP).
   - SAP will consist of sales trend analysis, comparison of sales figures with previous accounting period etc.
5. Verification of revenue may be carried out by employing the following procedures:
   a. Examination of records;
   b. Analytical review procedures.

1. Assertion to be Examined : OCCURRENCE

1. To ensure that revenue is not overstated, auditor is required to perform the following audit procedures:
   - Check whether a single sales invoice is recorded twice or a cancelled sales invoice could also be recorded.
   - Test check few invoices with their relevant entries in sales journal.
   - Obtain confirmation from few customers to ensure genuineness of sales transaction.
   - Whether any fictitious customers and sales have been recorded.
   - Whether any shipments were done without the consent and agreement of the customer, especially at the year end to inflate the sales figure.
   - Whether unearned revenue recorded as earned.
   - Whether any substantial uncertainty exists about collectability.
   - Whether customer obligations are contingent on other actions (financing, resale, etc.).

2. Review→ Sequence of sales invoices

3. Review→ Journal entries for unusual transactions.

4. Calculate→ Ratio of sales return to sales and compare it with previous year and enquire for the reasons for increase/decrease.

5. Check→ Sales return with sales invoice, challan, credit note, stockregister, etc.

Hello Everyone !!
How are u all ??

2. Assertion to be Examined : OCCURRENCE

1. To ensure that revenue is not overstated, auditor is required to perform the following audit procedures:
   - Check whether a single sales invoice is recorded twice or a cancelled sales invoice could also be recorded.
   - Test check few invoices with their relevant entries in sales journal.
   - Obtain confirmation from few customers to ensure genuineness of sales transaction.
   - Whether any fictitious customers and sales have been recorded.
   - Whether any shipments were done without the consent and agreement of the customer, especially at the year end to inflate the sales figure.
   - Whether unearned revenue recorded as earned.
   - Whether any substantial uncertainty exists about collectability.
   - Whether customer obligations are contingent on other actions (financing, resale, etc.).

2. Review→ sequence of sales invoices

3. Review→ journal entries for unusual transactions.

4. Calculate→ the ratio of sales return to sales and compare it with previous year and enquire for the reasons for increase/decrease.

5. Check→ the sales return with sales invoice, challan, credit note, stockregister, etc.

3. Assertion to be Examined : COMPLETENESS

1. Perform cut-off procedures to ensure that revenues are recognized in the current accounting period and sales were not tampered towards the period end.

2. Cut-off errors will usually arise when companies recognize revenue based on the date on which the sales invoices are generated rather than the date on which the risks and rewards are transferred to the buyer.

3. In order to perform a robust sales cut-off test, auditors need to understand and consider the specific cut-off error risk of each engagement.

4. Auditors should also verify the
   - ➢ Credit notes issued after the accounting period.
   - ➢ Sometimes sales team or sales personnel can make fictitious sales before the year-end to meet performance target and cancel out those sales with a post year end credit note.

5. Trace from the shipping documents to the sales journal.

CA DEEPIKA RATHI

- Check → whether quantity is appearing in sales register or not and check reconciliation of total sales/goods dispatched as per stock records and financial records and statutory records like GST.

- Review→ GST tax and GST returns and ensure that the same are reconciled with revenue reported in the profit and loss account.

- Verify→ reasonability say of GST by applying the applicable rate to the gross sales value and compare the amount of GST as per statutory returns and analyze the reasons for variance, if any.

4. Assertion to be Examined : MESUREMENT

- ***Trace a few transactions from inception to completion. (Examination in depth)***
  Example : Take few sales transaction, and check from the receipt of sales order to the payment of receivable balance, every underlying document to ensure if it is properly recorded at every stage and measured accurately taking into consideration all the incentives, discounts, if any. The recognition shall be according to the revenue recognition policy of the entity.

- If the client is engaged in export sales, *then compliance with AS 11 shallbe ensured.*

- Auditor must understand client's operations and related GAAP issues.

- Compare→ the rate of sales affected with related parties and review them for collectability, as well as whether they were properly authorized and the value of such transactions were reasonable and at arm's length.

5. Assertion to be Examined : DISCLOSURE

A Company shall disclose separately by way of notes on the face of the Statement of Profit and Loss-

a. In respect of a company other than a finance company:
   Revenue from-
   a. Sale of products
   b. Sale of services
   ba. Grants or donations received (relevant in case of section 8 companies only).
   c. Other operating revenues
   Less : Excise Duty

b. In respect of a finance company:
   Revenue form Operations
   Revenue from
   i. Interest; and
   ii. Other financial services.

CA DEEPIKA RATHI

Revenue under each of the above heads shall be disclosed separately by way of notes to accounts to the extent applicable.

- Whether→ Brokerage and discount on sales other than usual trade discount has been disclosed.
- Whether→ The transactions with related parties are appropriately disclosed in notes to accounts.

2. Other Income Comprising Interest Income, Dividend Income, Gain/Loss on sale of Investments etc.

Recognition of Income

Interest on Fixed Deposits

- Interest income on fixed deposits is recognized on a time proportion basis taking into account the amount outstanding and the applicable interest rate.

Dividends are recognized in the statement of profit and loss only when:

- The entity's right to receive payment of the dividend is established
- It is probable that the economic benefits associated with the dividend will flow to the entity;
- The amount of the dividend can be measured reliably.

Gain (Loss) oninvestments

- ✓ Gain/(loss) on sale of investment is recorded as other income on transfer of title from the entity and
- ✓ is determined as the difference between the redemption price and carrying value of the investments.

1. Assertion to be Examined : EXISTENCE, COMPLETENESS,MEASUREMENT

Interest on Fixed Deposit

- Obtain a list of
  - ➢ all fixed deposits exist at the beginning of the year and
  - ➢ newly made during the audit,
  - ➢ along with the applicable interest rate and the number of days for which the deposit was made.
- Verify→ the arithmetical accuracy of the interest calculation by multiplying the deposit amount with the applicable rate and number of days during the period under audit.
- For deposits outstanding as at the year end,
  - ➢ Obtain direct confirmation from the respective bank/ financial institution.
- Obtain a confirmation → of interest income from the bank and verify that the interest income as per bank reconciles to the calculation shared by the entity.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

- Obtain → A copy of Form 26AS (TDS) and reconcile the interest reflected therein to the calculation shared by client.

Dividend

Verify→ that the dividend is recognised in the statement of profit and loss only when the

↓

Entity's right to receive payment of the dividend is established,

↓

Provided it is probable that the economic benefits associated with the dividend will flow to the entity and the amount of the dividend canbe measured reliably.

Gain / Loss on sale of Investment

Verify that Gain/(loss) on sale of investment in mutual funds is recorded as other income only on

transfer of title from the entity AND Is determined as the difference between the redemption price and carrying value of the investments.

For this purpose, obtain the mutual fund statement and trace the gain/ loss as recorded in the books of account to the gain/loss as reflected in the statement.

2. Assertion to be Examined : DISCLOSURE

Ensure whether the following disclosures asrequired under Schedule III (Part II) to Companies Act, 2013 have been made:

Other income shall be classified as:

a. Interest Income (in case of a Company other than a finance company);
b. Dividend Income;
c. Net gain/loss on sale of investments
d. Other non-operating income (net ofexpenses directly attributable to such income).

To be disclosed as Additional Regulatory Information

Undisclosed income

The Company shall give

- details of any transaction not recorded in the books of accounts that has been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (such as, search or survey or any other relevant provisions of the Income Tax Act, 1961),
- unless there is immunity for disclosure under any scheme and also shall state whether the previously unrecorded income and related assets have been properly recorded in the booksof account during the year.

Hello Everyone !!
How are u all ??

3. Purchases

Auditor should perform following Audit Procedure

- Identify → Control points over purchases.
- Tests → Identified controls to determine how strong and reliable they are.
  - ➢ If controls are assessed as strong, the auditor can reduce the amount of substantive testing.
- Selects a random sample→ of transactions
- Examines→ the related purchase orders, Goods Received Note (GRN), purchase invoices, inward gate entry register and vendor reconciliation/ statements.
- Performing→
  - ➢ Substantive audit procedures like vouching and
  - ➢ Substantive Analytical Procedure (SAP). SAP will consist of purchase trend analysis, comparison of purchase figures with previous accounting period etc.
- Verification of revenue may be carried out by employing the followingprocedures:
  - a. Examination of records
  - b. Analytical review procedures

1. Assertion to be Examined : OCCURRENCE

Ensure purchases are **not understated/ overstated** by performing following audit procedures:

1. Whether → Any fictitious vendors have been booked or purchases have been recorded by reviewing the vendor selection process followed by the entity and also performing procedures to ensure existence of the vendors.
2. Whether → Goods were received at the factory gate and whether there exists an entry in the security gate inward register
3. Whether→ Quality inspection of goods was done.
4. Whether→ a goods receipt note wasprepared and signed by an appropriate client personnel.
5. Whether→ Purchase invoice was approved as per delegation of authority and whether a 3 or 2-way match (as discussed above) was done.
6. Whether→ Stock record has been updated by the stores personnel.

Special Considerations

- The purchase invoice received should be the "Original" copy (and not photocopy/carbon copy) against which the entity has recorded the purchase in its books of account.

- Purchase invoice should have been booked only once risk and reward incidental to ownership has been transferred to the entity.
  - ➢ Specific consideration for cases where the terms of delivery as agreed with vendor are F.O.B., C.I.F. etc

- Purchase invoice should be in the name of entity.
  - ➢ However, in case of different branches, it should be addressed to the appropriate branch.

- Input tax component should have been booked in the input tax ledger.
  - ➢ The auditor should obtain tax returns filed with the authorities and tally the input tax as reflected in the books to the amount disclosed in the returns.

- In case of purchases made from related parties or allied and associated concerns, the auditor needs
  - ➢ To verify→ if requisite approval from Board of Directors (appropriate authority) has been obtained and
  - ➢ Should verify→ The selected samples and perform analytical procedures in relation to price of goods to confirm that the price charged is at arm's length.

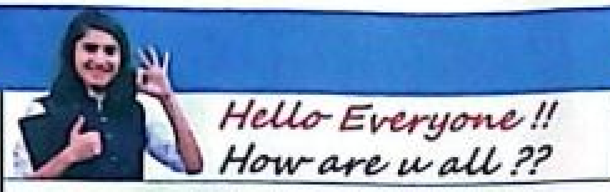
2. Assertion to be Examined : COMPLETENESS, MEASUREMENT

- **Perform cut-off test**→ to ensure that purchases are recognized in the correct accounting period. For the purpose, the auditor should
  - ➢ **Examine**→ Material inward records, say, last 5 transactions at the period end to check that all corresponding invoices have been duly entered in the Purchases book and none have been omitted.

- **Ensure**→ correct accounting treatment of goods-in-transit as per the agreed terms with the vendor regarding transfer of risk and reward of ownership in goods.

- **Obtain**→ Written Representation from the management that all the purchases that took place during the year have been properly recorded in the books.

- **Perform**→ Analytical Procedures to obtain audit evidence as to overall reasonableness of purchase quantity and price.



Analytical Procedures

Analytical procedures to obtain audit evidence as to overall reasonableness of purchase quantity and price may include:

Consumption Analysis	Stock Composition Analysis	Ratios	Quantitative Reconciliation
Examine consumption of raw material from manufacturing account and compare the same with previous years with closing stock and ask for the reasons from management for any significant variations noticed.	Collect reports from management for composition of stock	Compare the creditors turnover ratios and stock turnover ratios of the current year with previous years.	Review quantitative reconciliation of closing stocks with opening stock, purchases and consumption.

3. Assertion to be Examined : DISCLOSURES

Ensure whether the following disclosures as required under Schedule III (Part II) to Companies Act, 2013 have been made:

Whether

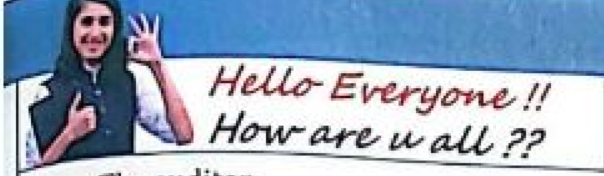
- Purchases of stock-in-trade have been specifically disclosed.
- Changes in inventories of finished goods, stock-in-trade and work- in-progress have been specifically disclosed.
- Transactions with related parties are appropriately disclosed in notes to accounts.

4. Employees Benefits Expenses

Auditor needs to obtain a clear understanding about the organisation and its hiring, appraisal and retirement process in the following manner:

- An auditor tests the controls the entity has set around employee benefit payment process to determine how effective they are.

If they are effective → Auditor can reduce the substantive testing.



- The auditor
  - ➢ Selects a random sample of transactions and
  - ➢ Examines the related appointment letters, appraisal letters, attendance records, HR policies, employee master etc.
- Performing substantive audit procedures is must.
  - ➢ Substantive analytical procedure→ Will consist of monthly expense reasonability, comparison with previous accounting period, any analysis auditor may find relevant and most important of all setting an expectation in relation to the expense incurred during the period under audit and compare that with the client's business operations and overall trend in the industry.

1. Assertion to be Examined : COMPLETENESS, MEASUREMENT

1. **Obtain→** an understanding of process of recording employee attendance.
2. **Obtain→** a list of employees along with a monthly movement split between new hires, leaversand continuing employees.
3. **In case of new employees, select few cases→** on random basis and obtain the appointment letter and verify whether the salary for first month and subsequent months was processed as per the agreed terms.
4. **In case of employees who resigned,→** select few cases on random basis and obtain their full and final computation and
   - ➢ **Verify→** whether all their dues including post-retirement benefits like gratuity, leave encashment have been paid and
   - ➢ Whether the respective employee's acknowledgement on final computation has been obtained.
5. **Obtain→** the monthly salary registers for the complete year. Compile a monthly payroll reasonability by calculating the average salary per employee per month and compare with the previous year and preceding month.
6. **Verify→** whether provision has been made for all employee benefits and obligations like bonus, gratuity, leave encashment.
7. In case Provident Fund (PF), Employee State Insurance (ESI) are applicable to the entity, determine a reasonable amount by applying the rate to the basic wages and comparing to the amount recorded in books and analyse reasons for variance, if any.
8. **Perform→** analytical procedures to obtain audit evidence as to overall reasonableness of employee benefit expense.

3. Assertion to be Examined : DISCLOSURES

Ensure whether the following disclosures as required under Schedule III (Part II) toCompanies Act, 2013 have been made:

CA DEEPIKA RATHI

Employee Benefits Expense [showing separately]

i. **Salaries and Wages,**
ii. **Contribution to provident and otherfunds,**
iii. **Expense on Employee Stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP),**
iv. **Staff welfare expenses**

5. Depreciation and Amortization

Attributes to beconsidered by Auditor

1. Obtain→ the understanding of entity's accounting policy related to depreciation and amortization.

2. Ensure→ the Company policy for charging depreciation and amortization is as per the relevant provisions of Companies Act/applicable ASs.

3. The accounting policy has been applied consistently year on year. Any change in the accounting policy has been adequately disclosed.

4. Whether→ the depreciation has been calculated after making adjustment of residual value from the cost of the assets.

5. Whether →depreciation and amortisation charges are valid.

6. Whether→ depreciation and amortisation charges are accurately calculated and recorded

7. Whether→ all depreciation and amortisation charges are recorded in the appropriate period.

8. Ensure→ the parts (components) of each item of property, plant and equipment that are tobe depreciated separately have been properly identified.

9. Whether→ the most appropriate depreciation method for each separately depreciable component has been used.

Audit Procedure

- Obtain an understanding of entity's process of charging depreciation and amortization.

- Obtain the fixed asset register maintained by the entity.
  - ➢ There is always a risk that an entity could capitalize expense of revenue nature to increase its profit or charge capital expenditure directly in income and expense statement to reduce its profit.

CA DEEPIKA RATHI

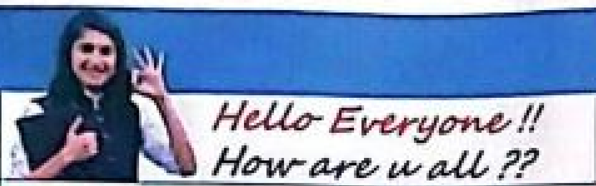
- To address this risk, the auditor may choose to check the nature of asset from fixed asset register and further, there is always a risk that fake asset has been capitalized in the books and to mitigate this risk, auditors should physically verify the fixed assets, at least the ones that are material in value.
- Obtain a list of all additions/deletions along with their proper approval from the authorised person for the same.

- Select the sample of assets from the Fixed Assets Register, on materiality considerations and verify the rates of depreciation and depreciation calculations.
- Obtain the list of all the components identified by the management.
- Ensure Intangible assets like patents, goodwill, copy rights have been properly amortized over the period.
- Ensure depreciation is charged on the assets from the date when it is ready to use and not from the date of actual usage.
- Ensure depreciation on revalued amount has been properly accounted from revaluation reserve.
- Perform analytical procedures to obtain audit evidence as to overall reasonableness of depreciation and amortisation expense.
- Ensure that the depreciation and amortization has been charged as per the useful lives of PPE and intangible assets.
- Ensure that residual values have been properly verified as that impacts the computation of depreciation.
- Ensure that the depreciation and amortization has been computed prospectively whenever there is any change in useful lives of PPE and intangible assets.

1. Assertion to be Examined : DISCLOSURES

Ensure whether the following disclosures asrequired have been made:

- Accounting policy for depreciationand amortization.
- Useful lives of assets as per ScheduleII to the Companies Act, 2013.
- Residual value of assets.
- Depreciation method.



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

Composition of other Expenses

a. Consumption of stores and spare parts
b. Power and fuel
c. Rent
d. Repairs to buildings
e. Repairs to machinery
f. Insurance
g. Rates and taxes, excluding, taxes on income
h. Miscellaneous expenses

Attributes to beexamined whilevouching expenses

Whether

- Expenditure pertained to current period under audit
- Expenditure qualified as a revenue and not capital expenditure
- Expenditure had a valid supporting like travel tickets, insurance policy, third party invoice etc.
- Expenditure has been classified under the correct expense head
- Expenditure was authorized as per the delegation of authority matrix
- Expenditure was in relation to the entity's business and not a personal expenditure

Audit Procedures

Rent Expense

- **Obtain →** A month wise schedule of rent payment along with the rent agreements.
- **Examine→** Whether rent expense has been recorded for all 12 months and whether the rent paid is as per the underlying agreement.
- **Examine→** Whether agreement contains any escalation clause, If yes, verify whether rent has been increased/adjusted during the period only as per escalation clause.
- **Verify→** Whether the agreement is in the name of the entity.
- **Verify→** Whether the expense pertains to premises used for running business operations of the entity.

Power and Fuel Expenses

- Obtain→ A month wise expense schedule of payment towards power and fuel along with the power bills.
- Examine→ Whether the expenses have been recorded for all 12 months.
- Compile→ A month wise summary of power units consumed and the applicable rate and check the arithmetical accuracy of the bill raised on monthly basis.
- Analyse→ The monthly power units consumed by linking it to units of finished goods produced and investigate reasons for variance in monthly trends.

Insurance Expense

- Obtain→ a summary of insurance policies taken along with their validityperiod.
- Verify→ whether the expense has been correctly classified between prepaid and expense for the period based on number of days.

Legal and Professional Expense

- Obtain→ a month wise and consultant wise summary.
- In case of monthly retainer ship agreements, verify→ whether the expenditure for all 12 months has been recorded correctly.
- For non-recurring expenses, select a sample on random basis and vouch for the attributes discussed above.
- Special focus should be given while vouching for legal expenses 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/highlighted to the auditor for his specific consideration.

Travel, repairand maintenance, printing andstationery, miscellaneous expenses

- Select a sample on random basis and vouch for the occurrence, completeness, measurement and appropriate disclosure.
- Wherever possible, the auditor should try and prepare a summary of expenditure on monthly basis and then analytically compare the trends.

- In addition, auditor should perform analytical procedures to obtain audit evidence as to overall reasonableness of other expense which may include expenditure per unit produced.

- Auditor should analyse expense per unit produced and compare the same with previous years and prevent industry trends and ask for the reasons from Management If any significant variations are found.

1. Assertion to be Examined : DISCLOSURES

Ensure other expense have been classified under:

a. Rent.
b. Insurance.
c. Power and fuel.
d. Repairs and maintenance - Building, Plant and machinery, others.
e. Legal and professional.
f. Printing and stationary.
g. Travel expenses.
h. Miscellaneous expenses.

To be disclosed as Additional Information

1. Corporate Social Responsibility (CSR)

Where the company covered under section 135 of the companies act, the following shall be disclosed with regard to CSR activities :-

a. Amount required to be spent by the company during the year
b. Amount of expenditure incurred,
c. Shortfall at the end of the year,
d. Total of previous years shortfall
e. Reason for shortfall,
f. Nature of CSR activities,
g. Details of related party transactions, e.g., contribution to a trust controlled by the company in relation to CSR expenditure as per relevant Accounting Standard,
h. Where a provision is made with respect to a liability incurred by entering into a contractual obligation, the movements in the provision during the year should be shown separately.

2. Details of Crypto Currency or Virtual Currency

Where the Company has traded or invested in Crypto currency or Virtual Currency during the financial year, the following shall be disclosed:-

a. profit or loss on transactions involving Crypto currency or Virtual Currency
b. amount of currency held as at the reporting date,
c. deposits or advances from any person for the purpose of trading or investing in Crypto Currency/ virtual currency.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

6 AUDIT DOCUMENTATION

Definition of Audit Documentation

Record of :
- Audit procedure performed
- Relevant audit evidence obtained
&
- Conclusion reached by Auditor

Objective of the Auditor

a. Sufficient and appropriate record of the basis for auditor's report.

b. Evidence that Audit was
- o planned and performed in accordance with SAs
&
- o other regulatory requirements

Nature of Audit Documentation

Audit Documentation provides evidence for :

- **The auditor's basis for a conclusion about achievement of overall objectives**

And

- **Audit was planned and performed in accordance with SA's and applicable regulatory requirements**

Purpose of Audit Documentation

- Purpose of Audit Documentation
  - Engagement Team
    - Assist them to plan and perform the audit
    - Assist them to direct and supervise the audit work
    - Enable the accountability for their work
  - Enable the conduct of
    - Quality control reviews and inspections
    - External inspections
  - Records for future audits

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Form, Content & Extent of Documentation

Auditor shall prepare audit documentation that is sufficient to enable an experienced auditor to understand :

A
NTE of the audit procedure

B
Result of audit procedure performed & audit evidence obtained

C
Significant matters
- Arising during the audit
- Conclusion reached thereon
- Professional judgments made in reaching those conclusions

Further in documenting the NTE of audit procedure preformed, the auditor shall

A
Identifying characteristics of the specific items or matters tested.

B
Who performed the audit work, date of completion

C
Who reviewed the audit work performed and the date and extent of such review.

Documentation of Discussion

The auditor shall document discussion of :
- Significant matters discussed with Management And TCWG
- When and with whom the discussion took Place
- How the auditor addresses the inconsistency (If any detected during discussion)

Factors affecting form, content & Extent of Audit Documentation

Memory Technique : BEST POEM

B - The need to document a conclusion or the **basis for a conclusion** not readily determinable from
the documentation of the work performed or audit evidence obtained.
E - Nature and extent of **exceptions identified.**
S - The **size and complexity** of the entity.
T - The audit methodology and **tools** used
P - The nature of the **audit procedure** to be performed
O-
E - The significance of the **audit evidence** obtained
M - The identified risks of **material misstatements**

Hello Everyone !!
How are u all ??

Example of Audit Documentation

- Audit Documentation may be recorded on paper/electronic/other media.
- Audit Documentation include
  - ✓ Audit programmes
  - ✓ Analyses
  - ✓ Issues memoranda
  - ✓ Summaries of significant matters
  - ✓ Checklists.
  - ✓ Letters of confirmation & Representation
  - ✓ Correspondence (including e-mail) concerning significant matters.
- The auditor **may include abstracts copies of the entity's records** as part of audit documentation.
- Audit documentation is **not a substitute for the entity's accounting records**.
- In audit documentation auditor need not include superseded drafts of working papers and F.S. notes.

Timely Preparation of Audit Documentation

- Auditor shall prepare A.D. on timely basis
  - ✓ To **enhance the quality of audit**
  - ✓ To facilitates effective review and **evaluation of A.E. obtained** ; &
  - ✓ **Conclusion reached** before the auditor's report is finalized.
- Documentation prepared after the audit work performed is likely to be less accurate

Audit File

- One or more **folder** or **other storage media**
- in **physical** or **electronic form**, containing the record that comprise
- the audit documentation for a specific engagement.

Assembly of the Final Audit File

Assembly of the final audit file after auditor's report
- is an **administrative process**
- does not **involve the performance of new audit procedures or drawing new conclusion**

The auditor shall assemble **A.D.** in audit file on timely basis (**within 60 days as per SQC1**) and complete the administrative process.

Hello Everyone !!
How are u all ??

- Changes may be made to the Audit Documentation during final assembly process, if they are administrative in nature.

- **Examples of Changes**
  - **Deleting or discarding superseded documentation**
  - **Shorting collating & cross referencing working papers**
  - **Signing off on completion checklist relating to the file assembly process.**
  - **Audit evidence obtained ,discussed, agreed before the date of auditor's report with engagement team.**

- After assembly auditor shall not delete A.D. before the end of its retention period.

- **Retention period :** As per SQC1 **Seven (7) years** from the date of audit report.

Documentation of Significant Matters and Related Significant Professional Judgements

- Judging the significant of a matter requires an **objective analysis** of the **facts and circumstances.**

- **Examples of significant matters**

  ✓ **Results of audit procedures indicating that**
    a. **F.S. Could be materially misstated.**
    b. **A need to revise the auditor's previous assessment of RMM and auditor's responses to those risks.**

  ✓ **Circumstances that cause the auditor significant difficulty in applying necessary audit procedure.**

  ✓ **Finding that could result in**
    - **a modification to the audit opinion or**
    - **the inclusion of Emphasis of Matter Paragraph in the auditor's report.**

Completion Memorandum or Audit Documentation

Auditor may prepare and retain as part of the audit documentation a summary that describe

Significant matters identified during the audit **And** How they were addressed.

Hello Everyone !!
How are u all ??

Assist in

- ✓ **Effective and efficient review** and **inspection of audit documentation** for large and complex audits.
- ✓ Auditor's consideration of the **significant matters.**
- ✓ **To consider** whether there is any relevant SA objective that the auditor cannot achieve that would prevent the auditor form achieving the overall objectives of the auditors.

Ownership of Audit Documentation

- As per SQC1 Audit documentation is **property of auditor.**
- **May at his discretion make portions of or extracts from documentation available to client** provided :
  - ✓ Such discloser does not undermine the validity of work performed or
  - ✓ In case of assurance engagements, does not undermine the independence of the auditor of his personnel.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

7 COMPLETION AND REVIEW

SUBSEQUENT EVENTS [SA-560]

Definition of Subsequent Events

Events occurring between
- Date of the F.S. and
- Date of the auditor's report

Facts which become known to the auditor
- After the date of the auditor's report but
- Before the date the F.S. are issued

Facts which become known to the auditor
- After the F.S. have been issued

Date of F.S. | Events Occurring | Date of Auditor's Report | Facts become Known | Date of issue of F.S. | Facts become Known

Subsequent Events

- **F.S. may be affected by certain events that occur after the date of the F.S.**
- **Financial reporting frameworks specifically refer to such events which ordinarily identify Two Types**

(a) Those that provide evidence of conditions that
- **Existed at the date of the financial statements**

Example : Declaration of insolvency of a major debtor of the entity between the date of financial statements and the date of auditor's report providing evidence on the recoverability of the money due from debtor as on date of the financial statements.

And

(b) Those that provide evidence of conditions that
- **Arose after the date of the financial statements.**

Example :
- Issue of new share capital.
- Planned merger of the company.
- Destruction of substantial inventories due to fire between the date of the financial statements and the date of auditor's report

SA 560 Subsequent Event → SA 560 deals with the auditor's responsibilities relating to subsequent events in an audit of F.S.

Hello Everyone !!
How are u all ??

Objective of the Auditor in accordance with SA 560

(a) **Obtain sufficient appropriate audit evidence** about
- whether events occurring between the date of the financial statements **and**
- the date of the auditor's report that require adjustment of, or disclosure in, the F.S.
- are appropriately reflected in those financial statements

(b) **Respond appropriately to facts** that
- become known to the auditor after the date of the auditor's report,
- that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.

Audit Procedure relating to events occurring between the date of the F.S. and the date of the auditor's report

The Auditor Shall .

Perform the procedures → To cover the period from the date of the financial statements to the date of the auditor's report, or as near as practicable thereto.

Take into account the auditor's risk assessment in determining the nature and extent of such audit procedures, which shall **include** the following: -

a. **Obtaining an understanding of →*any procedures management has established to ensure that subsequent events are identified.***

b. **Inquiring of management** and, **where appropriate, those charged with governance** as to → ***whether any subsequent events have occurred which might affect the financial statements.***

c. **Reading minutes,→ *if any, of the meetings, of the entity's owners, management and those charged with governance, that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available.***

d. **Reading the entity's latest subsequent interim financial statements,** if any.

On the basis of procedures performed, the **Auditor**

Identifies
Events that require adjustment of, or **disclosure** in the F.S.

Determine
Whether each such event is appropriately reflected in those F.S.

Written Representations with respect to subsequent events:

The Auditor Shall → *Request management and, where appropriate, TCWG*

- To provide a written representation in accordance with SA 580, "Written Representations"
- That all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure
- Have been adjusted or disclosed.

Note : Meaning of "Date the financial statements are issued"
The auditor's report and audited financial statements are made available to third parties.

Facts which becomes known to the auditor after the date of the auditor's report but before the date the financial statements are issued

- **The auditor has no obligation to perform any audit procedures in this regard**

- **However a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report**

The Auditor Shall

- **Discuss the matter with management and, where appropriate, TCWG**
- **Determine →** whether the financial statements need amendment and, if so,
- **Inquire →** How management intends to address the matter in the F.S.

If management amends the financial statements, the auditor shall:

- **Carry out the audit procedures necessary in the circumstances on the amendment.**
- Unless the other circumstances apply: -
  i. Extend the audit procedures, already referred, to the date of the new auditor's report and
  ii. Provide a new auditor's report on the amended financial statements.

Note : The new auditor's report shall not be dated earlier than the date of approval of the amended F.S.

Hello Everyone !!
How are u all ??

When law, regulation or the FRF does not prohibit management from restricting the amendment of the F.S. to the effects of the subsequent events or events causing that amendments and those responsible for approving the F.S. are not prohibited from restricting their approval to that amendment,

- The auditor is permitted to restrict the audit procedures on subsequent events to that amendment.

In such cases, the auditor shall either

A

Amend the auditor's report
- To include an additional date restricted to that amendment
- That thereby *indicates* that the auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements described in the relevant note to the financial statements

B

Provide a new or amended auditor's report that includes
- A statement in an Emphasis of Matter paragraph or Other Matter(s) paragraph
- that ***conveys*** that auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements as described in the relevant note to the financial statements.

- **Management doesn't amend as law does not provide but auditor believes they need to be amended then : -**

Audit Report not yet given to entity

Auditor shall
- **Modify the opinion as required by SA 705 and**
- **then provide the auditor's report**

Auditor's report has already been provided to the entity

F.S. not issued yet

Notify Management or TCWG not to issue the F.S.

F.S. issued without amendments

Take appropriate action, to seek to prevent reliance on the auditor's report

Facts which becomes known to the auditor after the financial statements have been issued

The auditor has no obligation to perform any audit procedures in this regard

However, when, after the financial statements have been issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report,

Hello Everyone !!
How are u all ??

The Auditor Shall

- **Discuss the matter** with management and, where appropriate, TCWG
- **Determine** →whether the financial statements need amendment and, if so,
- **Inquire** → How management intends to address the matter in the F.S.

If management amends the financial statements, the auditor shall:

A — **Carry out the audit procedures** necessary in the circumstances on the amendment.

B — **Review the steps taken by management** - to ensure that anyone in receipt of the previously issued ***F.S. + Auditor's Report*** thereon is informed of the situation.

C — Unless such circumstances when law, regulation or the financial reporting framework does not prohibit management from restricting the amendment of the financial statements to the effects of the subsequent events or events causing that amendments and those responsible for approving the financial statements are not prohibited from restricting their approval to that amendment apply: -

i. Extend the audit procedures, already referred, to the date of the new auditor's report and
ii. Provide a new auditor's report on the amended F.S.

D — When the circumstances are such that law, regulation or the financial reporting framework does not prohibit management from restricting the amendment of the financial statements to the effects of the subsequent events or events causing that amendments and those responsible for approving the financial statements are not prohibited from restricting their approval to that amendment, amend the auditor's report, or provide a new auditor's report as already discussed.

In such cases, the auditor shall

Emphasis of Matter Para or Other Matter Para

- Include in the new / amended auditor's report an **Emphasis of Matter paragraph** or **Other Matter(s) paragraph**
- **referring to a note** to the financial statements that more extensively discusses
- **the reason for the amendment of the previously issued financial statements** and
- **to the earlier report** provided by the auditor.

Hello Everyone !!
How are u all ??

If management does not take the necessary steps to ensure that anyone in receipt of the previously issued financial statements is informed of the situation and does not amend the financial statements in circumstances where the auditor believes they need to be amended,

In such cases, the auditor shall

- Notify management and, unless all of those charged with governance are involved in managing the entity, those charged with governance,
- That the ***auditor will seek to prevent future reliance on the auditor's report***

- If, despite such notification, management or those charged with governance do not take these necessary steps,
- The auditor shall
  - ***take appropriate action to seek to prevent reliance on the auditor's report.***

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Going Concern [SA-570]

SA 570 Going Concern → Deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.

Responsibility for assessment of the entity's ability to continue as a going concern

- The preparation of the F.S. requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.

- Management's assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions.
  The following factors are relevant to that judgment :-
  i. **The degree of uncertainty associated with the outcome of an event or condition**
  ii. **The size and complexity of the entity,**
  iii. **Any judgment about the future is based on information available**

Responsibilities of the auditor

- To obtain sufficient appropriate audit evidence regarding and conclude on the appropriateness of management's → ***use of the going concern basis of accounting in the preparation of the F.S.***
- To conclude, based on the audit evidence obtained, → ***whether a material uncertainty exists about the entity's ability to continue as a going concern.***

- **These responsibilities exist even if the FRF used in the preparation of the F.S. does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.**
- **Absence of any reference to a material uncertainty about the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.**

Objective of the auditor

- To obtain sufficient appropriate audit evidence regarding and conclude on the appropriateness of management's → ***use of the going concern basis of accounting in the preparation of the F.S.***
- To conclude, based on the audit evidence obtained, → ***whether a material uncertainty exists about the entity's ability to continue as a going concern.***
- ***To report*** in accordance with this SA.

Hello Everyone !!
How are u all ??

Risk Assessment Procedures and Related Activities

The auditor shall consider
- ***Whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern.***

In so doing, the auditor shall determine
- ***Whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern, and:***

A. If such an assessment has been performed,

The Auditor shall

- **Discuss the assessment with management**
- **Determine whether**
  - **management has identified events or conditions**
  - **that, individually or collectively,**
  - **may cast significant doubt on the entity's ability to continue as a going concern and**
- **If so management's plans to address them**

B. If such an assessment has not yet been performed,

The Auditor shall

- **Discuss with management**
  - **The basis for the intended use of the going concern basis of accounting**
- **Inquire of management**
  - **whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.**

The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Examples of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern

The following are examples of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.

Financial Events or Conditions	• Net liability or net current liability position • Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets • Indications of withdrawal of financial support by creditors • Negative operating cash flows indicated by historical or prospective financial statements

Hello Everyone !!
How are u all ??

	• Adverse key financial ratios • Substantial operating losses or significant deterioration in the value of assets used to generate cash flows • Arrears or discontinuance of dividends • Inability to pay creditors on due dates • Inability to comply with the terms of loan agreements • Change from credit to cash-on-delivery transactions with suppliers Inability to obtain financing for essential new product development or other essential investments
Operating events or conditions	• Management intentions to liquidate the entity or to cease operations • Loss of key management without replacement • Loss of a major market, key customer(s), franchise, license, or principal supplier(s) • Labour difficulties • Shortages of important supplies • Emergence of a highly successful competitor **Memory Technique** **Labor and supplies nai mila and market mai itne competitor's aah gaye , so key management nai decision liya to liquidate the company.**
Other events or conditions	• Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions • Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy • Changes in law or regulation or government policy expected to adversely affect the entity • Uninsured or underinsured catastrophes when they occur

Evaluating Management's Assessment

- ***It is not the auditor's responsibility to rectify the lack of analysis by management.***
- The auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period.
- Assessment should have been done for a minimum of 12 months from the date of financial statements.
- If management's assessment of the entity's ability to continue as a going concern covers less than 12 months from the date of the financial statements, the auditor shall request management to extend its assessment period to at least twelve months from that date.

Hello Everyone !!
How are u all ??

Additional audit procedures when events or conditions are identified

- *Requesting management* → *to make its assessment of the entity's ability to continue as a going concern*
- *Evaluating management's* → *plans for future actions*
- *Analysis of cash flow forecast*
  - Evaluating the reliability of the underlying data generated to prepare the forecast
  - Determining whether there is adequate support for the assumptions underlying the forecast.
- *Consider any information or facts made available post the going concern assessment.*
- *Requesting written representations form management*

Examples of audit procedures when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as going concern

Analyzing and discussing	• Cash flow, profit and other relevant forecasts with management • Entity's latest available interim financial statements
Reading	• terms of debentures and loan agreements • minutes of the meetings
Inquiring	Entity's legal counsel regarding the existence of litigation and claims
Confirming	• The existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties • The existence, terms and adequacy of borrowing facilities
Evaluating	Entity's plans to deal with unfilled customer orders
Performing audit procedures	Regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern
Obtaining and Reviewing	Reports of regulatory actions
Determining	Adequacy of support for any planned disposals of assets

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Auditor's Conclusions

The auditor shall

Evaluate
whether ***sufficient appropriate audit evidence*** has been obtained regarding Going Concern

Conclude
Appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

Based on the audit evidence obtained, the auditor shall conclude

Whether, in the auditor's judgment, a material uncertainty exists that may cast significant doubt entity's ability to continue as a going concern ??

Material Uncertainty Exists

Auditors Shall Determine whether the F.S.

Adequately disclose

- ***Of principal events*** or ***conditions*** that cast significant doubt on the entity's ability to continue as a going concern

  and

- **Management's plans to deal with these** events or conditions

Disclose clearly

- There is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern

  and

- It may be **unable to realize its assets and discharge its liabilities in the normal course of business.**

No Material uncertainty exists

Auditor Shall evaluate

Whether, in view of the requirements of the applicable FRF, the F.S. provide adequate disclosures about these events or conditions ??

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Implications for the Auditor's Report

I – If use of Going concern basis of accounting is inappropriate
- *Auditor shall express an adverse opinion.*

II – If use of Going concern basis of accounting is appropriate but a material uncertainty exits

A – Adequate Disclosure of a Material Uncertainty is made in the F.S.

Auditor Shall

- Provide *Unmodified opinion* *And*
- Auditor's report shall include a separate section under the heading *"Material Uncertainty Related to Going Concern"* to
  - Draw attention to the note in the F.S. that discloses such matters.
  - State that
    - These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and
    - That the auditor's opinion is not modified in respect of the matter.

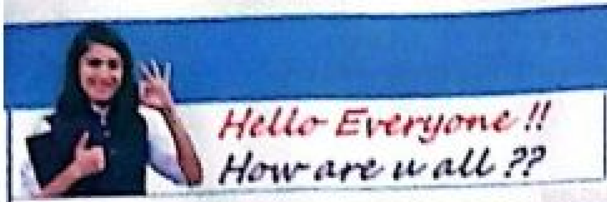
B – Adequate Disclosure of a Material Uncertainty is Not Made in the F.S.

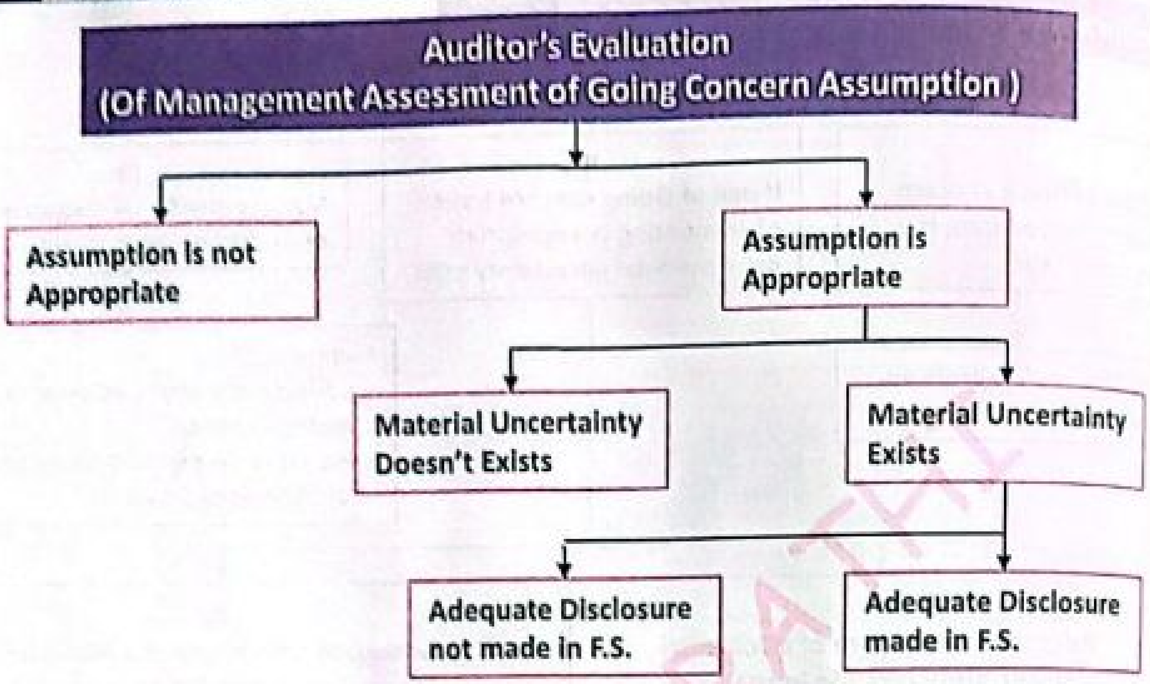
Auditor Shall

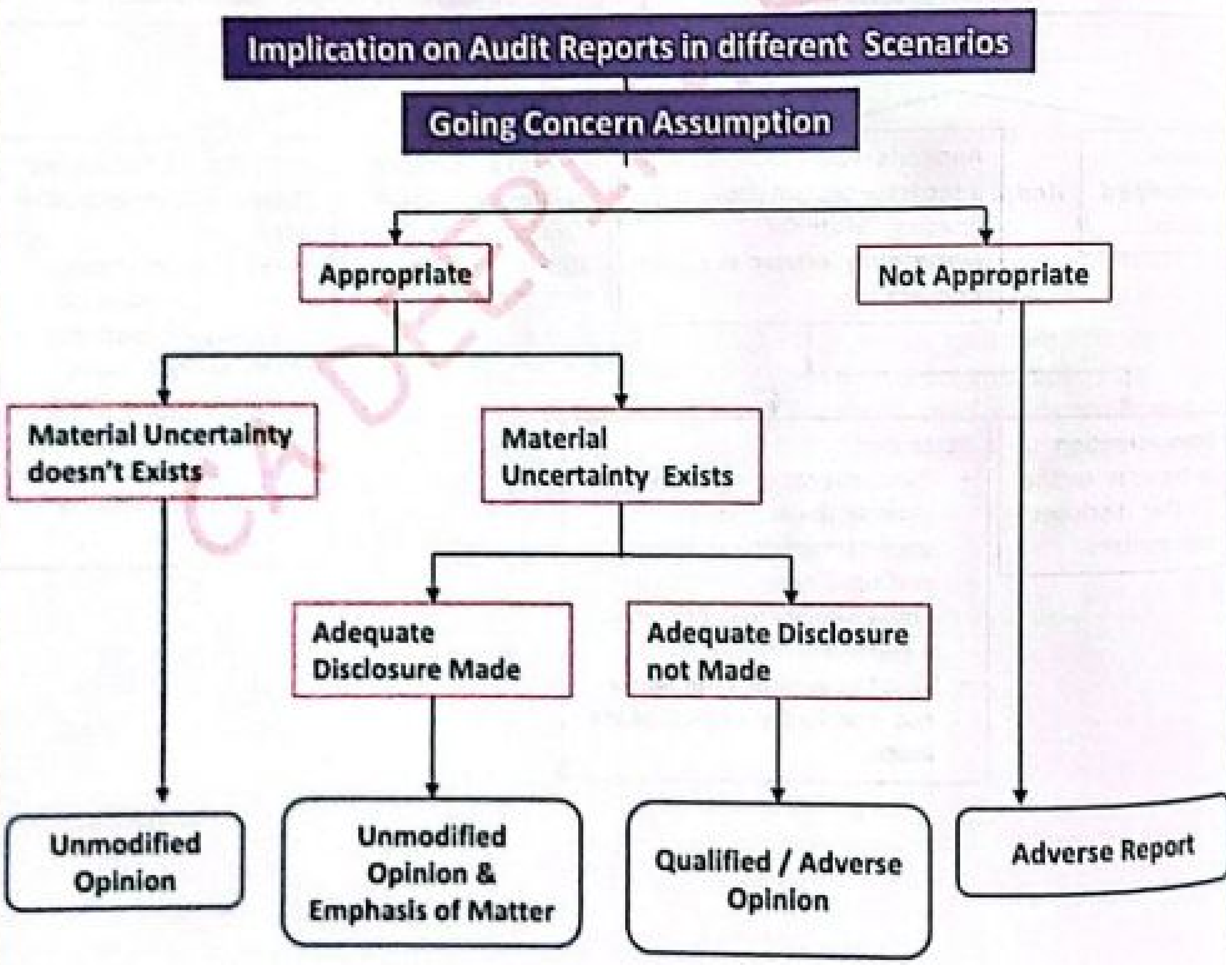
- Express a *Qualified opinion or Adverse opinion as per SA 705*
- In the *Basis for Qualified (Adverse) Opinion section* state that
  - Material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and
  - the FS. do not adequately disclose this matter.

III – Management unwilling to make or extend its assessment

Auditor shall
- *Consider the implications for the auditor's report*
- Provide *a Qualified Opinion or a Disclaimer of Opinion*


Hello Everyone !!
How are u all ??


Auditor's Evaluation
(Of Management Assessment of Going Concern Assumption)
Assumption is not Appropriate
Assumption is Appropriate
Material Uncertainty Doesn't Exists
Material Uncertainty Exists
Adequate Disclosure not made in F.S.
Adequate Disclosure made in F.S.


Implication on Audit Reports in different Scenarios
Going Concern Assumption
Appropriate
Not Appropriate
Material Uncertainty doesn't Exists
Material Uncertainty Exists
Adequate Disclosure Made
Adequate Disclosure not Made
Unmodified Opinion
Unmodified Opinion & Emphasis of Matter
Qualified / Adverse Opinion
Adverse Report

Hello Everyone !!
How are u all ??

EVALUATION OF MISSTATEMENT IDENTIFIED DURING THE AUDIT [SA-450]

Before forming an opinion on the F.S. the auditor

- → ***Evaluates effects of identified misstatements on the audit***

And

- → ***Uncorrected misstatements*** on F.S. after consideration of materiality.

Meaning of Uncorrected misstatements

Uncorrected misstatements refer to those misstatements that ***the auditor has accumulated during the audit and that have not been corrected.***

Objective of the Auditor

- ***Evaluates effects of identified misstatements on the audit***

And

- ***Evaluates effects Uncorrected misstatements*** on F.S. after consideration of materiality.

Accumulation of Misstatements Identified During the Audit

The auditor shall

- Accumulate misstatements identified during the audit, other than those that are clearly trivial (insignificant)

Consideration of Identified Misstatements as the Audit Progress

Revision of Audit Strategy & Audit Plan

The auditor shall determine whether the overall audit strategy and audit plan need to be revised if

A

→ ***Nature of identified misstatements*** and
→ **Circumstances of their occurrence** indicate that other misstatements may exist that, all such identified and probable misstatements together could be material

B

Aggregate of misstatements accumulated during the audit approaches materiality as per SA 320

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Additional Procedures by the Auditor

If management, on auditor's request has

- Examined a class of transaction, account balance or disclosure
- **And**
- Corrected misstatements that were detected

Communication and Correction of Misstatements

The auditor shall

- **Communicate all identified misstatements on timely basis with management**
- **Request to management to correct those misstatements**
- **If management refuses to correct**

The auditor shall

- Obtain an understanding of management's reasons for not making the corrections
- Take that understanding into account when evaluating whether the F.S. as a whole are free from material misstatement

Evaluating the Effect of Uncorrected Misstatements

Reassessment of Materiality

Prior to evaluating the effect of uncorrected misstatements, the auditor shall

Reassess Materiality determined in accordance with SA 320

To confirm whether → it remains appropriate in the context of the entity's actual financial results.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Evaluation of effect of Uncorrected Misstatement

The auditor shall Consider

- Size and Nature of the misstatements, both in relation to particular item and the F.S. as a whole

And

- Effect of uncorrected misstatements related to prior periods on the relevant account balance and the F.S. as a whole

Communication with TCWG

Auditor Shall

- communicate → (unless prohibited by law or regulation) with TCWG
  - *Uncorrected Misstatements*
  - **The effect that they, individually or in aggregate, may have on the opinion in the auditor's report, unless prohibited by law or regulation.**
- *Communication shall identify* → Material uncorrected misstatements individually.
- *Request* → Uncorrected misstatements be corrected
- Also communicate with TCWG → effect of uncorrected misstatements related
  - To prior periods on the relevant classes of transactions, account balances or disclosures, and
  - F.S. as a whole.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Written Representation Form Management Regarding Effects of Uncorrected Statements

The auditor shall

Request a written representation from management

↓

- Whether → they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. ??

↓

- A summary of such items shall be included in or attached to the written representation

Documentation

- Amount below which misstatements would be regarded as clearly trivial (Insignificant)
- All misstatements accumulated during the audit and whether they have been corrected
- Auditor's conclusion as to
  - whether uncorrected misstatements are material, individually or in aggregate, and
  - the basis for that conclusion.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Written Representations [SA-580]

Meaning of Written Representations

Written Statement → By Management → To the auditor → To confirm or to support other audit evidence

Written Representations as Audit Evidence

- Written Representations recognized as audit evidence as a response to inquiries.
- It is important source of Audit Evidence
- W.R. do not provide ***sufficient appropriate audit evidence*** (SAAE)
- Reliable W.R. provided by management does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of management's responsibilities, or about specific assertions.
- If management modifies or does not provide the requested written representations, it may alert the auditor to the possibility that one or more significant issues may exist.

Written Representations Auditor's Responsibility

Auditor's responsibility
→ To obtain W.R. from management and, where appropriate, TCWG

Objective of the Auditor as Per SA 580

To obtain written representations form Management/TCWG

that they believe that they have fulfilled their responsibility for the preparation of the F.S. and for the completeness of the information provided to the auditor

To Support other Audit Evidences

Relevant to F.S. or specific assertions in the F.S. by means of W.R. if determined necessary by the auditor or required by other SAs

To respond appropriately

- To W.R. provided by management /TCWG or
- If management /TCWG do not provide the written representations requested by the auditor.

Hello Everyone !!
How are u all ??

Written Representation about Management's Responsibilities

Written representation about management's responsibilities involves confirmation of fulfilment of management's responsibilities in :-

I. Preparation of the financial statements

Auditor Shall Request to Management

It has fulfilled its responsibility for the preparation of the F.S. in accordance with the applicable FRF

Management would be expected to have
- sufficient knowledge of the process followed by the entity in preparing and presenting the
  - F.S. and
  - Assertions therein on which to base the written representations.

II. Information provided and completeness of transactions

Auditor Shall Request to Management to provide

- Management has provided all relevant information and access as agreed in the terms of the audit engagement
- All transactions have been recorded and are reflected in the F.S.

In some cases, however, ***management may decide to make inquiries of others*** who participate in preparing and presenting the F.S. and Assertions. Such individuals may include :-
- **Actuary→** responsible for actuarially determined accounting measurements
- **Staff engineers→** who may have responsibility for and specialized knowledge about environmental liability measurements.
- **Internal counsel→** who may provide information essential to provisions for legal claims.

Management may include in the W.R. qualifying language to the effect that ***representations are made to the best of its knowledge and belief.*** → Auditor may accept such wording if satisfied that
- the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.

To reinforce the need for management to make informed representations

↓

Auditor may *Request*

↓

Management include in the written representations, confirmation that it has made such inquiries as it considered appropriate to place it in the position to be able to make the requested written representations.

Hello Everyone !!
How are u all ??

Why Written Representation about Management's Responsibilities are necessary ?

- Audit evidence obtained during the audit that management has fulfilled the responsibilities is ***not sufficient without obtaining confirmation from management about the same.*** This is because the auditor is not able to judge solely onother audit evidence.

- The W.R. draw on the agreed acknowledgement and understanding of management of its responsibilities by requesting confirmation that it has fulfilled them.

- The auditor may also ask management to ***reconfirm its acknowledgement*** and ***understanding of those responsibilities in written representations.***

This is particularly appropriate when:

- Those who signed the terms of the audit engagement on behalf of the entity no longer have the relevant responsibilities
- Terms of the audit engagement were prepared in a previousyear
- There is any indication that management misunderstands those responsibilities
- Changes in circumstances make it appropriate to do so.

Description of Management's responsibilities in the written representations

W.R. must describe the management responsibilities in the manner in which these responsibilities are described in the terms of audit engagement.

Other Written Representations

- Other SAs require the auditor to request W.R.
- If, in addition to such required representations, the auditor determines that it is necessary to obtain one or more W.R. → **The auditor shall request such other W.R.**

Which may include representations about the following

- Whether the selection and application of accounting policies are appropriate ?
- Whether matters such as the following, where relevant under the applicable FRF have been recognized, measured, presented or disclosed in accordance with that framework ?
  - Plans or intentions that may affect the carrying value or classification of assets and liabilities
  - Liabilities, both actual and contingent
  - Title to, or control over, assets, the liens or encumbrances on assets, and assets pledged as collateral
  - Aspects of laws, regulations and contractual agreements that may affect the F.S. including non-compliance.

Hello Everyone !!
How are u all ??

Additional Written Representations about Information Provided to the Auditor

The auditor may request management to provide a written representation that

→ It has ***communicated*** to the auditor ***all deficiencies in internal control of which management is aware.***

Written Representations about Specific Assertions

When obtaining evidence about, or evaluating, judgments and intentions, the auditor may consider one or more of the following :

- Entity's past history in carrying out its stated intentions
- Entity's reasons for choosing a particular course of action.
- Entity's ability to pursue a specific course of action.
- Existence or lack of any other information that might have been obtained during the course of the audit that may be inconsistent with management's judgment or intent.

❖ **Auditor may request management to provide written representations about specific assertions in the F.S.**

Date of and Period(s) covered by Written Representations

- The date of the written representations shall be as near as practicable to the date of the auditor's report.
- However, it should not be after the date of auditor's report.
- The written representations shall be for all financial statements and period(s) referred to in the auditor'sreport.

Form of Written Representations

1. It shall be in the form of a ***representation letter*** **addressed to the auditor**
2. If law or regulation requires management to make written public statements about its responsibilities, the relevant matters covered by such statements need not be included in the representation letter.

Hello Everyone !!
How are u all ??

Doubts as to the Reliability of Written Representations

- In case of having concerns about competence and integrity of management , determine their effect in reliability of WR and other audit evidence in general.
- IF WR inconsistent with other evidences, perform additional procedures.
- If conclude that WR is not reliable, determine possible effect on audit opinion
- In case of sufficient doubt over integrity of management,

↓

Auditor shall

↓

Issue a disclaimer of opinion as per SA 705

Request Written Representations Not Provided

- Discuss the matter with management
- Re-evaluate the reliability and integrity of management.
- Determine possible effect on the opinion as per SA 705 to the requirement of disclaimer of opinion.

Disclaimer of Opinion in Case of Non –Reliability of Written Representations about Management's Responsibilities or Failure to provide such Written Representations

- Integrity of management about fulfilling its responsibilities regarding preparation of F.S. and about information provided and completeness of transactions are not reliable
- Management does not provide the written representations relating to fulfilling its responsibilities regarding preparation of F.S. and about information provided and completeness of transactions.

↓

The auditor shall disclaim an opinion as per SA 705

Hello Everyone !!
How are u all ??

SA-260

SIGNIFICANCE OF COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Communication from auditor is important with those charged with governance.
An effective two-way communication is important in assisting: -

A Auditor and TCWG in	B The auditor in	C TCWG in
Understanding matters related to the audit in context, and in developing a constructive working relationship.	Obtaining from those charged with governance information relevant to the audit.	Fulfilling their responsibility to oversee the financial reporting process, thereby reducing the risks of material misstatement of the F.S.

Who are "Those Charged With Governance" ?

- The person(s) / organization(s) with responsibility for overseeing the strategic direction and obligations related to the accountability of the entity.
- This includes overseeing the financial reporting process.

Scope of SA 260 – Communication with TCWG

Deals with the auditor's responsibility to communicate with TCWG in an audit of F.S.

Objective of Auditor in Accordance with SA 260

To communicate clearly with TCWG	To obtain from TCWG	To provide TCWG with	To promote effective two-way communication between the auditor and those charged with governance.
• Responsibilities of the auditor in relation to the F.S. audit, & • Overview of the planned scope and timing of the audit	• information relevant to the audit	•Timely observations arising from the audit that are significant & •Relevant to their responsibility to oversee the financial reporting process	

Hello Everyone !!
How are u all ??

Determining Appropriate Persons with whom to Communicate

The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate.

Matters to be Communicated by Auditor

- **A. The auditor's responsibilities in relation to the F.S. audit**
  - A. Auditor is responsible for forming and expressing an opinion on the F.S. that have been prepared by management with the oversight of TCWG
  - B. Audit of the F.S. does not relieve management / TCWG of their responsibilities.
- **B. Planned Scope and Timing of the Audit**
- **C. Significant findings form the audit**
  - The auditor's views about significant qualitative aspects of the entity's
    - Accounting practices, including accounting policies,
    - accounting estimates &
    - F.S. disclosures
  - Unless all of TCWG are involved in managing the entity
    - Significant matters arising during the audit that were discussed, or subject to correspondence, with management
    - Written representations the auditor is requesting
  - Circumstances that affect the form & content of the auditor's report
  - Significant difficulties
  - Any other significant matters

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Communication of Auditor's Independence in Case Listed Entities

In the case of listed entities, the auditor shall communicate with those charged with governance :

A

A statement that the
- Engagement team, the firm /network firms
- have complied with ***relevant ethical requirements regarding independence***

B

i. All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence.

ii. Safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

The Communication Process

The auditor shall communicate with TCWG

- **The form, timing and expected general content of communications.**
- **In writing**
  - Significant findings from the audit if, in the auditor's professional judgment, oral communication would not be adequate.
  - Auditor independence when required in case of listed entities.
  - **Written communications need not include all matters that arose during the course of the audit.**
- **On a timely basis.**

Adequacy of the Communication Process

Auditor shall evaluate → whether the
- Two-way communication between the auditor and TCWG has been adequate for the purpose of the audit ??

→ **No** → Auditor shall

- ***Evaluate*** — Effect, if any, on the auditor's assessment of the ROMM and ability to obtain SAEE.
- ***Take Appropriate Action***

Hello Everyone !!
How are u all ??

Documentation

Where matters have been communicated orally	***Where matters have been communicated in writing***
The auditor shall • Include them in the audit documentation, & • when and to whom they were communicated.	The auditor shall • Retain a copy of the communication as part of the audit documentation.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

SA-265

Scope of SA – 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

SA 265 deals with the auditor's responsibility

- to communicate appropriately to TCWG and management deficiencies in internal control that the auditor has identified in an audit of F.S.

Objective of Auditor in Accordance With SA 265

The objective of the auditor is

To communicate appropriately to TCWG and management
- deficiencies in internal control that the auditor has identified during the audit

- That, in the auditor's professional judgment, are of sufficient importance to merit their respective attentions.

Meaning of "Deficiency in Internal control" and "Significant Deficiency in Internal Control"

(a) Deficiency in internal control

Inability of I.C to prevent detect & correct misstatement

OR

Absence of control necessary to prevent, detect & correct misstatements

(b) Significant Deficiency in internal control

- A deficiency / combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of TCWG.

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

- Likelihood of the deficiencies leading to MM in the F.S. in the future.
- Susceptibility to loss or fraud of the related asset or liability.
- Subjectivity and complexity of determining estimated amounts, such as fair value accounting estimates.
- Financial Statement amounts exposed to the deficiencies.
- Interaction of the deficiency with other deficiencies in internal control.
- Importance of the controls to the financial reporting process,
- Cause and frequency of the exceptions detected as a result of the deficiencies in the controls.
- Interaction of the deficiency with other deficiencies in internal control.

Hello Everyone !!
How are u all ??

Indicators of significant deficiencies in internal control

1. Evidence of ineffective aspects of control environment.
2. Entity's Risk assessment process – Absent/ineffective.
3. Ineffective response to identified significant Risks.
4. Correction of prior period misstatements arising due to fraud/error.
5. Management inability to oversee F.S. Preparation.
6. Misstatements detected by the auditor's procedures were not prevented, or detected and corrected by the entity I.C.

Determination of Signification Deficiencies in Internal Control

The Auditor

- **Determine**
  - **whether on the basis of work performed any deficiency in internal control is identified**
- **Determine**
  - **whether individually or in combination they constitute significant deficiencies**

Communication of Significant Deficiencies in Internal Control to Those Charged With Governance

Mode of Communication

- **In writing**
  - **To TCWG**
    - Significant deficiencies
  - **To Management**
    - Significant Deficiencies &
    - Other Deficiencies

Content Communication

a. A description of the deficiencies and an explanation of their potential effects; *and*
b. Sufficient information to enable TCWG and management to understand the context of the communication.

In particular, the auditor shall explain that: -

i. The purpose of the audit was for the auditor to express an opinion on the F.S.
ii. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control; and
iii. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

8 AUDIT REPORT

FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

SA 700 (Revised) "Forming an Opinion And Reporting on Financial Statements"

Scope of the SA 700

- **Auditor's responsibility to Form an Opinion on the FS**
- **Form and content of the Auditor's Report issued as a result of an audit of FS**
- **Promotes consistency and comparability in audit report**

Objective of the Auditor

- To Form an Opinion on the FS based on evaluation of the conclusions drawn from the audit evidence
- To express clearly that opinion through a written report

To Form an opinion the auditor shall Conclude

- Whether the FS as a whole is free from material misstatement due to fraud or error
- Whether the auditor has obtained reasonable assurance

Auditor's conclusion Shall take into account of following :-

a. **Sufficient appropriate audit evidence has been obtained**
b. **Uncorrected misstatements are material, individually or in aggregate**
c. **The evaluations.**

Hello Everyone !!
How are u all ??

Evaluations by the Auditor

The Auditor shall evaluate

- **Whether the FS are prepared accordance with requirements of applicable FRF.**
- **Consideration of the qualitative aspects of the entity's accounting practices, including indicator's of possible bias in management's judgements.**

<u>Qualitative Aspects of the Entity's Accounting Practices</u>

1. Consider management judgements about the amounts and disclosures in the FS.
2. Discussion of qualitative aspects of accounting practice with management as per SA 260 (Revised)
3. Consider the possibility of biasness (lack of neutrality) in Management's judgements.

Indicators of lack of neutrality
- **a) Selective correction of misstatements by management**
- **b)** Management's biasness in making accounting estimates

4. Consider the possible management biasness in making accounting estimates (SA 540).

Specification Evaluation By Auditors

a) The Financial Statements adequately disclose the significant accounting policies selected and applied.

b) The accounting policies selected and applied are consistent with the applicable FRF and are appropriate.

c) Management's accounting estimates are reasonable.

d) Information in the FS is relevant, reliable, comparable and understandable.

e) FS provide adequate disclosures of material transactions & events.

f) Terminology used in FS is appropriate and including its title.

Hello Everyone !!
How are u all ??

Summary

Specific Evaluations
- Accounting Policies
  - Appropriately disclosed
  - Consistent with FRF
- Accounting estimates
  - Reasonable
- Financial Statements
  - Info is relevant, reliable, comparable & Understandable
  - Terminology is appropriate including its title
  - Has adequate disclosures

Definitions

- **General Purpose Financial Statement**
  - Prepared in accordance with general purpose framework
- **General Purpose Frame Work**
  - Fair Presentation Framework
    - a. FRF that requires compliance with requirements of framework
    - b. Acknowledges
      1. Additional Disclosure
      2. Any departure from material requirement
  - Compliance Framework
    - a. Compliance requirements to framework
    - b. But does not contain acknowledgement in Fair Presentation Framework

Hello Everyone !!
How are u all ??

FORM OF OPINION

Auditor's concludes based on Audit Evidence obtained
- That the financial statements are prepared in all material respects, in accordance with applicable financial reporting framework. → **Unmodified opinion**
- That the financial statements as a whole are not free from material misstatement → **Modified opinion**

Unable to obtain sufficient appropriate audit evidence
- That the financial statement as a whole are free from material misstatement → **Modified opinion**

AUDITOR'S REPORT

1. Title

Title that clearly indicates that it is the report of an independent auditor.

2. Addressee

The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement.
- Applicable Law & Regulation may specify "addressee".
- AR normally addressed to those for whom AR is prepared *i.e.* share- holders/TCWG.

3. Auditor's Opinion Heading "Opinion"

- Opinion Section of the Auditor's Report shall also cover the following:
  - Identify the entity whose FS have been audited.
  - State that F.S. have been audited.
  - Identify title of each statement that comprises FS
  - Refer to the notes, including the summary of significant accounting policies
  - Specify date period covered by each FS.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Unmodified opinion shall be expressed as	Case	Opinion
	A. In case of Fair Presentation Framework	➤ In our opinion the accompanying FS present fairly, in all material respects, in accordance with (Applicable FRF) OR ➤ In our opinion the accompanying FS give True & Fair view, in accordance with (Applicable FRF)
	B. In case of Compliance Framework	➤ In our opinion, the accompanying FS are prepared in all material respects in accordance with applicable FRF.

4. Basis for Opinion Heading "Basis for Opinion"

- The auditor's report shall include a section directly following the Opinion Section with heading "Basis for Opinion"
  a. States that the audit was conducted in accordance with Standards on Auditing
  b. Refers to the section of the auditor's report that describes the Auditor's responsibilities under the Sas
  c. Includes a Statement that the auditor is independent of the entity in accordance with the relevant ethical responsibilities in accordance with these requirements.
  d. State whether the auditor believes that the audit evidence that auditor has obtained is {1} Sufficient {2} Appropriate to provide basis for the Auditor's opinion

5. Going Concern

Where applicable, the auditor shall report in accordance with SA 570.

➤ The General purpose FS are prepared on the assumption that the *entity is a going concern* and *will continue its operations for the foreseeable future* unless other intention appears by the management or no realistic alternative but to do so.

➤ Accounting is appropriate, assets and liabilities are recorded on the basis that the *entity will be able to realize its assets and discharge its liabilities in the normal course of business.*

➤ Auditor shall evaluate whether the *sufficient appropriate audit evidence has been obtained and shall conclude the appropriateness of management's use of Going Concern in preparation of FS*.

➤ The auditor shall conclude whether in auditor's judgement, a material uncertainty exists related to events or conditions that individually or collectively may cast significant doubt on the entity's ability to continue as a going concern.

Material uncertainty exists (Disclosures of nature & Implications)

a. In the case of a fair presentation → The fair presentation of the FS
b. In the case of a compliance framework → The FS not to be misleading

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

6. Key Audit Matters (In accordance with SA 701)

- For audits of complete sets of general purpose F.S. of listed entities, the auditor shall
  - Communicate key audit matters in the auditor's report in accordance with SA 701.
- When the auditor is otherwise required by law or regulation or decides to communicate key audit matters in the auditor's report, the auditor shall
  - Do so in accordance with SA 701.

7. Other Information

Where applicable, the auditor shall report in accordance with SA 720 (Revised).

8. Heading "Mngt. Responsibility for the Financial Statement"

Auditor's report shall describe Management's Responsibility

- Preparing the F.S. in accordance with the applicable FRF
  &
  Such internal control as management determines is necessary to enable the preparation of F.S. that are free from material misstatement, whether due to fraud or error
- • Assessing the ability of the entity to continue as a going concern.
  • Whether the use of the going concern assumption is appropriate.

This section will also identify those responsible for governance.

9. Heading "Auditor's Responsibility for the Financial Statement"

1. This section of the Auditor's report shall state.

Auditors responsibility section state
- Objective of the auditor
  - Obtain reasonable assurance whether the FS as a whole are free from material misstatement, whether due to fraud or error
  - Issue an auditor's report that includes the auditor's opinion.
- That reasonable level of assurance is high level of assurance not a guarantee.
- That misstatements can arise from fraud and error
  - Describe that they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users.
  - Provide a definition or description of materiality.

Hello Everyone !!
How are u all ??

2. Auditor's responsibility section to further

- To exercises professional judgement and maintains professional skepticism throughout the audit
- To describe an audit by stating that the auditor's responsibilities are
  - **To identify & assess the Risk of Material Misstatement**
  - **To obtain an understanding of internal control relevant for audit to design audit procedures**
  - **To evaluate the appropriateness of**
    - **Accounting policies used**
    - **Reasonableness of accounting estimates**
    - **Related disclosers made by management.**
  - **To conclude on the appropriateness of management use of going concern**
  - **To evaluate the overall presentation structure & content of FS**
- To describe the auditor's responsibilities in a group audit engagement as per SA 600

3. Auditor's responsibility for the audit of the FS section of the auditor's report also shall

(a) State that the auditor communicates with TCWG regarding among other matters:
- ✓ The planned scope and timing of the audit.
- ✓ Significant audit finding
- ✓ Any significant deficiencies in internal control that auditor identifies during the audit.

(b) State that the auditor provides TCWG with a statement that the auditor has:
- ✓ Complied with relevant ethical requirements regarding independence &
- ✓ Communicate with them all relationships &
- ✓ Other matters that may reasonably be thought to bear on the auditor's independence and where applicable related safeguards.

(c) The matters communicated as key Audit matters are those matters which the auditor considers to be of most significant out of the matters which are communicate to TCWG.

10. Location of the description of the auditor's responsibilities for the audit of the FS

a) Within the body of the auditor's report.

b) Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix.

c) By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law regulation or national auditing standards expressly permit the auditor to do so.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

11. Other Reporting Responsibilities

- If the auditor addresses other reporting responsibilities in addition to the auditor's responsibilities under the SAs, shall be addressed in separate section with the heading *"Report on other Legal and Regulatory Requirements" or otherwise as appropriate to the content of the section.* Unless these other reporting responsibilities address the same topics.
- If other reporting responsibilities are presented in the same section as the related report elements required by the SAs, the auditor's report shall *clearly differentiate* the *other reporting responsibilities* from the *reporting that is required by the SAs.*
- If the auditor's report contains a separate section that addresses other reporting responsibilities, the requirements stated above shall be included under a section with a heading "Report on the Audit of the Financial Statements." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Audit of the Financial Statements."

12. Signature of the Auditor

- ✓ Audit report to be signed in auditor's personal name.
- ✓ Where firm appointed as auditor, report signed in personal name & in the name of audit Firm.
- ✓ Also mention membership number of ICAI.
- ✓ Include ,wherever applicable the registration number of firm allotted by ICAI.

13. Place of Signature

The auditor's report shall name specific location, which is ordinarily the city where the audit report is signed.

14. Date of the Auditor's Report

The auditor's report shall be dated no earlier than the date on which the auditor has obtained Sufficient Appropriate Audit Evidence on which to base the auditor's opinion on the FS including.

a. All the statements that comprise the financial statements, including the related notes, have been prepared.
b. Those with the recognized authority have asserted that they have taken responsibility for those FS.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

UDIN

- To curb the malpractices, the Professional Development Committee of ICAI implemented in phased manner an innovative concept of UDIN i.e. Unique Document Identification Number.
- All Certificates were made mandatory with effect from 1st February, 2019 as per the Council decision taken at its 379th Meeting held on 17th – 18th December, 2018.
- Chartered Accountants having full-time Certificate of Practice can register on UDIN Portal and generate UDIN by registering the certificates attested/certified by them.
- ***An auditor is required to mention the UDIN with respect to each audit report being signed by him, along with his membership number while signing an audit report.***

The following is the correct way of signing an audit report.

M/s TUV & Associates
Chartered Accountants
(Firm's Registration No.)
Signature
(Name of the Member Signing the Audit Report)
(Designation)
(Membership No. XXXXX)

Place of Signature: UDIN: 20037320AAAAAH1111

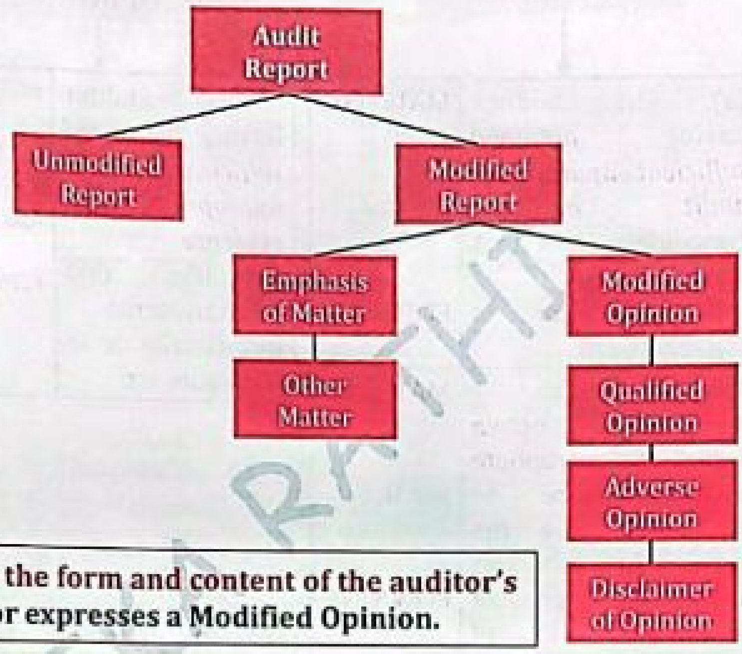
Date:

Hello Everyone !!
How are u all ??

MODIFICATION TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT (SA 705)

SCOPE

This standard deals with the Auditor's Responsibilities to issue *an appropriate report* in circumstances when in *forming the opinion in accordance with SA 700*, the *auditor concludes that modification to the auditor's opinion is necessary.*



Note: This SA also deals with how the form and content of the auditor's report is affected when the auditor expresses a Modified Opinion.

CIRCUMSTANCES WHEN A MODIFICATION TO THE AUDITOR'S OPINION IS REQUIRED

The auditor concludes based on audit evidence obtained → That the financial statement as a whole are not free from material misstatement.

The auditor is unable to obtain sufficient appropriate audit evidence to conclude → That the financial statement as a whole are free from material misstatement.

OBJECTIVE OF THE AUDITOR

To Express clearly an appropriately modified opinion on the financial statement that is necessary when:

(A) The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free form material misstatement.

Or

(B) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free form material misstatement.

Hello Everyone !!
How are u all ??

TYPES OF MODIFIED OPINIONS

QUALIFIED OPINION

(a) The auditor having *obtained sufficient appropriate audit evidence*, concludes that misstatements individually or in aggregate are	MATERIAL But Not PERVASIVE
(b) The auditor is *unable to obtain sufficient appropriate audit evidence* on which to base the opinion but concludes that the possible effects on FS of undetected misstatements could be	MATERIAL But Not PERVASIVE

ADVERSE OPINION

The auditor having *obtained sufficient appropriate audit evidence* concludes that misstatements individually or in aggregate are	BOTH MATERIAL And PERVASIVE

DISCLAIMER OF OPINION

(a) The auditor is *unable to obtain sufficient appropriate audit evidence* on which to base the opinion and auditor *concludes* that the possible effects on the financial statements of undetected misstatements if any could be	BOTH MATERIAL And PERVASIVE

(b) In extremely rare circumstances *involving multiple uncertainties*, the auditor concludes that notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is *not possible to form an opinion* on the financial statement *due to the potential interaction of the uncertainties and their possible cumulative effect on the FS.*

Pervasive effects on the FS are those that in the auditor's judgement

- (A) Are not confined to specific elements, accounts or items of the FS
- (B) If so confined represent or could represent a substantial proportion of the FS
- (C) In relation to disclosures are fundamental to user's understanding of the FS

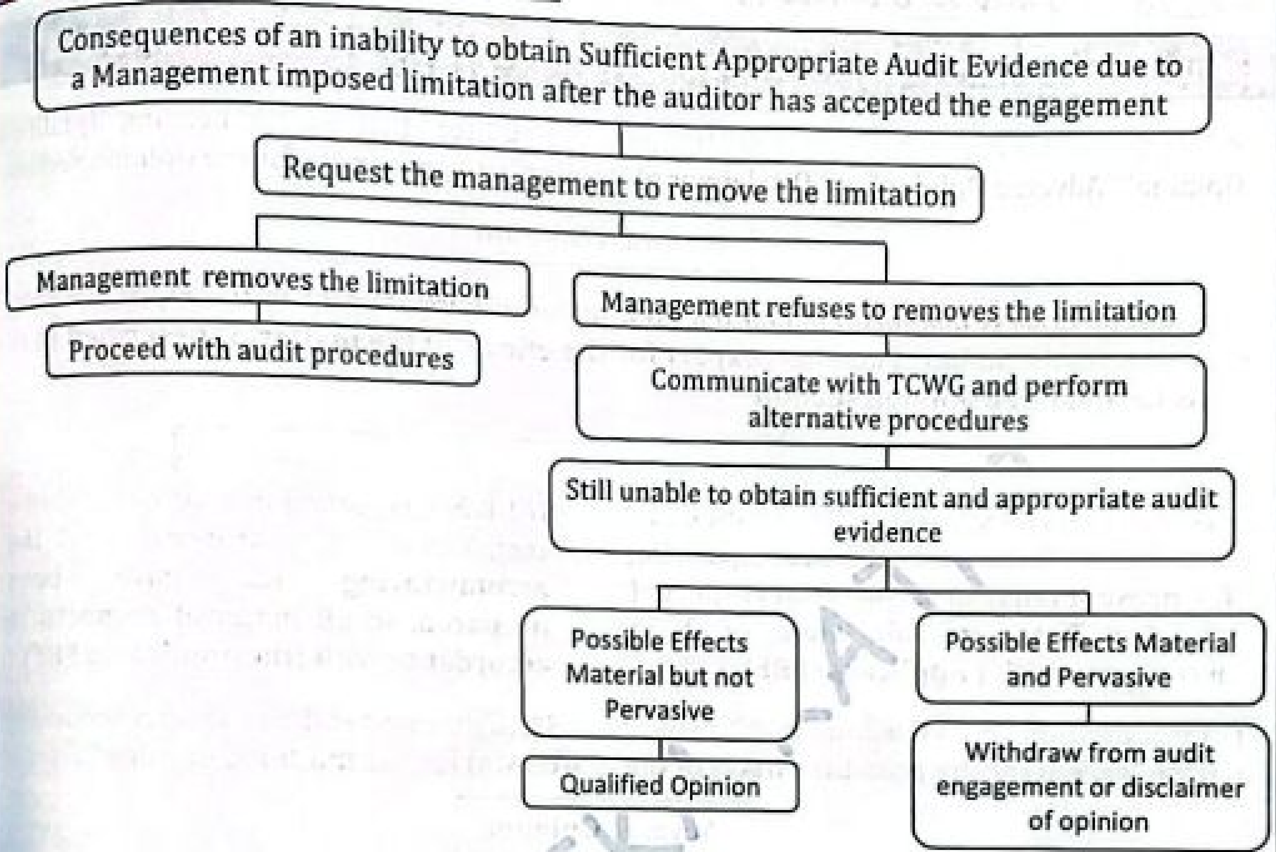
WHICH TYPE OF OPINION IS APPROPRIATE ?

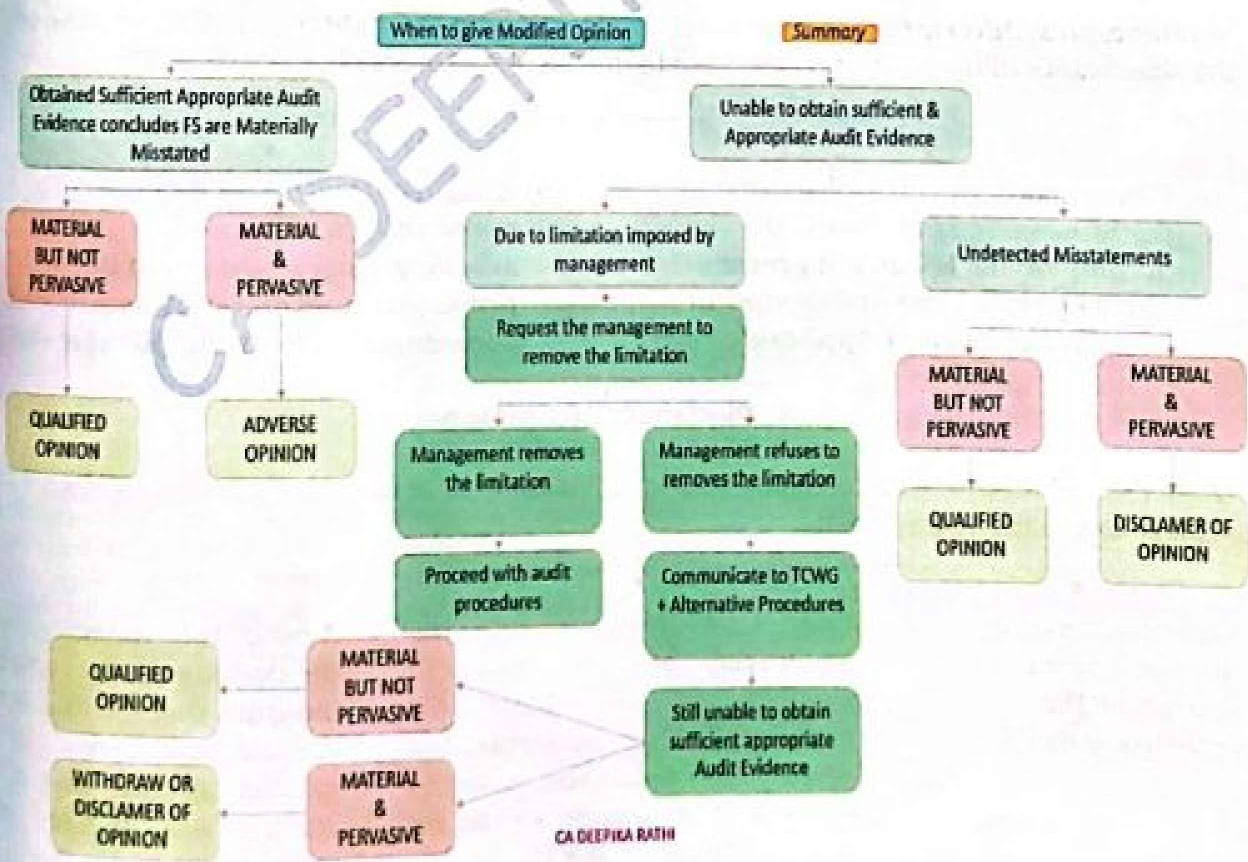
DEPENDS UPON

(A) **<u>The nature of the matter giving rise to the modification:</u>**
That is whether the FS are materially misstated
or
In case of an inability to obtain sufficient appropriate audit evidence may be materially misstated.

(B) **<u>The Auditor's Judgment :</u>**
About the pervasiveness of the effects or possible effects of the matter on the financial statements.

Hello Everyone !!
How are u all ??





CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Form and Content of the Auditor's Report When the Opinion is Modified

When the auditor modifies the audit Opinion, the auditor shall use the heading "Qualified Opinion" "Adverse Opinion" or "Disclaimer of Opinion" as appropriate for the Opinion section.

Qualified Opinion

(1) Auditor *express qualified opinion due to a material misstatement in the FS*, auditor shall state that , in the auditor's opinion , **expect for the effects of the matter(S) described in the basis for qualified opinion section ,**

(a) *When reporting in accordance with a fair presentation framework-* **the accompanying F.S. present fairly in all material respects (or give True or Fair view of) in accordance with (Applicable FRF)**

(b) *When reporting in accordance with a compliance framework-* **the accompanying F.S. have been prepared, in all material respects, in accordance with (the applicable FRF)**

(2) Modification arises due from inability to obtain SAAE the auditor shall use corresponding phrase **"except for the possible effects of the matters(s) for the modified opinion".**

Adverse Opinion

Auditor *express Adverse Opinion*, auditor shall state that , in the auditor's opinion because of the significance of the matter(s) described in the Basis for Adverse Opinion section:

(a) *When reporting in accordance with a fair presentation framework-* **the accompanying F.S. do not present fairly (or give True or Fair view of) in accordance with (Applicable FRF)**

(b) *When reporting in accordance with a compliance framework-* **the accompanying F.S. have not been prepared, in all material respects, in accordance with (the applicable FRF)**

Disclaimer of Opinion

When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence the auditor shall:

- State that the auditor does not express an opinion on the accompanying F.S.
- State that because of the significance of the matter(S) described in the basis for Disclaimer of Opinion section the auditor has not been able to obtain SAAE to provide a basis for an audit opinion on the FS.
- Amend the statement in the Opinion Section, which indicates that the financial statements have been audited to state that the auditor was engaged to audit the FS .

Hello Everyone !!
How are u all ??

Basis for Opinion

When the auditor modifies the opinion on the F.S. the auditor shall in addition to the specific elements required by SA 700

A

❖ **Amend the heading**

- **"Basis for Opinion" to**
- **"Basis for Qualified Opinion"**
- **"Basis for Adverse Opinion"**
- **"Basis for Disclaimer of Opinion"**

B

Within this section include a description of the matter giving rise to the modification.

Cause of Modification	Description in the Basis of Opinion
Material misstatement of F.S. relating to Specific amounts in F.S.	Auditor shall include in the basis for opinion section – ✓ Description and quantification of the financial effects of the misstatement unless impracticable. ✓ If it is impracticable to quantify the financial effects state so.
Material Misstatement of F.S. relating to Narrative disclosures	The auditor shall→ include in the Basis for Opinion section an explanation of how the disclosures are misstated.
Material misstatement of F.S. relating to Non-disclosure of information required to be disclosed	The Auditor shall- a) Discuss the non disclosure with TCWG b) Describe in the Basis for Opinion section the nature of the omitted information. c) Unless prohibited by law or regulation include the omitted disclosers provided it is practicable to do so and the auditor has obtained SAAE about the omitted information.
Inability to obtain SAAE	The auditor shall → include in the Basis for Opinion section the reasons for that inability.
When Auditor Express a Qualified or Adverse Opinion	The auditor shall • amend the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion to include the word "Qualified" or "Adverse" as appropriate.

Hello Everyone !!
How are u all ??

When Auditor Disclaim	The auditor's report shall not include the following elements in the report: a) Reference to the section of the auditor's report where the auditor's responsibilities are described ; and b) A statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.
If the Auditor has expressed an adverse opinion or disclaimed an opinion on FS	The auditor shall:- a) Describe in the "Basis for Opinion" section the reason for any other matters of which the auditor is aware that would have required a Modification to the Opinion. b) The effects thereof.

Description of Auditor's Responsibilities for the Audit of the Financia Statements When the Auditor Disclaims an Opinion on the Financial Statements

Description of Auditor's Responsibilities for the Audit of the FS when the Auditor Disclaims an Opinion on the FS

- (a) A statement that the auditor's responsibility is to conduct an audit of the entity's F.S. in accordance with SAs and to issue an Auditor's report
- (b) A statement that "however because of the matter(s) described in the Basis for Disclaimer of Opinion Section the auditor was not able to obtain SAAE to provide a basis for an audit opinion on the F.S."
- (c) The statement about auditor independence and other ethical responsibilities as required under SA700.

Considerations When the Auditor Disclaims an Opinion on the FS

Unless required by the Law or Regulation → The auditor's Report shall not include a key Audit Matters section in accordance with SA 701

Communication with TCWG

When the auditor expects to modify the opinion in the auditor's report → The auditor shall communicate with TCWG →

- The circumstances that led to the expected modification
- The wording of the modification

Hello Everyone !!
How are u all ??

EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT

Scope/ Objectives of the Auditor

706 deal with additional communication in the Auditor's Report when Auditor consider necessary to draw users' attention to :

(a) Matter(s) presented / disclosed in FS are *such importance that they are fundamental to user's understanding* of FS

OR

(b) Matter(s) other than those presented/ disclosed in FS that are *relevant to users' understanding of audit/ auditor's responsibilities/ auditor's report*

Definitions/ Meaning

Emphasis of Matter Paragraph (EMP)

- A Paragraph include in the Auditor's Report that
- refers to matter appropriately presented/ disclosed in F.S. that
- in the Auditor's Judgement, Is such importance that
- it is fundamental to user's understanding of F.S.

Other Matter Paragraph (OMP)

- A Paragraph include in the Auditor's Report that
- refers to matter other than those presented/ disclosed in F.S. that
- in the Auditor's Judgement, is relevant
- To user's understanding of audit, auditor's responsibilities or auditor's report.

1. Emphasis of Matter Paragraph (EMP)

The Auditor shall include an Emphasis of Matter Paragraph in the auditor's report provided:

(a) Would *not be required to modify the opinion* in accordance with SA 705 as a result of the matter

And

(b) The matter has *not been determined to be key audit matter (KAM)* as per SA 701

Hello Everyone !!
How are u all ??

When the Auditor includes an EMP in the auditor's report, the Auditor shall:

- Include the paragraph
- Within a separate section
- In the Auditor's Report
- With appropriate heading "Emphasis of Matter".

- Include in the paragraph
- A clear reference to the matter being emphasized

&

- To where relevant disclosures that fully describe the matter can be found in F.S. (only to information presented/disclosed in FS).

- Indicate that
- The auditor's opinion is not modified in respect of the matter.

Circumstances where the auditor may consider it necessary to include an Emphasis of Matter Paragraph

Examples

- A — An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- B — Significant subsequent event that occurs between the date of FS and the date of auditor's report.
- C — Early application of new accounting standards that has a material effect on the FS.
- D — Major catastrophe that has had or continue to have significant effect on the entity's financial position.

Emphasis Of Matter Paragraph is not substitute for

1. A modified opinion in accordance with SA 705
2. Disclosures in the Financial Statement
3. Reporting in accordance with SA 570 (Going Concern)

2. Other Matter Paragraphs in the Auditor's Report

The Auditor shall include an Other Matter Paragraph in the auditor's report provided:

a) This is *not prohibited by law or regulation*

And

(b) The matter has *not been determined to be key audit matter (KAM)* as per SA 701

The Auditor shall include the paragraph within a separate section with the heading "Other Matter" in the Auditor's Report.

Communication with Those Charged with Governance Regarding
- The expectation **and**
- Wording of the paragraph

COMMUNICATION KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT (SA 701)

Definition of Key Audit Matter

- Key Audit Matters are those matters that
- In the auditor's professional judgement
- Were of most significance in the audit of financial statement
- Of current period.

- Key audit matters are selected from
- Matters communicated with TCWG

Purpose of SA 701

To enhance the communicative value of Auditor's Report

By providing grater transparency about the audit that was performed.

Provides additional information to intended users of FS:

To assist them in understanding those matter that in auditor's judgement were of most significance in the audit of FS of current period.

Assist intended users :

In understanding the entity and areas of significant management judgement in the audit of FS.

Objective of the Auditor

(A)
Determine key audit matters

(B)
Communicate those matters in the auditor's report

Hello Everyone !!
How are u all ??

Determining Key Audit Matters

In making this determination the auditor shall take into account the following:

- Area of higher assessed risk of material misstatement Or Significant risks identified in accordance with SA 315
- • Significant auditor judgements
  • relating to areas in the FS that involved significant management judgment
  • Including accounting estimate that have been identified as having high estimation uncertainty.
- The effect on the audit of significant events or transactions that occurred during the period

Communicating Key Audit Matters

- The auditor shall describe each key audit matter
- By using an appropriate subheading in a separate section of the auditor's report under heading "Key Audit Matter"

The introductory language in this section of the auditor's report shall state that

- Key audit matters are those matters that, in the auditor's professional judgement, were of most significant in the audit of the FS.

And

- These matters were addressed in the context of the audit of FS as a whole and in forming the auditor's opinion thereon.
  And
  The auditor does not provide a separate opinion on these matters.

Communicating Key Audit Matter is not substitute for

- Disclosures in the financial statement
- The auditor expressing a Modified Opinion in accordance with SA 705
- Reporting in accordance with SA 570 (Going Concern)
- Separate opinion on individual matters

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Communication with TCWG

- **A**: Those matters the auditor has determined to be key audit matters.

or

- **B**: If applicable, the auditor's determination that there are no key audit matter to communicate in the auditor's report.

STANDARD ON AUDITING -710 "COMPARATIVE INFORMATION CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS"

Scope

- **Auditor's responsibilities** to comparative information in the audit of F.S.
- • When **prior period FS are audited by another auditor/ unaudited**
  • **Also apply issue raised SA 510** to audit of Opening balances.
- •**Nature Comparative Info:** Depends upon applicable FRF
  •**Two Approaches**
  (A) Corresponding figures
  (B) Comparative FS
- • Approach often specified by Law & Regulation
  • May also specified by terms of engagement

Audit Reporting differences between two approaches

- **Corresponding Figures**
  Auditor's Opinion on F.S. refers to **Current Period** only.
- **Comparative F.S.**
  Auditor's Opinion refers to **Each Period** for which F.S. are presented.

Objectives

To obtain sufficient appropriate audit evidence

1. whether the comparative information included in the F.S. has been presented in all material respects.
2. In accordance with the requirements for comparative information in the applicable FRF.

To Report

1. In accordance with the auditor's reporting responsibilities

Hello Everyone !!
How are u all ??

Definition

COMPARATIVE INFORMATION
- The amounts and disclosures included in the F.S.
- In respect of one or more prior period
- In accordance with applicable FRF

CORRESPONDING FIGURES
- Comparative information where amounts and other disclosures for the prior period
- Are included as an integral part of current period F.S.

&

- Are intended to be read only in relation to the amounts & other disclosers relating to the current period

COMPARATIVE F.S.
- Comparative information where amounts & other disclosures for the prior period
- Are included for comparison with the F.S. of the current period
- But if audited are referred to in auditor's opinion

AUDIT PROCEDURES REGARDING COMPARATIVE INFORMATION

Determine
a) Whether F.S. include Comparative information required by FRF

b) Whether such information is classified appropriately

Evaluate
a) Whether the Comparative Information agrees with the amounts & other disclosures presented in the prior period

b) Whether accounting policies reflected in the comparative information are consistent with those applied in the current period

c) Whether changes in accounting policies if any have been properly accounted for & adequately presented & disclosed

Aware about existence of possible Material Misstatement
- Perform additional audit procedures to obtain sufficient appropriate audit evidence to determine existence of material misstatement.
- NOTE: SA 560 also applies if auditor had audited the prior period F.S.

Obtain Written Representation SA 580
- Form management for all periods referred to in the auditor's opinion.
- Also obtain Specific Written Representation to re-affirm that the WR it previously made with respect to prior period remain appropriate.

Hello Everyone !!
How are u all ??

AUDIT REPORTING CORRESPONDING FIGURES

1. When Corresponding Figures are available Auditor's opinion shall not refer to Corresponding Figures:

Except

Auditor's Report in prior period included
- A qualified opinion
- A disclaimer of opinion
- An adverse opinion

} **Modified Opinion**

AND

Matter which gave rise to the modification is still **Unresolved**

↓

Modify Auditor's opinion on the Current Period's financial statement

↓

For this Auditor shall in Basis for Modification Paragraph

Refer both
Current Period's Figure
&
Corresponding Figures

OR

Explain
Audit Opinion has been modified because of effects or possible effects of unresolved matter.

2. Auditor obtain audit evidence that a material misstatement exists in the Prior Period F.S. on which Unmodified Opinion was issued:

The auditor Shall

↓

Verify
Whether the misstatement has been dealt with as required under applicable FRF.

IF NOT →

Express
A Qualified Opinion
or
An Adverse Opinion
} Modified Opinion
On the current period financial statements

Hello Everyone !!
How are u all ??

3. Prior Period FS Are Not Audited

The Auditor Shall

Include in Other Matter Paragraph
- That corresponding figures are unaudited

But this does not relieve →

The auditor from need to obtain Sufficient appropriate audit evidence that the opening balance do not contain misstatement that materially affect the current period's F.S.

Comparative Financial Statement

Auditor's Opinion to refer each period

For which F.S. are presented and on which opinion is expressed.

If opinion on prior period FS expressed in current period differs from opinion expressed in the relevant prior period

↓

Give substantive reason for difference in the Other Matter Paragraph

1. Prior Period FS Audited by Another Auditor

Audit Report to also contain Other Matter para, stating that :
- FS of prior period were audited by predecessor auditor.
- Type of opinion expressed by him (Reasons for Modification if any)
- Date of that report.

If material misstatement exists in prior period FS (not reflected in previous audit report):

↓

1. Communicate misstatement to management/ TCWG
2. Request that predecessor auditor be informed.

↓

If Prior period FS are amended
&
The predecessor auditor agrees to issue new audit report

↓

The auditor shall report on the current period only

Hello Everyone !! How are u all ??

2. Prior Period FS Are Not Audited

The Auditor Shall

Include in Other Matter Paragraph

- **That corresponding figures are unaudited**

But this does not relieve

The auditor from need to obtain Sufficient appropriate audit evidence that the opening balance do not contain misstatement that materially affect the current period's F.S.

AUDIT OF BRANCH OFFICE ACCOUNTS

Section 128(1) of the Companies Act,2013 :

- Company must keep it's (including branch/branches)
  - Books of accounts
  - Papers &
  - Financial Statement
  - Giving True & Fair view
  - In Double entry
  - On Accrual basis
  - At Place – Registered office.
- BOD may decide another place in India to keep them. Notice of such place must be given to ROC within 7 days.
- Companies have the option to maintain it's Books of Accounts & other papers in electronic form.
- Branch accounts may be maintained at the branch provided periodically summarized return is sent to the registered office.

Duties and Powers of Company Auditors

✓ Section 143(8) of the Companies Act, 2013

✓ Branch Audit shall conducted

In INDIA

The Auditor appointed for company
or
Any other person qualified for appointment as an auditor of company.

Outside INDIA

- By the Company's Auditor or
- By an Accountant or
- By any other person duly qualified to act as an Auditor of the Branch office in accordance with laws of that Country.

✓ Branch Auditor shall

- Prepare a report.
- Send it to the auditor of Company.

✓ Rule 12 CAAR, 2014

- Reporting of fraud by the auditor shall also extend to such branch auditor to the extent it relates to the concerned branch.

DEEPIKA RATHI

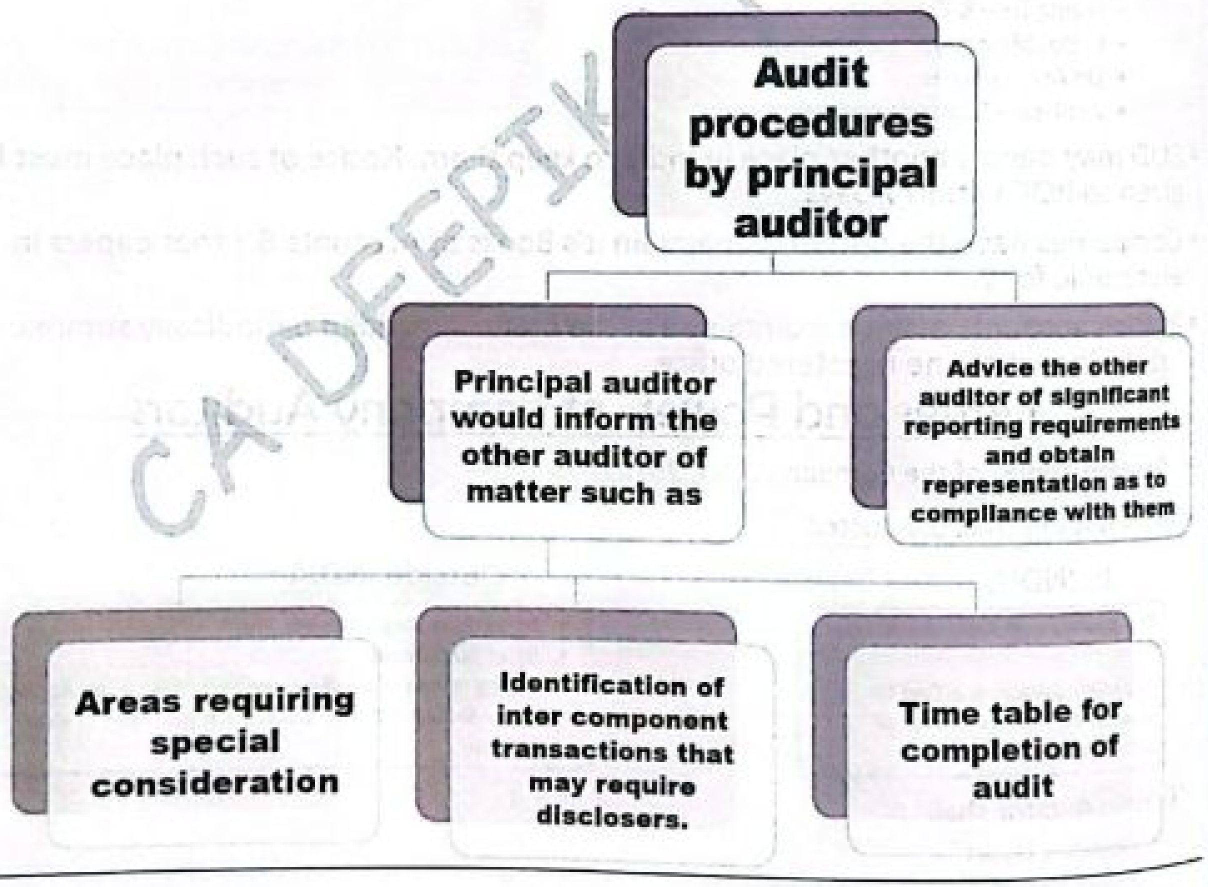
Using the work of Another Auditor SA 600

✓Where another auditor has been appointed for the component.

- Principal auditor would normally be entitled to rely upon the work of such auditor.
- Unless there are special circumstances to make it essential for him to :
  a. Visit the component or/and
  b. To examine the books of accounts and other records.

✓Discuss audit procedures by other auditor.

✓Review a written summary of other auditor's procedures and findings through questionnaires/checklist.



CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

JOINT AUDIT

Meaning

- The practice of appointing Chartered Accountants as joint auditors is quite widespread in big companies and corporations.
- Joint audit basically implies
  - ➢ pooling together the resources and expertise of
  - ➢ more than one firm of auditors
  - ➢ to render an expert job
  - ➢ in a given time period
  - ➢ which may be difficult to accomplish acting individually.
- It essentially involves sharing of the total work.
- This is by itself a great advantage.

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. In respect of multi-national companies, the work can be spread using the expertise of the local firms which are in a better position to deal with detailed work and the local laws and regulations.
vii. Lower staff development costs.
viii. Lower costs to carry out the work.
ix. A sense of healthy competition towards a better performance.

Disadvantages

i. The fees being shared.
ii. Psychological problem where firms of different standing are associated in the joint audit.
iii. General superiority complex 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.

- The Institute of Chartered Accountants of India has issued Standard on Auditing (SA) 299 (Revised), "Joint Audit of Financial Statements"
- This Standard deals with the special considerations in carrying out audit by joint auditors.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Special Consideration

1. Engagement partner and other key members of the engagement team from each of the joint auditors should be involved in planning the audit.
2. jointly establish an overall audit strategy which sets the scope, timing and direction of the audit, and also guides the development of the audit plan.
3. Before the commencement of the audit, the joint auditors should discuss and develop a joint audit plan
   - In developing the joint audit plan, the joint auditors should
     - Identify division of audit areas and common audit areas
     - Ascertain the reporting objectives
     - Consider and communicate significant factors
     - Consider the results of preliminary engagement activities, or similar engagements performed earlier.
     - Ascertain the nature, timing and extent of resources necessary to accomplish the engagement.
4. Each of the joint auditors should consider and assess the risks of material misstatement and communicate to other joint auditors.
5. Discuss and document the nature, timing, and the extent of the audit procedures for
   (I) common and
   (II) specific allotted areas of audit to be performed.
6. Obtain common engagement letter and common management representation letter.
7. Work allocation document should be signed by all the joint auditors and communicated to those charged with governance.

Hello Everyone !!
How are u all ??

Responsibilities of Joint Auditor's

Separate

Each joint auditor shall be responsible only for the work allocated to such joint auditor including proper execution of the audit procedures.

Joint & Several

a. For work not divided
b. Decisions taken under planning in respect of common audit areas
c. For matter brought to knowledge of all by any one of them and on which they all agree.
d. Compliance of audit report with statutory requirement
e. presentation and disclosure of the financial statements as required by the applicable financial reporting framework
f. ensuring that the audit report complies with
   - relevant statutes
   - applicable Standards on Auditing
   - other relevant pronouncements issued by ICAI

Co-Ordination

In case a joint auditor comes across matters which are relevant to the areas of responsibility of other joint auditors and which deserve their attention, or which require disclosure or require discussion with, or application of judgment by other joint auditors,

↓

The said joint auditor shall

↓

Communicate the same to all the other joint auditors in writing prior to the completion of the audit.

Reporting

Generally a Signal Report

i.e. Common Audit Report

If Joint Auditor's Disagree

Separate Audit Report

In such circumstances Joint Auditor(s) shall make a reference to each other's Audit Report(s)

CA DEEPIKA RATHI

REPORTING REQUIREMENTS UNDER THE COMPANIES ACT 2013

Section 143 of Companies Act, 2013 contains, inter alia, reporting requirements of auditor of a company in form of duties.

1. Reporting requirement relating to matters stated in section 143(1)

Auditor shall inquire into following matters

a. **Whether**
- Loans and advances made by the company on the basis of security have been properly secured

  AND
- The terms on which they have been made are prejudicial to the interests of the company or its members

b. **Whether**
Transactions of the company which are represented merely by book entries are prejudicial to the interests of the company

c. Where the company not being an investment company or a banking company,
Whether
So much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company.

d. **Whether** → Loans and advances made by the company have been shown as deposits.

e. **Whether** → Personal expenses have been charged to revenue account.

f. Where it is stated in the books and documents of the company that any shares have been allotted for cash,
- **Whether** → Cash has actually been received in respect of such allotment, and if no cash has actually been so received
- **Whether** → The position as stated in the account books and the balance sheet is correct, regular and not misleading.

↓

- The auditor is not required to report on the matters specified in sub-section (1) unless he has any special comments to make on any of the items referred to therein.
- If he is satisfied as a result of the inquiries, he has no further duty to report that he is so satisfied.
- the auditor should make a report to the members in case he finds answer to any of these matters in adverse.

Hello Everyone !!
How are u all ??

2. Reporting on accounts examined

Section 143(2) of Companies Act 2013 the auditor shall make a report to the members of the company on

- Accounts examined by him

And

- Every financial statements which are required by or under this Act to be laid before the company in general meeting

The report shall after taking into account the provisions of this Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of this Act or any rules made thereunder or under any order made under sub-section (11).

Further, auditor has to report
whether to best of his information and knowledge, the said

- Accounts, financial statements give a true and fair view of *the state of the company's affairs as at the end of its financial year and profit or loss and cash flow*
- *for the year and such other matters as prescribed under Rule 11 of the* Companies (Audit and Auditors) Rules, 2014.

Further, in terms of section 143(3), the auditor's report shall also state

a. Whether →
  - He has sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and if not, the details thereof and the effect of such information on the financial statements.

b. Whether, in his opinion,
  - proper books of account as required by law have been kept by the company so far as appears from his examination of those books and
  - proper returns adequate for the purposes of his audit have been received from branches not visited by him

c. Whether→ the report on
  - the accounts of any branch office of the company audited under sub-section (8) by a person other than the company's auditors has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report.

d. Whether
  - the company's balance sheet and profit and loss account dealt with in the report are in agreement with the books of account and returns.

e. Whether, in his opinion,
  - the financial statements comply with the accounting standards.

f. The observations or comments of the auditors on
  - Financial transactions or matters which have any adverse effect on the functioning of the company

Hello Everyone !!
How are u all ??

g. Whether → any director is disqualified from being appointed as a director under sub-section (2) of the section 164.

h. Any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith.

i. Whether
   - The company has adequate internal financial controls ***with reference to financial statements*** in place and the operating effectivenessof such controls.
   - However the reporting requirement on adequacy of internal financial controls (IFCs) with reference to financial statements shall **not** be applicable to a private company which is a
     i. One person company or
     ii. Small company or
     iii. Company having
        - Turnover less than Rs.50 crore as per latest audited financial statement
        - Aggregate borrowings from banks / financial institutions / any body corporate at any point of time during the financial year less than Rs.25 crore

j. Such other matters as are prescribed **in Rule 11 of the Companies (Audit and Auditors) Rules, 2014** which are as under
   a. Whether → the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement.
   b. Whether → the company has made provision, as required under any law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts.
   c. Whether → there has been any delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the company.
   d. Whether
      - The management has represented that, to the best of it's knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been;

      1. Advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the company to or in any other person(s) or entity(ies), including foreign entities ("Intermediaries"), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries
      2. Received by the company from any person(s) or entity(ies), including foreign entities ("Funding Parties"), with the understanding, whether recorded in writing or otherwise, that the company shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries; and

Hello Everyone !!
How are u all ??

3. Based on such audit procedures that the auditor has considered reasonable and appropriate in the circumstances, nothing has come to their notice that has caused them to believe that the representations under sub-clause (i) [i.e. pt 1] and (ii) [i.e. pt 2] contain any material mis-statement.

e. Whether → the dividend declared or paid during the year by the company is in compliance with section 123 of the Companies Act, 2013.

f. Whether → the company has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention.

While reporting, where any of the matters required to be included in the audit report is answered in the negative or with a qualification, the report shall state the reasons therefor in terms of Section 143(4). Further, every auditor shall comply with the auditing standards as required under section 143(9).

3. Reporting on any other matter specified by Central Government

As per **section 143(11)**, the Central Government may, in consultation with the National Financial Reporting Authority, by general or special order, direct, in respect of such class or description of companies, as may be specified in the order, that the auditor's report shall also include a statement on such matters as may be specified therein.

4. Reporting on Frauds

Reporting of Frauds by Auditors [Section 143(12) & Rule 13]

Reporting to the Central Government	Reporting to the Audit Committee or Board
Fraud involving amount of ₹ 1 Crore or more → Report to Central Government within such time and in such manner as prescribed.	**Fraud involving amount of less than ₹ 1 Crore →** Audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as prescribed.

Hello Everyone !!
How are u all ??

REPORTING UNDER COMPANIES AUDITOR'S REPORT ORDER, 2020 [CARO 2020]

Applicability	Non-Applicability
Every Company including a **Foreign Company** defined U/s 2 (42) of the Companies Act 2013	**i. Banking Company** [defined in clause (c) Section 5 Banking regulation Act 1949 (10 of 1949)] **ii. Insurance Company** [defined under Insurance Act 1938 (4 of 1938)] **iii. Company licensed to operate U/s 8** of the Companies Act 2013 **iv. One Person Company** **v. Small Company** **vi. Private Company (Other than holding or subsidiary** of a **public company with-** o **Paid-up Capital + Reserves & Surplus < 1 Crore** Rs. (As on balance sheet date) o **Total Borrowings < 1 Crore Rs.** (From Bank or Financial Institution at any point of time during the Financial Year) o **Turnover Revenue < 10 Crore Rs.** (During the Financial Year as per Financial Statements)

Auditor's Report to contain matters specified in paragraphs 3 & 4

Paragraph 3
Matters to be included in auditor's report

Paragraph 4
Reasons to be stated for unfavorable or qualified answers

✓ Every report made by the auditor u/s 143 of the Companies Act, 2013 on the accounts of every company examined by him to which this Order applies for the financial year commencing on or after 1st April 2019 shall in addition contain the matters specified in paragraphs 3 and 4 as may be applicable

✓ **Note: This Order shall not apply to the auditor's report on Consolidated Financial Statements except clause (xxi) of paragraph 3.**

Hello Everyone !!
How are u all ??

Matters to be included in the Auditor's Report : Paragraph 3 of the order

(i) Fixed Assets

a. **Adequacy of Records :**
Whether the company

A. Maintaining proper records of *PPE* showing-
- Full particulars
- Quantitative details &
- Situation

B. Maintaining proper records of *Intangible assets* showing
- Full particulars

b. **Physical verification :**
Whether
- PPE have been physically verified by the management at reasonable intervals.
- Any material discrepancies noticed on such verification.

If so
- Same have been properly dealt in books of account.

c. **Title deed :**
Whether
- The *title deeds of all the immovable properties* (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statement
- Are *held in the name of the company*
- *If not* provide the details thereof in the format below

Description of property	Gross carrying value	Held in name of	Whether promoter director or their relative or employee	Period held indicate range where appropriate	Reasons for not being held in name of company
					*Also indicate if in dispute

d. **Revaluation :**
Whether
- The company has revalued its PPE (Including Right to use assets) or Intangible Assets or both during the year

If so
- Whether the revaluation is based on the valuation by a Registered valuer
  - Specify the amount of change
  - if change is 10 % or more in the aggerate of the net carrying value of each class of PPE or intangible assets.

Hello Everyone !!
How are u all ??

e. **Proceeding for holding Benami Property:**

Whether

- Any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act 1988 (45 of 1988) and rules made thereunder

If so

- Company has appropriately disclosed the details in its Financial Statement.

(ii) Inventories

a. **Physical verification :**

Whether

- *Physical verification* of inventory has been conducted *at reasonable intervals* by the management
- *In the opinion of the auditor* the coverage and procedures of *such verification* by the management *is appropriate*
- Any *discrepancies of 10% or more* in the aggregate for each class of inventory were noticed

If so

- They have been *properly dealt with in the books of account*.

b. **Quarterly return/statements filed with bank or financial statement :**

Whether

- During any point of time of the year, the *company has been sanctioned working capital limits in excess of 5 crore Rs*. in aggregate form banks or financial statements *on the basis of security of current assets*
- The *quarterly returns or statements filed by the company with such bank or financial institutions* are *in agreement with books of account* of the company

If not

- Give details

(iii) Investments Guarantee/ Security/ Loans/ Advances to Companies, firms, LLP or Other Parties

Whether during the year the company has made

- investments in
- Provide any guarantee or security or
- Granted any loans or advance in nature of loans secured or unsecured
- To companies, firms, Limited Liability Partnerships or any other parties

If so

a. **Whether during the year the company has provided**

- **Loans /Advances in nature of loans /Stood guarantee /Security**
- **To other entity** [not applicable to companies whose principal business is to give loans].
- *If so indicate*

Hello Everyone !!
How are u all ??

- **Aggregate amount** during the year and
- **Balance outstanding** at the balance sheet date
- with respect to such loans or advances and guarantees or security

A	B
To Subsidiaries, Joint venture & Associates	To other parties other than Subsidiaries, Joint venture & Associates

b. **Terms & conditions are not prejudicial to the company's interest :**
Whether
- *Investment made, guarantees provided, security given* and the *terms and conditions of the grant of all loans and advances* in the nature of loans and guarantees provided
- *Are not prejudicial to the company's interest*

c. **Repayment Schedule :**
- In respect of loans & advances in the nature of loans,
- Schedule of repayment of principal and payment of interest has been stipulated and
- the repayments or receipts are regular.

d. **Overdue Amount :**
If the amount is overdue state
- The total amount overdue for **more than 90 days**
- **Reasonable steps taken for recovery**

e. **Loan/ Advances fall due, renewed/extended/ settled :**
Whether any loan or advance in the nature of loan granted which has
- **Fallen due** during the year
- Has been **renewed** or
- **Extended** or
- **Fresh loans granted to settle the overdues of existing loans** given to same parties

If so , specify
- The **aggregate amount** and
- **Percentage(%) of the aggregate to the total loans or advances** in the nature of loans granted during the year.

f. **Loan/ Advance – repayment on demand or not stipulated**
Whether the company has granted any loans or advance in the nature of loans either
- **Repayable on demand** or
- **Without specifying any terms or period of repayment**

If so, specify
- The **aggregate amount** and **Percentage(%) thereof to the total loans granted**
- **Aggerate amount of loans** granted to **Promoters, Related parties.**

Hello Everyone !!
How are u all ??

(iv) Compliance of section 185 & 186

- In respect of Loans, Investments, Guarantees & Security
  - *Whether* → provisions of section 185 & 186 of the Companies Act 2013 has been complied with
  - *If not* → provide details thereof

(v) Public Deposits

- **Compliance :**
  In case the company has accepted deposits
  - *Whether* → The directives issued by RBI and the Provisions of sections 73 to 76 or any other relevant provisions of the Companies Act 2013 and the rules framed there under where applicable has been complied with.
  - *If not* → the nature of such contraventions be stated
- **Order :**
  If an **order has been passed** by Company Law Board/ National Company Law Tribunal/ RBI/ Any court/ Any other Tribunal
  - *Whether* → the **same has been complied with or not.**

(vi) Maintenance of Cost Record

Whether
- Maintenance of **cost record** has been specified by the CG U/s 148 (1) of the Companies Act 2013 and
- Such **accounts & records** have been so made and maintained.

(vii) Deposit of Statutory Dues

a. Undisputed statutory dues :
Whether → Company is regular in depositing undisputed statutory dues including
- Goods and Service Tax
- Provident Fund
- Employees' State Insurance
- Income Tax
- Sales - Tax
- Service Tax
- Duty of custom
- Duty of excise
- Value Added Tax
- Cess and other statutory dues

To appropriate authorities
If not → the extent of arrears of **outstanding statutory dues as at the last day of Financial Year** concerned **for a period of more than 6 months** from the date they became payable shall be indicated.

Hello Everyone !!
How are u all ??

b. **Disputed statutory dues :**
Where statutory dues have not been deposited on account of any dispute then
- **Amount involved** and
- **Forum** where dispute is pending

shall be mentioned

(viii) Unrecorded Income

- *Whether*
  Any *transactions not recorded in the books of account* have been *surrendered* or *disclosed* as income *during the year in the tax assessments under the Income Tax* Act 1961.
- *If so*
  Whether the *previously unrecorded income has been properly recorded in the books of account during the year*.

(ix) Repayments of Dues

a. **Default in repayment of Loans/Other Borrowings/ and Interest thereon:**
Whether → the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender.

If yes → the **period** and the **amount of default** to be reported as per the format below

Nature of borrowing including debt securities	Name of lender	Amount not paid on due date	Whether principal or interest	No. of days delay or unpaid	Remarks if any

b. **Wilful Defaulter :**
Whether→ the company is a declared wilful defaulter by a bank or financial institution or other lender.

c. **Application of Term Loan obtained :**
- *Whether* → the term loan were applied for the purpose for which the loans were obtained
- *If not* →
  - ✓ Amount of loan so diverted and
  - ✓ the purpose for which it is used

  May be reported

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

d. **Short Term Funds used as Long Term Funds** :
- o *whether* → fund raised on short term basis have been utilized for long term purpose
- o *If yes, indicate* → the nature and amount.

e. **Fund obtained to meet the obligations of Subsidiaries, associates or joint venture** :
- o *Whether* → company has taken any fund from any entity or person on account of or to meet the obligations of its subsidiaries, associates or joint ventures
- o *If yes provide* →
  - details thereof with nature of such transactions and
  - The amount in each case

f. **Loan raised on pledge of securities held in Subsidiaries, associates or joint venture** :
- o *Whether* → Company has raised loans during the year on the pledge of securities held in its subsidiaries, joint venture or associates companies
- o *If so give* →
  - Details thereof and
  - Also report if the company has defaulted in repayment of such loans raised.

(x) Application Money raised by Public Offer & Preferential Allotments

a. **Application Money raised by Public Issue:**

Whether →
- o Money raised by way initial public offer (IPO) or further public offer (FPO) [including debt instruments] during the year
- o were applied for the purposes for which those are raised

If not report →
- o The details together with delays or default &
- o Subsequent rectification if any as may be applicable.

b. **Preferential Allotment/ Private Placement** :

Whether →
- o Company has made any preferential allotment or private placement of shares or convertible debentures (Fully, partially or optionally convertible) during the year and if so
- o The requirements of section 42 and section 62 of the Companies 2013 have been complied with &
- o Fund raised have been used for the purpose for which the funds raised

If not report →
- o Provide details in respect of amount involved &
- o Nature of noncompliance

Hello Everyone !!
How are u all ??

(xi) Fraud Reporting

a. *Whether* → **Any fraud** by the company or any fraud on the company has been **noticed** or **reported** during the year.
If yes indicate → The **nature** and **amount involved.**

b. *Whether* → **Any report** U/s 143 (12) of Companies Act 2013 **has been filed by the auditors in Form ATD -4** as prescribed under rule 13 of Companies (Audit and Auditors)
Rules 2014 with the Central Government.

c. *Whether* → The auditor has **considered whistle-blower complaints** if any received during the year by the company.

(xii) Nidhi Company

a. **Compliance of Net Owned Fund :**
Whether →Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of
1 : 20 to meet out the liability.

b. **Maintenance of Unencumbered Term Deposit :**
Whether → Nidhi Company is maintaining **10% Unencumbered Term Deposits** as specified in
the Nidhi Rules 2014 to meet out the liability.

c. **Default in repayment of Deposit and Interest thereon :**
Whether → There has been any default in payment of Interest on deposits or repayment thereof for any period
If so provide → Details thereof

(xiii) Related Parties Transactions

Whether →

- All the transactions with related parties are in compliance with section 177 & 188 and
- Details have been disclosed in the financial statements etc. as required by the applicable Accounting Standards.

(xiv) Internal Audit System

a. *Whether* → Company has an **Internal Audit System** commensurate with the size and nature of its business.

b. *Whether* → **Report of the Internal Auditor** for the period under audit were **considered by the Statutory Auditor**

Hello Everyone !!
How are u all ??

(xv) Non Cash Transactions with Directors

Whether → Company has entered into any non-cash transactions with the directors or persons connected with him.

If so → whether the provisions of section 192 of Companies Act have been complied with.

(xvi) Registration with RBI

a. **Registration U/s 45- IA of RBI Act 1934 :**
Whether → Company is required to be registered U/s 45- IA of RBI Act 1934
If yes → Whether the registration has been obtained.

b. **Conduct of Activities of NBFC & HFC without valid CoR :**
Whether → Company has conducted any Non- Banking Financial or Housing Finance activities without a valid Certificate of Registration from RBI as per RBI Act 1934.

Core Investment Company CIC :

c. *Whether* → the company is a Core Investment Company as defined in the regulations made by the RBI
If so →
- whether it continues to fulfil the criteria of a CIC and
- in case the company is an exempted or unregistered CIC whether it continues to fulfil such criteria

d. *Whether*→ the Group has more than one CIC as part of the Group
If yes → indicate the number of CICs which are part of the Group

(xvii) Cash Losses

Whether → The company has incurred cash losses in the Financial Year and in the immediately preceding financial year.
If So → State the amount of cash losses.

(xviii) Consideration of issue raised by the outgoing auditors

Whether → There has been any resignation of the Statutory Auditors during the year

If so → Whether the auditor has taken into consideration the issues objections or concerns raised by the outgoing auditors.

(xix) Existence of Material uncertainty as to meet its liability

- On the basis of
  - Financial ratios
  - Ageing and expected date of realization of financial assets
  - Payment of financial liabilities
  - Other information accompanying the financial statements

- The auditor's knowledge of the Board of Directors and management plans.

o Whether the Auditor is of the opinion that
  - No material uncertainty exists as on the date of the audit report
  - Company is capable of meeting its liabilities existing at the date of balance sheet as and
  - When they fall due within a period of one year form the balance sheet date.

(xx) Transfer of unspent CSR amount

a. *Whether* → in respect of **other than ongoing projects** , the company has **transferred unspent amount to a Fund specified in Schedule VII** to the Companies Act **within a period of 6 months** of the expiry of the financial year in compliance with second proviso to Section 135 (5).

b. *Whether* → any **amount remaining unspent U/s 135 (5)** of the Companies Act pursuant to **any ongoing project** has been **transferred to special account** in compliance with provision of section 135 (6).

(xxi) Qualifications or adverse remarks in the CARO Reports of Group Companies

o *Whether* → There have been any **qualification/ adverse remarks** by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included in the Consolidated Financial Statements.

o *If yes indicate* →
  - ✓ **Details of the companies** and
  - ✓ The **paragraph number of the CARO report** containing the qualifications or adverse remarks.

Paragraph 4. Reasons to be stated for unfavorable or qualified answers

1. **When Auditor's response to any of the reporting matters is UNFAVOURABLE/QUALIFIED The auditor should state the reasons of such response.**
2. **Where the Auditor is unable to express any opinion on any specified matter, Auditor's report shall indicate: → Facts together with reasons as to why it is not possible to give opinion on same.**

Hello Everyone !!
How are u all ??

9 SPECIAL FEATURES OF AUDIT OF DIFFERENT TYPES OF ENTITIES

GOVERNMENT AUDIT

Meaning of Government Audit

U.N. Handbook on Government Auditing and Developing Countries ; Government auditing is

- the objective, systematic, professional and independent examination
- of financial, administrative and other operations
- of a public entity
- made subsequently to their execution
- for the purpose of evaluating and verifying them,
- presenting a report containing explanatory comments on audit findings together with conclusions and recommendations for future actions
- by the responsible officials
- and in the case of examination of financial statements, expressing the appropriate professional opinion regarding the fairness of the presentation.

Objectives

A. Accounting for Public Funds
Government audit serves as a mechanism or process for public accounting of government funds.

B. Appraisal of Government policies
Provides public accounting of the operational, management, programme and policy aspects of public administration as well as accountability of the officials administering them.

Base for Corrective actions:-
Audit observations based on factual data collection also serve to highlight the lapses of the lower hierarchy, thus helping supervisory level officers to take corrective measures.

Administrative accountability: -
- Government audit is neither equipped nor intended to function as an investigating agency, to pursue every irregularity or misdemeanour to its logical end.
- The main objective of audit is a combination of ensuring accountability of administration to legislature and functioning as an aid to administration.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Legal Framework of C&AG

- **Appointment:** CAG shall be appointed by the President of India.
- **Removal:**
  - ✓ CAG shall not be removed from office except on the ground of proven mis-behaviour or incapacity.
  - ✓ He can be removed only when each House of Parliament decides to do so by a majority of not less than 2/3rd of the members of the House present and voting.
- **Remuneration:**
  - ✓ The Parliament is competent to make laws to determine salary and other conditions of service and they cannot be varied to his disadvantage after his appointment.
  - ✓ The Constitution further provides that the conditions of service of person serving in the Indian Audit and Accounts Department and the administrative powers of the C&AG shall be determined by the President after consultation with him.
  - ✓ CAG should be paid remuneration equivalent to that of SC judge.
- **Tenure :** The Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 passed in pursuance of the provisions of the Constitution lays down a fixed tenure of the office prescribing that he shall be paid a salary which is equal to the salary of the Judge of the Supreme Court thereby further strengthening his independence.

CA DEEPIKA RATHI

Various Constitutional Provisions

Article 149

C&AG shall perform such duties and exercise such powers in relation to the accounts of Union and State and any other body prescribed by the Parliamenent

Article 150

The accounts of the Union and of the States shall be kept in such form as the President may on the advice of the C&AG prescribe.

Article 151

the reports of the C&AG relating to the accounts of the Union/State shall be submitted to the President/Governor who shall cause them to be laid before House of Parliament/State Legislature.

Hello Everyone !!
How are u all ??

Duties of C&AG

i. Compile and submit Accounts of Union and States -

The Comptroller and Auditor General shall be responsible for compiling the accounts of the Union and of each State and submit those Accounts to the President or Governor or Administrator.

- *The C&AG shall, give to the Union Government, to the State Government or to the Governments of Union Territories having Legislative Assemblies, as the case may be, such information as they may, from time to time, require and render such assistance in the preparation of the annual financial statements as they may reasonably ask for.*

ii. General Provisions relating to Audit:

It shall be the duty of the Comptroller and Auditor General-

To Audit and Report

A. On all expenditure from the Consolidated Fund of India and of each State and of each Union Territory having a Legislative Assembly

And

To ascertain

whether
- the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it.

B. All transactions of the Union and of the States relating to Contingency Funds and Public Accounts

C. All trading, manufacturing and profit and loss accounts and balance-sheets and other subsidiary accounts kept in any department of the Union or of a State.

iii. Audit of Receipts and Expenditure

Where anybody or authority is substantially financed by grants or loans from the Consolidated Fund of India or of any State or of any Union Territory,

the C&AG shall

Audit all receipts and expenditure of that body or authority **and** To report on the receipts and expenditure audited by him.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Meaning of Substantially financed

Where the grant or loan to a body or authority from the Consolidated Fund of India or of any State or of any Union Territory having a Legislative Assembly in a financial year is

Not less than Rs.25 lakhs **And** The amount of such grant or loan is not less than 75% of the total expenditure of that body or authority

(iv) Audit of Grants or Loans

Where any grant or loan is given for any specific purpose from the Consolidated Fund of India or of any State or of any Union Territory to any authority or body, not being a foreign State or international organisation
the C&AG shall → scrutinise the procedures by which the sanctioning authority satisfies itself as to the fulfillment of the conditions subject to which such grants or loans were given

(v) Audit of Receipts of Union or States

It shall be the duty of the C&AG

- To audit all receipts which are payable into the Consolidated Fund of India and of each State and of each Union Territory

And

- To satisfy himself that the rules and procedures in that behalf are designed to secure an effective check on the assessment, collection and proper allocation of revenue.

(vi) Audit of Accounts of Stores and Inventory

The Comptroller and Auditor General shall have → Authority to audit and report on the accounts of stores and inventory kept in any office or department of the Union or of a State

(vii) Audit of Government Companies and Corporations

The duties and powers of the Comptroller and Auditor General in relation to the audit of the accounts of government companies shall be performed and exercised by him in accordance with the provisions of the Companies Act, 2013.

- C&AG shall appoint the auditor under section 139(5) or 139(7)
- Direct such auditor the manner in which the accounts of the Government company are required to be audited
- There upon the auditor so appointed shall submit a copy of the audit report to the CAG of India which, among other things, include the directions, if any, issued by the C&AG of India, the action taken thereon and its impact on the accounts and F.S. of the company.

Hello Everyone !!
How are u all ??

Powers of C&AG

The C&AG Act gives the following powers to the C&AG in connection with the performance of his duties

- **To inspect** any office of accounts under the control of the Union or a State Government including office responsible for the creation of the initial or subsidiary accounts.
- **To require** that any accounts, books, papers and other documents which deal with or are otherwise relevant to the transactions under audit, be sent to specified places.
- **To put** such questions or make such observations as he may consider necessary to the person in charge of the office and to call for such information as he may require for the preparation of any account or report which is his duty to prepare.
- In carrying out the audit, the C&AG has the power to dispense with any part of detailed audit of any accounts or class of transactions and to apply such limited checks in relation to such accounts or transactions as he may determine.

Expenditure Audit

- The basic standards set for audit of expenditure are to ensure that there is provision of funds authorised by competent authority fixing the limits within which ex-penditure can be incurred.
- These standards are
  - i. that the expenditure incurred conforms to the relevant provisions of the statutory enactment and in accordance with the Financial Rules and Regulations framed by the competent authority. Such an audit is called as the **audit against 'rules and orders'.**
  - ii. that there is sanction, either special or general, accorded by competent authority authorising the expenditure. Such an audit is called as the **audit of sanctions.**
  - iii. that there is a provision of funds out of which expenditure can be incurred and the same has been authorised by competent authority. Such an audit is called as **audit against provision of funds.**
  - iv. that the expenditure is incurred with due regard to broad and general principles of financial propriety. Such an audit is also called as **propriety audit.**
  - v. that the various programmes, schemes and projects where large financial expenditure has been incurred are being run economically and are yielding results expected of them. Such an audit is termed as the **performance audit.**

Expenditure Audit

- **Audit against Rules & Orders**
- **Audit of Sanctions**
- **Audit against provision of funds**
- **Propriety Audit**
- **Performance Audit**

Hello Everyone !!
How are u all ??

Audit against Rules & Orders

- Audit against rules and orders seeks to satisfy that the expenditure incurred is in accordance with the financial rules, regulations and orders issued by a competent authority.

- These rules, regulations and orders against which regularity audit is conducted mainly fall under the following categories:
  - Rules and orders regulating the powers to incur and sanction expenditure from the Consolidated Fund of India or of a State
  - Rules and orders dealing with the mode of presentation of claims against government, withdrawing moneys from the Consolidated Fund, Contingency Fund and Public Accounts of the Government of the India and of the States
  - Rules and orders regulating the conditions of service, pay and allowances, and pensions of government servants.

- It is the function of the executive government to frame rules, regulations and orders, which are to be observed by its subordinate authorities.

- Auditor is required to carry out examination of the various rules, regulations and orders issued by the executive authorities to see that:
  - they are not inconsistent with any provisions of the Constitution or any laws made thereunder
  - they are consistent with the essential requirements of audit and accounts as determined by the CAG.
  - they do not come in conflict with the orders of, or rules made by, any higher authority
  - in case they have not been separately approved by competent authority, the issuing authority possesses the necessary rule-making power.

Audit of Sanctions

- The auditor has to ensure that each item of expenditure is covered by sanction, either general or special from the competent authority.
- The audit of sanction is directed both in respect of ensuring that:
  - The expenditure is properly covered by a sanction
  - To satisfy that the authority sanctioning it, is competent for the purpose by virtue of powers vested by constitution.

Hello Everyone !!
How are u all ??

Audit against Provision of Funds

- Audit against provision of funds aims at ascertaining that the expenditure incurred has been on the purpose for which the grant and
- appropriation had been provided and that the amount of such expenditure does not exceed the appropriation made.

Propriety Audit

- According to 'Propriety audit', the auditors try to bring out cases of improper, avoidable, or ineffective expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations.

- A transaction may satisfy all the requirements of regularity audit insofar as the various formalities regarding rules and regulations are concerned, but may still be highly wasteful.

- **Example** :- A building may be constructed for installing a telephone exchange but may not be used for the same purpose resulting in unproductive expenditure or a school building may be constructed but used after five years of its completion is a case of avoidable expenditure

- Audit against propriety seeks to ensure that expenditure conforms to these principles which have been stated as follows:

A.
- The expenditure should not be prima facie more than the occasion demands.
- Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

B.
No authority should exercise its powers of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage.

C.
Public moneys should not be utilised for the benefit of a particular person or section of the community unless:

- the amount of expenditure involved is insignificant
- a claim for the amount could be enforced in a Court of law
- the expenditure is in pursuance of a recognised policy or custom
- the amount of allowances, such as travelling allowances, granted to meet expenditure of a particular type should be so regulated that the allowances are not, on the whole, sources of profit to the recipients.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Note :-
- It is the responsibility of the executive departments to enforce economy in public expenditure.
- The function of audit is to bring to the notice of the proper authorities of wastefulness in public administration and cases of improper, avoidable and ineffective/unproductive expenditure

Performance Audit

- The scope of audit has been extended to cover efficiency, economy and effectiveness audit or performance audit, or **full scope audit**
  - ✓ **Efficiency audit** looks into whether the various schemes/projects are executed and their operations conducted economically and whether they are yielding the results expected of them, *i.e.,* the relationship between goods and services produced and resources used to produce them; and examination aimed to find out the extent to which operations are carried out in an economical and efficient manner.
  - ✓ **Economy audit** looks into whether government have acquired the financial, human and physical resources in an economical manner, and whether the sanctioning and spending authorities have observed economy.
  - ✓ **Effectiveness audit** is an appraisal of the performance of programmes, schemes, projects with reference to the overall targeted objectives as well as efficiency of the means adopted for the attainment of the objectives.
  - ✓ **Efficiency- cum-performance audit**, wherever used, is an objective examination of the financial and operational performance of an organisation, programme, authority or function and is oriented towards identifying opportunities for greater economy, and effectiveness.

The procedure for conducting performance audit covers

- identification of topic
- preliminary study,
- planning
- execution of audit,
- reporting

Audit of Receipts

An audit of receipts provides for checking

- whether - All revenues or other debts due to government have been correctly assessed, realised and credited to government account by the designated authorities
- whether - Adequate regulations and procedures have been framed by the department/agency concerned to secure an effective check on assessment, collection and proper allocation of cases

Hello Everyone !!
How are u all ??

- Whether - such regulations and procedures are actually being carried out
- whether - adequate checks are imposed to ensure the prompt detection and investigation of irregularities, double refunds, fraudulent or forged refund vouchers or other loss of revenue through fraud or willful omission or negligence to levy or collect taxes or to issue refunds
- Review - of systems and procedures to see that the internal procedures adequately secure correct and regular accounting of demands collection and refunds and pursuant of dues up to final settlement and to suggest improvement.

Audit of Stroes and Inventories

- **To ascertain** → whether the Regulations governing purchase, receipt and issue, custody, sale and inventory taking of stores are well devised and properly carried out.
- **To bring to the notice** → of the government any deficiencies in quantities of stores held or any defects in the system of control.
- **To verify** → that the purchases are properly sanctioned, made economical and in accordance with the Rules for purchase laid down by the competent authority.
- **To ensure** → that the prices paid are reasonable and are in agreement with those shown in the contract for the supply of stores, and that the certificates of quality and quantity are furnished by the inspecting and receiving units. Cases of uneconomical purchase of stores and losses attributable to defective or inferior quality of stores are specifically brought by the audit.
- **To check** → the accounts of receipts, issues and balances regarding accuracy, correctness and reasonableness of balances in inventories with particular reference to the specified norms for level of consumption of inventory holding.

Audit of Commercial Accounts

Public enterprises are required to maintain commercial accounts and are generally classified under three categories

- **Departmental enterprises** engaged in commercial and trading operations, which are subject to the same laws, financial and other regulations as other government departments and agencies
- **Statutory bodies, corporations,** created by specific statutes mostly financed by government in the form of loans, grants, etc.
- **Government companies** set up under the Companies Act, 2013.

Hello Everyone !!
How are u all ??

The audit of

- Departmental concerns is undertaken in the same manner as any department of government where commercial accounts are kept.
- Statutory bodies or corporations depends on the nature and type of the statute governing the bodies or corporations..
- Government companies is conducted by their own auditors under the statute appointed by C&AG.
  - In addition, the C&AG conducts a supplementary test audit of the accounts, as well as periodical financial audit and appraisal of performance.
  - The C&AG also issues direction to the company auditors for reporting on specific aspects of their audit work.
  - These are reviewed, and condensed in the audit reports to the government/legislatures.
  - C&AG has adopted the mechanism of an Audit Board-comprising of representatives of the audit and nominees of government including functional specialists to process reviews or appraisals on performance.

Role of C&AG is prescribed under sub section (5), (6) and (7) of section 143 of the Companies Act, 2013.

(1) Power to appoint Government Company Auditor :
The CAG of India shall

- **Appoint the First Auditor [Section 143(5)] or Subsequent Auditor [Section 143(7)]**
- **direct such auditor the manner in which the accounts of the Government company are required to be audited and**
- **thereupon the auditor so appointed shall submit a copy of the audit report to the Comptroller and Auditor-General of India.**

Hello Everyone !!
How are u all ??

(2) Power to conduct Supplementary Audit & comment thereupon

The CAG of India shall within 60 days from the date of receipt of the audit report have a right to,

a. **conduct a supplementary audit under section 143(6)(a),** of the financial statement of the company
   - By such person or persons as he may authorize in this behalf; and
   - for the purposes of such audit, require information or additional information to be furnished to any person

b. **comment upon or supplement such audit report.**
Any comments given by the Comptroller and Auditor-General of India upon, or supplement to, the audit report shall be sent by the company to every person entitled to copies of audited financial statements

(3) Test Audit:

The CAG of India may, if he considers necessary, by an order, cause
- **Test audit** to be conducted of the accounts of such company

And

- the provisions of section 19A of the Comptroller and Auditor- General's (Duties, Powers and Conditions of Service) Act, 1971, shall apply **to the report of such test audit.**

- The C&AG shall direct the manner in which the company's accounts shall be audited by the statutory auditors and give such auditors instructions in regard to any matter relating to the performance of his functions as such.

- The C&AG has power
  - **To conduct a supplementary or test audit** of the company's accounts by such person as he may authorise in this behalf and
  - For the purposes of such audit require information or additional information to be furnished to any person or persons so authorised on such matters by such person or persons and in such form as the C&AG may by general or special order, direct.

- The statutory auditors shall submit a copy of their audit report to → **C&AG** → who shall have a right to comment upon or supplement the audit report submitted by the statutory auditors in such manner as he may think fit

Section 134(3) of the Companies Act, 2013 imposes a duty on the board of directors of a company to give an explanation or comments on every reservation, or adverse remarks or disclaimer contained in the auditors' report and secretarial audit report of the Company Secretary in practice.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

- In the absence of similar provisions requiring the company to give reply on the reservation made by the C&AG, the board of directors of such a company is not bound to give information or explanation in respect of such comments.

Reporting Procedures

The effectiveness of an audit depends on reporting results to the proper authority so that appropriate action may be taken to rectify the irregularities or impropriety where possible or to prevent reoccurrence.

Article 151 of the Indian Constitution enjoins that the C&AG shall report on the accounts of the Union and of each of the States to the President or the Governor concern and the latter shall cause the report to be laid before the legislatures

The reports should not only be presented to the legislatures but thereafter also publicised adequately in order to create a proper climate of public opinion for taking remedial action where necessary, on the findings of the Auditor General.

In India, the reporting is factual and the conclusions are left to be drawn by the reader. This is presumably to ensure total objectivity.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

AUDIT OF LOCAL BODIES

Meaning of Local Body/ Municipality

- A unit of local self-government in an urban area.
- By the term 'local self-government' is ordinarily understood the administration of a locality – a village, a town, a city or any other area smaller than a state – by a body representing the local inhabitants, possessing fairly large autonomy,

Municipal government in India covers five distinct types of urban local authorities

- Municipal corporations
- Municipal councils
- Notified area committees
- Town area committees
- Cantonment committees

Municipal authorities are endowed with specific local functions covering

- Regulatory
- Maintenance
- Development activities

Expenditure incurred by the municipalities and corporations can be broadly classified under the following heads

- General administration and revenue collection
- public health
- public safety
- education
- public works
- others such as interest payments

Property taxes and octroi are the major sources of revenue of the municipal authorities

- Other municipal taxes are profession tax, non-mechanised vehicles tax, taxes on advertisements, taxes on animals and boats, tolls, show-tax, etc.
- The taxation powers of the corporations are confined to a few items and are of a generally compulsive nature
- On the other hand, the tax powers of other types of urban local authorities cover a wider range, optional in nature and subject to a procedure for their imposition requiring the final sanction of the state governments.

Hello Everyone !!
How are u all ??

Local bodies may receive different types of grants from the state administration as well. Broadly, the revenue grants are of three categories

General purpose grants	Specific purpose grants	Statutory and compensatory grants
These are primarily intended to substantially bridge the gap between the needs and resources of the local bodies	These grants which are tied to the provision of certain services or performance of certain tasks.	These grants, under various enactments, are given to local bodies as compensation on account of loss of any revenue on taking over a tax by state government from local government.

Financial Administration

The salient features of Financial Administration of Local Bodies may be grouped under three heads:

A. Budgetary Procedure

- This is geared to subserve the twin considerations of
  - ***financial accountability*** and
  - ***control of expenditure.***
- The main objective is

To ensure that funds are raised and moneys are spent by the executive departments in accordance with the rules and regulations	And	within the limits of sanction and authorisation by the legislature or council.

- Budget preparation is usually the occasion for determining the levels of taxation and rates and the ceilings on expenditure.
- One important feature of the municipal budgets is that there is no strict separation between revenue and capital items;
- Usually there is a 'head' called *extraordinary items* which cover most of the capital transactions
- There are, however,
  - A number of special funds (e.g. roads) or
  - In some cases separate budgets for specific municipal functions (e.g. education) or
  - Enterprise activities (e.g., water supply and sanitation, transport, electricity, etc.)

Hello Everyone !!
How are u all ??

B. Expenditure Control

- The system of financial control existing in the state and central government level is conditioned by the fact that there is a clear demarcation between the legislature and executive.
- The integration of legislation and executive powers in the municipal council makes it difficult for its executive to function as its inquisitorial body as well.
- Moreover the separation of executive powers and functions in municipal government cannot accommodate the existence of an independent finance officer responsible to the municipal council or its executive committee.
- This leaves the system of external audit by state government as the only instrument of controlling municipal expenditure.

C. Accounting System

- Municipal accounting and budget format have been criticised as neither simple nor comprehensible, sometimes providing inadequate information and at other times a surfeit of information.
- Both these situations are not conducive to a proper system of management information.

Objective of Audit of Local Bodies

(a) Reporting on the fairness of the content and presentation of financial statements

(b) Reporting upon the strengths and weaknesses of systems of financial control

(c) Reporting on the adherence to legal and/or administrative requirements

(d) Reporting upon whether value is being fully received on money spent

(e) Detection and prevention of error, fraud and misuse of resources

Audit Programme of Local Bodies

APPOINTMENT

The Local Fund Audit Wing of the State Govt. is generally in-charge of the audit of municipal accounts.

- Sometimes bigger municipal corporations e.g. Delhi, Mumbai etc. have power to appoint their own auditors for regular external audit.
- So the auditor should ensure his appointment.

CA DEEPIKA RATHI

AUDITOR'S CONCERNS

The auditor while auditing the local bodies should report on the

- fairness of the contents and presentation of F.S.
- the strengths and weaknesses of system of financial control
- the adherence to legal and/or administrative requirements
- whether value is being fully received on money spent

Auditor objective should be to detect errors and fraud and misuse of resources.

The auditor should ensure

RULES & REGULATIONS

- The expenditure incurred conforms to the relevant provisions of the law and
- Is in accordance with the financial rules and regulations framed by the competent authority.

AUTHORISATIONS

- All types of sanctions, either special or general, accorded by the competent authority.

PROVISIONING

- There is a provision of funds and the expenditure is incurred from the provision and the same has been authorized by the competent authority.

PERFORMANCE

The auditor should check that

- The different schemes, programmes and projects, where large financial expenditure has been incurred, are running economically and getting the expected results.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

AUDIT OF NON GOVERNMENTAL ORGANISATION

Meaning

NGO's can be defined as non-profit organisations which raise funds from members or donors apart from receiving donation of time, energy & skills for achieving their social objectives.

Incorporationof NGOs

- Society under the Societies Registration, Act, 1860 or
- Trust under the India Trust Act, 1882, or
- Section 8 company under Companies Act, 2013.

Source and Application of Funds

1. SOURCE OF FUNDS

A

Donations and grants received in the nature of **promoter's contribution** are in the nature of capital receipts and shown as liabilities in the Balance Sheet of NGO.

These may either be in the form of
- corpus contribution or
- a contribution towards revolving fund.

A contribution made towards the capital or the corpus of an NGO is known as corpus contribution.

B

Section 11(1)(d) of the Income Tax Act 1961:
Income in the form of **voluntary contributions** made with a specific direction that they shall form part of the corpus of the trust or institution shall not be → included in the computation of total income.

C

The objective of a contribution or grant towards a **Revolving Fund** is

- to rotate the amount by giving temporary loans from the fund to other NGO or
- beneficiaries for their projects

And

then recover the loan so as to give temporary loans again and so on.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Any interest earned from the beneficiary on such temporary loans from the revolving fund could be either
- Added back to the fund **or**
- Credited to the Income and Expenditure Account

D

Donations and grants received for acquisition of ***specific fixed assets*** are those grants whose
- primary condition is that an NGO accepting them should purchase, construct or otherwise acquire the assets for which the grant is given.

E

- Many a times NGOs receive **contributions in kind.**
- These contributions include assets such as land, buildings, vehicles, office equipment, etc. and articles related to programmes / projects such as food, books, building materials, clothes, beds, and raw material for training purposes, e.g., Wool, reeds, cloth, etc.

2. APPLICATION OF FUNDS

The areas of application of funds for an NGO include
- Establishment Costs,
- Office and Administrative Expenses,
- Maintenance Expenses,
- Programme / Project Expenses,
- Charity,
- Donations and Contributions given, etc.

Provisions Relating to Audit

Appointment of auditor

The auditors of an NGO registered under the
- Societies Registration Act, 1860 **or**
- Indian Trusts Act 1882

→ Normally appointed by the Management of the Society or Trust

The auditors of NGO registered under section 8 of the Companies Act, 2013 → **Appointed by the members of the company**

The Foreign Contribution (Regulation) Act 2010 has prescribed the format and requires that the same be furnished to the Ministry of Home Affairs within 60 days from the close of the financial year i.e. by May 30 each year.

Hello Everyone !!
How are u all ??

While planning the audit, the auditor may concentrate on the following:

- **Knowledge** → of the NGO's work, its mission and vision, areas of operations and environment in which it operate.
- **Updating knowledge** → of relevant statutes especially with regard to recent amendments, circulars, judicial decisions viz. Foreign Contribution (Regulation) Act 2010, Societies Registration Act, 1860, Income Tax Act 1961 etc. and the Rules related to the statutes.
- **Reviewing**

legal form of the Organisation and its Memorandum of Association, Articles of Association, Rules and Regulations	NGO's Organisation chart, then Financial and Administrative Manuals, Project and Programme Guidelines, Funding Agencies Requirements and formats, budgetary policies if any.	previous year's Audit Report.

- **Examination→** of minutes of the Board/Managing Committee/Governing Body/ Management and Committees thereof to ascertain the impact of any decisions on the financial records.
- **Study→** the accounting system, procedures, internal controls and internal checks existing for the NGO and verify their applicability.
- **Setting of materiality levels for audit purposes.**
- **The nature and timing of reports or other communications**
- **The involvement of experts and their reports.**

The **audit programme** should include in a sequential order all assets, liabilities, income and expenditure ensuring that no material item is omitted.

i. **Corpus Fund:**
   - The contributions / grants received towards corpus be vouched with special reference to the letters from the donor(s).
   - The interest income be checked with Investment Register and Physical Investments in hand.

ii. **Reserves:**
   - Vouch transfers from projects / programmes with donors letters and board resolutions of NGO.
   - Also check transfer of gross value of asset sold from capital reserve to general reserve and adjustments during the year.

iii. **Ear-marked Funds:**

- Earmarking refers to a fund allocation practice in which an entity, a government, or an individual sets aside a determined amount of funds to use for a specific goal.
- Check requirements of donors institutions, board resolution of NGO, rules and regulations of the schemes of the ear- marked funds.

iv. **Project / Agency Balances:** Vouch disbursements and expenditure as per agreements with donors for each of the balances.

v. **Loans:** Vouch loans with loan agreements, counterfoil of receipt issued.

vi. **Fixed Assets:**

- Vouch all acquisitions / sale or disposal of assets including depreciation and the authorisations for the same.
- Also check donor's letters/ agreements for the grant. In the case of immovable property check title, etc.

vii. **Investments:**

- Check Investment Register and the investments physically ensuring that investments are in the name of the NGO.
- Verify further investments and dis- investments for approval by the appropriate authority and reference in the bank accounts for the principal amount and interest.

viii. **Cash in Hand:**

- Physically verify the cash in hand and imprest balances, at the close of the year and whether it tallies with the books of account.

ix. **Bank Balance:**

- Check the bank reconciliation statements and ascertain details for old outstanding and unadjusted amounts.

x. **Inventory:**

- Verify inventory in hand and obtain certificate from the management for the quantities and valuation of the same.

xi. **Programme and Project Expenses:**

- Verify agreement with donor/contributor(s) supporting the particular programme or project to ascertain the conditions with respect to undertaking the programme/project and accordingly, in the case of programmes/projects involving contracts, ensure that income tax is deducted, deposited and returns filed and verify the terms of the contract.

xii. **Establishment Expenses:**

- Verify that provident fund, life insurance premium, employees state insurance and their administrative charges are deducted, contributed and deposited within the prescribed time.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

- Also check other office and administrative expenses such as postage, stationery, travelling, etc.

The receipt of income of NGO may be checked on the following lines:

i. Contributions and Grants for projects and programmes:
- Check agreements with donors and grants letters to ensure that funds received have been accounted for.
- Check that all foreign contribution receipts are deposited in the foreign contribution bank account as notified under the Foreign Contribution (Regulation) Act, 2010.

ii. Receipts from fund raising programmes:
- Verify in detail the internal control system and ascertain who are the persons responsible for collection of funds and mode of receipt.
- Ensure that collections are counted and deposited in the bank daily.

iii. Membership Fees:
- Check fees received with Membership Register.
- Ensure proper classification is made between entrance and annual fees and life membership fees.
- Reconcile fees received with fees to be received during the year.

iv. Subscriptions:
- Check with subscription register and receipts issued.
- Reconcile subscription received with printing and dispatch of corresponding magazine / circulars / periodicals.
- Check the receipts with subscription rate schedule.

v. Interest and Dividends:
- Check the interest and dividends received and receivable with investments held during the year.

AUDIT OF SOLE TRADER

A sole trader is under no legal obligation to have his accounts audited.

However, many such individuals get their financial statement audited due to regulatory requirements, such as
- Inventory brokers OR
- On a specific instructions of the bank for approval of loans, etc.

Appointment of Auditor
- Auditor shall be appointed by the sole proprietor himself.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

In case of change of auditor, it would be duty of incoming auditor to communicate with the previous auditor.

Sole Proprietor can determine the scope of the audit as well as the conditions under which it will be carried out.

- The contract of appointment of auditor should be in writing

and

- also it should clearly define the scope of the work which the auditor is expected to carry out.

AUDIT OF FIRM

- **Appointment of Auditors : →** By the partners either on the basis of a decision taken by them or to comply with a condition in the partnership agreement.
- **Remuneration : →** Fixed by the partners.
- **Letter of Appointment : →** Should clearly state the nature and scope of audit which is to be carried out and particulars of limitations, if any,
- **In case of change of auditor : →** it would be duty of incoming auditor to communicate with the previous auditor.
- **In case the firm is required to get its accounts audited under the requirements of any statute, the auditor will have to**
  - Qualify the report in case of non-compliance with the accounting standards.

Matters to be considered before starting audit:

Before starting the audit, he should examine the partnership agreement and note the provisions therein as regards the following matters:

- Name and style under which the business shall be conducted.
- Duration of the partnership, if any, that has been agreed upon.
- Amount of capital that shall be contributed by each partner
- Period at the end of which the accounts of the partnership will be closed periodically and the proportions in which the profit shall be divided among the partners or losses shall have to be contributed by them.
- Provisions as regards maintenance of books of account.

CA DEEPIKA RATHI

- Borrowing capacity of the partnership.
- The rate at which interest will be allowed on the capitals and loans provided by partners and the rate at which it will be charged on their drawings and current accounts.
- Whether any salaries are payable to the partners or withdrawals are permitted against shares of profits and, if so, to what extent?
- Duties of the partners as regards the management of business of the firm.
- Who shall operate the bank account of the firm? How will the surplus funds of the partnership be invested?
- Limitations and restrictions that have been agreed upon, the rights and powers of partners and on their implied authority to pledge the firm's credit or to render it liable.

Advantage of Audit of a Partnership Firm

- **Disputes :** → Audited accounts help in settling accounts between the partners reliably.
- **Dissolution :** → Audited accounts provide reliable evidence for computing the amount due to the retiring partner or representative of deceased partner.
- **Reliable :** → Audited statement of accounts are relied upon by the banks when advancing loans, as well as by prospective purchasers of the business, as evidence of the profitability of the concern and its financial position.
- **Admission:** → Audited accounts can be helpful in the negotiation for sale or admission of a new partner.
- **Control:** → It is an effective safeguard against any undue advantage being taken by a working partner as against the non-working partners.

Matters which should be specially considered in the audit of accounts of a partnership:

- **Letter of Appointment :**→ Confirming that the letter of appointment, signed by a partner, duly authorised, clearly states nature & scope of audit contemplated by the partners, specially limitation, if any.
- **Partnership Documents :** → Study the minute book, if any, maintained to record the policy decision taken by partners specially the minutes relating to authorisation of extraordinary and capital expenditure, raising of loans, purchase of assets and other such matters which are not of a routine nature.

Hello Everyone !!
How are u all ??

- **Objects of Partnership :→** Verifying that the business in which the partnership is engaged is authorised by the partnership agreement.

- **Books of Account : →** Examining whether books of account appear to be reasonable and are considered adequate in relation to the nature of the business of the partnership.

- **Mutual Interest: →** Verifying generally that the interest of no partner has suffered prejudicially by an activity engaged in by the partnership which, it was not authorised to do under the partnership deed or by any violation of a provision in the partnership agreements.

- **Provision for Taxes: →** Confirming that a provision for the firm's tax payable by the partnership has been made in the accounts before arriving at the amount of profit divisible among the partners.

- **Division of Profits: →** Verifying that the profits/losses have been divided among partners in agreed profit-sharing ratio.

AUDIT OF LLP

- LLP is governed by Limited Liability Partnership Act, 2008.
- It is a form of business organisation which enshrines in itself the advantages of both the Company and Partnership forms of Organisation.
- Minimum of 2 Partners can form an LLP and at least 2 partners would be Designated Partners who would be required to take DPIN (Designated Partner Identification Number)
- The Partners in an LLP and their rights and duties are governed by way of an agreement between them.

Small Limited Liability Partnership

Contribution of which, does not exceed
- **Twenty-five lakh rupees (INR 25,00,000)** or
- Such higher amount, not exceeding **Five crore rupees,**(INR 5 Crore) as may be prescribed

Turnover of which, as per the Statement of Accounts and Solvency for the immediately preceding financial year, does not exceed
- **Forty lakh rupees (INR 40,00,000)** or
- such higher amount, not exceeding **Fifty crore rupees**, ,(INR 50 Crore) as may be prescribe

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

An LLP shall be under obligation to maintain annual accounts reflecting → ***True and Fair View of its state of affairs.***

LLP's are required to maintain books of accounts which shall contain-

- Particulars of all sums of money received and expended by the LLP and the matters in respect of which the receipt and expenditure takes place
- A record of the assets and liabilities of the LLP
- Statements of costs of goods purchased, inventories, work-in-progress, finished goods and costs of goods sold
- Any other particulars which the partners may decide.

Audit of the Accounts of an LLP

Rule 24 of LLP Rules, 2009 Requirement of Audit

- A LLP whose
  - Turnover does not exceed, in any financial year, Rs. 40 Lacs, or
  - Contribution does not exceed Rs. 25 Lacs

  shall not be required to get its accounts audited.
- If partners of such LLP decide to get the accounts of such LLP audited, the accounts shall be audited in accordance with these rules.

Advantages / Purpose / Need of Audit

- **Detection of Errors** – Helps in detecting errors & frauds & verification of financial statements.
- **Disputes** – Resolving disputed among the partners in relation to accounting matters.
- **Reliability** – Banks & financial institutions lend money to the firms only on the basis of audited accounts.
- **Better Compliance and Management** – Helpful in improving the management of the LLP.
- **Reconstitution** – Settlement of accounts between partners at the time of admission, death, retirement, insolvency, insanity, etc.

Hello Everyone !!
How are u all ??

Returns to be maintained and filed by an LLP

Every LLP on Closure of every financial year

0 Days → File Annual Return in Form 11 → Registrar (60 Days)

Annual Return will be available for public inspection on payment of prescribed fees to Registrar.

Every LLP on Closure of every financial year

0 Days → 6 Months → Statement of Account and Solvency in Form 8 → Registrar (30 Days)

Appointment of Auditor

The auditor may be appointed by the designated partners of the LLP

First Financial Year
- At any time but before the end of first financial year.

Other than the First financial year
- At least thirty days prior to the end of each financial year

- To fill the casual vacancy in the office of auditor
- To fill the casual vacancy caused by removal of auditor.

- **The partners may appoint the auditors if the designated partners have failed to appoint them.**

Auditor's Duty Regarding Audit of LLP

- **Engagement Letter :-** The auditor should get definite instructions in writing as to the work to be performed by him.
- **Minutes Book :-** If partners maintain minute book he shall refer it for any resolution passed regarding the accounts

Hello Everyone !!
How are u all ??

- **LLP Agreement**:-The auditor should read the LLP agreement & note the following provisions

  (a) Nature of the business of the LLP.

  (b) Amount of capital contributed by each partner.

  (c) Interest – in respect of additional capital contributed.

  (d) Duration of partnership.

  (e) Drawings allowed to the partners.

  (f) Salaries, commission etc. payable to partners.

  (g) Borrowing powers of the LLP.

  (h) Rights & duties of partners.

  (i) Method of settlement of accounts between partners at the time of admission, retirement, admission etc.

  (j) Any loans advanced by the partners.

  (k) Profit sharing ratio

Reporting

- Whether the records of the firm appear to be correct & reliable
- Whether he was able to obtain all information & explanation necessary for his work
- Whether any restriction was imposed upon him.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

AUDIT OF CHARITABLE INSTITUTION

In the case of audit of a charitable institution, attention should be paid to the following matters-

1. General

Studying the **constitution** under which the charitable institution has been set up.

Verifying
- whether the institution is being managed in the manner contemplated by the law under which it has been set up.
- The income and confirming that the amounts received have been deposited in the bank regularly and promptly.

Examining
- The **system of internal check**, especially as regards accounting of amounts collected.
- Trust Deed or the Regulations as laid down.

2. Subscriptions and donations

- Ascertaining, if any, the changes made in amount of **annual or life membership** subscription during the year.
- Whether **official receipts** are issued

a. Confirming → that adequate control is imposed over unused receipt books

b. Obtaining → all receipt books covering the period under review

c. Test checking → the counterfoils with the cash book.

d. Obtaining → the printed list of subscriptions and donations and agreeing them with the total collections shown in the accounts.

e. Examining →
- The system of internal check regarding moneys received from box collections, flag days, etc. and
- checking the amount received from representatives, with the correspondence and the official receipts issued; paying special attention to the system of control exercised over collections and the steps taken to ensure that all collections made have been accounted for and

f. Verifying → the total subscriptions and donations received with any figures published in reports, etc. issued by the charity.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

3. Legacies

Verifying → the amounts received by reference to correspondence with any figures and other available information.

4. Grants

- Vouching the amount received with the relevant correspondence, receipts and minute books.
- Obtaining a **certificate** from a responsible official showing the amount of grants received.

5. Investments Income

- **Vouching** → the amounts received with the **dividend** and **interest** counterfoils.
- **Checking** → the **calculations** of interest received on securities bearing fixed rates of interest.
- **Checking** → that the appropriate dividend has been received where any investment has been sold ex-dividend or purchased cum-dividend.
- **Comparing** → the amounts of dividend received with **schedule of investments** making special enquiries into any investments held for which no dividend has been received.

6. Rent

- Examining the rent roll and inspecting **tenancy agreements**, noting in each case:
  - a. Amounts of the rent, and
  - b. Due dates.
- Vouching the rent on to the rent roll from the counterfoils of receipt books and checking the totals of the cash book.

7. Special Function Etc.

- Vouching gross receipts and outgoings in respect of any special functions, *e.g.* concerts, dramatic performance, etc., held in aid of the charity with such vouchers and cash statements as are necessary.
- In particular, verifying that the proceeds of all tickets issued have been accounted for, after making the allowance for returns.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

8. Income Tax Refunds

Where income-tax has been deducted at source from the Investment income, it should be seen that a refund thereof has been obtained since charitable institutions are exempt from payment of Income- tax.

This involves

- Vouching→ the Income-tax refund with the correspondence with the Income- tax Department.
- Checking→the calculation of the repayment of claims.

9. Expenditure

i. Vouching → payment of grants, also verifying that the grants have been paid only for a charitable purpose or purposes falling within the purview of the objects for which the charitable institution has been set up and that no trustee, director or member of the Managing Committee has benefited there from either directly or indirectly.

ii. Verifying→ the schedules of securities held, as well as inventories of properties both movable and immovable by inspecting the securities and title deeds of property and by physical verification of the movable properties on a test- basis.

iii. Verifying→ the cash and bank payments.

iv. Ascertaining →that any funds contributed for a special purpose have been utilised for the purpose.

AUDIT OF EDUCATIONAL INSTITUTIONS

The special steps involved in audit are the following

1. General

- Examine the Trust Deed or Regulations, in the case of school or college and
- Note all the provisions affecting accounts

In the case of a university, refer to the Act of Legislature and the Regulation framed thereunder.

Read through the minutes of the meetings of the Managing Committee or Governing Body, noting resolutions affecting accounts to see that these have been duly complied with, specially the decisions as regards the operation of bank accounts and sanctioning of expenditure

Hello Everyone !!
How are u all ??

2. Fees from Students

- **Check** → Names entered in the Students Fee Register **and Verify** → that there operates a system of internal check which ensures that demands against the students are properly raised.
- **Check** → Fees received through comparison of counterfoils of receipts issued with entries in the Cash Book.
- **Examine**→ Fee paid in advance, if any, have been carried forward **and** that the arrears that are irrecoverable have been written off under the sanction of an appropriate authority.
- **Check**→ Admission fees with admission slips signed by the head of the institution and confirm that the amount has been credited to a Capital fund, unless the Managing Committee has taken a decision to the contrary.
- **Ensure**→ Free studentship and concessions have been granted by a person authorised to do so, having regard to the Rules prepared by the Managing Committee.
- **Confirm**→ Fines for late payment or absence, etc. have been either collected or remitted under proper authority.
- **Confirm**→ Hostel dues were recovered before student's accounts were closed and their deposits of caution money refunded.

3. Other Receipts/ Grants & Donations

Verify
Rental income from landed property with the rent rolls, etc.

Vouch
Income from endowments and legacies, as well as interest and dividends from investment; also inspect the securities in respect of investments held.

Verify
Any Government or local authority grant with the memo of grant. If any expense has been disallowed for purposes of grant, ascertain the reasons thereof.

4. Expenditure

- **Verify**→ Provident Fund money of the staff has been invested in appropriate securities.
- **Vouch**→ Donations, if any with the list published with the annual report. If some donations were meant for any specific purpose, see that the money was utilised for the purpose.

Hello Everyone !!
How are u all ??

- **Vouch,** → All capital expenditure in the usual way and verify the same with the sanction for the Committee as contained in the minute book.

- **Vouch,**→ in the usual manner, all establishment expenses and enquire into any unduly heavy expenditure under any head.
  - If there was any annual budget prepared, see that any excess under any head over the budgeted amount was duly sanctioned by the Managing Committee.
  - If not, bring it to the Committee's notice in your report.

- See that increase in the salaries of the staff have been sanctioned and minuted by the Committee.

5. Assets & Liabilities

- **Report**→ Any old heavy arrears on account of fees, dormitory rents, etc. to the Managing Committee.
- **Confirm**→ That caution money and other deposits paid by students on admission, have been shown as liability in the balance sheet not transferred to revenue, unless they are not refundable.
- See that the investments representing endowment funds for prizes are kept separate and any income in excess of the prizes has been accumulated and invested along with the corpus.
- **Ascertain**→ that the system ordering inspection on receipt and issue of provisions, foodstuffs, clothing and other equipment is efficient and all bills are duly authorised and passed before payment.
- **Verify**→ Inventories of furniture, stationery, clothing, provision and all equipment etc. These should be checked by reference to Inventory Register or corresponding inventories of the previous year and valuesapplied to various items should be test checked.

6. Compliances

1. **Confirm**→ The refund of taxes deducted from the income from investment (interest on securities etc.) has been claimed and recovered since the institutions are generally exempted from the payment of income-tax.
2. **Verify**→ Annual statements of account and, while doing so see that separate statements of account have been prepared as regards Poor Boys Fund, Games Fund, Hostel and Provident Fund of staff, etc.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

AUDIT OF HOSPITAL

1. **Register of Patients:**
   - **Vouch →** Register of patients with copies of bills issued to them.
   - **Verify →** Bills for a selected period with the patients' attendance record to see that the bills have been correctly prepared.
   - **Also see →** That bills have been issued to all patients from whom an amount was recoverable according to the rules of the hospital.

2. **Collection of Cash:**
   - **Check→** cash collections as entered in the Cash Book with the receipts, counterfoils and other evidence.
   - **Example→** copies of patients bills, counterfoils of dividend and other interest warrants, copies of rent bills, etc.

3. **Income from Investments, Rent etc:** See with reference to the property and Investment Register that all income that should have been received by way of rent on properties, dividends, and interest on securities have been collected.

4. **Legacies and Donations:**
   - **Ascertain→** that legacies and donations received for a specific purpose have been applied in the manner agreed upon.

5. **Reconciliation of Subscriptions:**
   - **Trace→** All collections of subscription and donations from the Cash Book to the respective Registers.
   - **Reconcile→** The total subscriptions due (as shown by the Subscription Register and the amount collected and that still outstanding).

6. **Authorisation and Sanctions:**
   - **Vouch→** all purchases and expenses and
   - **Verify→** that the capital expenditure was incurred only with the prior sanction of the Trustees or the Managing Committee and that appointments and increments to staff have been duly authorised.

7. **Grants and TDS:**
   - Verify that grants, if any, received from Government or local authority has been duly accounted for.
   - Also, that refund in respect of taxes deducted at source has been claimed.

CA DEEPIKA RATHI

8. Budgets:

- **Compare→** The totals of various items of expenditure and income with the amount budgeted for them and report to the Trustees or the Managing Committee, significant variations which have taken place.

9. Internal Check:

- **Examine→** The internal check as regards the receipt and issue of stores; medicines, linen, apparatus, clothing, instruments, etc. so as to insure that purchases have been properly recorded in the Inventory Register and that issues have been made only against proper authorisation.

10. **Depreciation**: See that depreciation has been written off against all the assets at the appropriate rates.

11. **Registers:**

- **Inspect→** the bonds, share scrips, title deeds of properties and compare their particulars with those entered in the property and Investment Registers.

12. **Inventories:**

- **Obtain inventories→** especially of stocks and stores as at the end of the year and check a percentage of the items physically; also compare their total values with respective ledger balances.

13. **Management Representation and Certificate:** Get proper Management Representation and Certificate with respect to various aspects covered during the course of audit.

CA DEEPIKA RATHI

AUDIT OF CLUB

(1) Entrance Fee

- **Vouch→** The receipt on account of **entrance fees** with members' applications, counterfoils issued to them, as well as on a reference to minutes of the Managing Committee.

(2) Subscriptions

- **Vouch→ members' subscriptions** with the counterfoils of receipt issued to them, trace receipts for a selected period to the Register of Members.
- **Also reconcile→** The amount of total subscriptions due with the amount collected and that outstanding.

Hello Everyone !!
How are u all ??

(3) Arrears of Subscriptions

- **Ensure→** That **arrears of subscriptions** for the previous year have been correctly brought over and arrears for the year under audit and subscriptions received in advance have been correctly adjusted.

(4) Arithmetical accuracy :-

- **Check** →totals of various columns of the Register of members and tally them across.

(5) Irrecoverable Member Dues

- See the Register of Members to ascertain the **Member's dues** which are in arrear and enquire whether necessary steps have been taken for their recovery;
- The amount considered irrecoverable should be mentioned in the Audit Report.

(6) Pricing

- **Verify→** the internal check as regards members being charged with the **price of foodstuffs and** drinks provided to them and their guests, as well as, with the fees chargeable for the special services rendered, such as billiards, tennis, etc.

(7) Member Accounts :-

- **Trace→** Debits for a selected period from subsidiary registers maintained in respect of supplies and services to members to confirm that the account of every member has been debited with amounts recoverable from him.

(8) Purchases

- **Vouch→ purchase** of sports items, furniture, crockery, etc. and trace their entries into the respective inventory registers.

(9) Margins earned

- **Vouch→** purchases of foodstuffs, cigars, wines, etc., and test their sale price so as to confirm that the normal **rates of gross profit** have been earned on their sales.
- The inventory of unsold provisions and stores, at the end of year, should be verified physically and its valuation checked.

(10) Inventories

- **Check→** The **inventory** of furniture, sports material and other assets physically with the respective inventory registers or inventories prepared at the end of the year.

CA DEEPIKA RATHI

(4) **Investments :-**

- **Inspect→** The share scrips and bonds in respect of **investments**, check their current values for disclosure in final accounts;
- **Also ascertain →** That the arrangements for their safe custody are satisfactory.

(5) **Management Powers**

- **Examine→** the **financial powers of the secretary** and, if these have been exceeded, report specific case for confirmation by the Managing Committee.

AUDIT OF CINEMA

- **Verify →**The **internal control mechanism-**
  - a. Entrance to the cinema-hall during show is only through printed tickets.
  - b. They are serially numbered and bound into books
  - c. Number of tickets issued for each show and class, are different though the numbers of the same class for the show on the same day, each week, run serially.
  - d. Advance booking a separate series of tickets is issued.
  - e. Inventory of tickets is kept in the custody of a responsible official
- **Confirm→** that at the end of show, a **statement of tickets sold** is prepared and cash collected is agreed with it.
- **Verify→** that a record is kept of the **'free passes'** and that these are issued under proper authority.
- **Reconcile→** amount of **Tax** collected with the total number of tickets issued for each class and vouch and verify the tax returns filed each month.
- **Vouch→** entries in the Cash Book in respect of cash collected on **sale of tickets** for different shows on a reference to Daily Statements which have been test checked as aforementioned with record of tickets issued for the different shows held.
- **Verify→** charges collected for **advertisement** slides and shorts by reference to the Register of Slides and Shorts Exhibited kept at the cinema as well with the agreements, entered into with advertisers in this regard.
- **Vouch→ expenditure** incurred on advertisement, repairs and maintenance. No part of such expenditure should be capitalized
- **Confirm→ depreciation** on machinery and furniture has been charged at an appropriate rate.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

- **Examine→** unadjusted balance out of **advance paid to the distributors** against film hire contracts to see that they are good and recoverable.
  - If any film in respect of which an advance was paid has already run, it should be enquired as to why the advance has not been adjusted.
  - The management should be asked to make a provision in respect of advances that are considered irrecoverable.
- The arrangement for collection of the share in the **restaurant income** should be enquired into either a fixed sum or a fixed percentage of the taking may be receivable annually.
  - In case the restaurant is run by the Cinema, its accounts should be checked.
  - The audit should cover sale of various items of foodstuffs, purchase of foodstuffs, cold drink, etc. as in the case of club.

AUDIT OF HIRE PURCHASE AND LEASING COMPANIES

A. HIRE - PURCHASE

1. HIRE – Purchase Agreement

Means : → An agreement under which goods are let on hire and under which the hirer has an option to purchase them in accordance with the terms of the agreement and includes an agreement under which;-

i. Possession of goods is delivered by the owner thereof to a person on condition that such person pays the agreed amount in periodical instalments

ii. Property in the goods is to pass to such person on the payment of the last of such instalments, and

iii. Such person has a right to terminate the agreement at any time before the property so passes.

2. Hirer

- **Hirer Means :** →The person who obtains or has obtained possession of goods from an owner under a hire- purchase agreement.
- **Owner** means →The person who lets or has let, delivers or has delivered possession of goods to a hirer under a hire- purchase agreement in order to complete the purchase of, or the acquisition of property in the goods of which the agreement relates; and
  - Includes any sum so payable by the hirer under the hire- purchase agreement by way of a deposit or other initial payment.

While checking the hire- purchase transaction, the auditor may examine the following:

- Hire purchase agreement is in writing and is signed by all parties.
- Hire purchase agreement specifies clearly-
- Ensure that instalment payments are being received regularly as per the agreement.

(a) Hire-purchase price of the goods to which the agreement relates;

(b) Cash price of the goods, that is to say, the price at which the goods may be purchased by the hirer for cash;

(c) Date on which the agreement shall be deemed to have commenced;

(d) Number of instalments by which the hire- purchase price is to be paid, the amount of each of those instalments, and the date, or the mode of determining the date, upon which it is payable, and the person to whom and the place where it is payable; and

(e) Goods to which the agreement relates, in a manner sufficient to identify them.

B. LEASES

A party ↓ (called *'lessee'*) → acquires the right to use an asset for an agreed period of time in consideration of payment of rent → to another party ↓ (called *'lessor'*)

Finance Leases

- The legal ownership of the asset remains with the lessor (the leasing company), but in substance, all the risks and rewards of ownership of the asset are transferred to the lessee.

Operating Leases

- A simple arrangement where, in return for rent, the lessor allows the lessee to use the asset for a certain period.

A normal finance lease transaction usually goes through the following modality

- Lessee will select the equipment, and satisfy himself about its functional fitness and specifications, the lessor has no participation at this stage.
- Having chosen the equipment, the lessee approaches a lessor, either directly or through a lease-broking agency.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

- Lease agreement is broadly negotiated and the rates are finalised.
- Lessor places an order on the manufacturer as chosen by the lessee.
- Manufacturer delivers the equipment at the site of the lessee, and the latter gives notice of acceptance to the lessor.
- Lease agreement giving detailed terms of contract is signed between the parties. Leases will normally be full pay-out, with term varying as per requirements.
- During the lease period, the lessee:
  - ➢ Will pay rentals regularly at periods agreed-upon, which are usually each calendar month;
  - ➢ Will keep the equipment in good repair and working condition, etc.
  - ➢ Will be entitled to any manufacturer's warranties or after-sales services.
- At the end of the lease period, the equipment shall retreat to the lessor.
  - ➢ The lessee may, however, be given a renewal right, or may be allowed to participate in purchase of the equipment when the lessor intends to sell it.
  - ➢ No purchase option shall be given to the lessee in the lease agreement itself.

Auditor's Procedures

- The object clause of leasing company to see that the goods like capital goods, consumer durables etc. in respect of which the company can undertake such activities.
  Further, to ensure that whether company can undertake financing activities or not.
- Whether there exists a procedure to ascertain the credit analysis of lessee like lessee's ability to meet the commitment under lease, past credit record, capital strength, availability of collateral security, etc.
- The lease agreement should be examined and the following points may be noted:
  - ➢ Description of the lessor, the lessee, the equipment and the location where the equipment is to be installed.
  - ➢ The amount of tenure of lease, dates of payment, late charges, deposits or advances etc. should be noted.
  - ➢ Whether the equipment shall be returned to the lessor on termination of the agreement and the cost shall be borne by the lessee.
  - ➢ Whether the agreement prohibits the lessee from assigning the subletting the equipment and authorises the lessor to do so.

CA DEEPIKA RATHI

- Examine the lease proposal form submitted by the lessee requesting the lessor to provide him the equipment on lease.
- Ensure that the invoice is retained safely as the lease is a long-term contract.
- Examine the acceptance letter obtained from the lessee indicating that the equipment has been received in order and is acceptable to the lessee.
- See the Board resolution authorising a particular director to execute the lease agreement has been passed by the lessee.
- See that the copies of the insurance policies have been obtained by the lessor for his records.

TYPES OF LEASE AGREEMENTS

Finance Lease

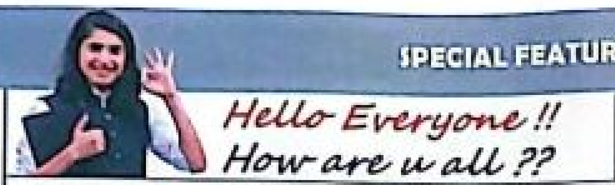
An arrangement with the following attributes qualifies as a Finance Lease:

1. The lease arrangement transfers ownership of the asset to the lessee at the end of the lease term;
2. The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
3. The lease term is for the major part of the economic life of the asset even if title is not transferred;
4. At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
5. The leased assets are of such a specialized nature that only the lessee can use them without major modifications

Operating Lease

- An arrangement that does not transfer substantially all the risks and rewards incidental to ownership qualifies as an Operating Lease.
- In other words, an operating lease is a lease arrangement "Other than finance lease".

CA DEEPIKA RATHI



AUDIT OF HOTELS

Internal Controls

- Pilfering is one of the greatest problems in any hotel and importance of internal control cannot be undermined.
- It is the responsibility of management to introduce controls which will minimize the leakage.
- Evidence of their success is provided by preparation of regular trading accounts for each sales point and a detailed scrutiny of resulting profit percentages, with any deviation from the anticipated.

Auditor should

- Obtain these regular trading accounts for the period under review, examine them and obtain explanations for any apparent deviations.
- Verify a few restaurant bills by reference to K.O.T.s (Kitchen Order Tickets) or basic record. This would enable him to ensure that controls regarding revenue cycle are in order.
- Satisfy himself that all taxes collected from occupants on food and occupation have been paid over to the proper authorities.

Room Sales & Hall Bookings

- Charge for room sales is normally posted to guest bills by the receptionist/front office.
- Source of these entries is invariably the guest register and audit tests should be carried out to ensure that the correct numbers of guests are charged for the correct period.
- Any difference between the charged rates used on the guests' bills and the standard room rate should be investigated to ensure that they have been properly authorized.
- In many hotels, housekeeper prepares a daily report of the rooms which were occupied the previous night.
- This report tends not to be permanently retained and the auditor should ensure that a sufficient number of reports are available for him to test both with the guest register and with the individual guest's bill.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Auditor Should

- Ensure that proper valuation of occupancy-in-progress at the balance sheet date is made and included in the accounts.
- Ensure that proper records are maintained for booking of halls and other premises for special parties and recovered on the basis of the tariff.

Inventories

- Auditor should carry out tests to ensure that all such documentation is accurately processed.
- Areas where large quantities of inventory are held should be kept locked, key being retained by departmental manager.
- Key should be released only to trusted personnel and unauthorized persons should not be permitted in the store's areas except under constant supervision.
- Many hotels use specialized professional valuers to take and value the inventories on a continuous basis throughout the year.
- Such a valuation is then almost invariably used as the basis of the balance sheet inventory figure at the year-end.

Auditor Should

- satisfied himself that the amounts included for such inventories are reasonable.
- For this purpose, consider attending the physical inventory taking and carrying out certain pricing and calculation tests.
- The extent of such tests could well be limited since the figures will have been prepared independently of the hotel.

Fixed Assets

- Many hotels account for certain quasi-fixed assets such as silver and cutlery on inventory basis.
- This can lead to confusion between each inventory items and similar assets which are accounted for on a more normal form on assets basis.

CA DEEPIKA RATHI

- In such cases, it is important that very detailed definitions of inventory items exist. and the auditor should carry out tests to ensure that the definitions have been closely followed.

- **The auditor should see that**
  - costs of repairs and minor renovation and redecoration are treated as revenue expenditure, where as costs of major alterations and additions to the hotel building and facilities capitalised.

Casual Labour

- The hotel trade operates to very large extent on casual labour.
- The records maintained of such wage payments are frequently inadequate.
- The auditor should→ ensure that defalcation on this account does not take place by suggesting proper controls to the management.

Travel Agents & Shops

i. For ledgers coming through travel agents or other booking agencies the bills are usually made on the travel agents or booking agencies.

- The auditor should ensure that money are recovered from the travel agents or booking agencies as per the terms of credit allowed.

ii. Commission, if any, paid to travel agents or booking agents should be checked by reference to the agreement on that behalf.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

AUDIT OF CO-OPERATIVE SOCITIES

Meaning of Co-operative Society

- A Cooperative *(also known as co-operative, co-op, or coop)* is "an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned enterprise".
- Co-operative society is a business organisation with a special mode of doing business, by pulling together all the means of production co-operatively, elimination of middlemen and exploitation from outside forces.

Co-operative Societies Act 1912

- **The Co-operative Societies Act, 1912**, a Central Act, contains the fundamental law regarding the formation and working of the co-operative societies in India and is applicable in many states with or without amendments.
- In many states, viz., Maharashtra, West Bengal, Orissa, the co-operative societies are governed by specific state Acts. An auditor of a co-operative society should be familiar with the provisions of the particular Act governing the society under audit.

Role of Chartered Accountant

Apart from audit, some other professional services could be rendered by chartered accountants such as:

- Guidance in accounts writing
- Installation of accounting system
- Internal audit
- Management accounting services
- Taxation

Provisions Societies Law related with Audit

Section 17 of the Co-Operative Societies Act, 1912

Registrar shall
- audit or cause to be audited
- by authorized person, accounts of every registered society once at least in every year.

Audit shall include an examination of
- Overdue debts, if any, and
- A valuation of the assets and liabilities of the society.

- Registrar, Collector or any person authorized shall at all times have access to all books, accounts, papers and securities of a society,

  and
- Every officer of the society shall furnish such information in regard to transactions and working of the society as the person making such inspection may require.

Hello Everyone !!
How are u all ??

"Registrar" means a person appointed to perform the duties of a Registrar of Co-operative Societies under this Act.

Qualifications of Auditors

- Apart from a CA within the meaning of the CA Act, 1949,
- Some of the State Co-operative Acts have permitted
  - Persons holding a government diploma in co-operative accounts and accountancy as also a person who has served as an auditor in co-operative department of a government to act as an auditor.

Appointment of the Auditor

- An auditor of a co-operative society is appointed by the → **Registrar**
- Auditor so appointed conducts the audit on behalf of the Registrar and submits his report to → **Registrar** and **Society**
- Audit fees is paid by the society on the basis of statutory scale of fees prescribed by the Registrar.

Books Of Accounts

- U/s 43(h) of Co-operative Societies Act, a state government can frame rules prescribing books and account to be kept by a co-operative society.
- For example, in Maharashtra, co-operative societies are required to maintain books of account for the following:
  - All sums of money received and expended by the society
  - All sales and purchases of goods by the society.
  - Assets and liabilities of the society

- Society is at liberty to maintain such additional records according to its convenience and which it thinks fit more useful for clarity and detailed explanation.

Examples of such additional records are:

- Daily cash sales summary register
- A register of collection from debtors if credit sales are allowed by bye-laws of society.
- Loan disbursement register in case of credit society.
- A register of recovery of loans from salaries and directly by receipts from members in case of credit society.
- Any other columnar subsidiaries depending upon the nature and functions of society.

Hello Everyone !!
How are u all ??

Restrictions on share holdings

Section 5 → Provides that in the case of a society where the liability of a member of the society is limited, no member of a society other than a registered society can hold such portion of share capital as would

- Exceed a maximum of 20% of the total number of shares

or

- Of the value of shareholding to ₹ 1,000.

- The auditor of a co-operative society will be concerned with this provision so as to watch any breach relating to holding of shares.
- Also watch whether→ ***any provision in the bye-laws of the society is not contrary to this statutory position.***

Restrictions on loans

- **Section 29** → A registered society shall not make a loan to any person other than a member.
- However, with the special sanction of the Registrar, a registered society may make a loan to another registered society.
- The State Government may further put such restrictions as it thinks fit on the loaning powers of the society to its members or to other societies in the interest of the society concerned and its members.

Restrictions on borrowings

- Section 30 of the Central Act further puts restriction on borrowings.
- A registered society shall accept loans and deposits from persons who are not members subject to the restrictions and limits of the bye-laws of the society
- The auditor will have to examine the bye-laws in this respect.

Hello Everyone !!
How are u all ??

Investment of funds

As per Sec. 32, a society may invest its funds in the following:

- Central or State Co-operative Bank.
- Securities specified in section 20 of the Indian Trusts Act, 1882
- Shares, securities, bonds or debentures of any other society with limited liability.
- any co-operative bank, other than a Central or State co-operative bank, as approved by the Registrar on specified terms and conditions.
- other moneys permitted by the Central or State Government.

Appropriation of profits

Section 33 of the Central Act → A prescribed percentage of the profits should be transferred to Reserve Fund, before distribution as dividends or bonus to members.

Contributions to Charitable Purposes

Section 34 → A registered society may, with the sanction of the Registrar,

- Contribute an amount not exceeding 10% of the net profits remaining after the compulsory transfer to the reserve fund
- For any charitable purpose as defined in section 2 of the Charitable Endowments Act, 1890.

Investment of Reserve Fund outside the business or utilisation as working capital

Some of the State Acts provide that a society may use the Reserve Fund

- In the business of a society, as working capital (subject to the rules made in this behalf).
- May invest as per provisions of the Act.
- May be used for some public purposes likely to promote the object of the society.

The auditor should ensure strict compliance with the State Act and Rules in this regard.

Hello Everyone !!
How are u all ??

Contribution to Education Fund

Some of the State Acts provide that → every society shall contribute annually towards

- Education Fund of the State Federal Society, at the appropriate rate as per the class of the society.
- Contribution to Education Fund is a charge on profits and not an appropriation.

Special Features of Co-Operative Audit

Examination of overdue debts

Overdue debts for a period from
- 6 months to 5 years and
- more than 5 years

will have to be classified and shall have to be reported by an auditor.

A further analysis of overdue debts from viewpoint of **chances of recovery** will have to be made, and they will have to be classified as

→ Good or Bad.

Auditor will have to ascertain whether
→ proper provisions for doubtful debts is made and whether the same is satisfactory.

Overdue Interest

- Overdue interest should be excluded from interest outstanding and accrued due while calculating profit.

Certification of Bad Debts

Bad debts and irrecoverable losses before being written off against Bad Debts Funds, Reserve Fund etc.

Where law requires certification by the auditor
As bad debts or irrecoverable losses should be certified so.

Where no such requirement exists
- Managing committee must authorize the write-off

Hello Everyone !!
How are u all ??

Valuation of Assets and Liabilities

Assets : → Regarding valuation of assets there are no specific provisions under the Act and as such due regard shall be had to the general principles of accounting and auditing conventions and standards adopted.

- Auditor will have to ascertain existence, ownership and valuation of assets.
- Fixed assets should be valued at cost less adequate provision for depreciation.
- Current assets be valued at cost or market price, whichever is lower.
- The incidental expenses incurred in the acquisition and the installation expenses of assets should be properly capitalized.

Liabilities :→ Regarding liabilities, auditor should see that all known liabilities are brought into the account, and contingent liabilities are stated by way of a note.

Adherence to Co-operative Principles

- Auditor will have to ascertain, how far the objects, for which the co -operative organisation is set up, have been achieved.
- Assessment is not necessarily in terms of profits, but in terms of extending benefits to members who have formed the society.
- While auditing expenses, auditor should see that they are economically incurred and there is no wastage of funds.
- Principles of propriety audit should be followed for the purpose.

Observations of the Provisions of the Act and Rules

- Auditor is required to point out infringement with the provisions of Cooperative Societies Act and Rules and bye-laws.
- Financial implications of such infringements should be properly assessed by the auditor and should be reported.
- Some State Acts contain restrictions on payment of dividends, which should be noted by the auditor.

Verification of Members Register

Examination of entries in members pass books regarding the loan given and its repayments, and confirmation of loan balances is very much important to assure that the entries in the books of account are free from manipulation.

Hello Everyone !!
How are u all ??

Special report to the Registrar

During the course of audit, if auditor notices that there are some serious irregularities in working of society, he may → report these special matters to the Registrar. → Registrar on receipt of such a special report may take necessary action against the society.

Circumstances in which special report is required

i. Personal profiteering by members of managing committee in transactions of society, which are detrimental to interest of society.
ii. Detection of fraud relating to expenses, purchases, property and stores of the society
iii. Mis-management
iv. In case of urban co-operative banks, disproportionate advances to vested interest groups, such as relatives of management, & deliberate negligence about recovery thereof
   - Cases of reckless advancing, where the management is negligent about taking adequate security and proper safeguards for judging the credit worthiness of the party.

Audit classification of society

- After judgment on overall performance of society, auditor has to award a class to the society.
- This judgment is to be based on the criteria specified by the Registrar.

If management is not satisfied about award of audit class, it can make an appeal to Registrar, and Registrar may direct to review the audit classification.

Auditor should be very careful, while making a decision about the class of society.

Discussion of Draft Report with managing committee

On conclusion of audit, auditor should ask the Secretary of society to convene a meeting of managing committee to discuss draft audit report.

Audit report should never be finalized without discussion with managing committee.

Hello Everyone !!
How are u all ??

Audit of Multi-State Co-Operative Societies

1. Qualification of Auditors

Section 72 of the Multi-State Co-operative Societies Act, 2002 states that a

- person who is a Chartered Accountant within the meaning of the Chartered Accountants Act, 1949 can only be
- appointed as auditor of multi-state co-operative society.

However, the following persons are not eligible for appointment as auditors of a multi-state co-operative society-

- A body corporate
- An officer or employee of the multi-state co-operative society
- A person who is a member or who is in the employment, of an officer or employee of the multi-state co-operative society.
- A person who is indebted to the multi-state co-operative society or who has given any guarantee or provided any security in connection with the indebtedness of any third person to the Multi-State cooperative society for an amount exceeding 1000/- rupees.

2. Appointment of Auditors

First Auditor shall be appointed by

- BOD within one month of date of registration.
- If BOD fails, society may appoint first auditor at General meeting

The auditor or auditors so appointed shall hold office until the conclusion of the first annual general meeting

Subsequent Auditor

- Subsequent auditors are appointed at each AGM.
- Auditor so appointed hold office till conclusion of next AGM.

The auditor or auditors so appointed shall hold office from the conclusion of that meeting until the conclusion of the next annual general meeting.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

3. Power & Duties

Section 73 every auditor of a Multi-State co-operative society shall have

- Right of access at all times to the books, accounts and vouchers whether kept at the head office or elsewhere.
- Require from the officers or other employees, such information and explanation as the auditor may think necessary for the performance of the duties as an auditor.

Section 73 (2) Conduct Inquiry

(a) Whether → loans and advances made by the Multi-State co-operative society on the basis of security have been properly secured and whether the terms on which they have been made are not prejudicial to the interests of the Multi- State co- operative society or its members,

(b) Whether → transactions of the Multi-State co-operative society which are represented merely by book entries are not prejudicial to the interests of the Multi-State co-operative society,

(c) Whether → personal expenses have been charged to revenue account, and

(d) Where it is Stated in the books and papers of the Multi-State co-operative society that any shares have been allotted for cash,

- ➢ whether cash has actually, been received in respect of such allotment, and if no cash has actually been so received,
- ➢ whether the position as stated in the account books and the balance sheet as correct regular and not misleading.

4. Content of Audit Report

As per sub-section (3) & (4) of section 73 of Multi- state Co-operative Societies Act, 2002

Auditor shall, make a report to the members of the Multi-State co-operative society on

- Accounts examined by him
- Every Balance-sheet and Profit and Loss account
- Every other document required to be part of or annexed to the balance-sheet or profit and loss account.

Hello Everyone !!
How are u all ??

- Report shall state
  - ➢ whether →in his opinion and to the best of his information and according to the explanation given to him, the said account give the information required by this act in the manner so required, and give a true and fair view:

In the case of the balance-sheet

of the state of the Multi-State co-operative society's affairs as at the end of its financial year

In the case of the profit and loss account

of the profit or loss for its financial year

The auditor's report shall also state :

i. Whether he has obtained all the information and explanation which to the best of his knowledge and belief were necessary for the purpose of his audit.

ii. Whether, in his opinion, proper books of account have been kept by the Multi-State co-operative society so far as appears from his examination of these books and proper returns adequate for the purpose of his audit have been received from branches or offices of the Multi-State co-operative society not visited by him.

iii. Whether the report on the accounts of any branch office audited by a person other than the Multi-State co-operative society's auditor has been forwarded to him and how he has dealt with the same in preparing the auditor's report.

iv. Whether the Multi-State co-operative society's balance sheet and profit and loss account dealt with by the report are in agreement with the books of account and return.

5. Power of Central Government to direct special audit in certain cases

Power of Central Government to Direct Special Audit

- **Affairs Not Managed in Accordance With Prudent Commercial Practices**
- **Managed as it would Cause Injury to Interest of Trade or Industry or Business**
- **Financial Position is such as would endanger its Insolvency**

Hello Everyone !!
How are u all ??

1.Central Government's Order

The Central Government may at any time by order direct that a special audit of the Multi-State co-operative society's accounts for such period or periods as may be specified in the order shall be conducted.

2.Appointment of the Auditor

It may appoint either
- A chartered accountant or
- The Multi-State co-operative society's auditor himself to conduct the special audit.

3. Shareholding Restriction

Central Government shall order for special audit only if that Government or the State Government
- Either by itself or both hold **51% or more of the paid-up share capital** in such Multi-State co-operative society.

4. Special Auditor's Powers, Duties & Report

Special Auditor shall

- Have the same powers and duties in relation to the special audit as an auditor of a Multi- State co-operative society has under section 73.
- Instead of making his report to the members of the Multi-State co-operative society make the report to the Central Government.
- Include all the matters required to be included in the auditor's report under section 73 and any other matter as directed by the Central Government.

5. Action by the Central Government

Special Auditor → **Submit Report to** → Central Government

Within 4 Months
May take such action on the report as it considers necessary in accordance with the provision of the Act or any law for the time being in force.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

- However, if the Central Government does not take any action on the report within 4 months from the date of its receipt,

Government shall

- Send either a copy of, or relevant extract from, the report with its comments thereon to → Multi- State Co-operative society

And

- Require the Multi-State Co-operative society either
  - to circulate that copy or
  - those extracts to the members or
  - to have such copy or
  - extracts read before the Multi-State Co-operative society at its next general meeting.

6. Expenses pertaining to the Special Audit

The expenses of, and incidental to, any special audit under this section (including the remuneration of the special auditor) shall be

- Determined by the Central Government which determination shall be final
- Paid by the Multi-State Co-operative society
- In default of such payment, shall → Recoverable from the Multi-State Co-operative society as an arrear of land revenue.

Inquiry by Central Registrar under section 78

1.When:- The Central Registrar may, on a request from

- Federal co-operative to which a Multi- State Co-operative society is affiliated or
- A creditor or
- Not less than one-third($1/3^{rd}$) of the members of the board **or**
- Not less than one-fifth($1/5^{th}$) of the total number of members of a Multi-State co-operative society

2. How

- Hold an inquiry
- Direct some person authorized by him by order in writing in his behalf to hold an inquiry

into the constitutions, working and financial condition of a Multi-State Co-operative society.

Hello Everyone !!
How are u all ??

3. Opportunity of Being heard

Before holding such inquiry 15 days notice must be given to the Multi-State co-operative society.

4.Powers of Person Conducting Inquiry

He shall at all reasonable times have

- Free access to the books, accounts, documents, securities, cash and other properties belonging to or in the custody of the Multi-State co-operative society

and

- May summon any person in possession or responsible for the custody of any such books, accounts, documents securities, cash or other properties to produce the same at any place specified by him.

He may,

- Require the officersof the society to call a general meeting of the society by giving notice of not less than 7 days at such time and place at the head quarters of the society to consider such matters as may be directed to him,

and

- Where the officersof the society refuse or fail to call such a meeting, he shall have power to callit himself.

Summon any person who is reasonably believed by him to have any knowledge of the affairs of the Multi-State co-operative society to appear before him at any place at the headquarters of the society or any branch thereof and may examine such person on oath.

5. Follow up

The Central Registrar shall, within a period of 3 months of the date of receipt of the report,

communicate the report of inquiry to

- **Multi-State co-operative society**
- **Financial institutions,** if any to which the society is affiliated
- **To the person or authority,** if any at whose instance the inquiry is needed

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Inspection of Multi-State Co-Operative Societies under section 79

1. When:- The Central Registrar may, on a request from

- Federal co-operative to which a Multi- State Co-operative society is affiliated or
- A creditor or
- Not less than one-third($1/3^{rd}$) of the members of the board or
- Not less than one-fifth($1/5^{th}$) of the total number of members of a Multi-State co-operative society

2. How:- By

- General or Special order
- in writing
- in this behalf inspect or direct any person authorized by him by order in writing in this behalf
- to make an inspection into the constitution, working and financial condition of a Multi- State co-operative society.

3. Opportunity of Being heard

No inspection shall be made unless a notice of not less than 15 days has been given to the multi-state co-operative society.

4. Powers available

The Central Registrar or the person authorized by him shall have the following powers:

(a) He shall at all times

- have access to all books, accounts, papers, vouchers, securities, stock and other property of that society and
- may, in the event of serious irregularities discovered during inspection, take them into custody and
- shall have power to verify the cash balance of the society and subject to the general or special order of the central registrar to call a meeting of the society where such general meeting is, in his opinion necessary.

(b) Every officer or member of a Multi-State Co-operative society shall furnish such information with regard to the working of the society as the central registrar or the person making such inspection may require.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

5. Inspection Report

A copy of the report of inspection under this section shall be communicated to the Multi-State Co-operative society within a period of 3 months from the date of completion of such inspection.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

AUDIT OF TRUSTS & SOCITIES

There are three basic legal forms of charitable entities under Indian law

Trusts

- Governed by the Public Trust Act applicable in the relevant State.
- if no Public Trust Act exists in that state, then the applicable legislation will be the Indian Trusts Act, 1882.

Societies

Governed by the Societies Registration Act, 1860.

Section 8 companies

Governed by Companies Act, 2013

- Apart from the above legislations, the Income Tax Act 1961 will be applicable to charitable institutions.
- And in the case of foreign contributions to these charitable institutions, the Foreign Contribution (Regulation) Act, 2010 will be applicable.

BOOKS OF ACCOUNT

The Auditor is required to report whether the Trust has maintained proper books of accounts, including the following, namely

- Cash book
- Ledger
- Journal
- Copies of bills, whether machine numbered or otherwise serially numbered, wherever such bills are issued by the trust, and copies or counterfoils of machine numbered or otherwise serially numbered receipts issued by the trust;
- Original bills wherever issued to the person and receipts in respect of payments made by the person;
- Any other book that may be required to be maintained in order to give a true and fair view of the state of the affairs of the person and explain the transactions effected;

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

FINANCIAL STATEMENTS

- Trust has to prepare financial statements
  - ➢ Balance sheet
  - ➢ Income and expenditure statements
- Format for preparation and presentation of financial statements is prescribed under respective state laws.

Auditor's responsibility

The auditor should

- Obtain the list of the books and records maintained by the Trust. List should be matched with the above requirement for maintaining mandatory books and records as may be applicable in each case.
- Verify the records for the purpose of its audit
- Comply with the Accounting Standards (AS) and Standards on Auditing (SA) prescribed and made mandatory by the ICAI
- Apply the test checks depending on the evaluation of internal control procedures followed by the assessee.
- Keep in mind the concept of materiality depending upon the circumstances of each case.
- Keep detailed notes about the evidence on which he has relied upon while conducting the audit and also maintain all his working papers.

Such working papers should include his notes on the following, amongst other matters:

- Work done while conducting the audit and by whom
- Explanation and information given to him during the course of the audit and by whom
- Decision on the various points taken
- Judicial pronouncements relied upon by him while drafting the audit report
- Certificates issued by the client / management letters

DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Audit working papers prepared and/or obtained by the auditor provide evidence that:

- Opinion expressed by the auditor is based on the examination made by him.
- Auditor has given due cognizance to the information and explanations given by the assessee and that his opinion is not arbitrary.
- Information and explanations obtained were full and complete
- Auditor did not merely rely upon the information or explanations given by the assessee but that he subjected such information and explanations to reasonable tests to verify their accuracy and completeness

1. Trust

The auditor has to ascertain

Whether

- Accounts are maintained regularly and in accordance with the provisions of the applicable Act and the rules.
- Receipts and disbursements are properly and correctly shown in the accounts and money received in the form of donations is being applied as per the objects of the trust and as per the specific direction by the donor, if any.
- Cash balance and vouchers in the custody of the manager or trustee on the date of audit were in agreement with the accounts.
- All books, deeds, accounts, vouchers or other documents or records required by the auditor were produced before him.
- Register of movable and immovable properties is maintained, the changes therein are communicated from time to time to the regional office, and the defects and inaccuracies mentioned in the previous audit report have been duly complied with and rectified.
- Manager or trustee or any other person required by the auditor to appear before him did so and furnished the necessary information required by him.
- Any property or funds of the Trust were applied for any object or purpose other than the object or purpose of the Trust.
- Amounts of outstanding for more than one year and the amounts written off, if any.
- Any money of the public trust has been invested contrary to the provisions of applicable Act which have come to the notice of the Auditor.

Hello Everyone !!
How are u all ??

- Maximum and minimum number of the trustees is maintained.
- Meeting are held regularly as provided in such instrument.
- Minute books of the proceedings of the meeting is maintained.
- Trustees has any interest in the investment of the trust.
- Trustees is a debtor or creditor of the trust.
- Any special matter which the auditor may think fit or necessary to bring to the notice of the Deputy or Assistant Charity Commissioner

2.SOCITIES

- Ascertain governing legislation of society i.e., Societies Registration act, 1860 or any applicable state law under which it has been registered.
- Object of society needs to be ascertained from its memorandum of association/bye laws.
- Ascertain whether registration obtained under FCRA, 2010 in case of foreign contributions.
- Ascertain whether it is also registered under relevant provisions of Income-tax Act which may make it eligible for tax exemption on its income.
- Obtain an understanding of internal control to design audit procedures with special reference to donations and various expenditures incurred.
- Evaluate appropriateness of accounting policies with special reference to donations and grants.
- Ascertain, if any inquiry has been held by Registrar under applicable law in the working or financial condition of society and its implications for auditor's opinion.
- Ascertain all cases of irregular, illegal or improper expenditure and check whether such expenditure was caused in consequence of breach of trust or misapplication or any other misconduct on the part of governing body.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

10 AUDIT OF BANKS

Types of Banks

1. Commercial Banks	• Commercial banks are the widest spread banking institutions in India, that provide a number of products and services to general public and other segments of economy.
	• **Two of its main functions are**
	  a. Accepting deposits &
	  b. Granting advances.

2. Regional Rural Banks	• Regional Rural Banks known as RRBs are the banks that have been set up in rural areas in different states of the country to cater to the basic banking and financial needs of the rural communities. • **Examples** are Punjab Gramin Bank, Tripura Gramin Bank, Allahabad UP Gramin Bank, Andhra Pradesh Grameen Vikas Bank, etc.
3. Co-operative Banks	• Co-operative Banks function like Commercial Banks only but are set up on the basis of Cooperative Principles and registered under the Cooperative Societies Act of the respective state or the Multistate Cooperative Societies Act and usually cater to the needs of the agricultural and rural sectors. • **Examples** are Gujarat State Co-operative Bank Ltd., Chhatisgarh Rajya Sahakari Bank Maryadit, etc.
4. Payment Banks	• Payments Banks are a new type of banks which have been recently introduced by RBI. • They are allowed to accept restricted deposits but they cannot issue loans and credit cards. • However, customers can open Current & Savings accounts and also avail the facility of ATM cum Debit cards, Internet-banking & Mobile banking. • **Examples** are Airtel Payments Bank, India Post Payments Bank, Paytm Payments Bank, etc.
5.Development Banks	• Development Banks had been conceptualized to provide funds for infrastructural facilities important for the economic growth of the country. • **Examples** are Industrial Finance Corporation of India (IFCI), Industrial Development Bank of India (IDBI), Small Industries Development Bank of India (SIDBI), etc.
6. Small Finance Banks	• Small Finance Banks have been set up by RBI to make available basic financial and banking facilities to the unserved and unorganised sectors like small marginal farmers, small & micro business units, etc. • **Examples** are Equitas Small Finance Bank, AU Small Finance Bank, etc.

Hello Everyone !! How are u all ??

RBI Regulating Body

- In India, banking industry is regulated by the Reserve Bank of India (RBI) known as the Central Bank.

Responsibilities of RBI

- Development and supervision of the banks and non-banking financial institutions
- Determining, the monetary and credit policies
- Regulate the activities of commercial and other banks.

Important function of RBI

- Issuance of currency
- Regulation of currency issue
- Acting as banker to the central and state governments
- Acting as banker to commercial and other types of banks including term- lending institutions.

❖ **No bank can commence the business of banking or open new branches without obtaining license from RBI.**
❖ The RBI also has the power to inspect

Banking Operations –Conducted only at Branches

- Banking operations are conducted only at the branches,
- While other offices act as controlling authorities or administrative offices that lay down

Policies | **Systems** | **Internal control**

procedures for conduct of business in compliance with the statutory/ regulatory impositions and in compliance of accepted accounting principles and practices that cover all transactions and economic events.

- Controlling/ administrative offices also stipulate

Delegation of powers | **Fix responsibilities and accountability**

These are involved generally in
- ➢ effective supervision,
- ➢ monitoring and
- ➢ control over the business activities and operations,
- ➢ including seeking faithful compliance of the bank's laid down policies/ procedures/controls and deal with deviations therefrom.

Hello Everyone !!
How are u all ??

Regulatory Framework

(a) Banking Regulation Act, 1949;
(b) Reserve Bank of India Act, 1934;
(c) Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970;
(d) State Bank of India Act, 1955;
(e) State Bank of India (Subsidiary Banks) Act, 1959;
(f) Regional Rural Banks Act, 1976;
(g) Companies Act, 2013;
(h) Cooperative Societies Act, 1912 or the relevant State Cooperative Societies Acts;
(i) Information Technology Act, 2000;
(j) Prevention of Money Laundering Act, 2002;
(k) Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002;
(l) Credit Information Companies Regulation Act, 2005; and
(m) Payment and Settlement systems Act, 2007

Features of Banking Operations

- Huge Volumes and complex of transactions
- Wide geographical spread of banking network
- Diversified and large range of products and services offered
- Extensive use of technology
- Strict vigilance and compliance.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Types of Bank Audit Reports

Statutory Central Auditors (SCAs) have to furnish the following reports in addition to their main audit report:

- Report on adequacy and operating effectiveness of Internal Controls over Financial Reporting as an Annexure to the main audit report (as per the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the ICAI).
- Long Form Audit Report. (LFAR)
- Report on compliance with SLR requirements
- Report on whether the treasury operations of the bank have been conducted in accordance with the instructions issued by the RBI from time to time.
- Report on whether the income recognition, asset classification and provisioning have been made as per the guidelines issued by the RBI from time to time
- Report on whether any serious irregularity was noticed in the working of the bank which requires immediate attention.
- Report on status of the compliance by the bank with regard to the implementation of recommendations of the Ghosh Committee relating to frauds and malpractices and of the recommendations of Jilani Committee on internal control and inspection/credit system.
- Report on instances of adverse credit-deposit ratio in the rural areas.

Bank Audit Approach

- 1.Drawing an Audit Plan
- 2.Control Environment at the Bank
- 3.Engagament team discussion

Hello Everyone !!
How are u all ??

1. Drawing an Audit Plan

An audit plan should be drawn up based on

- Nature and level of operations
- Nature of adverse features
- Level of compliance based on previous reports
- Audit risks based on inadequacy in or breach of internal controls and the familiarization exercise carried out

2. Control Environment at the Bank

A bank should have appropriate controls to mitigate its risks, including
- effective segregation of duties (particularly, between front and back offices),
- accurate measurement and reporting of positions
- verification and approval of transactions
- reconciliation of positions and results
- setting up limits
- reporting and approval of exceptions
- physical security and contingency planning.

Common questions /steps, which have to be kept in mind while undertaking/ performing control activities:

Nature of Questions	Questions to be considered / answered
Who	• Who performs the control? • Does the above person have requisite knowledge and authority to perform the control?
What	• What evidence is available to demonstrate /prove that the control is performed?
When	• When and with what frequency is the control performed? • Is the frequency enough to prevent, detect and correct risk of material misstatements?
Where	• Where is the evidence of performance of the control retained? • For how long is the evidence retained? • Is the evidence accessible/ available for audit?
Why	• Why is the control being performed? • What type of errors are prevented or detected through the performance of the control?

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

How	• How is the control performed? • What are the control activities? Can these activities be bypassed? • Can the bypass, if any, be detected? • How are exceptions / deviations resolved on identification? What is the time frame for resolving the exceptions / deviations?

3. Engagement Team Discussion

- To gain better understanding of
  - banks and
  - its environment,
  - internal control
  - to assess the potential for material misstatements of the F.S.
- All these discussions should be appropriately documented for future reference.
- The discussion should be done on the susceptibility of the bank's financial statements to material misstatements.
- These discussions are ordinarily done at the planning stage of an audit.

Matters to be discussed

(a) Errors that may be more likely to occur;

(b) Errors which have been identified in prior years;

(c) Method by which fraud might be perpetrated by bank personnel or others within particular account balances and/or disclosures;

(d) Audit responses to Engagement Risk, Pervasive Risks, and Specific Risks;

(e) Need to maintain professional skepticism throughout the audit engagement;

(f) Need to alert for information or other conditions that indicates that a material misstatement may have occurred.

Advantages of such a discussion

- Enables the engagement team to consider an appropriate response to fraud risks, including those related to engagement risk, pervasive risks, and specific risks.
- Enables the audit engagement partner
  - to delegate the work to the experienced engagement team members &
  - to determine the procedures to be followed when fraud is identified.
- Audit engagement partner may review the need to involve specialists to address the issues relating to fraud.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Income Recognition Policy

- Policy of income recognition should be objective and based on record of recovery rather than on any subjective considerations.
- Income from non-performing assets (NPA) is not recognized on accrual basis but is booked as income only when it is actually received.

Audit of Accounts

Section 30(1) Banking Regulations Act, 1949

Balance Sheet and Profit and Loss Account of a banking company should be audited by a person duly qualified under any law for the time being in force to be an auditor of companies.

Form & Content of F.S.

- Section 29 (1) & (2) of Banking Regulation Act 1949 deal with the form and content of financial statements of a banking company and their authentication.
- Applicable to Nationalised banks, State Bank of India, and Regional Rural Banks
- 'Every banking company is required to prepare a ***Balance Sheet and a Profit and Loss Account in the forms set out in the Third Schedule to the*** **Banking Regulations Act, 1949** or as near thereto as the circumstances admit.
- **Third Schedule Form A : Balance Sheet** and
- **Third Schedule Form B : Profit and Loss Account.**
- Every banking company needs to comply with the disclosure requirements under the various Accounting Standards, as notified u/s 133 of the Companies Act, 2013.

Appointment of Auditor

Auditor of a banking company	Auditor of a nationalized bank	Auditors of the State Bank of India	Auditors of regional rural banks
Appointed at the AGM of the shareholders	Appointed by the bank concerned acting through its Board of Directors.	Appointed by the CAG inconsultation with the Central Government.	Appointed by the bank concerned with the approval of the Central Government.

In either case, approval of the Reserve Bank is required before the appointment is made

Eligibility, Qualification and Disqualification of Auditor

Applicable as to a Company Auditor

Remuneration

- Of a banking company is to be fixed in accordance with the provisions of section 142 of the Companies Act, 2013.
- Of **Nationalised Banks** and **SBI** is to be fixed by the RBI in consultation with the Central Government.

Powers of Auditor

Auditor of a
- Banking company or
- Nationalised bank, SBI or
- Regional Rural Bank

has the same powers as those of a company auditor in the matterof access to the books, accounts, documents and vouchers.

Hello Everyone !!
How are u all ??

Auditor's Report

In the case of a nationalised bank, the auditor is required to make a report to the Central Government in which he has to state the following:

1. Whether, in the auditor's opinion, → the **balance sheet**
   - is a full and fair balance sheet containing all the necessary particulars and
   - is properly drawn up so as to exhibit a true and fair view of the affairs of the bank.
2. In case the auditor had called for **any explanation or information,**
   - whether it has been given and whether it is satisfactory
3. Whether or not the **transactions of the bank,** which have come to the auditor's notice, have been within the powers of that bank.
4. Whether or not the **returns received from the offices and branches** of thebank have been found adequate for the purpose of audit.
5. **Any other matter** which he considers should be brought to the notice of the Central Government.

Note : Auditor's Report of State Bank of India is also to be made to the Central Government and is almost identical to the auditor's report in the case of a nationalised bank.

Format of Audit Report

Auditor should ensure

- The audit report complies with the requirements of Standards on Auditing on Audit Report.
- Not only information relating to number of unaudited branches is given but quantification of advances, deposits, interest income and interest expense for such unaudited branches has also been disclosed in the audit report.

In addition,
- Auditor of a Banking Company is also required to state in his report the matters covered by Sec. 143 of Companies Act, 2013.
- However, reporting requirements relating to the CARO 2020 is not applicable to a banking company.

Long Form Audit Report

- The terms of appointment of auditors of **public sector banks, private sector banks** and **foreign banks** (as well as their branches), require the auditors to also furnish a long form audit report (LFAR).
- The matters which the banks require their auditors to deal with in the long form audit report have been specified by the Reserve Bank of India.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

- The Statutory Central Auditors are required to submit the LFAR to the banks latest by **30th June** every year.
- To ensure timely submission of LFAR, proper planning for completion of the LFAR is required.
- The format of LFAR does not require an executive summary to be given, members may consider providing the same to bring out the key observations from the whole document.

Reporting to RBI

- Circular issued by RBI regarding liability of accounting and auditing profession, provides that
  - ✓ "If an accounting professional, whether in the course of internal or external audit or in the process of institutional audit finds anything susceptible to be fraud or fraudulent activity or act of excess power or smell any foul play in any transaction, he should refer the matter to the regulator. Any deliberate failure on the part of the auditor should render himself liable for action"
- Auditor should also consider the provisions of **SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements"**. The said Standard explains that the duty of confidentiality is over-ridden by statute, law or courts.
- **SA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements"** states that an auditor conducting an audit in accordance with SAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether causedby fraud or error.
- Auditor is not expected to look into each and every transaction but to evaluate the system as a whole.
- Therefore, if the auditor while performing his normal duties comes across any instance, he should report the matter to the RBI in addition to Chairman/Managing Director/Chief Executive ofthe concerned bank.

Conducting An Audit

1.Initial Consideration by Statutory Auditor

I. Declaration of Indebtedness

- The RBI has advised that the banks, before appointing their statutory central/branch auditors, should obtain a declaration of indebtedness.

- Indebtedness refers to the situation of owing money to the bank in any case, whatsoever.

Hello Everyone !!
How are u all ??

ii. Internal Assignments in Banks by Statutory Auditors

The RBI decided that

- Audit firms should not undertake statutory audit assignment while they are associated with internal assignments in the bank during the same year, like *Concurrent audits* (Internal Audit of Banks conducted monthly during the year)

iii. Planning

(SA) 300, "Planning an Audit of Financial Statements"
Auditor shall undertake the following activities prior to starting an initial audit

- Performing procedures required by **SA 220, "Quality Control for Audit Work"** regarding the acceptance of the client relationship
- Establish understanding of terms of engagement as per **SA 210, "Agreeing the Terms of Audit Engagements".**

iv. Communication with Previous Auditor.

As per Clause (8) of the Part I of the First Schedule to the Chartered Accountants Act, 1949,

- A Chartered Accountant in practice cannot accept position as auditor previously held by another chartered accountant without first communicating with him in writing.
- He should get a NO Objection Certificate (NOC) from the previous auditor.

v. Term of Audit Engagements

- **SA 210, "Terms of Audit Engagements"** requires that for each period to be audited, the auditor should agree on the terms of the audit engagement with the bank before beginning significant portions of fieldwork.
- It is imperative that the terms of the engagement are documented, in order to prevent any confusion as to the terms that have been agreed in relation to the audit and the respective responsibilities of the management and the auditor, at the beginning of an audit assignment.

vi. Initial Engagements

- The auditor needs to perform the audit procedures as mentioned in **SA 510 "Initial Audit Engagements-Opening Balances"** and
- if after performing that procedures, the auditor concludes that

Opening balances contain misstatements which materially affect the financial statements for the current period

And

The effect of the same is not properly accounted for and adequately disclosed, the auditor should express a qualified opinion or an adverse opinion, as appropriate.

Hello Everyone !!
How are u all ??

vii. *Assessment of Engagement Risk*

- The assessment of engagement risk is a critical part of the audit process and
- should be done prior to the acceptance of an audit engagement since it affects the decision of accepting the engagement and
- also in planning decisions if the audit is accepted.

viii. *Establish the Engagement Team*

- Assignment of qualified and experienced professionals is an important component of managing engagement risk.
- Size and Composition of the engagement team depend on the size, nature and complexity of the bank's operations.

ix. *Understanding the Bank and its Environment*

SA 315 "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment" lays down that the
- auditor should obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and
- assess the risks of material misstatement of the financial statements whether due to fraud or error and sufficient to design and perform further audit procedures.

2. Identifying and Assessing the Risk Of RMM as per SA 315

SA 315 : Auditor to identify and assess the risks of material misstatement at the financial statement level and the assertion level for classes of transactions, account balances and disclosures to provide a basis for designing and performing further audit procedures.

3. Understanding the Bank and Its Environment Including Internal Control

Understanding of the bank and its environment, including its internal control, enables the auditor

- Identify and assess risk
- Develop an audit plan to determine the operating effectiveness of the controls
- Address the specific risks.

CA DEEPIKA RATHI

4. Understanding the Bank Accounting Process

Understanding of the accounting process is necessary to
- identify and assess the risks of material misstatement whether due to fraud or not and
- to design and perform further audit procedures.

5. Understanding the Risk Management Process

- Management develops controls and uses performance indicators to aid in managing key business and financial risks.
- An effective risk management system in a bank generally requires the following
  - *Oversight & involvement in the control process by those charged with governance*
  - *Identification, measurement and monitoring of risks*
  - *Control activities*
  - *Monitoring activities*
  - *Reliable information systems*

6. Engagement Team Discussion

The engagement team should hold discussions to
- Gain better understanding of banks and its environment, including internal control, and
- Assess the potential for material misstatements of the financial statements.

7. Establish the Overall AuditStrategy

- As required by SA 300,
  - Establish the overall audit strategy, prior to the commencement of an audit
- Involve key engagement team members and other appropriate specialists while establishing the overall audit strategy, which depends on the characteristics of the audit engagement

8. Develop Audit Plan

Develop an overall audit plan which cover details of NTE of audit procedures planned to be performed.
Requires : involvement of all the key members of the engagement team while planning an audit.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

9. Audit Planning Memorandum

The auditor should summarise the audit plan by preparing an audit planning memorandum in order to

- Describe the expected scope and extent of the audit procedures
- Highlight all significant issues and risks identified
- Provide evidence that they have planned the audit engagement appropriately

10. Determine Audit Materiality

- The auditor should consider the relationship between the audit materiality and audit risk when conducting an audit.
- The determination of audit materiality is a matter of professional judgment and depends upon the knowledge of the bank, assessment of engagement risk and the reporting requirements for the financial statements.

11. Consider Going Concern

While obtaining an understanding of the bank, the auditor should consider

- → **whether** there are events and conditions which may cast significant doubt on the bank's ability to continue as a going concern.

12. Assess the risk of Fraud including Money Laundering

- As per SA 240 the auditor's objective is
  - ✓ to identify and assess the risks of material misstatement in the financial statements due to fraud, to obtain sufficient appropriate audit evidence on those identified misstatements and to respond appropriately.
- The attitude of professional skepticism should be maintained by the auditor so as to recognise the possibility of misstatements due to fraud.
- The RBI has framed specific guidelines that deal with prevention of money laundering and "Know Your Customer (KYC)" norms.
- The RBI has from time to time issued guidelines ("Know Your Customer Guidelines – Anti Money Laundering Standards"), requiring banks to establish policies, procedures and controls to deter and to recognise and report money laundering activities.

13. Assess Specific risks

Auditors should identify and assess the risks of material misstatement at the financial statement level which refers to risks that relate pervasively to the financial statements as a whole and potentially affect many assertions.

14. Risk Associated with Outsourcing of Activities

- Modern day banks make extensive use of outsourcing.
- A number of risks associated with outsourcing of activities by banks and therefore, it is quintessential for the banks to effectively manage those risks.

15. Response to the Assessed Risks

- **SA 330 :** Auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level
- Auditor should design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.

16. Stress Testing

- **Meaning :** - Stress testing is a software testing activity that determines the robustness of software by testing beyond the limits of normal operation.
- Stress testing is particularly important for "mission critical" software, but is used for all types of software.
- RBI has required that all commercial banks shall put in place a Board approved 'Stress Testing framework' to suit their individual requirements which would integrate into their risk management systems.

17. BASEL III framework

- **Basel norms or accords are the International Banking regulations issued by the BCBS.**
- **In the document titled 'Basel III:** A global regulatory framework for more resilient banks and banking systems', released by the BCBS in December 2010, it has inter alia proposed certain minimum set of criteria for inclusion of instruments in the new definition of regulatory capital.
- The **set of agreement by the BCBS**, which mainly focuses on risks to banks and the financial system are called Basel accord.

18. Reliance on / Review of Other Reports

The auditor should take into account the adverse comments, if any, on advances appearing in the following-

- Previous year's audit reports.
- Latest internal inspection reports of bank officials.
- Reserve Bank's latest inspection report.
- Concurrent / Internal audit report.
- Report on verification of security.
- Any other internal reports specially related to particular accounts.
- Manager's charge-handing-over report when incumbent is changed.

Hello Everyone !!
How are u all ??

Advances

Types of Advances

Funded loans

- Loans where there is an actual transfer of funds from the bank to theborrower.
- Examples: Term loans, Cash credits, Overdrafts, Demand Loans, Bills Discounted and Purchased, Interest-bearing Staff Loans, etc.

Non-fundedfacilities

- Facilities which do not involve transfer of funds.
- Examples: Letters of credit, Bank guarantees, etc.

Legal Requirements of Disclosure in the Balance Sheet

A.

(i) Bills purchased and discounted
(ii) Cash credits, Overdrafts and loans repayable on demand
(iii) Term Loans

B.

(i) Secured by tangible assets
(ii) Covered by Bank/Government guarantees
(iii) Unsecured

What Advances Comprise

Advances comprise of funded amounts by way of:

- Term loans
- Cash credits, Overdrafts, Demand Loans
- Bills Discounted and Purchased
- Participation on Risk Sharing basis
- Interest-bearing Staff Loans

Classification of Advances

- Sector wise
  - Priority
  - Non Priority
- Security wise
  - Secured
  - Unsecured
- Prudential Norms
  - Standard
  - NPAs

C. Location wise

I. Advances in India

(i) Priority sectors
(ii) Public sector
(iii) Banks
(iv) Others

II. Advances outside India

(i) Due from Banks
(ii) Due from Others:
a. Bills Purchased and discounted
b. Syndicated loans
c. Others

Hello Everyone !!
How are u all ??

SECURITY WISE

Banks ask Security or Collateral while lending to assure that the Borrower will return the money to bank in prescribed time else the Banks have legal authority to sell the collateral to recover its money.

Nature of Security

A. Primary security

- Security offered by the borrower for bank finance or the one againstwhich credit has been extended by the bank.
- This security is the principal security for an advance.

B. Collateral security

- It is an additional security and can be in any form i.e. tangible orintangible asset, movable or immovable asset.

Most common types of securities accepted by banks

- Personal Security of Guarantor
- Goods/Stocks/Debtors/Trade Receivables Gold Ornaments and Bullion
- Immovable Property
- Plantations (For Agricultural Advances)
- Third Party Guarantees
- Banker's General Lien
- Life Insurance Policies
- Stock Exchange Securities and Other Instruments

Mode of Creation of Security

(i) Mortgage

Mortgage are of several kinds but the most important are the Registered Mortgage and the Equitable Mortgage

Registered Mortgage

Registered Mortgage can be affected by a 'Mortgage Deed' signed by the mortgagor.

Equitable mortgage

Equitable mortgage, is affected by a mere delivery of title deeds orother documents of title with Intent to create security thereof.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

(ii) Pledge

- It involves bailment or delivery of goods by the borrower to the lending bank with the intention of creating a charge thereon as security for the advance.
- Legal ownership of the goods remains with the pledger while the lending banker gets certain defined interests in the goods.
- The pledge of goods constitutes a specific (or fixed) charge.

(iii) Hypothecation

- Creation of an equitable charge, which is created in favour of the lending bank by execution of hypothecation agreement in respect of the movable securities belonging to the borrower.
- Borrower holds the physical possession of the goods. Neither ownership nor possession are transferred to the bank.
- Borrower periodically submits statements regarding quantity and value of hypothecated assets (like stocks, debtors, etc.) to the bank on the basis of which the drawing power of the borrower is fixed.

(iv) Assignment

- It is a transfer of an existing or future debt, right or property belonging to a person in favour of another person.
- Only actionable claims such as book debts and life insurance policies are accepted by banks as security by way of assignment.
- An assignment gives the assignee absolute right over the moneys/debts assigned to him.

(v) Set –Off

- Set-off is a statutory right of a creditor to adjust, wholly or partly, the debit balance in the debtor's account against any credit balance lying in another account of the debtor.
- The right of set-off enables a bank to combine two accounts (a deposit account and a loan account) of the same person provided both the accounts are in the same name and same right (i.e., the capacity of the account holder in both the accounts should be the same).
- For the purpose of set-off, all the branches of a bank are treated as one single entity.
- The right of set-off can be exercised in respect of time-barred debts also.

(iv) Lien

Lien is creation of a legal charge with consent of the owner, which giveslender a legal right to seize and dispose/liquidate the asset under lien.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances :

Classification of Advances as per RBI Prudential Norms

Classification of Advances as per Prudential Norms

- **Standard Loans**
  - **Standard Regular**
  - **SMA — Special Mention Accounts**
    - **SMA 0 (Accounts showing stress signals)**
    - **SMA 1 (Overdue between 31 to 60 days)**
    - **SMA 2 (Overdue between 61 to 90 days)**
- **NPA Loans**
  - **Sub-Standard**
  - **Doubtful [D1/D2/D3]**
  - **Loss**

(i) Non-performing Assets

- An asset becomes NPA when it ceases to generate income for the Bank.
- A non-performing asset (NPA) is a loan or an advance where
  - **Interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan**
  - **The account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/ CC)**
  - **The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.**

(ii) Out of Order

Out of Order: An account should be treated as 'Out-of-order' if

- The outstanding balance remains continuously in excess of the sanctioned limit/drawing power.

OR

- In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet

OR

- Credits are there but are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

Hello Everyone !!
How are u all ??

(iii) Overdue

An account is said to be 'Overdue', if it is not paid on the due date fixed by the Bank.

Categories of Non-Performing Assets:	Provision required
Substandard Assets: Would be one, which has remained NPA for a period less than or equal to 12 months.	15%
Doubtful Assets: Would be one, which has remained in the substandard category for a period of 12 months.	(Secured + Unsecured) 25% + 100%
Sub-categories: Doubtful up to 1 Year (D1) Doubtful 1 to 3 Years (D2)	40% + 100%
Doubtful more than 3 Years (D3)	100% + 100%
Loss Assets: Would be one, where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.	100%

Note :-

1. **Classification as NPA** should be based on the record of recovery. Availability of security or net worth of borrower/guarantor is not to be taken into account for purpose of treating an advance as NPA or otherwise.
2. Asset classification would be borrower-wise and not facility-wise. All facilities including investments in securities would be termed as NPA.

iv. Accounts regularised near B/S date

- The asset classification of borrower accounts where a solitary or a few credits are recorded before the balance sheet date should be handled with care and without scope for subjectivity.
- Where the account indicates inherent weakness on the basis of the data available,
  → ***the account should be deemed as NPA.***

- The auditor should check for sample transactions immediately before the
  - ✓ closing of the Financial Year **and**
  - ✓ Immediately after the closing of the Financial year

↓

To get a knowledge of the objective behind the transactions

- if they have any relation to each other in the Borrower accounts or
- if any/some transactions are being reversed during the first few days after closing which might show an arrangement to prevent the Borrower account(s) from slipping into the NPA category.

Hello Everyone !!
How are u all ??

v. Govt. guaranteed advances

- Central Govt. guaranteed Advances, where the guarantee is not invoked/ repudiated would be
  - Classified as Standard Assets
  - But regarded as NPA for Income Recognition purpose

- if the advance is guaranteed by State Government,
  - ➢ **Where advance is to be considered NPA → *if it remains overdue for more than 90 days for both Provisioning and Income recognition purposes.***

vi. Advances under Consortium

Meaning of Consortium advances

- **Consortium advances** mean advancing loans to a borrower by two or more Banks jointly by forming a **Consortium.**
- Joint appraisal, control and monitoring will facilitate for exchange of valuable information among the Banks.
- Usually, a Bank with a higher share will **lead** the **consortium.**

- Consortium advances **should be based on the record of recovery of the respective individual member banks** and **other aspects having a bearing on the recoverability of the advances.**

- Where the remittances by the borrower under consortium lending arrangements are pooled with one bank and/or where the bank receiving remittances is not parting with the share of other member banks, the account should be treated as not serviced in the books of the other member banks and **therefore, an NPA.**

- The banks participating in the consortium, therefore, need to arrange to get their share of recovery transferred from the lead bank or to get an express consent from the lead bank for the transfer of their share of recovery, to ensure proper asset classification in their respective books.

- ***Drawing Power Allocation in case of Consortium Cash Credit Account:***
  - The Lead Bank would be responsible for computing the drawing power (DP) of the borrower and allocate the same to member banks.
  - In certain special circumstances, at the request of the Borrower, the Lead Bank may allot a higher or lower share of drawing power to the member bank, as against their share of advances.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Illustrative Drawing Power for December 2022
as per Stock Statement November, 2022

			(Rs.in Crores)
Description of Stocks	**Market Value**	**Margin**	**Advance Value**
Raw Materials	636.27	25	477.20
Finished Goods	372.75	25	279.56
Stock in process	659.35	25	494.51
Stores and Spares	124.51	25	93.38
Book Debts (Upto 120/180 days)	37379.90	35	24296.94
Stock in Transit	52.31	25	39.23
Total	**39225.09**		**25680.82**
Less: Unpaid Stocks under LC	0.00	100	0.00
Total	**39225.09**		**25680.82**

		(Rs. in Crores)
BANKS	**Share %**	**LIMIT/D.P.**
State Bank of India	32.25	500.00
Bank of Baroda	2.58	40.00
Bank of India	6.45	100.00
Canara Bank	5.16	80.00
Standard Chartered Bank	9.03	140.00
Union Bank of India	6.45	100.00
HSBC	13.87	215.00
Citi Bank	6.45	100.00
Bank of America	1.29	20.00
BNP Paribas	1.94	30.00
Punjab National Bank	6.45	100.00
ICICI Bank	4.84	75.00
IDBI Bank	3.23	50.00
Unallocated		
TOTAL	**100.00**	**1550.00**

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

vii. Erosion in Value of Securities / Frauds commited by Borrowers

Erosion means ***the gradual destruction or diminution of something*** not prudent to follow stages of asset classification.

Banks can directly classify these accounts as Doubtful Assets or Loss Assets, irrespective of the period for which the account has remained NPA.

Erosion in the value of securities by more than 50% of the value

- assessed by the bank or accepted by RBI inspection team at the time of last inspection, as the case may be.
- Such NPAs may be straight-away classified under **doubtful category** and provisioning should be made as applicable to doubtful assets.

The realisable value of security as assessed by bank/approved valuers/RBI is less than 10% of the outstanding in the borrowalaccounts,

- **the existence of the security should be ignored** and
- **the asset should be classified as loss asset.**

In such cases the asset should either be written off or fully provided for.

viii. Advance Against Term Deposits, NSCs, KVP/IVPs etc.

Need not be treated as NPAs, provided **adequate margin** is available in the account.

ix. Agricultural Advance Affetced by Natural Calamities

Where, in the case of natural calamities,

- short-term agricultural loans are converted into term loans or
- there is rescheduling of repayment period or
- fresh short-term loans are sanctioned,

- Term loan as well as fresh short-term loan may be treated as current dues and
- need not be classified as NPA.

x. Advance to staff

- Interest-bearing staff advances as a banker should be included as part of **advances portfolio of the bank.**
- Housing loan or similar advances granted to staff members where interest is payable after recovery of principal, interest **need not be considered as overdue from the first quarter onwards.**
  - ✓ **Should be classified as NPA only when** there is a default in repayment of installment of principal or payment of interest on the respective due dates.
- The staff advances by a bank as an employer and not as a banker are required to be included under the sub-head 'Others' under the schedule of Other Assets.

Hello Everyone !!
How are u all ??

xi. Agricultural Advance

As per the guidelines, Agricultural Advances are of two types:

Long duration crops : mean the crops with crop season longer than one year

NPA if
Interest and/or Instalment of principal is overdue for –
one crop season

Short Duration Crops : means the crops, other than long duration crops.

NPA if
Interest and/or Instalment of principal is **overdue** for –
two crop seasons,

- The crop season for each crop, which means the period up to harvesting of the crops raised, would be as determined by the State Level Bankers' Committee in each State.

Computation of Drawing Power

Meaning of DP

- The limit up to which a firm or company can withdraw from the working capital limit sanctioned.
- Important concept for Cash Credit (CC) facility.

Sanctioned Limit vs. DP

Sanctioned limit is the total exposure that a bank can take on a particular client for facilities like cash credit, overdraft, export packing credit, non-funded exposures etc.

DP refers to the amount calculated based on primary security less margin as on a particular date.

Considerations

- All accounts should be kept within both the DP and the sanctioned limit at all times.
- The accounts which
  - ✓ exceed the sanctioned limit or
  - ✓ drawing power or
  - ✓ are against unapproved securities or
  - ✓ are otherwise irregular

  should be brought to the notice of the Management/Head Office regularly.

Bank's Duties

- should ensure that drawings in the working capital account are covered by the adequacy of the current assets.
- DP is required to be arrived at based on current stock statement.
- stock statements relied upon by the banks for determining drawing power **should not be older than three months.**
- outstanding in the account based on DP calculated from stock statements older than 3 months is deemed as irregular.

Hello Everyone !!
How are u all ??

Auditor's Concern

- Stock statements, quarterly returns and other statements submitted by the borrower to the bank should be scrutinized in detail.
- Audited Annual Report submitted by the borrower should be scrutinized properly.
- Monthly stock statement of the month for which the audited accounts are prepared and submitted should be compared and the reasons for deviations, if any, should be ascertained.

Computation of DP

- It needs to be ensured that the DP is calculated as per the extant guidelines formulated by the
  - BoD and
  - agreed upon by the concerned statutory auditors.
- Special consideration should be given to proper reporting of sundry creditors for the purposes of calculating drawing power.

Stock Audit

- Stock audit should be carried out by the bank for **all accounts having funded exposure of more than 5 crores.**
- Auditors can also advise for stock audit in other cases if the situation warrants the same.
- Branches should obtain the stock audit reports from lead bank in the cases where the Bank is not leader of the consortium of workingcapital.
- The report submitted by the stock auditors should be reviewed during the course of the audit and special focus should be given to the comments made by the stock auditors on valuation of security and calculation of drawing power.

	Particulars of current assets			DP
(A)	**Stocks**			
	Stocks at realizable value		1000	
	Less: Unpaid stocks:			
	- Sundry creditors	300		
	- Acceptances/LCs etc.	300	600	
	Paid for stocks		400	
	Margin @ 25%		100	300
(B)	**Debtors**			
	Total Debtors		1000	
	Less: Ineligible debtors		200	
	Eligible debtors		800	
	Margin @ 40%		320	480
	Total DP			780

DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Audit of Advance

Auditor is primarily concerned with obtaining evidence about the following

(a) Amounts included in balance sheet in respect of advances which are outstanding at the date of the balance sheet.

(b) Advances represent amount due to the bank.

(c) Amounts due to the bank are appropriately supported by loan documents and other documents as applicable to the nature of advances.

(d) There are no unrecorded advances.

(e) The stated basis of valuation of advances is appropriate and properly applied and the recoverability of advances is recognised in their valuation.

(f) The advances are disclosed, classified and described in accordance with recognised accounting policies and practices and relevant statutory and regulatory requirements.

(g) Appropriate provisions towards advances have been made as per the RBI norms, Accounting Standards and generally accepted accounting practices.

The auditor can obtain SAAE about advances by study and evaluation of internal controls relating to advances, and by:

- **Examining**
  - Validity of the recorded amounts
  - Loan documentation
  - Existence, Enforceability and Valuation of the security
- **Reviewing**
  - Operation of the accounts
- **Checking**
  - Compliance with RBI norms including appropriate classification and provisioning
- **Carrying out appropriate analytical procedures**

Substantive Procedures

Auditor Should

- Examine all large advances while other advances may be examined on a sampling basis.
- Accounts identified to be problem accounts, however, need to be examined in detail unless the amount involved is insignificant
- Advances which are
  - sanctioned during the year or
  - which are adversely commented by RBI inspection team, concurrent auditors, bank's internal inspection, etc.

  should generally be included in the auditor's review.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Evaluation of Internal Controls over Advances

In general, the internal controls over advances should include, *inter alia*, the following:

- The bank should make an advance only after satisfying itself as to the credit worthiness of the borrower and after obtaining sanction from the appropriate authorities of the bank.
- All the necessary documents (e.g., agreements, demand promissory notes, letters of hypothecation, etc.) should be executed by the parties before advances are made.
- The compliance with the terms of sanction and end use of funds should be ensured.
- Sufficient margin as specified in the sanction letter should be kept against securities taken so as to cover for any decline in the value thereof. The availability of sufficient margin needs to be ensured at regular intervals.
- If the securities taken are in the nature of shares, debentures, etc., the ownership of the same should be transferred in the name of the bank and the effective control of such securities be retained as a part of documentation.
- All securities requiring registration should be registered in the name of the bank or otherwise accompanied by documents sufficient to give title to the bank.
- In the case of goods in the possession of the bank, contents of the packages should be test checked at the time of receipt. The godowns should be frequently inspected by responsible officers of the branch concerned, in addition to the inspectors of the bank.
- Drawing Power Register should be updated every month to record the value of securities hypothecated. These entries should be checked by an officer.
- The accounts should be kept within both the drawing power and the sanctioned limit.
- All the accounts which exceed the sanctioned limit or drawing power or are otherwise irregular should be brought to the notice of the controlling authority regularly.
- The operation of each advance account should be reviewed at least once a year and at more frequent intervals in the case of large advances.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Audit of Revenue Items -Profit and Loss Account

INCOME

Composition of Income

Interest Earned

- Interest/Discount on Advances / Bills:
- Interest Income on Investments:
- Interest on Balances with RBI and Other Inter–bank Funds:
- Others: This includes any other interest/discount income not includedin the above heads

Other Income

- Commission, Exchange and Brokerage
- Profit on Sale of Investments
- Profit/Loss on Revaluation of Investments
- Profit on sale of Land, Buildings and Other Assets:
- Profit/Loss on Revaluation of Fixed Assets
- Profit on exchange transactions: This includes revaluation gains/losses on forward exchange contracts and other derivative contracts, premium income/expenses on options, etc.
- Income earned by way of dividends, etc., from subsidiaries and joint ventures abroad/in India.
- Miscellaneous income.

Audit Approach and Procedures

Auditor's Concern	The auditor is primarily concerned with obtaining reasonable assurance that • Recorded income arose from transactions, which took place during the relevant period and pertained to the bank, • There is no unrecorded income and the income is recorded at appropriate amount.
RBI's Directions	RBI has advised that in respect of any income • which exceeds 1% of the total income of the bank • if the income is reckoned on a gross basis or 1% of the net profit before taxes • if the income is reckoned net of costs, should be considered on accrual as per AS 9.
Materiality	• If any item of income is not considered to be material as per the above norms, it may be recognised when received and the auditors need not qualify their report in that situation.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Revenue Certainty	• Banks recognise income (such as interest, fees and commission) on accrual basis, i.e., as it is earned. It is an essential condition for accrual of income that it should not be unreasonable to expect its ultimate collection.
Revenue Uncertainty	• In view of the significant uncertainty regarding ultimate collection of income arising in respect of non-performing assets, the guidelines require that banks should not recognize income on non-performing assets until it is actually realised. • When a credit facility is classified as NPA for the first time, interest accrued and credited to the income account in the corresponding previous year which has not been realized should be reversed or provided for. This will apply to Government guaranteed accounts also.
Bills Purchased	• In the case of bills purchased outstanding at the close of the year the discount received thereon should be properly apportioned between the two years.
Bills for Collection	• The auditor should also examine the procedure for crediting the party on whose behalf the bill has been collected. • The procedure is usually such that the customer's account is credited only after the bill has actually been collected from the drawee either by the bank itself or through its agents, etc. • This procedure is in consonance with the nature of obligations of the bank in respect of bills for collection. • The commission of the branch becomes due only when the bill has been collected.
Renegotiations	• Fees and commissions earned by the banks as a result of re- negotiations or rescheduling of outstanding debts should be recognised on an accrual basis over the period of time covered by the re-negotiated or rescheduled extension of credit. • Test check the interest earned by the banks for the sample selected. • Test check the fees and commissions earned by the banks made for commission on bills for collection, letters of credit and bank guarantees.

Reversal of Income

• If any advance, including bills purchased and discounted, becomes NPA as at the close of any year, the entire interest accrued and credited to income account in the past periods. • Note : This will apply to Government guaranteed accounts also.	• Should be reversed or • Provided for if the same is not realised
• In respect of NPAs, fees, commission and similar income that have accrued	• Should cease to accrue in the current period and should be reversed or • Provided for with respect to past periods, if uncollected.
• In case of banks which have wrongly recognised Interest as income in the past.	• Should reverse the interest or • Make a provision for an equivalent amount

- Auditor should enquire if there are any large debits in the Interest Income account that have not been explained.
- It should be enquired whether there are any communications from borrowers pointing out differences in interest charge and whether appropriate action has been taken in this regard.

• **On leased assets:** component of finance income on the leased asset which was accrued and credited to the income account before the asset became non-performing and remaining unrealised	• Should be reversed or provided for in the current accounting period.

- **On Take-out finance :** if based on record of recovery, the account is classified by the lending bank as NPA.
- It should not recognize income unless realised from the borrower/taking-over institution

OBJECTIVE OF TAKEOUT FINANCE

- **To expand** sources of Finance for infrastructure projects by facilitating participation of new entities
- **To address** sectoral/group/entity exposure issues and asset liabillity in mis-match concerns of tenders
- **To boost** the availability of longer tenor debt finance for projects

On Partial Recoveries in NPAs:

- In the absence of a clear agreement between the bank and the borrower for the purpose of appropriation of recoveries in NPAs (i.e., towards principal or interest due), banks are required to adopt an accounting policy and exercise the right of appropriation of recoveries in a uniform and consistent manner.
- The appropriate policy to be followed is to recognise income as per AS 9 when certainty attaches to realisation and accordingly amount reversed/derecognised or not recognised in the past should be accounted.
- Interest partly/fully realised in NPAs can be taken to income.
- However, it should be ensured that the credits towards interest in the relevant accounts are not out of fresh/additional credit facilities sanctioned to the borrowers concerned.

Memorandum Account

- On an account turning NPA, Banks should reverse the interest already charged and not collected by debiting Profit and Loss account and stop further application of interest.
- However, banks may continue to record such accrued interest in a Memorandum account in their books for control purposes.

Hello Everyone !!
How are u all ??

Income on Investments

Interest Income on Investments	This includes all income derived from Government securities, bonds and debentures of corporates and other investments by way of interest and dividend, except income earned by way of dividends, etc., from subsidiaries and joint ventures abroad/in India.
Profit on Sale of Investments	Investments are dealt in the course of banking activity and hence the net profit or loss on sale of investments is taken to profit and loss account.
Profit/Loss on Revaluation of Investments	In terms of guidelines issued by the RBI, investments are to be valued at periodical intervals and depreciation or appreciation in valuation should be recognised and taken to profit and loss account.

EXPENSES

Composition of Expenses

Interest Expended
- Interest on Deposits
- Interest on Reserve Bank of India/Inter–Bank Borrowings Others

OperatingExpenses
- Payments to and Provisions for Employees
- Rent, Taxes and Lighting
- Printing and Stationery
- Advertisement and Publicity
- Depreciation on Bank's Property
- Directors' Fees, Allowances and Expenses
- Auditors' Fees and Expenses
- Law Charges Postage, Telegrams, Telephones, etc.
- Repairs and Maintenance
- Insurance
- Direct Marketing Expenses
- Other Expenditure

Provisions and Contingencies
- Provisions made in respect of the NPA
- Provisions for Taxation
- Provisions for Diminution in value of investments
- Provisions for contingencies

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Audit Objective

To assess the overall reasonableness of the amount of interest expense by analysing ratios of interest paid on different types of deposits and borrowings to the average quantum of the respective liabilities during the year.

The auditor should

- Obtain from the bank an analysis of various types of deposits outstanding at the end of each quarter.
  - ↓ The auditor may work out a weighted average interest rate.
  - ↓ auditor may then compare this rate with the actual average rate of interest paid on the relevant deposits as per the annual accounts and enquire into the difference, if material.

- Compare the average rate of interest paid on the relevant deposits with the corresponding figures for the previous years and analyse any material differences
  - ↓ Obtain general ledger break-up for the interest expense incurred on deposits (savings and term deposits) and borrowing each month/quarter.
  - ↓ Analyse month on month (or quarter on quarter) cost analysis and document the reasons for the variances as per the benchmark stated.
  - ↓ Examine whether the interest expense considered in the cost analysis agrees with the general ledger.
  - ↓ Understand the process of computation of the average balance and re-compute the same on sample basis.

Hello Everyone !!
How are u all ??

Audit Procedure

Interest Expended

The auditor should, on a test check basis, verify the calculation of interest and ensure that

- Interest has been provided on all deposits upto the date of the balance sheet
- Interest rates are in accordance with the
  - bank's internal regulations,
  - the RBI directives and
  - agreements
- Interest on savings accounts are in accordance with the rules framed by the bank/RBI
- Interest on inter–branch balances has been provided at the rates prescribed by the head office/RBI.

The auditor should

- Ascertain whether there are any changes in interest rate on saving accounts and term deposits during the period
- Obtain the interest rate card for various types of deposits and analyse the interest cost for the period accordingly
- Examine the completeness that interest has been accrued on the entire borrowing portfolio and the same should agree with the general ledgers.
- Re-compute the interest accrual

Operating Expenses

The auditor should

- study and evaluate the system of internal control
- should examine whether there are any divergent trends in respect of major items of expenses.
- perform substantive analytical procedures
- verify expenses with reference to supporting documents and check the calculations wherever required.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Provisions and Contingencies

The auditor should

- Ensure that the compliances for various regulatory requirements for provisioning as contained in the various circulars have been fulfilled
- Obtain an understanding as to how the bank computes provision on standard assets and non-performing assets.
- Obtain the detailed break up of standard loans, non-performing loans and agree the outstanding balances with the general ledger.
- Obtain the tax provision computation from the bank's management and verify the nature of items debited and credited to profit and loss account
- Examine the other provisions for expenses vis-a-vis the circumstances warranting the provisioning and the adequacy of the same by discussing and obtaining the explanations from the bank's management.

Disclosure of the prior period items

Since the format of the profit and loss accounts of banks prescribed in Form B under Third Schedule to the Banking Regulation Act, 1949 does not specifically provide for disclosure of the impact of prior period items on the current year's profit and loss, such disclosures, wherever warranted, may be given.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

11 ETHICS AND TERMS OF AUDIT ENGAGEMENTS

Meaning of Ethics – A State of mind

- The term *"Ethics"* means ***moral principles*** which govern a person's behaviour or his conducting of an activity.
- It is the branch of knowledge that **deals** with ***moral principles.***
- Ethics is something which comes from an ***individual intrinsically.***
- It has to be ***inculcated*** in the ***habit and temperament*** of an individual, so that there is an ***overall culture of ethics.***
- It is a state of mind to act and perform in accordance with moral principles.
- Ethics is the ***science of morals in human conduct.***

Need for Professional Ethics

- Professions like law, medicine have their code of ethics. Auditing profession is no exception. Rather, in the profession of auditing, requirement of ethics is manifold. It is due to the reason that society in general, governments, clients, taxing authorities, employees, investors, the business and financial community in particular, have ***reposed tremendous trust in services rendered by Chartered Accountants.***
- The purpose of assurance engagements is to ***enhance confidence of the intended users.*** Therefore, users need to trust the person who is providing such services.
- Professional ethics are ***based on morality.***
- The ***respect*** and ***confidence*** enjoyed by a profession, to a great extent, ***is dependent on the strictness and scrupulousness*** with which such ethics are adhered to by self-discipline.
- Professional ethics seek to protect the interests of the profession as a whole and act as a shield that enables us to command respect.
- ***A Chartered Accountant***, whether in practice or in service, are ***required to comply with the provisions of Code of Ethics.***
- Any deviation from the ethical responsibilities brings the disciplinary mechanism into ***action against the Chartered Accountants which may result into fines, suspension of membership, removal from membership or other disciplinary actions.***

Principal Based Approach vs Rules Based Approach to Ethics (Ethical or Legal)

Principal Based Approach

- The essence of this approach to ethics is that it requires compliance with spirit of ethics.
- It requires
  - Accountants to exercise professional judgment in every situation based upon their professional knowledge, skill and expertise.
  - Accountants should use professional judgment to evaluate every situation to arrive at conclusions.

Hello Everyone !!
How are u all ??

Rule Based Approach

- It strictly follows clearly established rules.
- It may lead to a narrow outlook and spirit of ethics may be overlooked while strictly adhering to rules.
- Further, rules- based approach is somewhat rigid as it may not be possible to deal with every practical situation relying upon rules.

It is necessary that spirit of code is followed.

Fundamental Principles of Professional Ethics

Integrity	Objectivity	Professional Competence and Due Care	Confidentiality	Professional Behaviour

1. Integrity

- An Professional accountant to be straightforward and honest in all professional and business relationships.
- Integrity implies fair dealing and truthfulness.
- A professional accountant shall not knowingly be associated with reports, returns, communications or other information where he believes that:
  a. the information contains a materially false or misleading statement
  b. statements or information provided negligently or omits required information where such omission would be misleading.

2. Objectivity

- An auditor not to compromise professional judgment because of bias, conflict of interest or undue influence of others.
- A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences his professional judgment regarding that activity.

3. Professional Competence and Due Care

A professional accountant is require

- To attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
- Act diligently and in accordance with applicable technical and professional standards.
- Diligence includes responsibility to act carefully, thoroughly and on a timely basis in accordance with requirements of an assignment.

Hello Everyone !!
How are u all ??

4. Confidentiality

- Requires a professional accountant to respect the confidentiality of information acquired as a result of professional or business relationships.
- Confidentiality serves the public interest because it facilitates the free flow of information from client or employing organization to the accountant with the understanding that the information will not be disclosed to a third party.
- **Information may be disclosed in following circumstances :**
  - i. **When required by law; or**
  - ii. **If authorized by client or employer; or**
  - iii. **There is a professional duty to disclose when not prohibited by law.**

5. Professional Behaviour

- It requires an accountant to comply with relevant laws and regulations and avoid any conduct that the accountant knows or should know might discredit the profession.
- A professional accountant shall not knowingly engage in any employment, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

Independence of Auditors

- Independence implies that the judgement of a person is not subordinate to the wishes or direction of another person who might have engaged him, or to his own self-interest.
- It is not possible to define "independence" precisely.
- Independence is a condition of mind as well as personal character and should not be confused with the superficial and visible standards of independence which are sometimes imposed by law.

Independence of Mind	Independence in Appearance
The state of mind that permits - the provision of an opinion without being affected by influences - that compromise professional judgment, - allowing an individual to act with integrity, and exercise objectivity and professional scepticism	The avoidance of facts and circumstances that are so significant that - a reasonable and informed third party, having knowledge of all relevant information, - including any safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised.

- Independence of the auditor has not only to exist in fact, but also appear to so exist to all reasonable persons.
- Relationship between the auditor and his client should be such that
  - *Firstly* : →He is himself satisfied about his independence
  - *Secondly* : → No unbiased person would be forced to the conclusion that, on an objective assessment of the circumstances, there is likely to be an abridgement of the auditors' independence.

- Independence is dependent on the state of mind and character of a person and is a very subjective matter.

It is therefore the duty of every Chartered Accountant to determine for himself whether or not he can act independently in the given circumstances of a case and quite apart from legal rules, in no case to place himself in a position which would compromise his independence.

Threats to Independence

The Code of Ethics for Professional Accountants identifies five types of threats

Self Interest Threat	Self Review Threat	Advocacy Threat	Familiarity Threat	Intimidation Threat

Self Interest Threat

- Self-interest threats occur when an auditing firm, its partner or associate could benefit from a financial interest in an audit client.
- Examples include
  - ✓ Direct financial interest or materially significant indirect financial interest in a client
  - ✓ Loan or guarantee to or from the concerned client
  - ✓ Undue dependence on a client's fees and, hence, concerns about losing the engagement
  - ✓ Close business relationship with an audit client
  - ✓ Potential employment with the client and
  - ✓ Contingent fees for the audit engagement

Self Review Threat

- Self-review threats occur when during a review of any judgement or conclusion reached in a previous audit or non-audit engagement, or when a member of the audit team was previously a director or senior employee of the client.
- Non audit services include any professional services provided to an entity by an auditor, other than audit or review of the financial statements.

- These include management services, internal audit, investment advisory service etc. Instances where such threats come into play are: -
  i. when an auditor having recently been a director or senior officer of the company.
  ii. when auditors perform services that are themselves subject matters of audit.

Advocacy Threats

- It occur when the auditor promotes, or is perceived to promote, a client's opinion to a point where people may believe that objectivity is getting compromised,
- For Example : when an auditor deals with shares or securities of the audited company, or becomes the client's advocate in litigation and third party disputes.
- In such situations, auditor can be perceived as backing and championing causes of auditee client and it may lead to belief that auditor is not acting and working objectively.

Familiarity Threats

- It may occur when, because of relationship, a professional accountant becomes too sympathetic to the interests of others. This can occur in many ways:
  - close relative of the audit team working in a senior position in the client company,
  - former partner of the audit firm being a director or senior employee of the client,
  - long association between specific auditors and their specific client counterparts, and
  - Acceptance of significant gifts or hospitality from the client company, its directors or employees.

Intimidation Threats

- Intimidation threats occur when auditors are deterred from acting objectively with an adequate degree of professional skepticism.
- Basically, these could happen because of threat of replacement over disagreements with the application of accounting principles, or pressure to disproportionately reduce work in response to reduced audit fees or being threatened with litigation.
- Such threats attempt to intimidate auditors to deter them from acting objectively.

Safeguards to Independence

Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to comply with the fundamental principles to an acceptable level.

Hello Everyone !!
How are u all ??

To address the issue, the following guiding principles are to be applied:

a. For the public to have confidence in quality of audit, it is essential that auditors should always be and appears to be independent of the entities that they are auditing.

b. Before taking on any work, auditor must conscientiously consider whether it involves threats to his independence.

c. When such threats exist, auditor should either desist from the task or eliminate the threat or at the very least. Put in place safeguards which reduce the threats to an acceptable level.

d. If the auditor is unable to fully implement credible and adequate safeguards, then he must not accept the work.

Professional Skepticism

- Professional skepticism ***refers to an attitude that includes a questioning mind***, being ***alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.***

- It signifies that auditor has to remain alert forever. The auditor's attitude should be of ***questioning mind of challenging the things in light of available evidence***.

- **Professional skepticism includes being alert to, for example:**
  - i. Audit evidence that contradicts other audit evidence obtained.
  - ii. Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence.
  - iii. Conditions that may indicate possible fraud.
  - iv. Circumstances that suggest the need for audit procedures in addition to those required by the SAs.

- **Maintaining professional skepticism throughout the audit is necessary if the auditor is to reduce the risks of:**
  - i. Overlooking unusual circumstances.
  - ii. Over generalising when drawing conclusions from audit observations.
  - iii. Using inappropriate assumptions in determining the nature, timing, and extent of the audit procedures and evaluating the results thereof.

- Professional skepticism is necessary to the ***critical assessment of audit evidence***.

- Auditor cannot be expected to disregard past experience of the honesty and integrity of the entity's management and those charged with governance. Nevertheless, a belief that management and those charged with governance are honest and have integrity does not relieve the auditor of the need to maintain professional skepticism.

Hello Everyone !!
How are u all ??

AGREEING THE TERMS OF AUDIT ENGAGEMNTS [SA 210]

Objectives of the auditor

The objective of the auditor is to accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed, through :

A. Establishing whether ***The preconditions for an audit are present***

And

B. Confirming that *there is a common understanding between the auditor* and *management* and, where appropriate, TCWG ***of the terms of the audit engagement.***

Preconditions for an Audit → Definition

Preconditions for an audit may be defined as the

- Use by management of an acceptable FRF in preparation of F.S.

And

- Agreement of management and, where appropriate, TCWG to the premise on which an audit is conducted.

In order to establish whether the preconditions for an audit are present, the auditor shall:

Pre –Conditions for an Audit

- **Determine whether the FRF is acceptable**
- **Obtain the agreement of management that it acknowledges and understands its responsibility**
  - **For the preparation of the F.S. in accordance with the applicable FRF**
  - **For such internal control as management considers necessary to enable the preparation of F.S. that are free from material misstatement, whether due to fraud or error**
  - **To provide the auditor with:**
    - i. Access to all information
    - ii. Additional information the auditor may request from management for the purpose of the audit
    - iii. Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

Hello Everyone !!
How are u all ??

Agreement of Audit Engagement Terms

Auditor

audit is a matter of contract between auditor and client.

Client

Engagement Letter

Engagement letter shall include

a. ***Objective and scope of the audit*** of the F.S.
b. ***Responsibilities of the auditor***
c. ***Responsibilities of management***
d. ***Identification of the applicable FRF*** for the preparation of the F.S. and
e. ***Reference to the expected form and content of any reports to be issued*** by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.

- ***Audit is a matter of contract between auditor and client.***
- *Each party should be clear about the nature of the engagement.*
- ***It must be reduced to writing*** and ***should exactly specify the scope of the work.***
- *Agreed terms of the audit engagement* shall be ***recorded in*** an audit ***engagement letter*** or other suitable form of written agreement.
- The **audit engagement letter is sent by the auditor to his client.** It is in the interest of both the auditor and the client to issue an engagement letter so that the possibility of misunderstanding is reduced to a great extent.

What happens if Preconditions for an Audit are not Present ?

Auditor

Determined that the FRF to be applied in the preparation of the F.S. is unacceptable

Agreement of management is not obtained on matters relating to
- understanding of responsibility of management on preparation of F.S. ,
- internal controls for preparation of F.S. ,
- providing access to all information & unrestricted access to persons within the entity.

- ***Discuss the matter with management***
- ***Shall not accept the proposed audit engagement***

Hello Everyone !!
How are u all ??

Limitation on Scope Prior to Audit Engagement Acceptance

If management or TCWG impose a limitation on the scope of the auditor's work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the F.S.,

The Auditor shall

↓

Not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so.

Acceptance of a Change in the Terms of the Audit Engagement

A request from the entity for the auditor to change the terms of the audit engagement may result from

a. A change in circumstances affecting the need for the service
b. A misunderstanding as to the nature of an audit as originally requested or
c. A restriction on the scope of the audit engagement, whether imposed by management or caused by other circumstances.

The auditor shall not agree to a change in the terms of the audit engagement where there is no reasonable justification for doing so.

Management does not provide reasonable justification for change in audit terms. → ***Do not agree for such change***
→ ***Withdraw where possible under applicable law or regulation***

Management requests auditor to limit his scope during assignment and provide lower level of assurance → **If reasonable – *Agree***
If not reasonable – *Withdraw form engagement*

What should auditor consider before agreeing to change the audit engagement to the engagement providing lower level of assurance ?

Auditor shall determine

- Whether there is reasonable justification for doing so
- Also assess legal or contractual implications of the change.
- Concludes that there is reasonable justification to change the audit engagement

- To avoid confusing the reader, report on the related service would not include reference to:
  a. Original audit engagement or
  b. Any procedures that may have been performed in the original audit engagement.

- If terms of audit engagement are changed, auditor & management shall agree on and record new terms engagement in an engagement letter or other suitable form of written agreement.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Recourse available to auditor in situation of non- agreement to a change in terms of engagement and lack of permission from management to continue original audit engagement

Auditor is unable to agree to the change in terms.

- Withdraw from the audit engagement where possible under applicable law or regulation
- Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.

Terms of Engagement in Recurring Audits

✓ **Recurring audit is an audit which is performed by an auditor over years.**

✓ **The auditor shall assess**

whether circumstances require the terms of the audit engagement to be revised **And** whether there is a need to remind the entity of the existing terms of the audit engagement.

✓ ***The auditor may decide not to send a new audit engagement letter or other written agreement each period.***

✓ However, the following *factors may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms:*

i. Any ***indication that the entity misunderstands the objective and scope of the audit.***
ii. Any ***revised or special terms of the audit engagement.***
iii. A ***recent change of senior management.***
iv. A ***significant change in ownership.***
v. A ***significant change in nature or size of the entity's business.***
vi. A *change in legal or regulatory requirements.*
vii. A ***change in the financial reporting framework adopted in the preparation of the financial statements.***
viii. A ***change in other reporting requirements.***

CA DEEPIKA RATHI

STANDARD ON QUALITY CONTROL [SQC-1]

Requirements

SQC 1 requires that

- Firm should establish a system of quality control
  - *designed* to provide it with reasonable assurance
  - that the *firm* and *its personnel*
  - *comply* with *professional standards* and *regulatory and legal requirements* and
  - that *reports issued by the firm or engagement partners are appropriate in the circumstances.*
- Firm's system of quality control should consist of policies designed to achieve these objectives.

Elements of System of Quality Control

The firm's system of quality control should include policies and procedures addressing each of the following elements: -

(A) Leadership responsibilities for quality within the firm.

(B) Ethical requirements

(C) Acceptance and continuance of client relationships and specific engagements

(D) Human resources

(E) Engagement performance

(F) Monitoring

Quality control policies and procedures should be

Documented ***And*** **Communicated to the firm's personnel.**

By this firm recognizes the importance of obtaining feedback on its quality control system from its personnel.

Firm should encourages its personnel to communicate their views or concerns on quality control matters.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

(A) Leadership Responsibilities for Quality within the firm

- Firms should establish policies and procedures designed to promote an internal culture based on the recognition that quality is essential in performing engagements.
- Such policies and procedures should require firm's CEO or managing partners to assume ultimate responsibility for the firm's system of quality control.
- Persons assigned operational responsibilities for the firm's quality control system by the firm's chief executive officer or managing partners should have sufficient and appropriate experience, ability and the necessary authority to assume that responsibility

Summary
- Firms Should establish policies and procedures to promote quality-focused internal culture in performing engagements.
- The firm's CEO or managing partners should take ultimate responsibility for the quality control system.
- Persons managing the quality control system must possess relevant experience, ability, and authority assigned by the CEO or managing partners.

(B) Ethical Requirements

- The firm should establish policies and procedures designed to provide it with reasonable assurance that the ***firm and its personnel comply*** with ***relevant ethical requirements contained in the Code of ethics issued by ICAI.***

- The Code establishes the fundamental principles of professional ethics which are
  - ➢ Integrity
  - ➢ Objectivity
  - ➢ Professional competence and due care
  - ➢ Confidentiality
  - ➢ Professional behaviour

Independence

- Observance of "Independence" in all engagements is the basic requirement.
- The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and (including experts contracted by the firm and network firm personnel) maintain independence where required by the Code.
- Such policies and procedures should enable the firm to: -

Communicate its independence requirements to its personnel	- Identify and evaluate circumstances and relationships that create threats to independence, and - to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, - if considered appropriate, to *withdraw from the engagement.*

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

- There should *exist a mechanism* → by which engagement partners provide the firm → *relevant information about client engagements and personnel of firm promptly notify firm of circumstances and relationships that create a threat to independence.*
- All breaches of independence should be promptly notified to firm for appropriate action.
- Annually, the firm should obtain *written confirmation*
  - of compliance with its policies and procedures on independence
  - from all firm personnel required to be independent in terms of the requirements of the Code.

(C) Leadership Responsibilities for Quality within the firm

- A firm before accepting an engagement should acquire vital information about the client. Such an information should help firm to decide about: -

Integrity of Client	Competence (including capabilities, time and resources) to perform engagement	Compliance with ethical requirements

- Firm should obtain such information
  - before accepting an engagement with a new client,
  - when deciding whether to continue an existing engagement, and
  - when considering acceptance of a new engagement with an existing client.

Documentation how issues were resolved

Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, →it should document how the issues were resolved.

Consideration as to integrity of clients

With regard to the integrity of a client, matters that the firm considers include, for example:

- The identity and business reputation of the client's principal owners, key management, related parties and those charged with its governance.
- The nature of the client's operations, including its business practices.
- Information concerning the attitude of the client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment.
- Whether the client is aggressively concerned with maintaining the firm's fees as low as possible.
- Indications of an inappropriate limitation in the scope of work.
- Indications that the client might be involved in money laundering or other criminal activities.
- The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.

Hello Everyone !!
How are u all ??

Conflict of Interest between the Firm and Client

- If there is any conflict of interest between the firm and client, it should be properly resolved before accepting the engagement.
- Where the firm obtains information that would have caused it to decline an engagement if that information had been obtainable earlier, policies and procedures on the continuance of the engagement and the client relationship should include consideration of:
    a. The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and
    b. The possibility of withdrawing from the engagement or from both the engagement and the client relationship.

(D) Human Resources

- The firm should establish policies and procedures designed to provide it with reasonable assurance that
    - it has sufficient personnel with the capabilities, competence, and commitment
    - to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements and
    - to enable the firm or engagement partners to issue reports that are appropriate in the circumstances.
- Such policies and procedures should address relevant HR issues including
    - ➢ recruitment,
    - ➢ compensation,
    - ➢ training,
    - ➢ career development,
    - ➢ performance evaluation etc.

(E) Engagement Performance

Consistency in quality of engagement performance is achieved through briefing of engagement teams of their objectives, processes for complying with engagement standards, processes of engagement supervision and training, methods of reviewing performance of work, appropriate documentation of work performed.

Consultation

- Consultation should take place in difficult matters pertaining to an engagement and includes discussion, at appropriate professional level, with individuals within or outside the firm who have specialized expertise, to resolve a difficult matter.
- "A firm needing to consult externally, for example, a firm without appropriate internal resources, may take advantage of advisory services provided by other firms or professional & regulatory bodies.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

Engagement Quality Control Review (ECQR)

- Significant judgments made in an engagement should be reviewed by EQC reviewer for taking an objective view before the report is issued.
- The extent of the review depends on the complexity of the engagement and the risk that the report might not be appropriate in the circumstances. The review does not reduce the responsibilities of the Engagement Partner.
- EQCR is mandatory for all audits of F.S. of listed entities. In respect of other engagements, firm should devise criteria to determine cases requiring performance of EQCR.

Differences of Opinion

- There might be difference of opinion within Engagement Team , with those consulted and between Engagement Partner and **Engagement Quality Control** reviewer.

→ The report should only be issued after resolution of such differences.

- In case, recommendations of engagement quality control reviewer are not accepted by engagement partner and matter is not resolved to reviewer's satisfaction, the matter should be resolved

→ by following established procedures of firm like by consulting with another practitioner or firm, or a professional or regulatory body.

CA DEEPIKA RATHI

Engagement Documentation

The firm should establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized.

- ✓ The assembly of engagement files should be completed in ***not more than 60 days*** after date of auditor's report in case of audit engagements and in other cases within the limits appropriate to engagements.
- ✓ Policies and procedures should be designed to maintain ***the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.***
- ✓ Unless otherwise specified by law or regulation, engagement ***documentation is the property of the firm.***
- ✓ The firm may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the firm or its personnel.
- ✓ Engagement documentation has to be retained for a period of time sufficient to permit those performing monitoring procedures to evaluate the firm's compliance with its system of quality control, or for a longer period if required by law or regulation.
- ✓ In the specific case of audit engagements, the retention period ordinarily is ***no shorter than seven years*** from the date of the auditor's report, or, if later, the date of the group auditor's report.

(F) Monitoring

- The firm should ensure that policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice.
- Such policies and procedures should include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements.

CA DEEPIKA RATHI

Hello Everyone !!
How are u all ??

QUALITY CONTROL FOR AN AUDIT OF F.S. [SA 220]

Objectives of the auditor

To implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that:

a. Audit complies with professional standards and regulatory and legal requirements;

b. The auditor's report issued is appropriate in the circumstances.

Responsibilities of Engagement Partner

(A) Leadership responsibilities for quality on audits
(B) Relevant ethical requirements
(C) Acceptance and continuance of client relationships and audit engagements
(D) Assignment of engagement teams
(E) Engagement performance
(F) Monitoring

(A) Leadership responsibilities for quality on audits

- Leadership responsibility of an engagement partner is to take responsibility for → ***The overall quality on each audit engagement.***

- The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each audit engagement, emphasise

A. The importance to audit quality of:

i. Performing work that complies with professional standards and regulatory and legal requirements
ii. Complying with the firm's quality control policies and procedures as applicable
iii. Issuing auditor's reports that are appropriate in the circumstances and
iv. The engagement team's ability to raise concerns without fear of reprisals.

B. The fact that quality is essential in performing audit engagements.

Hello Everyone !!
How are u all ??

(B) Relevant Ethical Requirements

The responsibilities of an engagement partner in relation to ethical requirements in an audit engagement are :-

Identifying a threat to independence
- regarding the audit engagement
- that safeguards may not be able to eliminate or reduce to an acceptable level.

Reporting by engagement partner to the relevant persons within the firm
- To determine appropriate action,
- which may include eliminating the activity or
- interest that creates the threat, or
- withdrawing from the audit engagement, where withdrawal is legally permitted.

(C) Acceptance and Continuance of Client Relationships and Audit Engagement

The responsibility of an engagement partner in this regard in an audit engagement is on lines of SQC 1

The firm should obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client

When this procedure is to done ?

While deciding whether to continue an existing engagement

And

While considering acceptance of a new engagement with an existing client.

Following information assist the engagement partner in determining
- *Whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate.*
  - Integrity of principal owners
  - Competence of engagement team
  - Consideration of necessary capabilities including time and resources
  - Compliance with relevant ethical requirements
  - Significant matters arisen during current or previous audit engagement and their implications

(D) Assignment of Engagement Teams

Engagement Partner should ensure

- ***Engagement team*** and
- ***Any auditor's experts*** who are not part of the engagement team,

→ collectively have the
- ***Appropriate competence &***
- ***Capabilities***

→ To perform the engagement in accordance with professional standards and regulatory and legal requirements.

Hello Everyone !!
How are u all ??

(E) Engagement Performance

Following responsibilities are of Engagement Partner in this regard

- Direction, supervision and performance of audit engagement in accordance with professional standards and regulatory and legal requirements.
- Auditor's report being appropriate in circumstances.
- Review of audit documentation before issue of audit report.
- Ensure that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for issuance of auditor's report.
- Ensure undertaking appropriate consultation on difficult or contentious matters by engagement team not only within the team but also with others at appropriate level within or outside the firm

Engagement Quality Control Review

For audits of financial statements of Listed Entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement partner shall:

A — ***Determine*** That an engagement quality control reviewer has been appointed.

B — ***Discuss*** Significant matters arising during the audit engagement with the engagement quality control reviewer.

C — ***Not date the auditor's report*** until the completion of the engagement quality control review.

Difference of Opinion

When Difference of Opinion Arise
- Within the ***Engagement Team***, with those consulted or,
- Between the ***Engagement Partner*** and the ***Engagement Quality Control Reviewer***

→ The engagement team shall follow

↓

- Firm's policies and procedures
- For dealing with and Resolving differences of opinion.

(F) Monitoring

Monitoring process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively.

Hello Everyone !!
How are u all ??

Engagement Partner Shall

Consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms

whether
- Deficiencies noted in that information may affect the audit engagement.

Documentation

Engagement Partner Should Document

- **A** Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.
- **B** Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions.
- **C** Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements.
- **D** The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement.

मत हार तू हिम्मत, तुझसे सब होगा,
आने वाला कल तेरा होगा,
रख सब्र तू दिल में, मेहनत किए जा,
फिर क़िस्मत का फ़ैसला, सिर्फ तेरे हक में होगा।

@deepika_rathi31

- CA, B.com
- Faculty for
  - CA Foundation - Law
  - CA Intermediate - Law & Audit
- 5+ years of teaching experience
- She guides aspiring CAs through the maze of numbers and laws, transforming them into financial superheroes
- Known for her innovative style of teaching which makes students fall in love with the subject
- Teaches theory in most interactive manner

The Ultimate Team to make CA

MODES OF CLASSES

ENROLL NOW

Live streaming on "Ultimate CA" app (Android / Windows) 1 Live + 2 Rec. views	Google Drive 3 recorded views	Pen Drive 3 recorded views

Hello gyes ... I hope you enjoy the digital copy of the summary book of Auditing & Ethics by CA Deepika Rathi maàm .
One warmest request to all of you please don't share the PDF of this book to any group in telegram , whatsapp , etc.

- You can print this book & complle by spiral binding & could be used as regular book

- Happy Reading.
- Best wishes from bottom of my. heart
- Be a CA finalists soon 😄

CA NOTES COMMUNITY NETWORK

Click on Icon	QR CODE	LINK
Join what's App group		CLICK HERE
Join Telegram Channel		CLICK HERE
Subscribe On Youtube		CLICK HERE
Follow us On Instagram		CLICK HERE

BE A PART OF CNC FAMILY

CNC – CA NOTES COMMUNITY

Mail at (for complaints/feedback) – canotescommunity@gmai.com