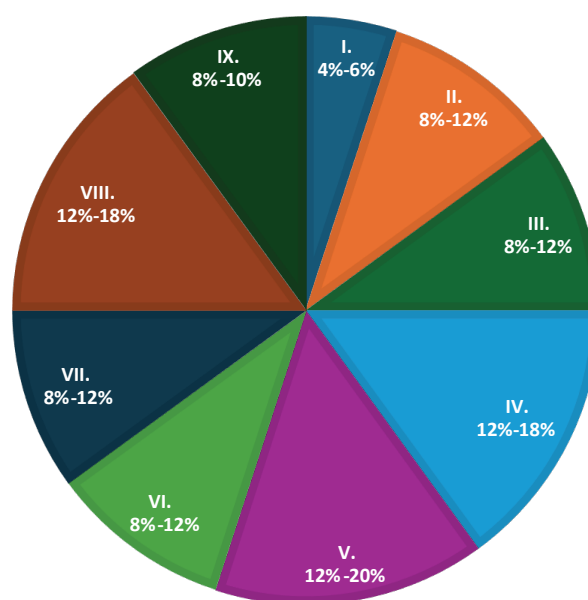


Before We Begin

At the Intermediate level, Auditing and Ethics subject aims to deepen your knowledge and understanding of auditing practices and ethical considerations, which are essential for auditing. The objective of this subject is to gain a comprehensive understanding of auditing concepts and the generally accepted procedures, techniques, and skills, and to acquire the ability to apply the same in audit and attestation engagements. This subject also helps in grasping and implementing the ethical principles while conducting audits. The entire syllabus of this subject has been divided into 11 chapters:



Section wise Weightage



Chapter 1: Nature, Objective and Scope of Audit

Understand the purpose, objectives, and importance of auditing. Gain insights into different types of audits (like external audits), the qualities needed in an auditor, and the limitations of auditing. Explore the relationship between auditing and other disciplines

Chapter 2: Audit Strategy, Audit Planning and Audit Programme

Learn the significance of audit planning, development of audit strategy, and the structure of audit plans and programs. Understand how planning is an ongoing process involving key engagement members and ethical considerations.

Chapter 3: Risk Assessment and Internal Control

This chapter covers the meaning of audit risks and its assessment, the significance of internal controls, and the role of IT systems and data analytics in auditing. Focus on significance of internal controls and the need to test them to ensure reliable financial reporting.

Before We **Begin**

Chapter 4: Audit Evidence

Audit evidence is vital for forming conclusions and opinions on a company's financial statements. The sufficiency and appropriateness of this evidence are crucial, determined by its quantity, quality, source, nature, and obtaining circumstances. Also, learn the procedures for obtaining evidence, testing controls, and substantive analytical methods.

Chapter 5: Audit of Items of Financial Statements

This chapter covers the audit of financial statement items, emphasizing key concepts like audit assertions (occurrence, completeness, valuation, etc) and their verification. It outlines specific audit procedures for balance sheets, income statements, and disclosures, using practical examples to demonstrate real-world application.

Chapter 6: Audit Documentation

Understand the purpose, nature, and extent of audit documentation, including how to prepare and maintain audit records. Learn about the completion memorandum and the ownership and custody of audit documentation in accordance with SA 230.

Chapter 7: Completion and Review

Focus on the auditor's obligations regarding subsequent events, evaluating the going concern assumption, and assessing misstatements. Learn about written representations, how they serve as audit evidence, and the communication process with those charged with governance.

Chapter 8: Audit Report

This chapter focuses on the audit report, its objectives as per SA 700, and its key sections, such as the auditor's opinion, basis for opinion, and key audit matters. It covers the different types of audit opinions—unmodified, modified, qualified, adverse, and disclaimer—and explains when to use key audit matters, emphasis of matter, and other matter paragraphs.

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

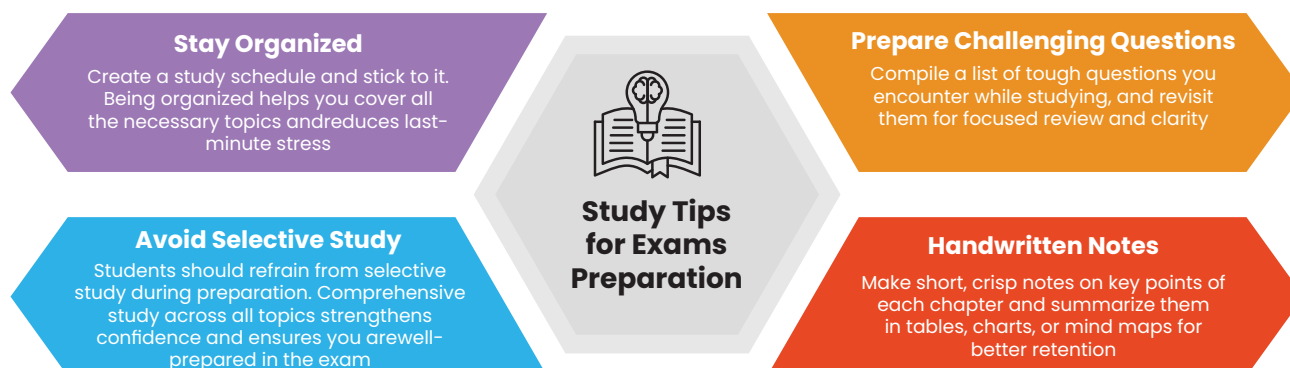
This chapter provides detailed insights into the tailored audit approaches required for diverse organizations based on their nature and legal framework. Explore the unique audit needs for entities like government bodies, NGOs, and educational institutions, and understand relevant legal frameworks. Focus on the role of the Comptroller and Auditor General (C&AG) in government audits and the specific legal frameworks guiding audits for different sectors.

Chapter 10: Audit of Banks

The chapter on Bank Audit discusses the legal framework and procedures involved in auditing banks. Study the regulatory framework for bank audits, focusing on areas like advances, NPAs, and income recognition, as well as the role of IT and internal controls.

Chapter 11: Ethics and Terms of Audit Engagements

This Chapter emphasise on the ethical principles and independence essential for auditors. You must focus on ethical principles, auditor independence, threats to independence, and quality control standards for audit firms.



Written Practice

Practice is the key to success in auditing.

Understand the concept first and after understanding do written practice. This builds a deeper understanding.

Writing answers without looking at notes enhances analytical skills and conceptual understanding.

To familiarize yourself with the exam format and improve time management, it is suggested to solve Mock Test Papers, Revision Test Papers and practice as many questions as you can.

Consistent practice equips you to tackle complex questions confidently.

TIPS FOR EXAMINATION

Auditing and Ethics related examination tips which you should keep in mind at the time of appearing for the examination:

Time Management

Make optimum use of the 15 minutes given for reading the paper. Plan your answers and allocate time to each section efficiently to avoid rushing.

Start with Answer You Know the Best

When in the exam hall, begin with the questions you are most confident about. This sets a positive tone and builds momentum.

Presentation Matters

Organize answers clearly with headings and subheadings. For case study-based questions, present the facts of the case clearly, applicable provisions and then conclude your answer with the support of relevant provisions.

Standards on Auditing/ Clauses

Write name and number of standards/clauses, wherever applicable. Base your answers on relevant provisions of SAs to demonstrate in-depth understanding.

Common mistakes to be avoided in the Answer Sheets

Some students overlook portions of a question, leading to incomplete answers. Ensure you answer each part according to the marks allotted.

Strategies for Managing Exam Stress and Boosting Confidence



Take time to practice relaxation techniques like deep breathing, meditation, or mindfulness to help manage stress. Make sure to eat healthy, exercise regularly, and get enough sleep, as staying physically healthy can have a big impact on how well you focus and perform in exams. Positive self-talk can boost your confidence and help you believe in your ability to do well.

"The best preparation for tomorrow is doing your best today."

— H. Jackson Brown Jr.



INDEX

1 Chapter 1: Nature, Objective and Scope of Audit

11 Chapter 2 : Audit Strategy, Audit Planning and Audit Programme

21 Chapter 3: Risk Assessment and Internal Control

36 Chapter 4: Audit Evidence

66 Chapter 5: Audit of Items of Financial Statements

97 Chapter 6: Audit Documentation

104 Chapter 7: Completion and Review

115 Chapter 8: Audit Report

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

166 Chapter 10: Audit of Banks

183 Chapter 11: Ethics and Terms of Audit Engagements

SARANSH

Engagement & Quality Control Standards

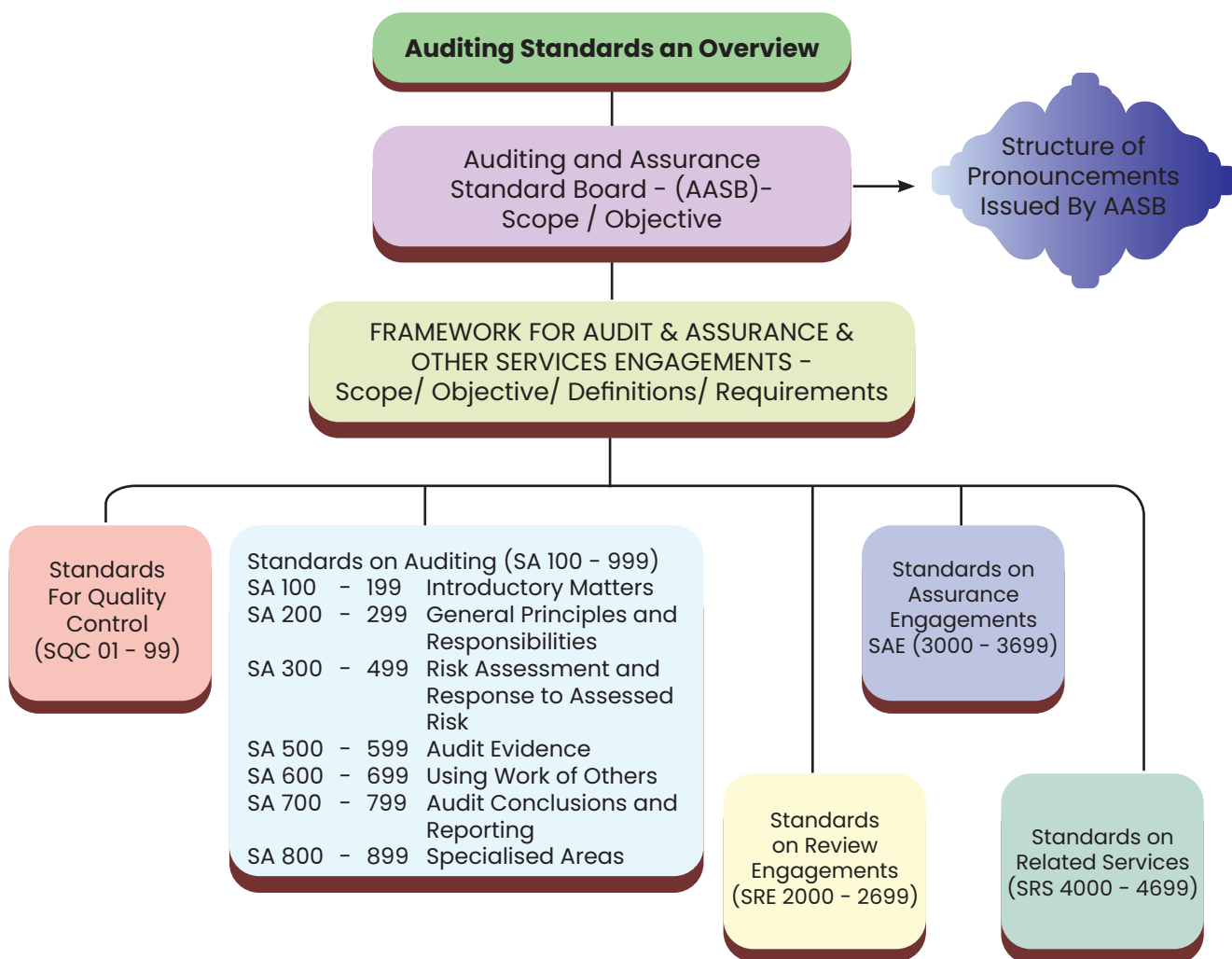
International Auditing and Assurance Standards Board (IAASB):

- The IFAC Board has established the IAASB to develop and issue, in the public interest and under its own authority, high quality auditing standards for use around the world.
- The IAASB functions as an independent standard setting body under the auspices of IFAC.

Auditing and Assurance Standards Board (AASB):

- ICAI is a member of the IFAC and is committed to work towards the implementation of the guidelines issued by the IFAC.
- ICAI constituted the AASB to review the existing auditing practices in India and to develop Engagement and Quality Control Standards so that these may be issued by the Council of the Institute.

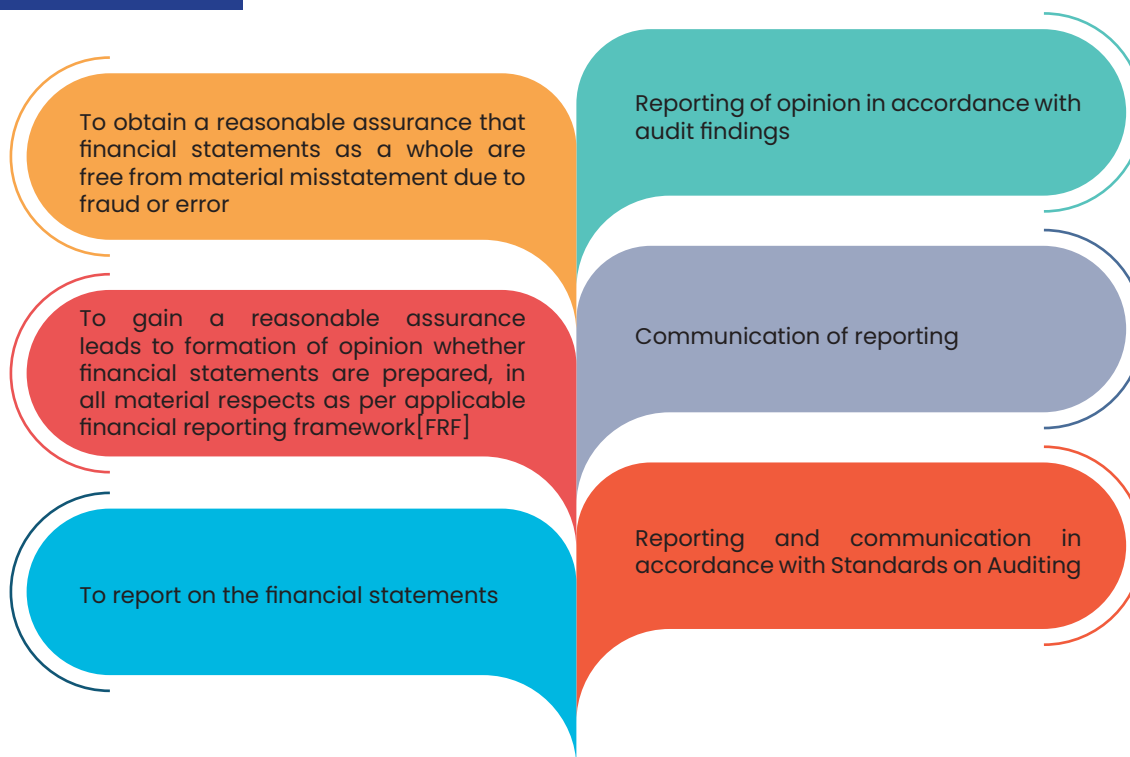
Diagrammatic Representation of the Structure of Standards Under the New Preface



Chapter 1: Nature, Objective and Scope of Audit

"An audit is an independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon".

Objectives of Audit





Benefits of Audit

Audited accounts provide high quality information

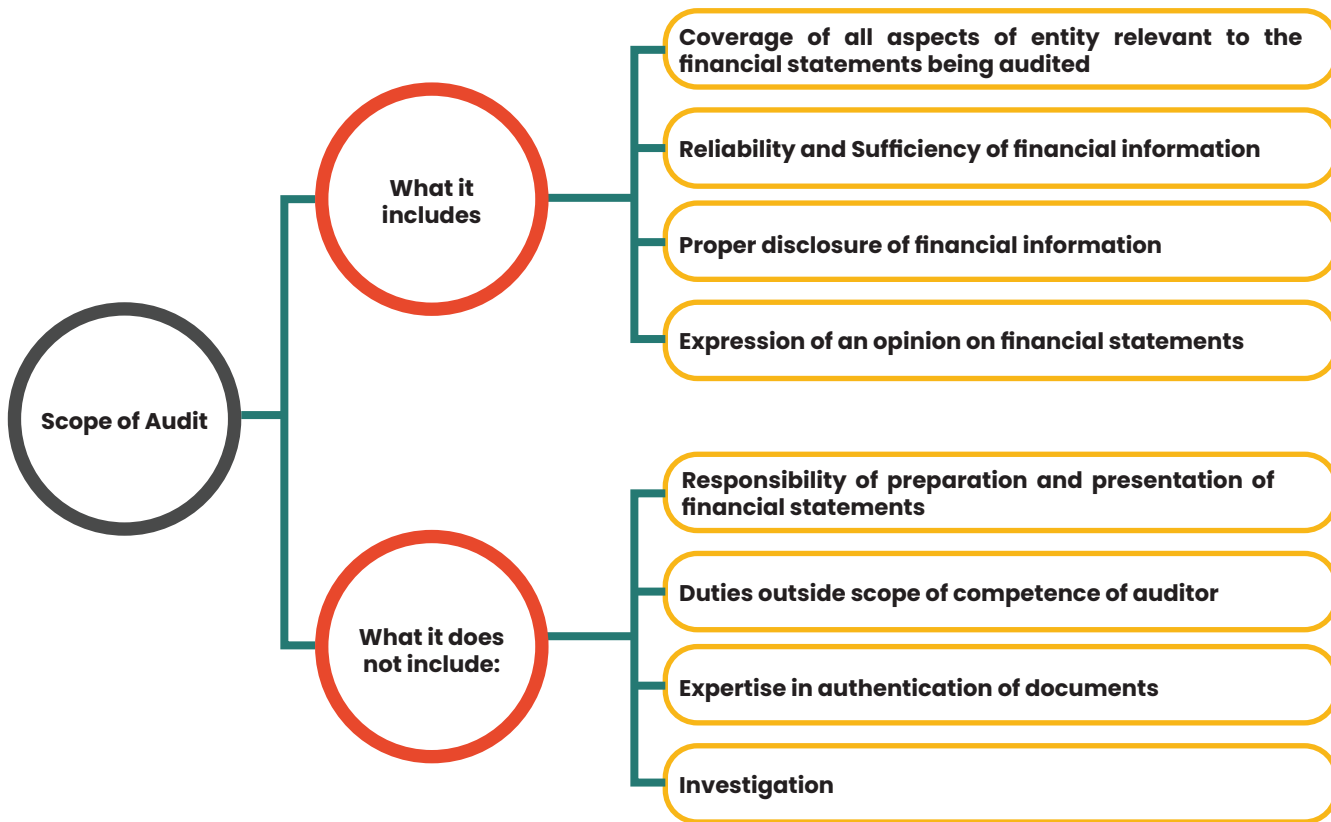
Acts as a moral check on employees from committing frauds for the fear of being discovered by audit

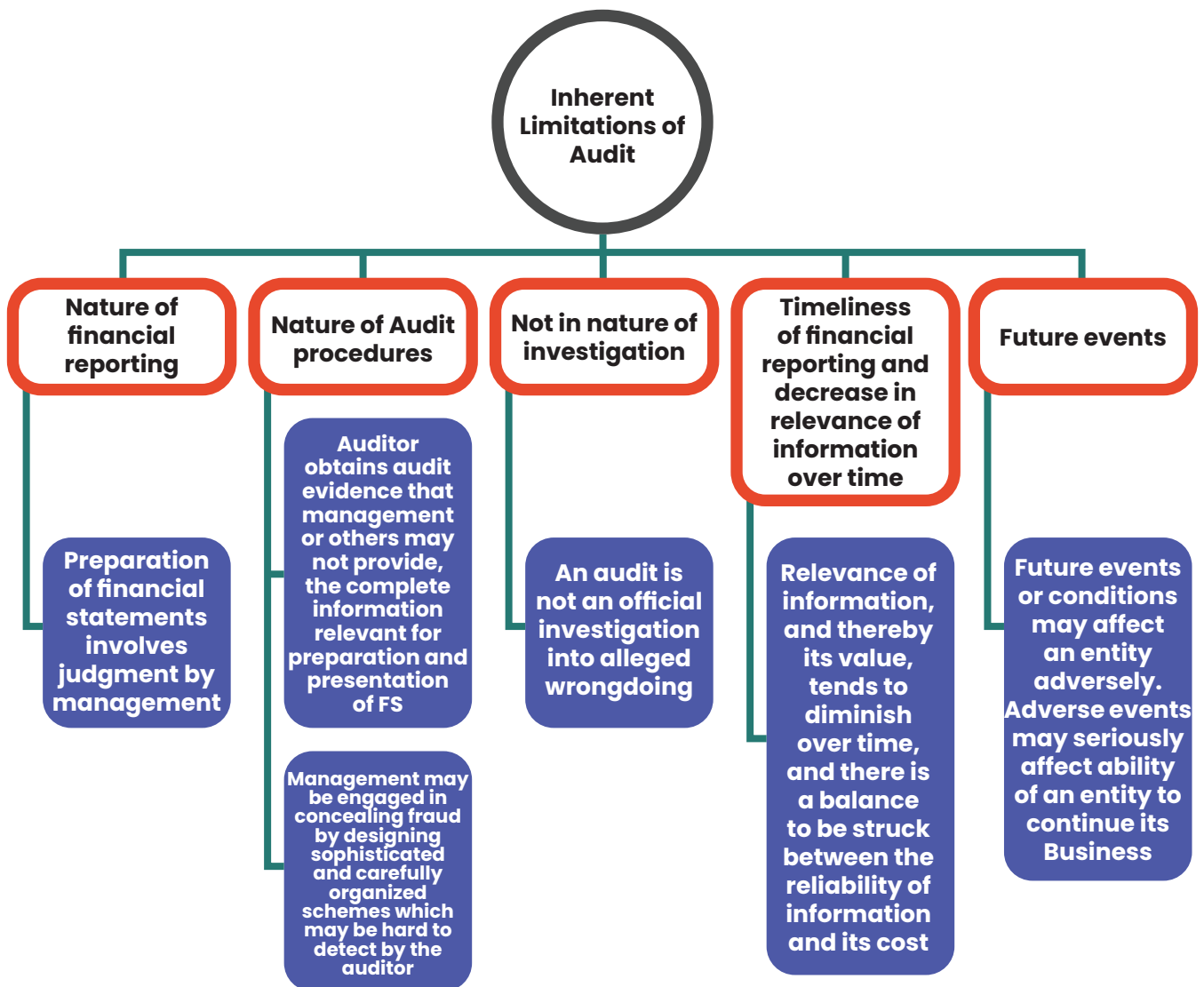
Audited financial statements are helpful to government authorities for determining tax liabilities

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

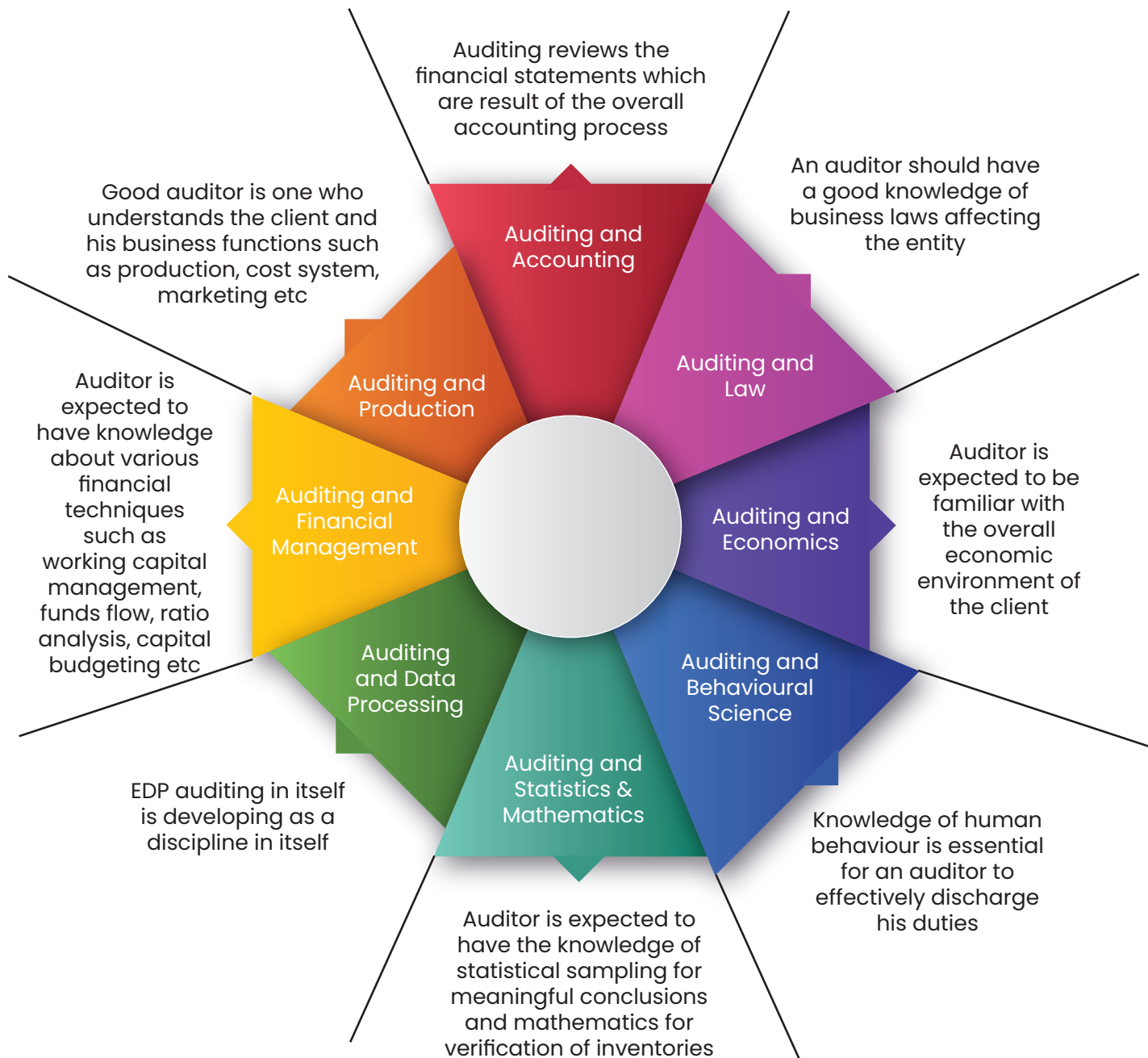
An audit may also detect fraud or error or both

It reviews existence and operations of various controls operating in any entity and point out deficiencies, if any





Interdisciplinary Nature of Auditing-Relationship with diverse Subjects



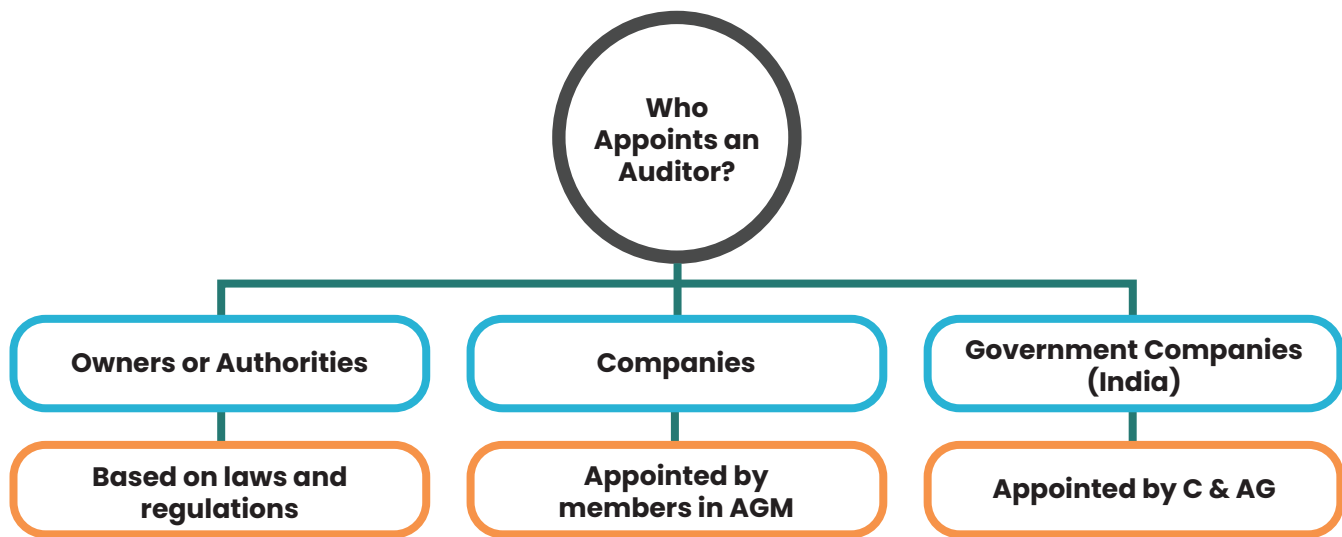
Audit: Mandatory or Voluntary?

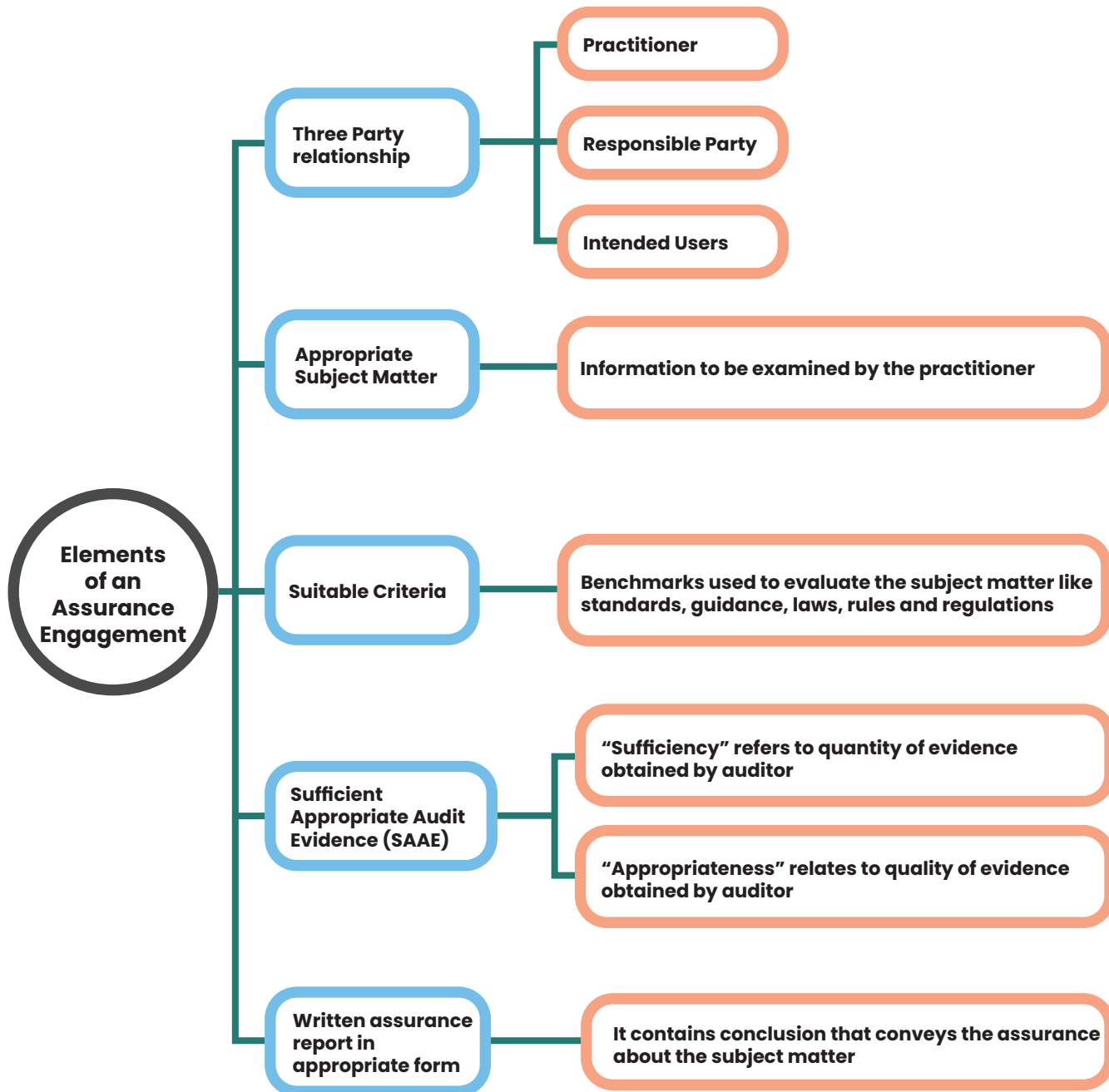
Mandatory Audit:

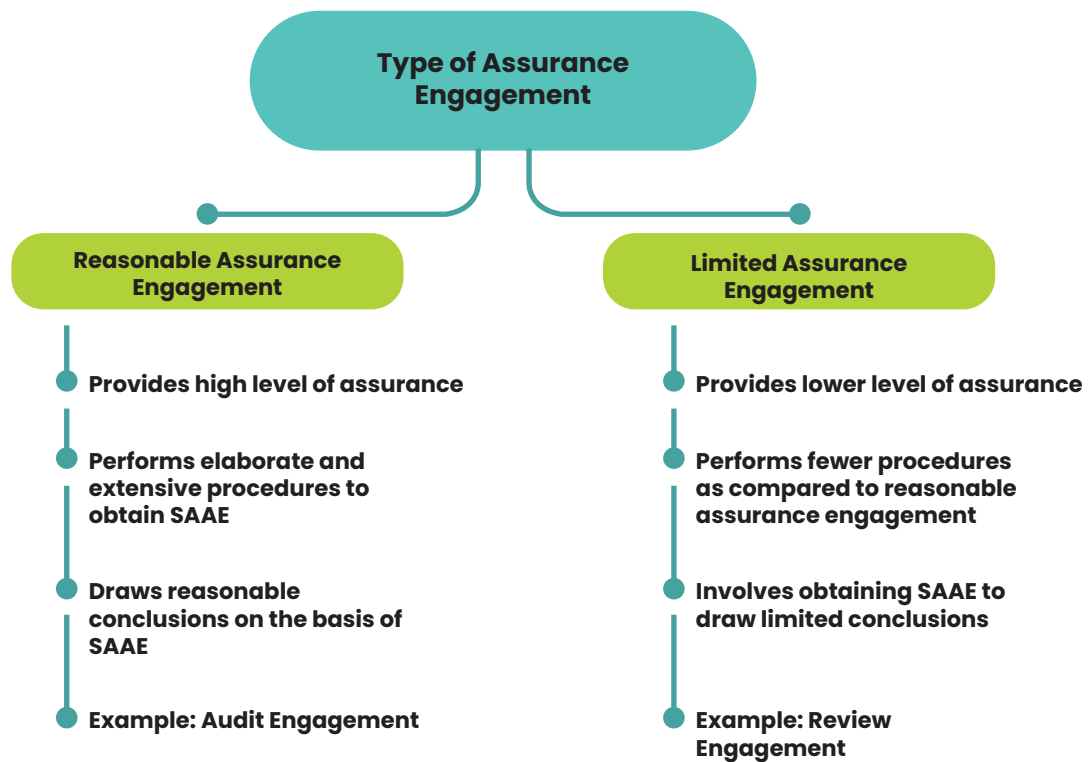
Required by law for entities like companies and some non-corporate entities under tax laws

Voluntary Audit:

Entities may choose audit for its benefits, even when not legally required



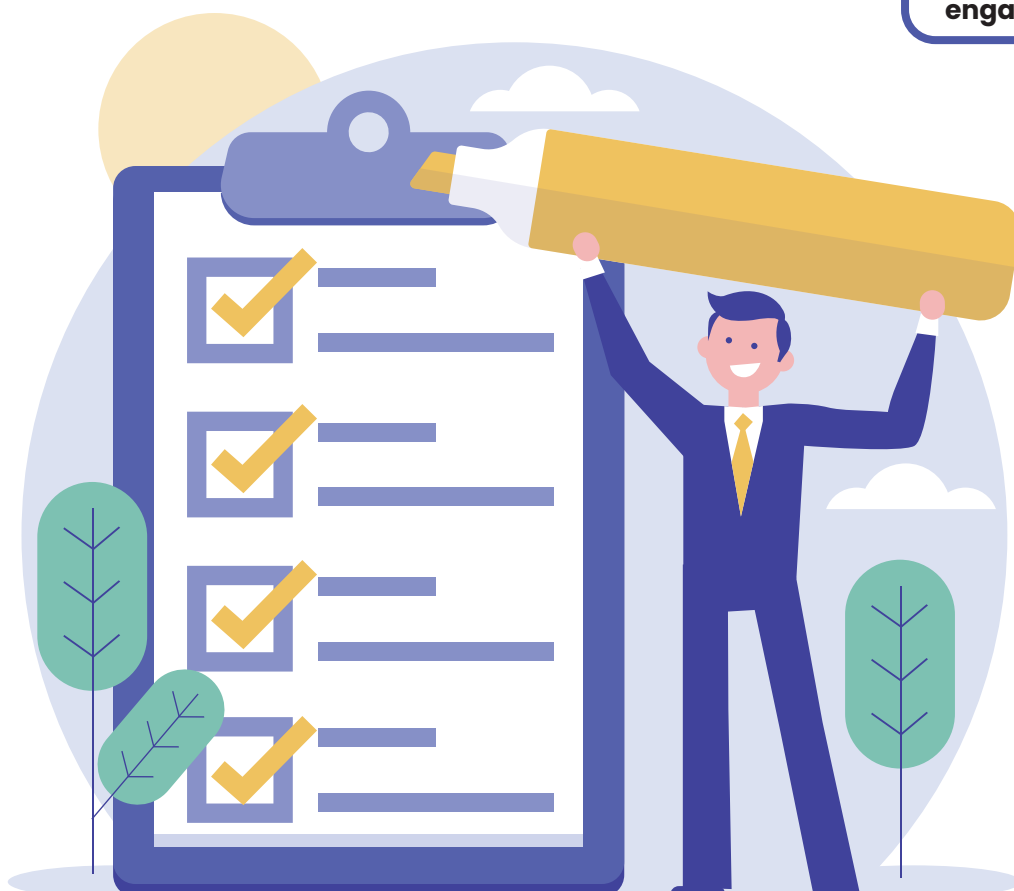
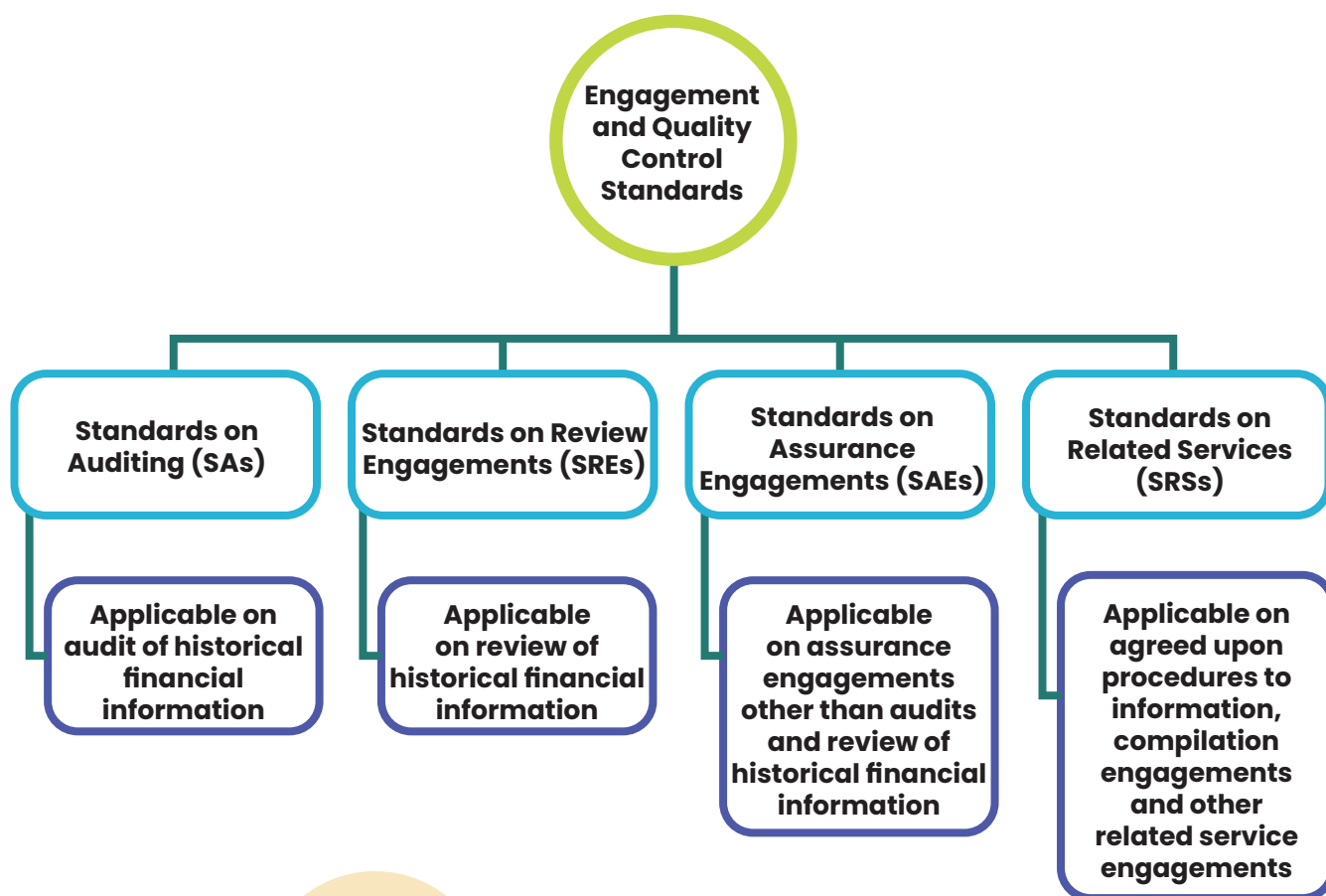




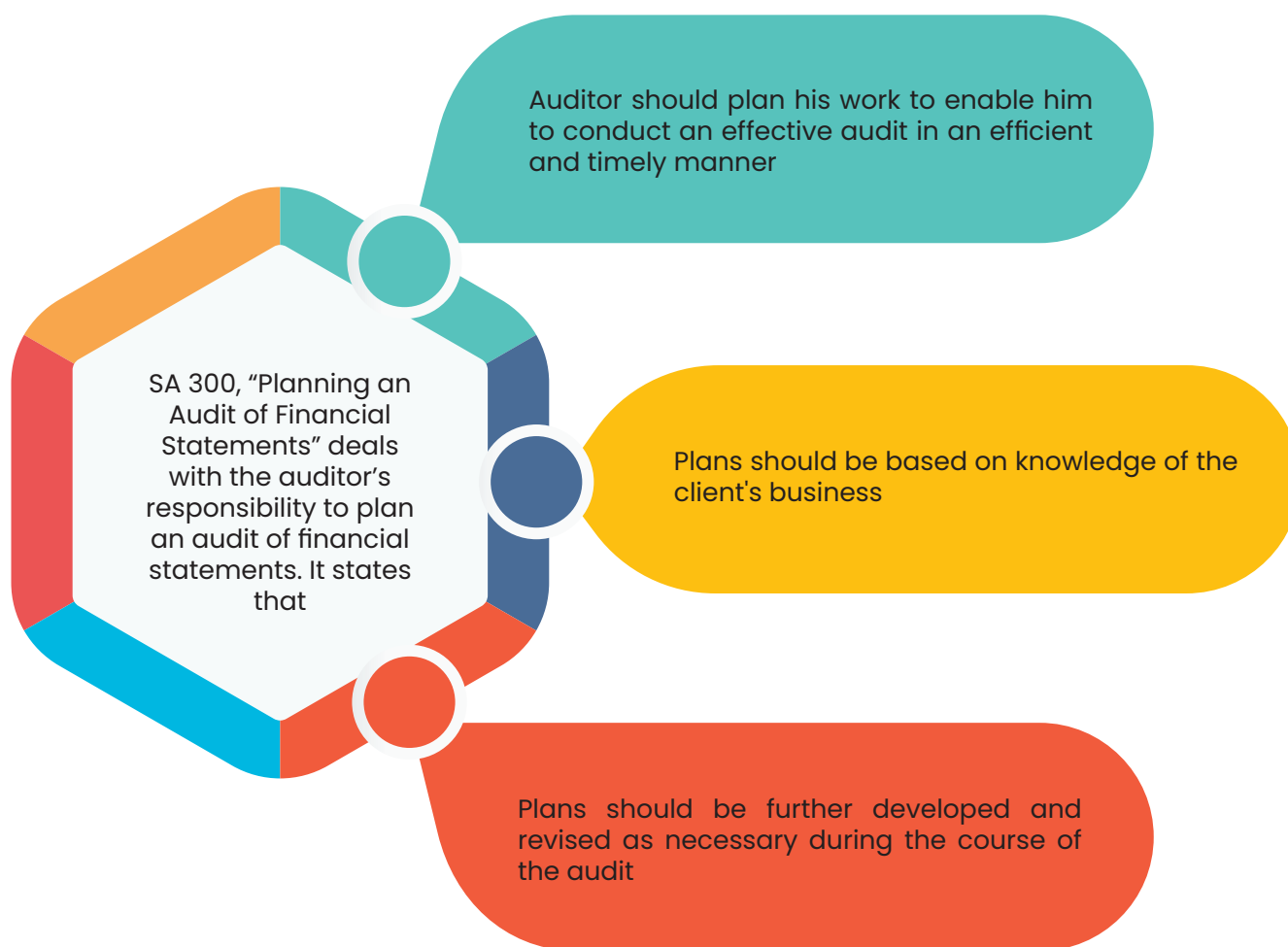
Engagement and Quality Control Standards are needed

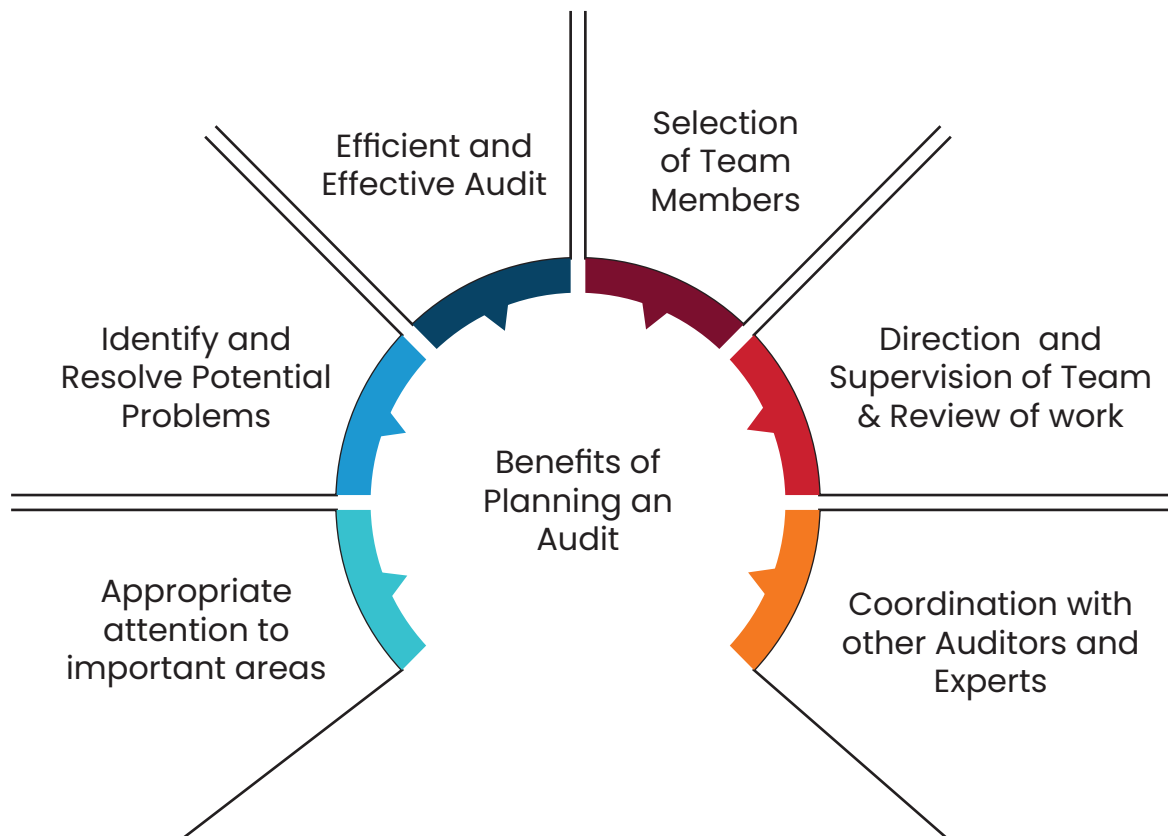
- 01 To ensure carrying out of audit against established benchmarks at par with global practices
- 02 To improve quality of financial reporting thereby helping users to make diligent decisions
- 03 To promote uniformity as audit of financial statements is carried out following these Standards
- 04 To equip professional accountants with professional knowledge and skill
- 05 To ensure audit quality

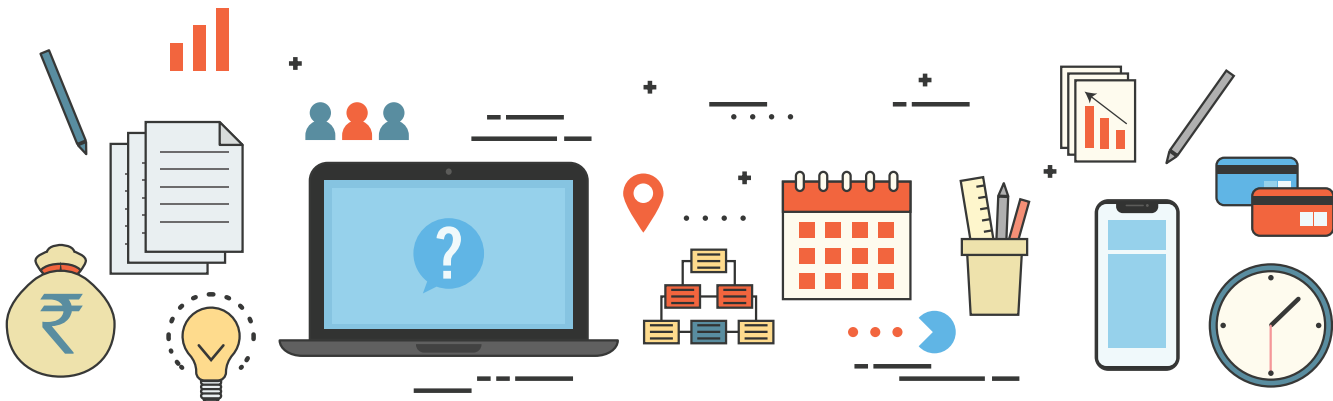
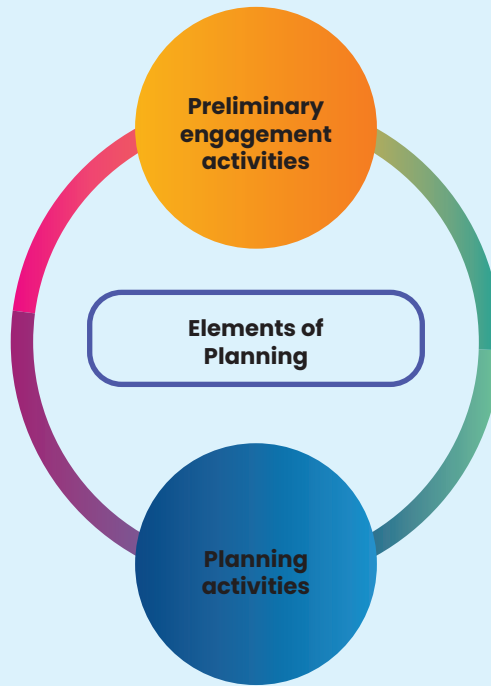
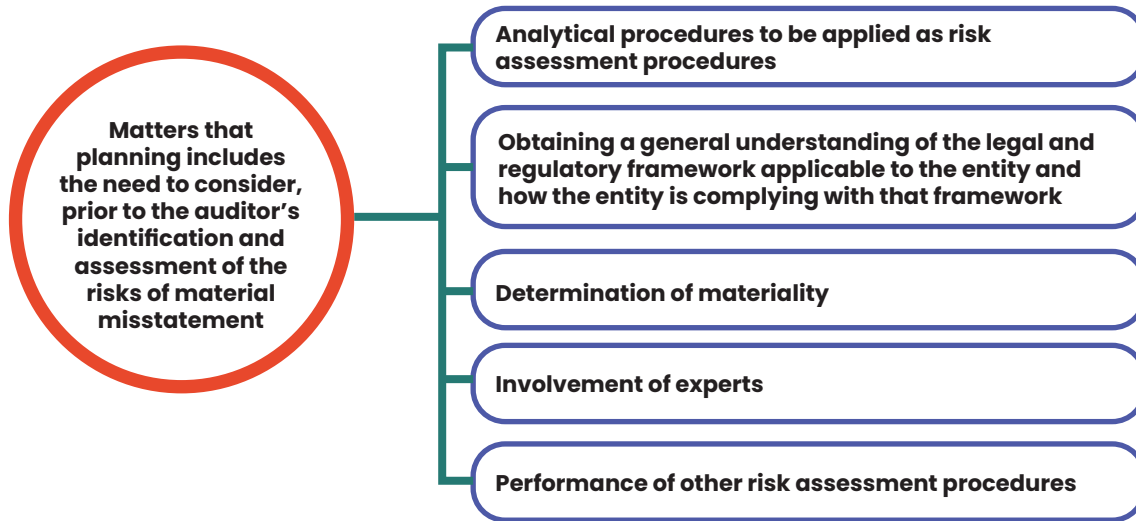


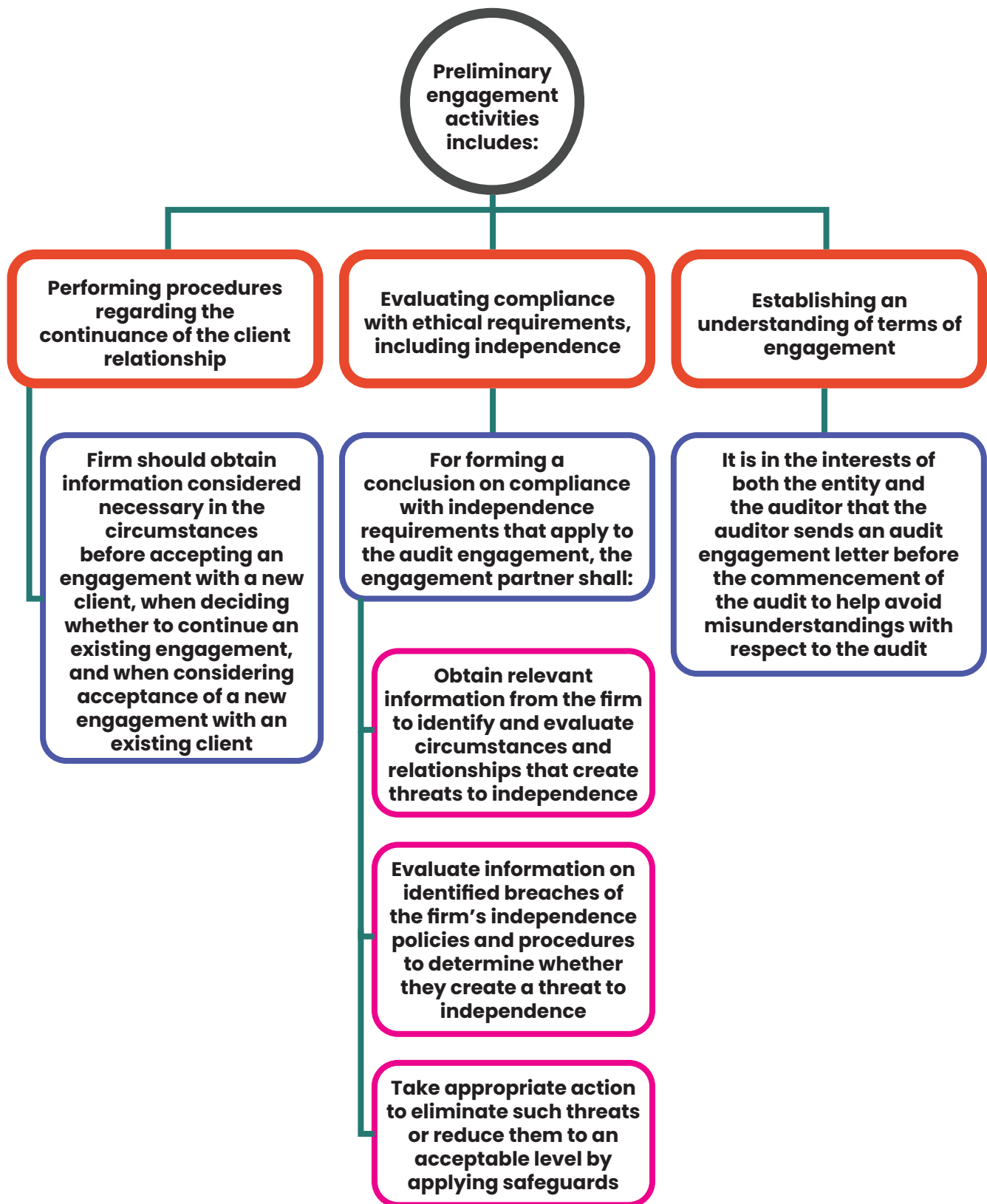


Chapter 2 : Audit Strategy, Audit Planning and Audit Programme

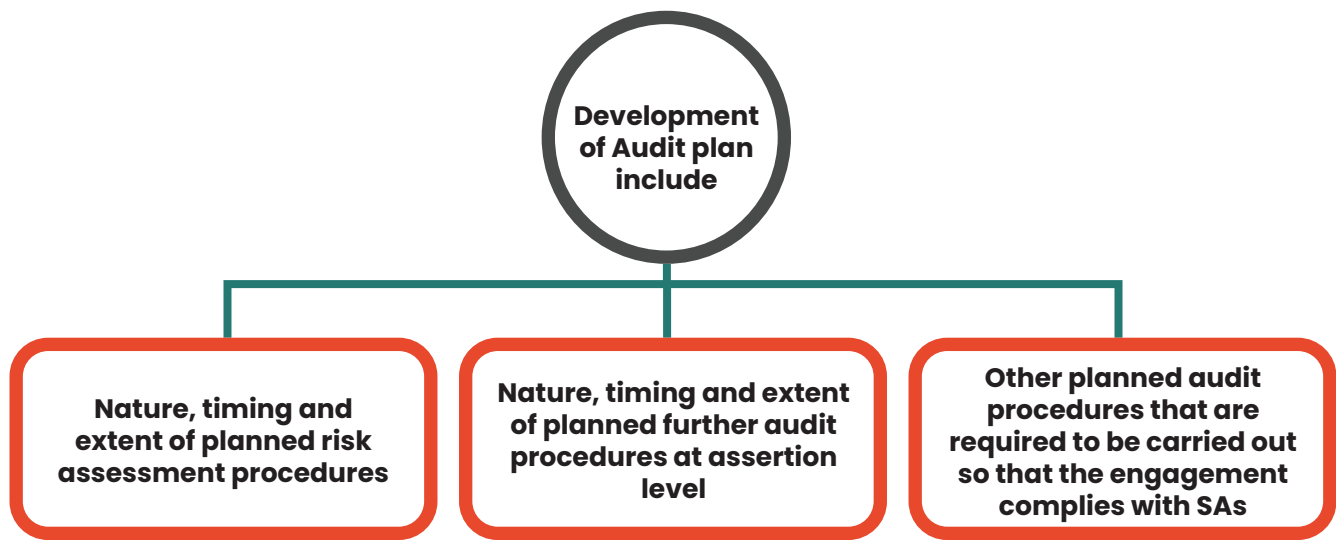












Audit Strategy

- It sets the broad overall approach to the audit
- It determines scope, timing and direction of audit

Audit Plan

- It addresses the various matters identified in the overall audit strategy
- It describes how audit strategy is going to be implemented
- It is more detailed that includes the nature, timing and extent of audit procedures to be performed by engagement team members

Changes to Planning decisions during the course of audit



As a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks

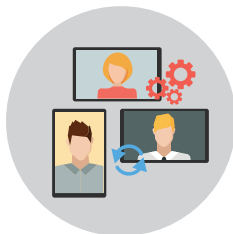
Nature, timing and extent of Planning supervision and review of work of engagement team members depend on

Size and complexity of the entity

Area of the audit

Assessed risks of material misstatement

Capabilities and competence of the individual team members performing the audit work



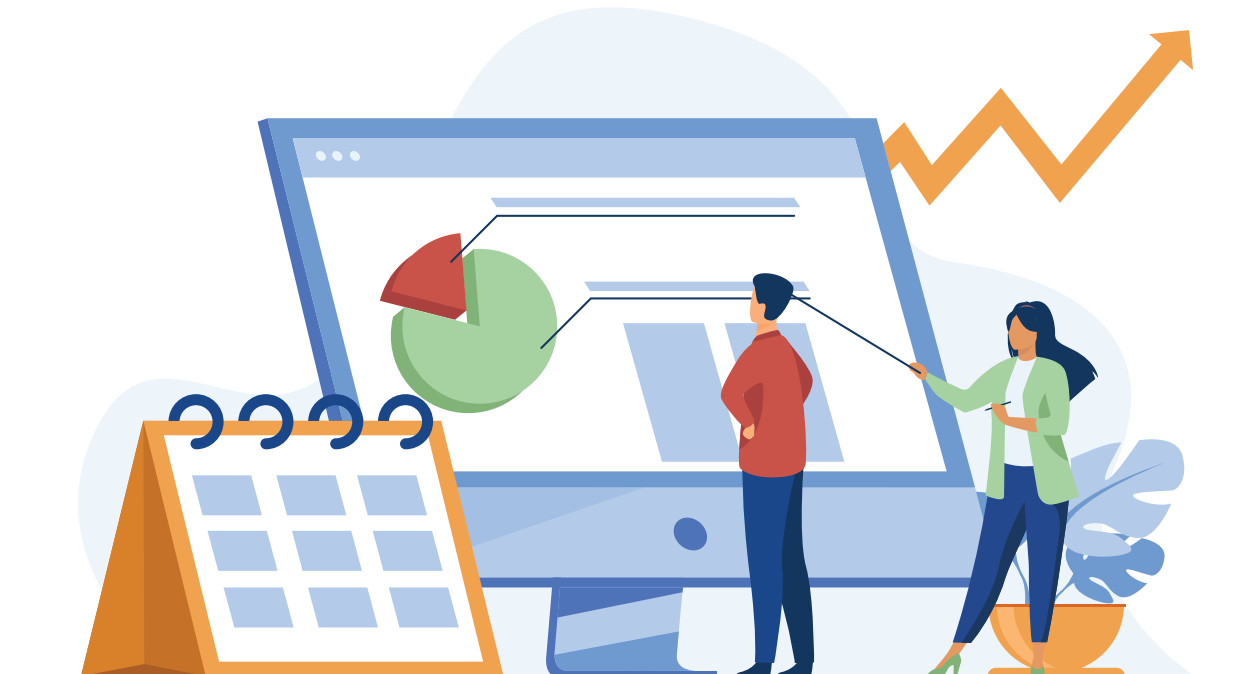
Audit Strategy, Audit Planning and Audit Programme



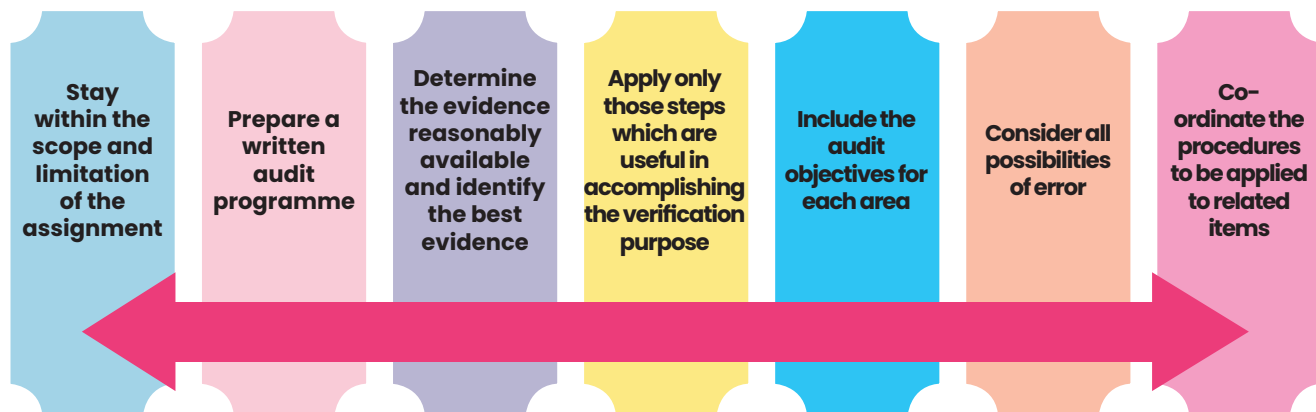
Audit Programme



An audit programme consists of a series of verification procedures to be applied to the financial statements and accounts of a given entity for the purpose of obtaining sufficient evidence to enable the auditor to express an informed opinion on financial statements



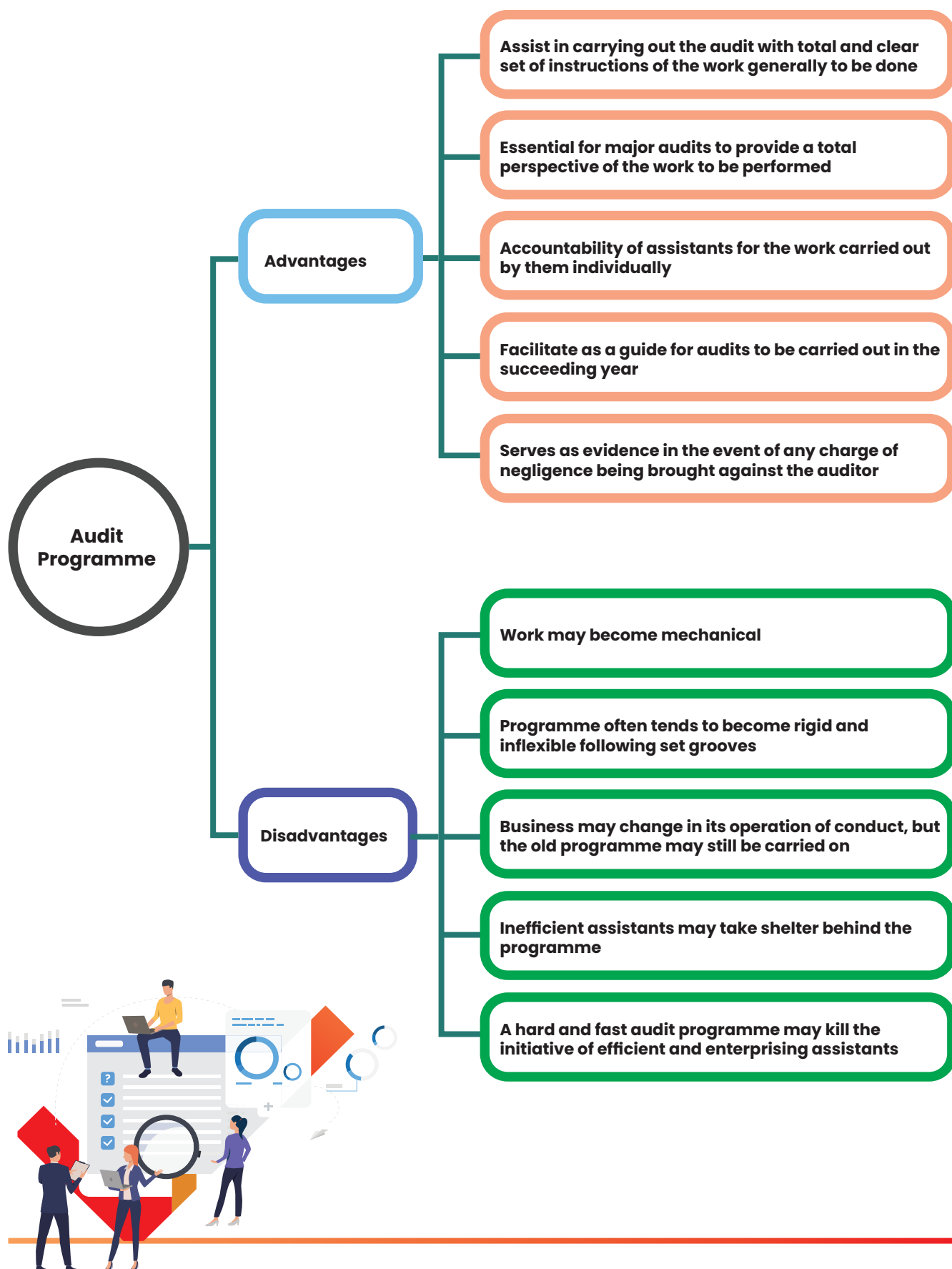
Constructing an audit programme



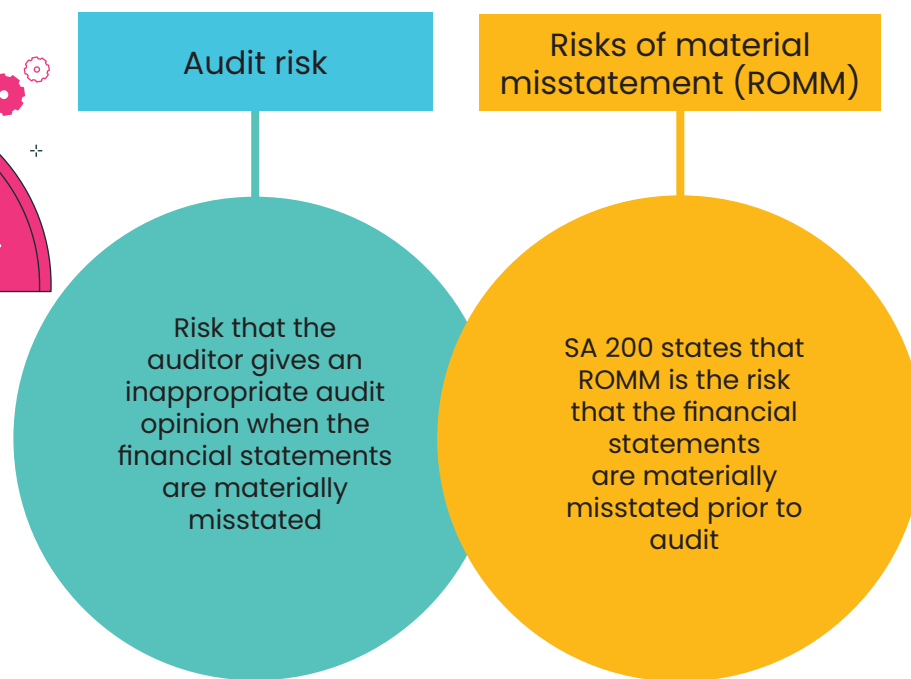
Types of fields auditor picks up evidence from

- Documentary examination
- Physical examination
- Statements and explanation of management, officials and employees
- Statements and explanations of third parties
- Arithmetical calculations by the auditor
- State of internal controls and internal checks
- Inter-relationship of the various accounting data
- Subsidiary and memorandum records
- Minutes
- Subsequent action by the client and by others

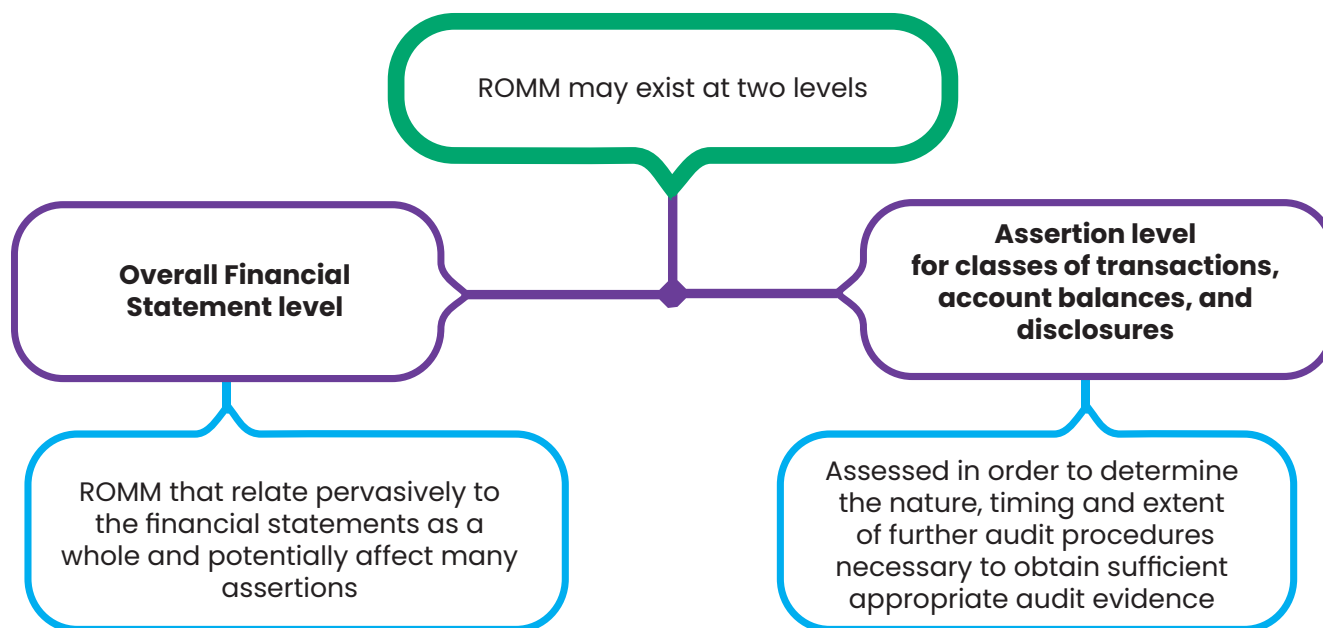
Audit Strategy, Audit Planning and Audit Programme

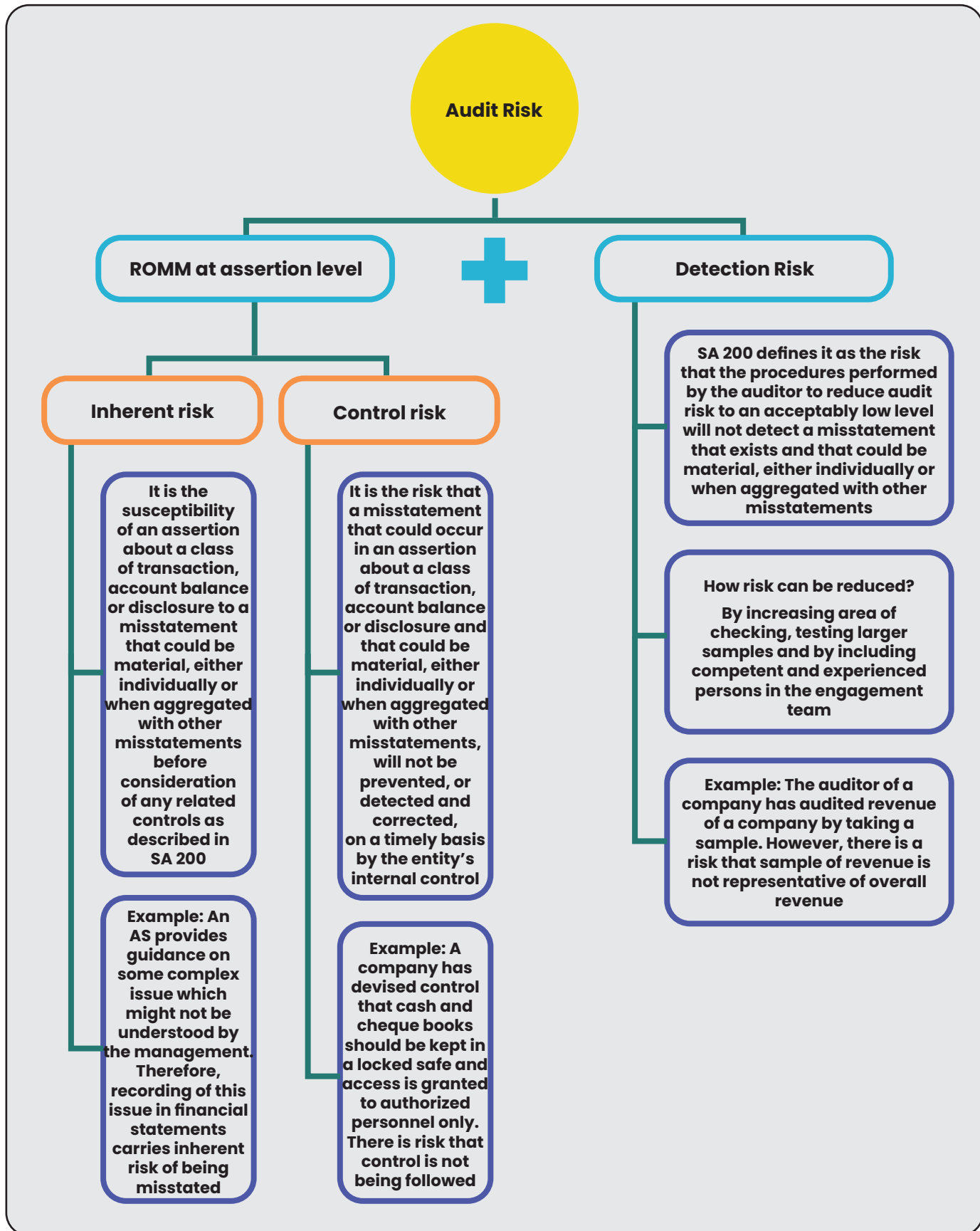


Chapter 3: Risk Assessment and Internal Control



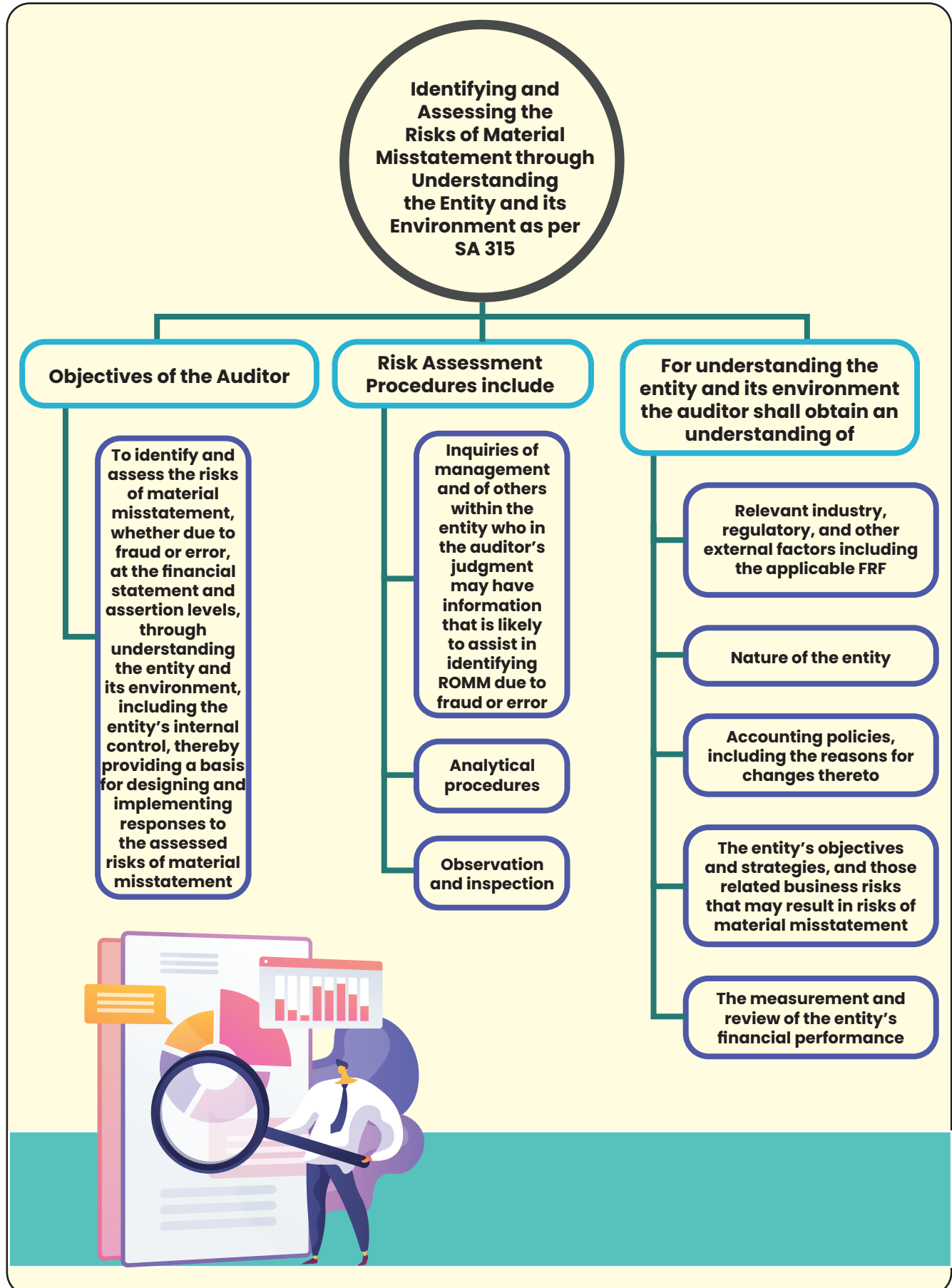
Auditing and Ethics

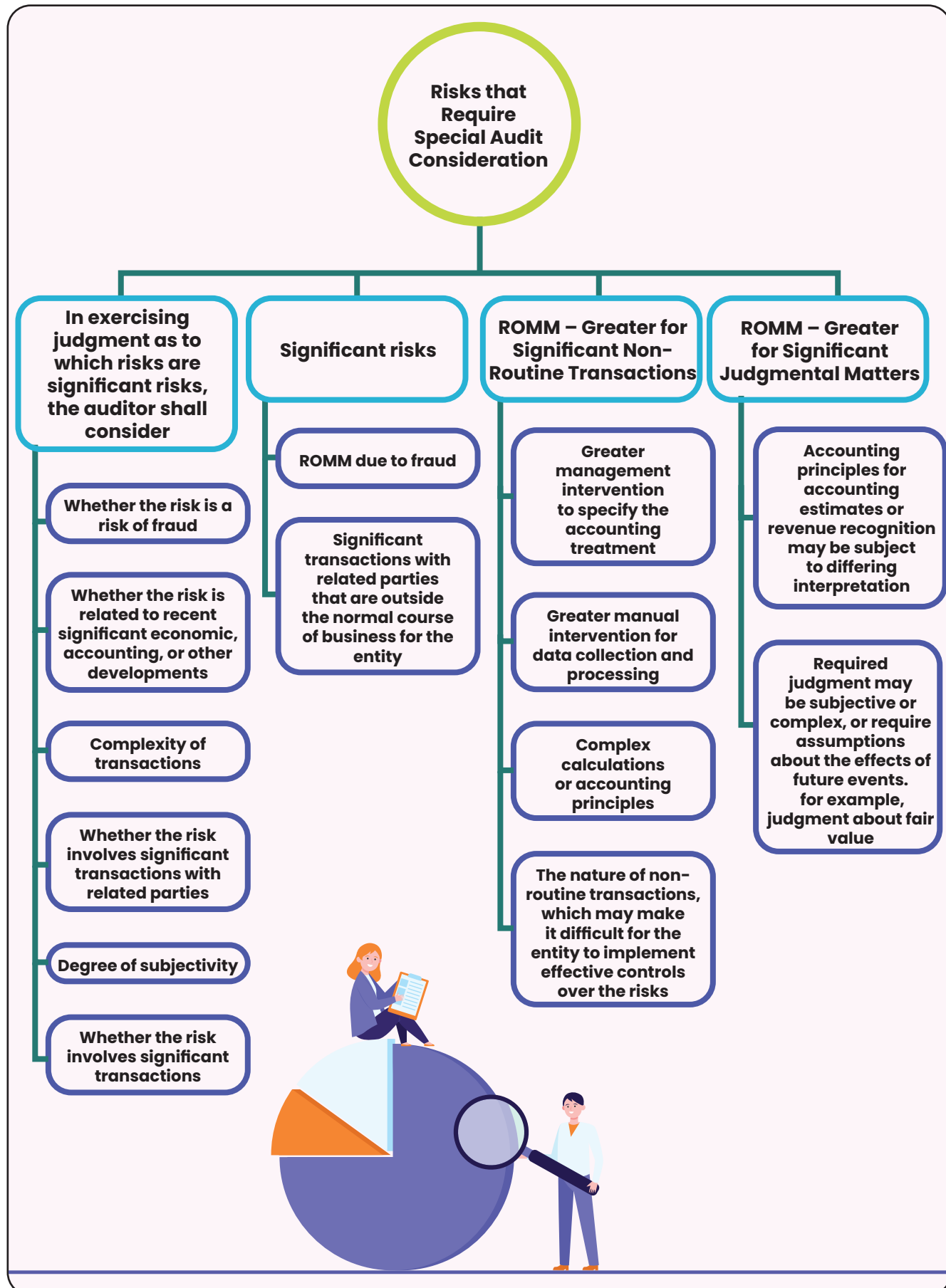


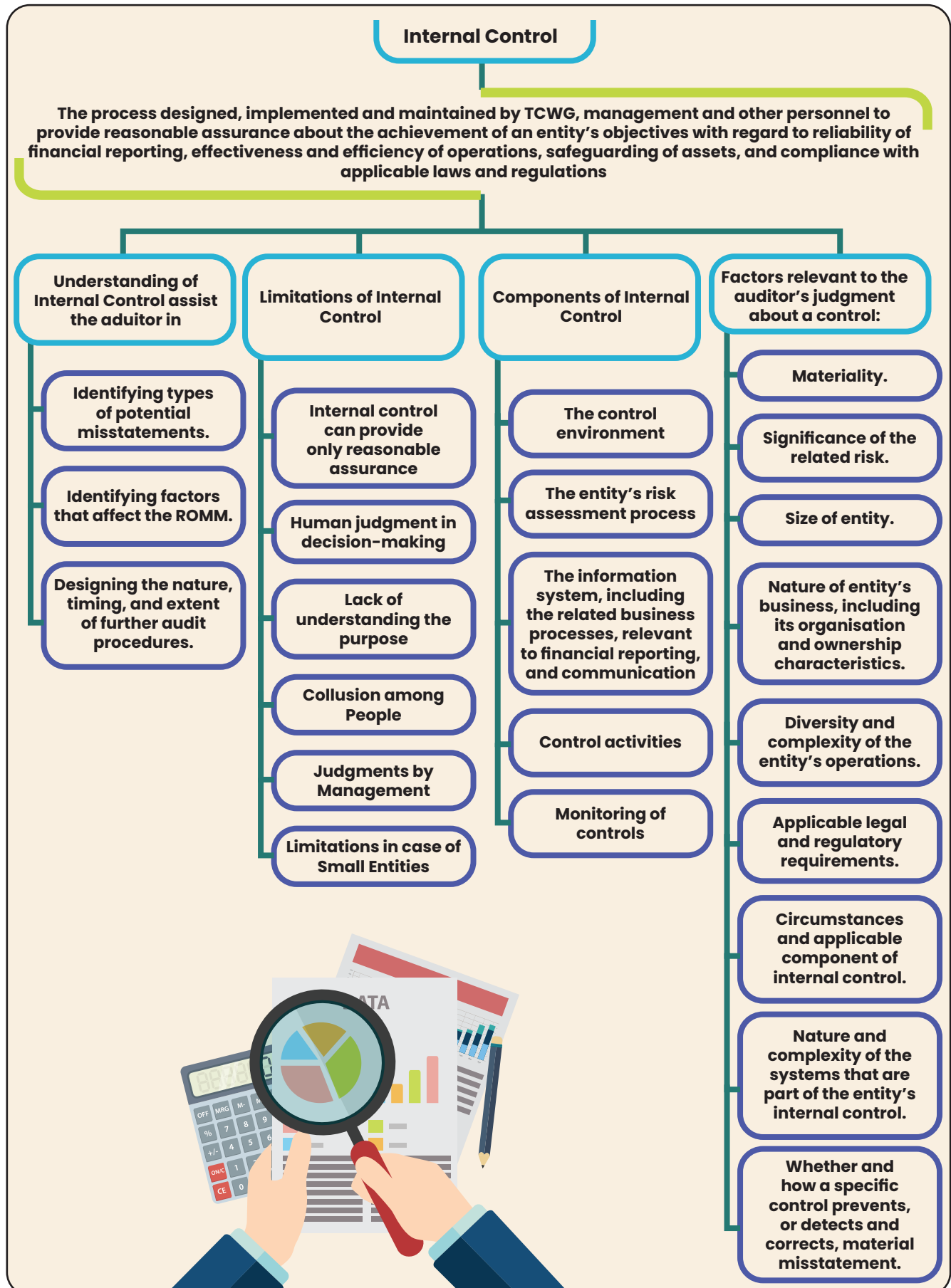


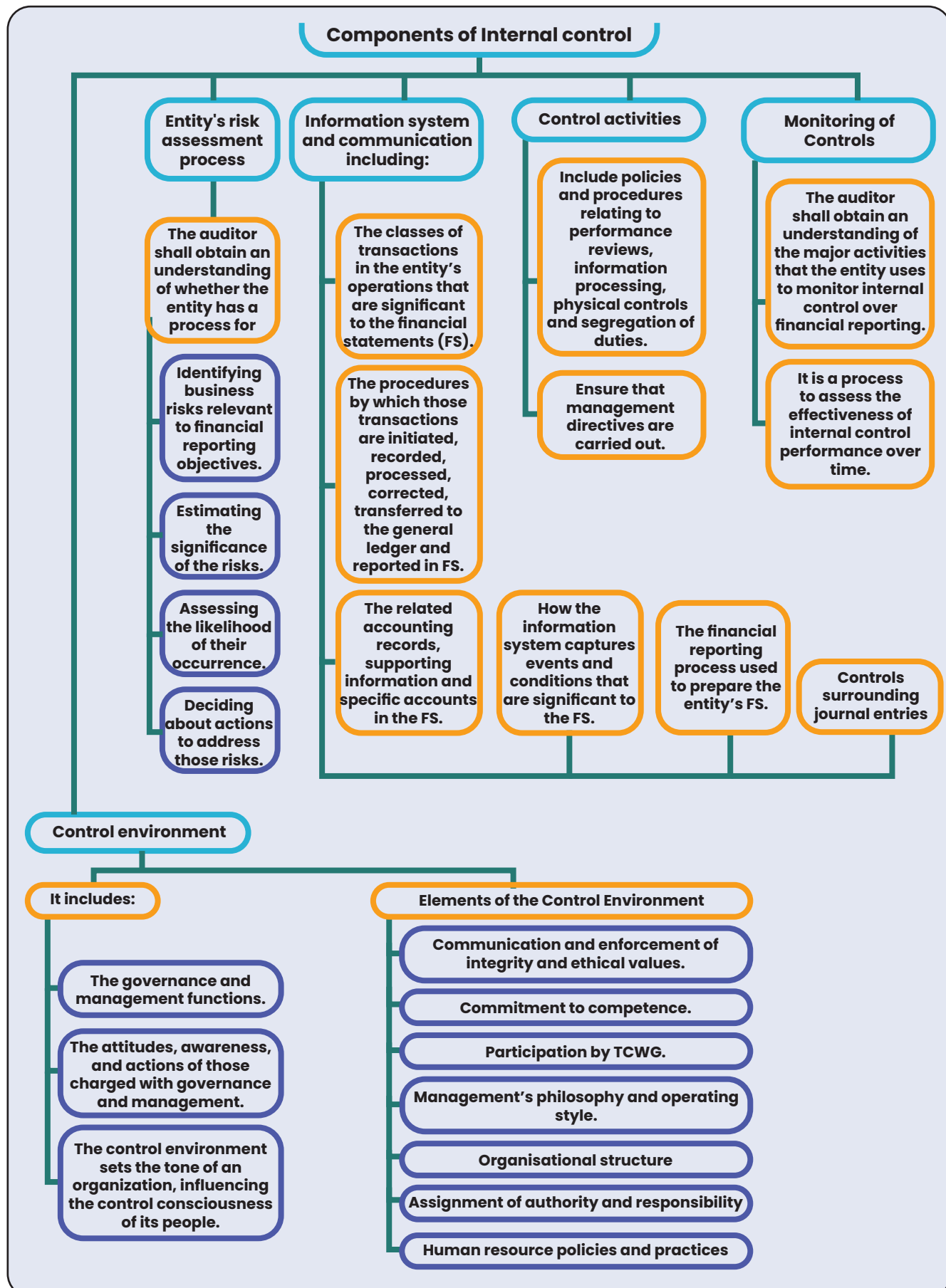
Auditing and Ethics

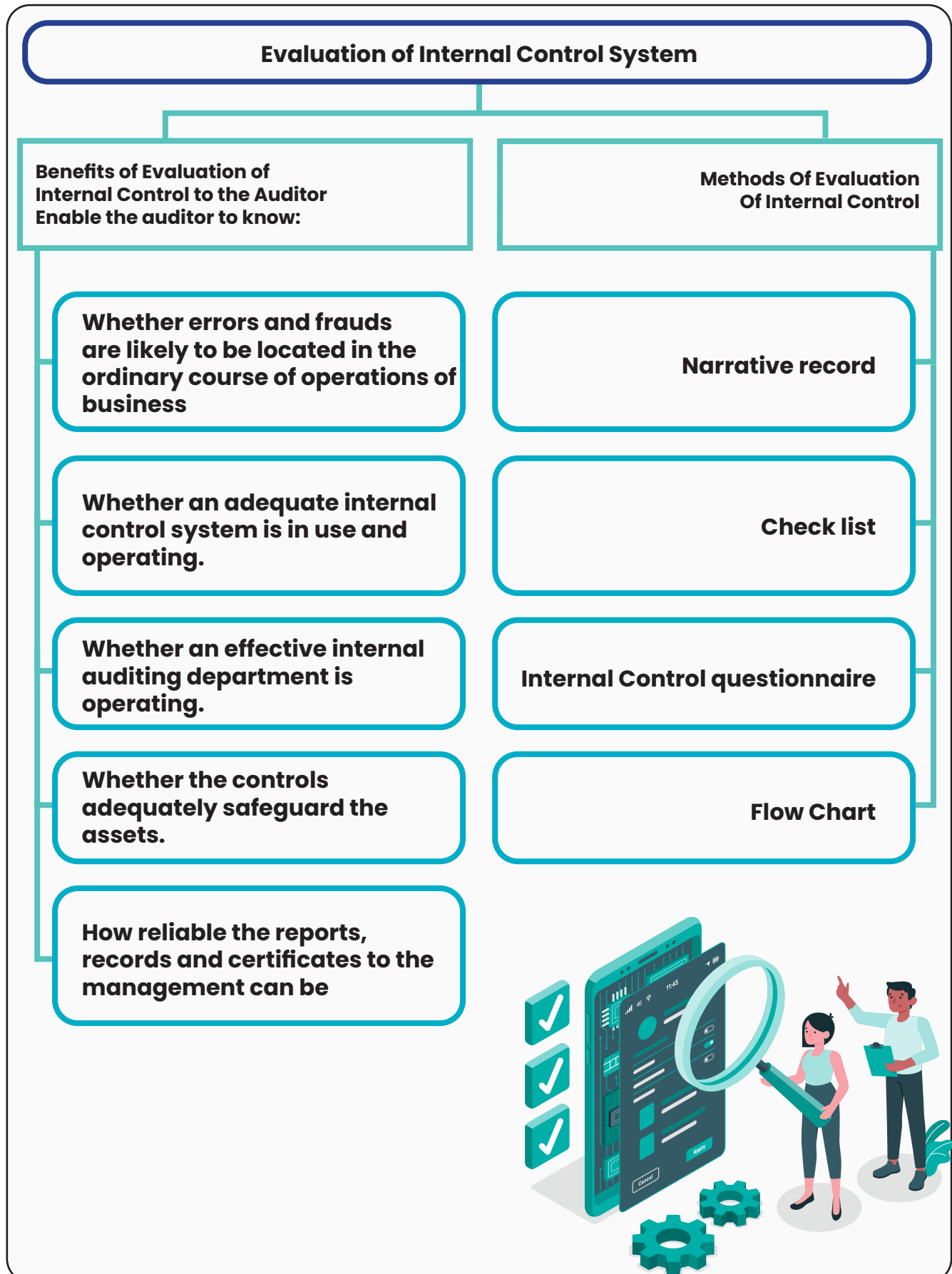


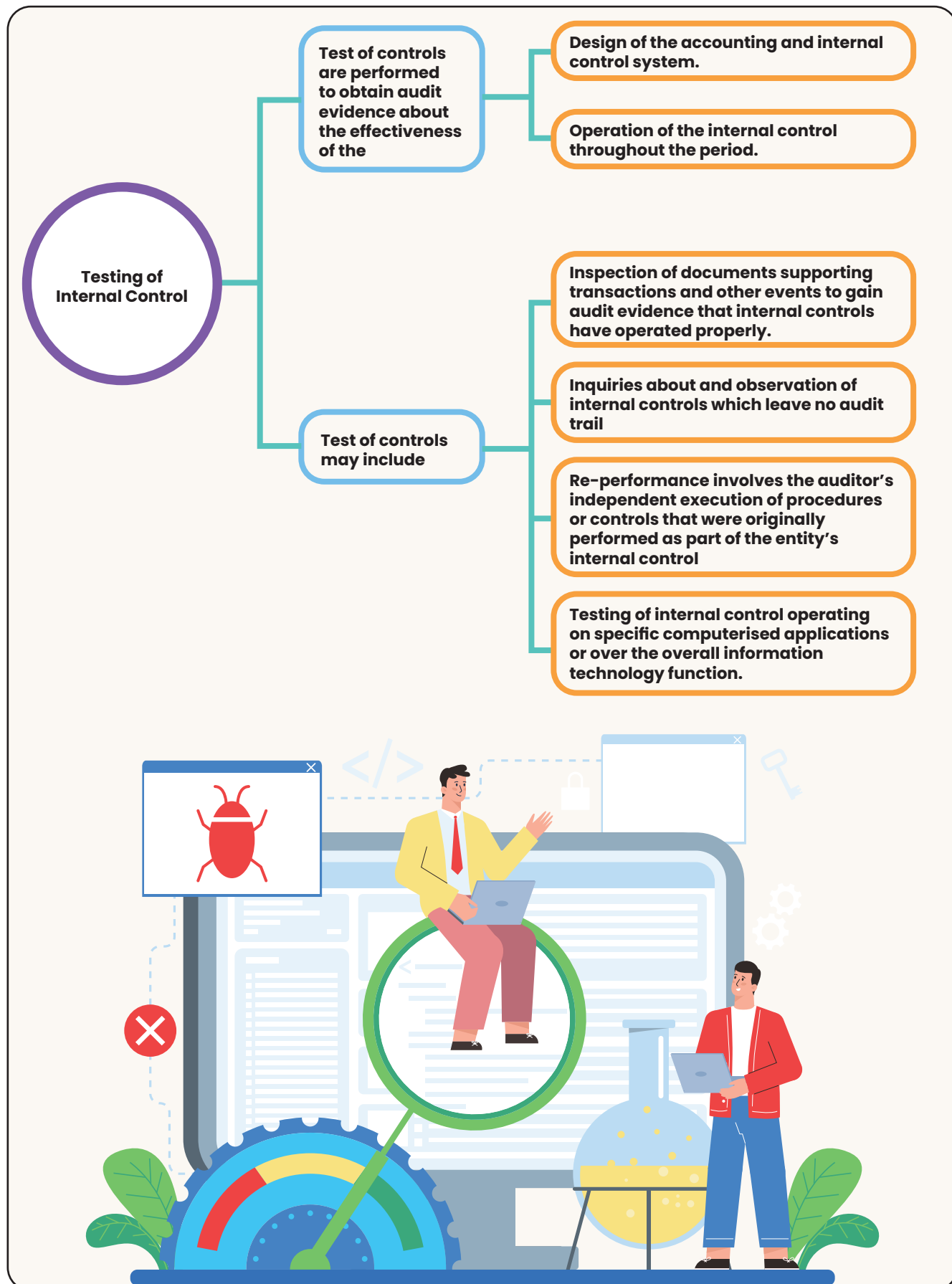














Automated Environment

Key features

- Enables faster business operation
- Accuracy in data processing and 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 and networking capability

Auditor should consider to obtain understanding and documenting automated environment

- Information systems being used
- Their purpose
- Location of IT systems – local vs global
- Architecture
- Version
- Interfaces within systems
- In-house vs Packaged.
- Outsourced activities

Risks arising from use of IT Systems

- Inaccurate processing of data, processing inaccurate data, or both
- Unauthorized access to data
- Direct data changes
- Excessive access
- Lack of adequate segregation of duties
- Unauthorized changes to systems or programs
- Failure to make necessary changes to systems or programs
- Loss of data

Impact of IT related risks

- Impact on substantive checking
- Impact on controls
- Impact on reporting

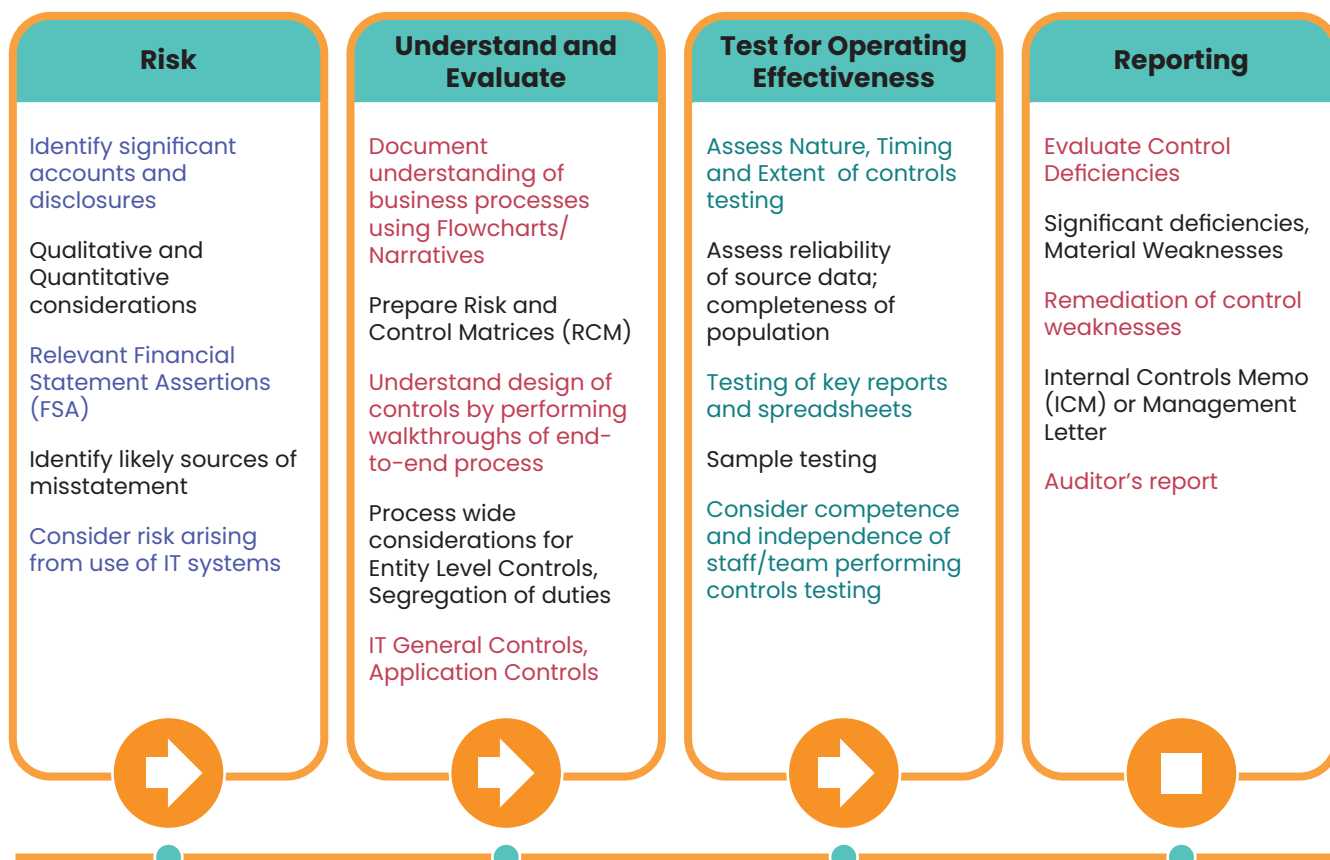
Types of Controls

- **General IT controls includes control over:**
 - Data centre and network operations
 - Program change
 - Access security
 - Application system acquisition, development, and maintenance
- **Application controls**
 - Automated Application controls are embedded into IT applications
- **IT-dependent controls**
 - controls that make use of some form of data or information or report produced from IT systems and applications

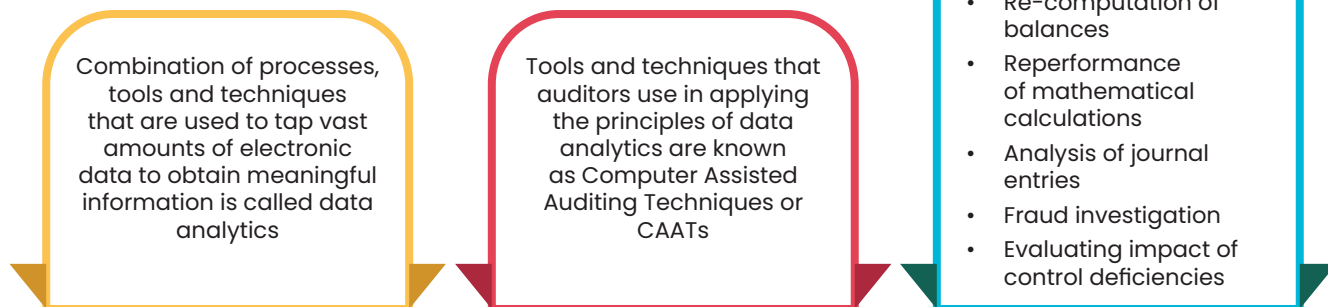
Testing methods

- There are 4 types of audit tests that should be used.
 - Inquiry
 - Observation
 - Inspection
 - Reperformance

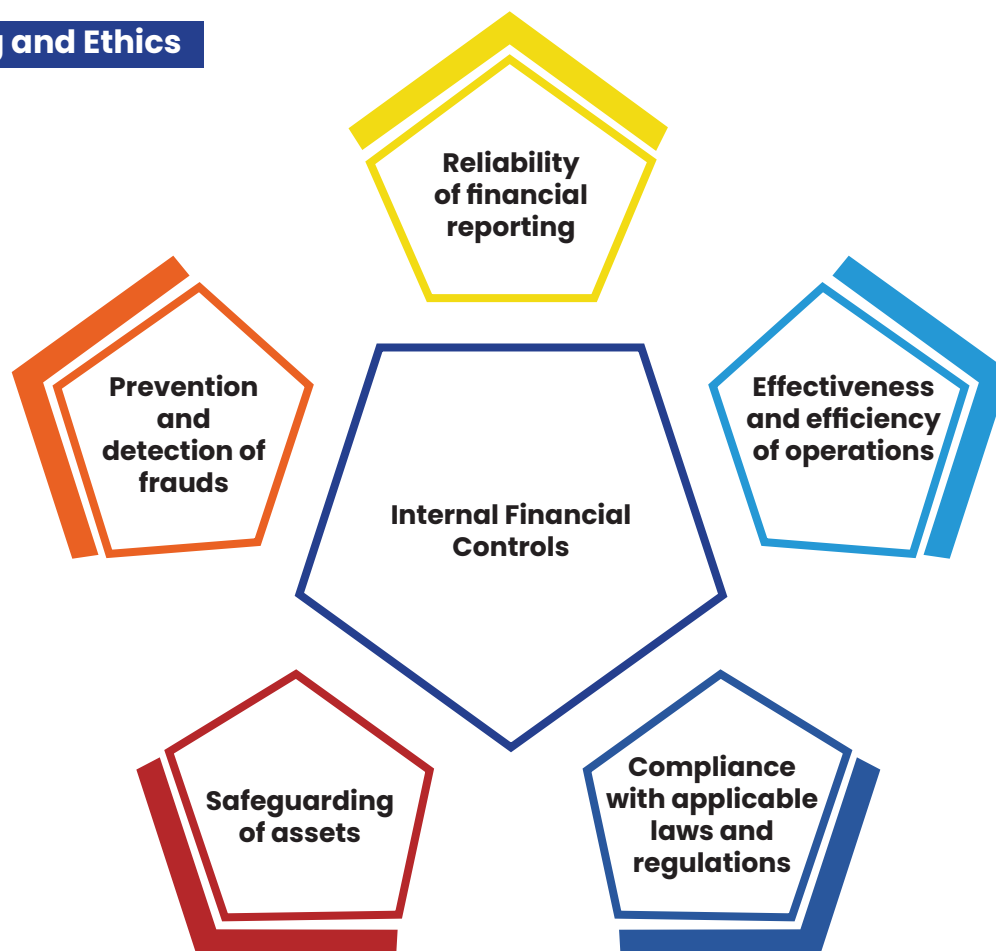
Audit Approach in an Automated Environment



Data analytics for audit



Auditing and Ethics



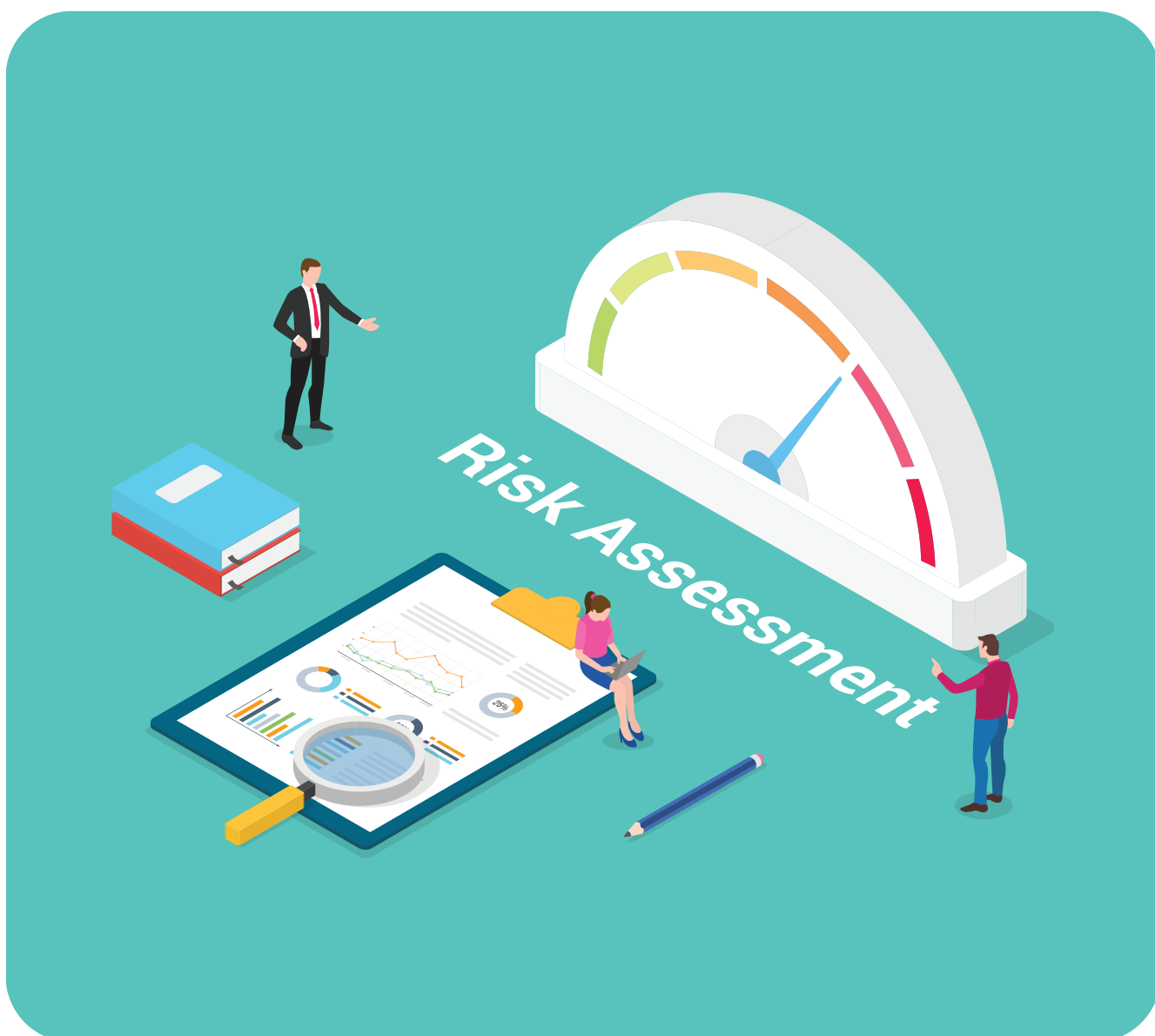
Documentation of the Risks includes

Discussion among the engagement team and the significant decisions reached

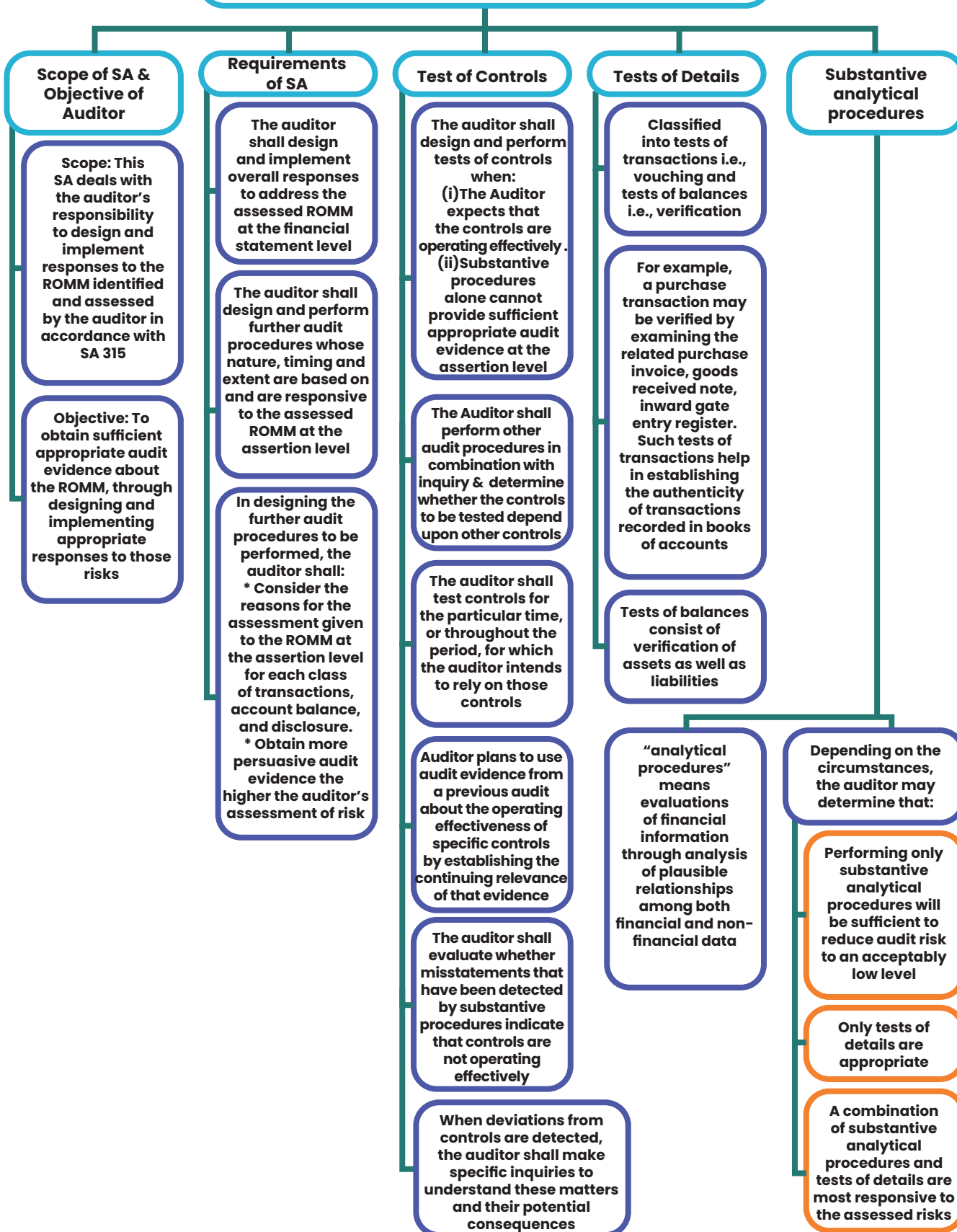
Key elements of understanding obtained regarding each of the aspects of the entity and its environment

Identified and assessed ROMM

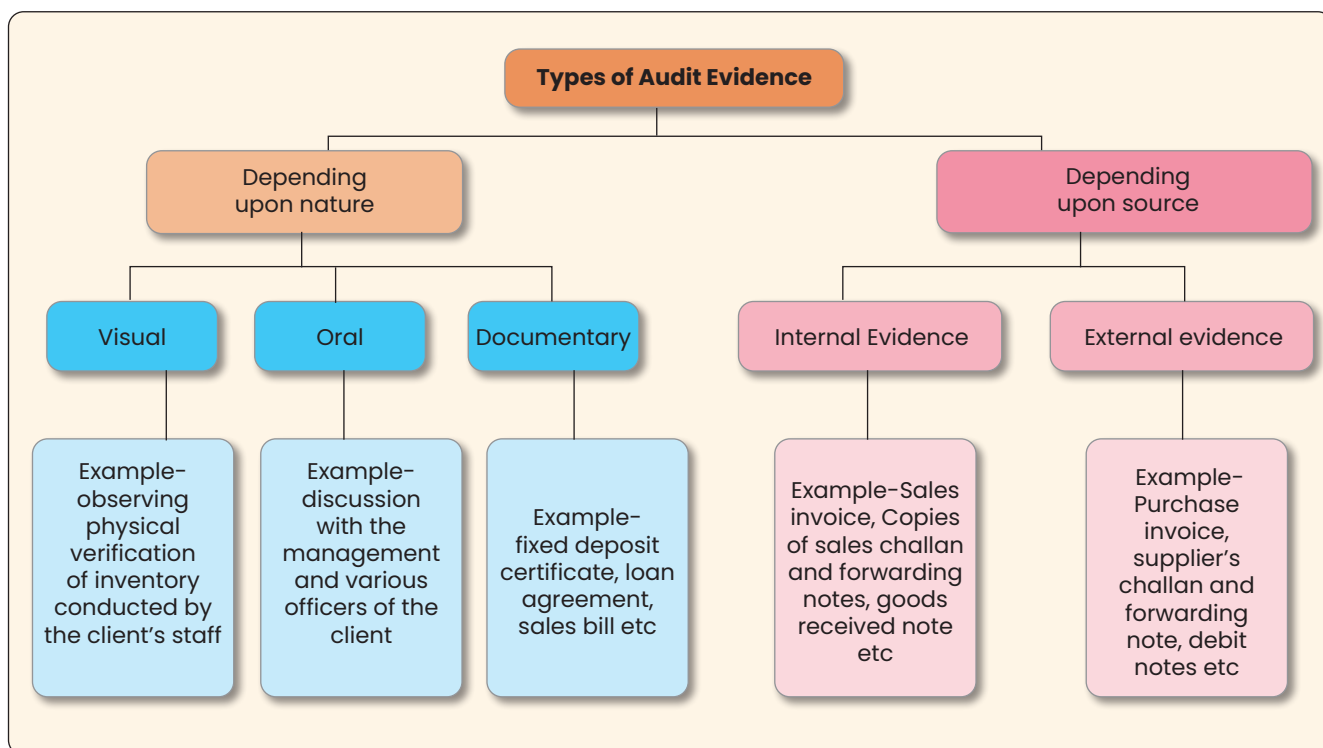
The risks identified, and related controls



SA 330 "The Auditor's Responses to Assessed Risks"



Chapter 4: Audit Evidence



Relevance and Reliability of Audit Evidence

Relevance of audit evidence

Deals with the logical connection with, or bearing upon, the purpose of the audit procedure and, where appropriate, the assertion under consideration.



Reliability of Audit Evidence

Influenced by its source and nature, and is dependent on the individual circumstances under which it is obtained.

Increases when

Obtained from independent sources

Related controls are effective

Obtained directly by the auditor

Obtained in documentary form

Provided by original documents

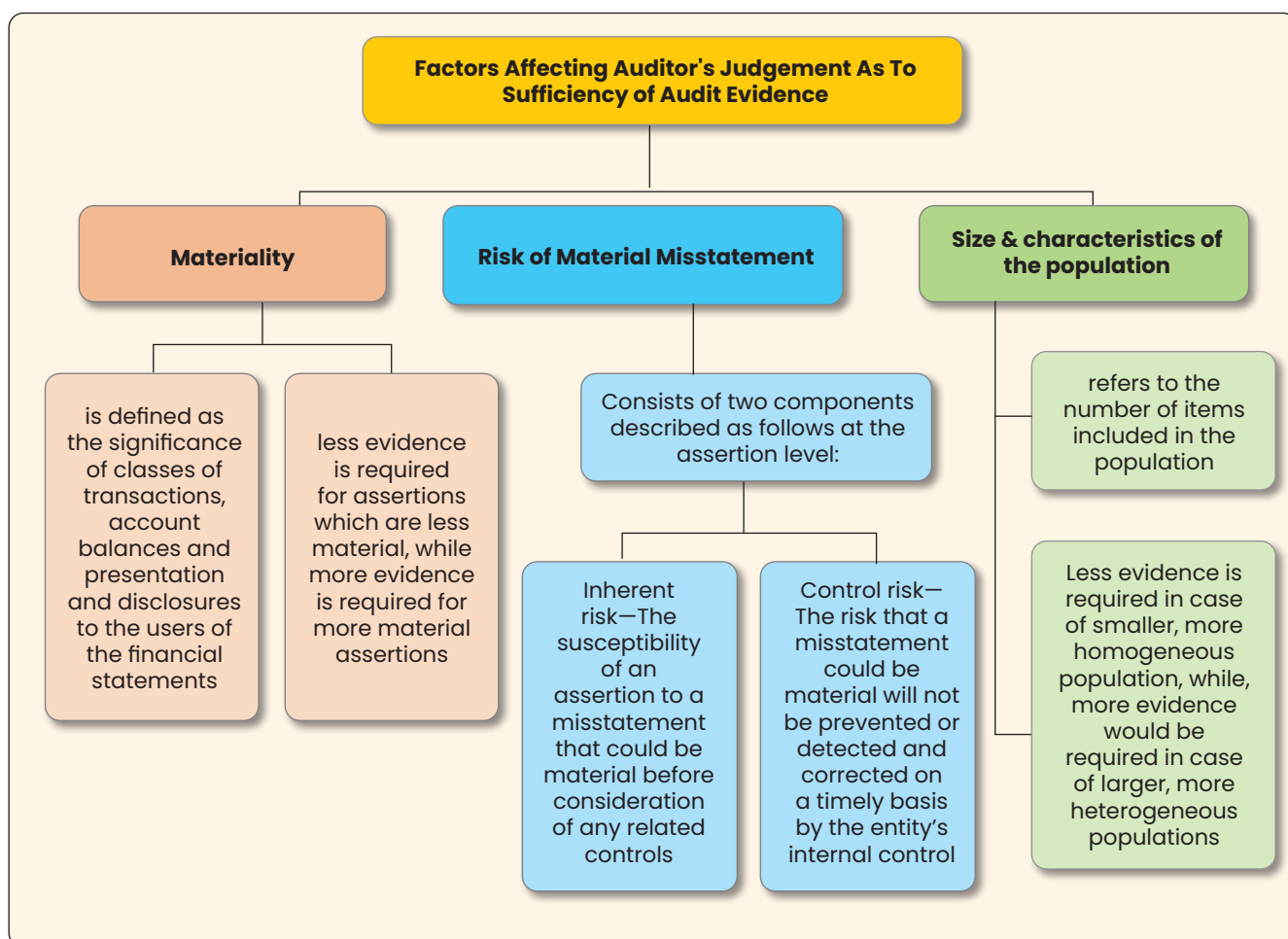
Sufficient Appropriate Audit Evidence (SAAE)

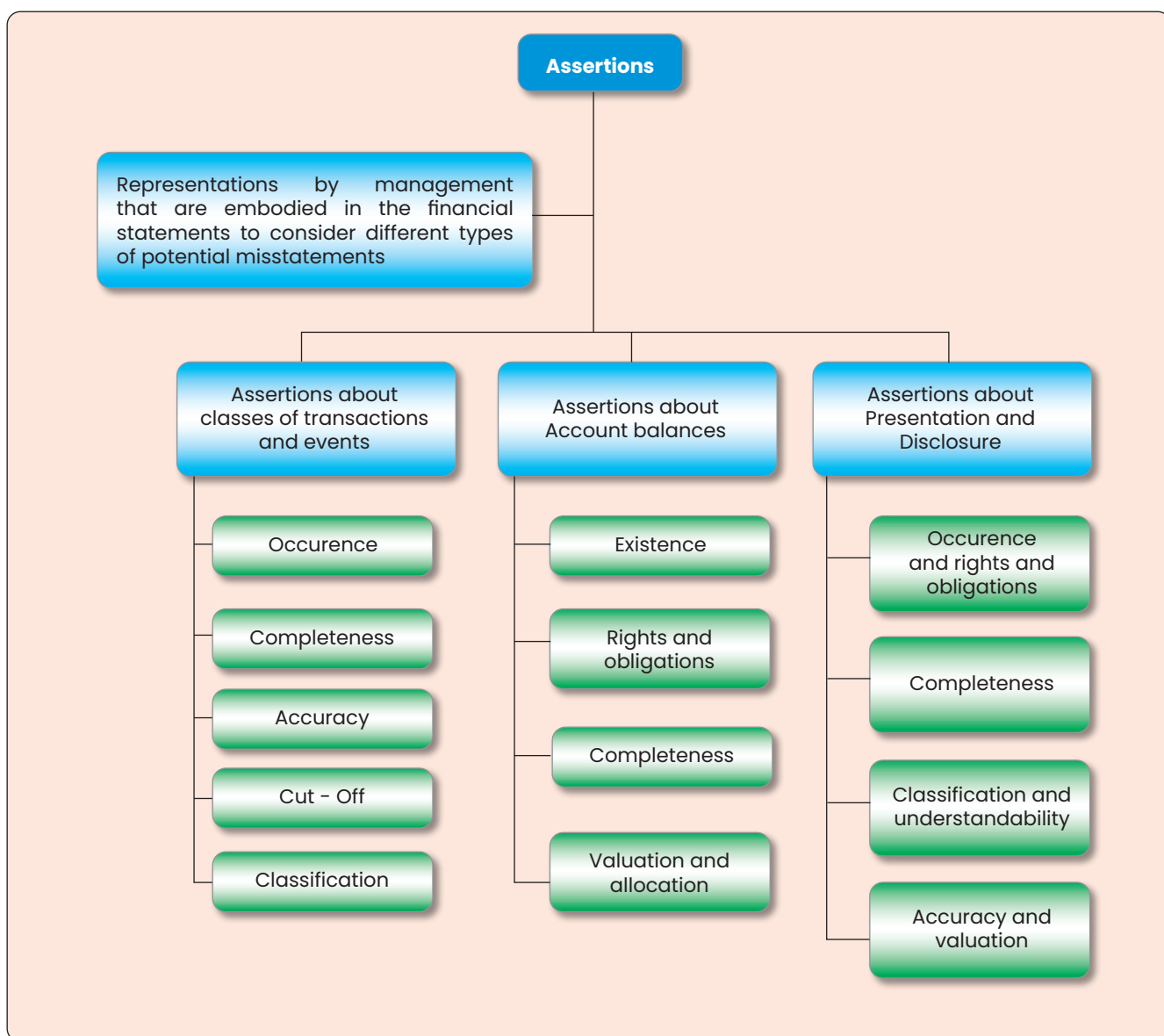
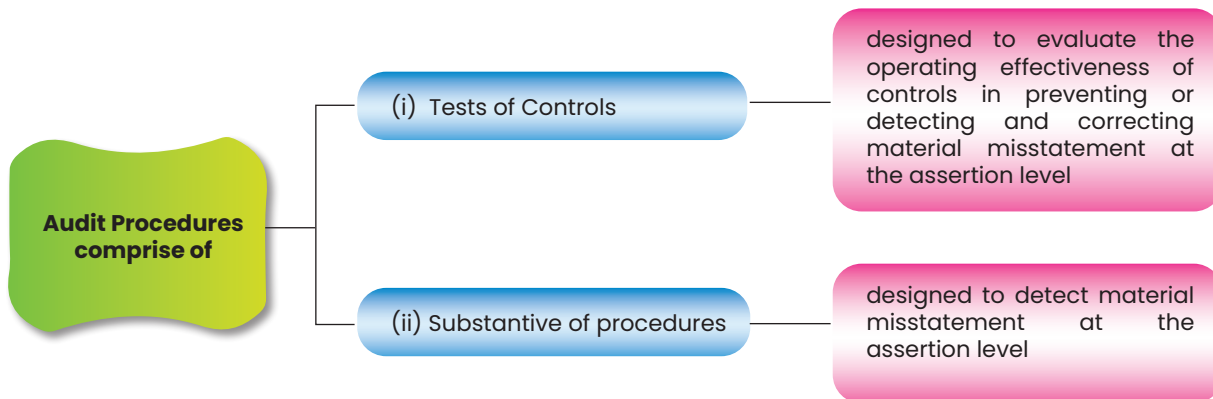
Sufficiency

measure of quantity of audit evidence

Appropriateness

measure of quality of audit evidence





Audit Trail

is a Documented flow of a transaction

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

is a step-by-step record by which accounting, trade details, or other financial data can be traced to their source



Information to be used as Audit Evidence

Prepared using the work of a management's expert

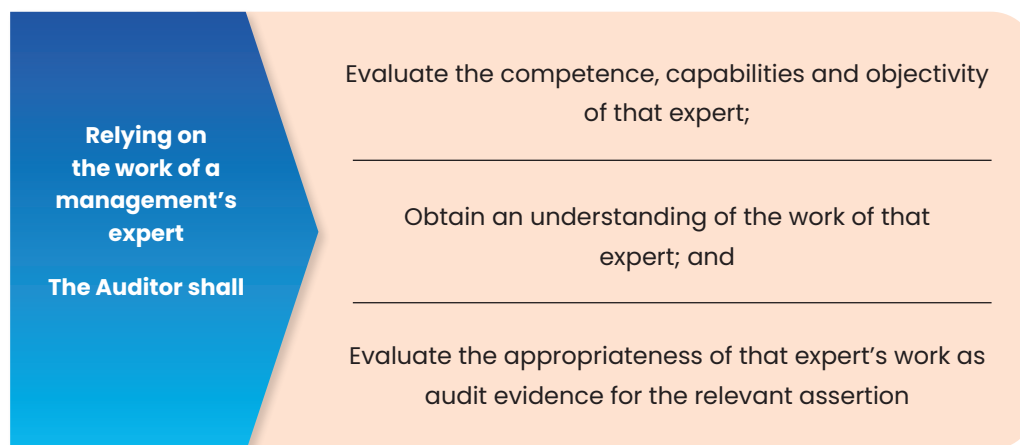
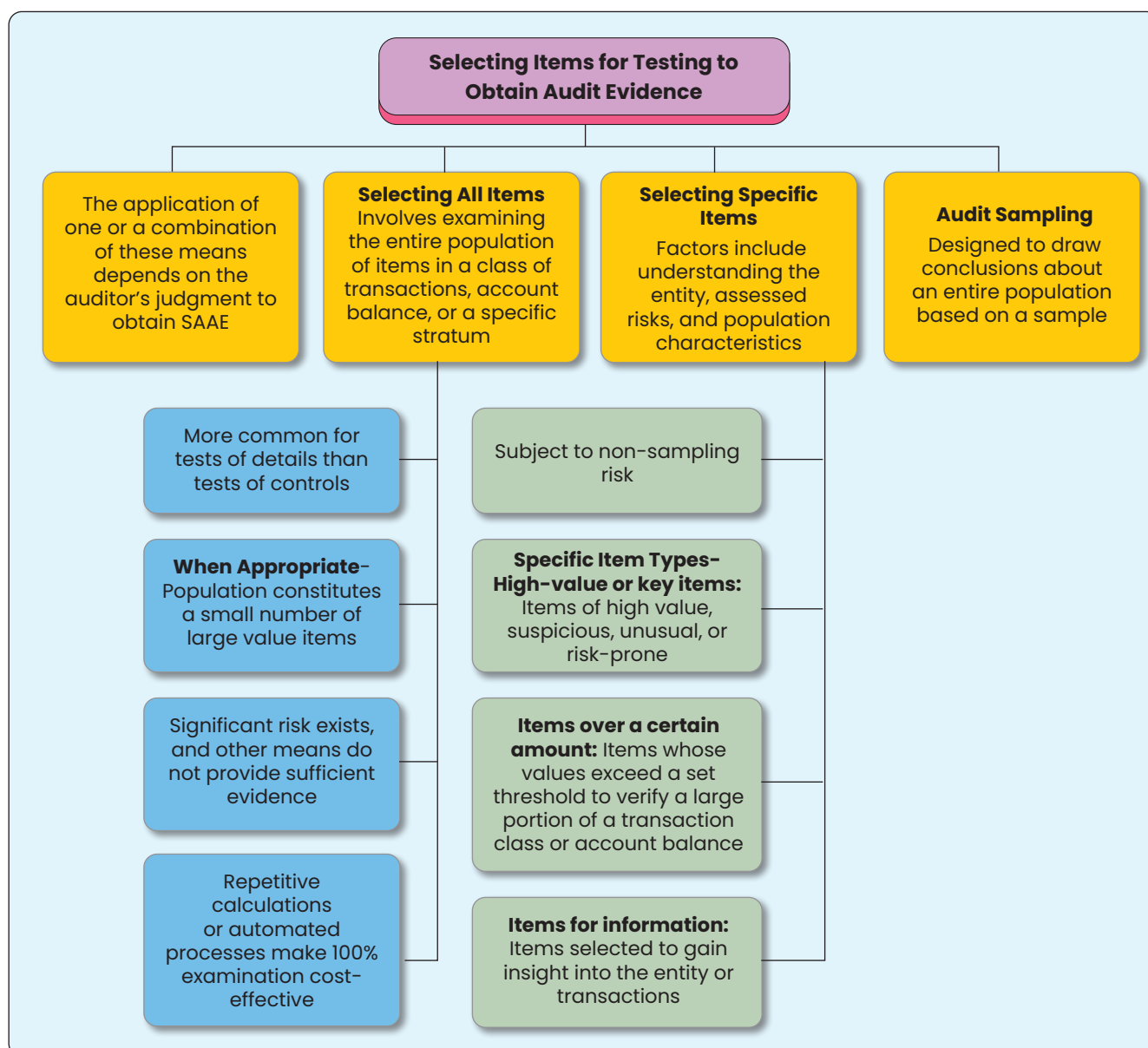
Nature, timing and extent of audit procedures may be affected by matters:

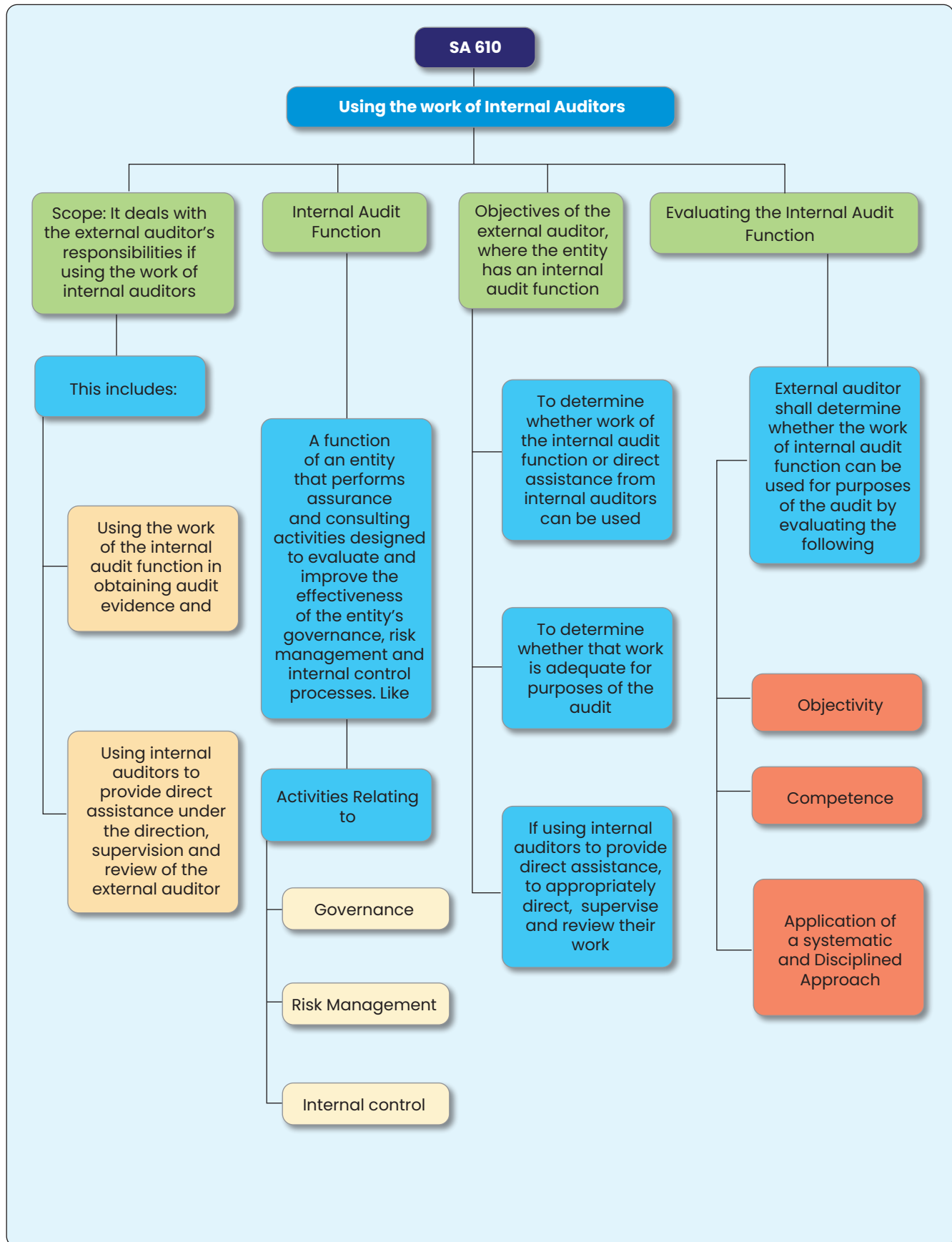
- Nature and complexity of matter to which the management's expert relates
- ROMM in the matter
- Availability of alternative sources of audit evidence
- Nature, scope and objectives of management's expert's work
- Whether the management's expert is employed by entity

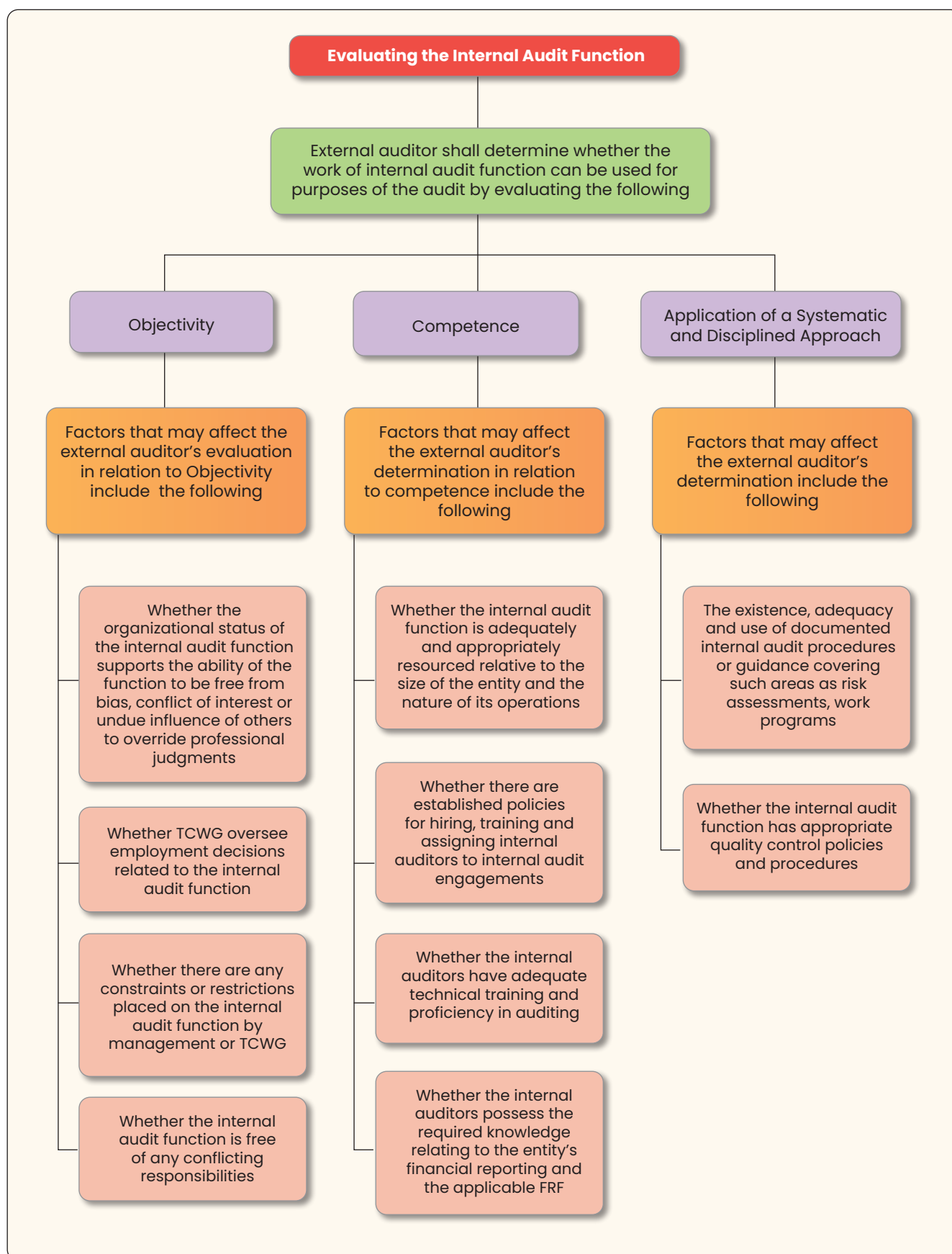
Produced by the entity

Auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes:

- Obtaining audit evidence about the accuracy and completeness of information; and
- Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes







**Circumstances
When Work of
the Internal Audit
Function Cannot
Be Used by
external auditor**

The function's organizational status and relevant policies and procedures do not adequately support the objectivity of internal auditors;

The function lacks sufficient competence; or

The function does not apply a systematic and disciplined approach, including quality control

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; and
- Evaluating the audit evidence gathered;

The higher the assessed ROMM at the assertion level, with special consideration given to risks identified as significant;

The less the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors; and

The lower the level of competence of the internal audit function

**Using the
Work of the
Internal Audit
Function**

External auditor shall

- discuss the planned use of its work with the function as a basis for coordinating their respective activities
- read the reports of the internal audit function relating to the work of the function
- perform sufficient audit procedures on the body of work of the internal audit function as a whole that the external auditor plans to use to determine its adequacy for purposes of the audit

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 internal auditors to provide direct assistance to perform procedures that:

- Involve making significant judgments in the audit
- Relate to higher assessed ROMM where the judgment required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited
- Relate to work with which the internal auditors have been involved and which has already been, or will be, reported to management or TCWG by the internal audit function; or
- Relate to decisions the external auditor makes in accordance with this SA regarding the internal audit function and the use of its work or direct assistance

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

- Obtain written agreement from an authorized representative of the entity that the internal auditors will be allowed to follow the external auditor's instructions
- Obtain written agreement from the internal auditors that they will keep confidential specific matters as instructed by the external auditor and inform the external auditor of any threat to their objectivity

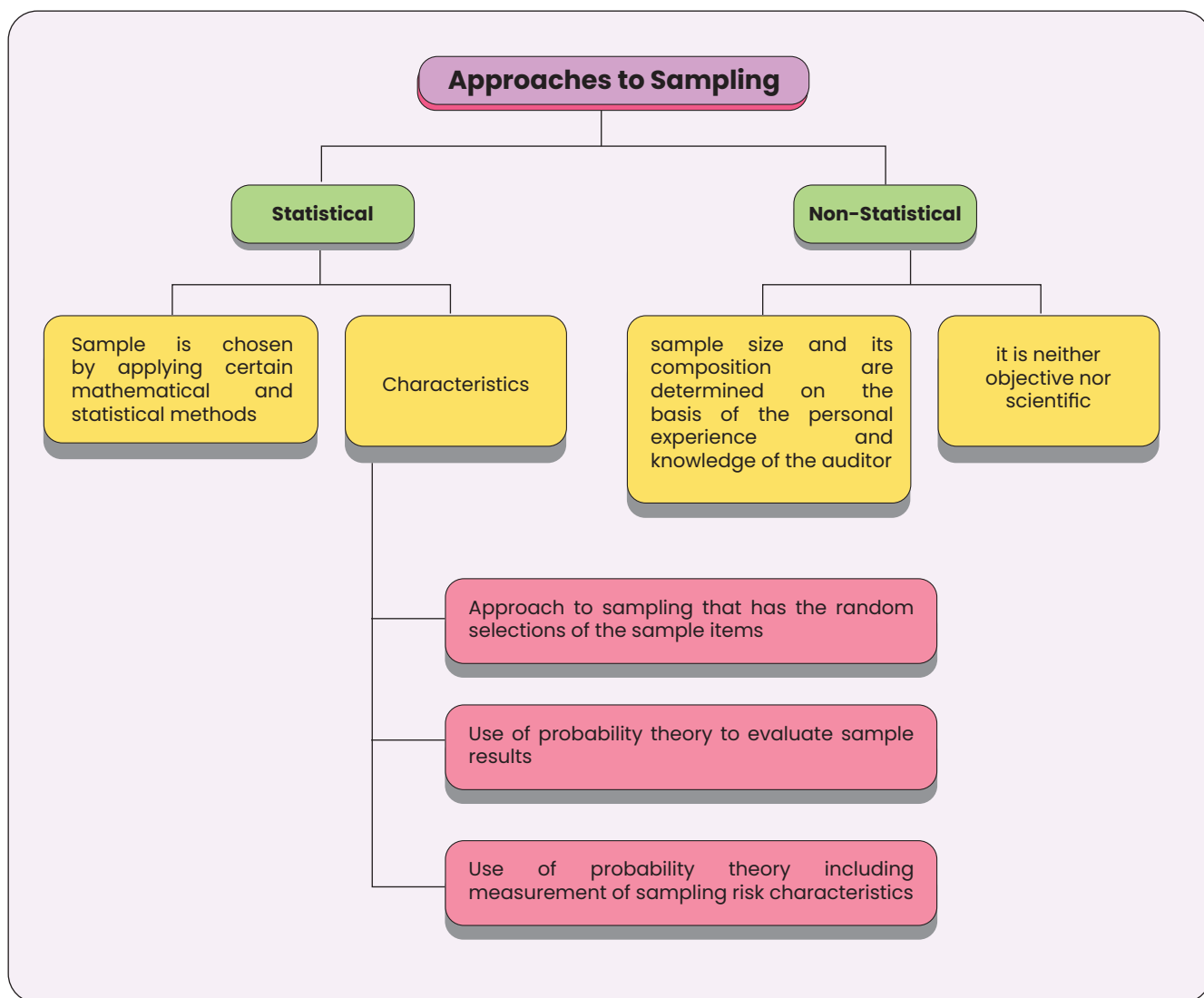
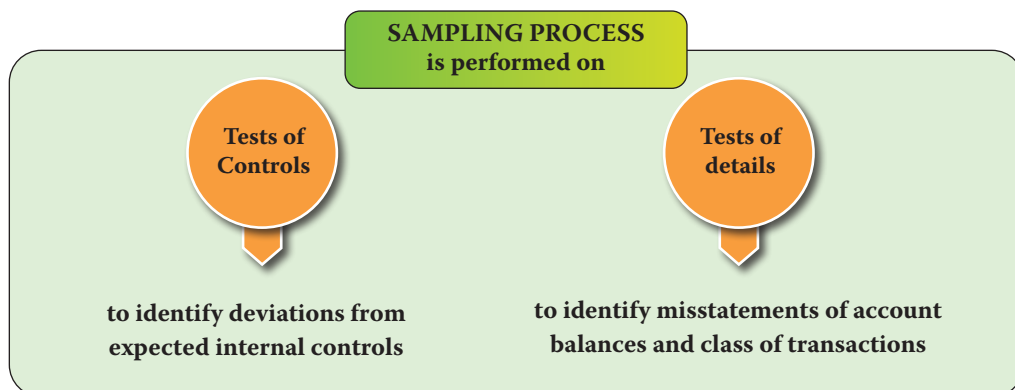
Audit Sampling (SA 530)

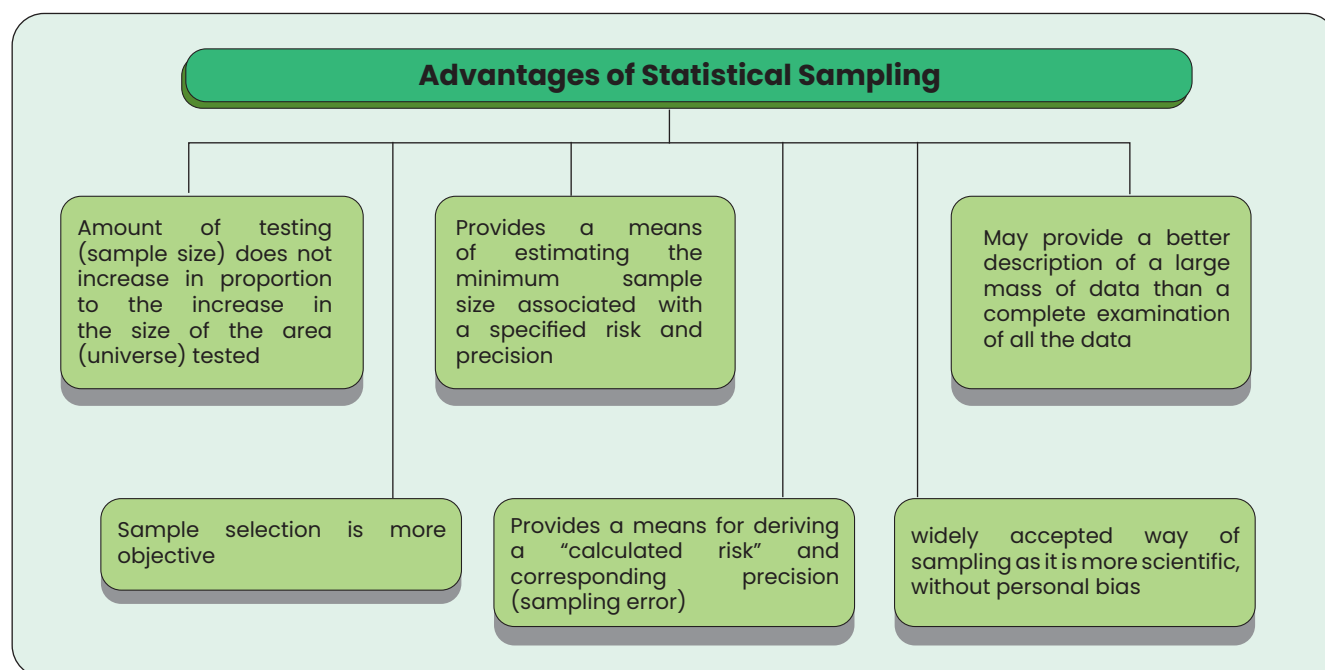
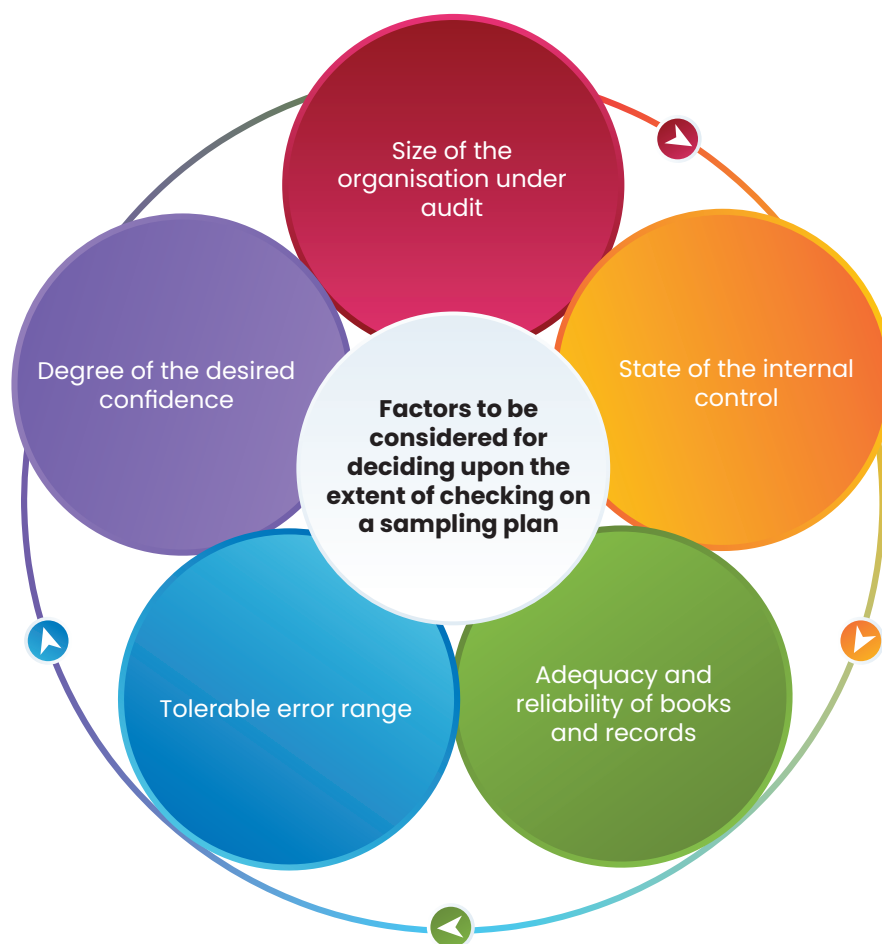
Scope of SA-530

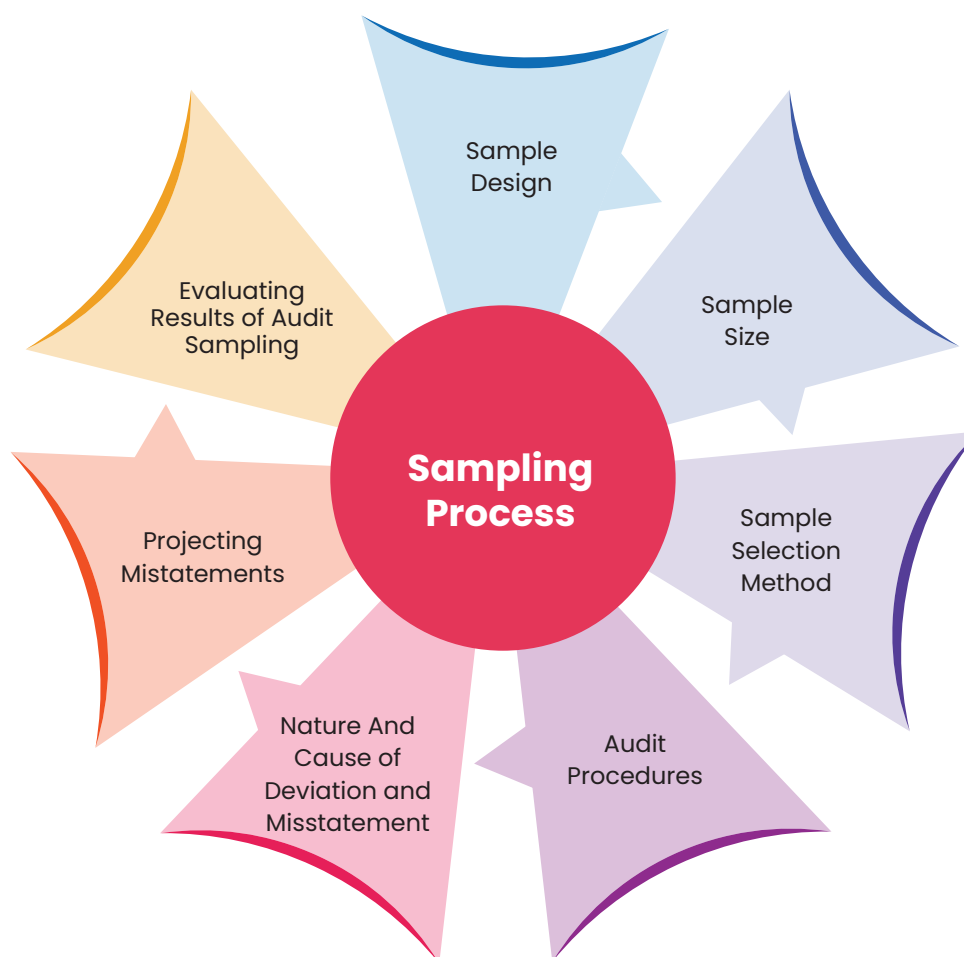
- SA 530 becomes applicable when the auditor has decided to use audit sampling in performing audit procedures. This standard deals with the auditor's use of –
 - ▶ Statistical and
 - ▶ Non-statistical sampling
- when designing and selecting the–
 - ▶ audit sample,
 - ▶ performing tests of controls and tests of details, and
 - ▶ evaluating the results from the sample.

Population

- Population refers to the entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.
- **Characteristics:**
 - ▶ Appropriateness
 - ▶ Completeness
 - ▶ Reliable







Sample Design

When designing an audit sample:

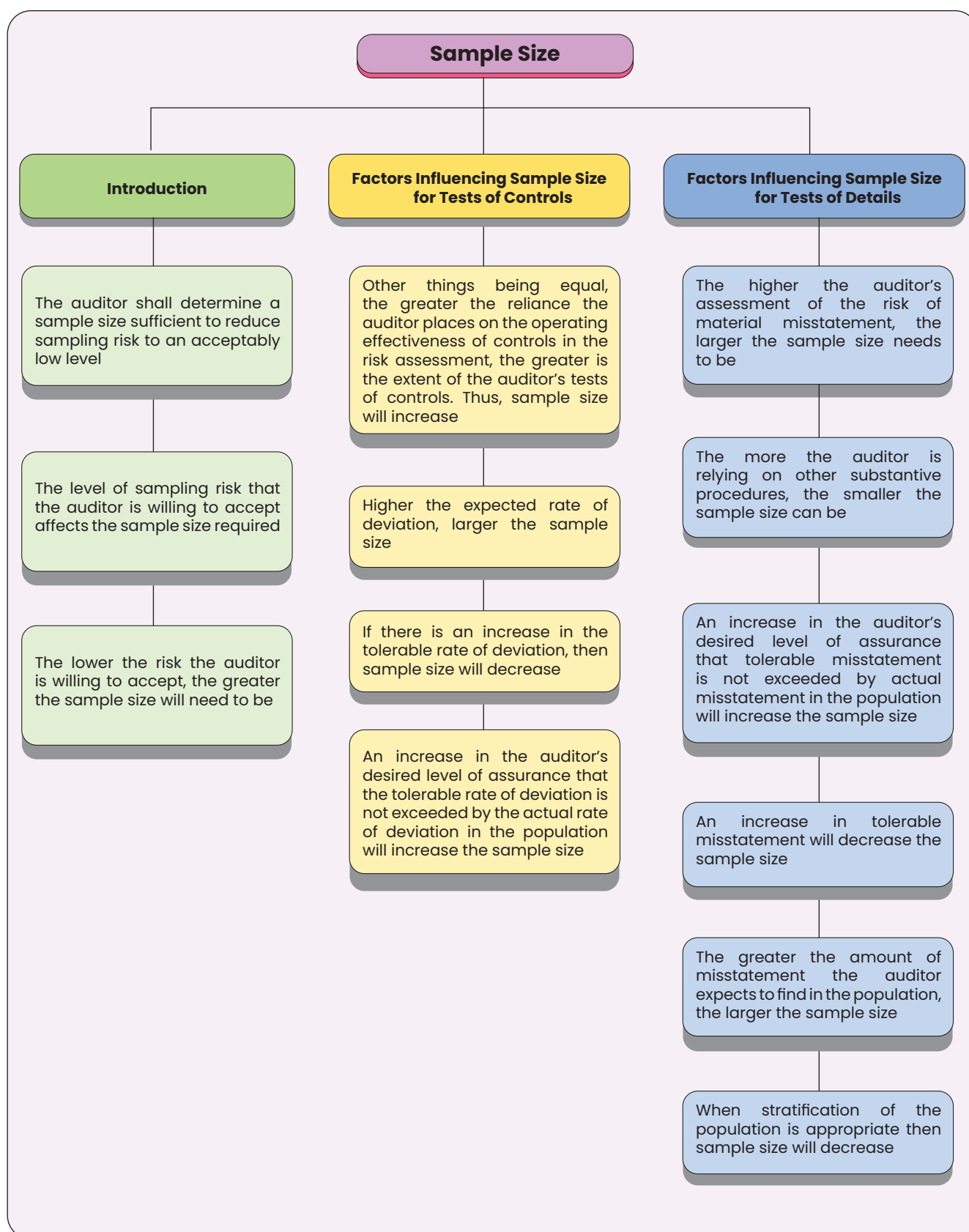
- Auditor's consideration includes the specific purpose to be achieved and the combination of audit procedures that is likely to best achieve that purpose
- Consideration of nature of the audit evidence sought and possible deviation or misstatement conditions

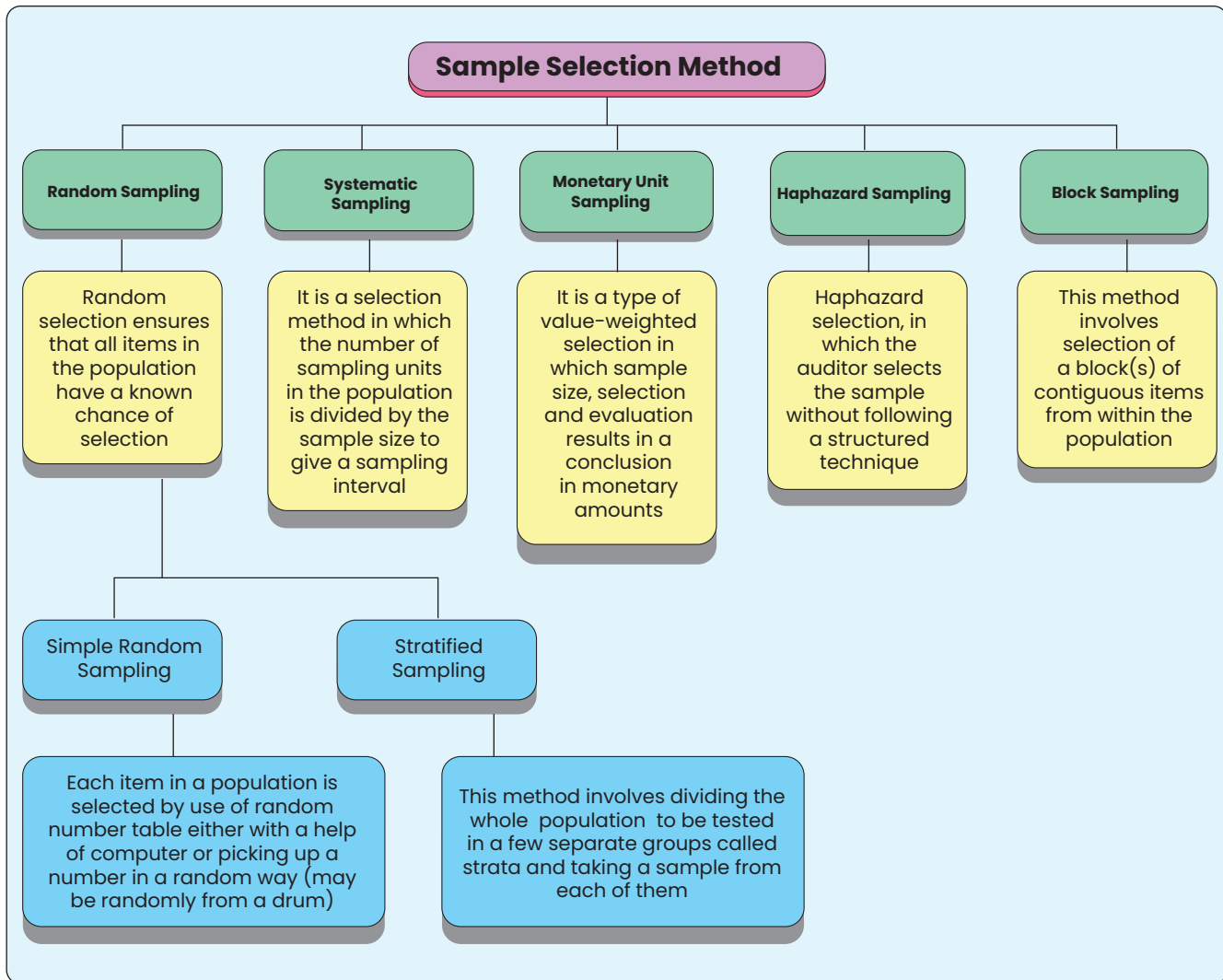
Stratification and Value-Weighted Selection

- Stratification: Dividing a population into discrete sub population which have identifying characteristics
- The results of audit procedures applied to a sample of items within a stratum can only be projected to the items that make up that stratum
- To draw a conclusion on entire population, the auditor will need to consider ROMM in relation to whatever other strata make up the entire population

Value-Weighted Selection

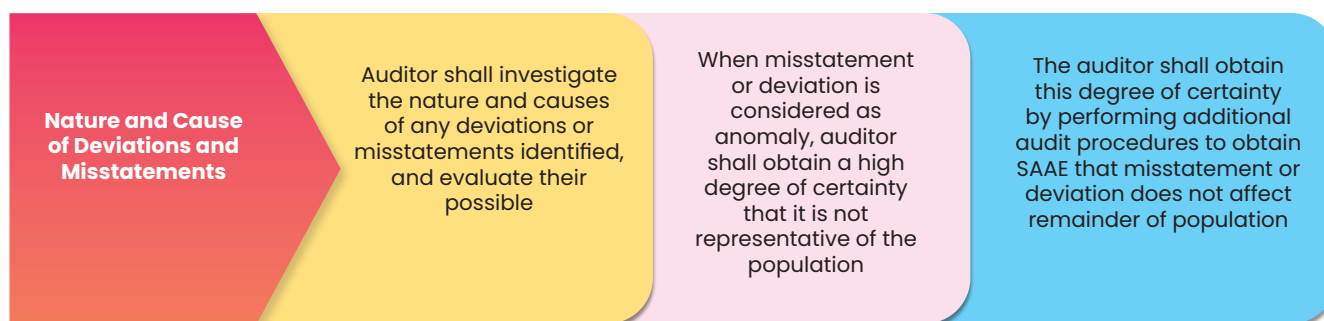
- When performing tests of details, it may be efficient to identify sampling unit as the individual monetary units that make up the population
- In value weighted selection, the sample size, its selection and evaluation will result in a conclusion in monetary amounts





Performing Audit Procedures

- Auditor shall perform audit procedures, appropriate to purpose, on each item selected
- If the audit procedure is not applicable to selected item, auditor shall perform procedure on a replacement item
- If the auditor is unable to apply designed audit procedures, auditor shall treat that item as a deviation from prescribed control



- 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 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; and
 - Whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested

Audit Evidence-Specific Considerations For Selected Items (SA 501)

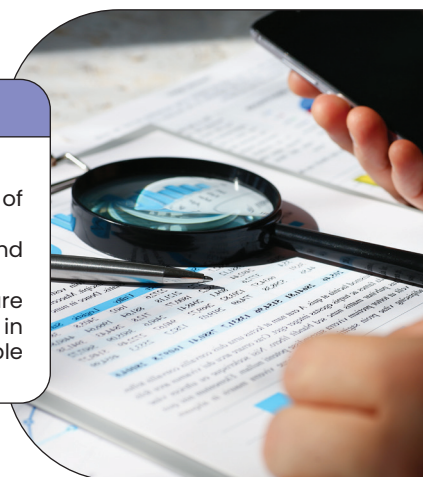
Meaning

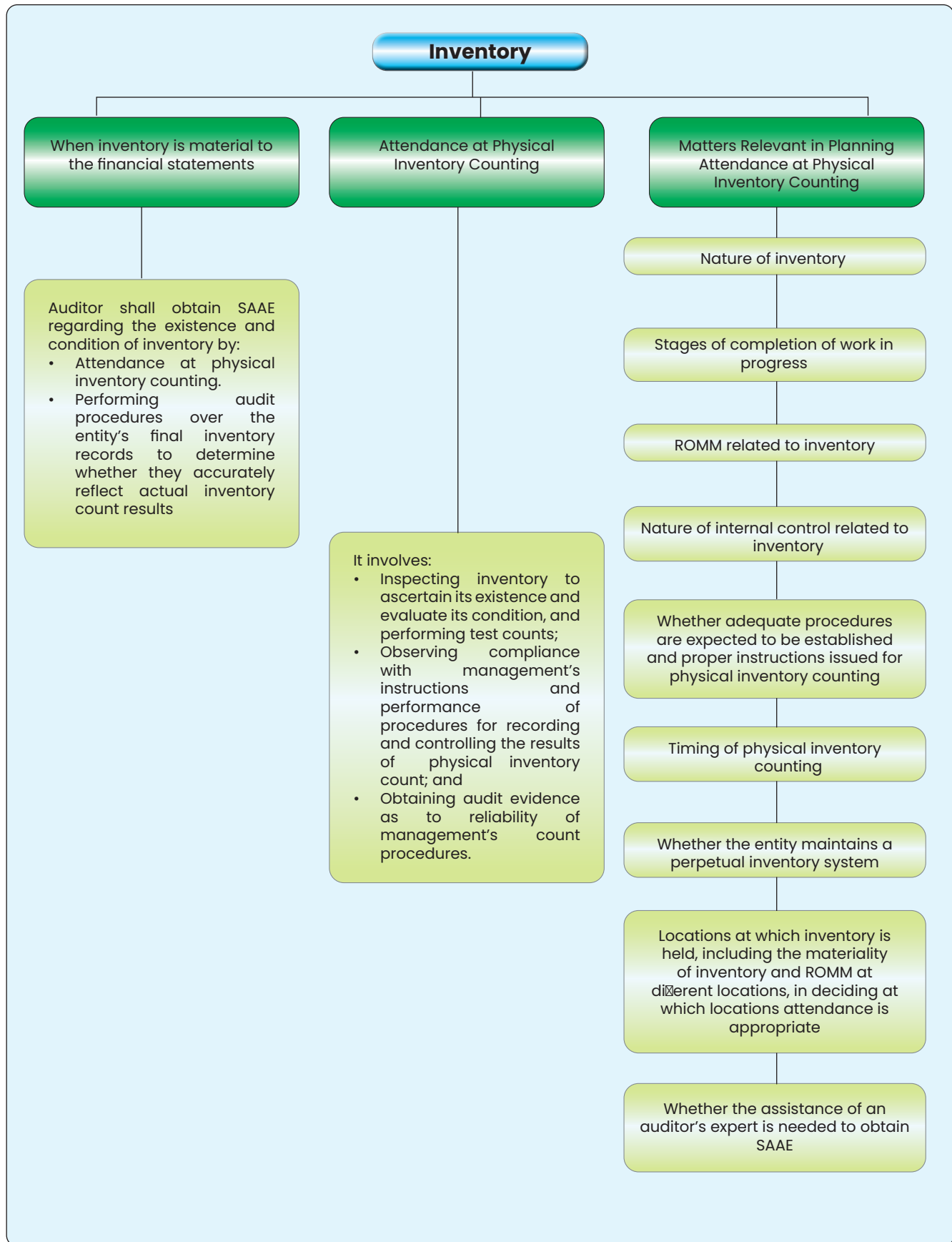
SA 501 deals with specific considerations by auditor in obtaining SAAE with respect to certain aspects of inventory, litigation and claims involving the entity, and segment information in an audit of financial statements

Objective of the Auditor

To obtain SAAE regarding:

- Existence and condition of inventory;
- Completeness of litigation and claims involving the entity; and
- Presentation and disclosure of segment information in accordance with the applicable FRF





Physical Inventory Counting Conducted other than at the Date of the Financial Statements

- Perform audit procedures to obtain audit evidence about whether changes in inventory between the count date and the date of the financial statements are properly recorded

Auditor unable to Attend Physical Inventory Counting due to Unforeseen Circumstances

- Auditor shall make or observe some physical counts on an alternative date, and perform audit procedures on intervening transactions

Attendance at Physical Inventory Counting becomes impractical

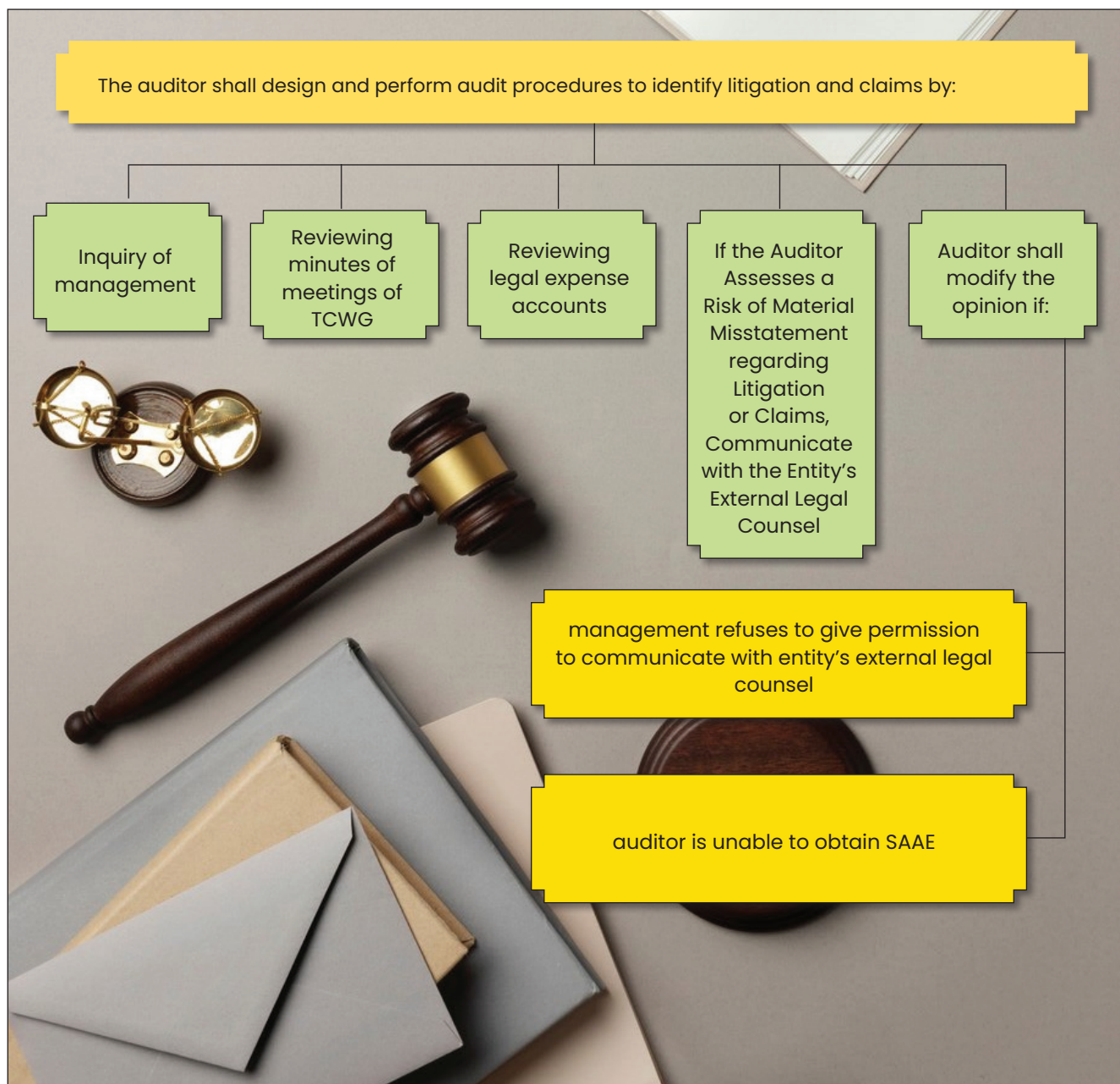
- Auditor shall perform alternative audit procedures to obtain SAAE regarding the existence and condition of inventory
- If it is not possible to do so, the auditor shall modify the opinion in the auditor's report in accordance with SA 705

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

- Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity
- Perform inspection or other audit procedures appropriate in the circumstances



Litigation and Claims

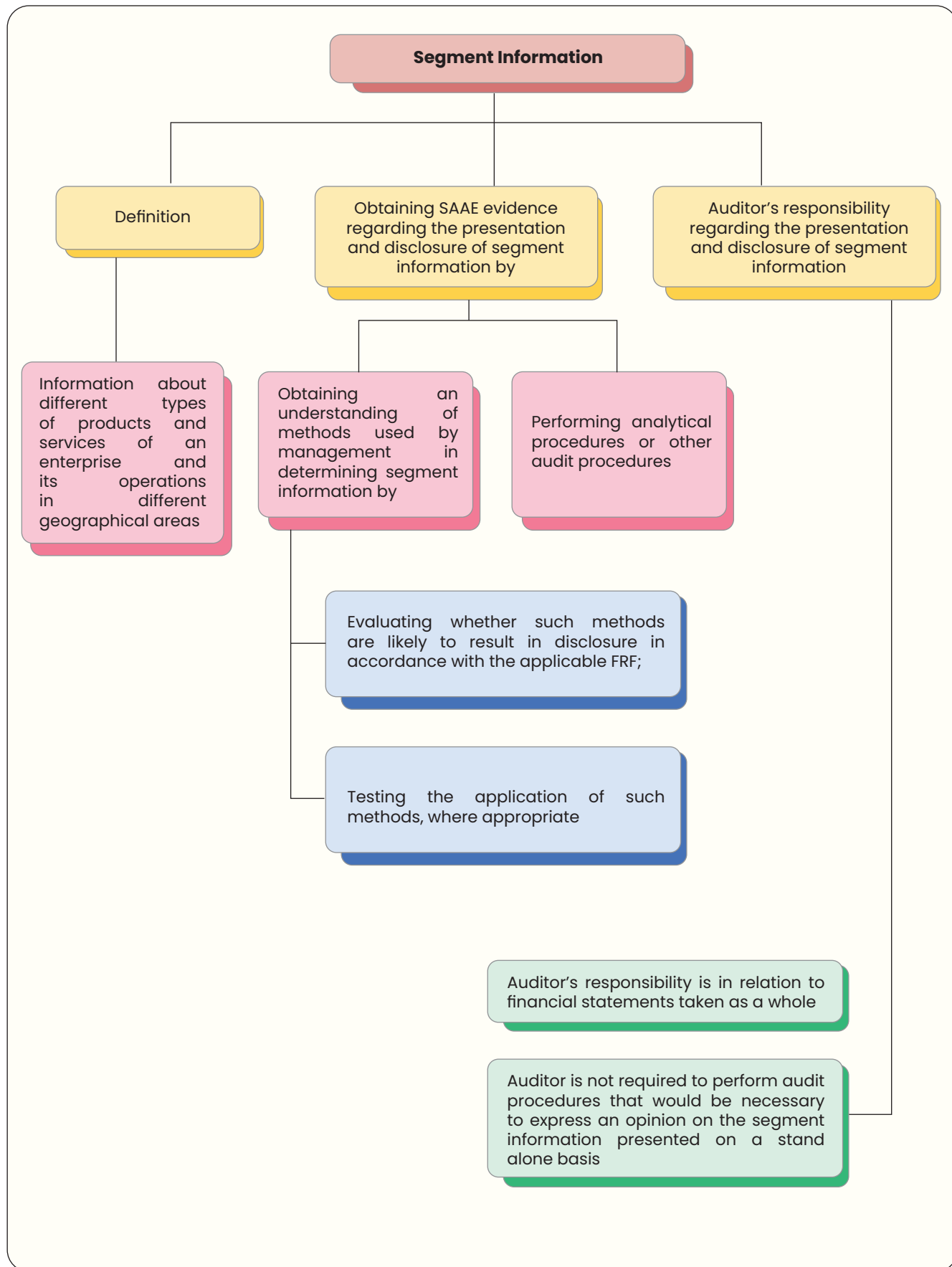


Cases where auditor also may judge it necessary to meet with the entity's external legal counsel

The auditor determines that matter is a significant risk

The matter is complex

There is disagreement between management and the entity's external legal counsel

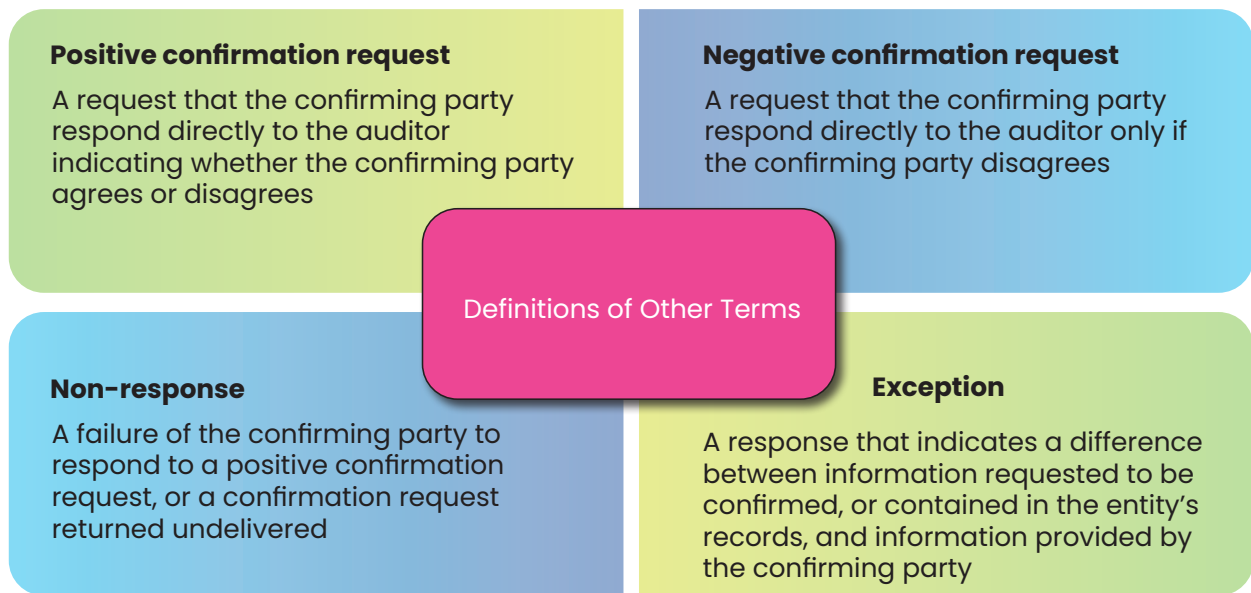


External Confirmations (SA 505)

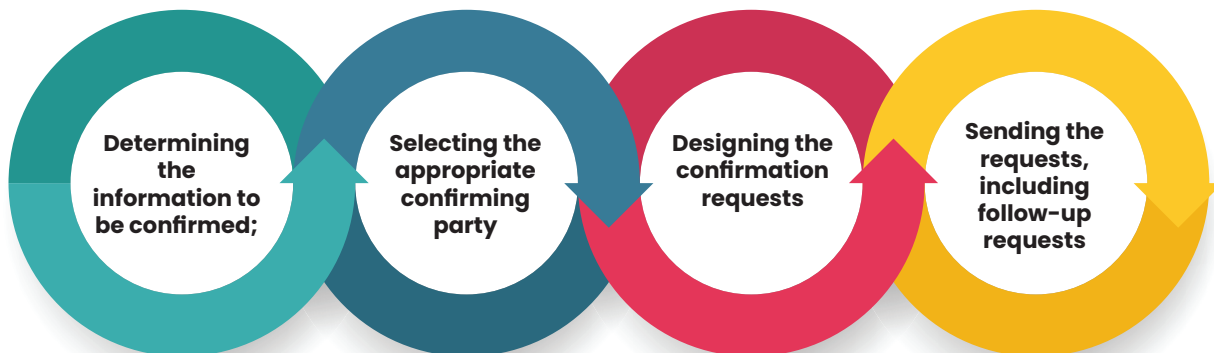
Definition of External Confirmation



Definitions of Other Terms



External Confirmation Procedures adopted by the Auditor to Obtain Audit Evidence



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



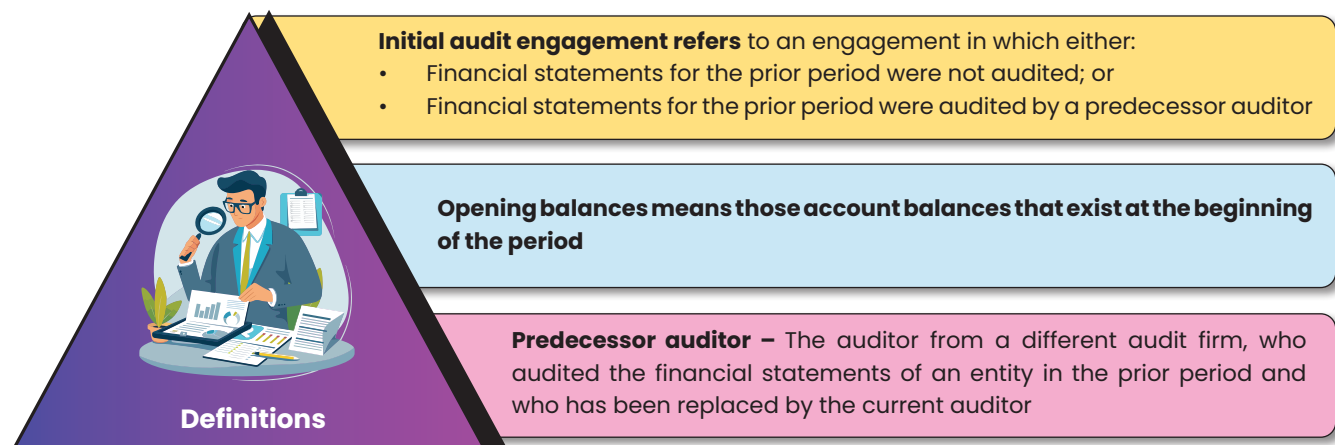
Negative Confirmations

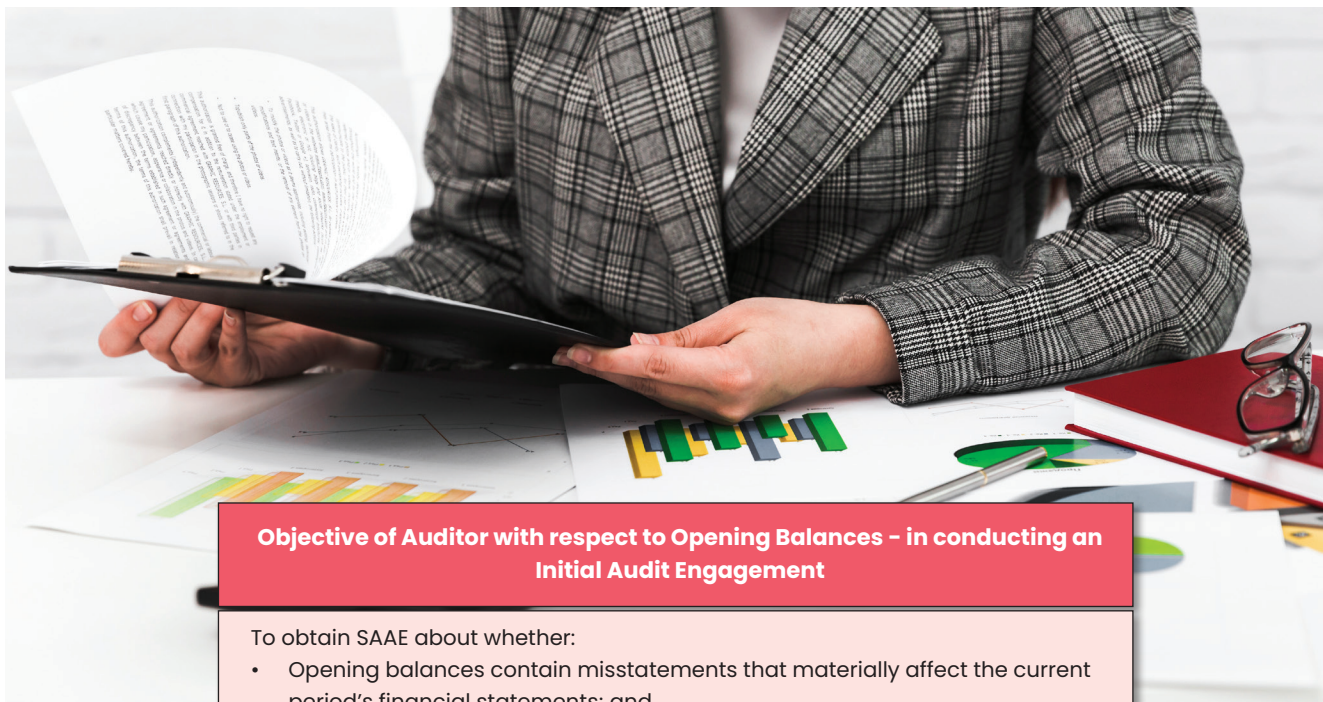
Provide less persuasive audit evidence than positive confirmations.

Auditor shall use negative confirmation requests when:

- Auditor has assessed the ROMM as low and has obtained SAAE regarding the operating effectiveness of controls
- Population of items comprises a large number of small, homogeneous, account balances, transactions or conditions
- A very low exception rate is expected
- Auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests

Initial Audit Engagements – Opening Balances (SA 510)





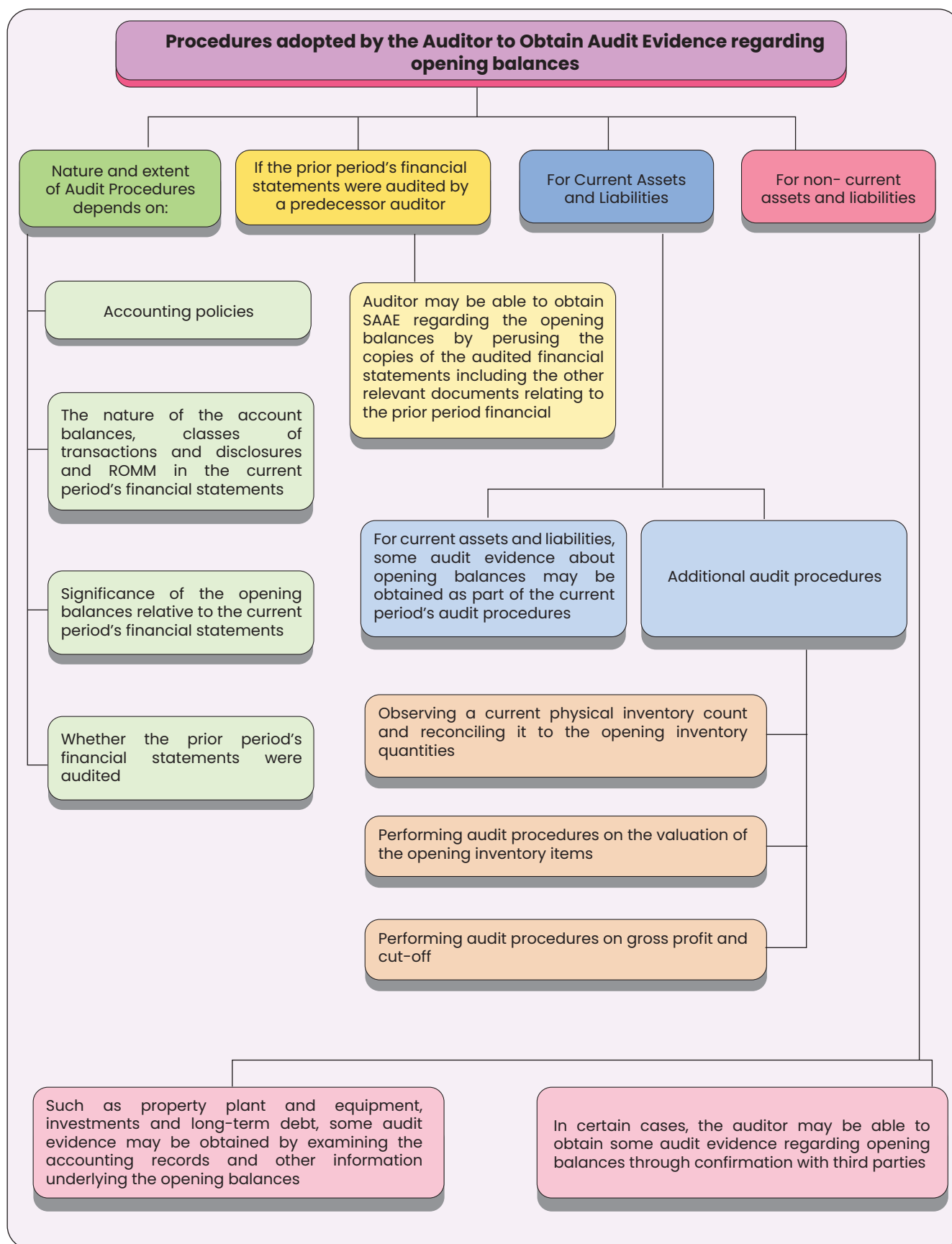
Objective of Auditor with respect to Opening Balances – in conducting an Initial Audit Engagement

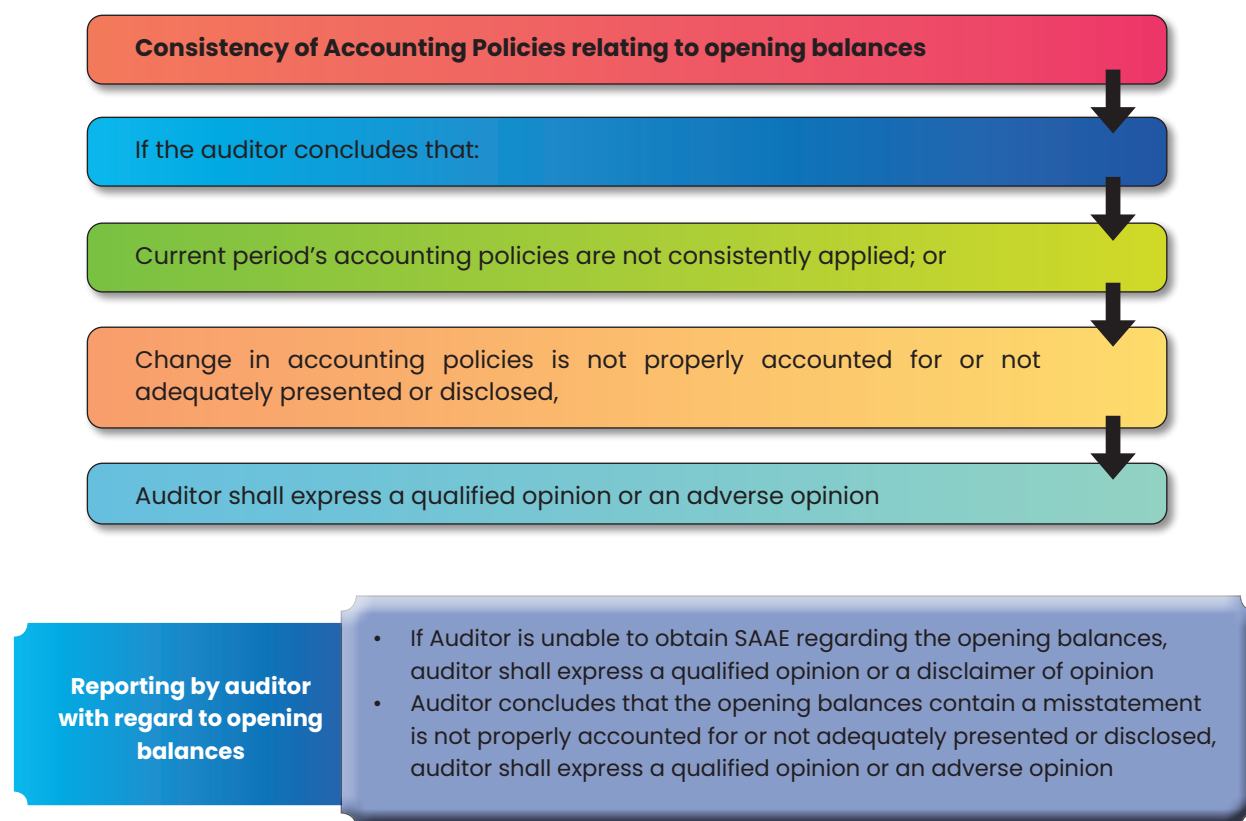
To obtain SAAE about whether:

- Opening balances contain misstatements that materially affect the current period's financial statements; and
- Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately presented and disclosed

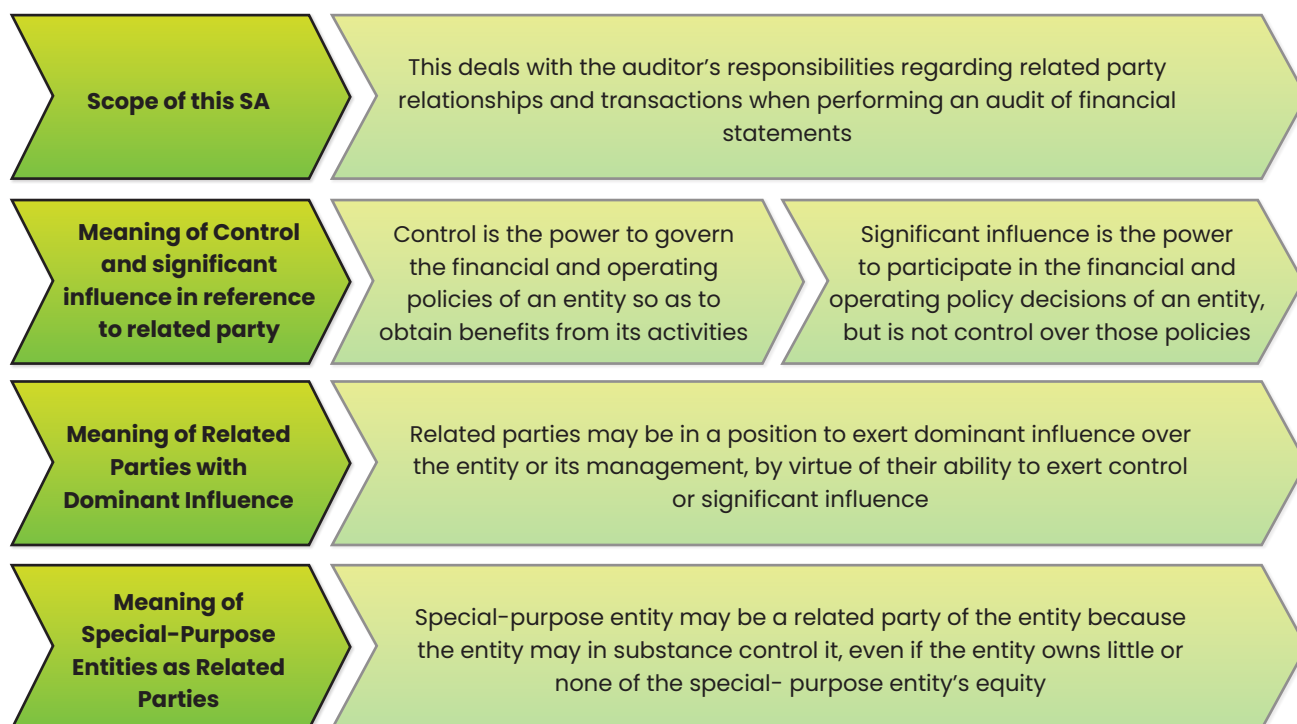
Auditor shall obtain SAAE about opening balances by:

- 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 financial statements were audited, perusing the copies of the audited financial statements
 - Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances; or
 - Performing specific audit procedures to obtain evidence regarding the opening balances





Related Parties (SA 550)



Nature of Related Party Relationships and Transactions

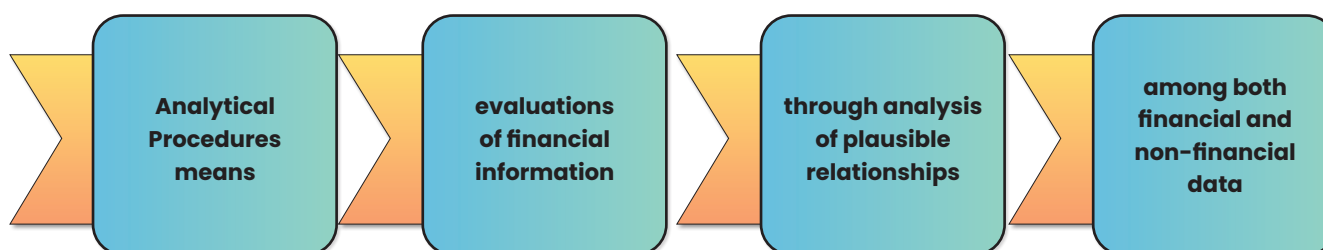
- Related party transactions may carry no higher ROMM of financial statements than similar transactions with unrelated parties
- Nature of related party relationships and transactions give rise to higher ROMM of financial statements than transactions with unrelated parties

Understanding the Entity's Related Party Relationships & Transactions

- The auditor shall inquire of management and perform other risk assessment procedures, to obtain an understanding of controls, if any, that management has established to -
 - Identify, account for, and disclose related party relationships and transactions in accordance with the applicable FRF;
 - Authorise and approve significant transactions and arrangements with related parties; and
 - Authorise and approve significant transactions and arrangements outside the normal course of business

Analytical Procedures (SA520)

Meaning

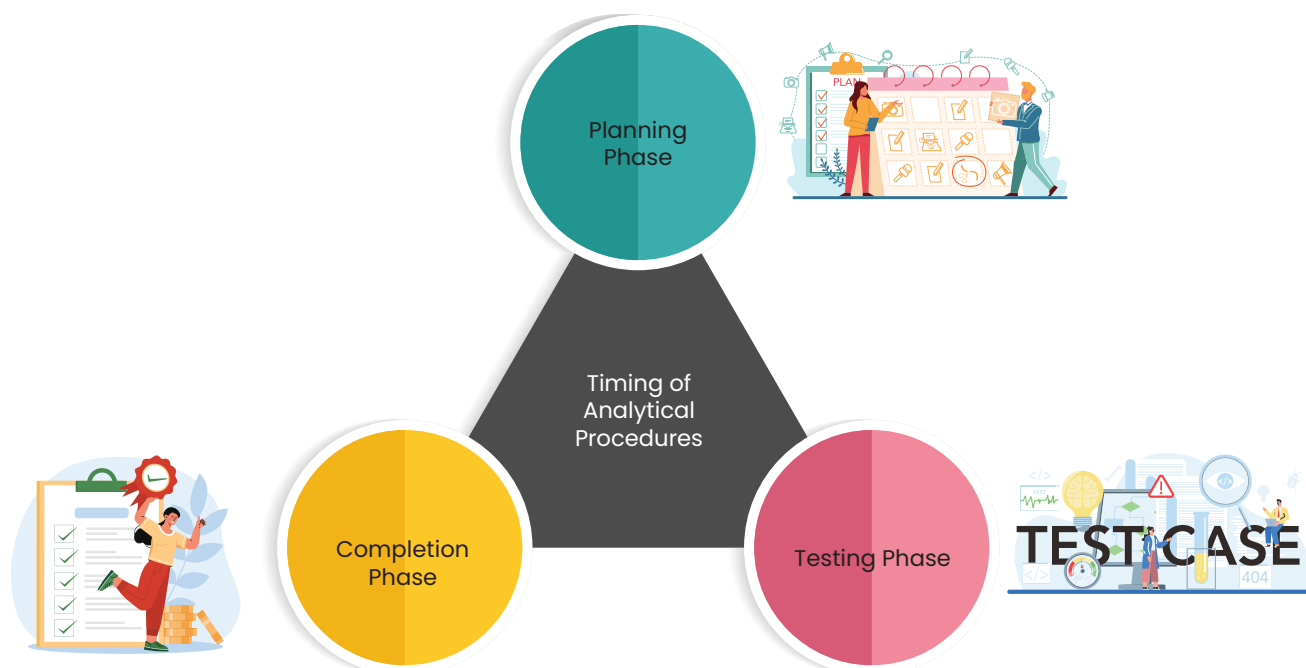


Scope of SA 520

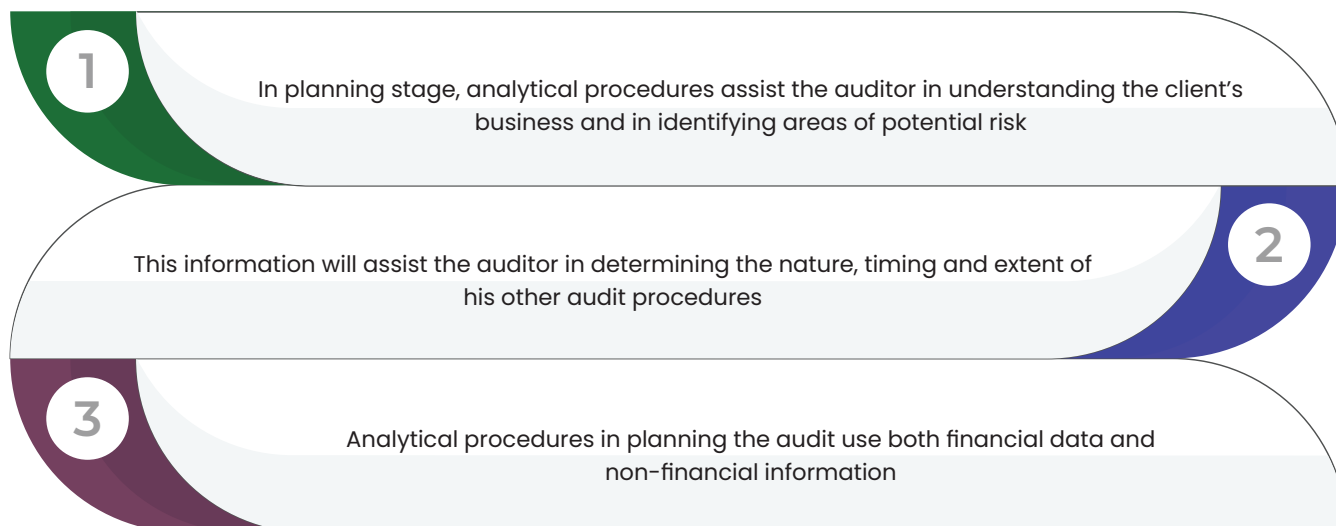
- This SA deals with the auditor's use of analytical procedures as substantive procedures and as procedures near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements

Objectives of the auditor

- To obtain relevant and reliable audit evidence when using substantive analytical procedures
- To design and perform analytical procedures near the end of the audit



Analytical Procedures in Planning the Audit



Substantive Analytical Procedures

The auditor's substantive procedures at the assertion level may be tests of details, substantive analytical procedures, or a combination of both

The decision about which audit procedures to perform, including whether to use substantive analytical procedures, is based on the auditor's judgment about the expected effectiveness and efficiency of audit procedures to reduce audit risk at the assertion level to an acceptably low level

Factors to be considered for Substantive Audit Procedures

Availability of Data

Availability of reliable and relevant data will facilitate effective analytical procedures

Degree of disaggregation in available data can directly affect the degree of its usefulness in detecting misstatements

Disaggregation

Account type

Substantive analytical procedures are more useful for certain types of accounts than for others

- Some classes of transactions tend to be more predictable because they consist of numerous, similar transactions
- Whereas the transactions recorded by non-routine and estimation SCOTs (Significant Classes of Transactions) are often subject to management judgment and therefore more difficult to predict

Source

Predictability

Substantive analytical procedures are more appropriate when an account balance or relationships between items of data are predictable

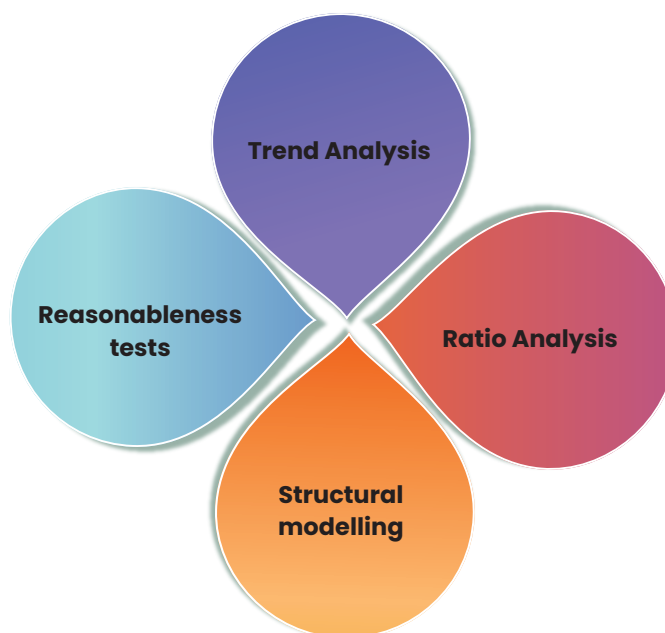
Substantive analytical procedures may be more effective in providing evidence for some assertions (e.g., completeness or valuation) than for others (e.g., rights and obligations)

Nature of Assertion

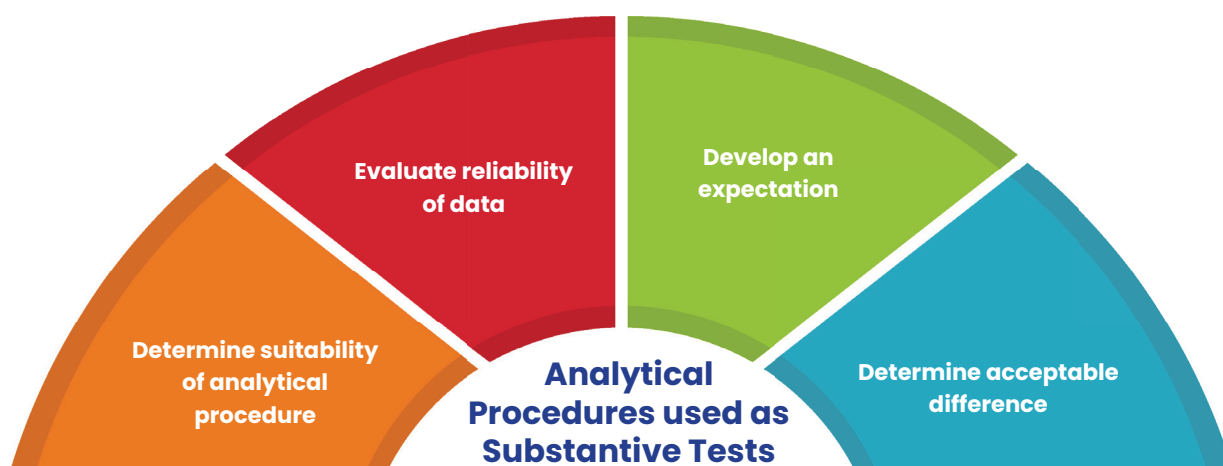
Inherent Risk or "What can go Wrong"

In this factor we consider the nature of the risk of material misstatement in order to determine if a substantive analytical procedure can be used to obtain audit evidence

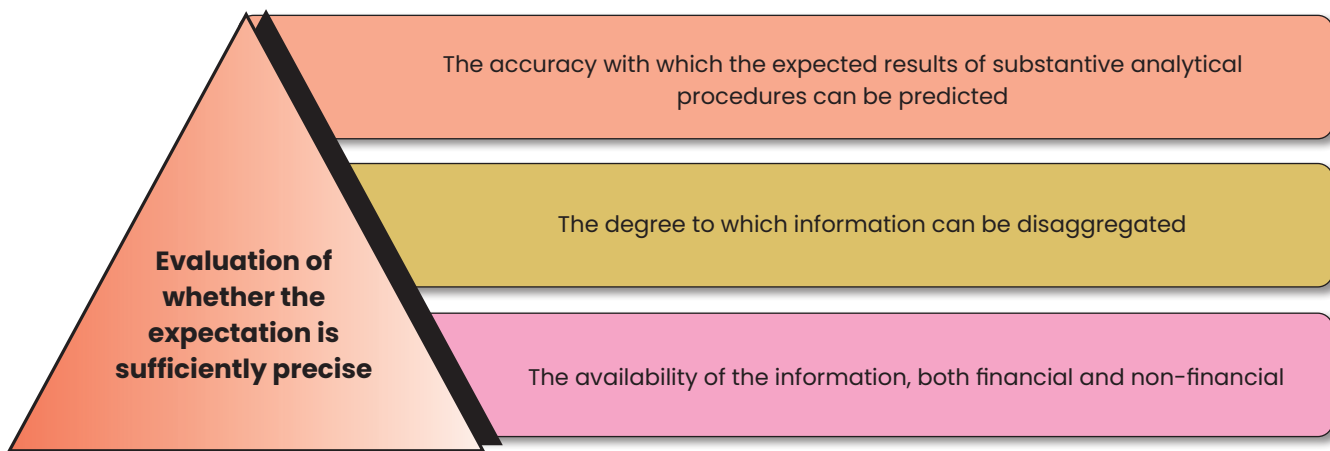
Techniques Available as Substantive Analytical Procedures



Trend analysis:	Ratio analysis:	Reasonableness tests :	Structural modelling:
It is a technique used in comparing current data with the prior period balance or with a trend in two or more prior period balances	It analysis is useful for analysing asset and liability accounts as well as revenue and expense accounts	It does not rely on events of prior periods, but upon non-financial data for the audit period under consideration	A modelling tool constructs a statistical model from financial and/or non-financial data of prior accounting periods to predict current account balances

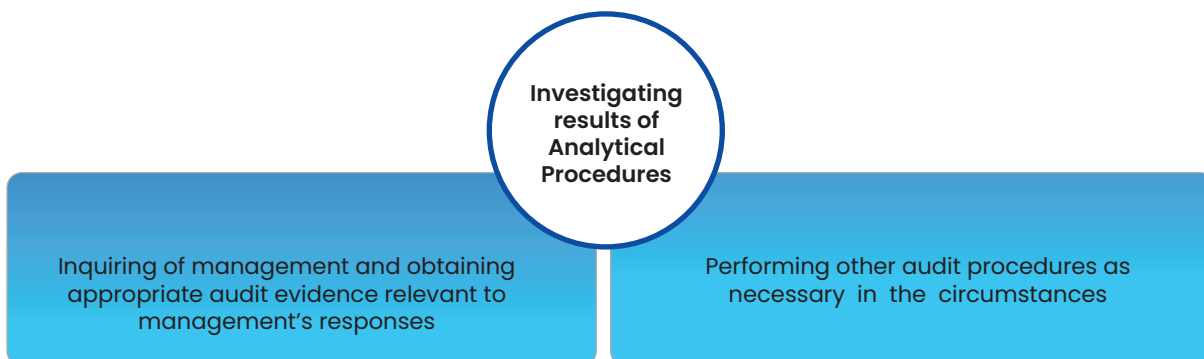


The reliability of DATA is influenced by:

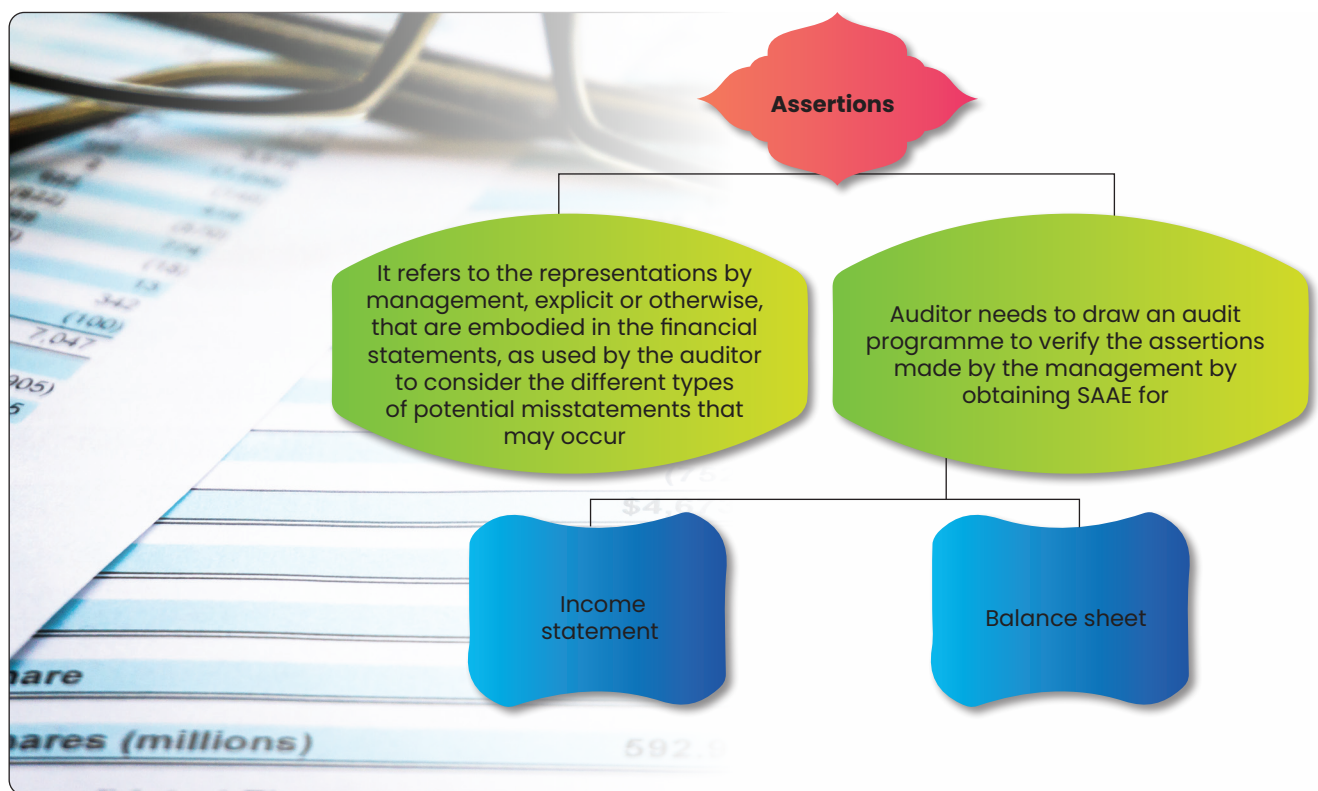


Amount of difference of recorded amounts from expected values that is acceptable

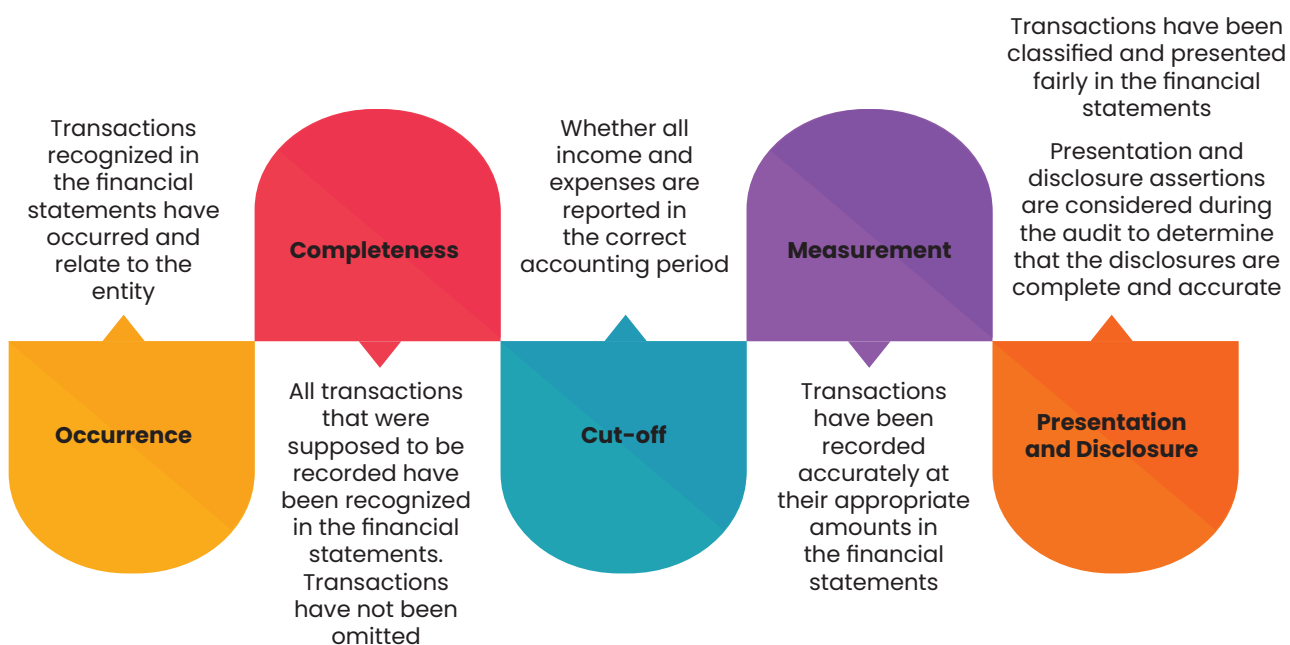
As the assessed risk increases, the amount of difference considered acceptable without investigation decreases in order to achieve the desired level of persuasive evidence.



Chapter 5: Audit of Items of Financial Statements



Income Statement Captions Comprising Revenue and Expense Balances

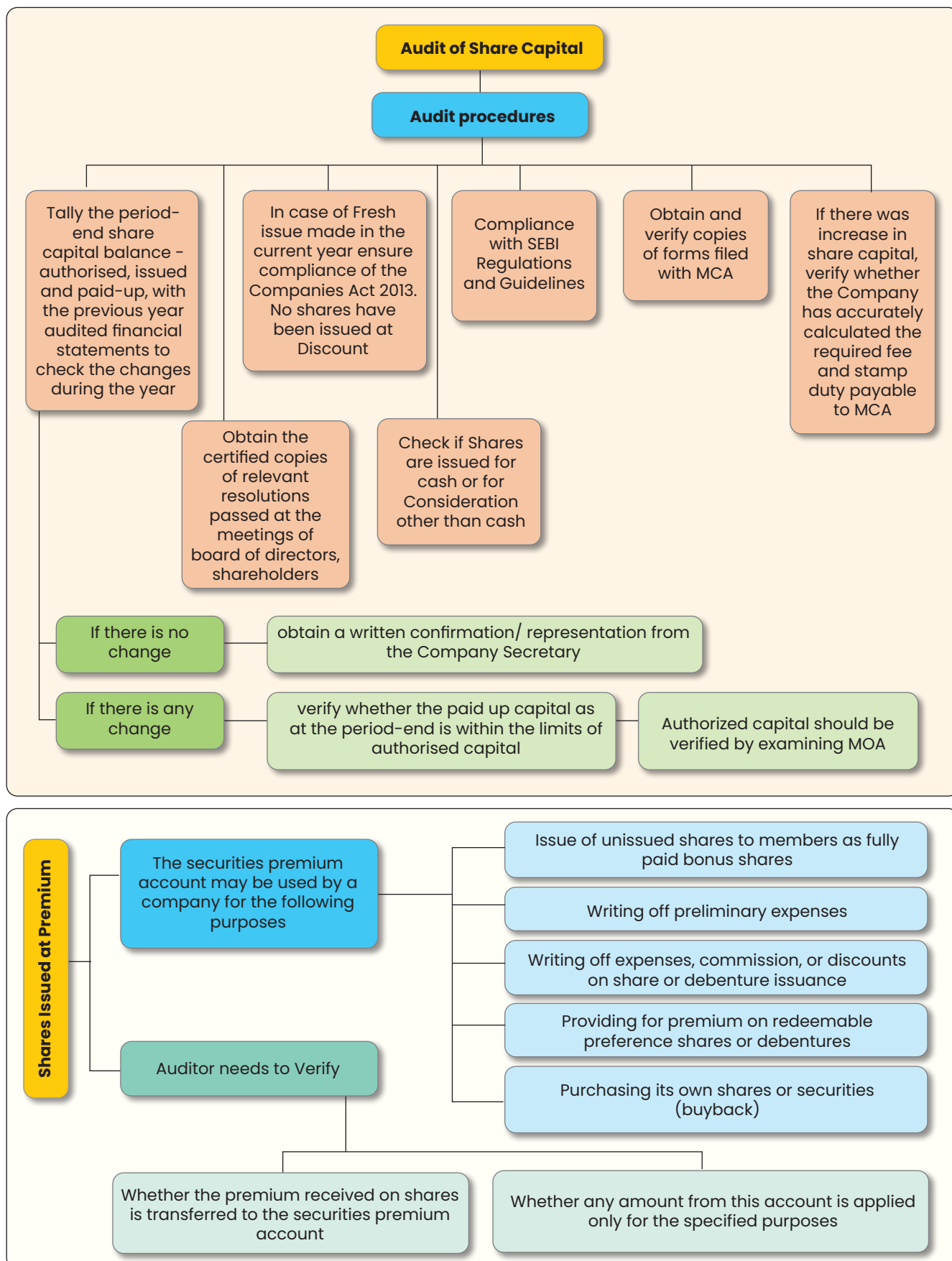


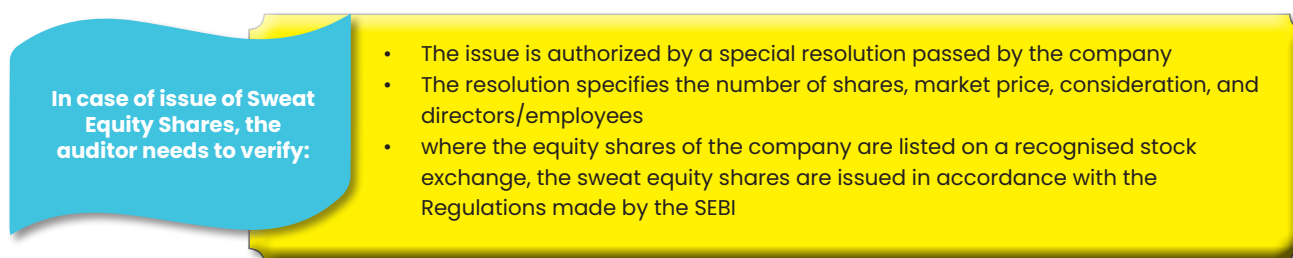
Balance Sheet Captions Comprising Assets, Liabilities and Equity Balances

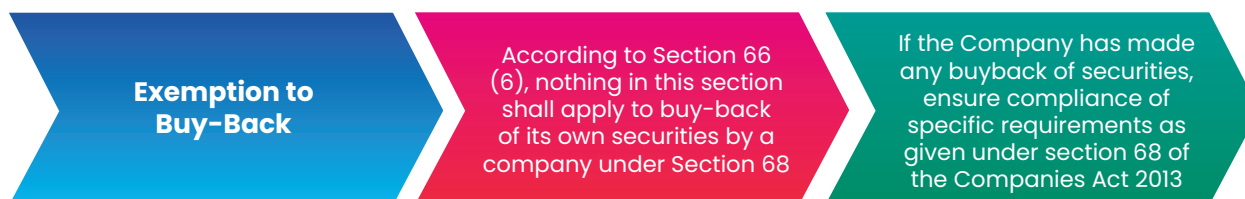
Existence	Assets, liabilities and equity balances exist as at the period end
Completeness	All assets, liabilities and equity balances that were supposed to be recorded have been recognized in the financial statements
Cut-off	Whether all assets and liabilities are reported in the appropriate period
Valuation	Assets, liabilities and equity balances have been valued appropriately i.e. the amounts at which they are recorded are appropriate
Rights & Obligations	Entity has the right to assets and the liabilities recognized in the financial statements represent all the entity's obligations to repayment as at a given date
Presentation and Disclosure	<p>Whether particular items in the financial statements are properly classified, described and disclosed</p> <p>The disclosures that are most susceptible to material misstatement are those that require significant judgement and qualitative assessments</p>



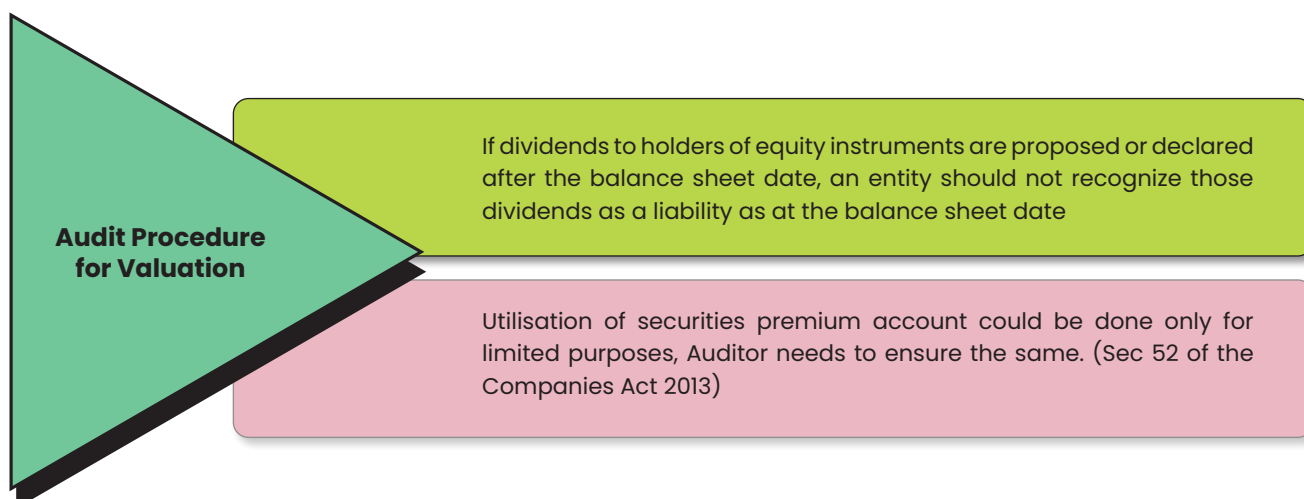
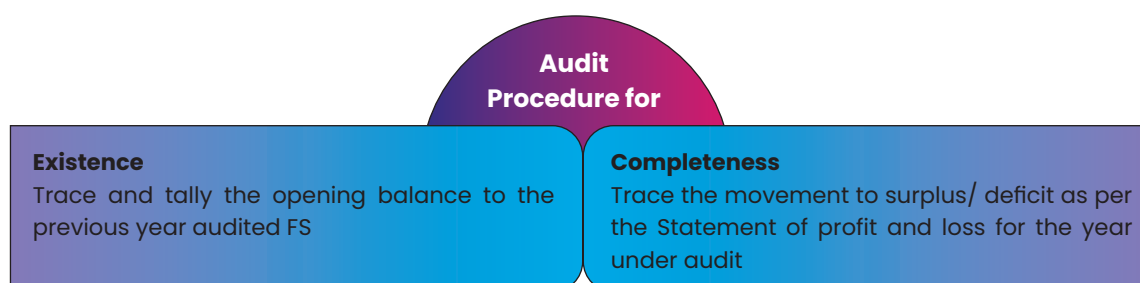
Balance Sheet Captions

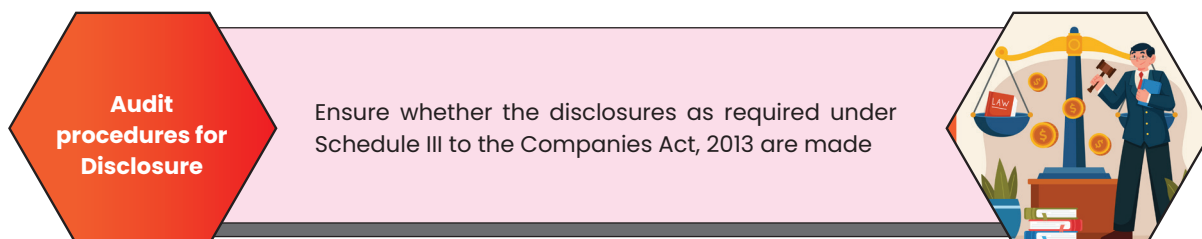




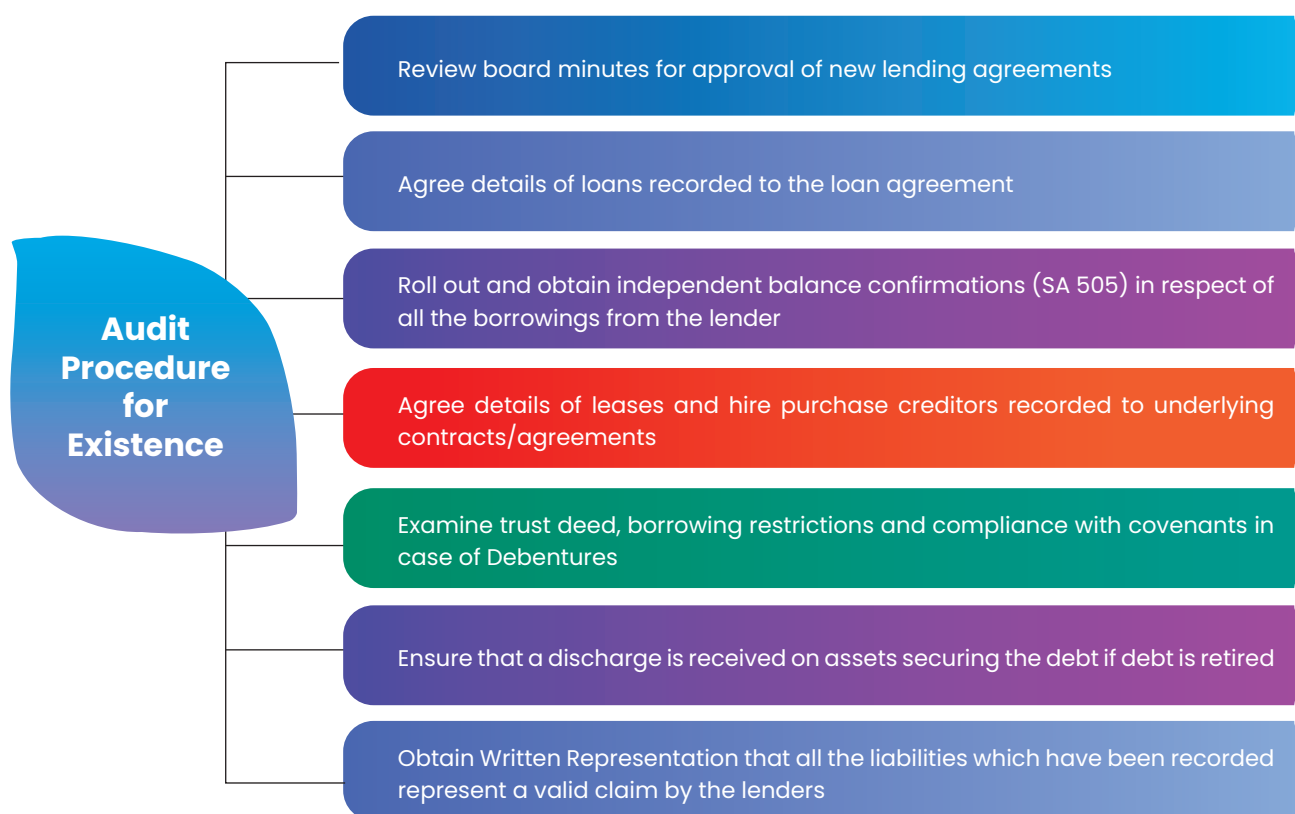


Reserves and Surplus

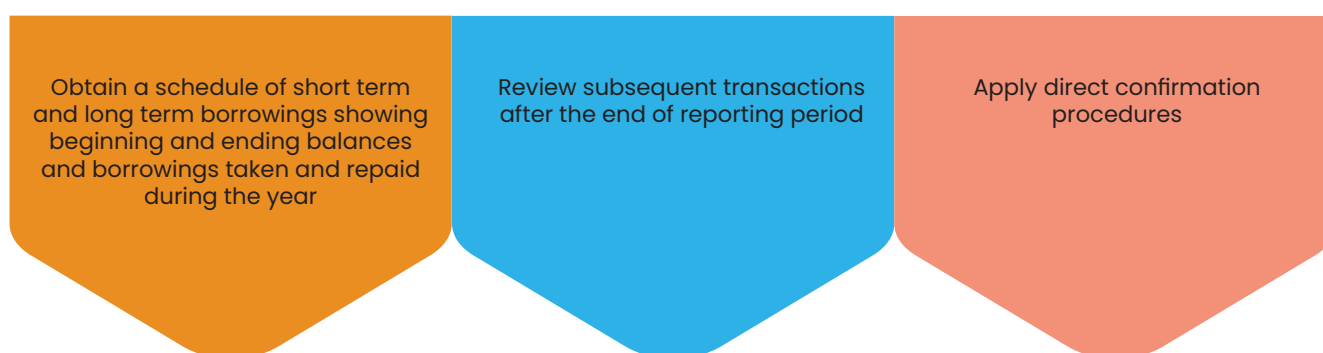




Borrowings



Audit Procedure for Completeness



Audit Procedure for Valuation

Determine that accounting policies and methods of recording debt are appropriate and applied consistently

Agree loan balance and loan payables to the loan agreement

Recompute the interest and discount or premium on redemption, if any

Check computation of the amortization of premium or discount, if any

Check the closing exchange rate(s) used For foreign currency loans

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

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

Examine the debt agreements for any restrictive covenants

Examine the important terms in the loan agreements and the documents, if any, evidencing charge in respect of such loans and advances

If value of the security falls below the amount of loan outstanding, examine whether the loan is classified as secured only to the extent of market value of the security

Examine the hire purchase agreements for the purchase of assets by the entity

Review the borrowings from related parties are in 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 the amount borrowed is within the borrowing powers of the company

Verify that the company has not contravened the restrictions laid down by Section 180 of the Companies Act, in respect of the borrowings of the company

Examine the purpose for which the amount is borrowed

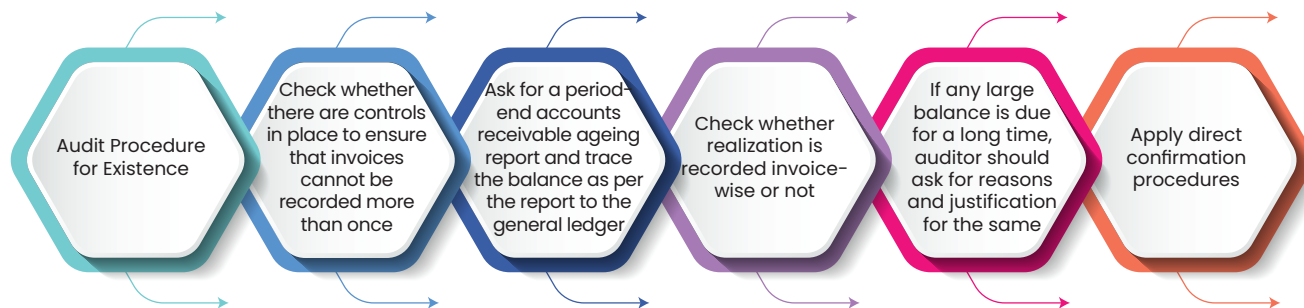
Where the entity has accepted deposits, examine whether the directives issued by the RBI or other appropriate authority have been complied with

Audit procedures for Disclosure

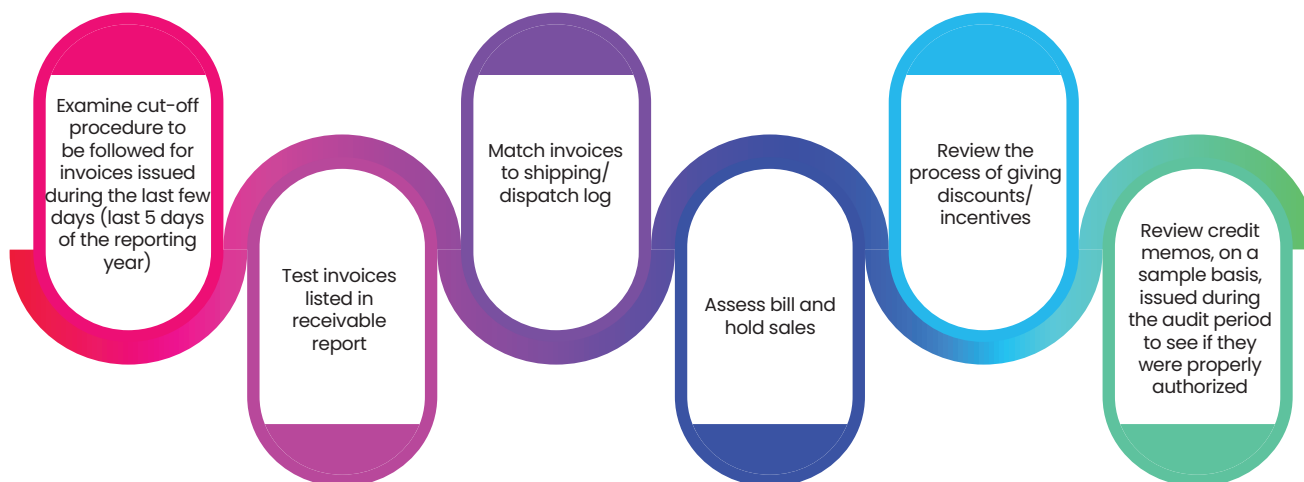
Ensure whether the disclosures as required under Schedule III to the Companies Act, 2013 are made



Trade Receivables



Audit Procedure for Completeness



Audit Procedure for Valuation

- Review the process followed by the Company to derive an allowance for doubtful accounts
- Obtain the ageing report of accounts receivable (both Dr/Cr balance)
- Obtain the list of debtors under litigation and compare with previous year
- Check if provisions are made at appropriate rates considering the recoverability of amounts due
- Check that write-offs of the receivable balances have been approved by an appropriate authority
- 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
- 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

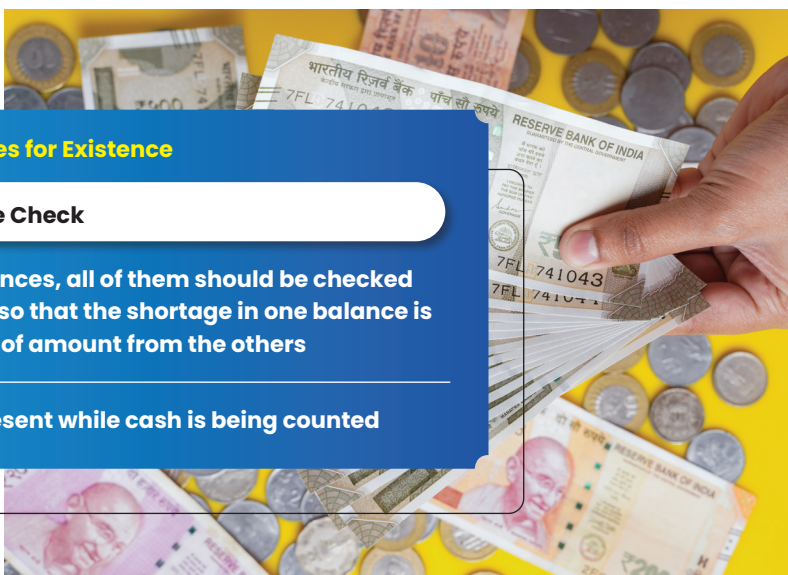
Audit procedures for Disclosure

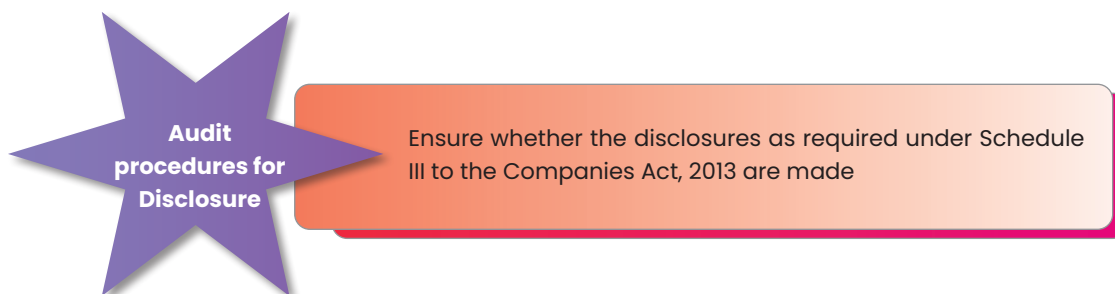
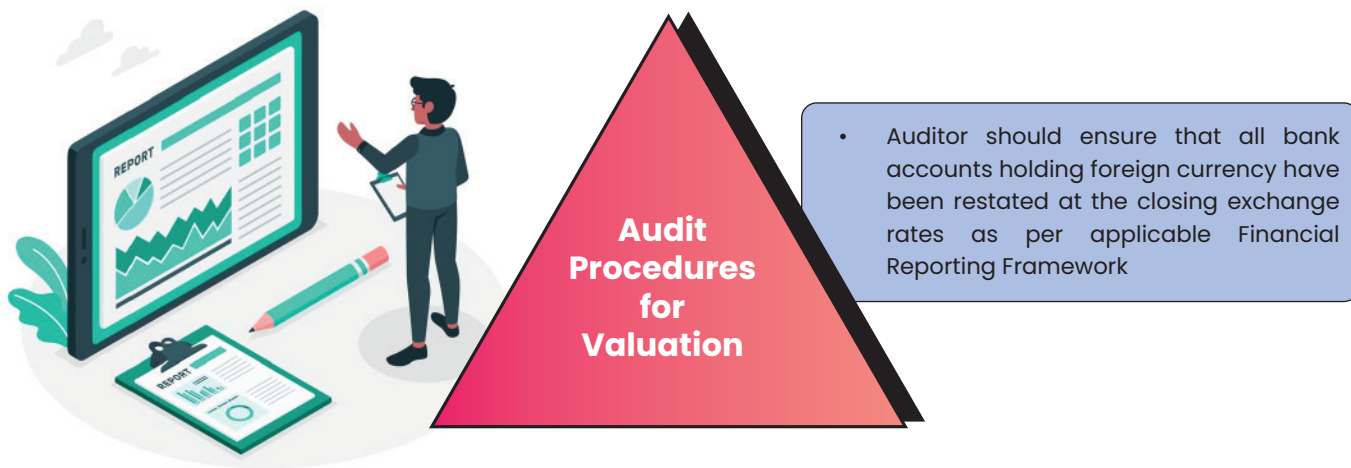
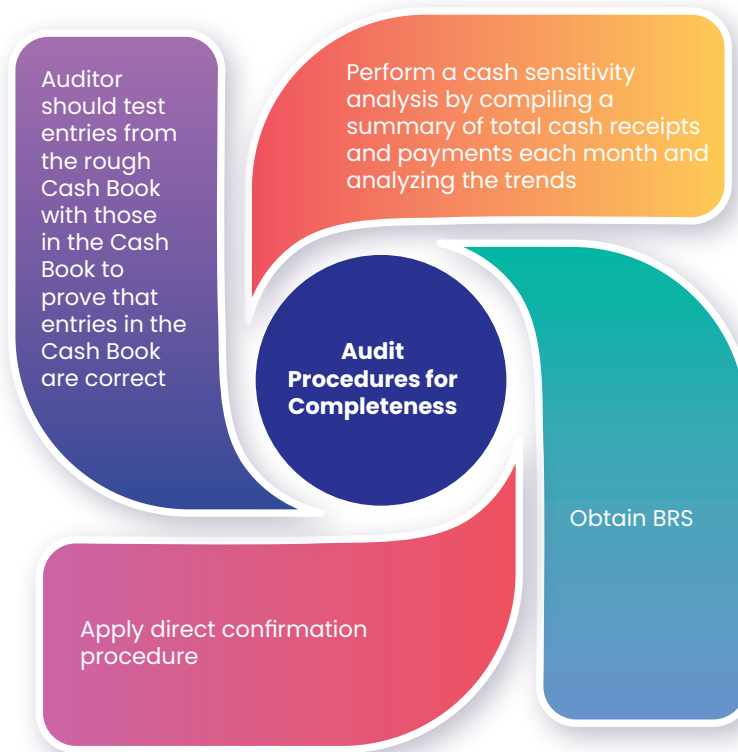
Ensure whether the disclosures as required under Schedule III to the Companies Act, 2013 are made

Cash and Cash Equivalents**Audit Procedures for Existence****Surprise Check**

If there are more than one cash balances, all of them should be checked simultaneously, as far as practicable so that the shortage in one balance is not made good by transfer of amount from the others

Desirable for the cashier to be present while cash is being counted





Inventories

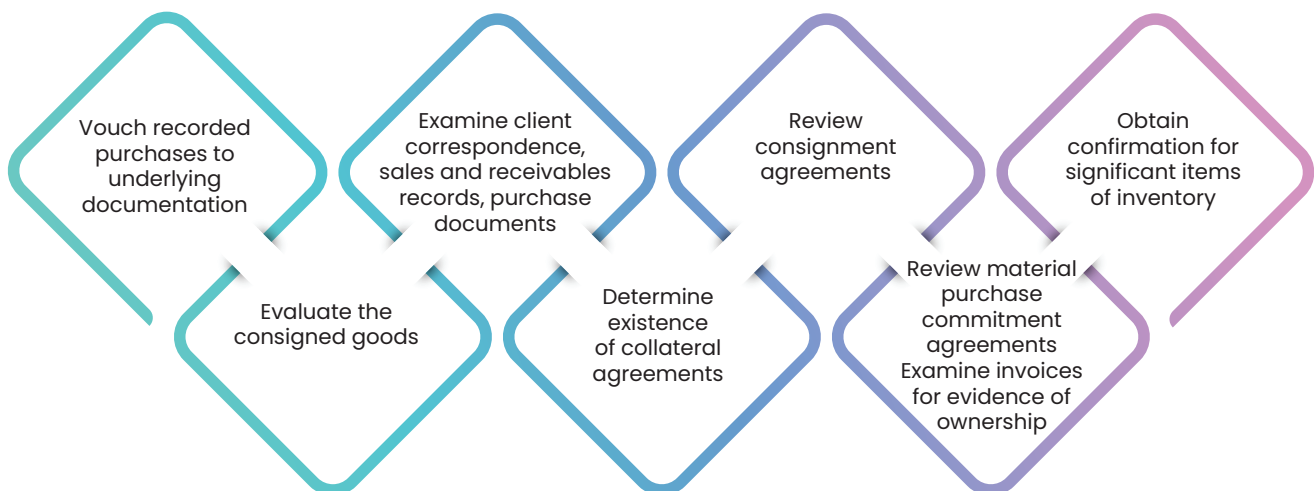
Audit procedures for Existence

- Review entity's plan for performing inventory count
- Ensure that consigned goods have been segregated
- To participate in the inventory count with the management
- Confirm or investigate any inventory of the entity lying with a third party
- Performing cut-off testing by documenting last 5-10 receiving reports and shipping documents as of the period end
- Ensuring that all stock sheets are accounted for

Audit procedures for Completeness

- Perform analytical procedures
- Examine non-financial information related to inventory, such as weights and other measurements
- Perform purchase and sales cut-off tests
- 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
- Reconcile physical counts with general ledger control totals
- Reconcile inventories which belong to client but are held with third parties like transporters
- Goods received on consignment basis have been properly segregated from other items of inventory

Audit procedures for Rights & Obligations



Audit procedures for Valuation

Management may value inventory using FIFO or weighted average basis

Raw materials & Consumables

- Ascertain what elements of cost are included
- If standard costs are used, enquire into basis of standards
- 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

Work in progress

- Ascertain how the various stages of production/ value additions are measured
- Ascertain what elements of cost are included
- Ensure that material costs exclude any abnormal wastage factors

Finished goods & Goods for Resale

- Enquire as to what costs are included
- Ensure that inventories are valued at net realizable value if they are likely to fetch a value lower than their cost

Audit procedures for Disclosure

Ensure whether the disclosures as required under Schedule III to the Companies Act, 2013 are made



Property, Plant and Equipment (PPE)

It includes Land, Building, Plant & Equipment, Furniture & Fixtures, Vehicles, Office Equipment, Computers etc

Audit procedures for Existence

- Review entity's plan for performing physical verification of PPE
- Obtain PPE physical verification report backed by the working sheets from the entity
- Examine evidence of appropriate supervision of those performing physical verification of PPE

Audit procedures for Completeness

Verify the movement in the PPE schedule compiled by the management i.e. **Opening balances + Additions during the period – Deletions during the period = Closing balances**

Check arithmetical accuracy of movement in PPE schedule

Verify that the cost of an item of PPE is as per AS 10 (Revised)

Ensure that management has accurately recorded the deletion of PPE and the resultant gain/ loss on disposal of PPE item in the entity's books of account

Audit Procedure for Valuation

- Verify entity has charged depreciation on all items of PPE
- Assess that depreciation method used reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity
- Check whether management has done an impairment assessment to determine whether an item of PPE is impaired as per the requirements of AS 28



Audit Procedure for Rights and Obligations

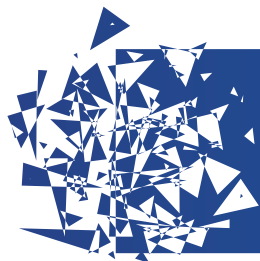
Verify that all PPE purchase invoices are in the name of the entity that entitles legal title of ownership

Check the conveyance deed/ sale deed for all additions to land and building to verify whether the entity is the Legal & Valid owners or not

Auditor should insist and verify the original title deeds for all immoveable properties

The auditor should request the entity's management for obtaining a confirmation from the respective lenders that they are holding the original title deeds of immoveable property as security if entity has given such immoveable property as security for any borrowings and original title deeds are not available

Verify the register of charges, available with the entity to assess that any charge has been created against the PPE



Audit Procedures for Disclosure

Ensure whether the disclosures as required under Schedule III to the Companies Act, 2013 are made

Intangible Assets



Audit procedures for Existence

Auditor should verify whether intangible asset is in active use in the production or supply of goods or services, for rental to others or for administrative purposes

Audit procedures for Completeness

Verify the movement in the intangible assets schedule compiled by the management i.e. **Opening balances + Additions – Deletions = Closing balances**

Check the arithmetical accuracy of the movement in intangible assets schedule

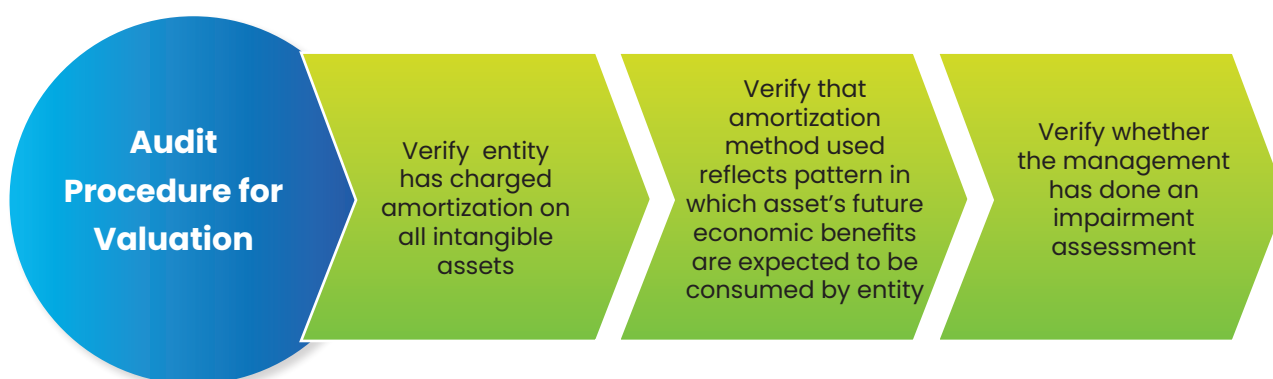
Verify whether such expenditure meets the criterion for recognition of an intangible asset as per AS 26 for all material additions

Verify that the management has accurately recorded the deletion of intangible asset and the resultant gain/ loss on disposal in the entity's books of account

Expenditure on research (or on the research phase of an internal project) should be recognised as an expense when it is incurred

Verify whether the additions (acquisitions) have been approved by appropriate entity's personnel

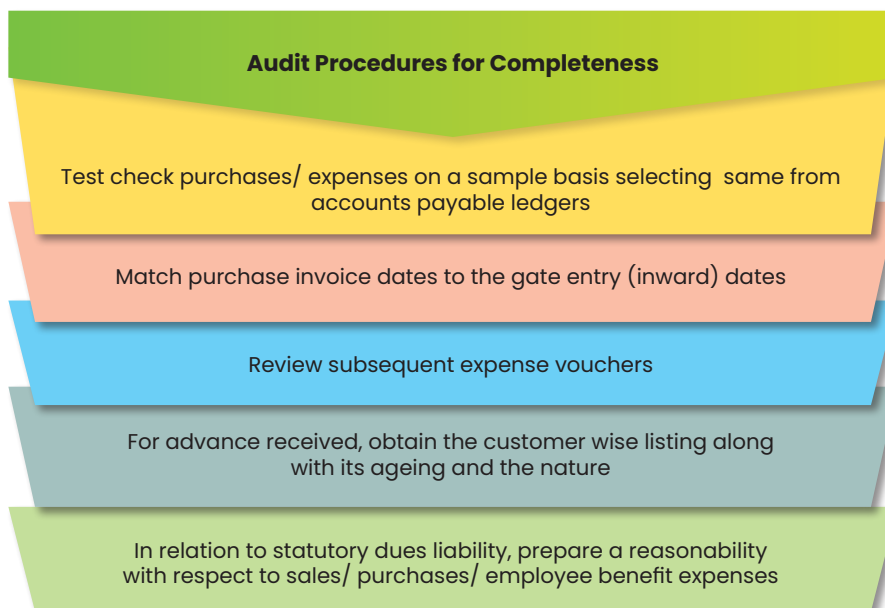
Verify whether proper internal processes and procedures were followed prior to finalizing the vendor for procuring item of intangible assets by testing those documents on a sample basis

**Audit Procedure for Rights and Obligations**

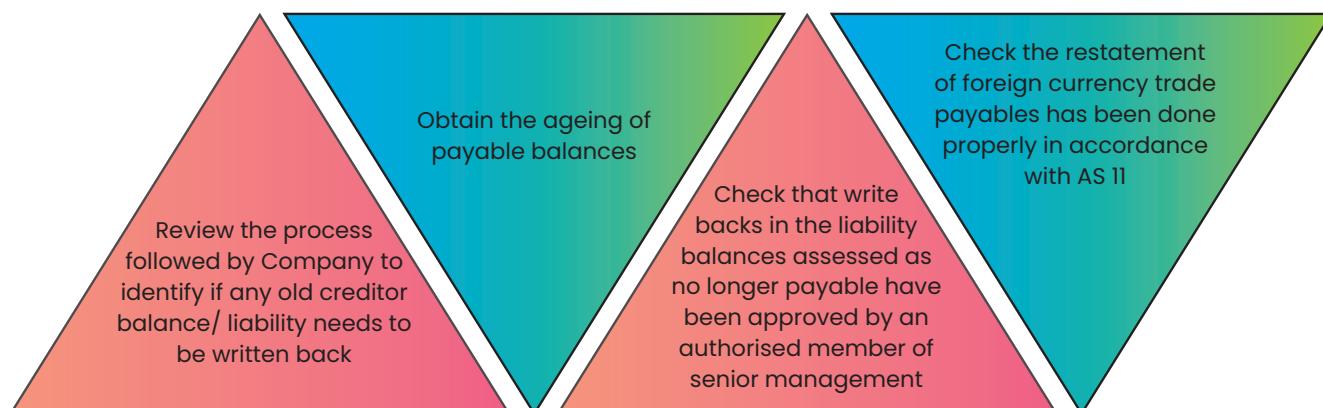
Verify that all expense invoices/ purchase contracts are in the name of the entity that entitles legal title of ownership to the entity



Trade Payables and Other Current Liabilities



Audit Procedures for Valuation



Audit Procedures for Disclosure

Ensure whether the disclosures as required under Schedule III to the Companies Act, 2013 are made

Loans and Advances and other Current Assets

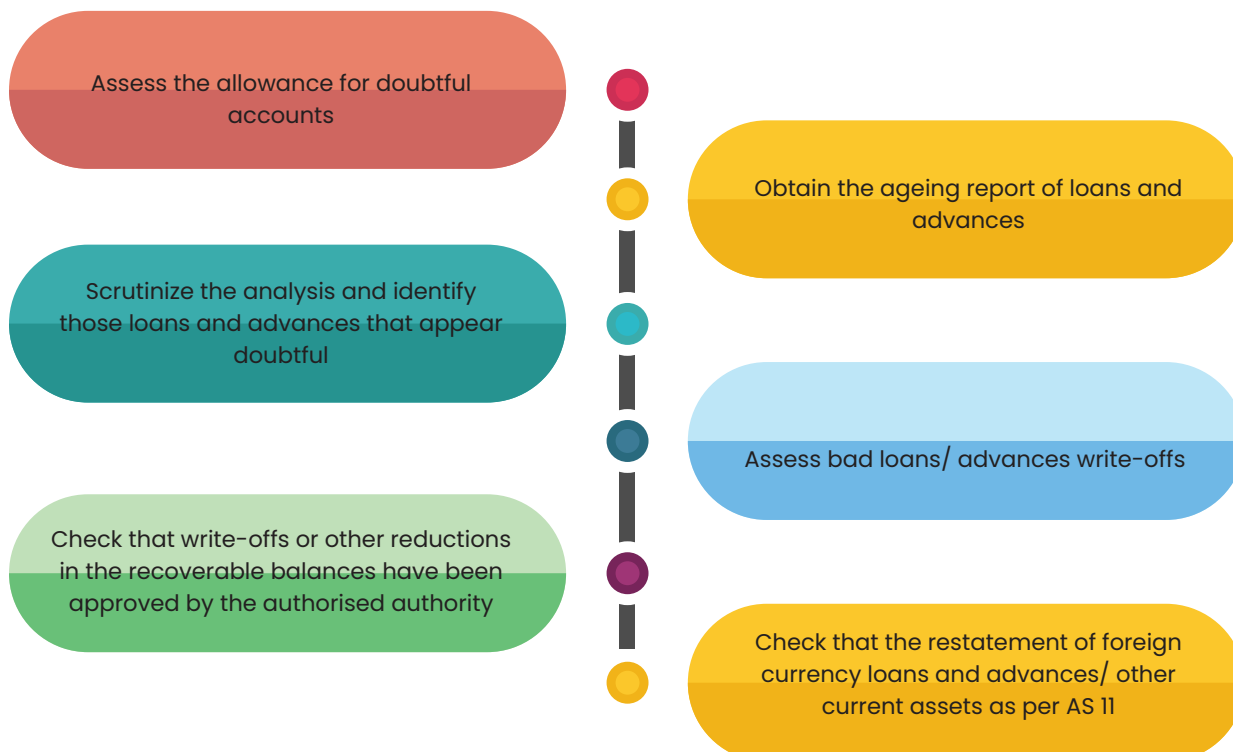


Audit Procedures for Existence

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



Audit Procedures for Valuation



Audit Procedures for Disclosure

Ensure whether the disclosures as required under Schedule III to the Companies Act, 2013 are made

Provisions and Contingent Liabilities**Audit Procedures for Existence**

Obtain a list of all provisions and compare them with balances in the ledger

Audit Procedure for Completeness

Inspect the underlying agreements like agreement with customers to assess warranty commitments, any legal and other claims on the entity i.e. litigations

**Audit Procedures for Valuation**

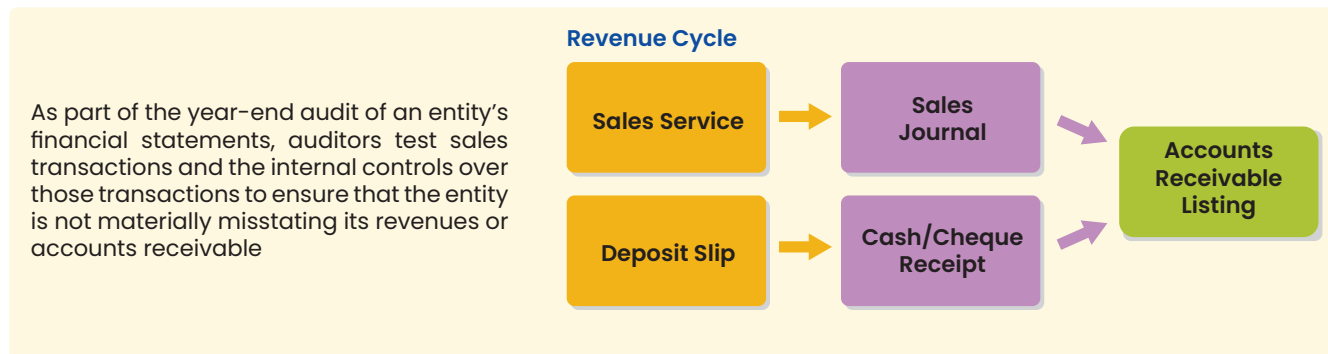
- Obtain the underlying working and the basis for each of the provisions made and verify whether the same is complete and accurate
- Obtain expert's report, calculation and underlying working for the provision amount

Audit Procedures for Disclosure

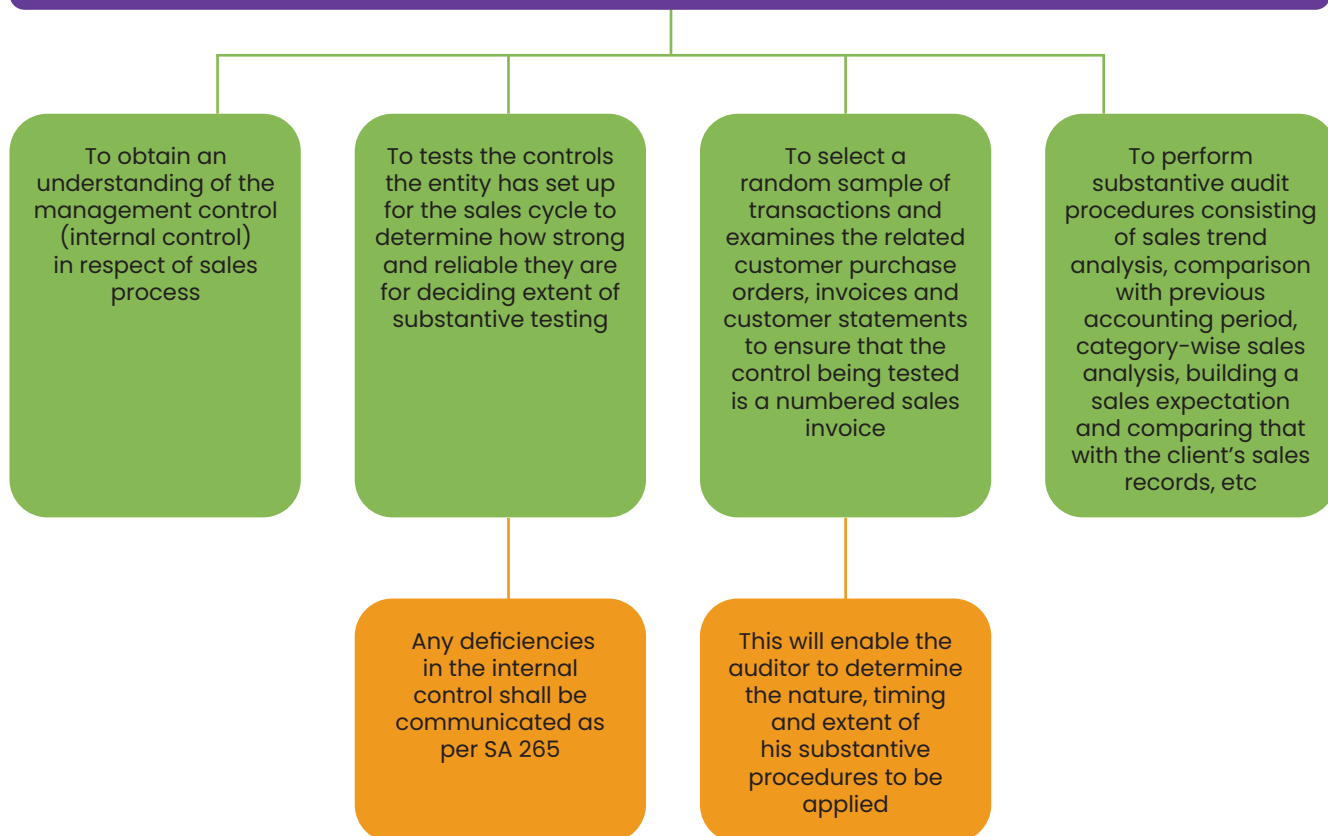
Ensure whether the disclosures as required under Schedule III to the Companies Act, 2013 are made

Statement of Profit and Loss- Captions

Sales of Products and Services



Auditor needs to obtain a clear understanding about the organisation and its revenue centres.

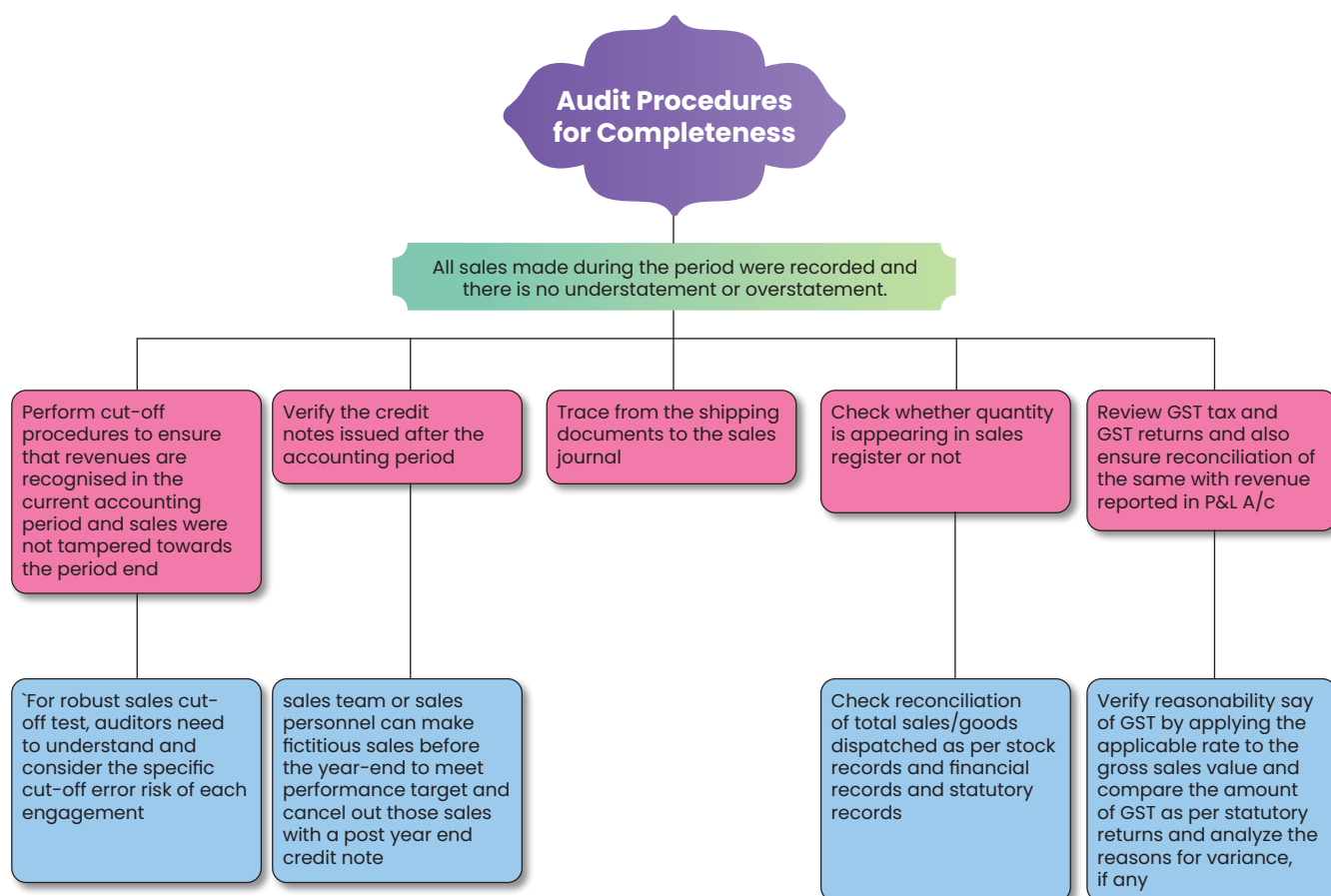


Audit Procedures for Occurrence

Recorded sales represent goods shipped/ services performed during the period

Ensure revenue is not overstated by :

- Checking whether a single sales invoice is recorded twice or cancelled sales invoice is 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
- Review sequence of sales invoices
- Review journal entries for unusual transactions
- Calculate the ratio of sales return to sales and compare it with previous year and enquire for the reasons for increase/ decrease
- Check the sales return with sales invoice, challan, credit note, stock register, etc



Audit Procedures for Measurement

All sales are accurately measured as per applicable accounting standards and correctly journalized, summarized, and posted

Trace a few transactions from inception to completion

if the client is engaged in export sales, then compliance with AS 11 shall be 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

Audit Procedures for Disclosure

Required DISCLOSURE for sales have been appropriately made

Ensure whether the disclosures as required under Schedule III to the Companies Act, 2013 are made

Other Income Comprising Interest Income, Dividend Income, Gain/ Loss on Sale of Investments Etc.

Any form of income earned by an entity which is not linked to the entity's core business operations is generally classified as other income

Interest income on fixed deposits is recognized on a time proportion basis taking into account the amount outstanding and the applicable interest rate

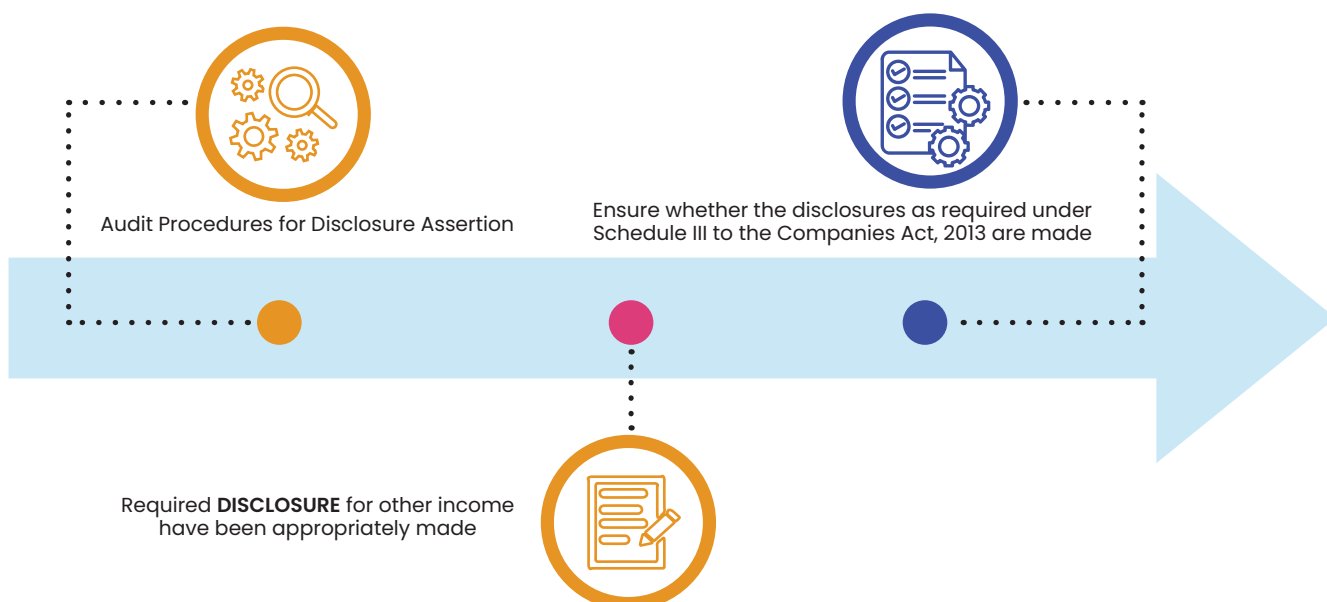
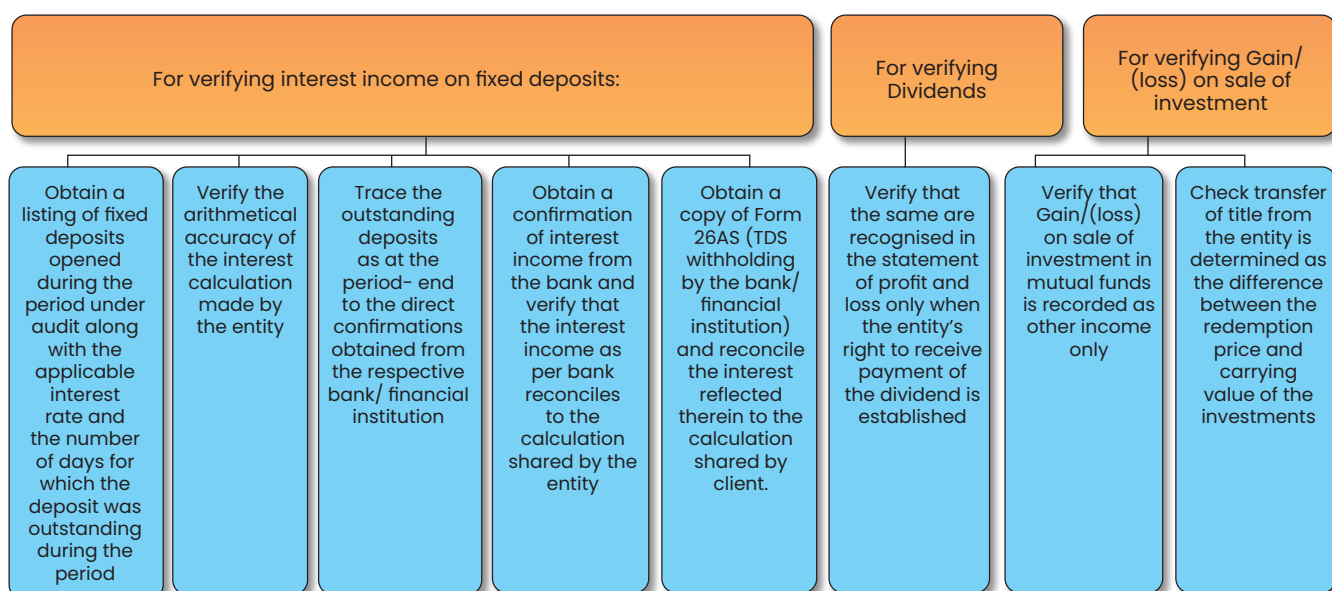
Gain/(loss) on sale of investment in mutual funds is recorded as other income on transfer of title from the entity and is determined as the difference between the redemption price and carrying value of the investments

Dividends are recognised 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; and
- The amount of the dividend can be measured reliably

OCCURRENCE	Recorded other income was earned during the Period
COMPLETENESS	Other income earned during the period was appropriately recorded and there is no understatement or overstatement
MEASUREMENT	Other income has been measured appropriately as per the applicable accounting standards

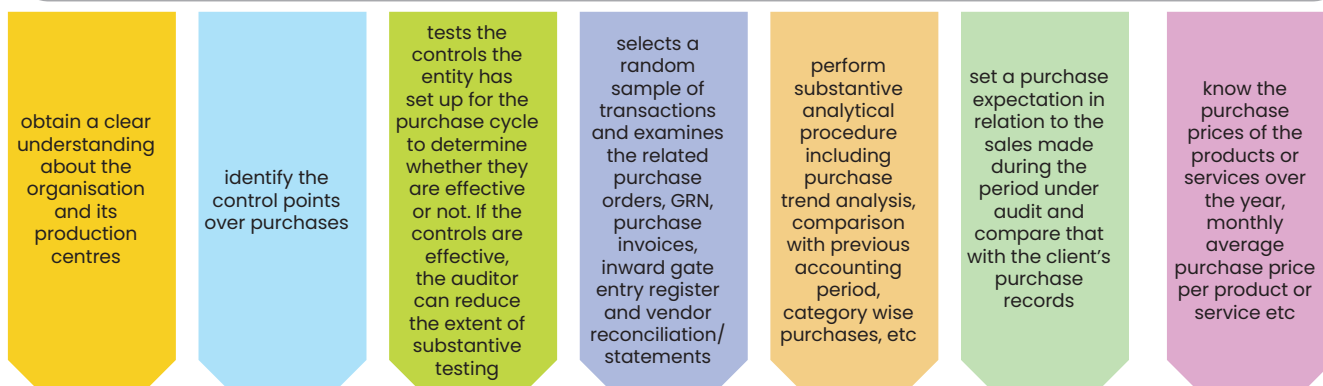
Audit Procedures for Other Income comprising interest income, dividend income, Gain/ Loss on sale of investments etc.



Purchases

Purchases and disbursement cycle in a business refers to the set of processes that commence when an order for buying goods or services is placed based on requirements of the production/ user department and ends when the entity receives the product and makes complete payment to the vendor.

To ensure that the entity is not materially misstating its purchases or accounts payables the auditor needs to



Audit Procedures for Occurrence: Recorded purchases represent goods actually received/ services availed during the period

Ensure purchases are not understated/ overstated by performing following audit procedures:

- Whether any fictitious vendors have been booked
- Whether goods were received at the factory gate
- Whether there exists an entry in the security gate inward register
- Whether quality inspection of goods was done
- Whether the purchase invoice was approved as per delegation of authority and whether a 3 or 2-way match was done
- Whether stock record has been updated by the stores personnel

Purchase invoice received should be the "Original" 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

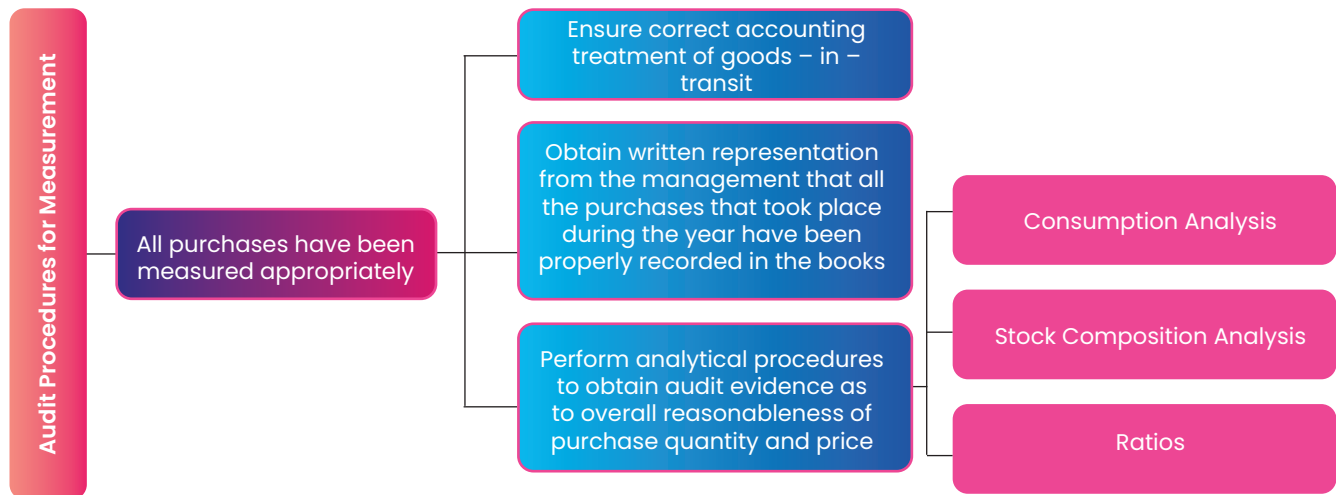
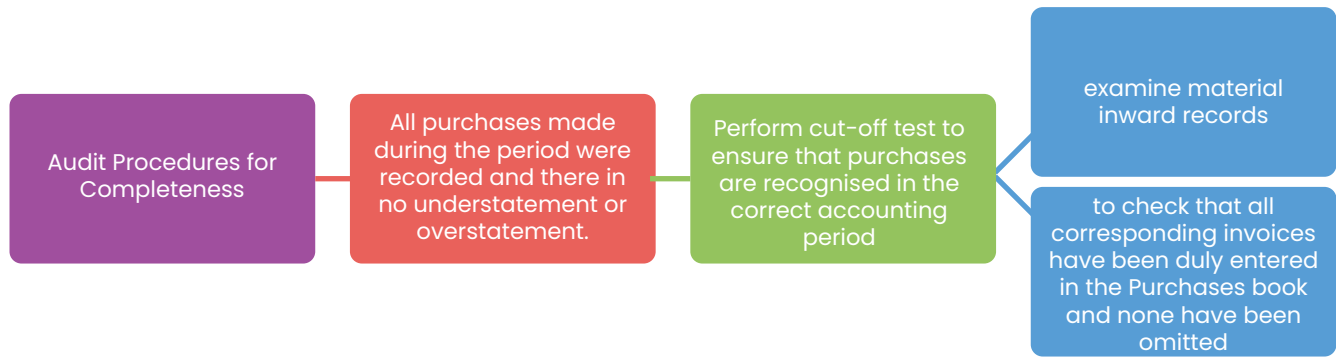
Purchase invoice should be in the name of entity

Input tax component should have been booked in the input tax ledger

Auditor should review whether purchases should be capitalized or expensed off in Statement of Profit and loss according to his professional judgement

Review journal entries for unusual transactions

Audit of Items of Financial Statements



Employee Benefits Expenses



Employee benefits expenses or commonly called as payroll expenses represent the aggregate sum an entity pays as a consideration to its employees for their labour/ efforts along with associated expenses such as perquisites/ benefits, post-employment benefits like gratuity, superannuation, leave encashment, provident fund contribution etc. as well as towards their hiring, their welfare and training.

The auditors verify and ensure that such expenditure is appropriate and has been accounted as per applicable accounting standards and generally accepted accounting principles which includes

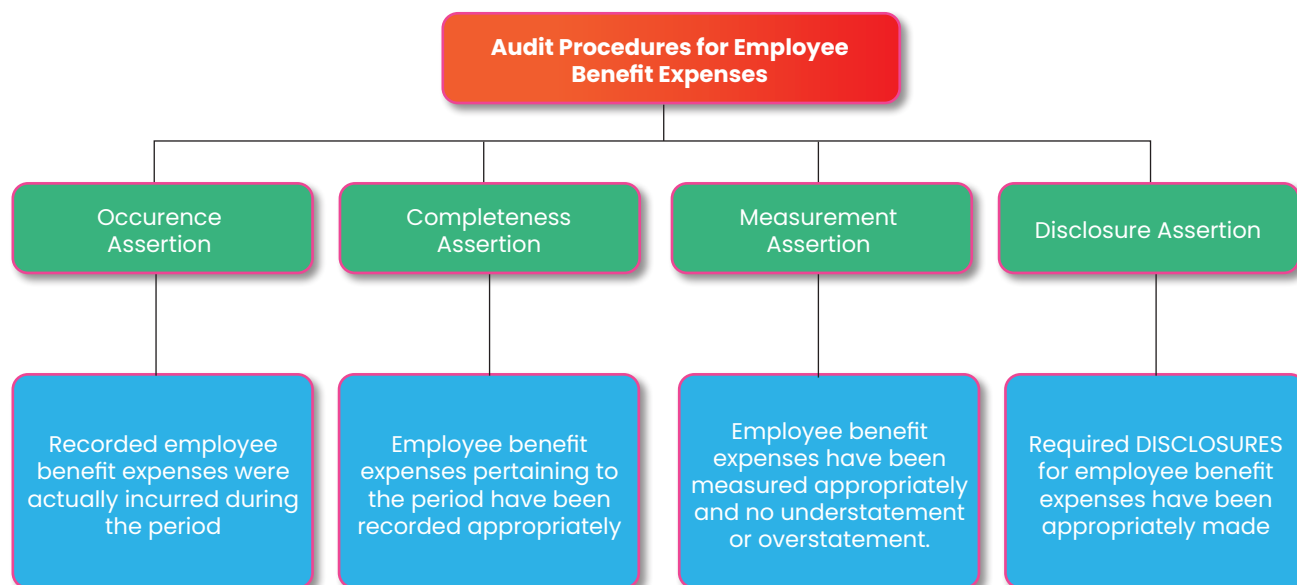
Obtaining a clear understanding about the organisation and its hiring, appraisal and retirement process in the following manner:

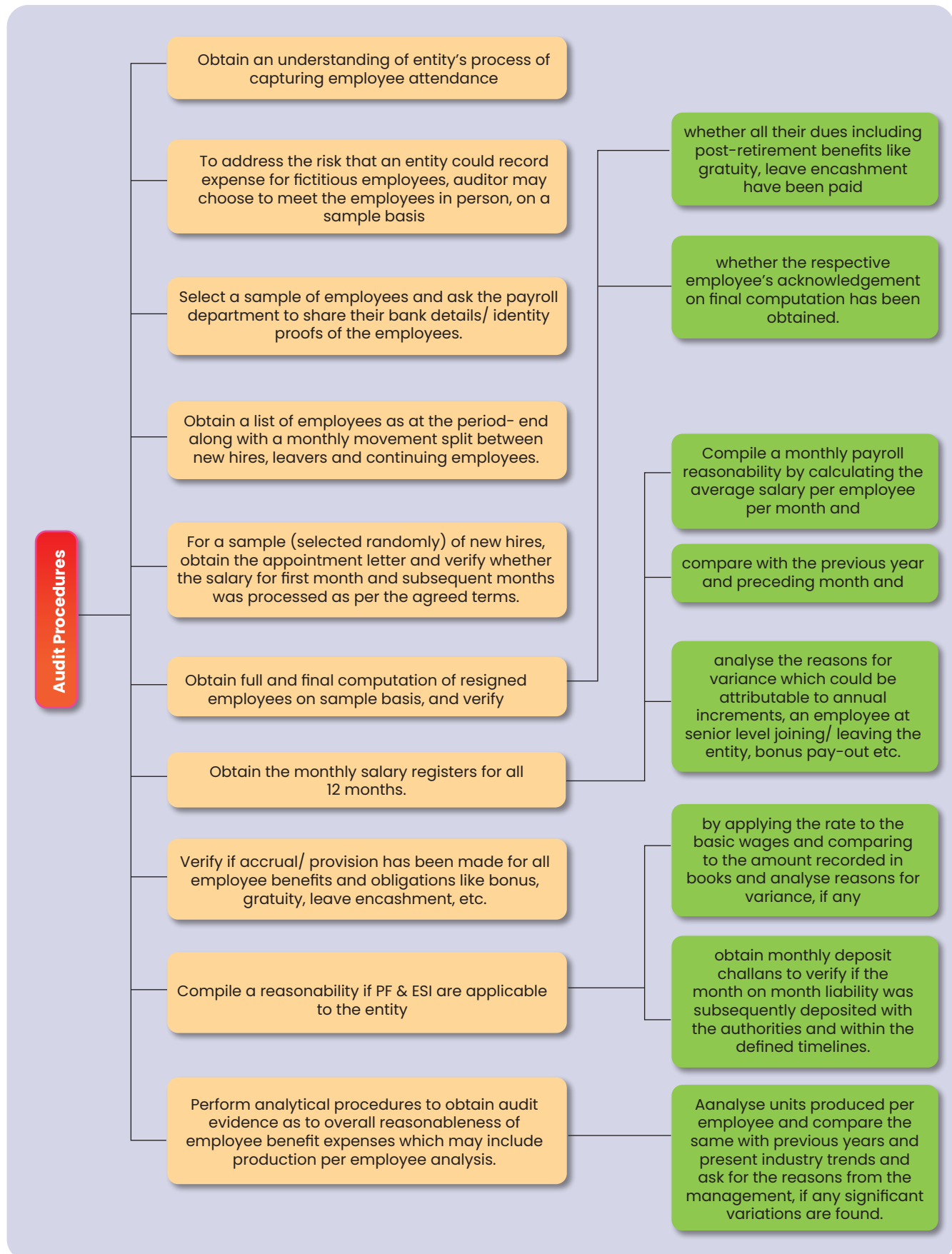
To tests the controls the entity has set around employee benefit payment process to determine how effective they are. If they are effective, the auditor can reduce the substantive testing.

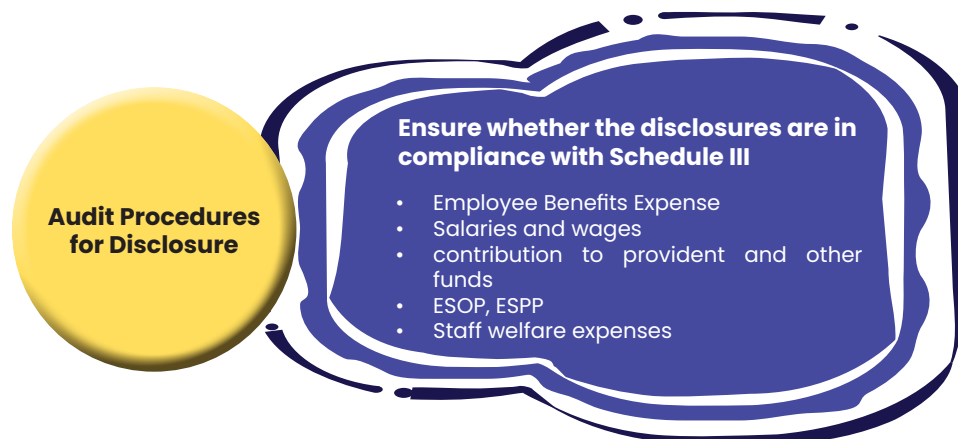
Selection of a random sample of transactions and examines the related appointment letters, appraisal letters, attendance records, HR policies, employee master etc.

To perform substantive analytical procedure will consist of monthly expense reasonability, comparison with previous accounting period

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.



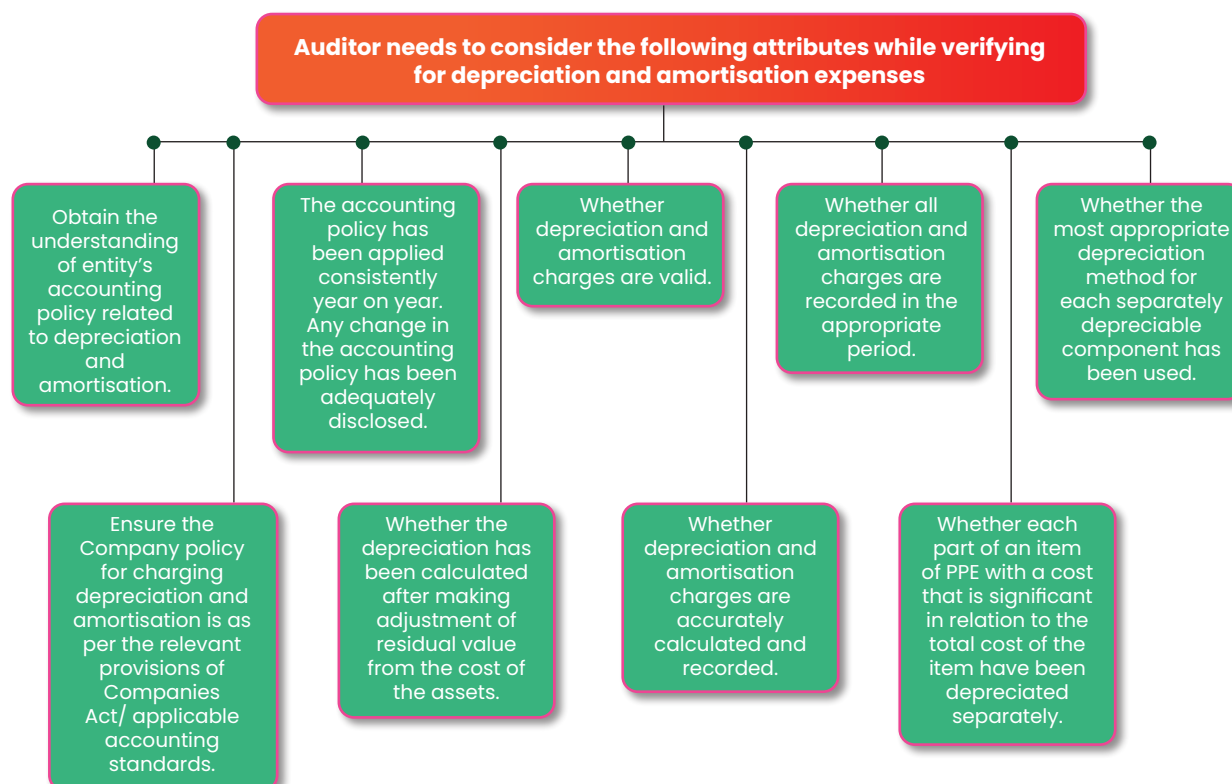


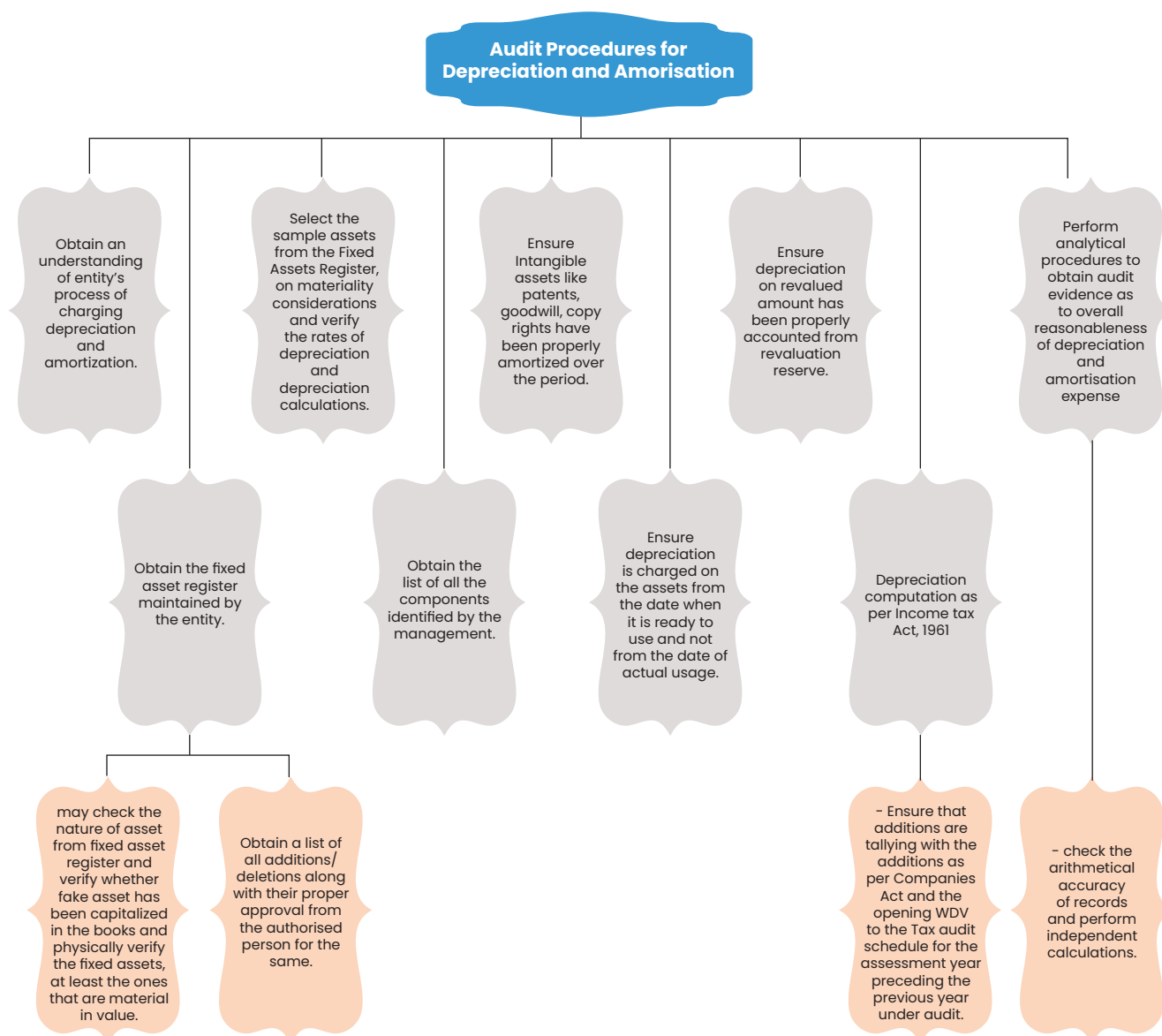
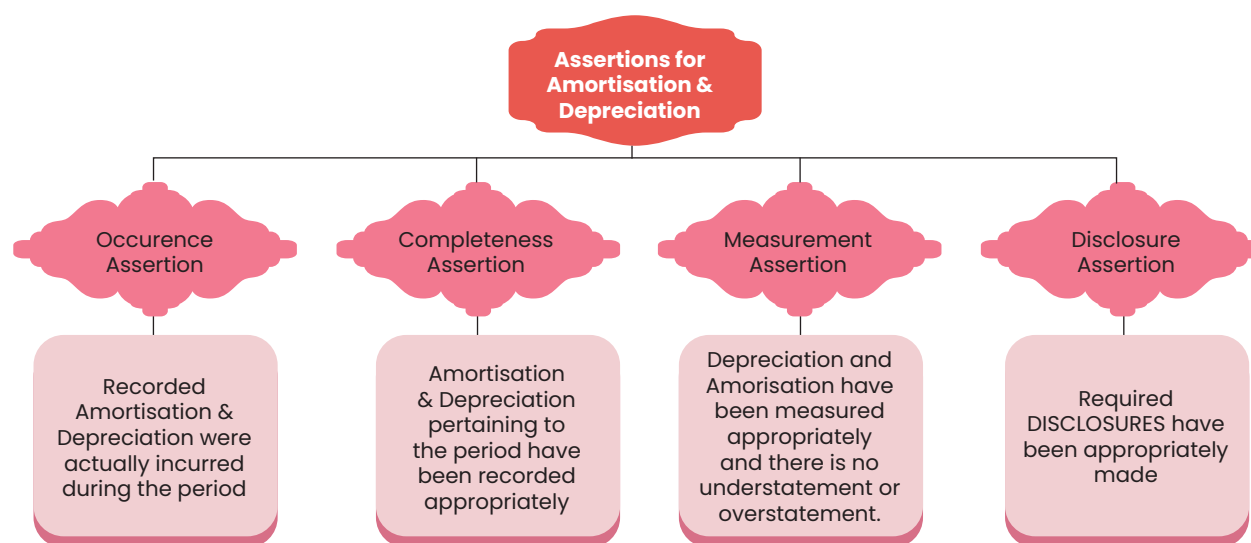


Depreciation and Amortisation



Depreciation and Amortization are methods that are used to prorate the cost of a specific type of asset over its useful life. Depreciation represents systematic allocation of the depreciable value of an item of PPE over its useful life while amortisation represents systematic allocation of the depreciable amount of an intangible asset over its useful life.





Audit Procedures for Disclosure

Ensure whether the disclosures as required under Schedule III to the Companies Act, 2013 are made for

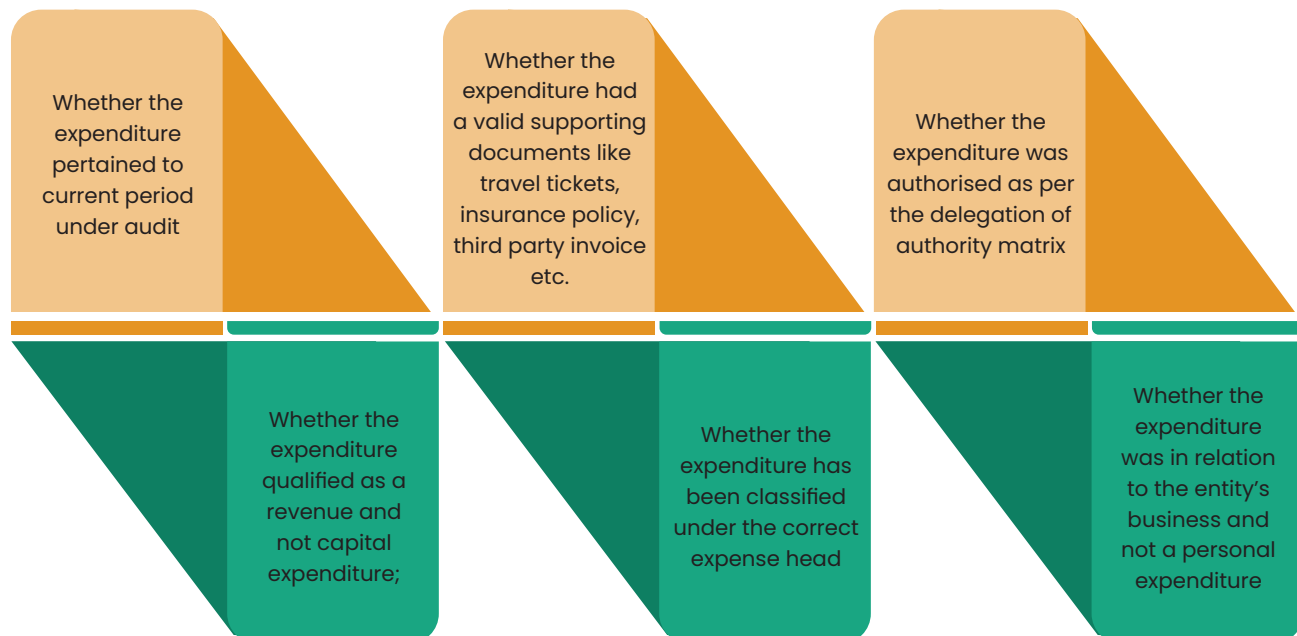
- Accounting policy for depreciation and amortization.
- Useful lives of assets as per Schedule II to the Companies Act, 2013.
- Residual value of assets.
- Depreciation method

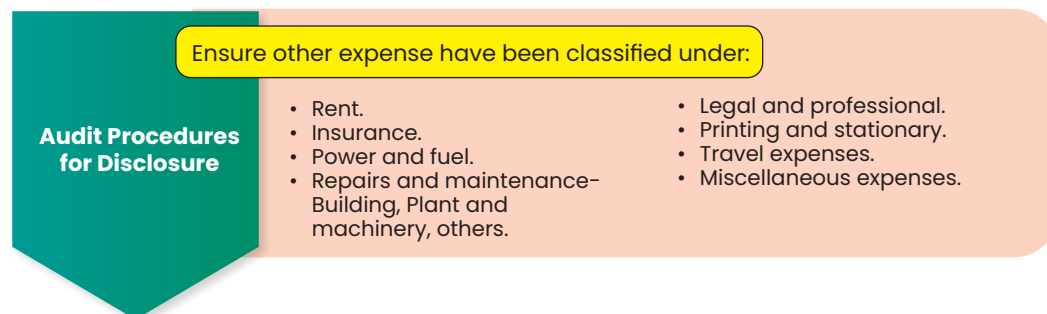
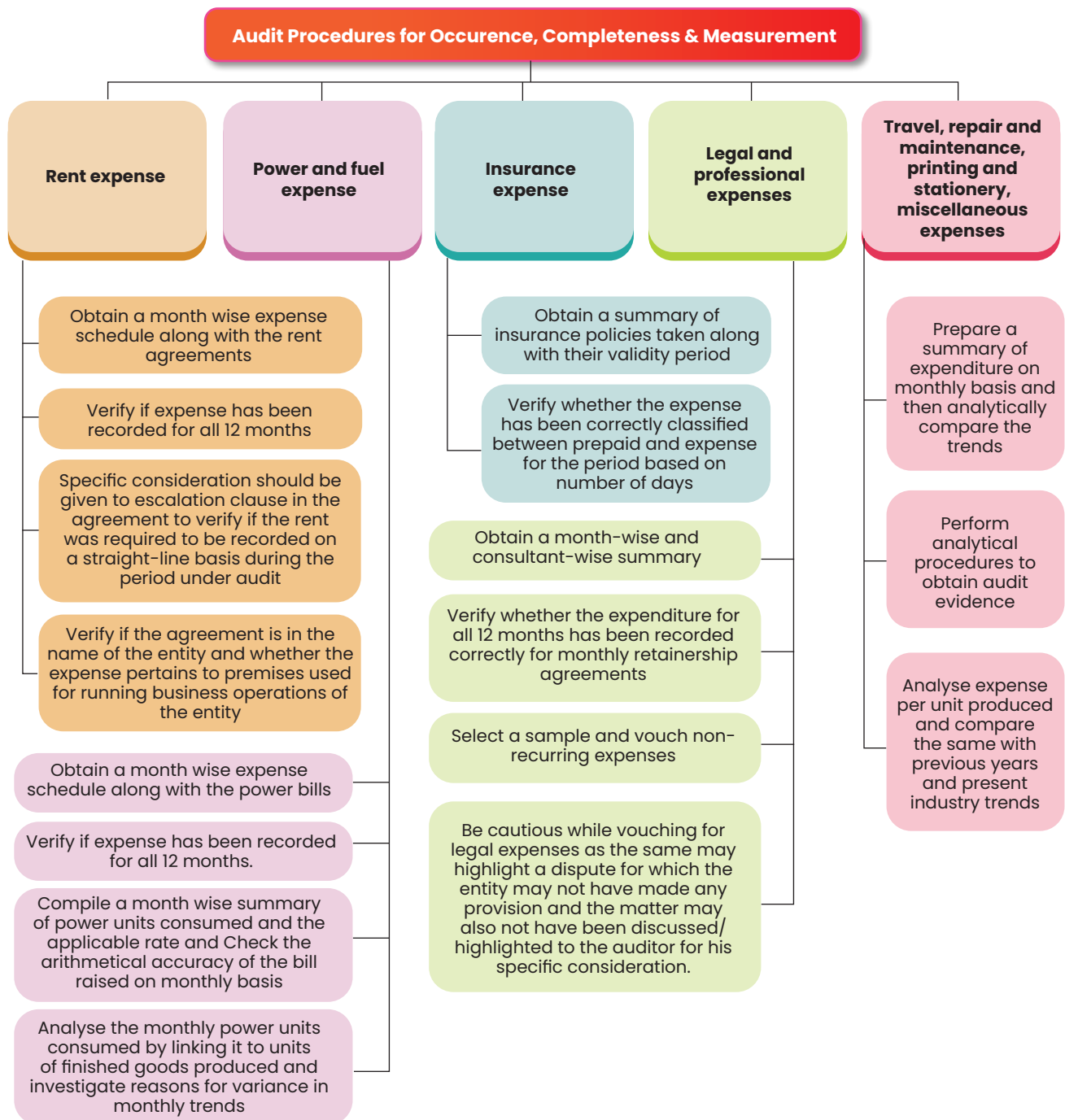
Other Expenses



An entity in addition to making purchases and incurring employee benefit expenses, also incurs other expenditures like rent, power and fuel, repairs and maintenance, insurance, travelling, miscellaneous expenses etc., that are essential and incidental to running of business operations.

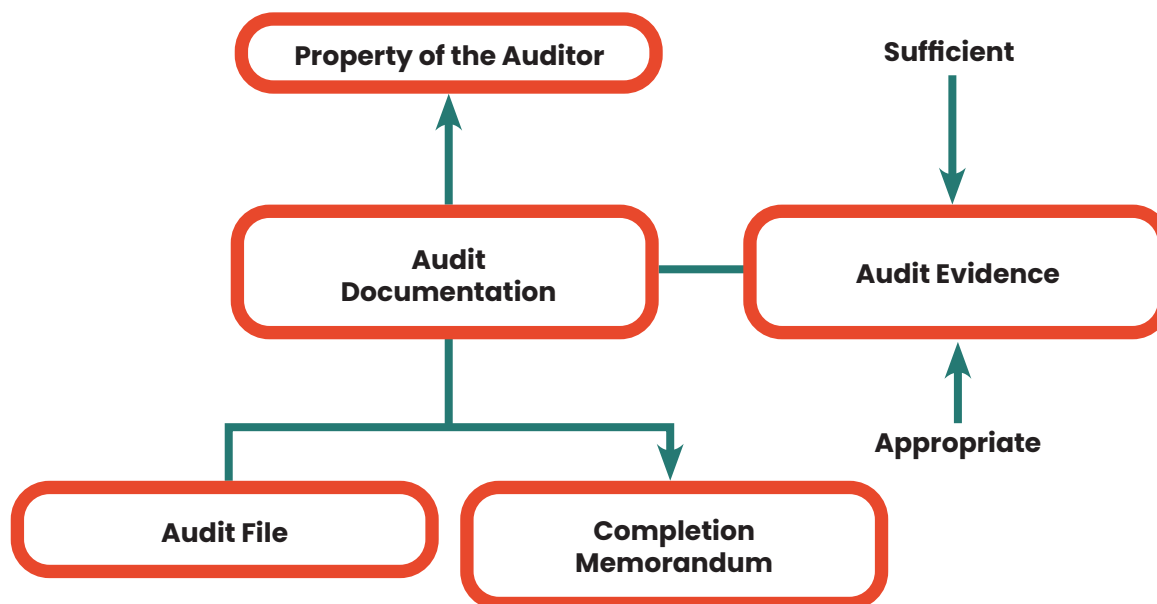
While the auditor may choose to analyse the monthly trends for expenses like rent, power and fuel, an auditor generally prefers to vouch for other expenses to verify following attributes:

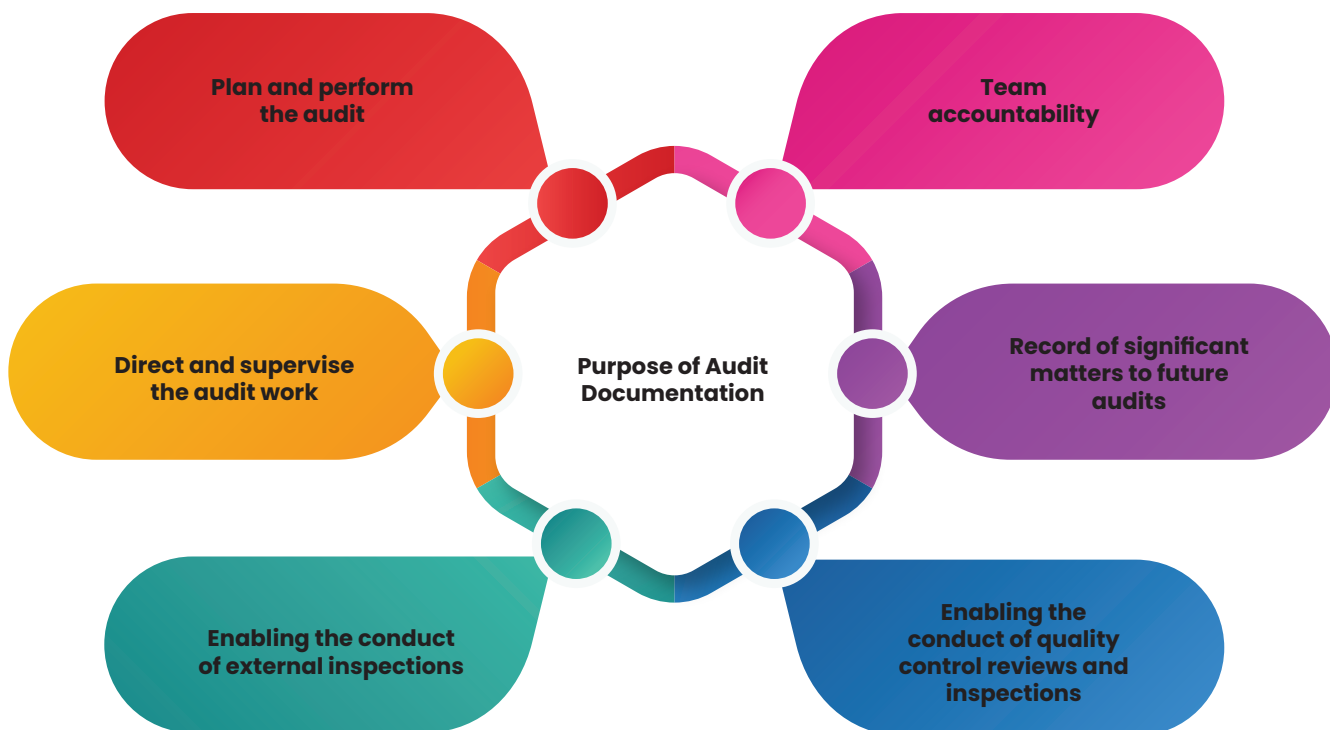
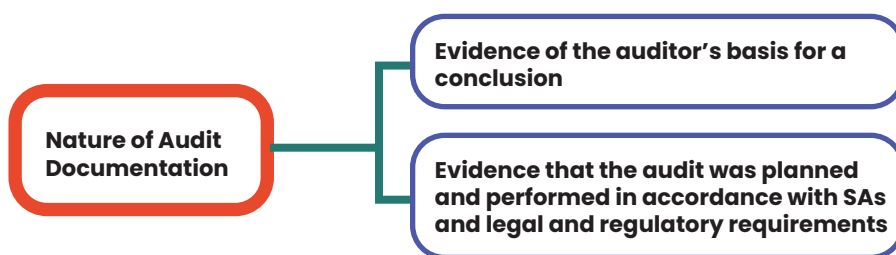
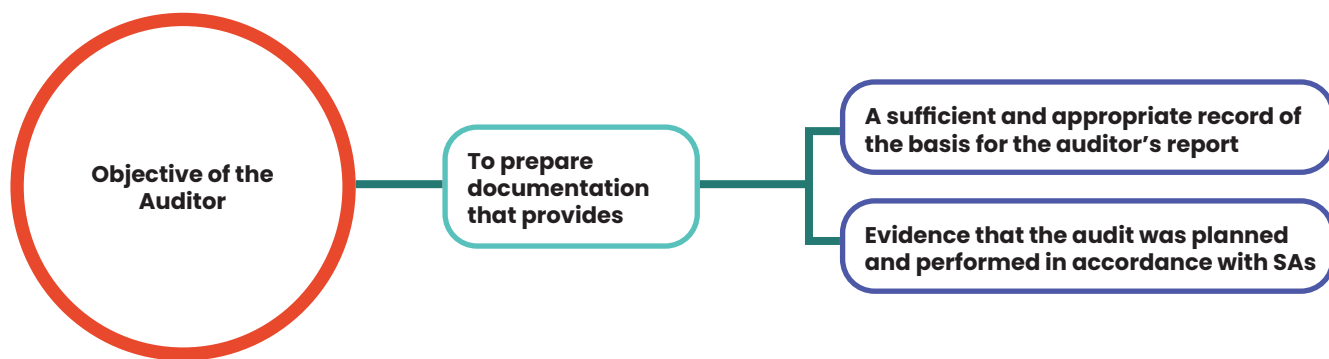


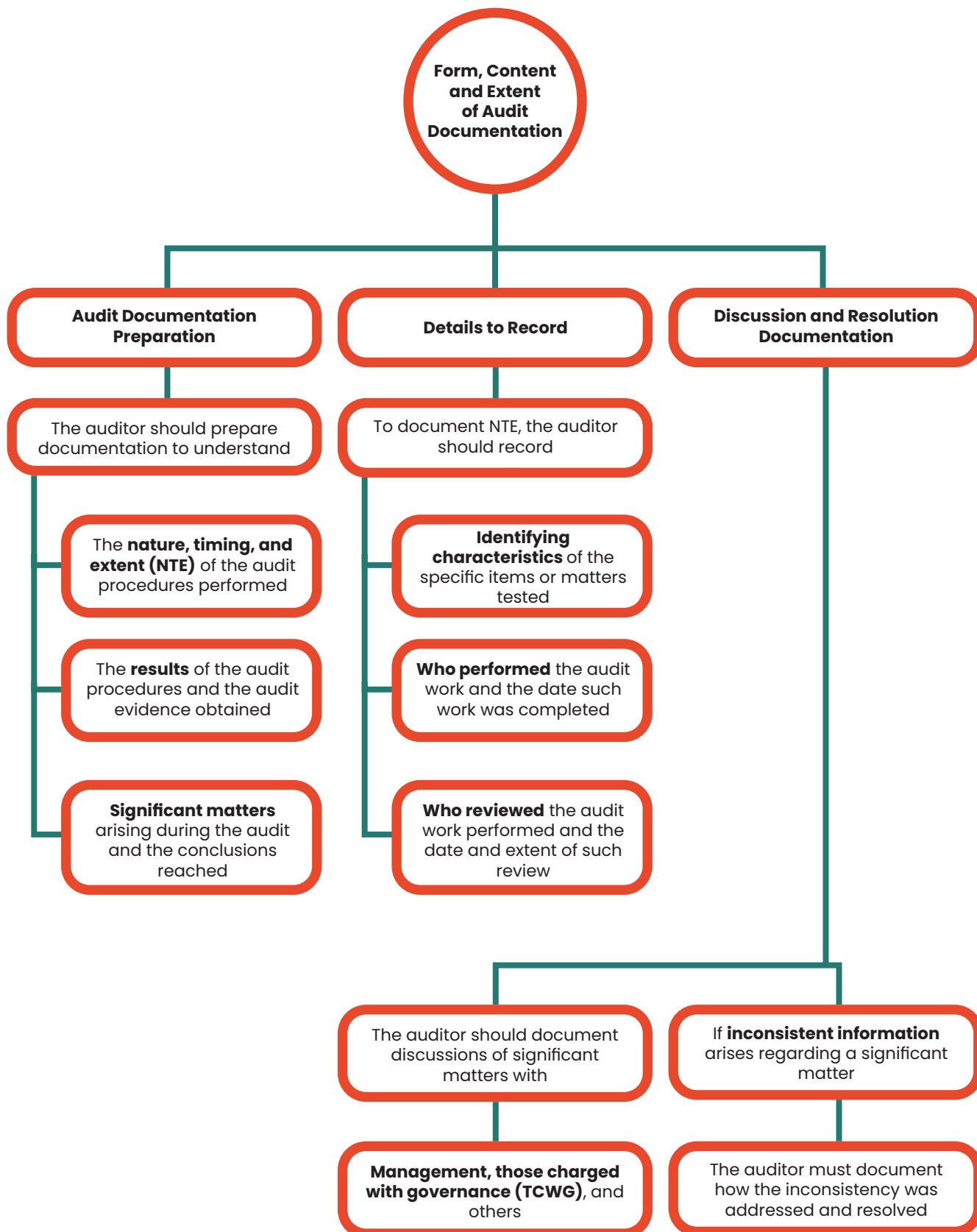


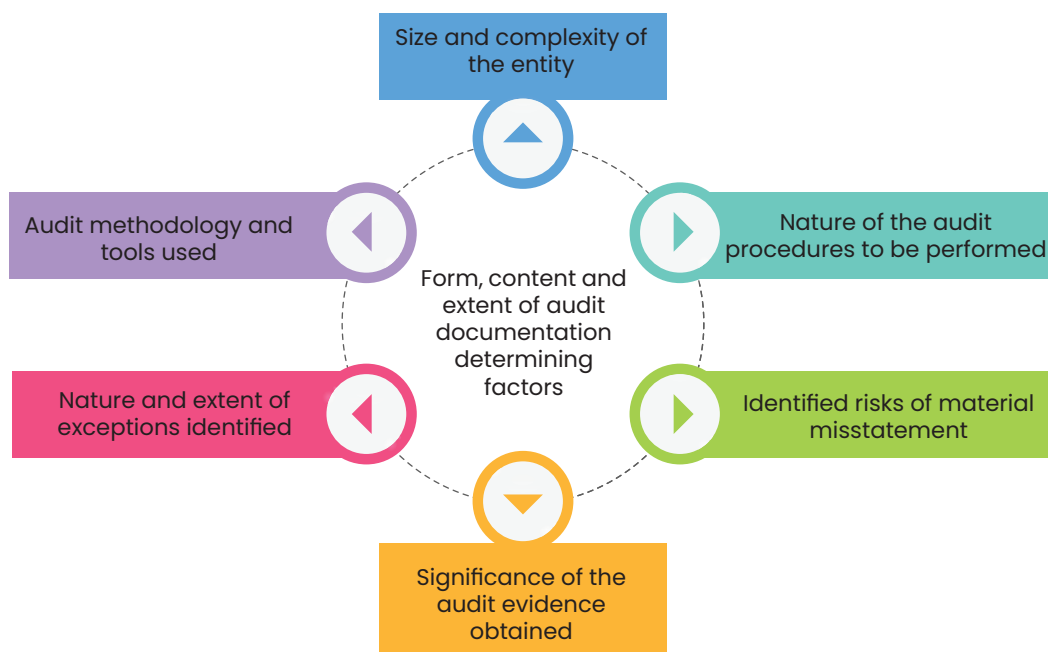
Chapter 6: Audit Documentation

SA 230 on "Audit Documentation", deals with the auditor's responsibility to prepare audit documentation for an audit of financial statements.





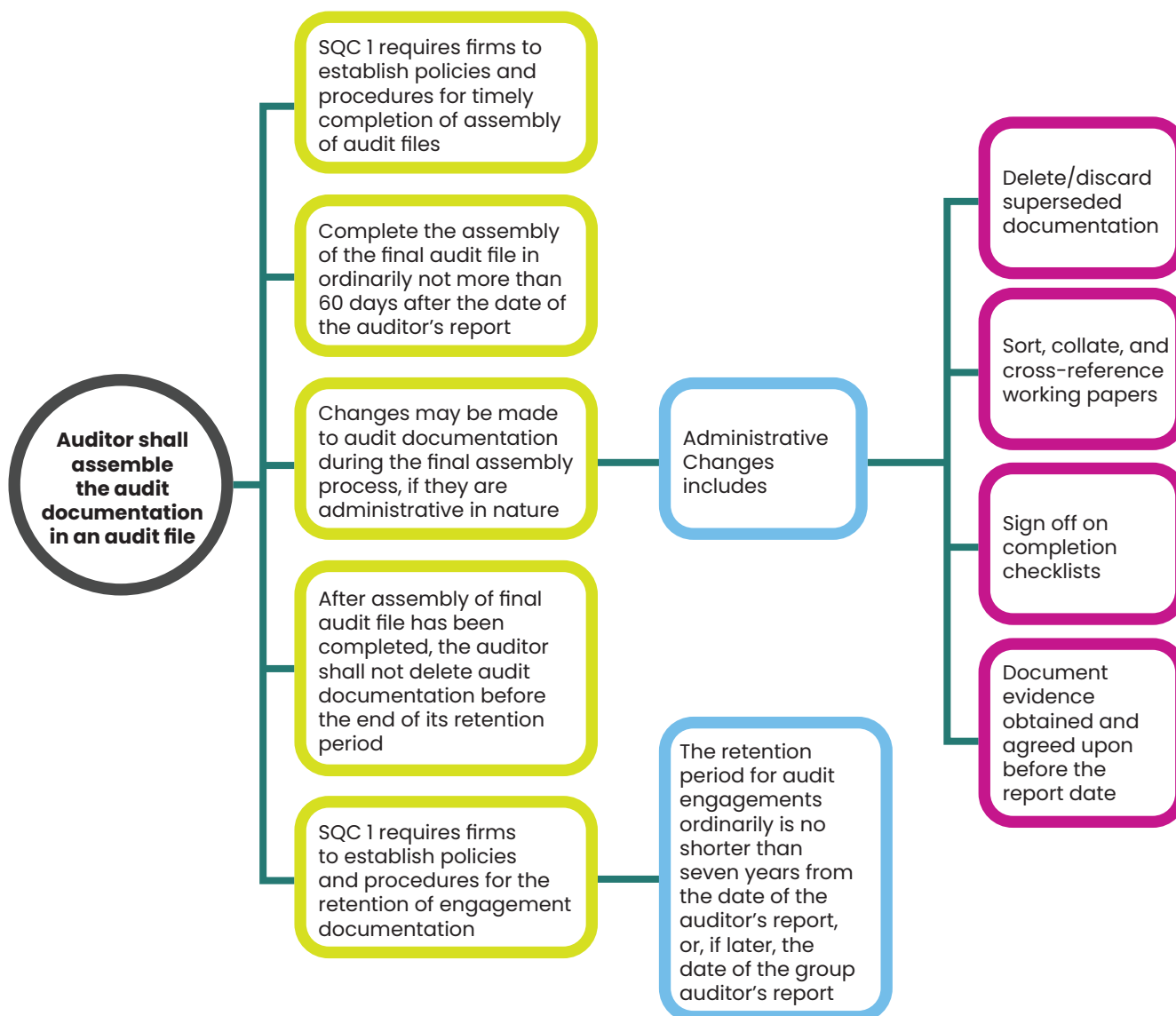






Audit File

- Contains audit documentation for a specific engagement
- Stored in physical or electronic form
- May include one or more folders or storage media



Examples of significant matters include:

Results of audit procedures indicating

- financial statements could be materially misstated, or
- need to revise the auditor's previous assessment of the ROMM and the auditor's responses to those risks



Circumstances that cause the auditor significant difficulty in applying necessary audit procedures



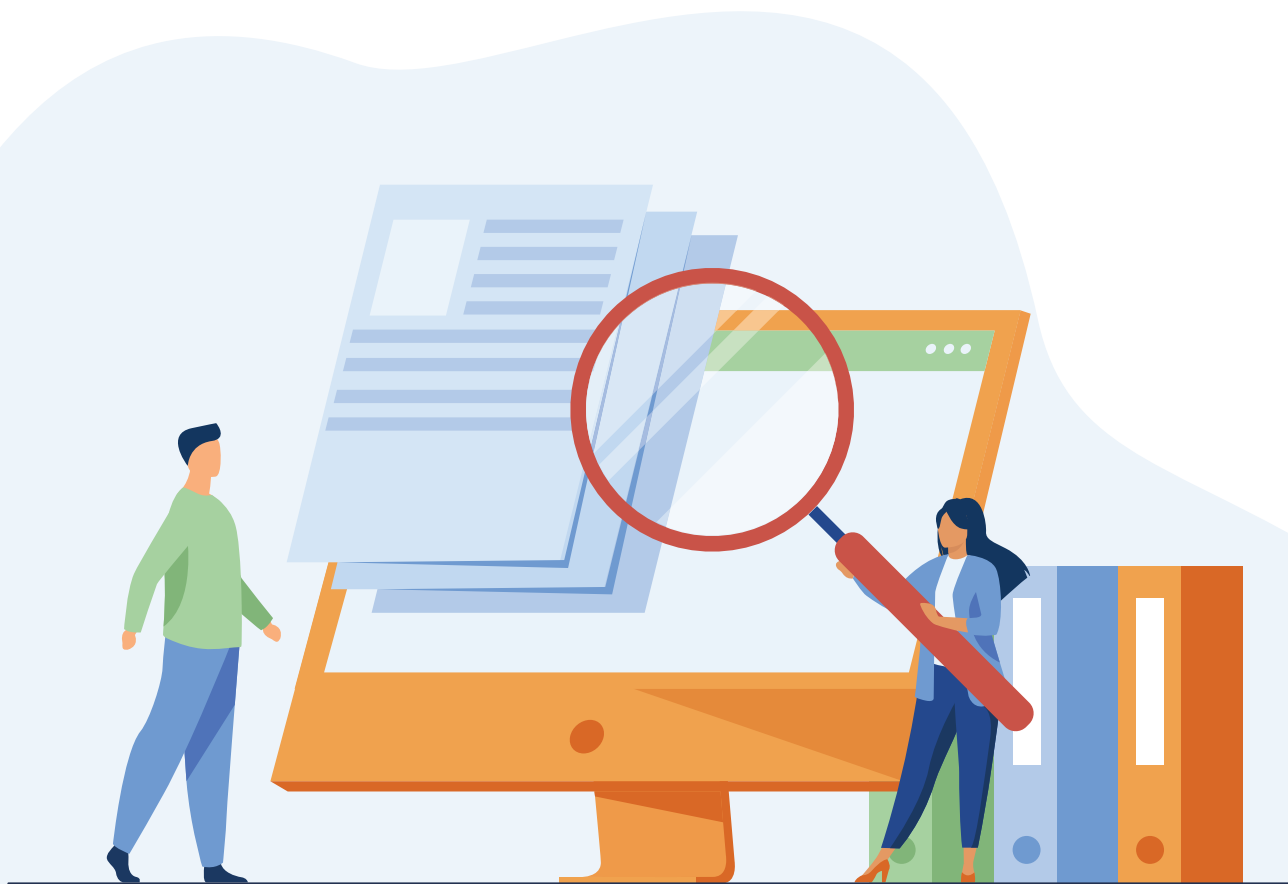
Findings that could result in a modification to the audit opinion or the inclusion of an Emphasis of Matter Paragraph in the auditor's report

Completion Memorandum or Audit Documentation Summary

Ownership of Audit Documentation

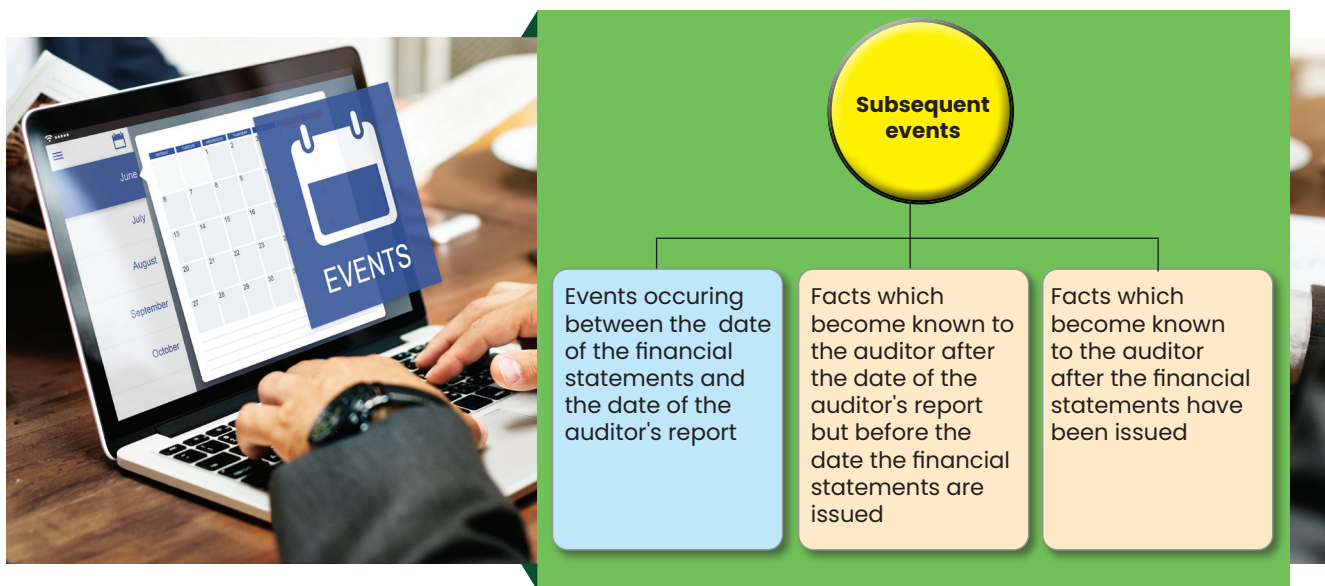
Standard on Quality Control (SQC) 1 provides that audit documentation is the property of the auditor

He may make portions of, or extracts from, audit documentation available to clients subject to some conditions



Chapter 7: Completion and Review

SA 560 “Subsequent Events”



Scope of SA

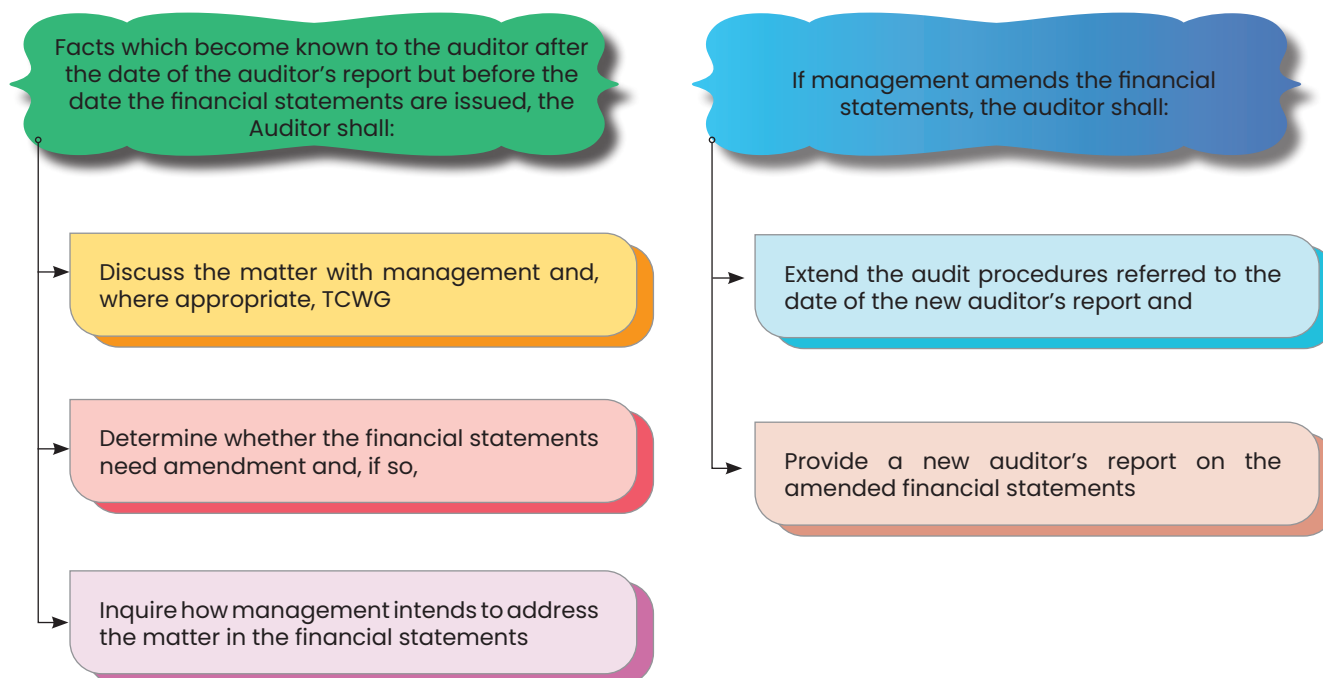
SA 560 deals with the auditor's responsibilities relating to subsequent events in an audit of financial statements

Objectives of auditor

- Obtain SAAE about whether subsequent events that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements
- 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 procedures relating to events occurring between the date of the financial statements and the date of the auditor's report



Management does not amend the financial statements in circumstances where the auditor believes they need to be amended, then:



If the auditor's report has not yet been provided to the entity, the auditor shall modify the opinion

If the auditor's report has already been provided to the entity, the auditor shall notify management and, unless all of TCWG are involved in managing the entity, TCWG, not to issue the financial statements to third parties before the necessary amendments have been made

Facts which become known to the auditor after the financial statements have been issued, 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 financial statements

If the management amends the financial statements, the auditor shall:

Carry out the audit procedures necessary in the circumstances on the amendment.

- Extend the audit procedures to the date of the new auditor's report
- Review the steps taken by management

SA 570 "Going Concern"

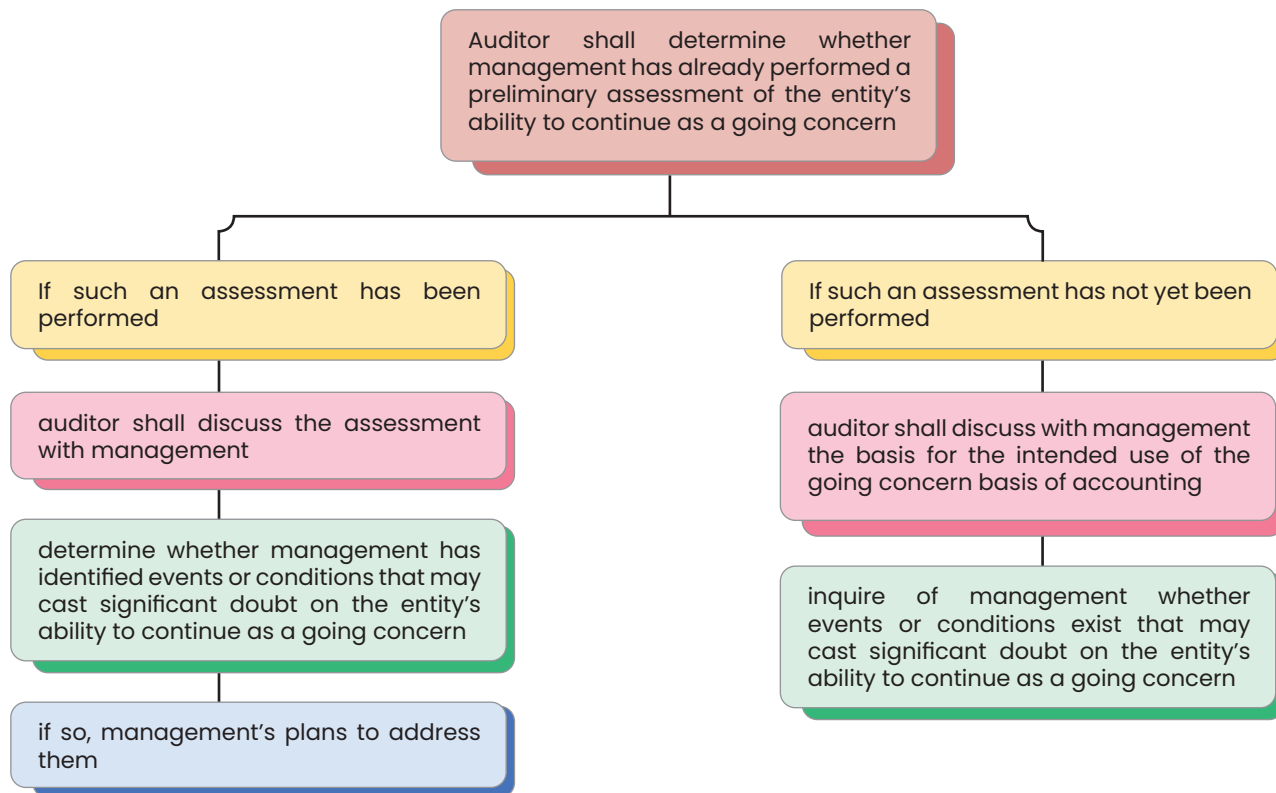
SCOPE OF SA

This SA deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report

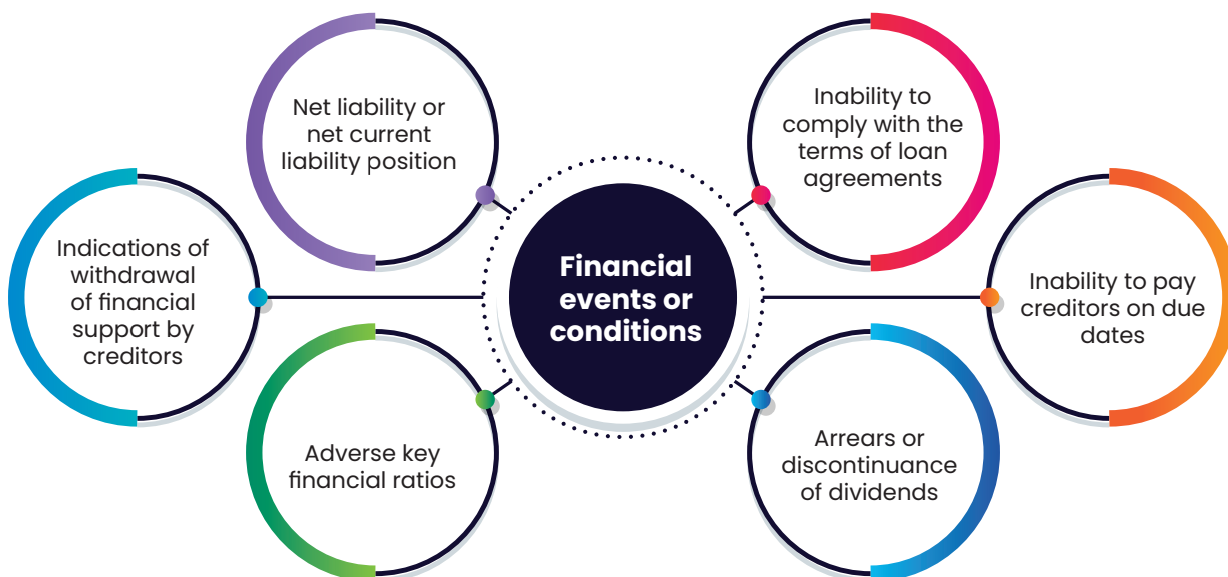
OBJECTIVES OF AUDITOR

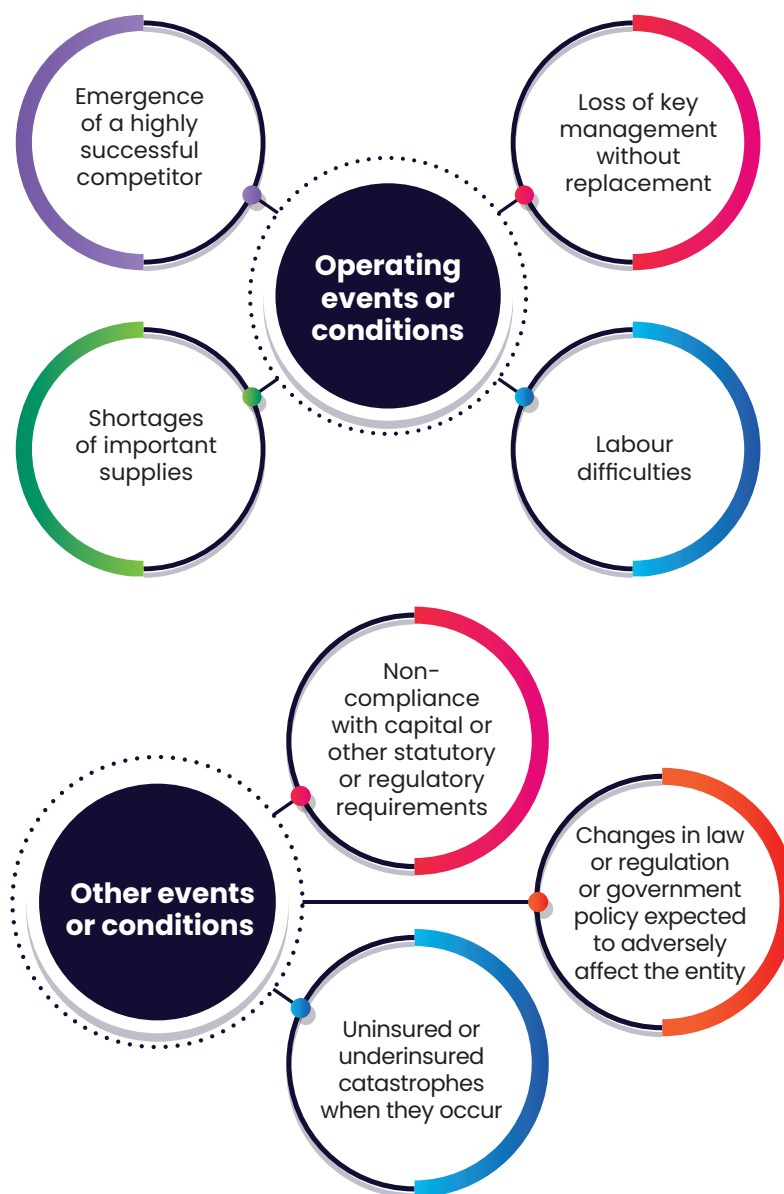
- To obtain SAAE regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements;
- To conclude whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
- To report in accordance with this SA

Risk assessment procedures and related activities

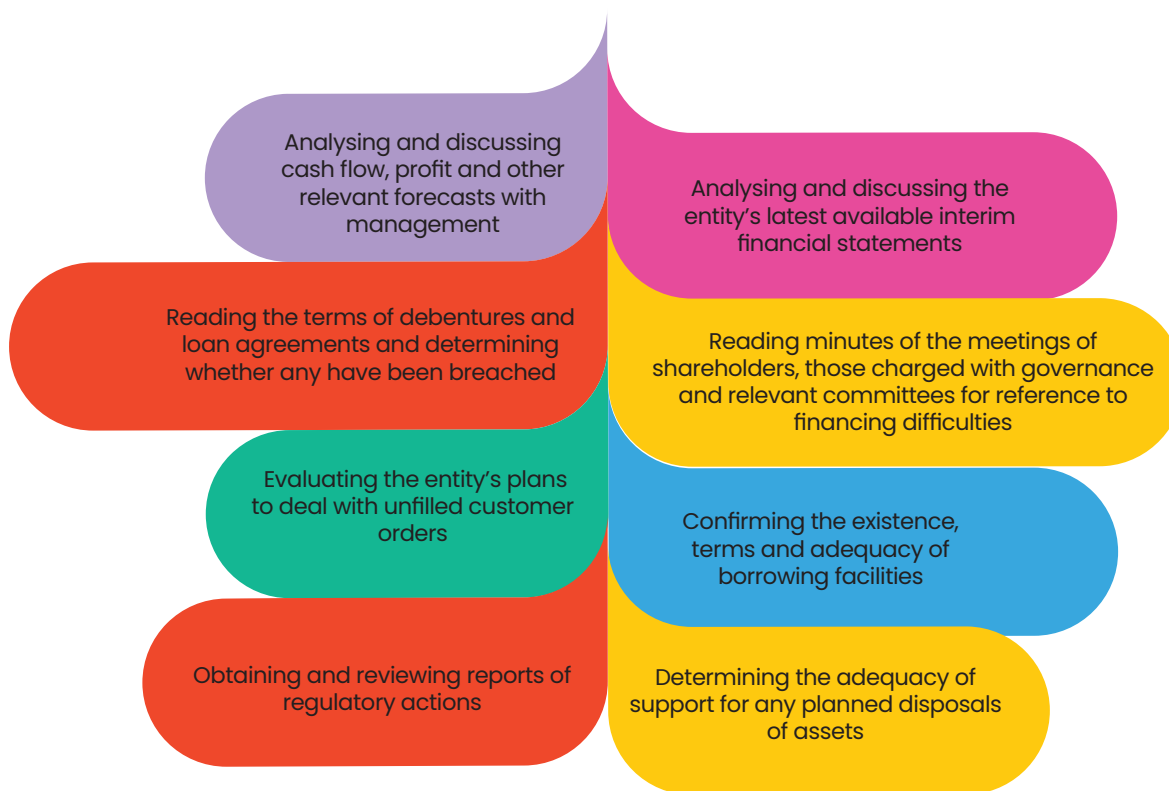


Examples of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern





Additional audit procedures when events or conditions are identified

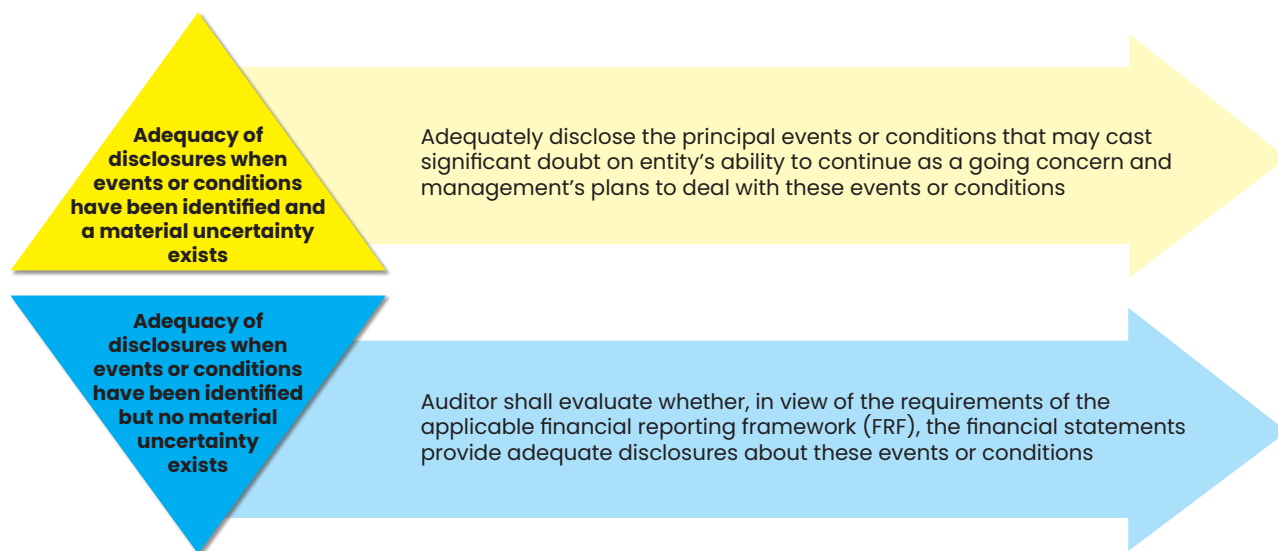


Auditor's conclusions

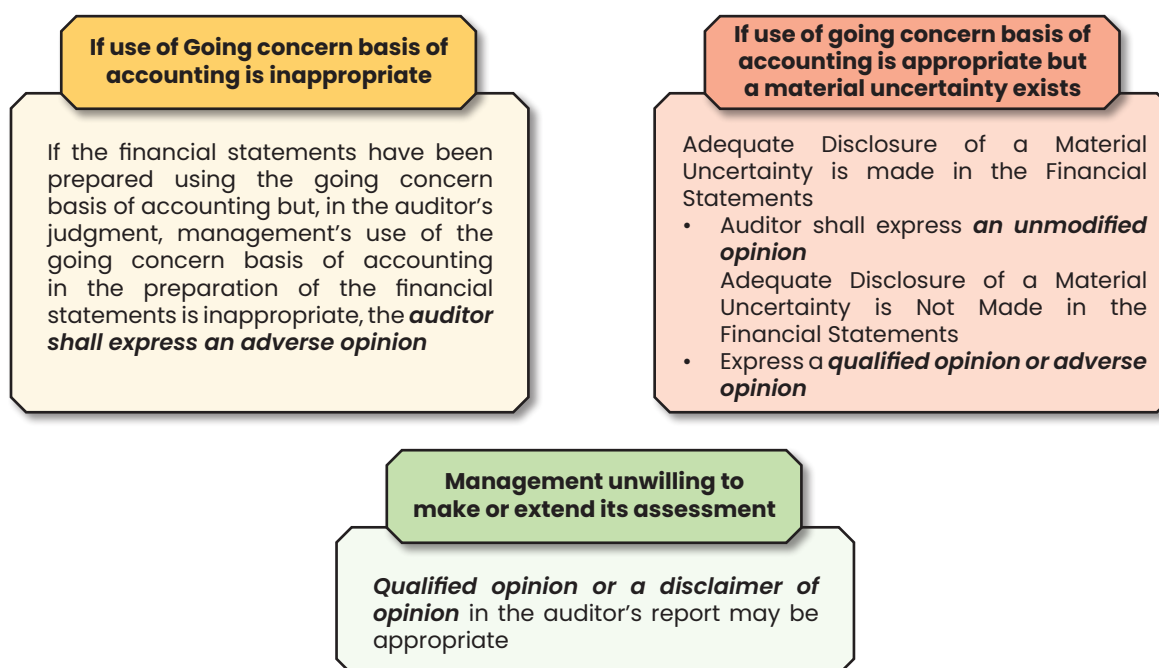


Auditor shall evaluate whether SAAE has been obtained and shall conclude on, the appropriateness of management's use of the going concern basis of accounting

Based on audit evidence obtained, Auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, may cast significant doubt on the entity's ability to continue as a going concern



Implications for the Auditor's Report



SA 450 "Evaluation of Misstatements Identified during the Audit"

SCOPE

SA 450 deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements

OBJECTIVES OF AUDITOR

- Effect of identified misstatements on the audit
- Effect of uncorrected misstatements, if any, on the financial statements

Consideration of identified misstatements as the audit progresses

The auditor shall determine whether the overall audit strategy and audit plan need to be revised if:

Nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material or

Aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with SA 320

Communication and correction of misstatements

- Auditor shall communicate all misstatements with the management, unless prohibited by law or regulation
- The auditor shall request 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

Evaluating the effect of uncorrected misstatements

- Auditor shall determine whether uncorrected misstatements are material. In making this determination, the auditor shall consider: -
 - Size and nature of misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole
 - Effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole

Communication with those charged with governance

Auditor shall communicate with TCWG regarding uncorrected misstatements and the effect that they may have on the opinion in the auditor's report, unless prohibited by law or regulation.

The auditor's communication shall identify material uncorrected misstatements individually and request to correct them

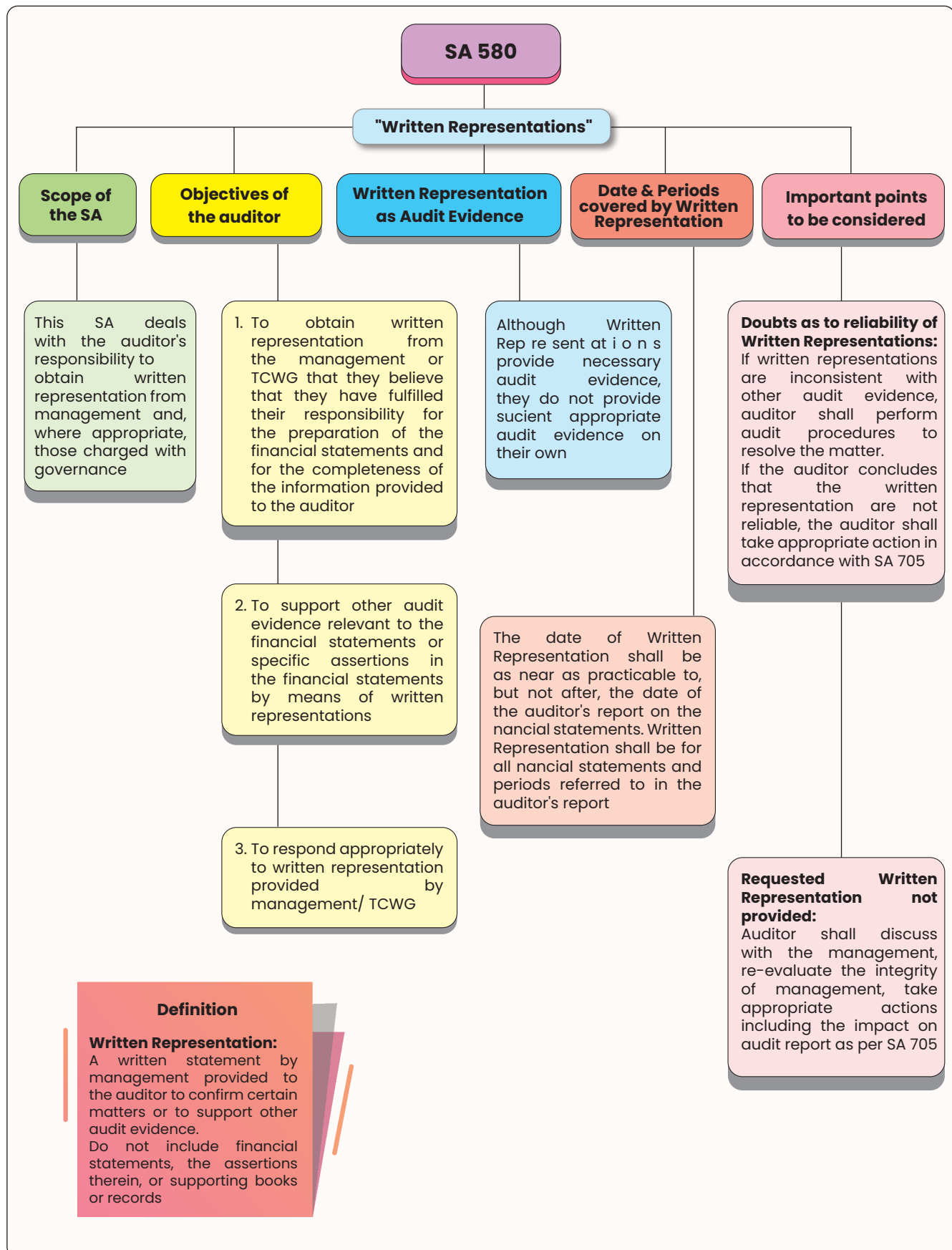
Written Representation from management regarding effects of uncorrected statements

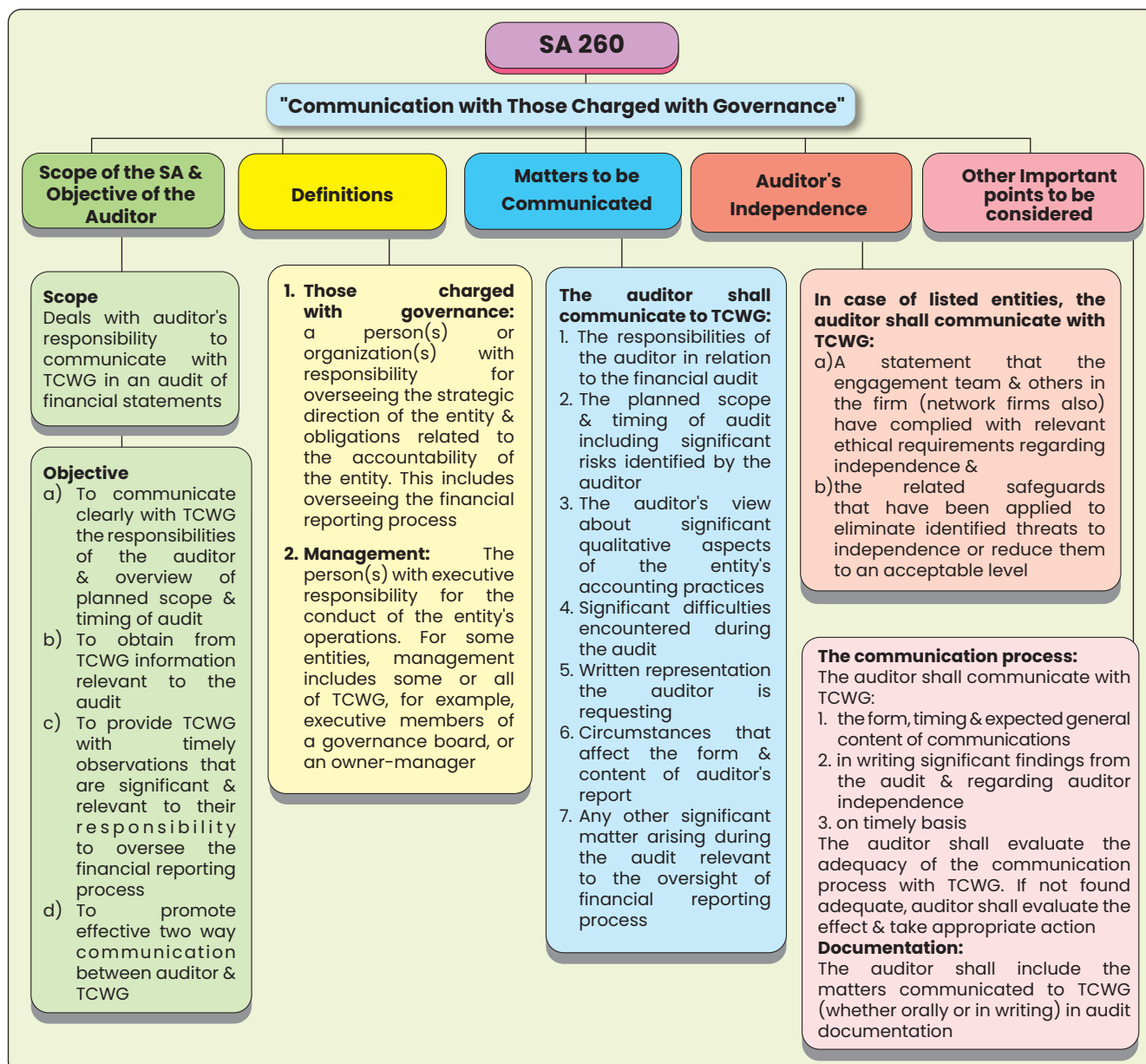
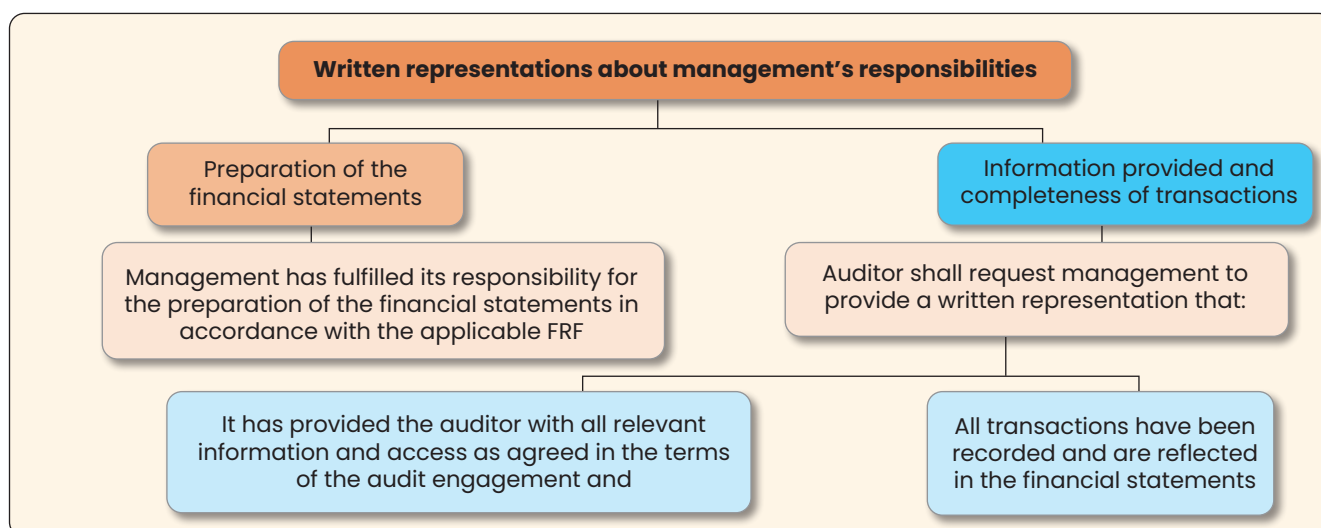
Auditor shall request a written representation from management and, where appropriate, TCWG whether they believe the effects of uncorrected misstatements are immaterial to the financial statements as a whole. A summary of such items shall be included in or attached to the written representation

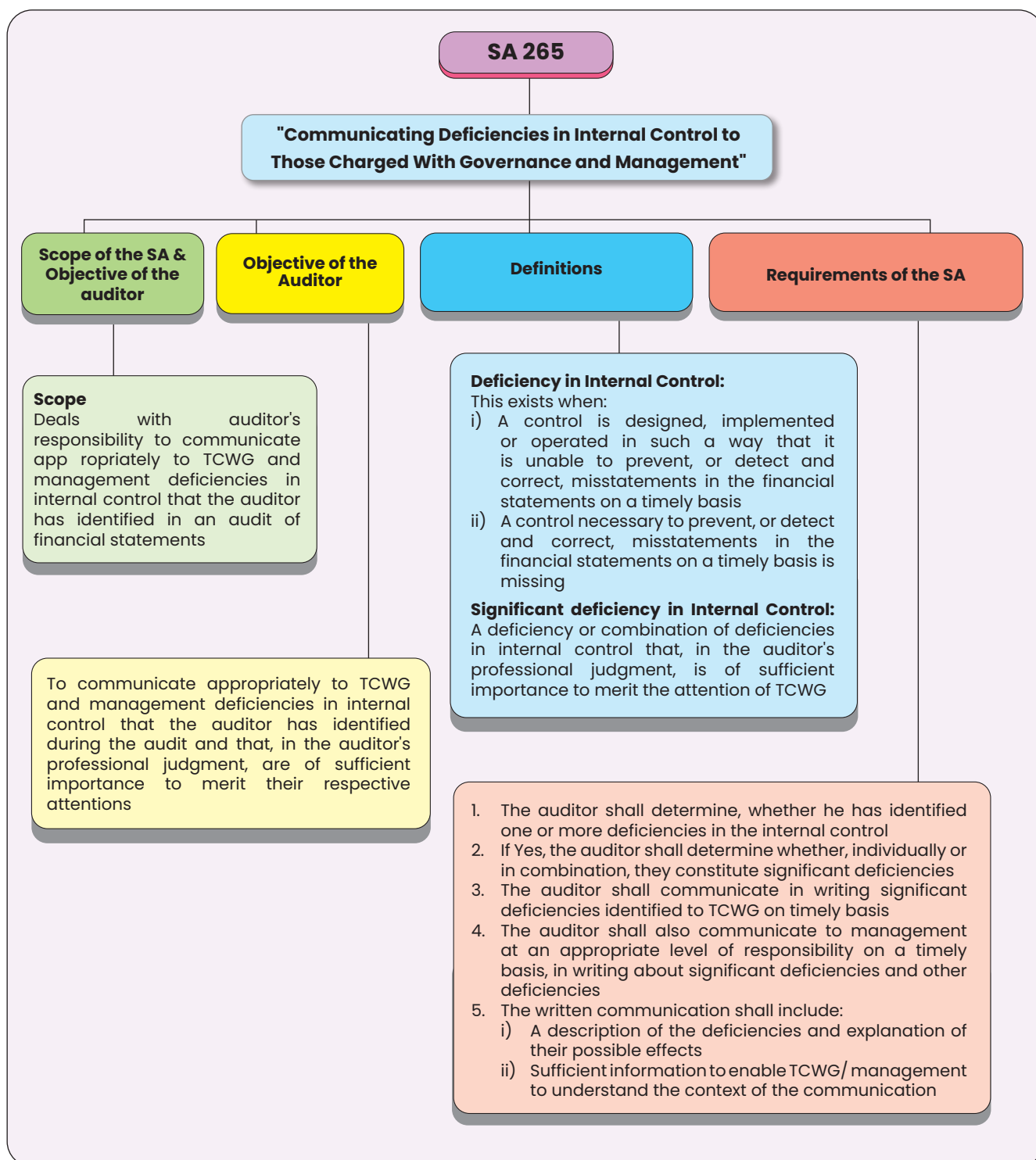
Documentation regarding misstatements identified during audit

Audit documentation shall include: -

- Amount below which misstatements would be regarded as clearly trivial
- All misstatements accumulated during the audit and whether they have been corrected
- Auditor's conclusion as to whether uncorrected misstatements are material and the basis for that conclusion

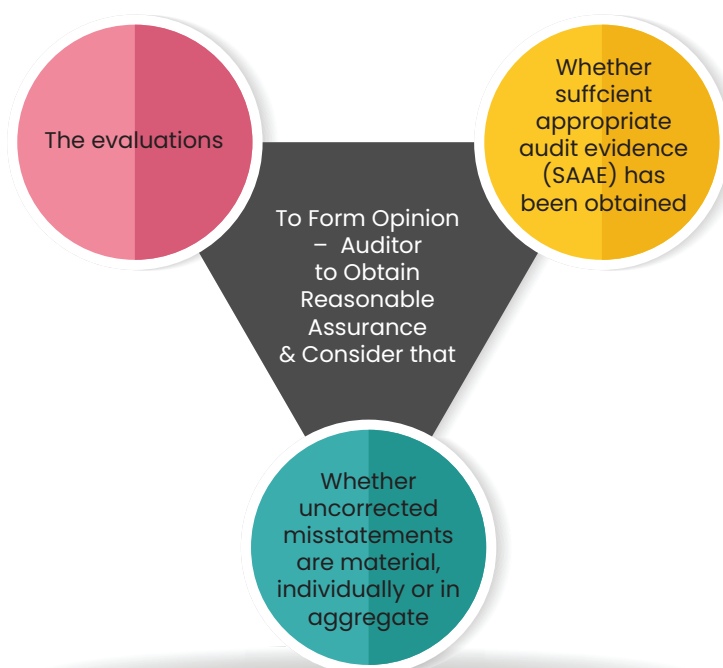


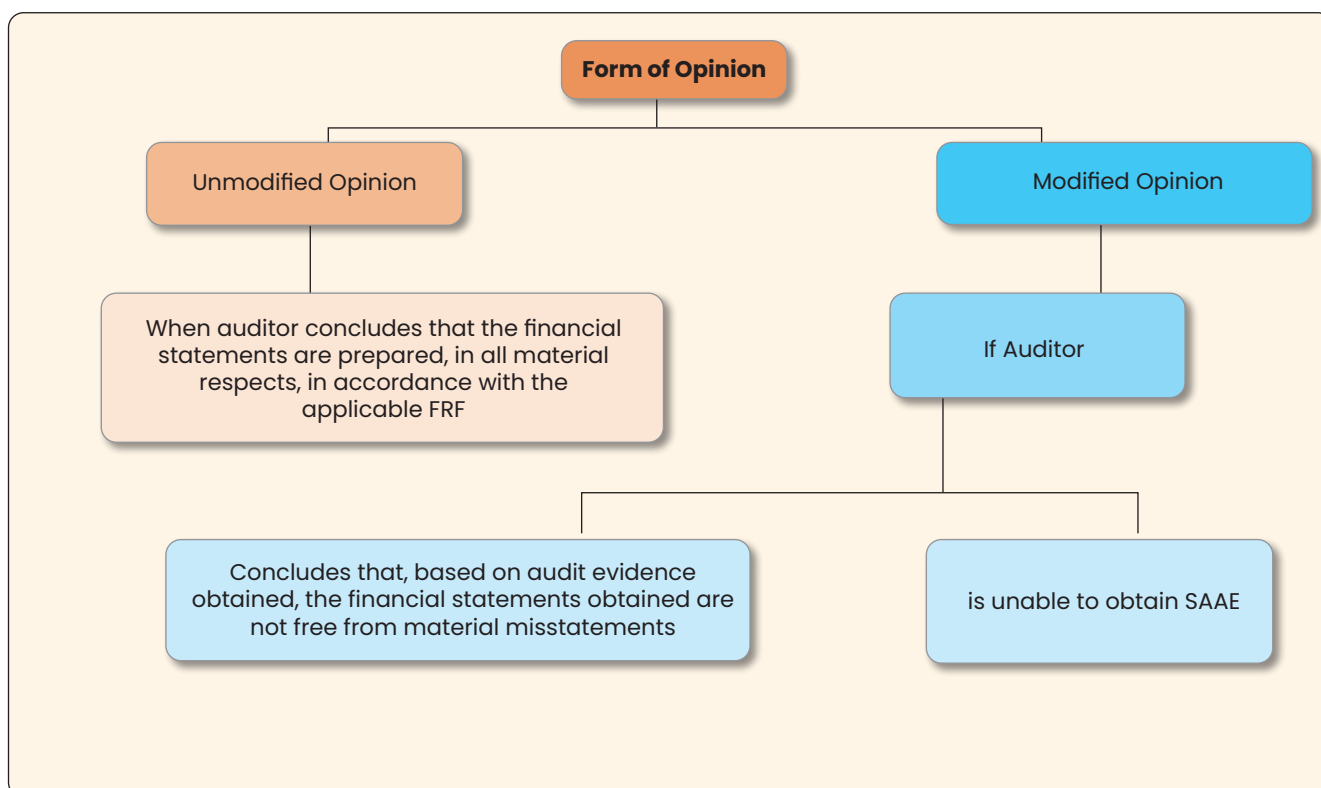
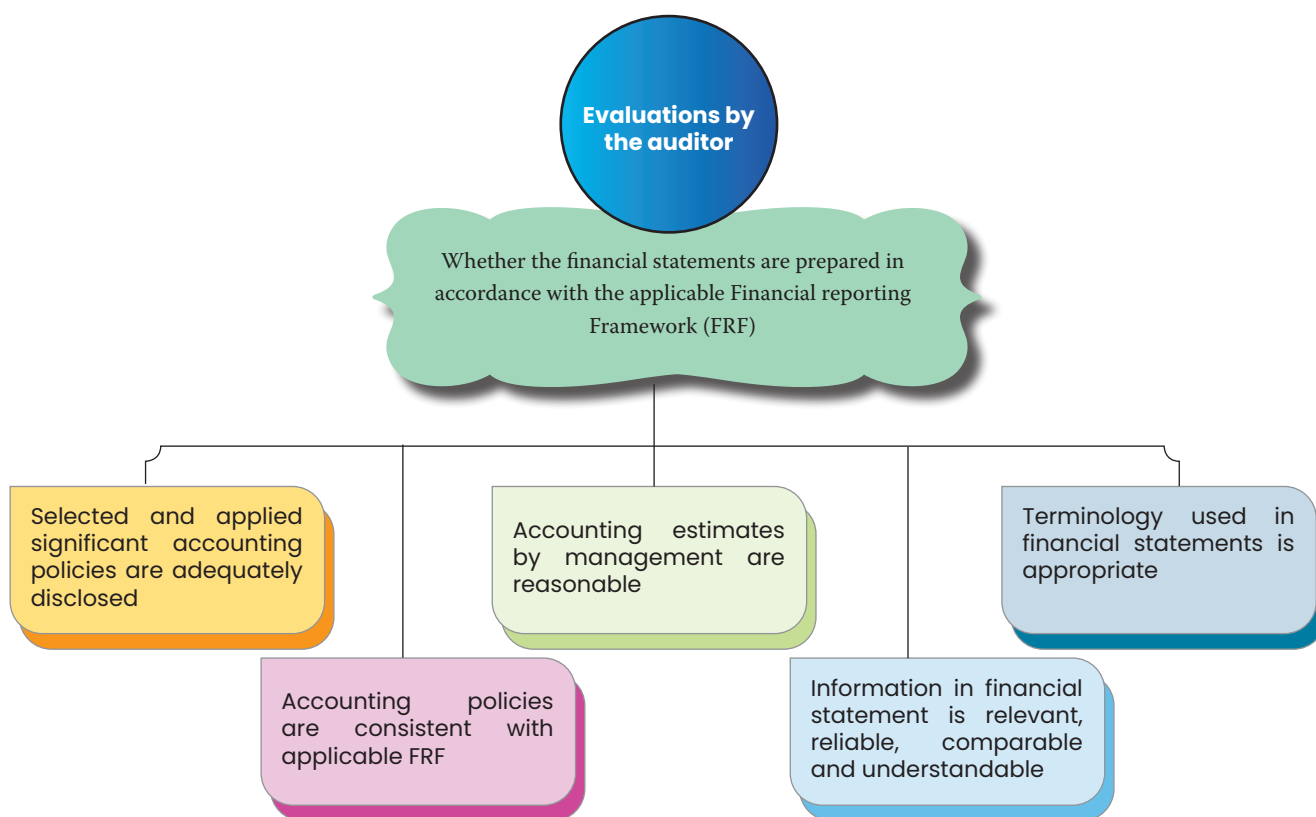




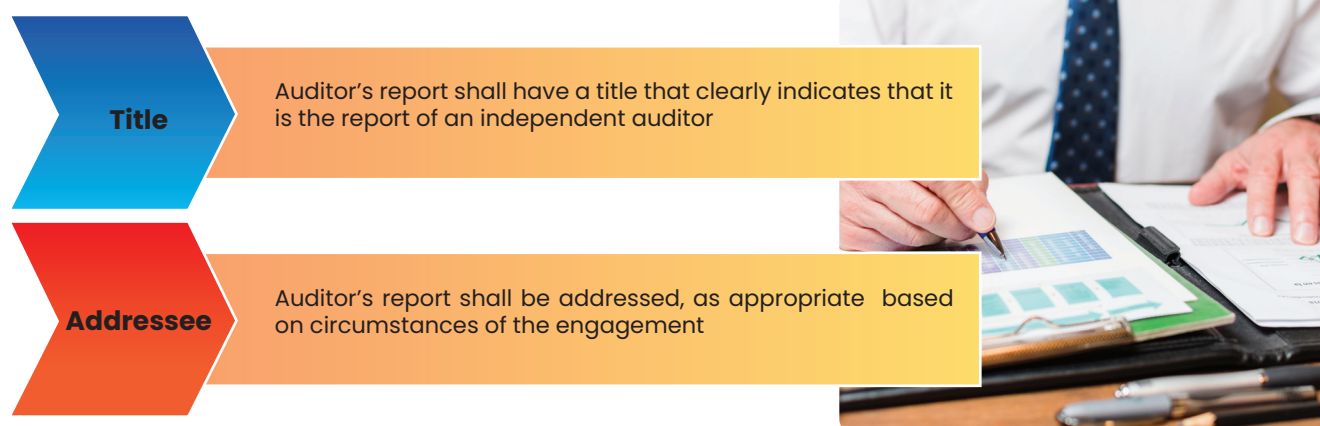
Chapter 8: Audit Report

SA 700 “Forming an Opinion and Reporting on Financial Statements”

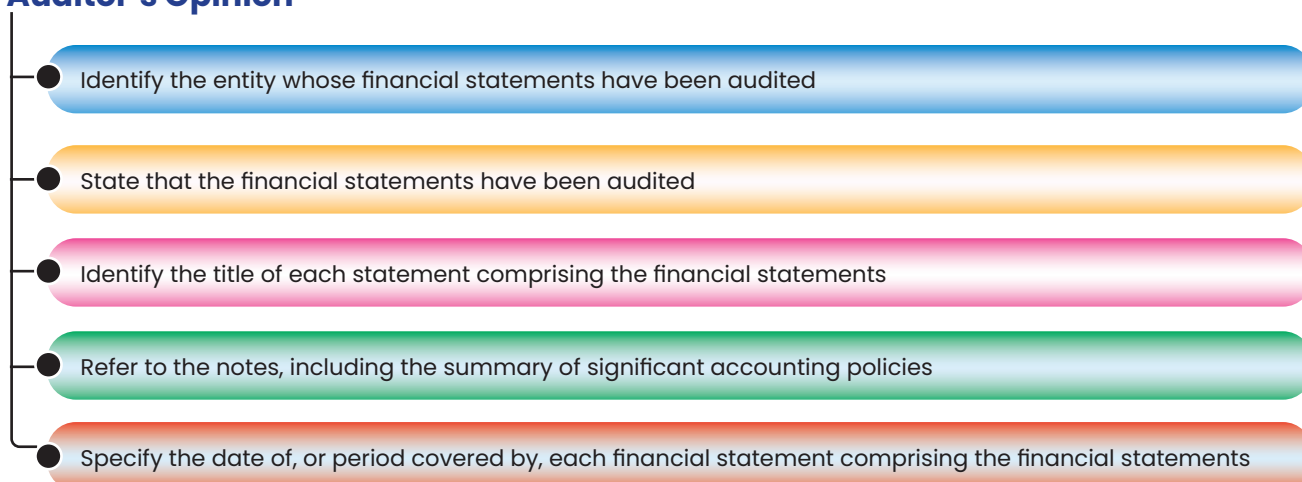




Auditor's Report

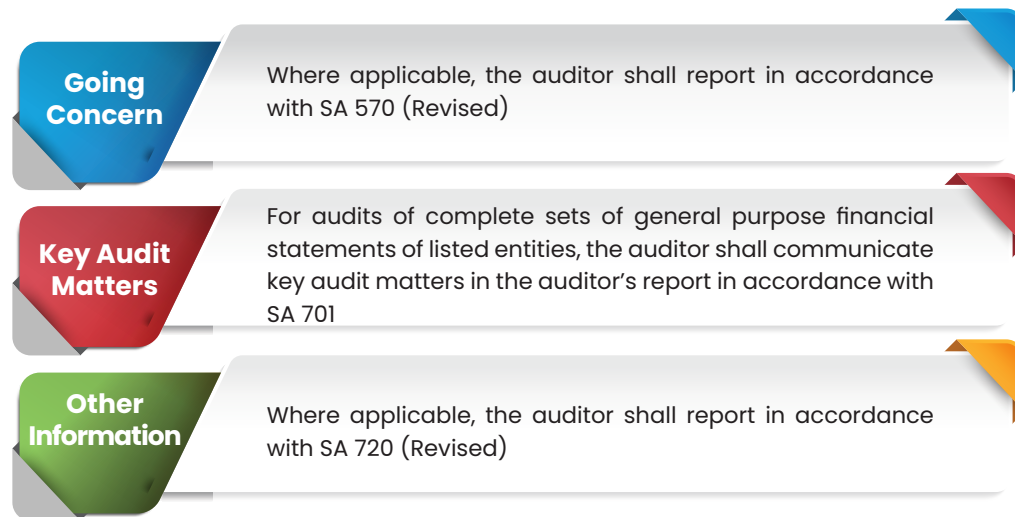


Auditor's Opinion



Basis for Opinion

- States that audit was conducted in accordance with SAs
- Refers to section of auditor's report that describes auditor's responsibilities under the SAs
- Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements
- States whether the auditor believes that audit is sufficient and appropriate to provide a basis for the auditor's opinion



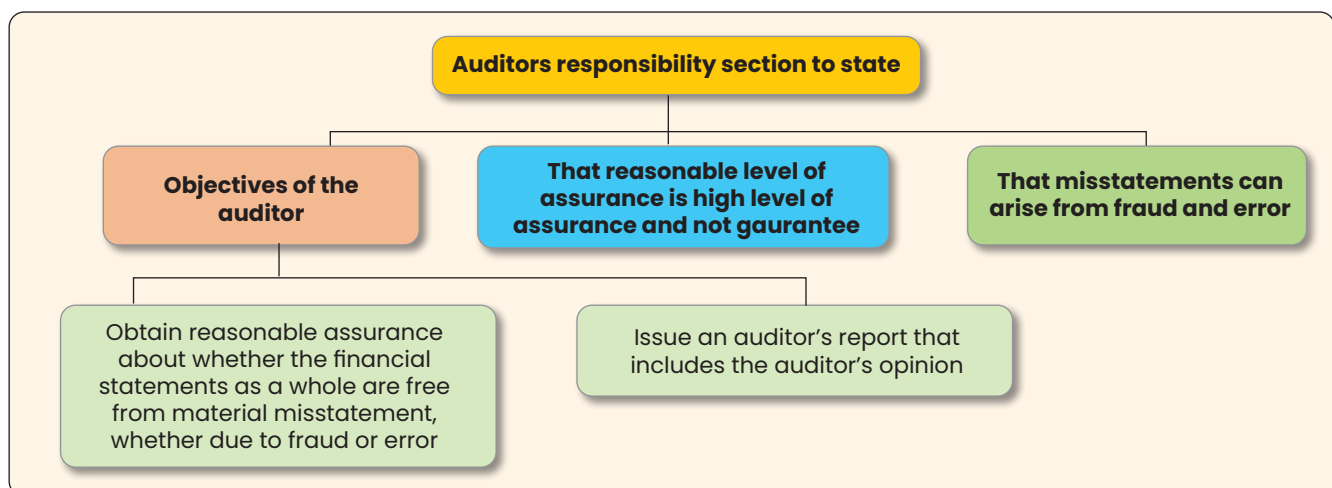
Responsibilities For The Financial Statements

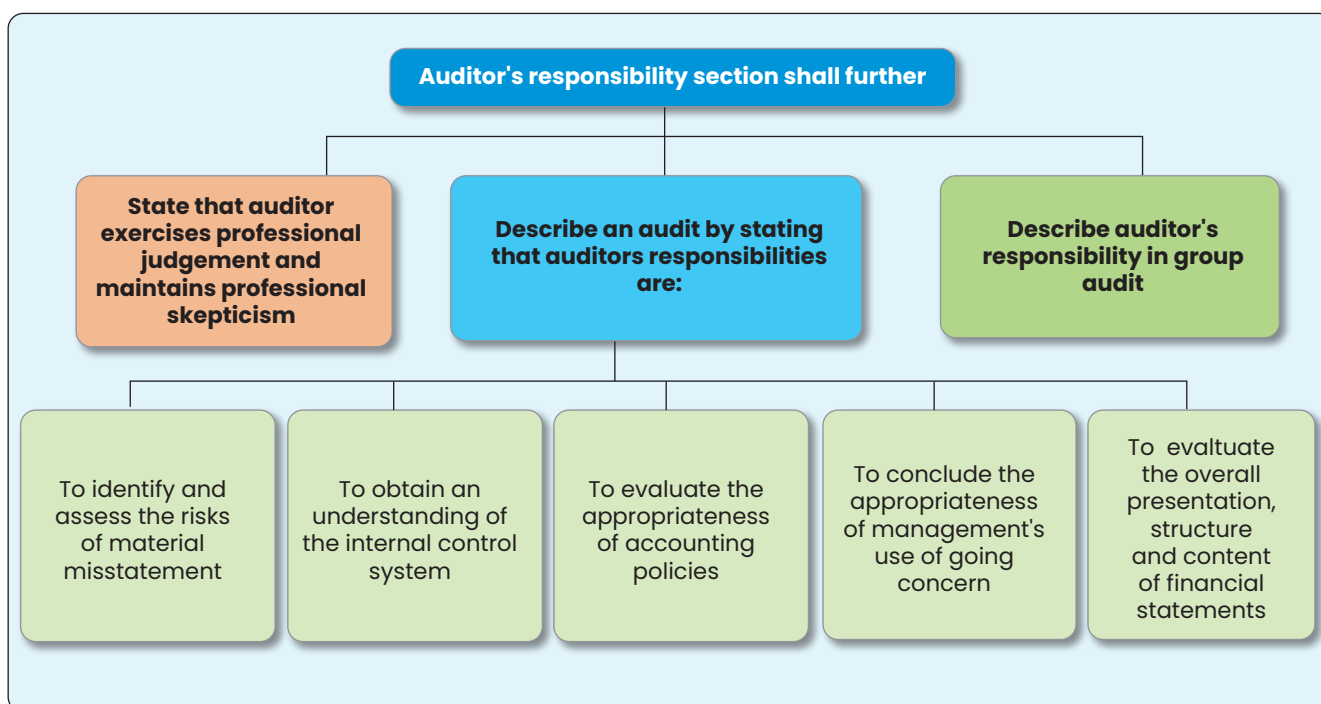
This section of the auditor's report shall describe management's responsibility for:

Preparing the financial statements in accordance with the applicable FRF, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

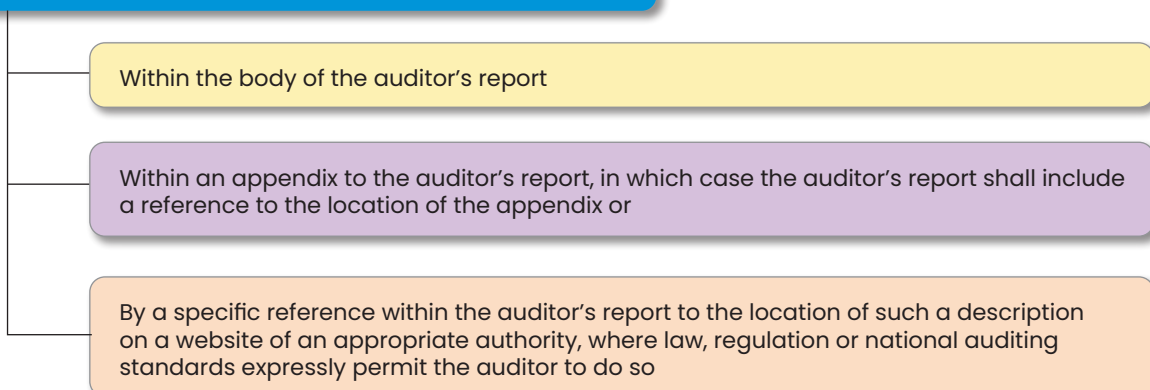
Assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern

Auditor's Responsibilities for the Audit of the Financial Statements





Location of the description of the auditor's responsibilities for the audit of the financial statements



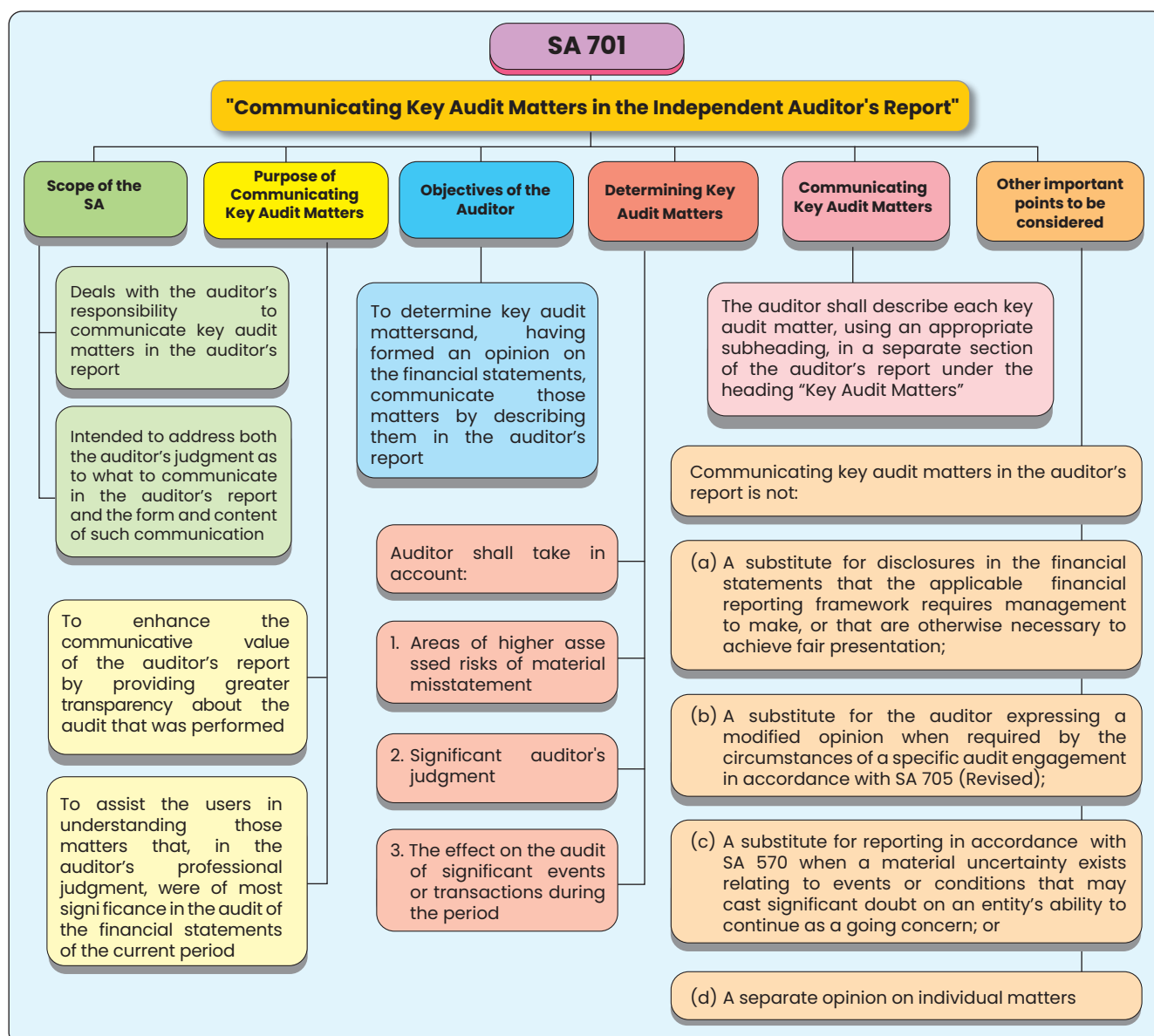
Other Reporting Responsibilities:

If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under the SAs, these other reporting responsibilities shall be addressed in a separate section in the auditor's report with a heading titled **Report on Other Legal and Regulatory Requirements** or otherwise as appropriate to the content of the section





SA 701 "Communicating Key Audit Matters In The Independent Auditor's Report"



SA 705 “Modifications to the Opinion in the Independent Auditor’s Report”

Scope

SA deals with the auditor’s responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700 (Revised), the auditor concludes that a modification to the auditor’s opinion on the financial statements is necessary

Circumstances When a Modification to the Auditor’s opinion is Required

The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or

The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement

Types of Modified Opinions:



Qualified Opinion

The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, are material, but not pervasive or

Auditor is unable to obtain SAAE on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive



Adverse Opinion

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



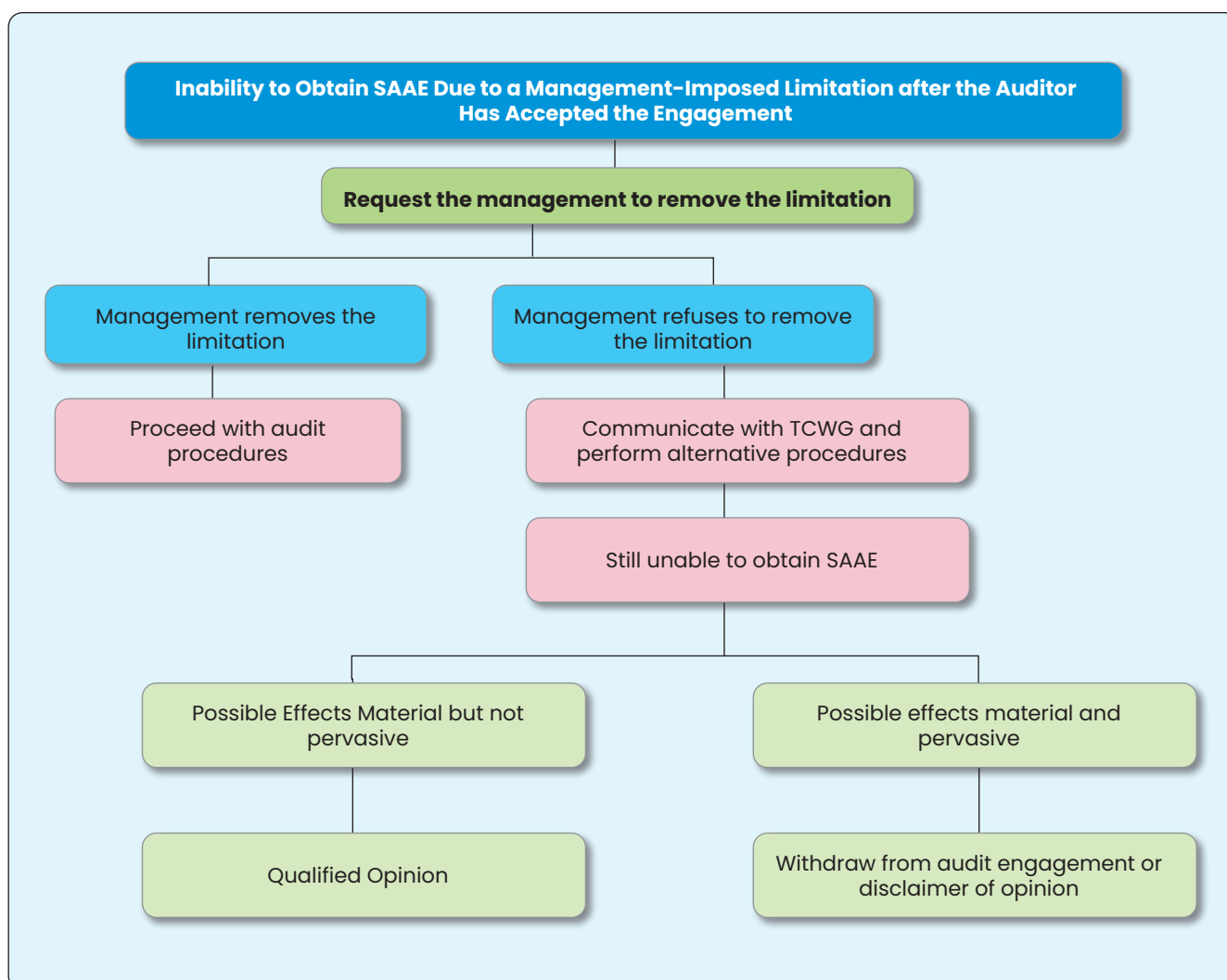
Disclaimer of Opinion

The auditor shall disclaim an opinion when he is unable to obtain SAAE on which to base the opinion, and he concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive

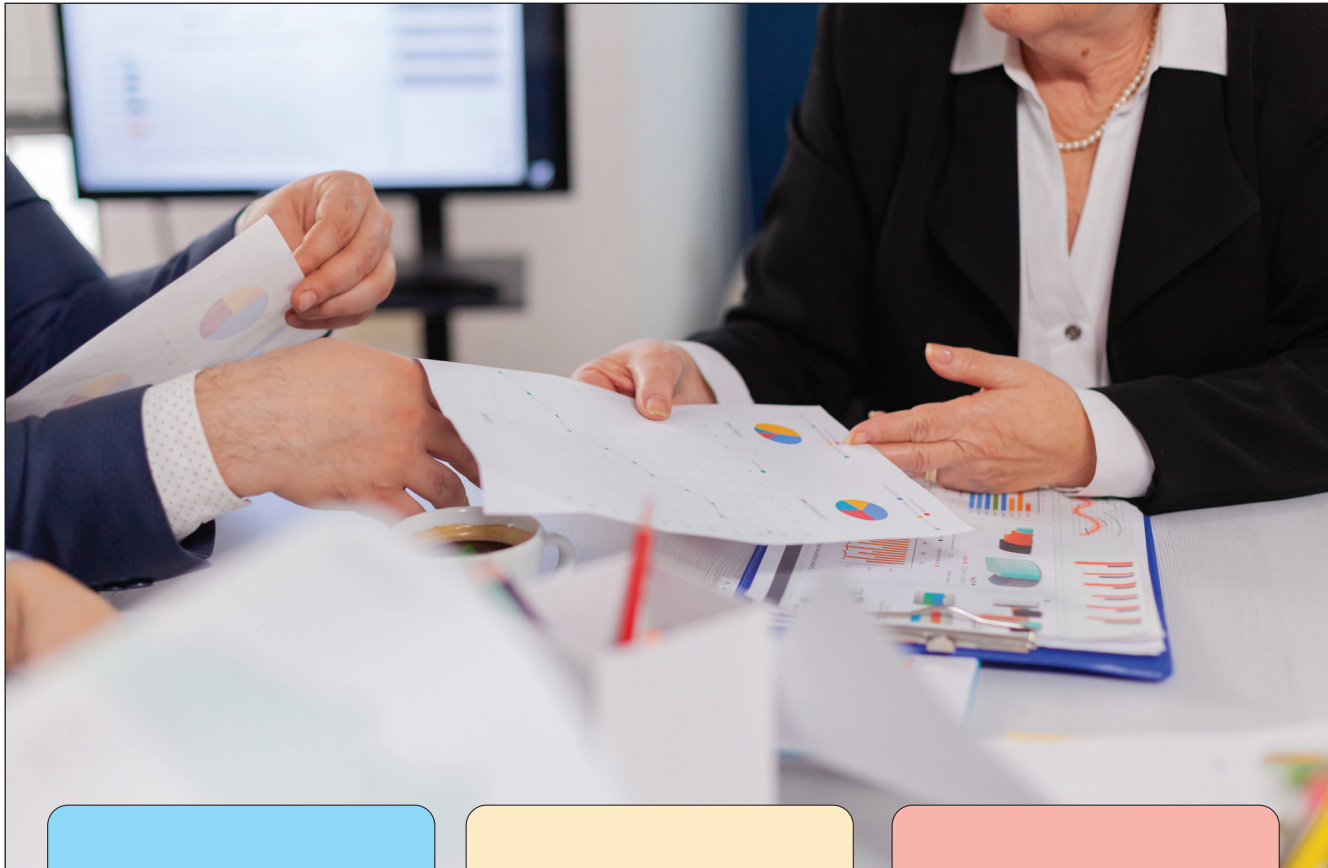
Which type of opinion is appropriate?

Nature of Matter Giving Rise to the Modification?	Auditor's Judgement about the Pervasiveness of the Effects or Possible Effects on the Financial Statements	
	Material but not Pervasive	Material and Pervasive
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Consequence of an Inability to Obtain SAAE Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement



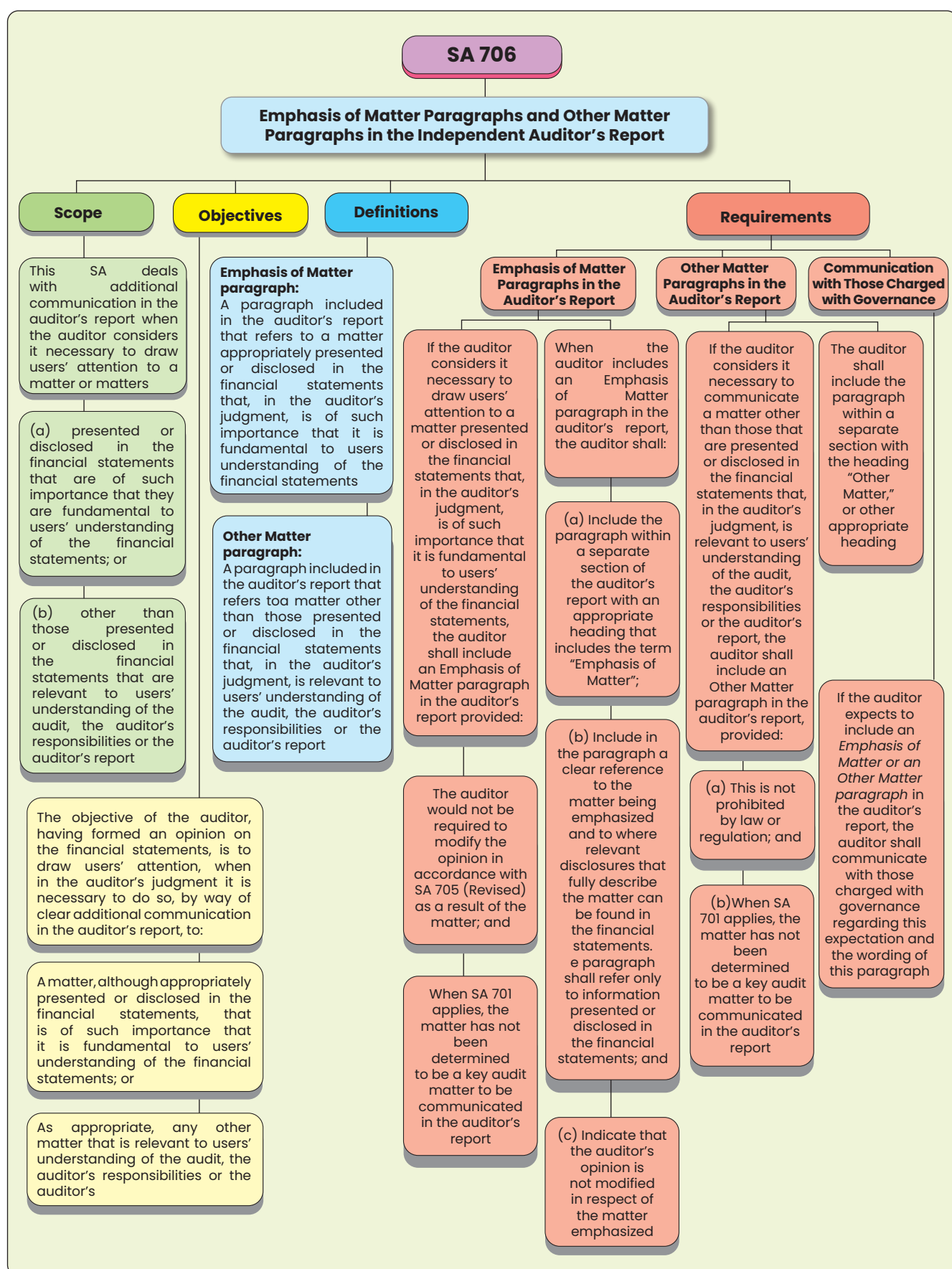
Description of Auditor's Responsibilities for the Audit of the Financial Statements When the Auditor Disclaims an Opinion on the Financial Statements

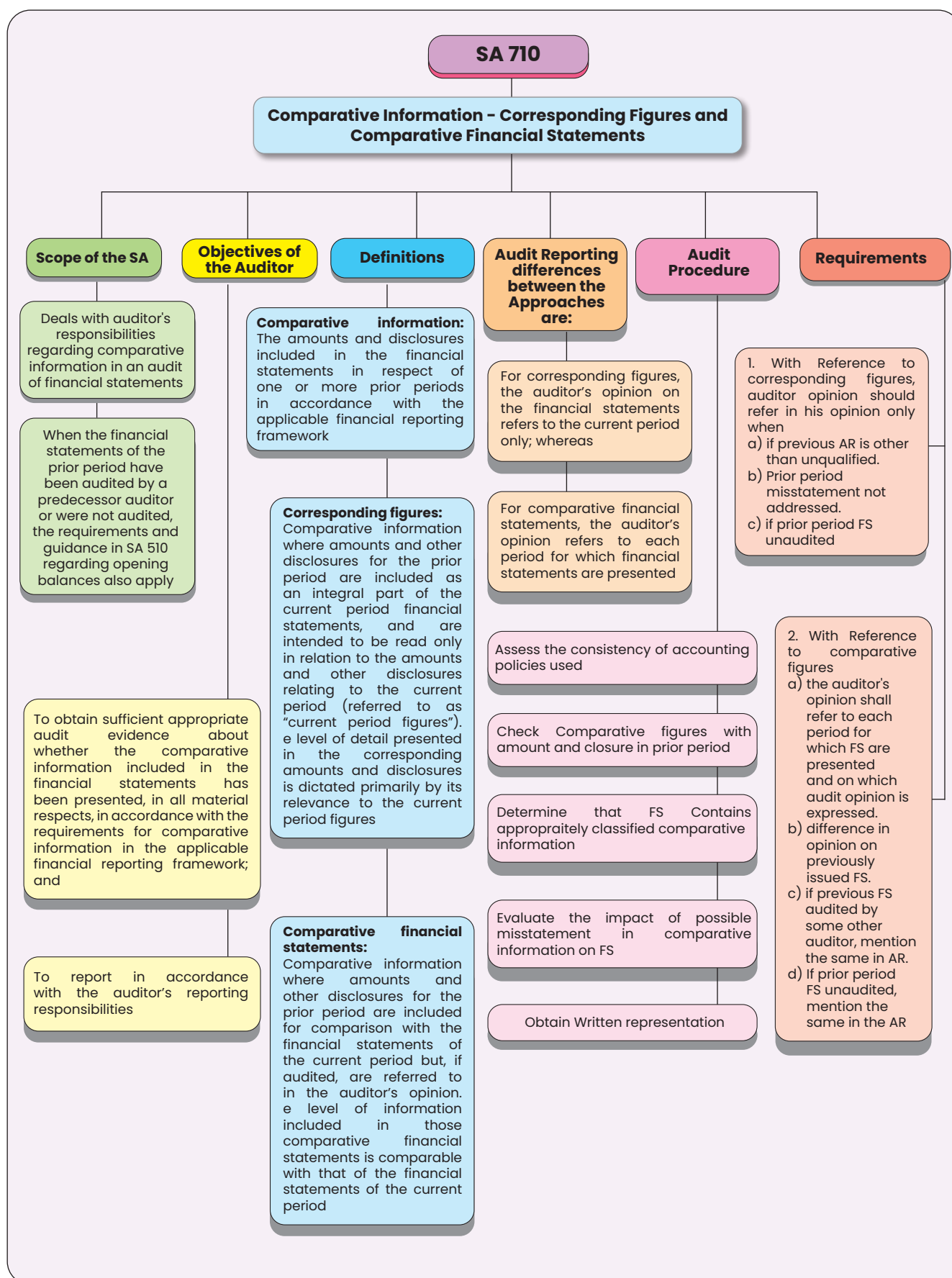


Statement that
auditor's responsibility
is to conduct an audit
in accordance with
SA and to issue an
auditor's report

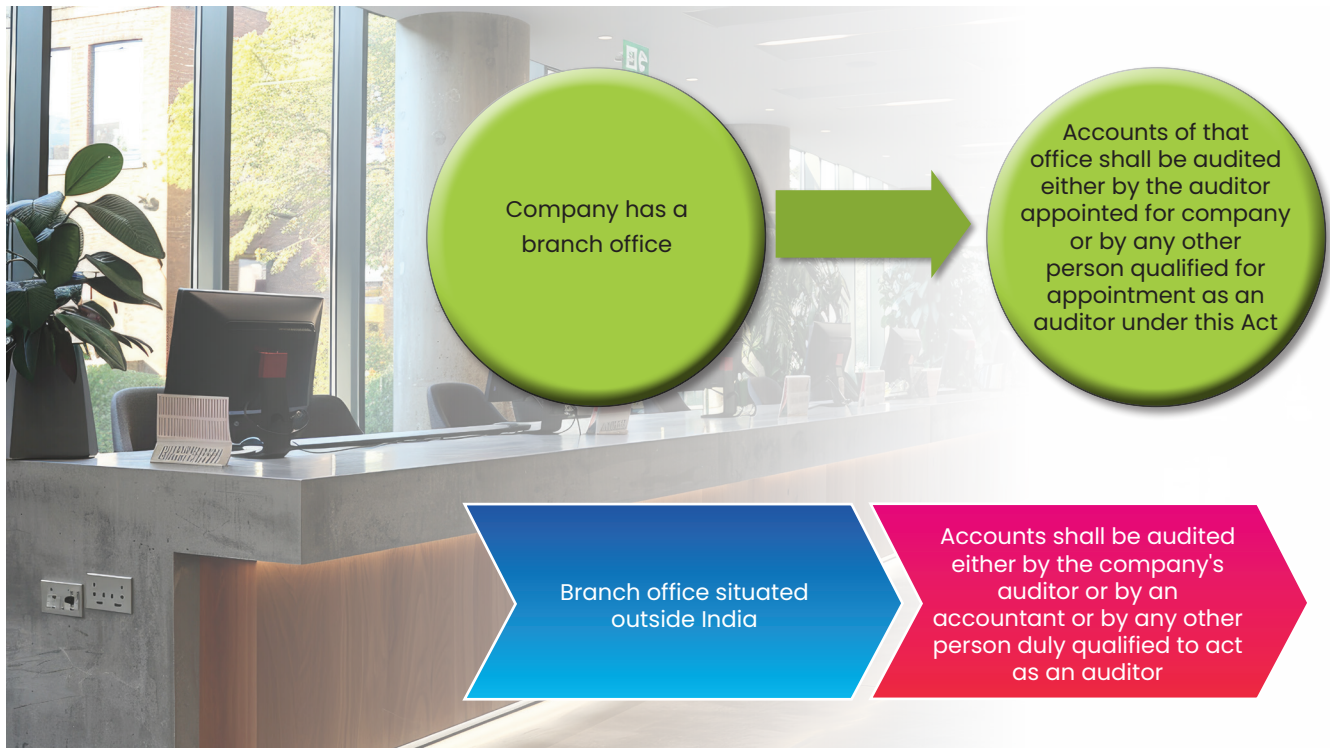
Statement that,
auditor was not able
to obtain SAAE to
provide a basis for an
audit opinion on the
financial statements

Statement about
auditor independence
and other ethical
responsibilities
required by
SA 700 (Revised)

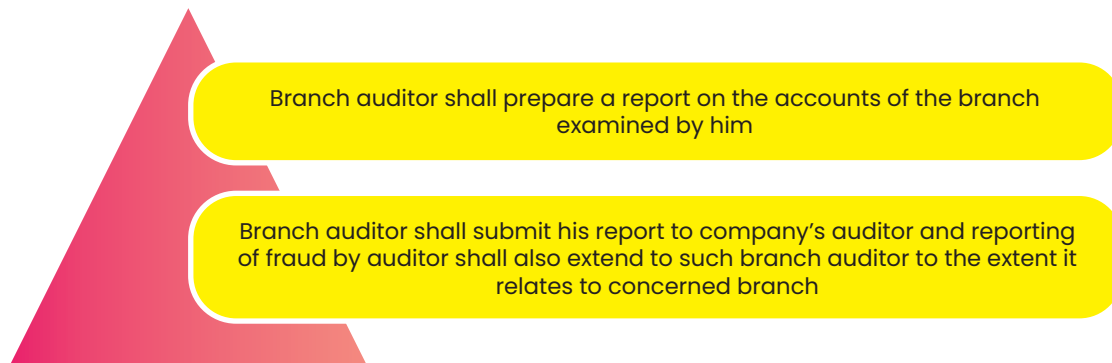




Audit of Branch Office Accounts



Duties and Powers of Branch Auditor



SA 600 "Using the work of another auditor"

When using the work of another auditor, the principal auditor should ordinarily perform the following procedures:

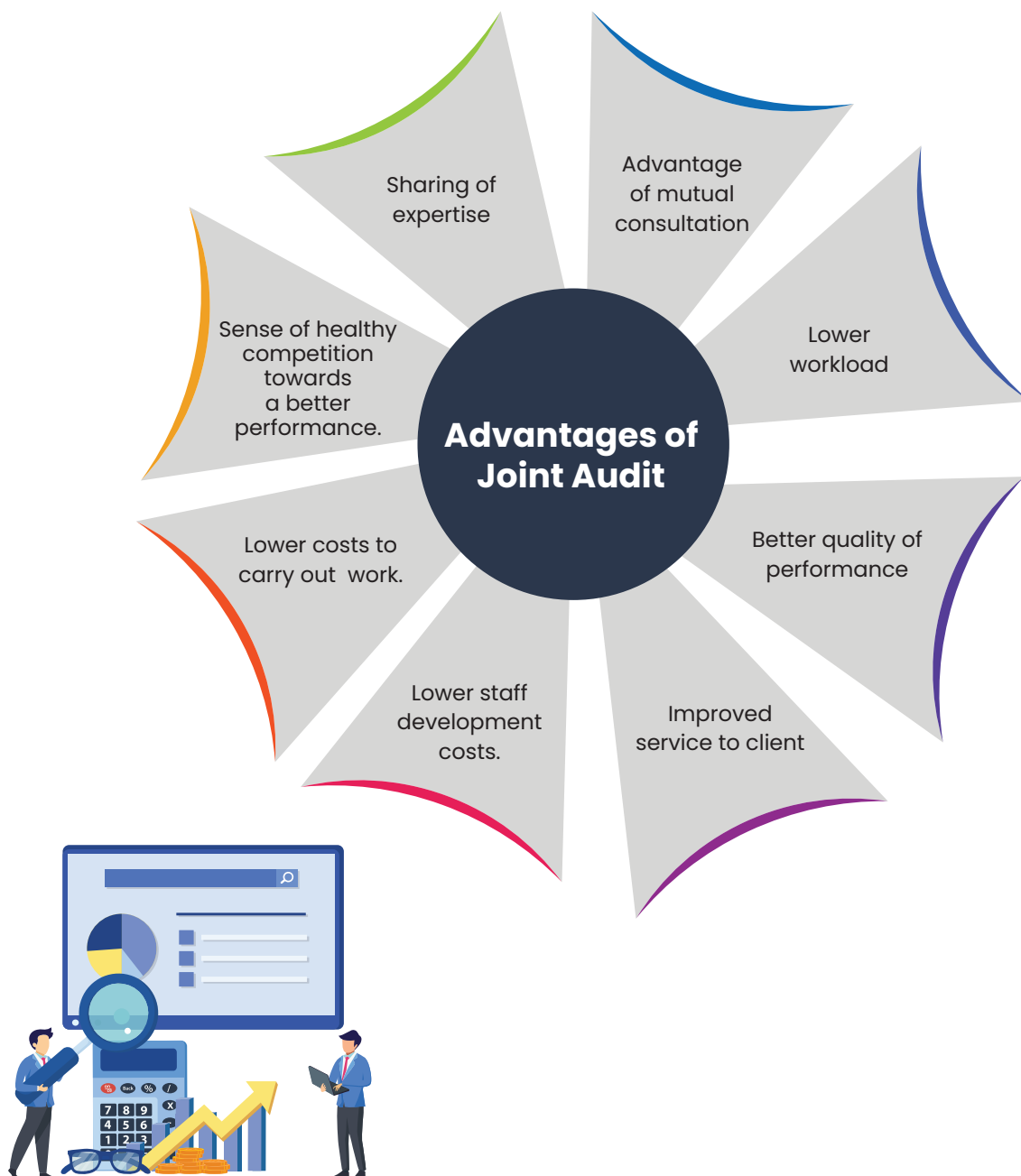
Advise the other auditor of the use that is to be made of the other auditor's work and report and make sufficient arrangements for co-ordination of their efforts at the planning stage of the audit

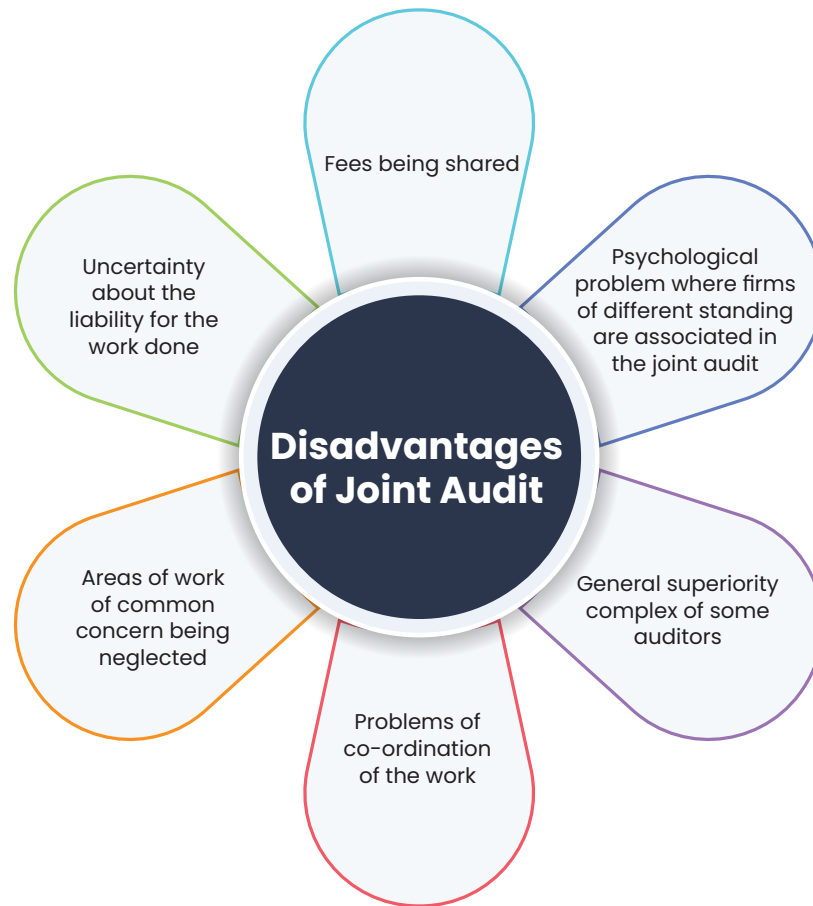
Advise the other auditor of the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them

Joint Audit

Joint audit basically implies pooling together 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

Advantages of Joint Audit



Disadvantages of Joint Audit**SA 299 (Revised) “Joint Audit of Financial Statements”****SA 299 requires that:**

Engagement partner and other key members of the engagement team from each of the joint auditors should be involved in planning the audit

Joint auditors should jointly establish an overall audit strategy which sets the scope, timing and direction of the audit

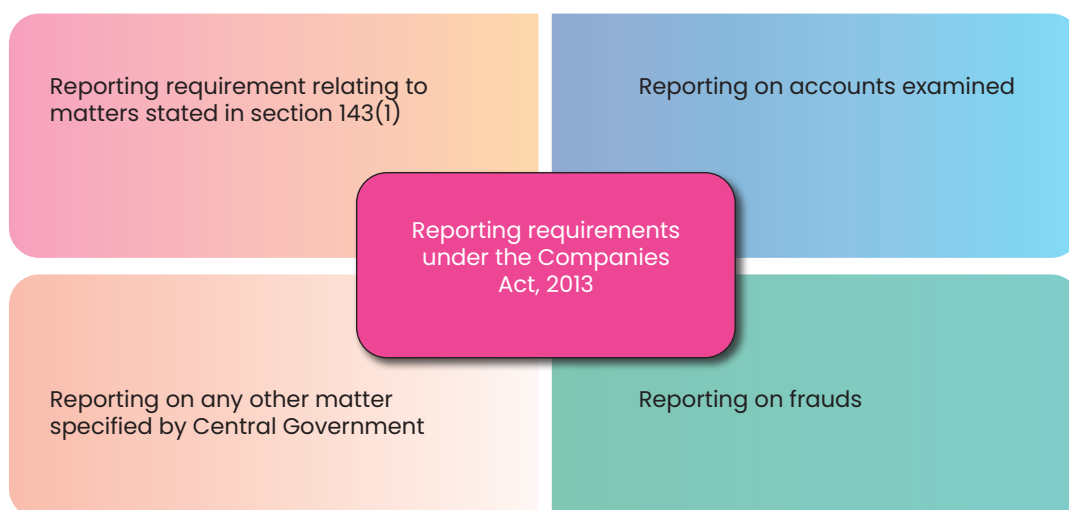
Each of the joint auditors should consider and assess ROMM and communicate to other joint auditors

Joint auditors should obtain common engagement letter and common management representation letter

Work allocation document should be signed by all the joint auditors and communicated to TCWG

Joint auditors shall be jointly and severally responsible for:

- Audit work not divided among the joint auditors and is carried out by all joint auditors
- Decisions taken by all the joint auditors under audit planning in respect of common audit areas
- Matters brought to notice of joint auditors by any one of them and there is an agreement among the joint auditors on such matters
- Examining that financial statements of entity comply with requirements of the relevant statutes
- Presentation and disclosure of financial statements as required by the applicable FRF
- Ensuring that audit report complies with the requirements of relevant statutes, applicable SA and other relevant pronouncements issued by ICAI



Reporting Requirement Relating to Matters Stated in Section 143(1)

Under section 143(1), auditor shall inquire into following matters:

Whether loans and advances made by company on basis of security have been properly secured and whether terms on which they have been made are prejudicial to interests of company or its members

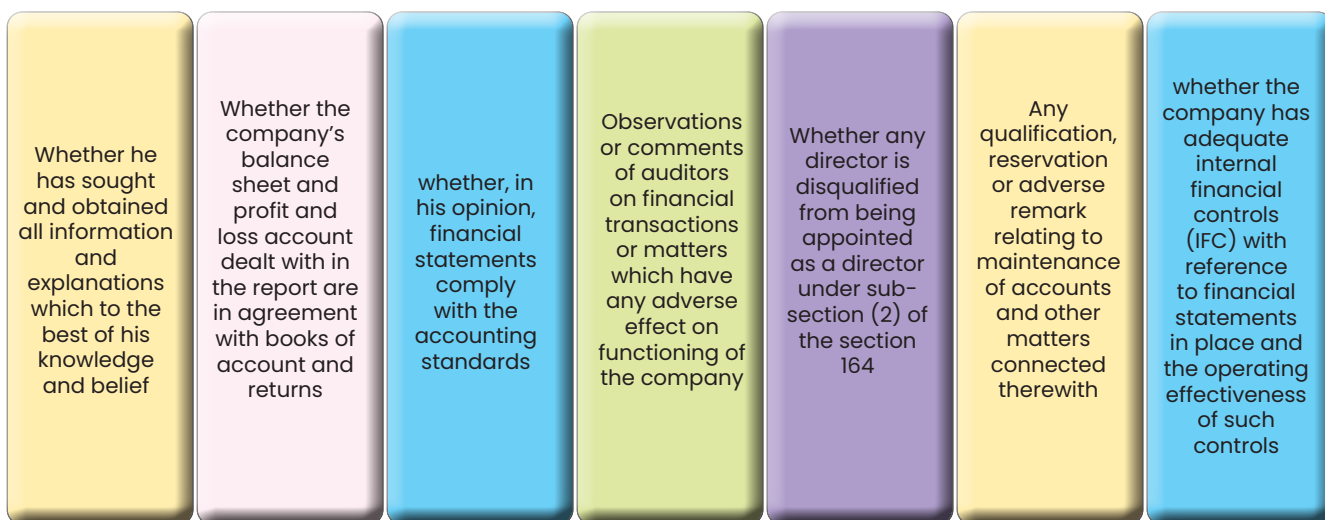
Whether transactions of company which are represented merely by book entries are prejudicial to the interests of the company

Whether loans and advances made by company have been shown as deposits

Where company not being an investment company or 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 purchase price by company

Whether personal expenses have been charged to revenue account

Reporting on accounts examined [Section 143(3)]



Reporting requirement on adequacy of IFC with reference to financial statements shall not be applicable to a private company which is a:

One person company; or

Small company; or

Company having turnover less than ₹50 crore and having aggregate borrowings from banks or financial institutions or any body corporate at any point of time during the financial year less than ₹25 crore

Reporting on Any Other Matter Specified By Central Government

Central Government may, in consultation with the NFRA, 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



Reporting on frauds

Reporting to Central Government

If an auditor has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of ₹1 crore or above, is being or has been committed in company by its officers or employees, auditor shall report the matter to Central Government within such time and in such manner as prescribed

Reporting to Audit Committee or Board

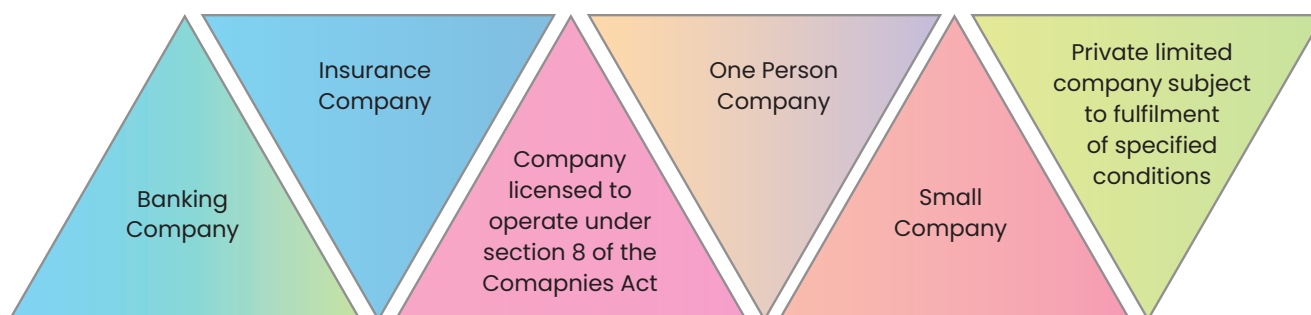
In case of a fraud involving lesser than ₹1 crore, auditor shall report the matter to audit committee constituted under section 177 or to Board in other cases within such time and in such manner as prescribed

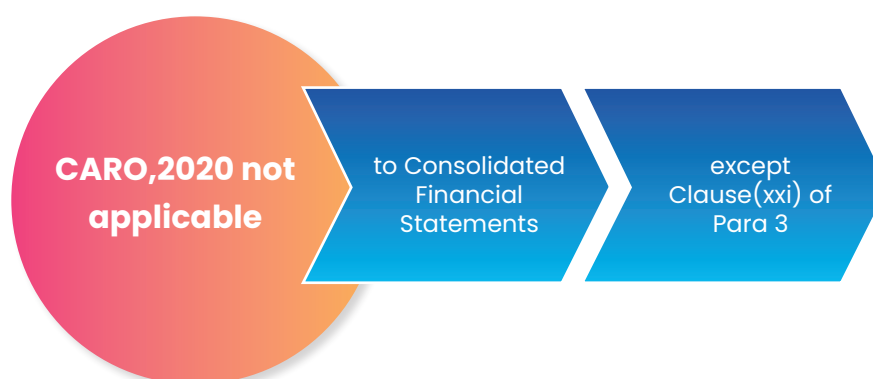
REPORTING UNDER COMPANIES AUDITOR'S REPORT ORDER, 2020 (CARO, 2020)

Application

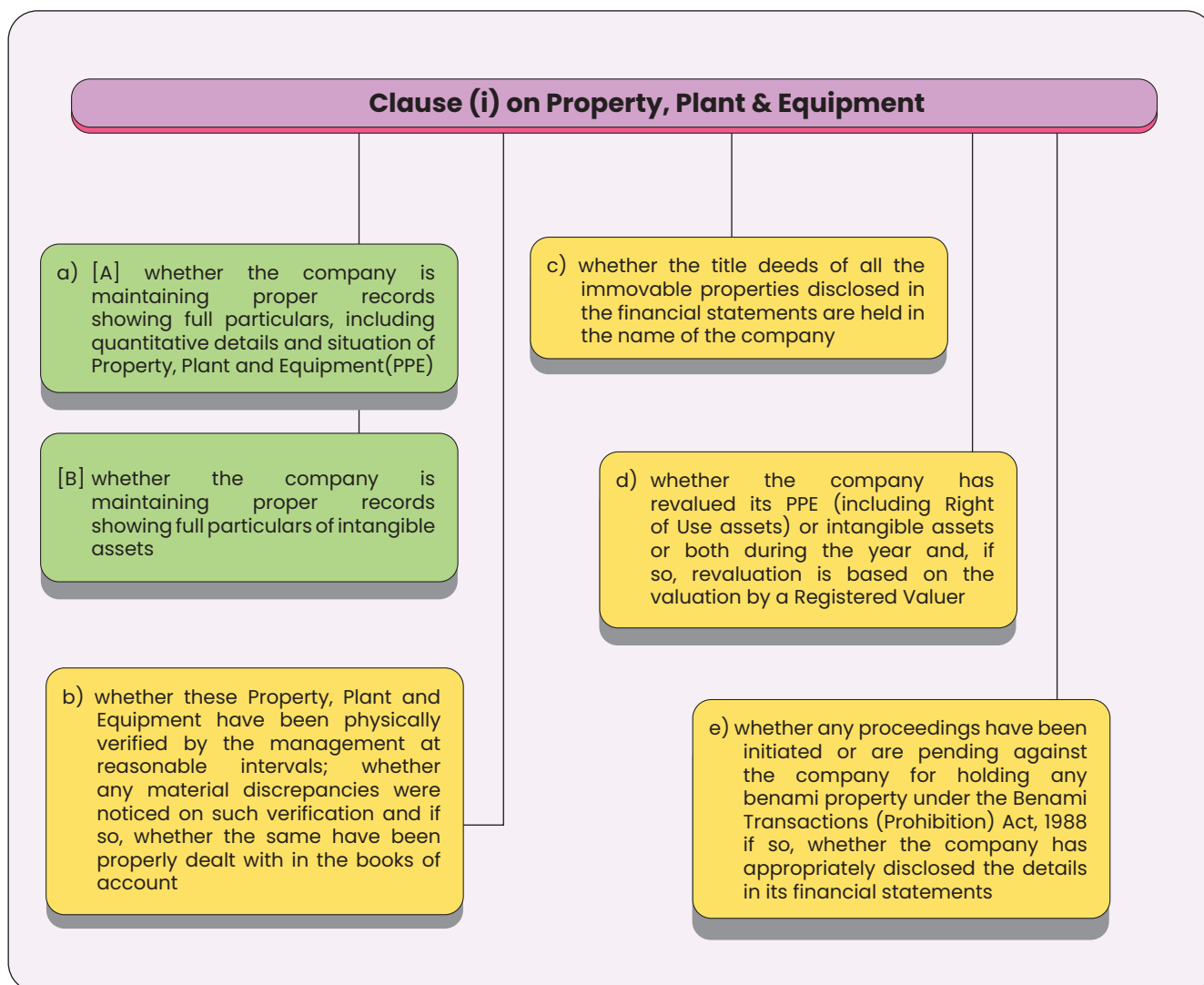
- Apply to every company including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013, except:
 - ▶ Banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949
 - ▶ Insurance company as defined under the Insurance Act, 1938
 - ▶ company licensed to operate under section 8 of the Companies Act
 - ▶ One Person Company as defined in clause (62) of section 2 of the Companies Act and a small company as defined in clause (85) of section 2 of the Companies Act
 - ▶ private limited company, not being a subsidiary or holding company of a public company, having
 - paid up capital and reserves and surplus not more than 1 crore rupees as on the balance sheet date and
 - does not have total borrowings exceeding 1 crore rupees from any bank or financial institution at any point of time during the financial year and
 - does not have a total revenue as disclosed in Scheduled III to the Companies Act (including revenue from discontinuing operations) exceeding 10 crore rupees during the financial year as per the financial statements

Exempted Class under CARO, 2020





Matters to be included in Auditor's Report: Paragraph 3 of the CARO 2020



Clause (ii) on Inventory

a) Whether physical verification of inventory has been conducted at reasonable intervals. Whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt

b) Whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets. Whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details

Clause (iii) on Investments, Guarantee/ Security, Loans or Advances:

Whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, if so,-

(a) whether during the year the company has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity if so, indicate:

- (A) aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates
- (B) aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to parties other than subsidiaries, joint ventures and associates

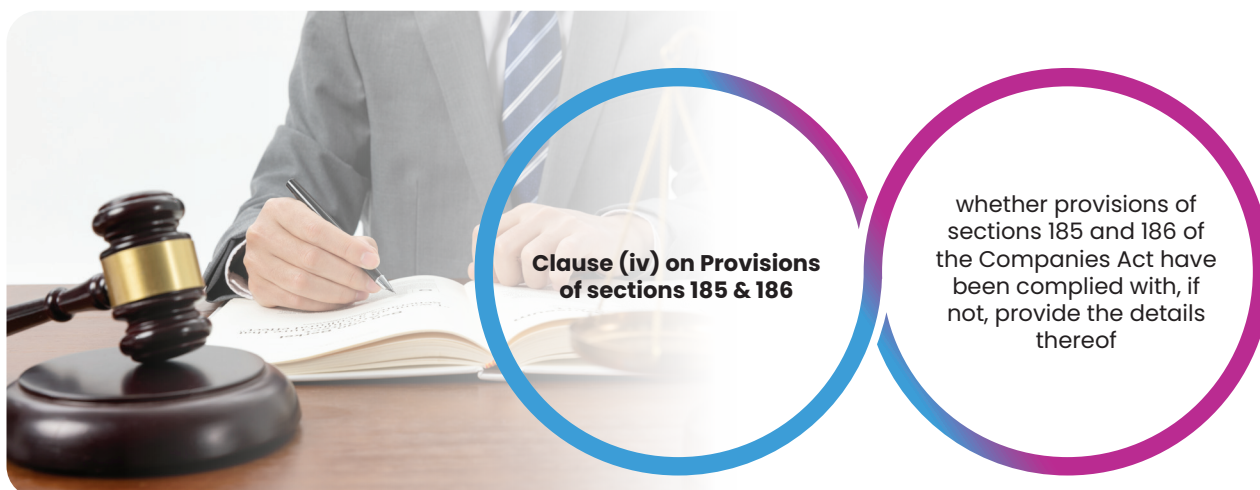
(b) whether investments made, guarantees provided, security given and the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided are not prejudicial to the company's interest

(c) in respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular

(d) if the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest

(e) 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 the same parties, if so, specify the aggregate amount of such dues renewed or extended or settled by fresh loans and the percentage of the aggregate to the total loans or advances in the nature of loans granted during the year

(f) whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in clause (76) of section 2 of the Companies Act, 2013



**Clause (v)
on Public
Deposits**

in respect of deposits accepted by the company or amounts which are deemed to be deposits, whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act and the rules made thereunder, where applicable, have been complied with, if not, the nature of such contraventions be stated; if an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not;

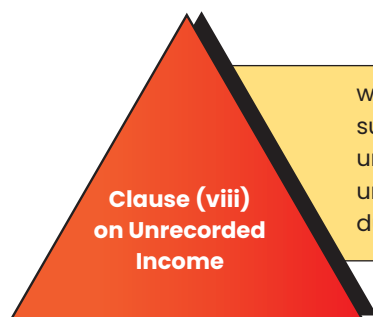
**Clause (vi) on
Cost Records**

Whether maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act and whether such accounts and records have been so made and maintained

**Clause (vii) on
Statutory Dues**

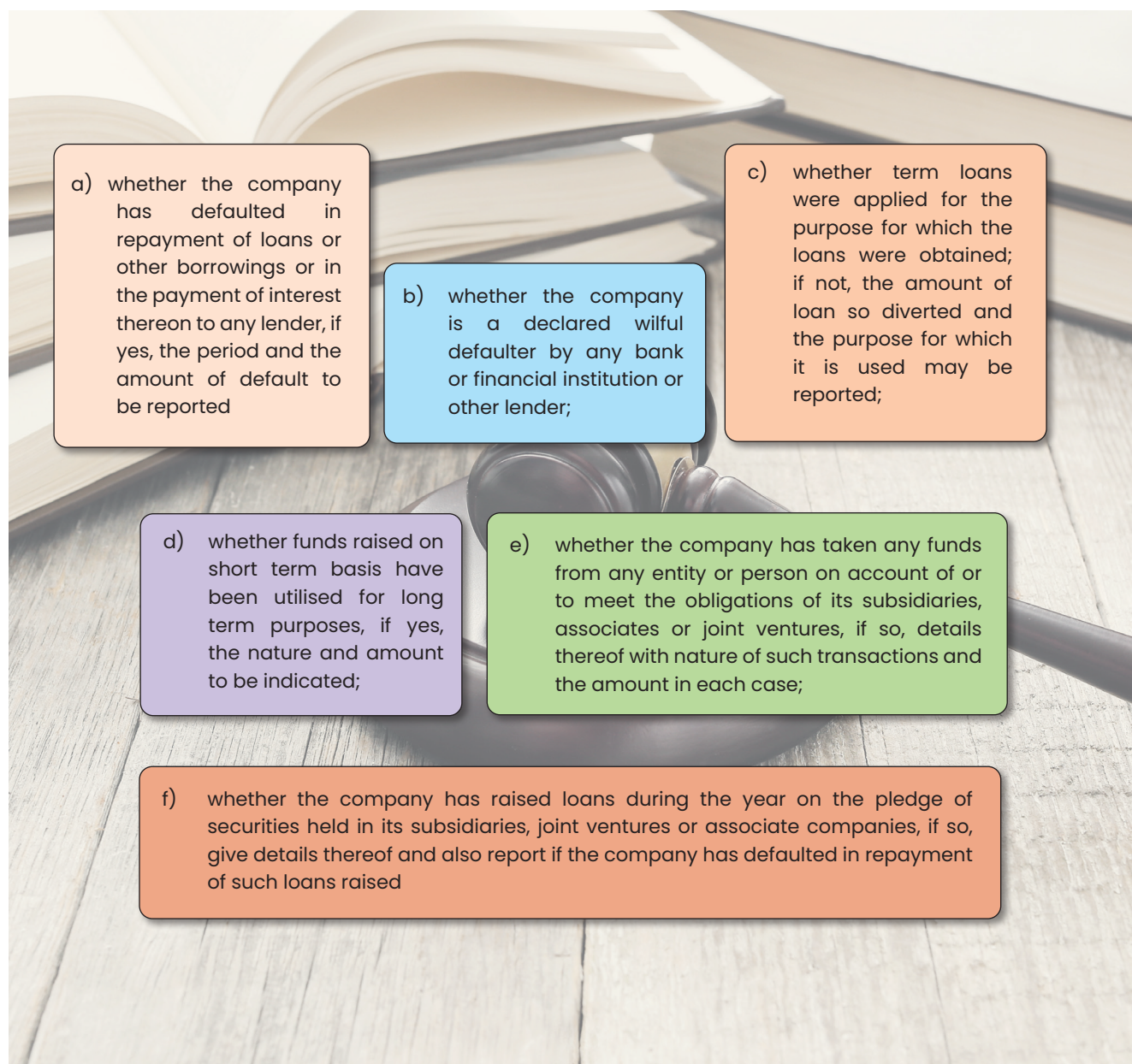
(a) whether the company is regular in depositing undisputed statutory dues including GST, provident fund, employees' state insurance, income tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and) if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated

(b) where statutory dues referred to in sub-clause (a) have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned (a mere representation to the concerned Department shall not be treated as a dispute)



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 (43 of 1961), if so, Whether the previously unrecorded income has been properly recorded in the books of account during the year

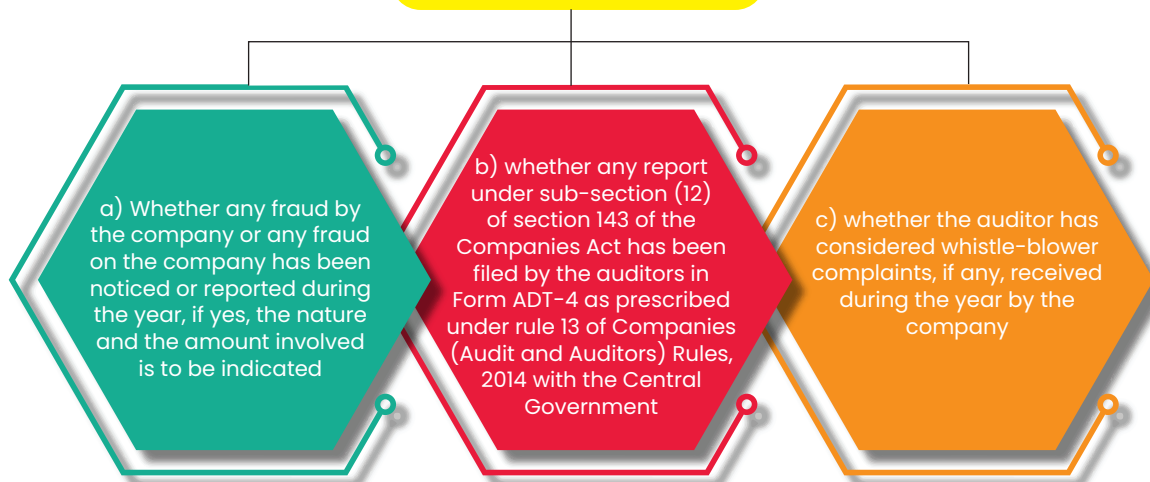
Clause (ix) on Repayment of Dues



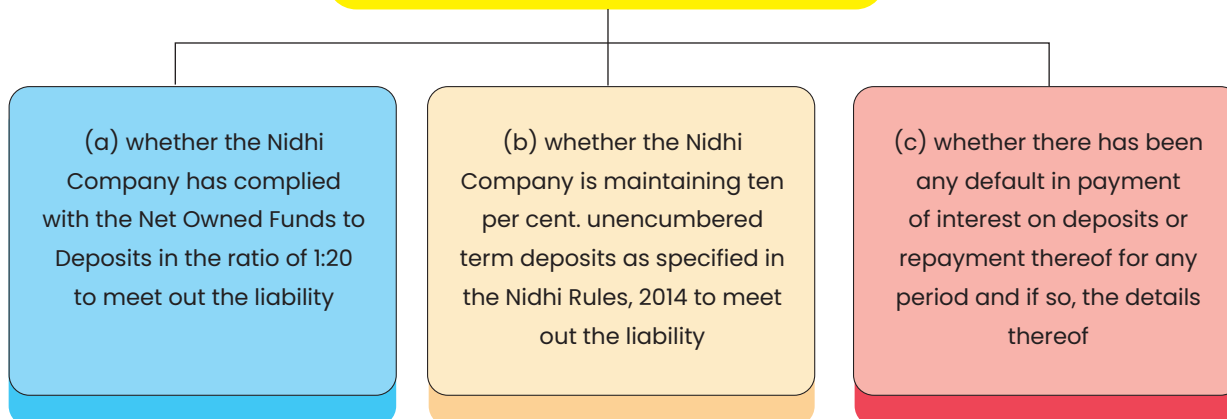
**Clause (x) on
Application of
Money raised
by public issue
and preferential
allotment**

- a) Whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year were applied for the purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported
- b) whether the 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, whether the requirements of section 42 and section 62 of the Companies Act, 2013 have been complied with and the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved and nature of non compliance

Clause (xi) on Fraud



Clause (xii) on Nidhi Company



Clause (xiii) on Transactions with related Parties

whether all transactions with the related parties are in compliance with sections 177 and 188 of the Companies Act where applicable and the details have been disclosed in the financial statements, etc., as required by the applicable accounting standards

Clause (xiv) on Internal Audit System

a) Whether the company has an internal audit system commensurate with the size and nature of its business;

b) whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor

Clause (xv) on Non cash transactions with directors

Whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of the Companies Act have been complied with

Clause (xvi) on Registration with RBI

a) whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 (2 of 1934) and if so, whether the registration has been obtained

b) whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934

c) whether the company is a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India, 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

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

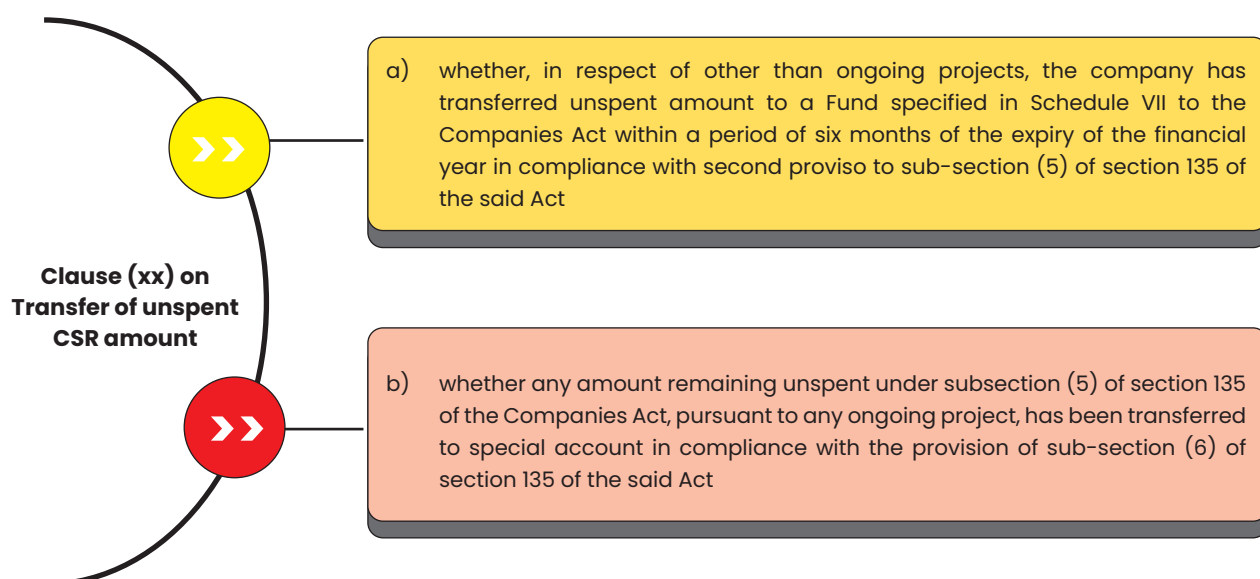
Clause (xvii) on Cash Losses

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

Clause (xviii) on Resignation of statutory auditors

Clause (xix) on Existence of Material uncertainty- company's ability to meet its liabilities

on the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the financial statements, the auditor's knowledge of the Board of Directors and management plans, whether the auditor is of the opinion that no material uncertainty exists as on the date of the audit report that 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 from the balance sheet date.



Clause (xxi) on Qualifications or adverse remarks in CARO Reports of group companies

whether there have been any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included in the consolidated financial statements, if yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks

Paragraph 4. Reasons to be Stated for Unfavourable or Qualified Answers

Paragraph 4. Reasons to be stated for unfavourable or qualified answers

Where, in the auditor's report, the answer to any of the questions referred to in paragraph 3 is unfavourable or qualified, the auditor's report shall also state the basis for such unfavourable or qualified answer, as the case may be

Where the auditor is unable to express any opinion on any specified matter, his report shall indicate such fact together with the reasons as to why it is not possible for him to give his opinion on the same

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

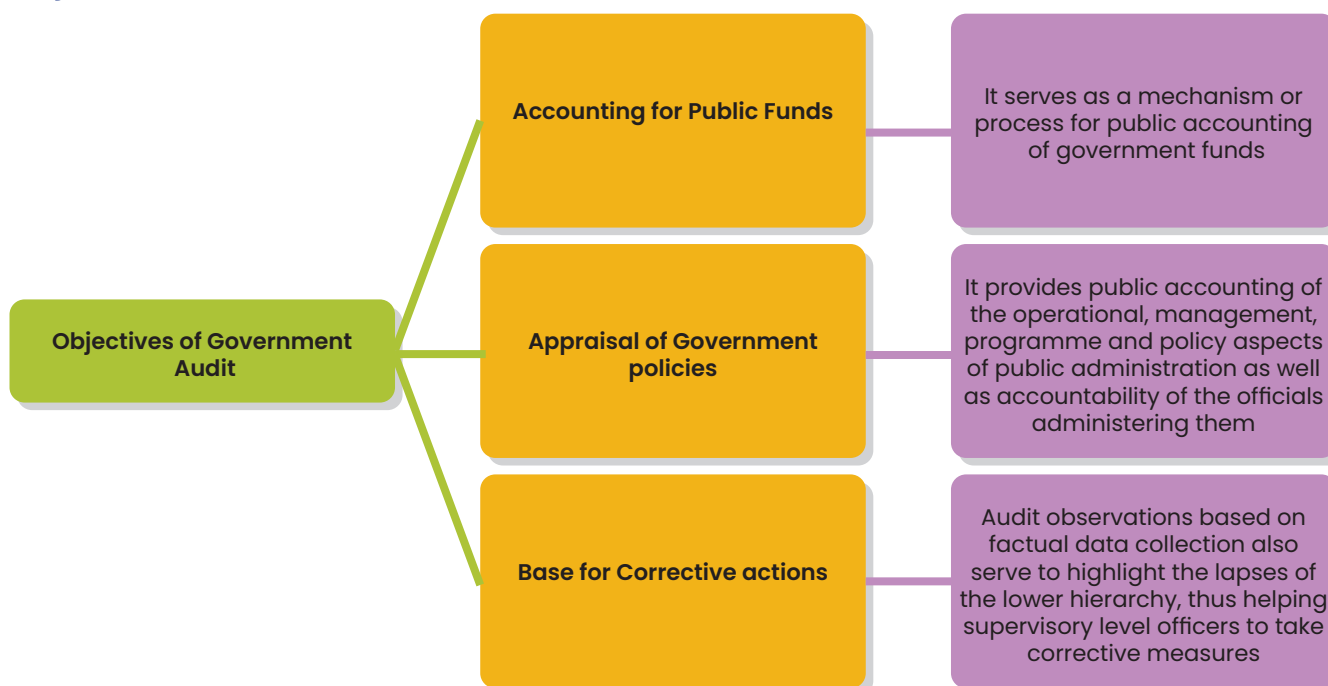
Major points that must be kept in mind while performing the audit of Educational Institution, Charitable Institutions, Cinema, Hospital etc., are

- Examine the constitution of the organisation
- Examine the bye laws or rules and regulations or trust deed
- Examine the powers of the members of the management and other officers
- Examine the minute books of managing committees and of members general meeting as the case may be
- Evaluate the internal Control System in the organisation
- Examine the accounting policies followed and the accounting records maintained
- Check the various receipts of the organisation in the form of fees, rent, income on investment, donations and grants
- Check the various expenditures of the organization like Salary, Rent, General Expenses etc. Verification of assets and liabilities



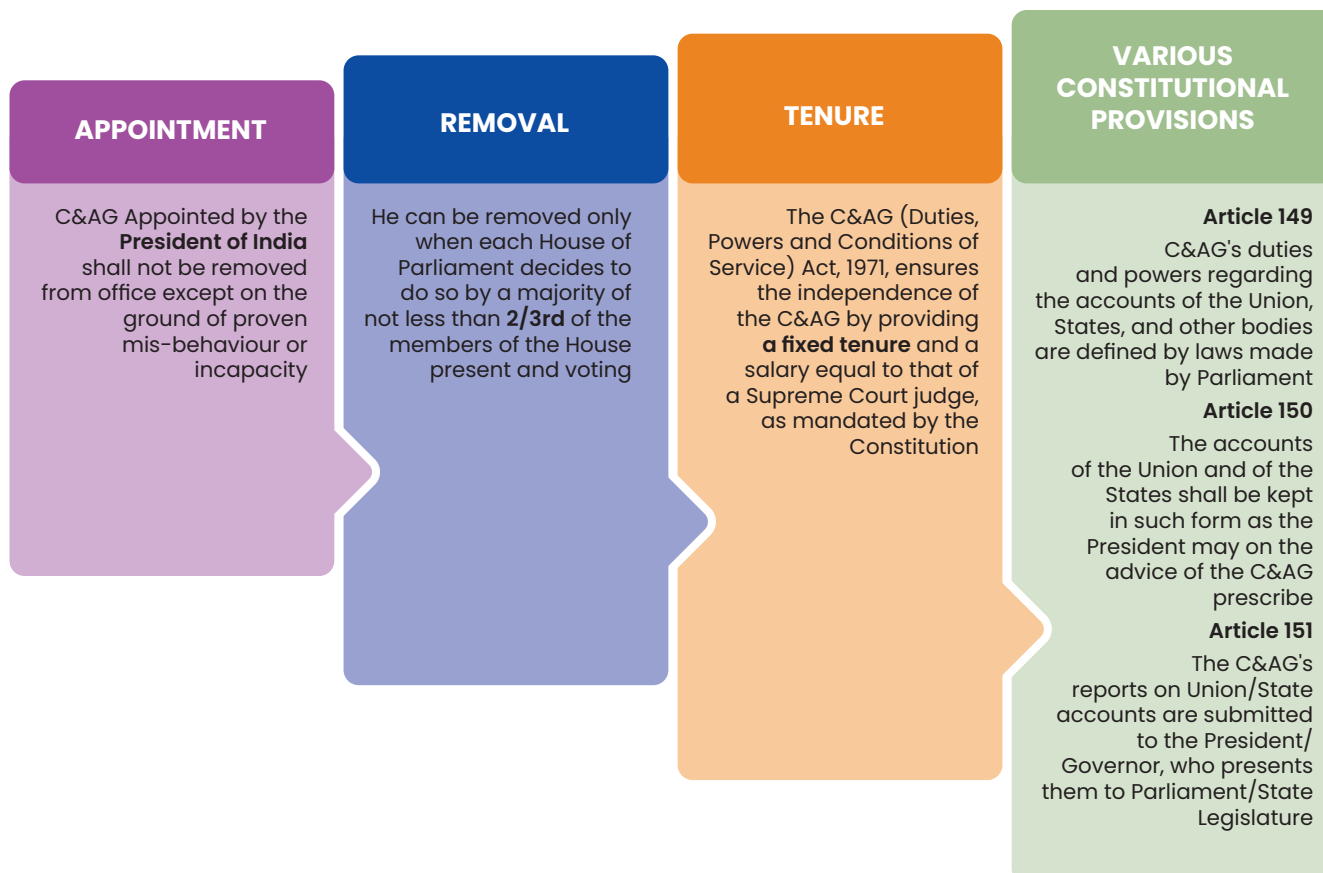
Government auditing is the objective, systematic, professional and independent examination of financial, administrative and other operations of a public entity made subsequently to their execution for the purpose of evaluating and verifying them, presenting a report containing explanatory comments on 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 of Government Audit

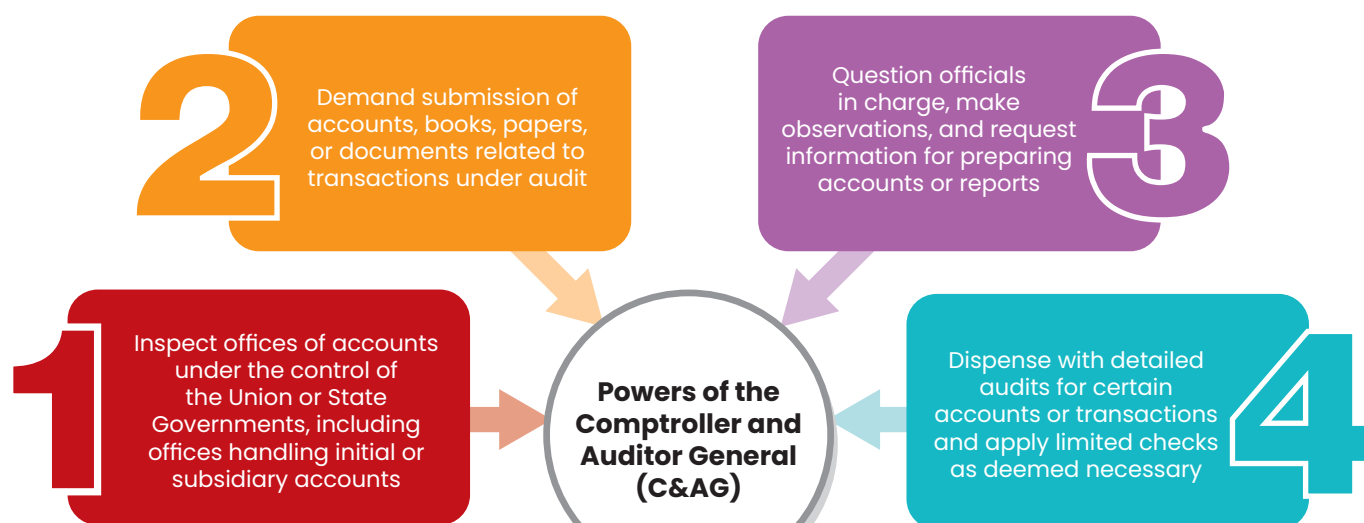
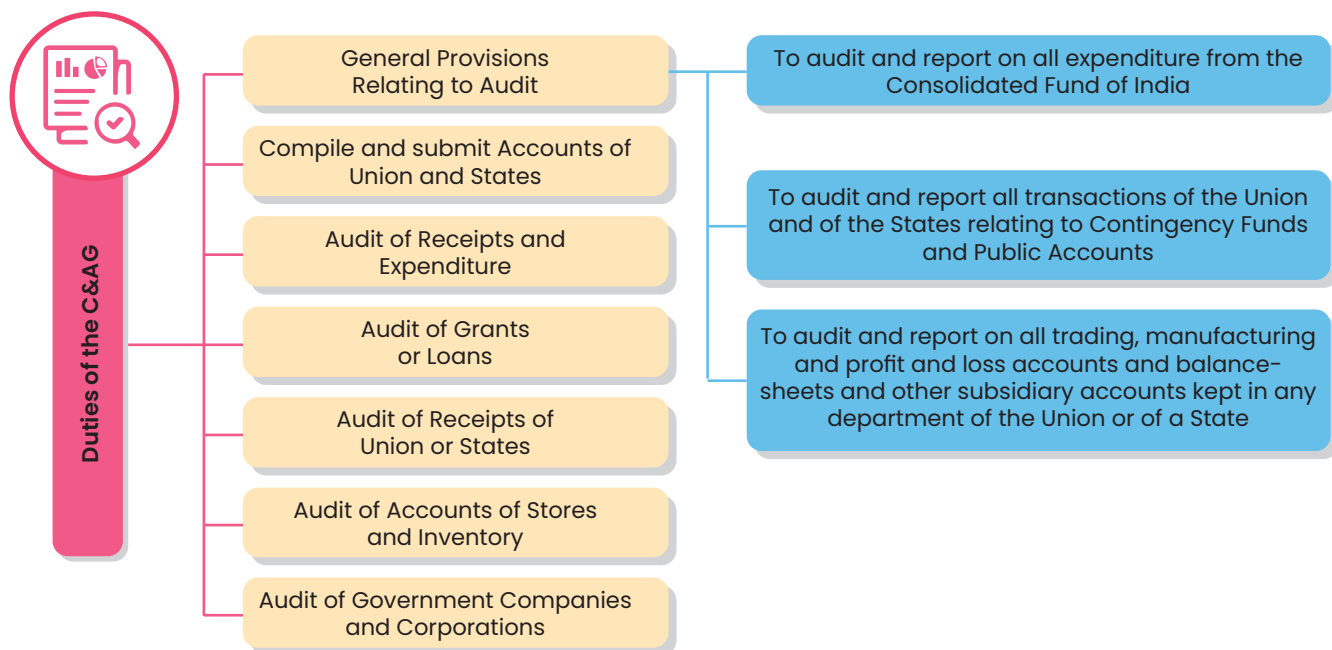


Legal Framework and Comptroller & Auditor General

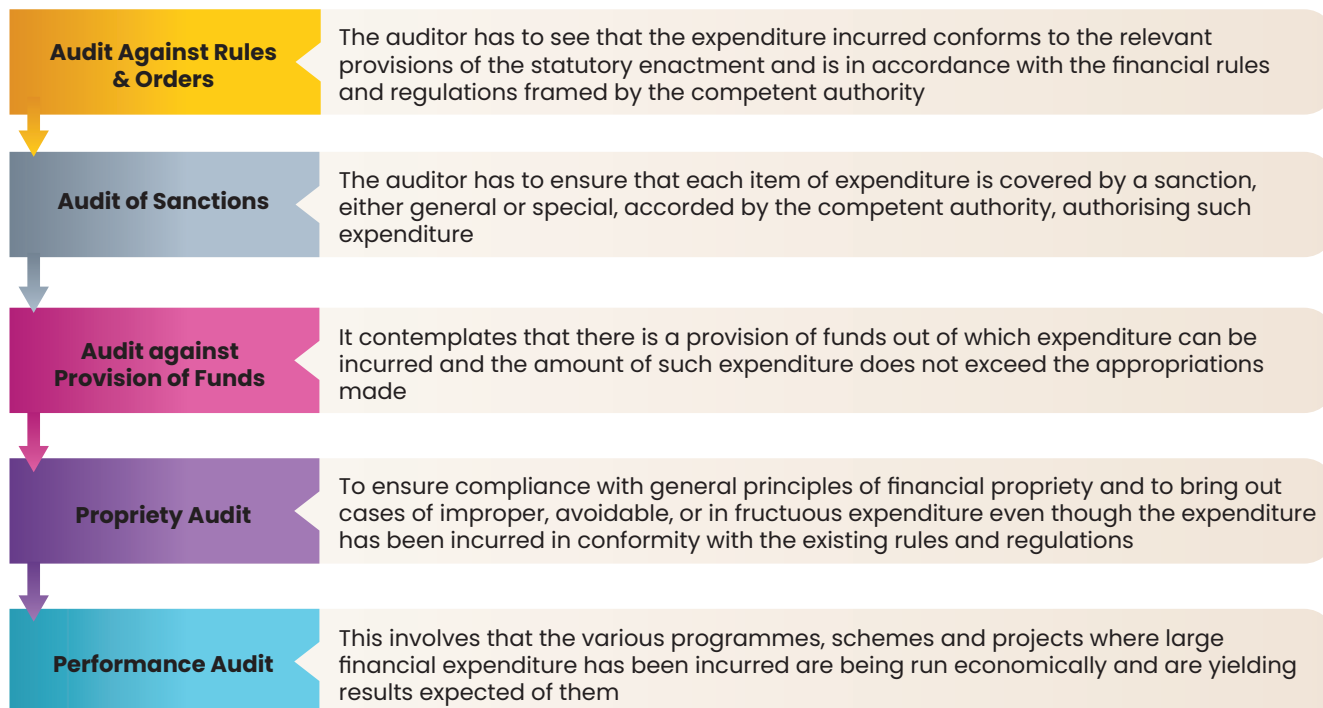
The Constitution of India contains specific provisions regarding the appointment, salary and duties and powers of the C&AG.



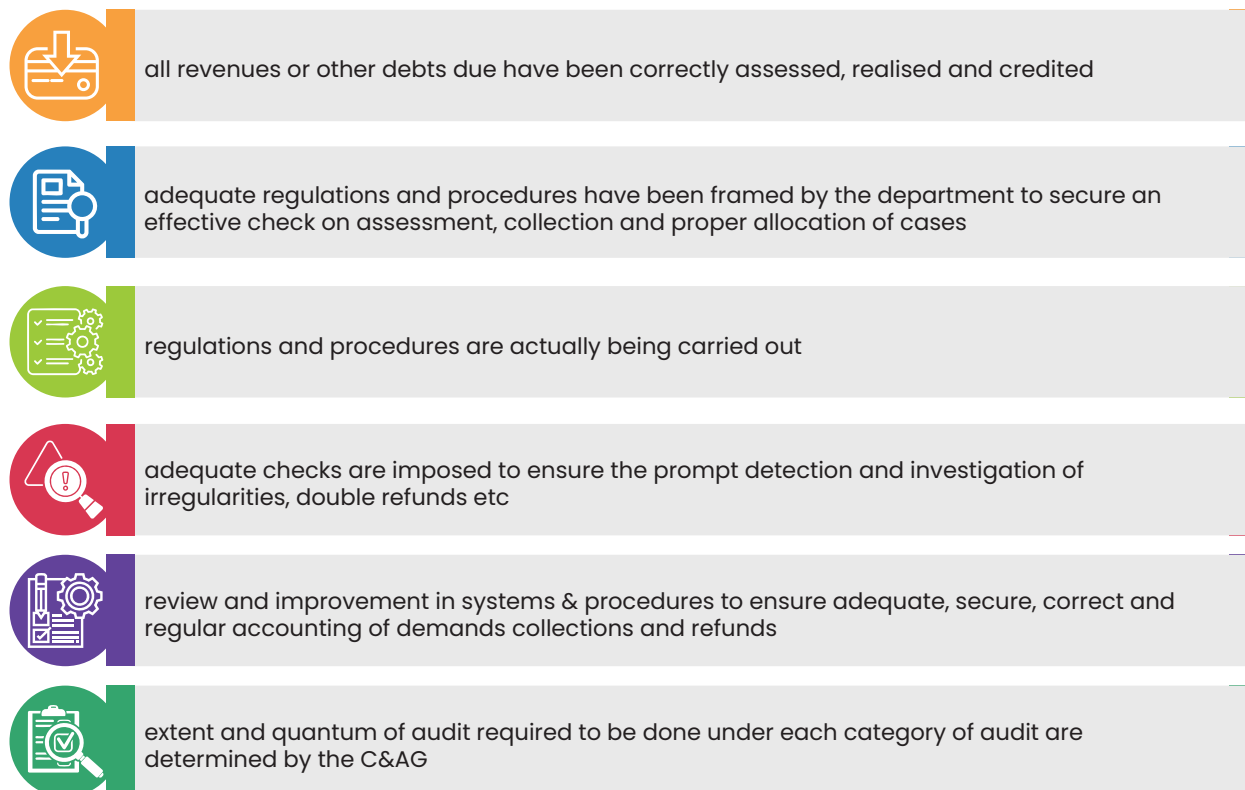
Special Features of Audit of Different Types of Entities



Expenditure Audit



Audit of Receipts



Audit of Stores and Inventories

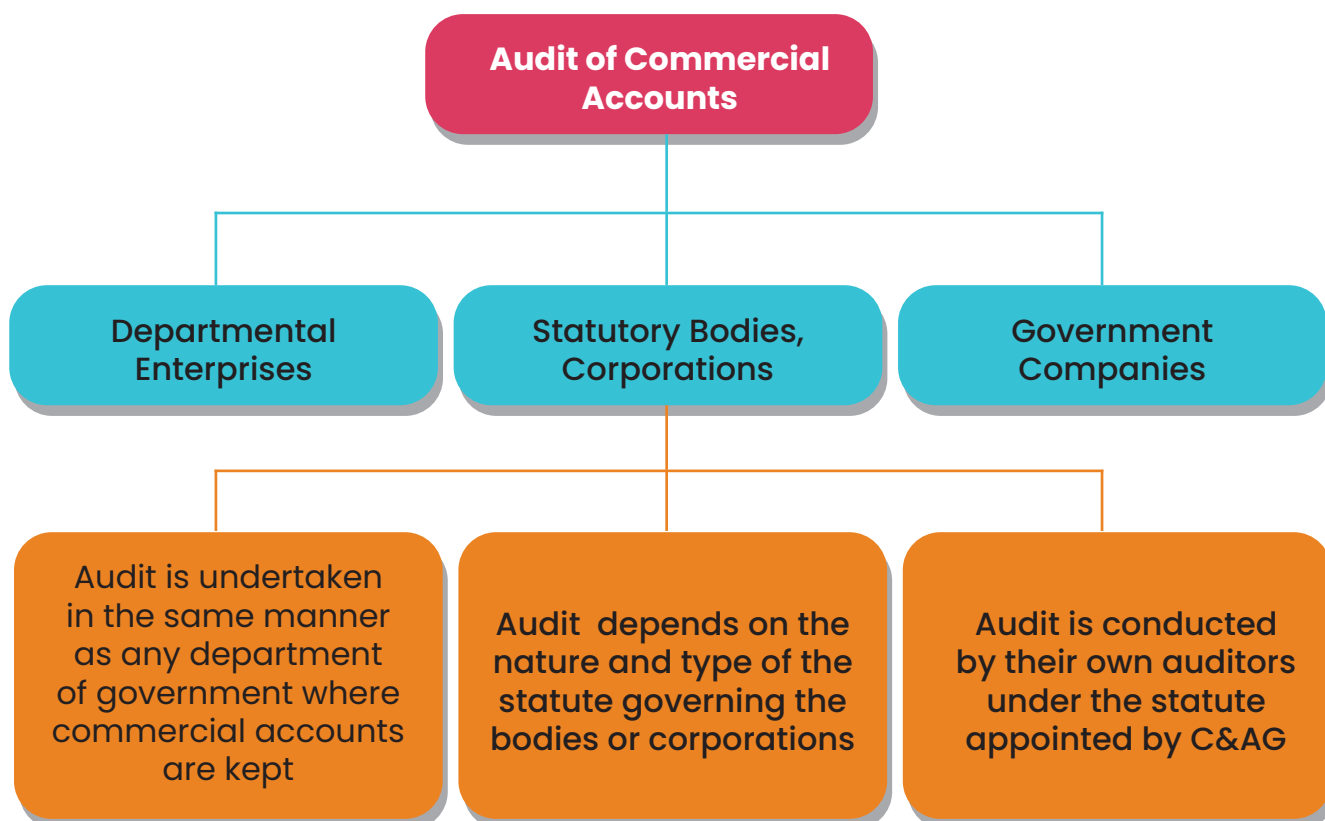
To ascertain whether the Regulations governing purchase, receipt and issue, custody, sale and inventory taking of stores are well devise

To bring to the notice of the government any deficiencies in quantities of stores held

To Verify that the purchases are properly sanctioned

To ensure that the prices paid are reasonable and are in agreement with those shown in the contract for the supply of stores

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



Role of C&AG is prescribed under sub section (5), (6) and (7) of section 143 of the Companies Act, 2013.

**Power to appoint Government Company Auditor
Section 143 (5)**

Government company or any other company owned or controlled, by the CG, or by SG or Governments, the C&AG of India shall appoint the auditor

**Power to conduct Supplementary Audit & comment
Section 143(6)**

C&AG of India shall within 60 days from the date of receipt of the audit report have a right to, conduct a supplementary audit under section 143(6)(a)

Comment upon or supplement such audit report under section 143(6)(b)

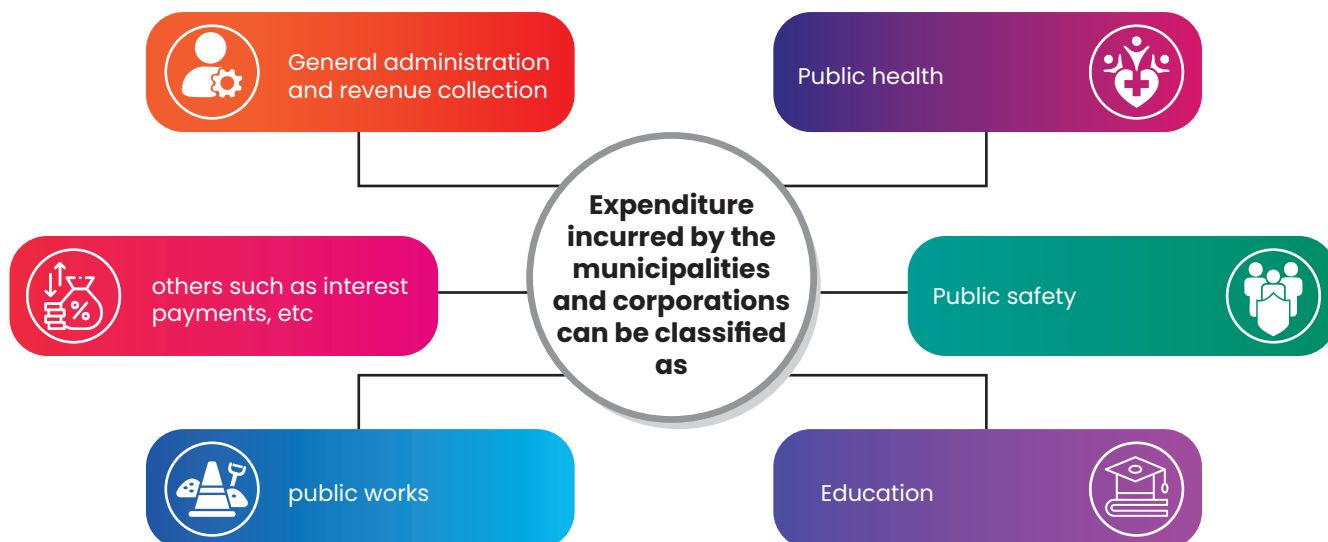
**Test Audit
Section 143(7)**

C&AG considers necessary, by an order, cause test audit to be conducted of the accounts of such company

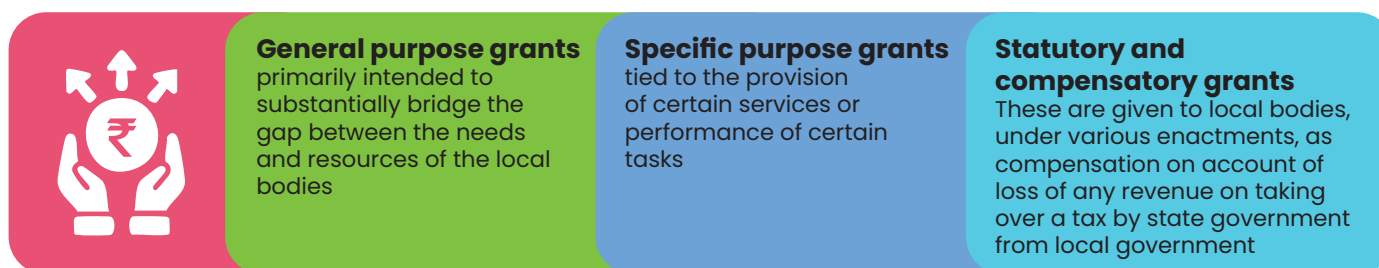
C&AG shall direct the manner in which the company's accounts shall be audited

Special Features of Audit of Different Types of Entities

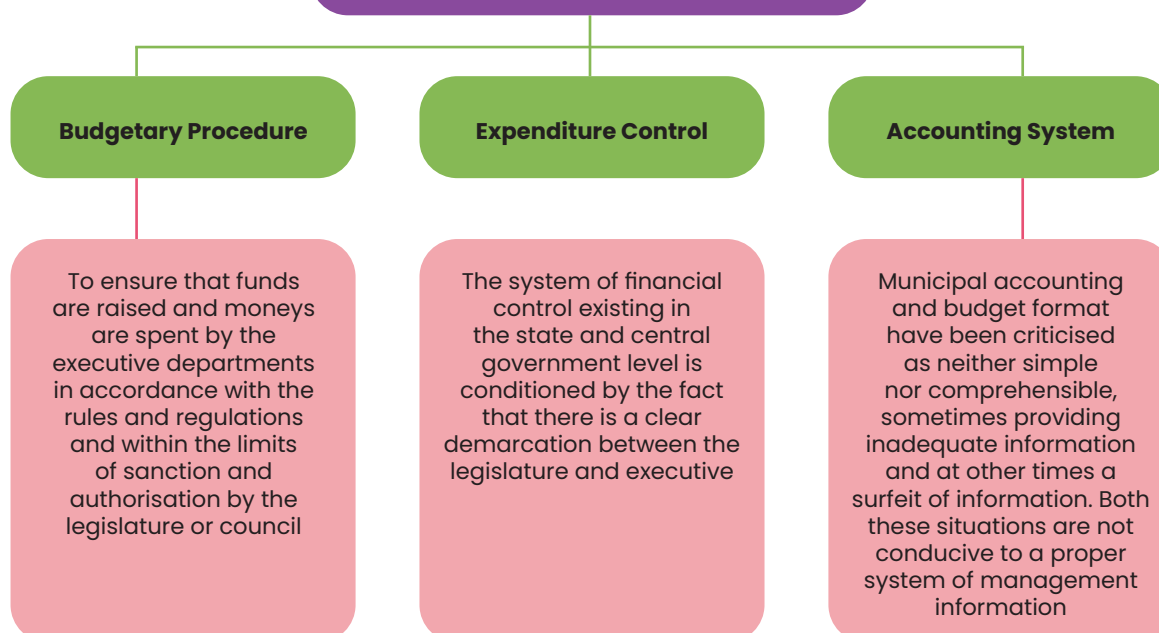
AUDIT OF LOCAL BODIES

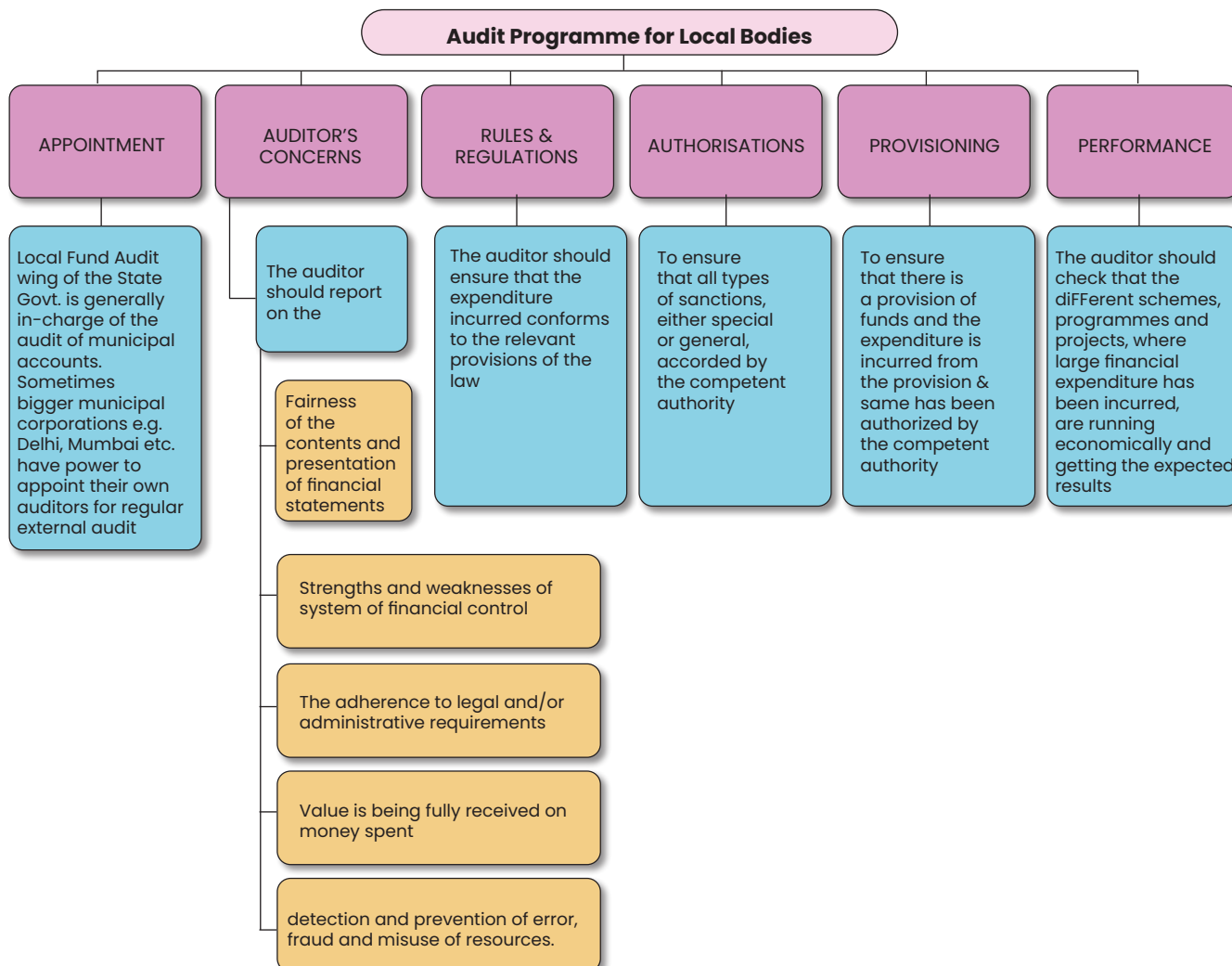


REVENUE GRANTS ARE OF THREE CATEGORIES:



Aspects of Financial Administration of Local Bodies

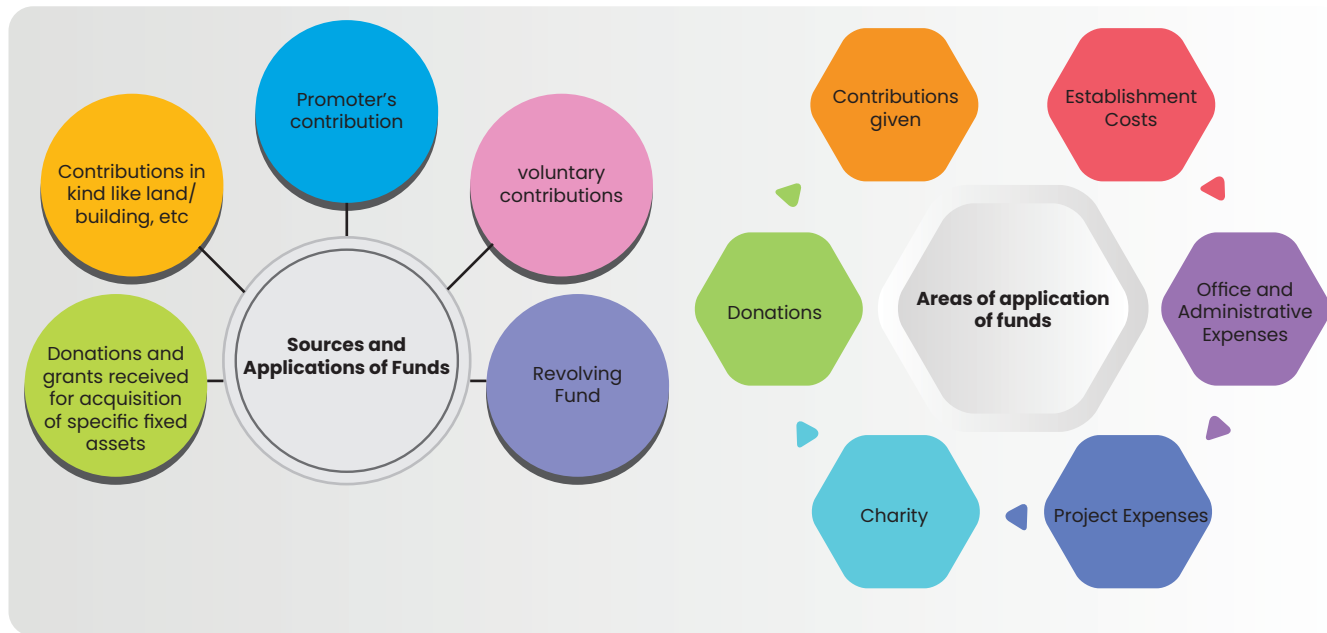




AUDIT OF NON - GOVERNMENTAL ORGANISATION (NGO'S)

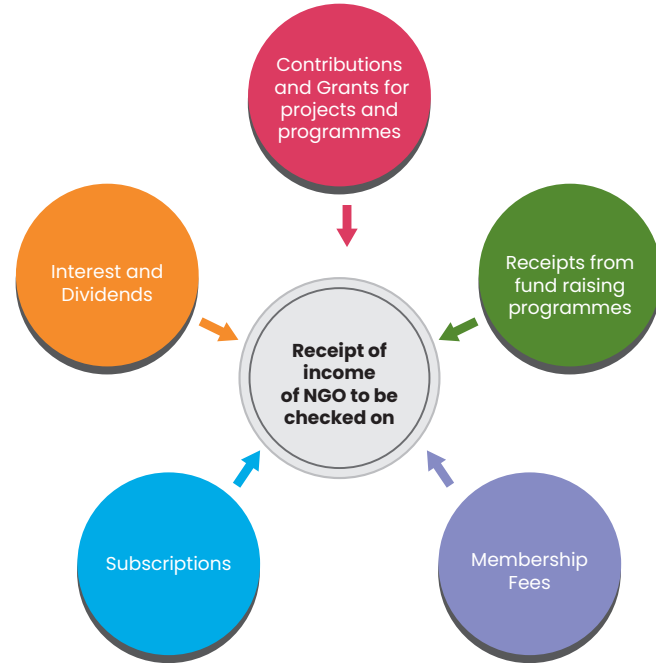
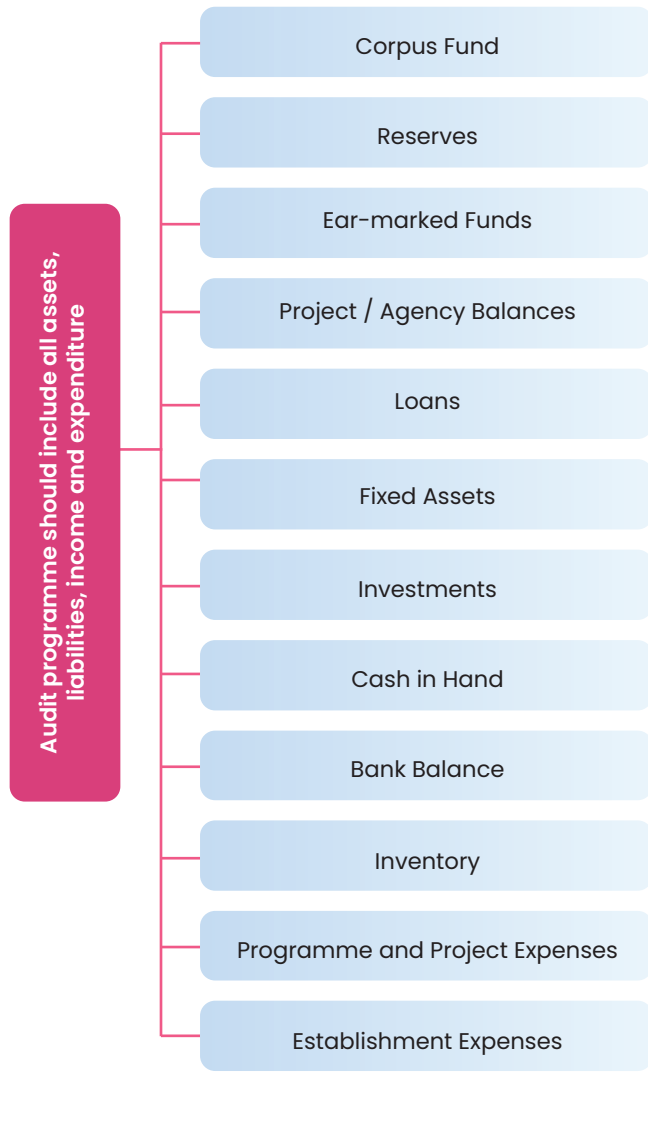


Sources and Applications of Funds



While planning the audit, the auditor may concentrate on

- Knowledge of the NGO's work
- Updating knowledge of relevant statutes
- Reviewing the legal form of the Organisation and its MOA, AOA, Rules and Regulations
- Reviewing the NGO's Organisation chart
- Examination of minutes of the Board/Managing Committee/ Governing Body/ Management
- 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
- Nature and timing of reports or other communications
- Involvement of experts and their reports
- Review of the previous year's Audit Report




AUDIT OF SOLE TRADER



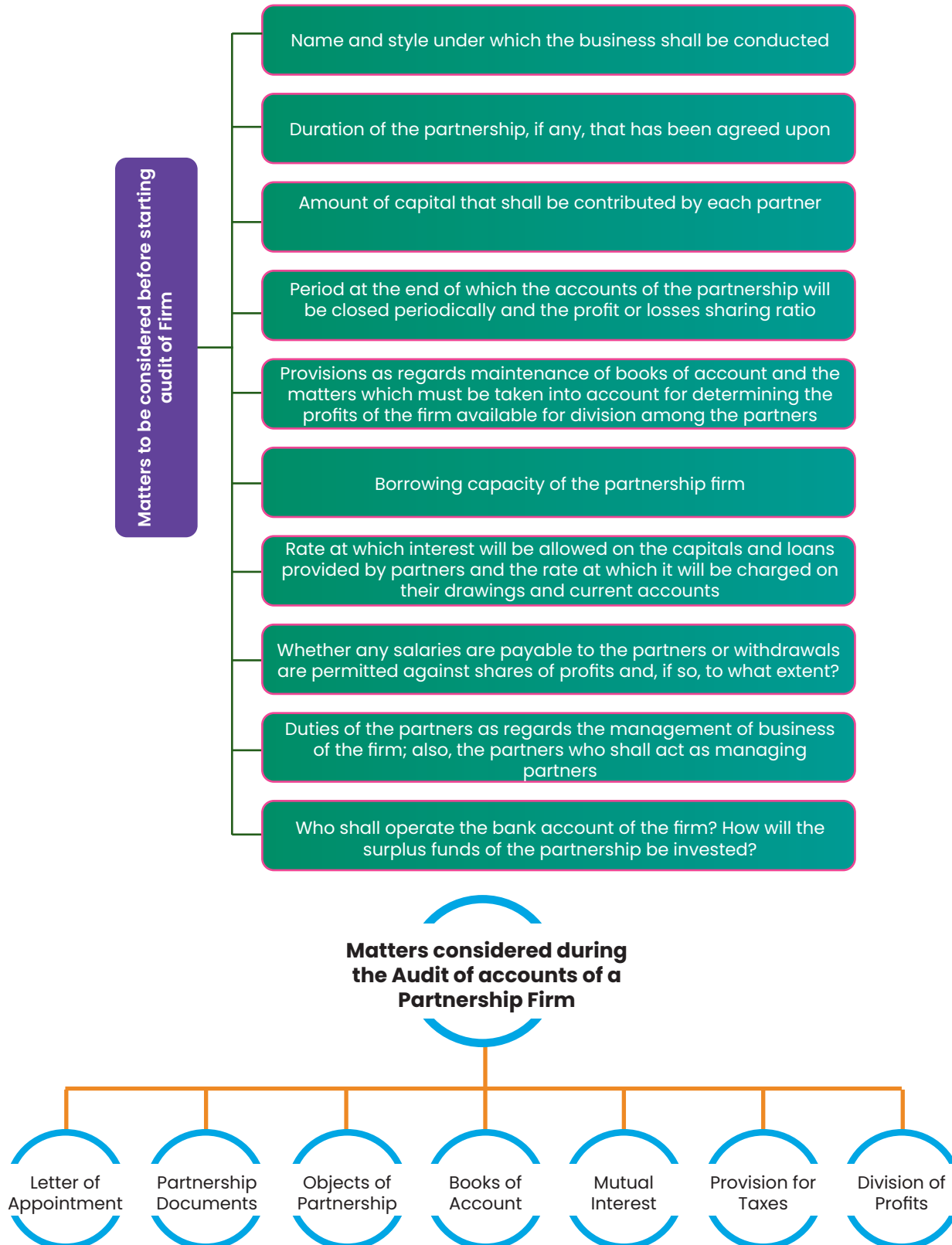
Sole proprietors are not legally required to audit their accounts but may do so for regulatory purposes such as on specific instructions of a bank for approval of loan

Sole proprietor himself appoints the auditor, and any incoming auditor must communicate with the outgoing auditor in case of a change

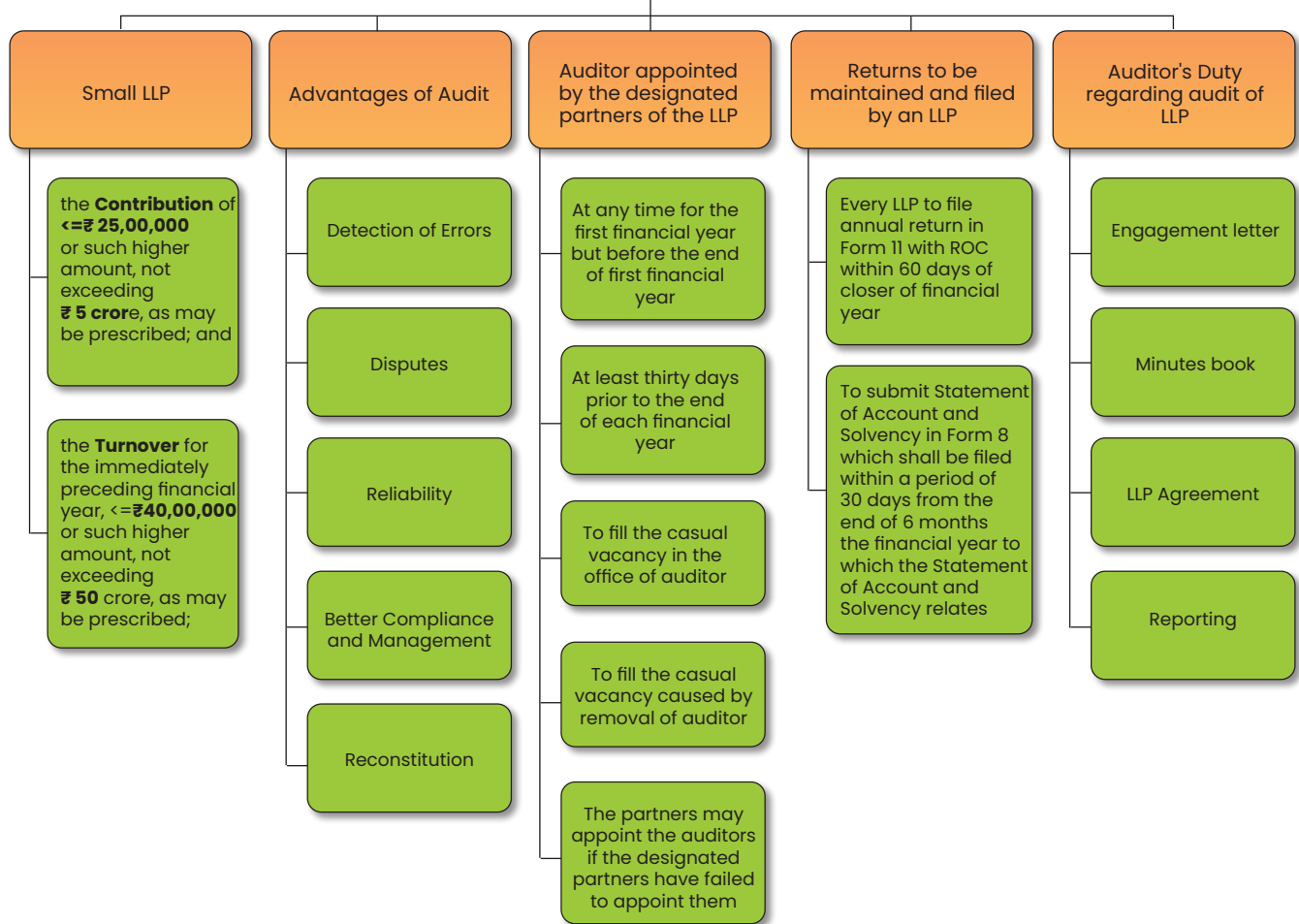


Special Features of Audit of Different Types of Entities

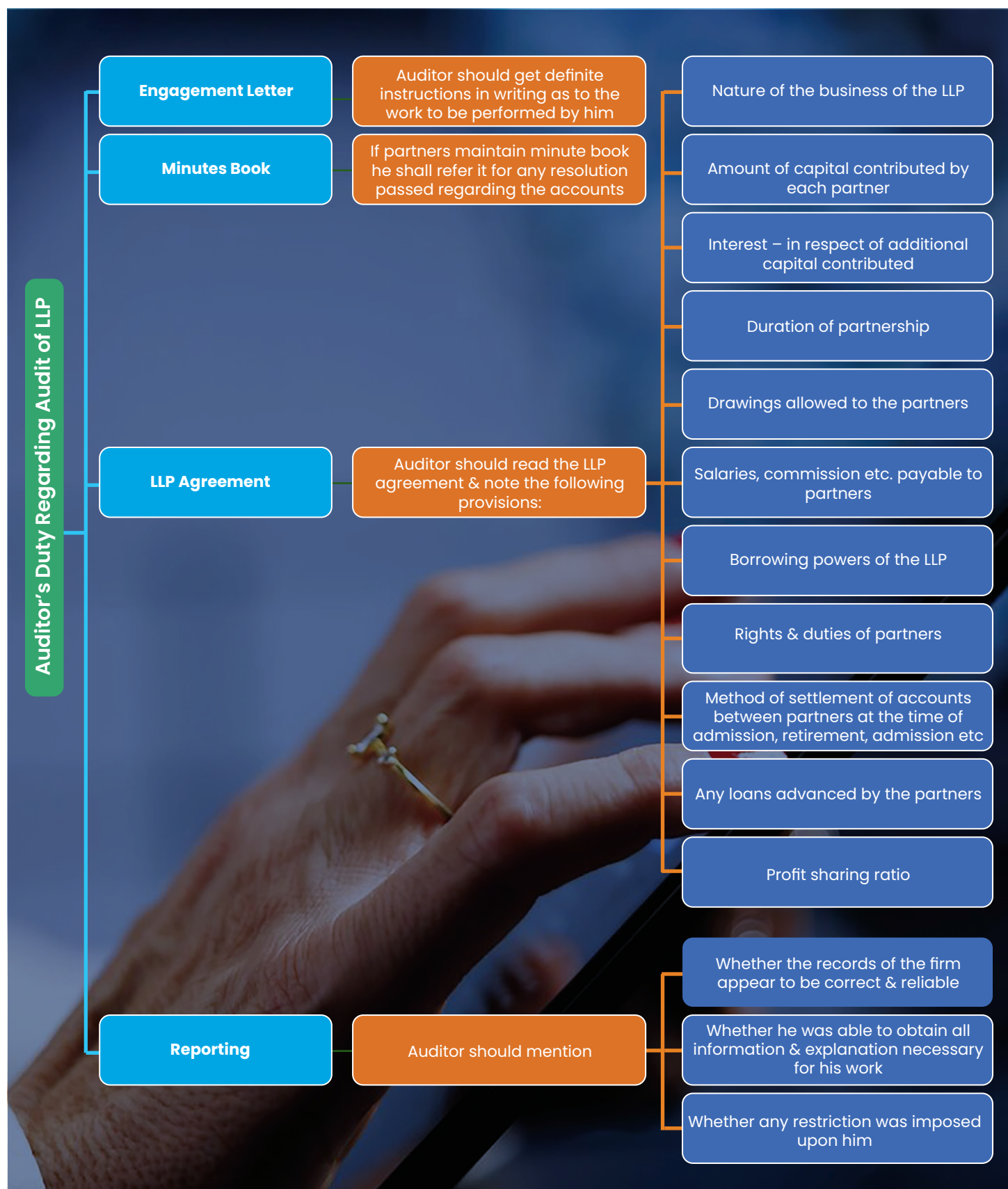
Audit of Firm

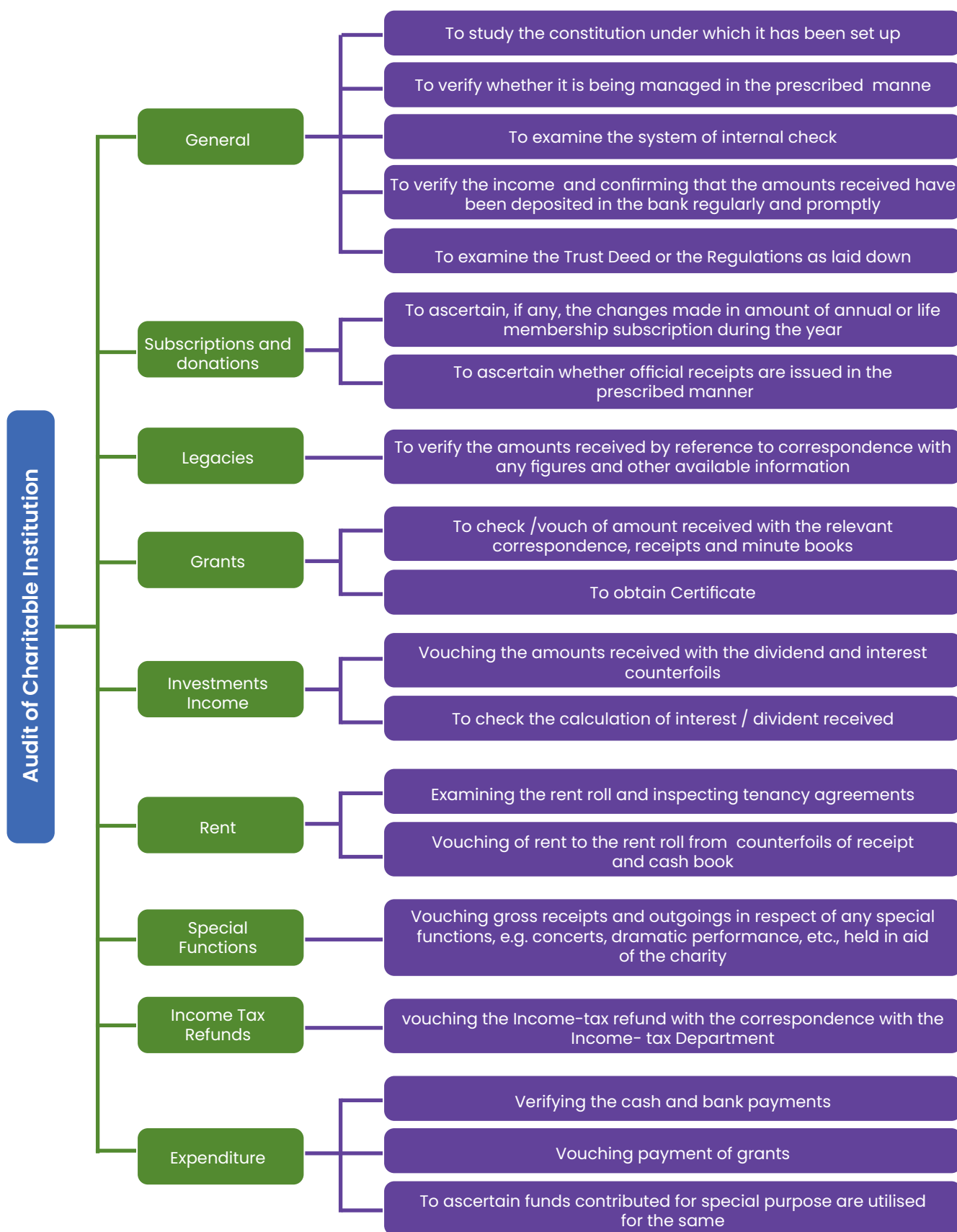


Basics of Limited Liability Partnerships (LLP) Audit

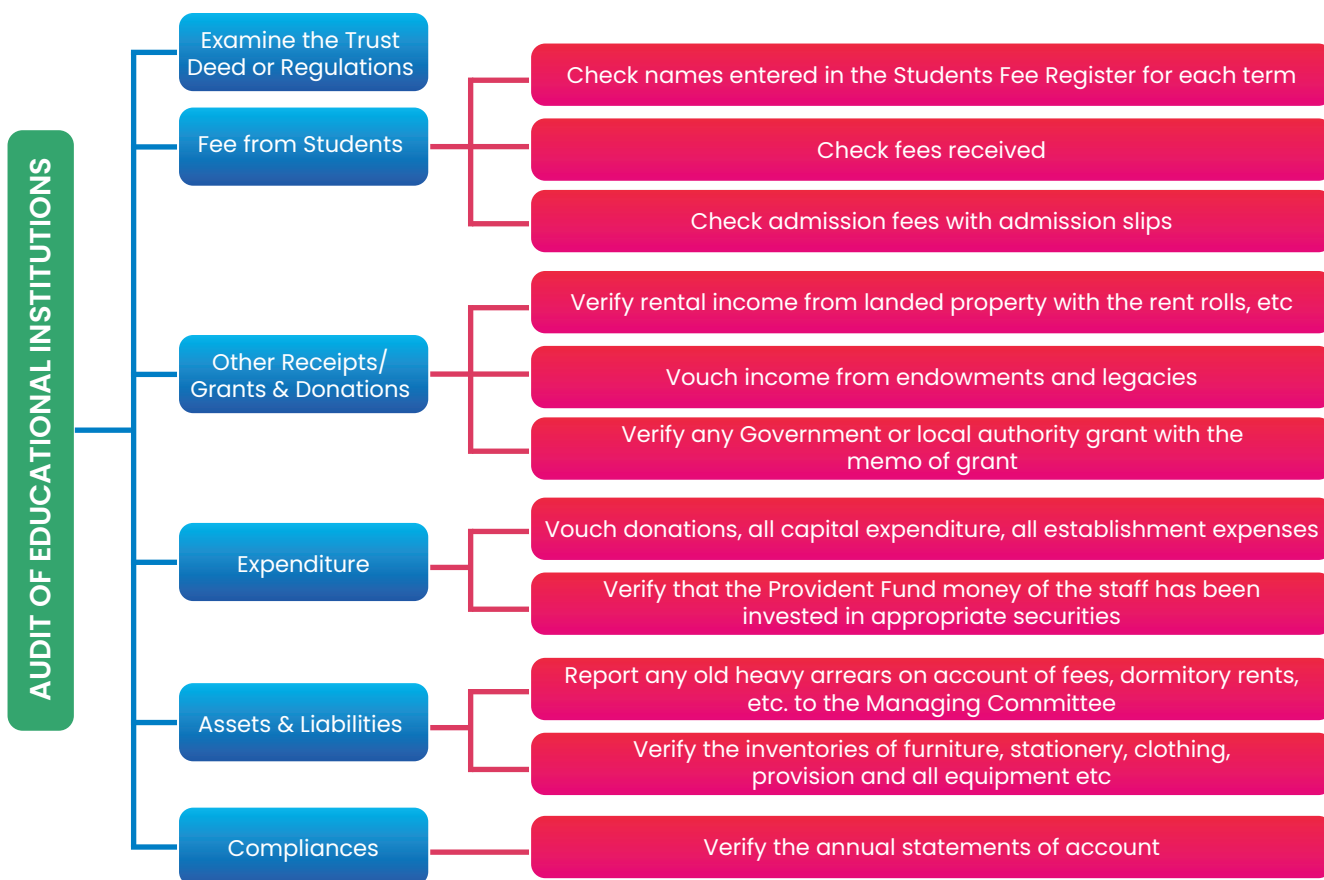


Special Features of Audit of Different Types of Entities





Special Features of Audit of Different Types of Entities



Audit of Hospital

Register of Patients	Vouch the Register of patients with copies of bills issued to them
Collection of Cash	Check cash collections as entered in the Cash Book with the receipts
Income from Investments, Rent etc	See with reference to the property and Investment Register that all income have been collected
Legacies and Donations	Legacies and donations received for a specific purpose have been applied in the manner agreed upon
Reconciliation of Subscriptions	Trace all collections of subscription and donations from the Cash Book to the respective Registers
Authorisation and Sanctions	Verify that the capital expenditure was incurred only with the prior sanction of Concerned authority
Grants and TDS	Verify the grants and refund in respect of TDS has been claimed
Budgets	Compare the totals of expenditure and income with the amount budgeted for them
Internal Check	Examine the internal check as to insure that purchases have been properly recorded
Depreciation	See that depreciation has been written off against all the assets at the appropriate rates
Registers	Inspect the bonds, share scrips, title deeds of properties
Inventories	check a percentage of the items physically

Special Features of Audit of Different Types of Entities

AUDIT OF CLUB	Entrance Fee	Vouch the receipt on account of entrance fees
	Subscriptions	Vouch members' subscriptions with the counterfoils of receipt issued to them
	Arrears of Subscriptions	Ensure that arrears of subscriptions for the previous year have been correctly brought over
	Arithmetical accuracy	Check totals of various columns of the Register of members and tally them across
	Irrecoverable Member Dues	See the Register of Members to ascertain the Member's dues and necessary steps for recovery of the same and appropriate reporting of irrecoverable amount
	Pricing	Verify the internal check as regards members being charged with the price of foodstuffs
	Member Accounts	Trace debits from subsidiary registers maintained in respect of supplies and services to members
	Purchases	Vouch purchase of sports items, furniture, crockery, etc
	Margins earned	Vouch purchases and test their sale price so as to confirm that the normal rates of gross profit have been earned on their sales
	Inventories	Check the inventory physically with the respective inventory registers or inventories prepared at the end of the year
	Investments	Inspect the share scrips and bonds in respect of investments
	Management Powers	Examine the financial powers of the secretary and to report in case same has been exceeded

AUDIT OF CINEMA

Verify the internal control mechanism

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**'

Reconcile the amount of **Tax** collected with the total number of tickets issued for each class

Vouch the entries in the Cash Book in respect of cash collected on **sale of tickets**

Verify the charges collected for **advertisement** slides

Vouch the **expenditure** incurred on advertisement, repairs and maintenance

Confirm that **depreciation** on machinery and furniture has been charged at an appropriate rate

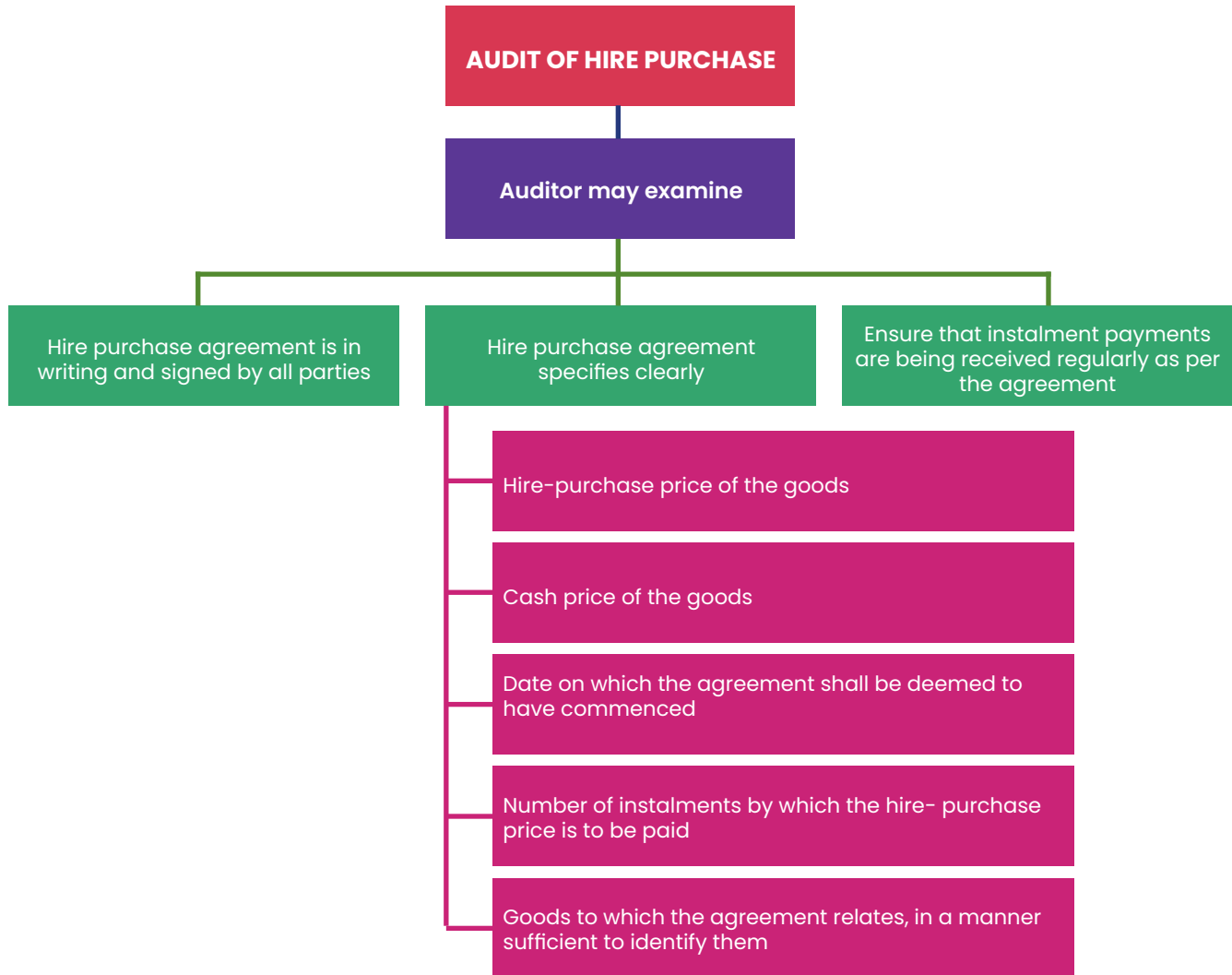
Vouch payments on account of film hire with bills of **distributors**

Examine unadjusted balance out of **advance paid to the distributors** against film hire contracts

The arrangement for collection of the share in the restaurant income should be enquired into



Special Features of Audit of Different Types of Entities

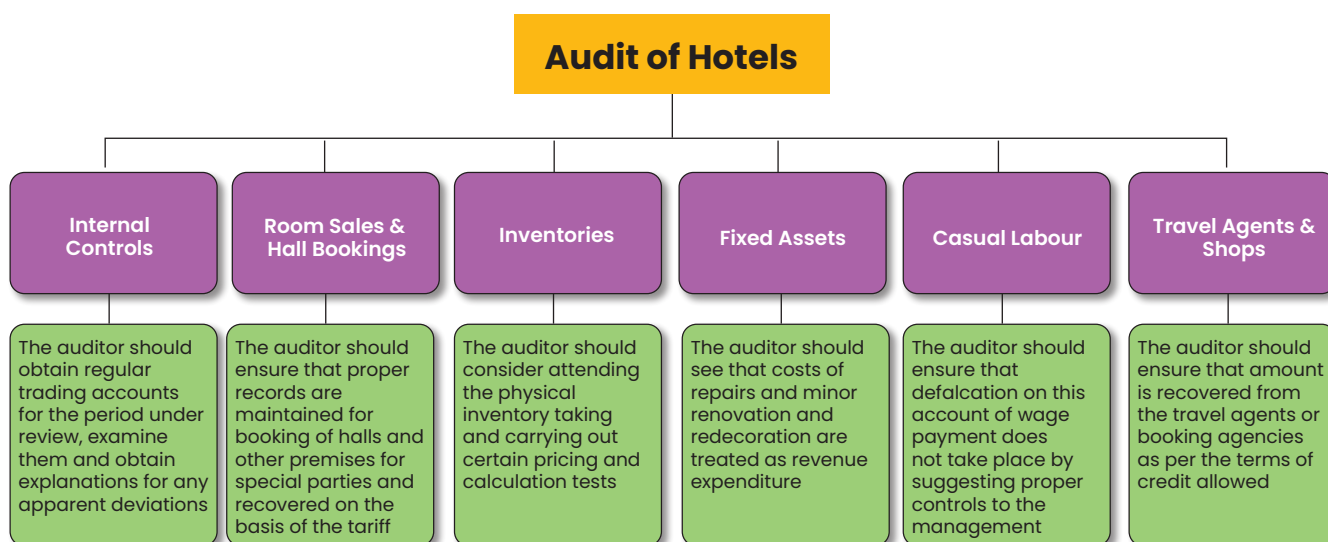


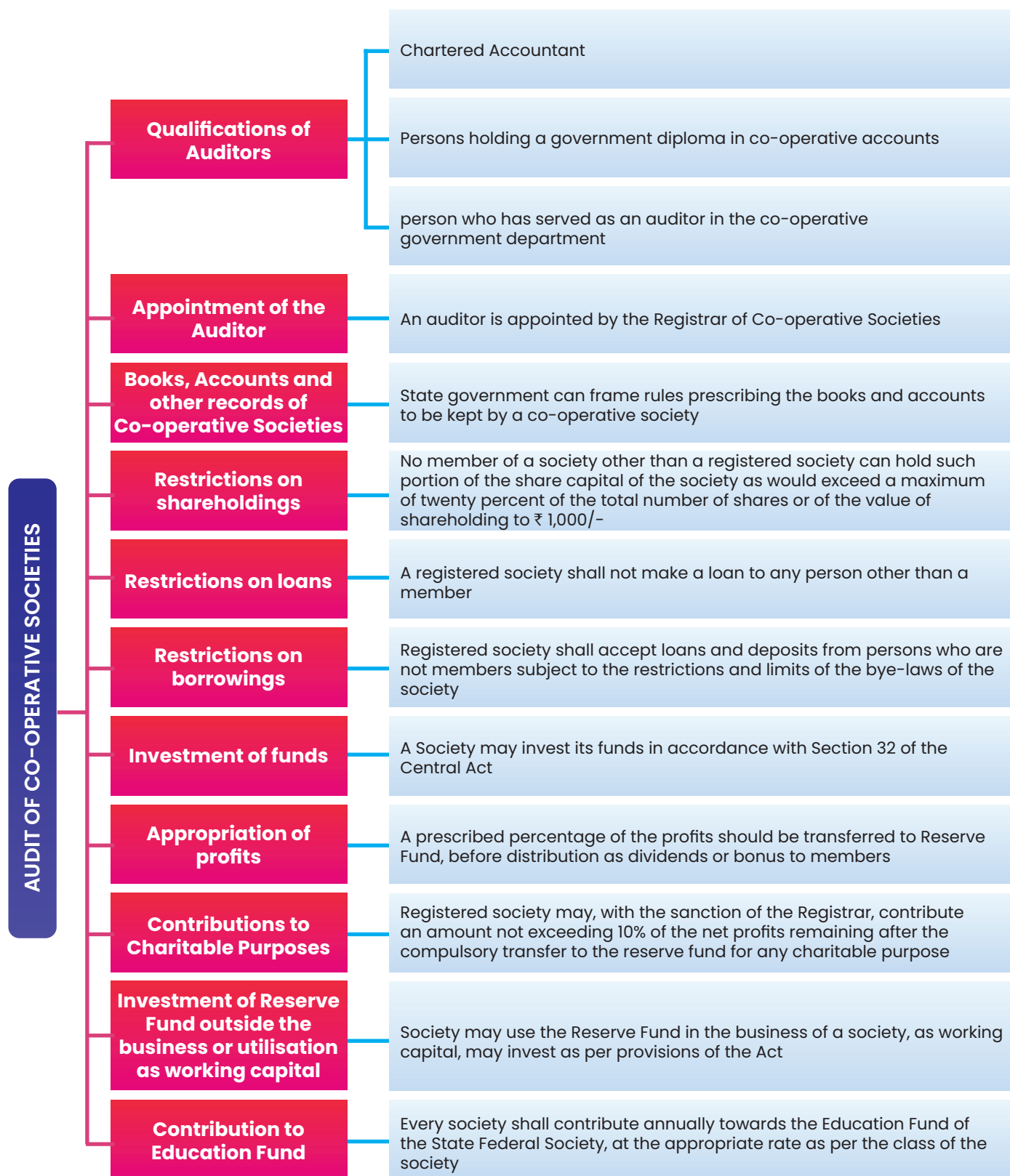
AUDIT OF LEASING COMPANIES

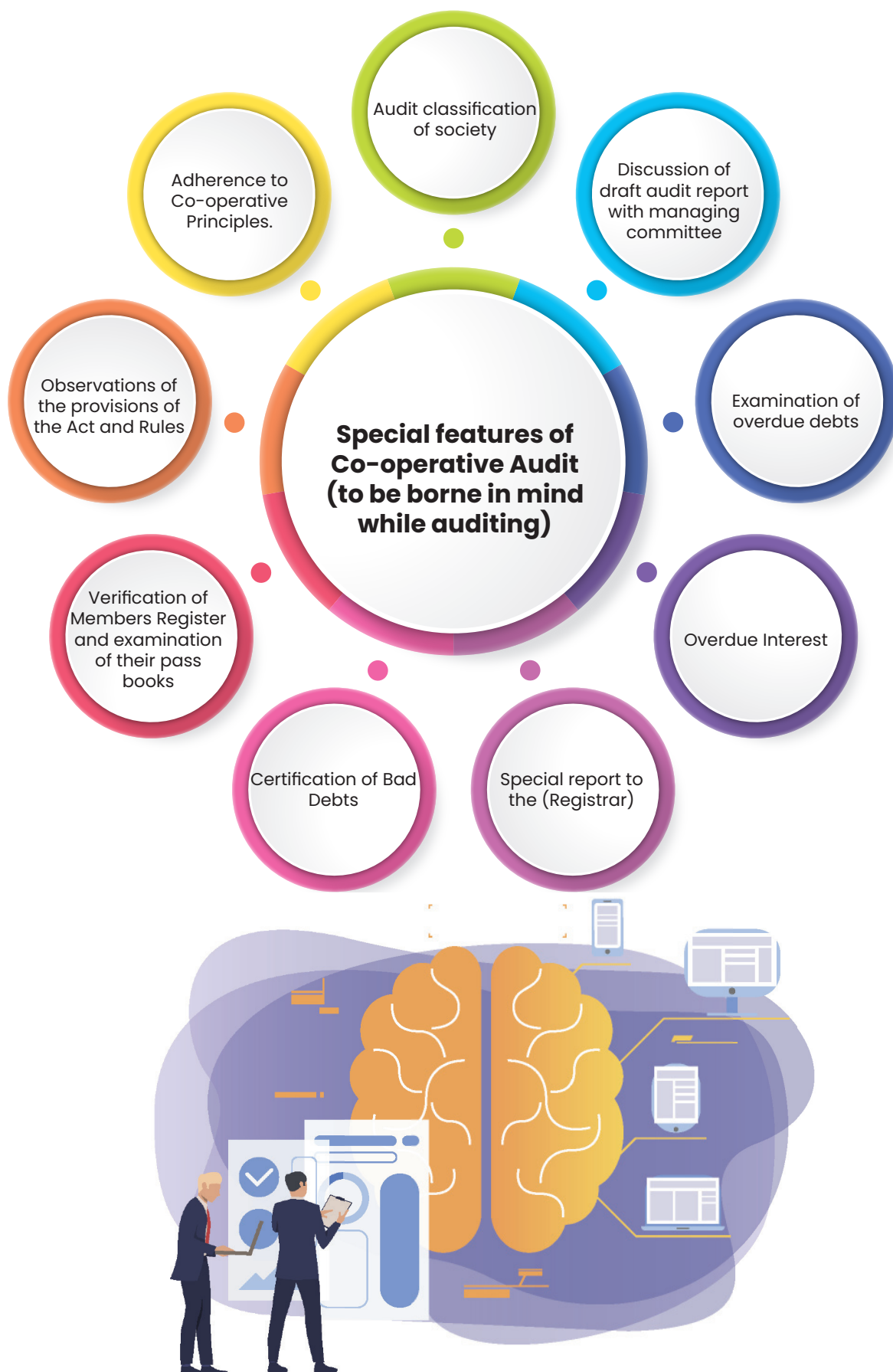
Auditor's Procedures

- The object clause of leasing company
- Procedure to ascertain the credit analysis of lessee
- The lease agreement should be examined
- Examine the lease proposal form submitted by the lessee
- Ensure that the invoice is retained safely
- Examine the acceptance letter obtained from the lessee
- See the Board resolution authorising a particular director to execute the lease
- See that the copies of the insurance policies have been obtained by the lessor for his records

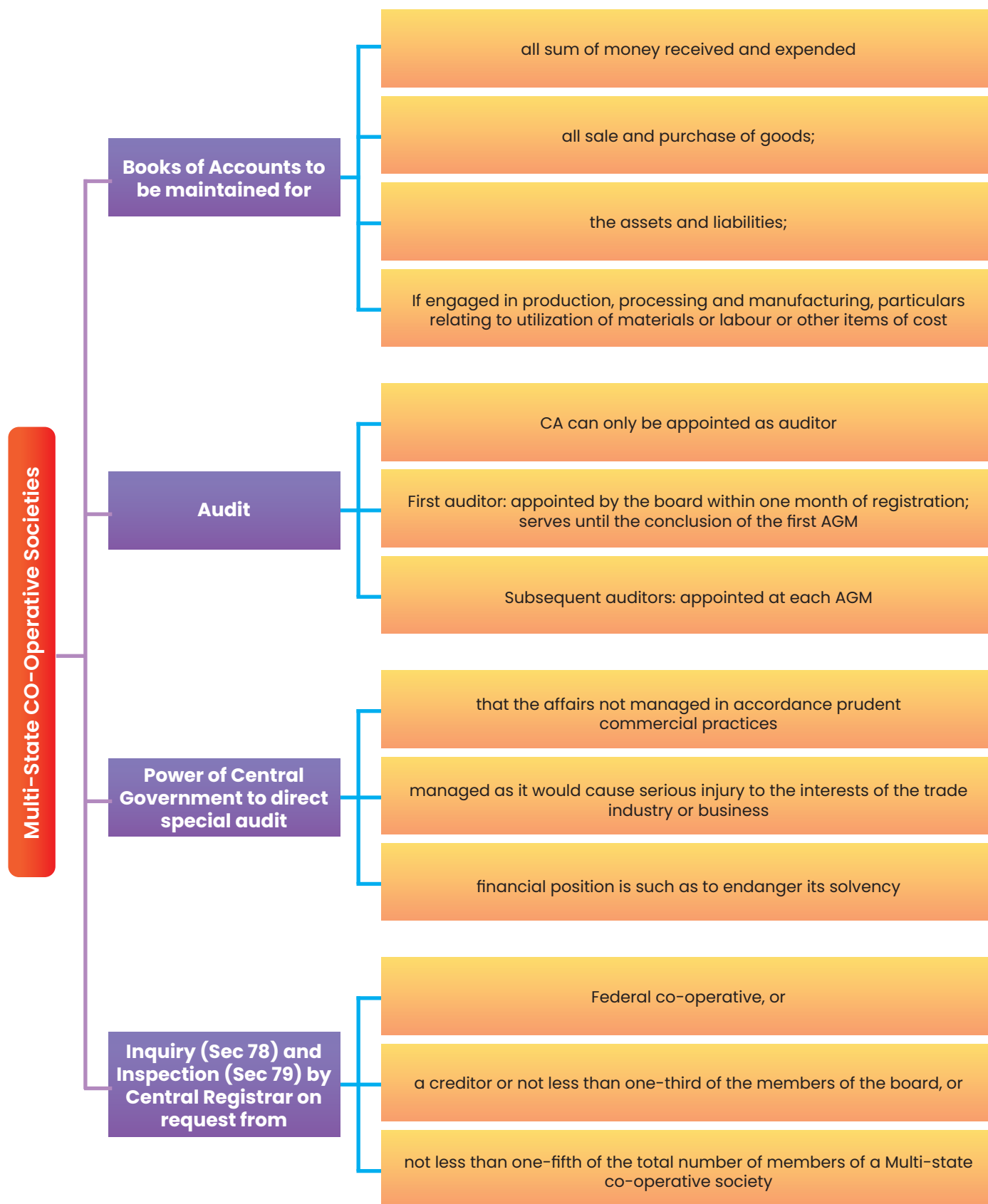
	Operating Lease	Finance Lease
Common examples	Lease of Projector, Computers, Laptops, Coffee Dispensers etc	Lease of Plant and Machinery, Land, Office Building etc
Ownership	Ownership of the asset remains with the lessor for the entire period of lease	Ownership transfer option at the end of the lease period is with the lessee. It may or may not be eventually transferred
Accounting treatment	Operating lease is generally treated like a rental arrangement	Finance lease is treated like loan arrangement
Purchase Option	Under operating lease, the lessee does not have any option to buy the asset during the lease period	Finance lease allows the lessee to have a purchase option at less than the fair market value of the asset
Lease Term	Lease term generally extends to less than 75% of the projected useful life of the leased asset	Lease term is generally more than or equal to estimated economic life of the asset under the lease arrangement
Operating/ running expenses	Lessee pays only the monthly lease payments. No running or administration costs are to be borne for example: registration, repairs etc	Lessee generally bears insurance, maintenance and taxes
Tax benefit	Since operating lease is as good as renting, lease payment is considered as expense. No depreciation can be claimed by the lessee	Lessee can claim both interest and depreciation expense as financial lease is treated like a loan

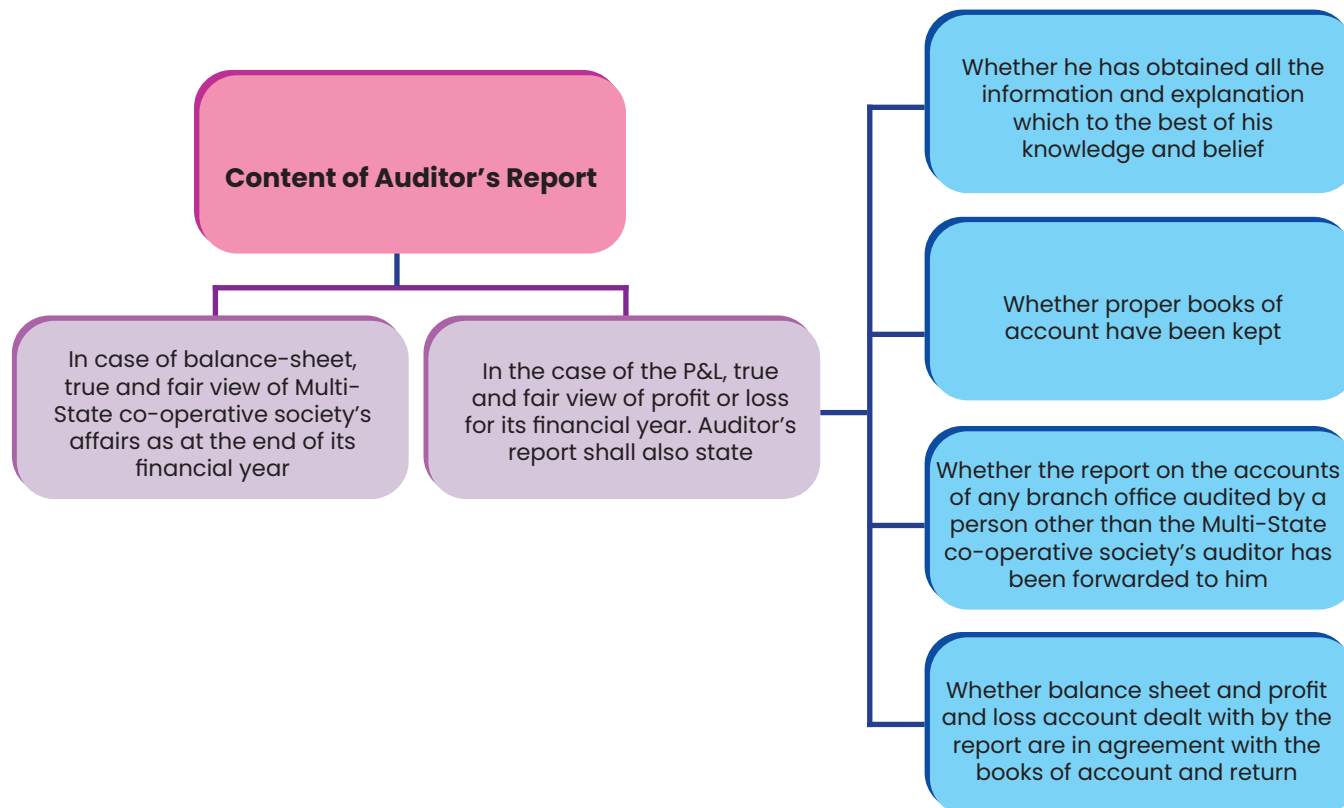
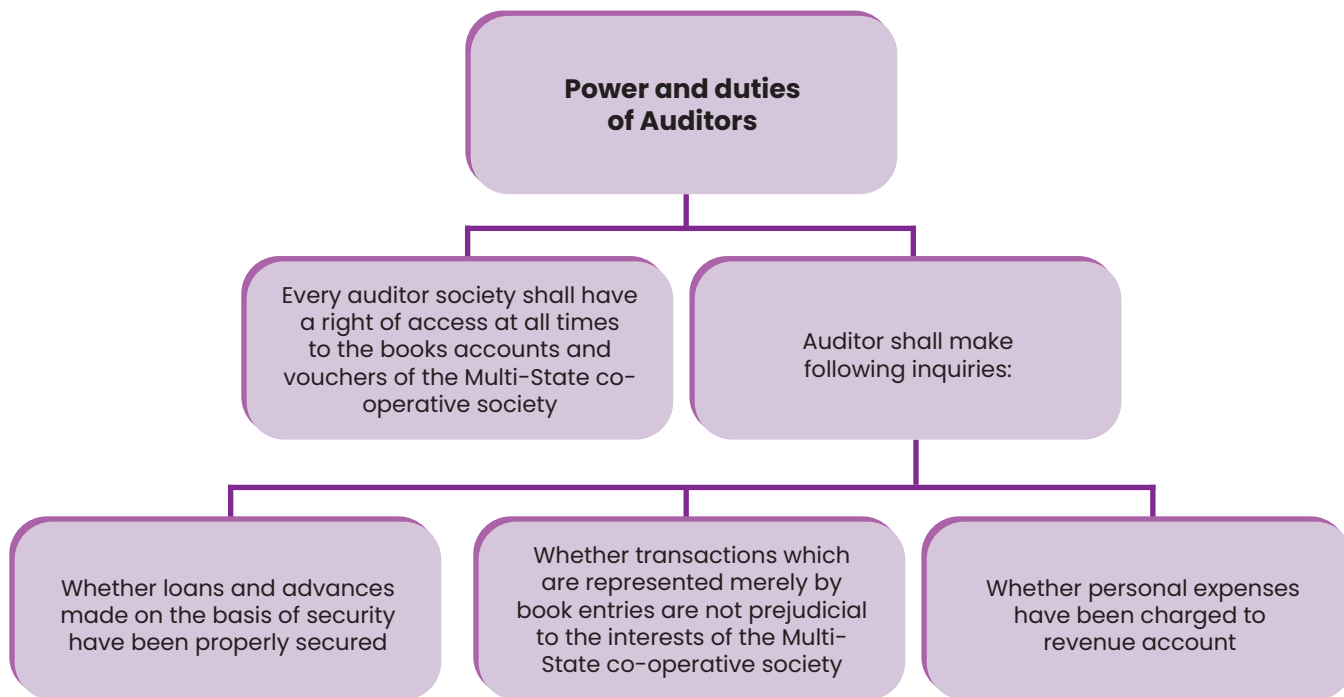




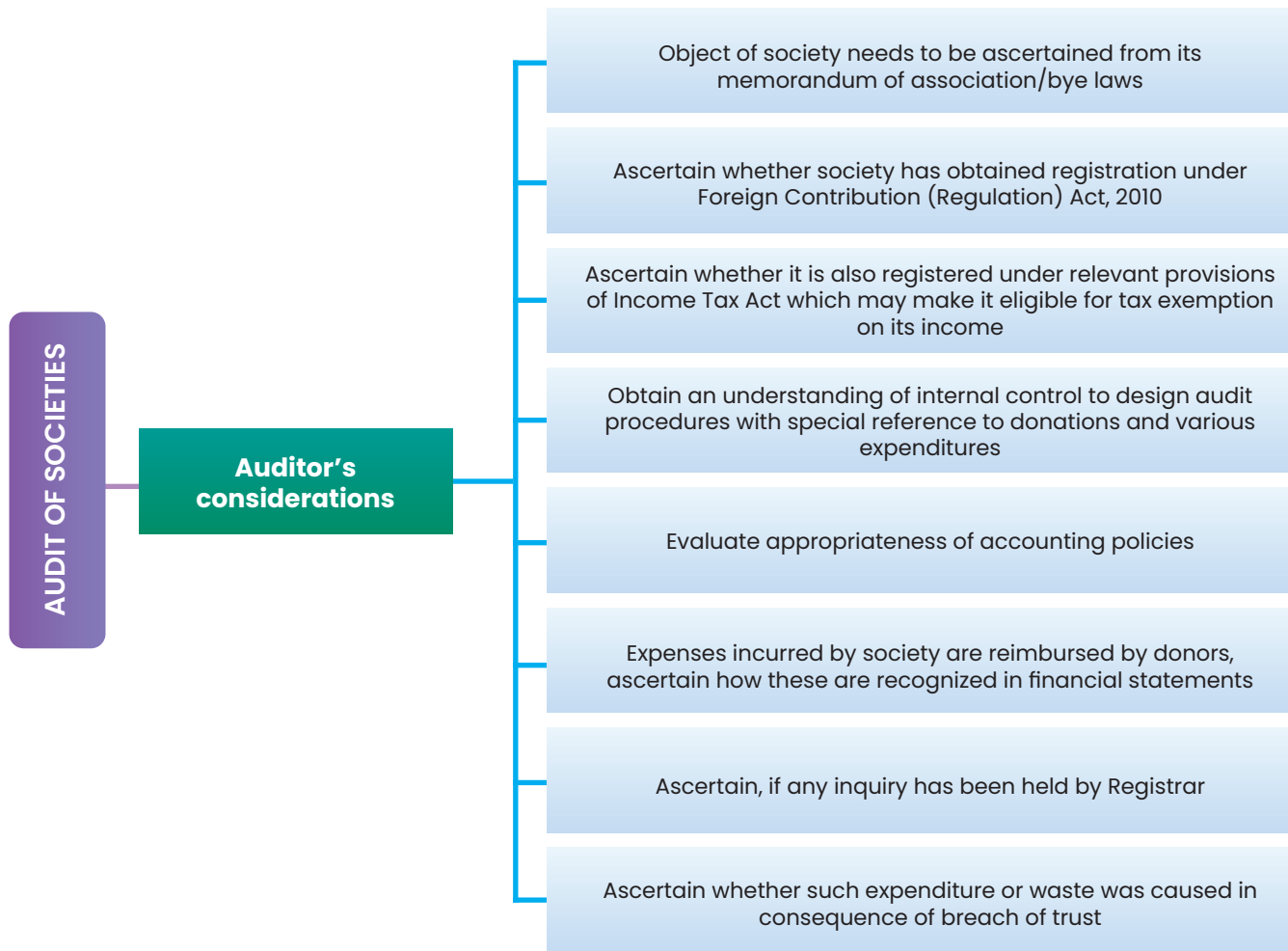


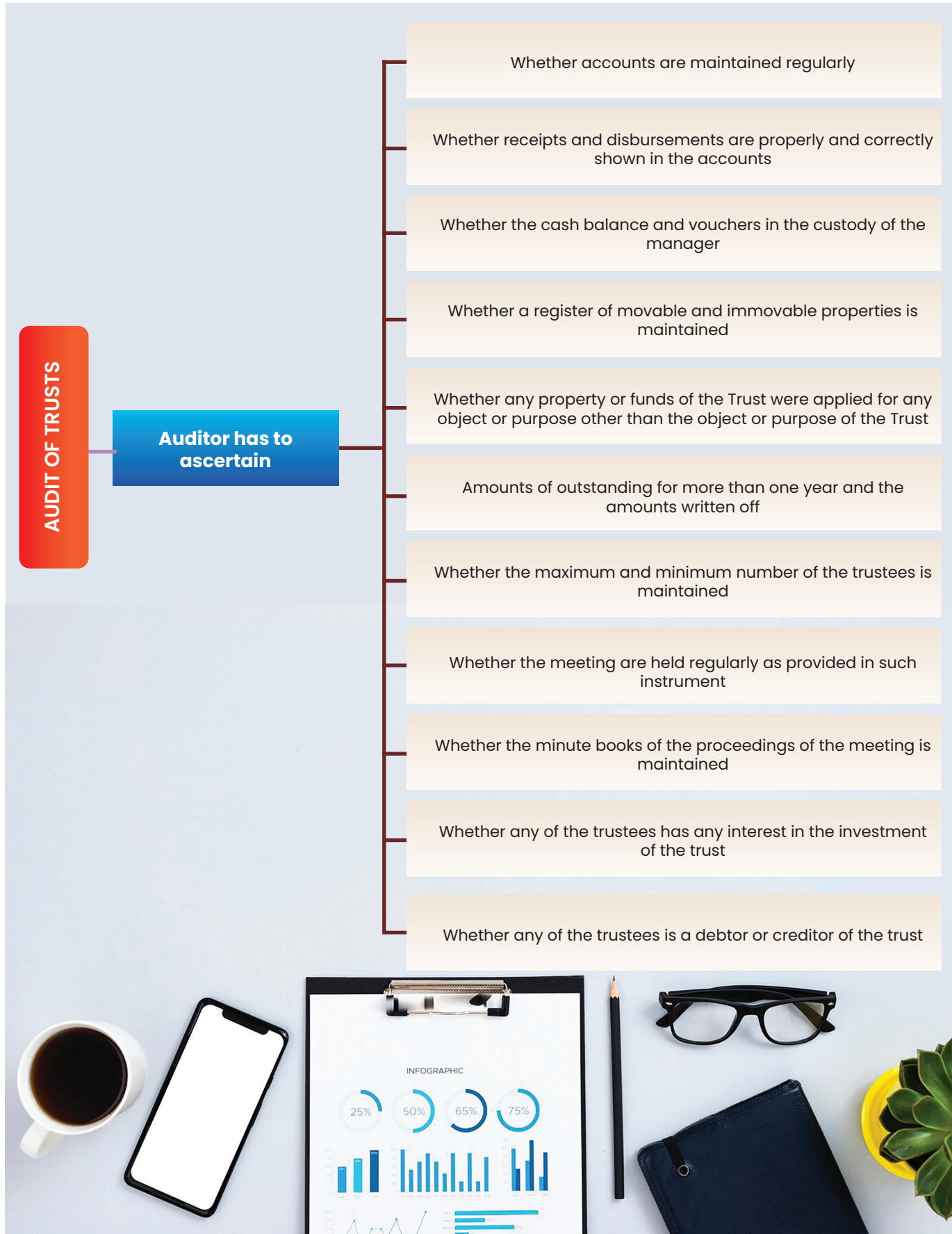
Special Features of Audit of Different Types of Entities





Special Features of Audit of Different Types of Entities



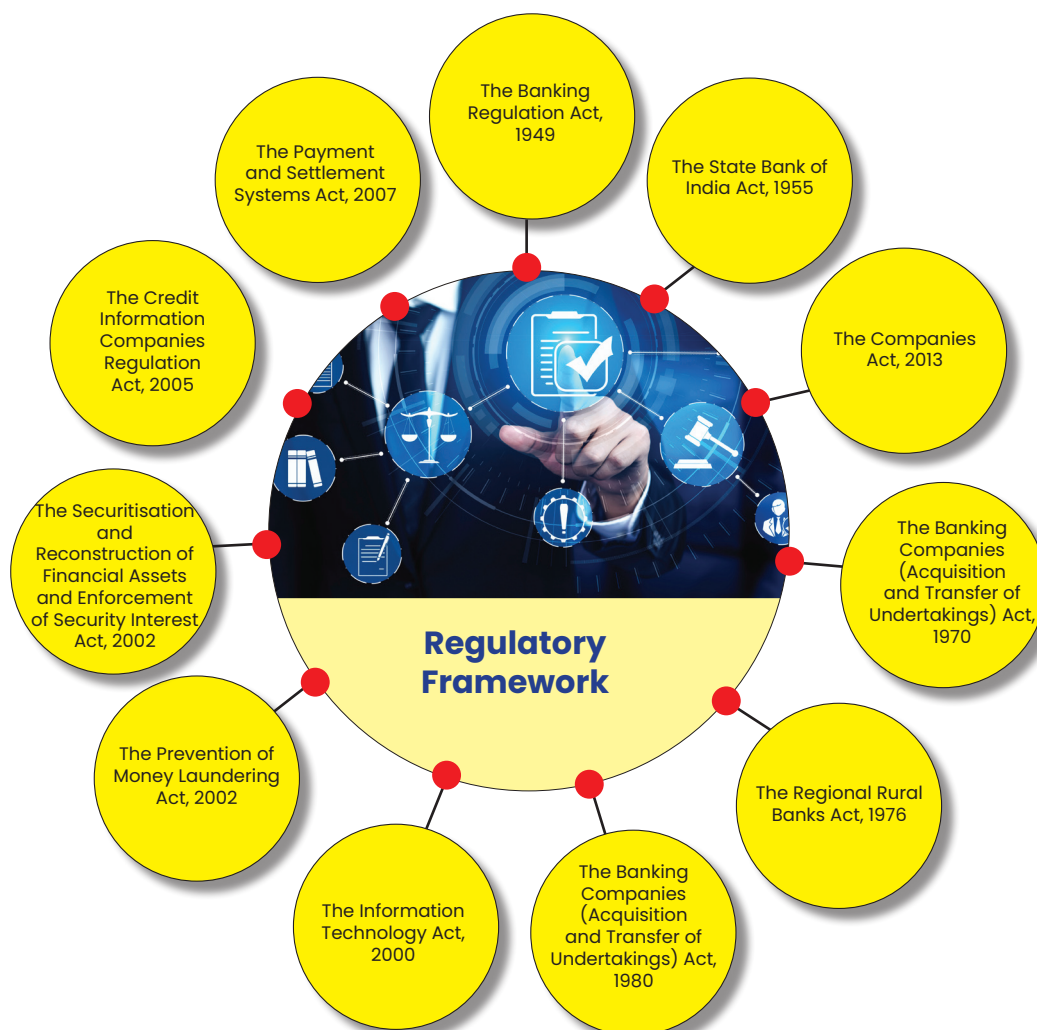


Chapter 10: Audit of Banks

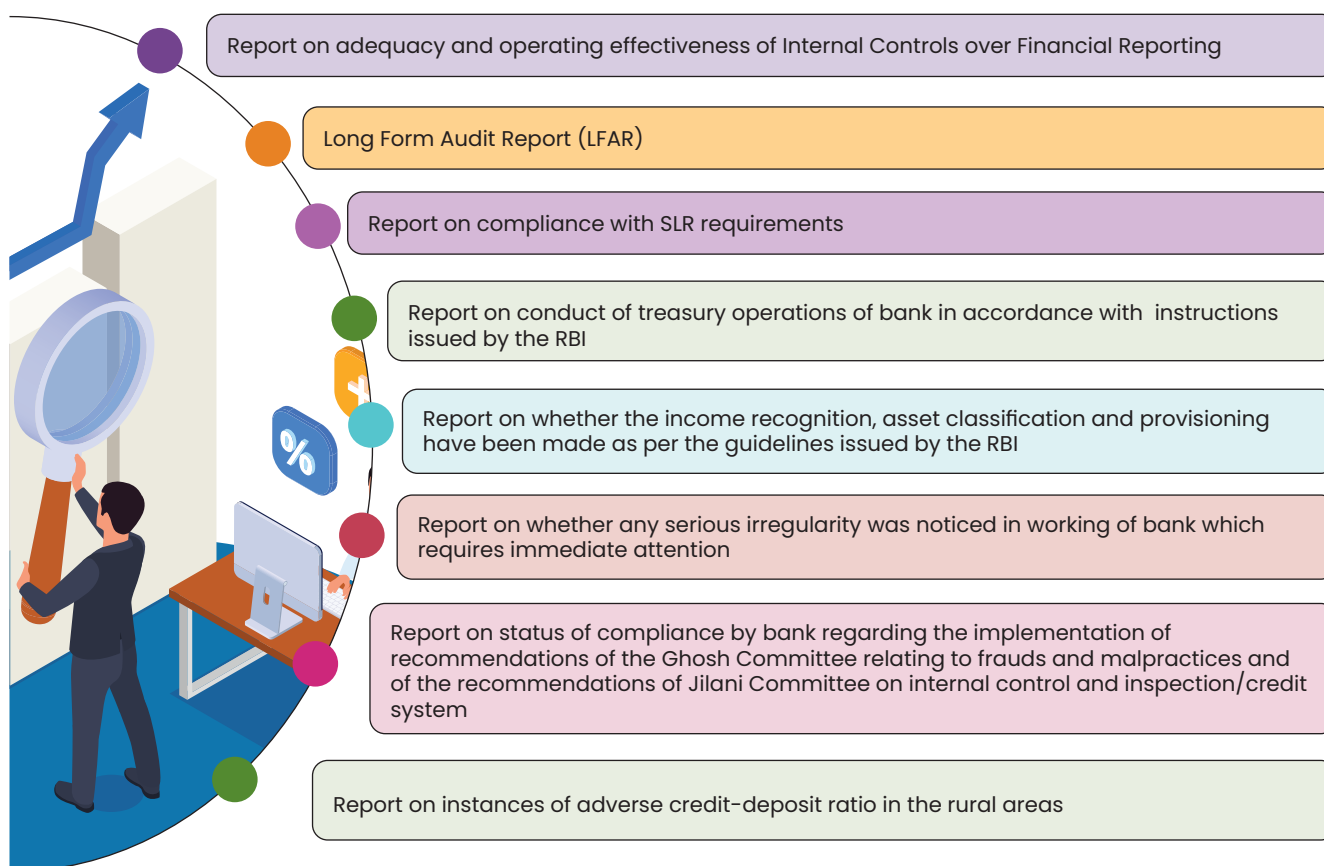


Banking sector is the backbone of any economy. For safe and sound banking sector, one of the most important factors is reliable financial information supported by quality bank audits. Functioning of banking industry is regulated by Reserve Bank of India

Regulatory Framework



Types of Bank Audit Reports to be issued (generally) by SCA apart from Main Audit Report:



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

Control Environment at Bank

Controls to mitigate its risks include:

- effective segregation of duties
- 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

Engagement Team Discussions

- to gain better understanding of the bank and its environment, including internal control
- to assess the potential for material misstatements of the FS
- should be appropriately documented for future reference
- should be done on the susceptibility of the bank's branch FS to material misstatements
- are ordinarily done at the planning stage of an audit

Engagement Team Discussions includes					
Errors that may be more likely to occur	Errors which have been identified in prior years	Method by which fraud might be perpetrated by bank personnel or others within particular account balances and/or disclosures	Audit responses to Engagement Risk, Pervasive Risks, and Specific Risks	Need to maintain professional skepticism throughout the audit engagement	Need to alert for information or other conditions that indicates that a material misstatement may have occurred

Audit of Accounts



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 Act or as near thereto as the circumstances admit

Form A of the Third Schedule to the Banking Regulation Act, 1949, contains the form of Balance Sheet and Form B contains the form of Profit and Loss Account

As per sub-section (1) of section 30 of the Banking Regulations Act, 1949 balance sheet and profit and loss account should be audited by a person duly qualified under any law for the time being in force

Appointment of Auditor



Auditor of Banking Company

Appointed at AGM

Auditor of Nationalised Bank

Appointed by the bank concerned acting through its Board of Directors

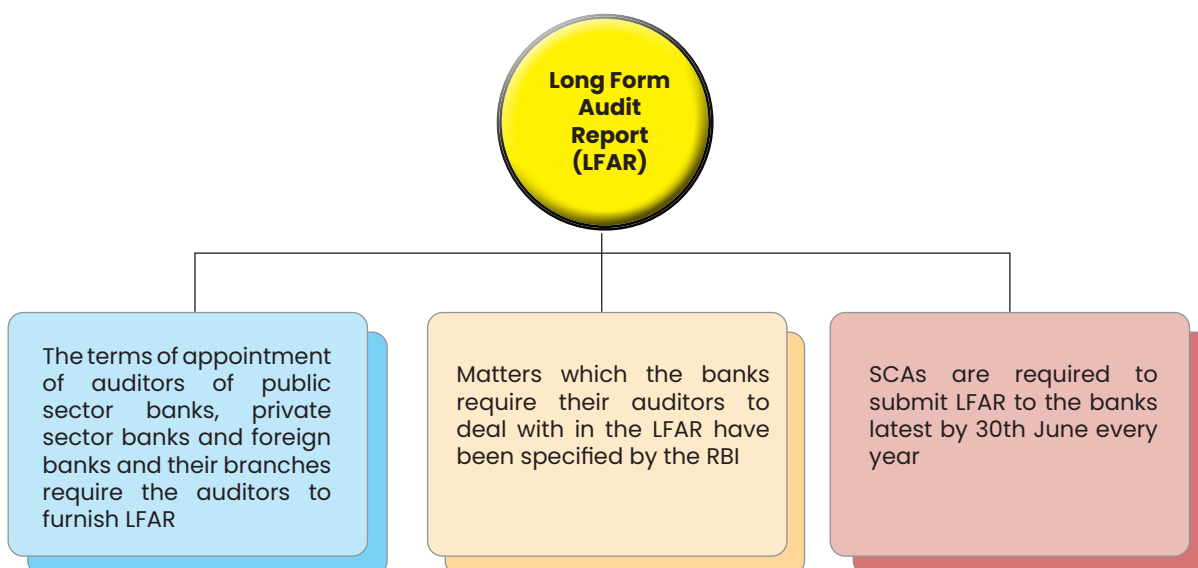
Auditor of Regional Rural Banks

Appointed by the bank concerned with the approval of the Central Government

In either case, approval of the Reserve Bank of India is required before the appointment is made

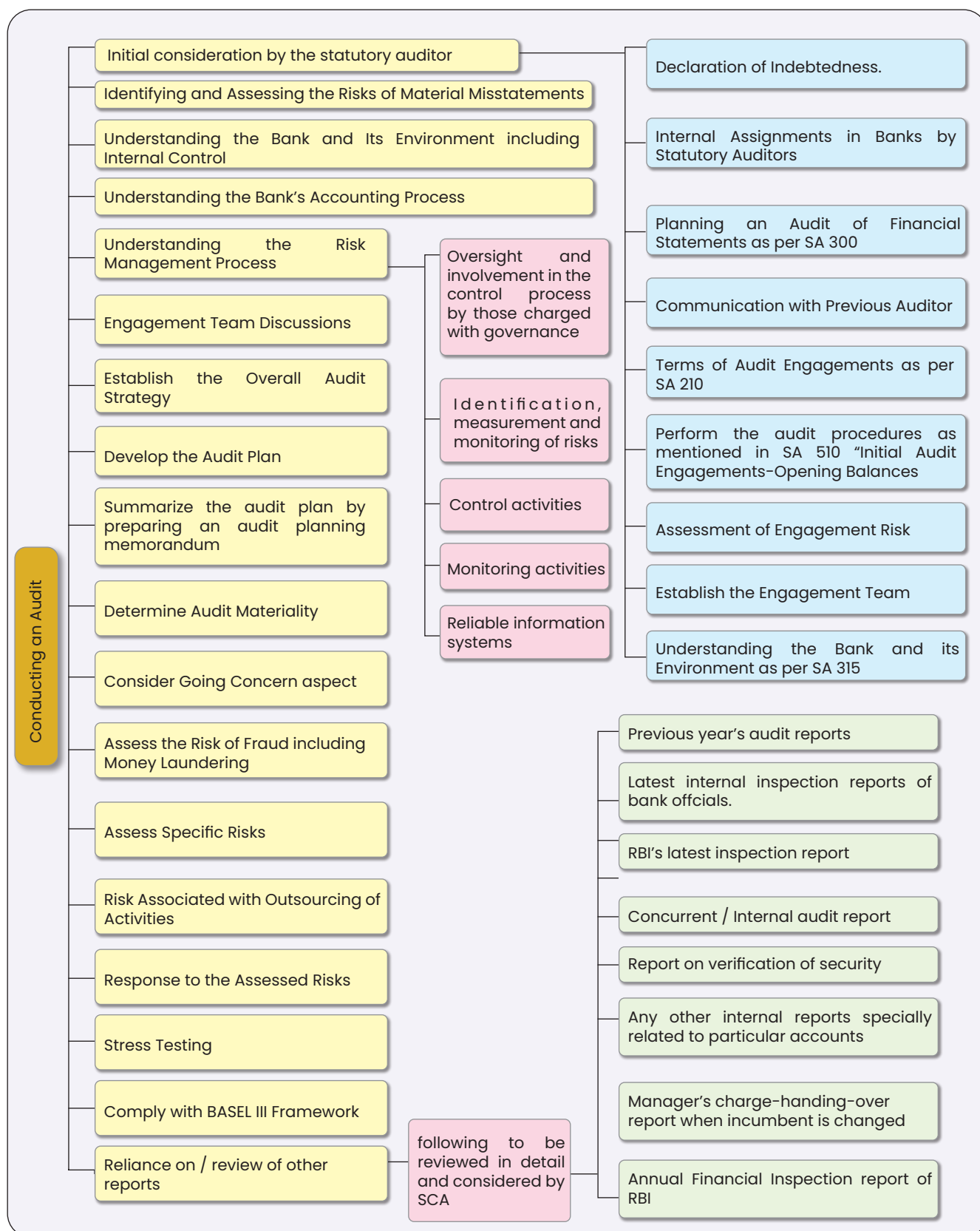
Auditor's Report

In the case of a nationalized bank, the auditor is required to make a report to the Central Government in which he has to state the following:

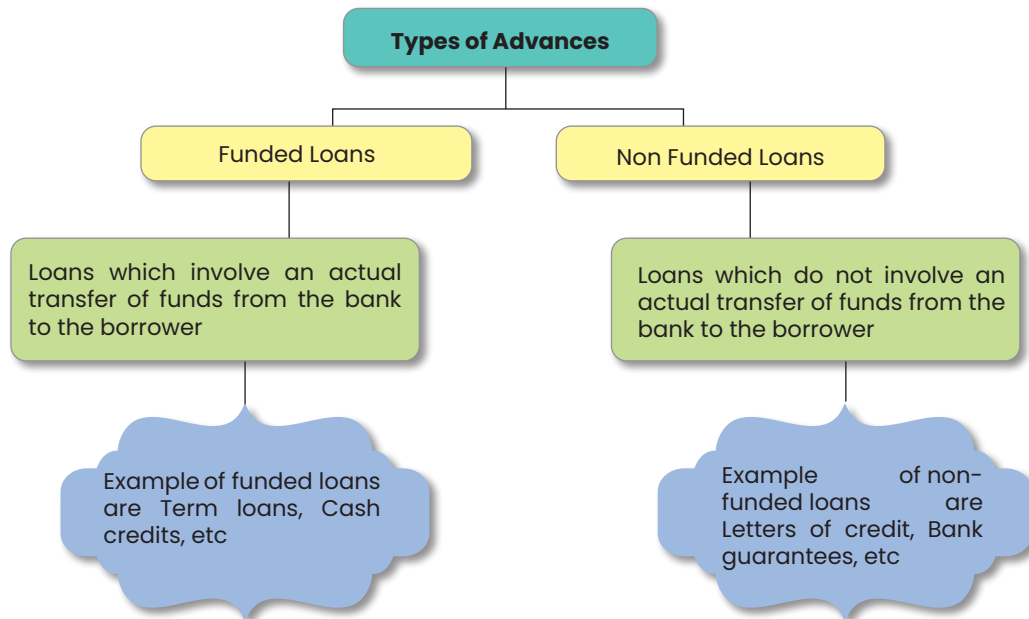


Conducting An Audit

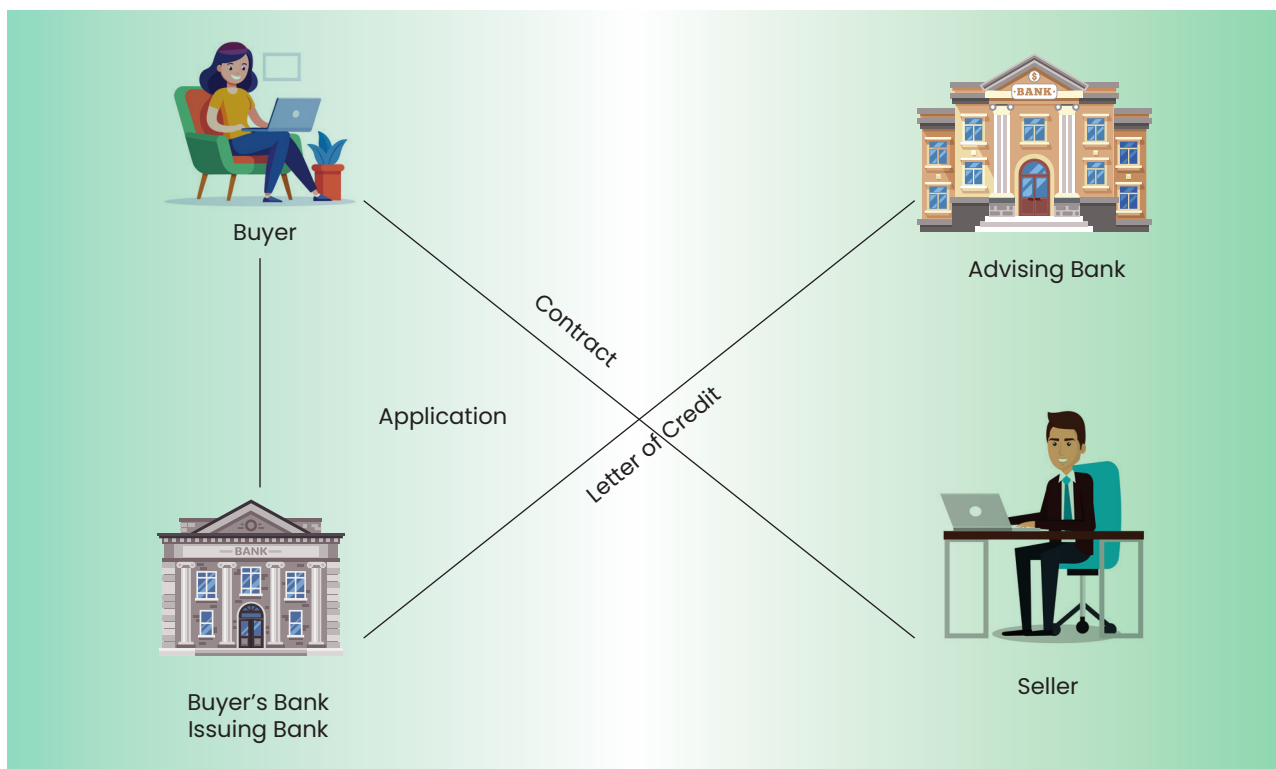
The audit of banks or their branches involves the following stages

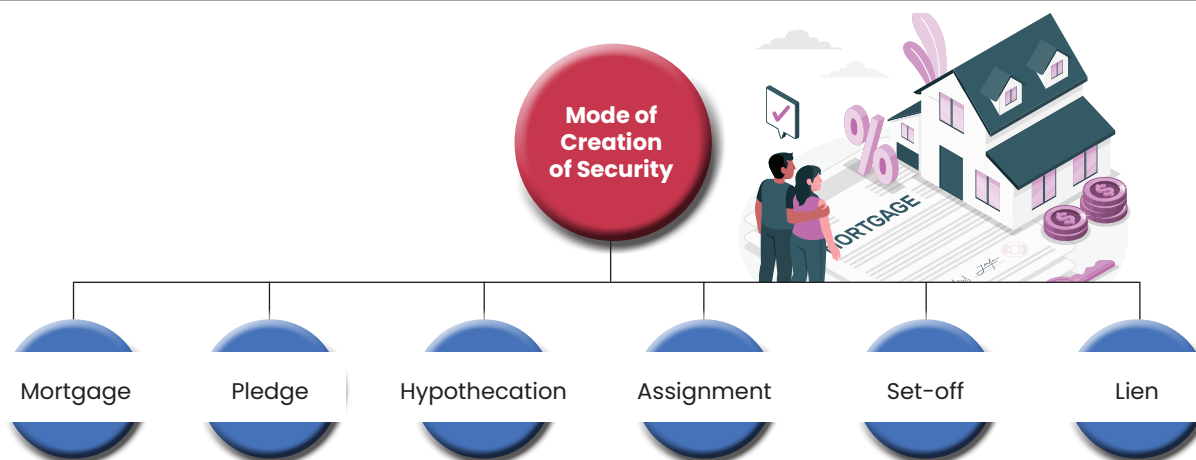
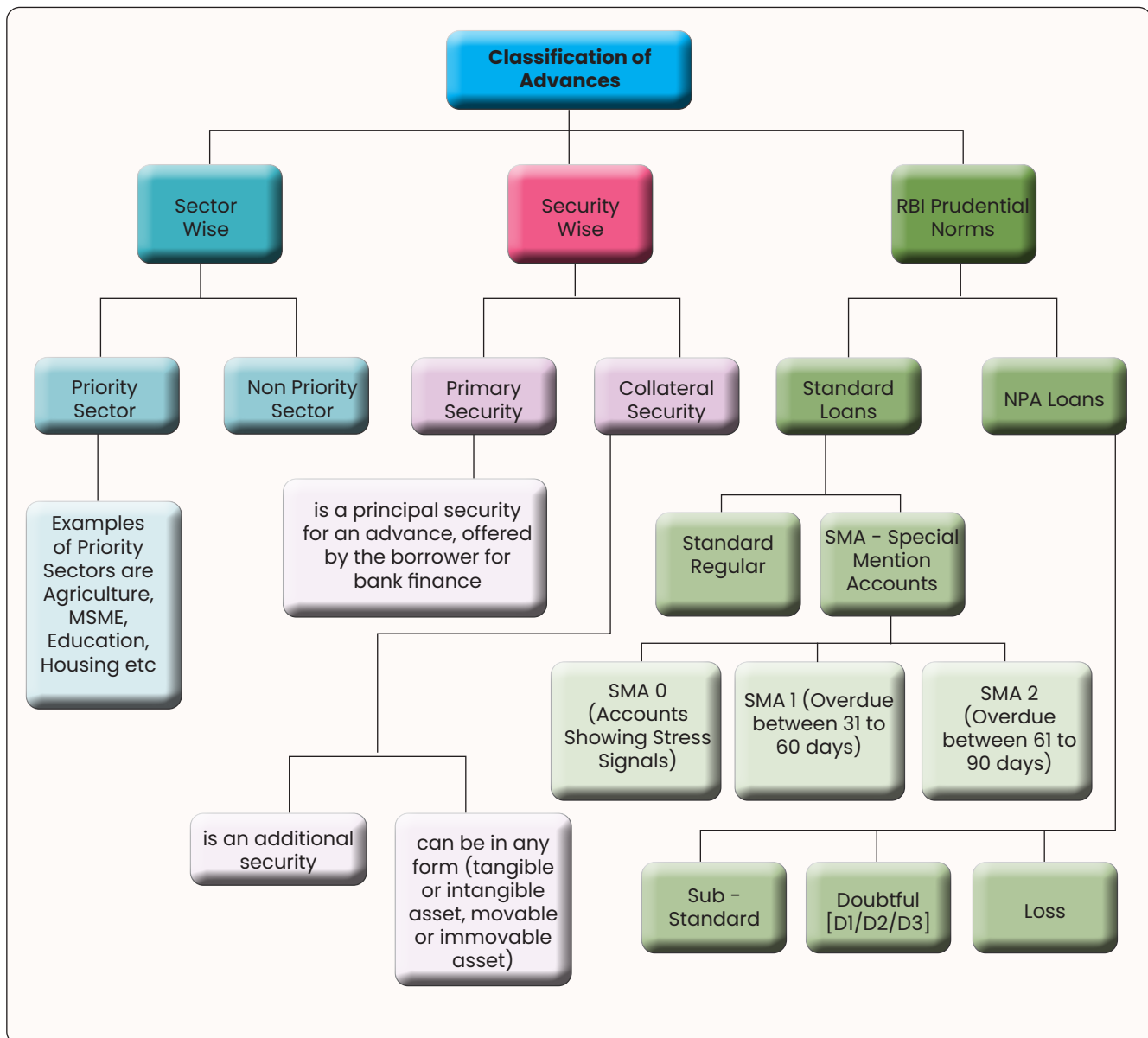


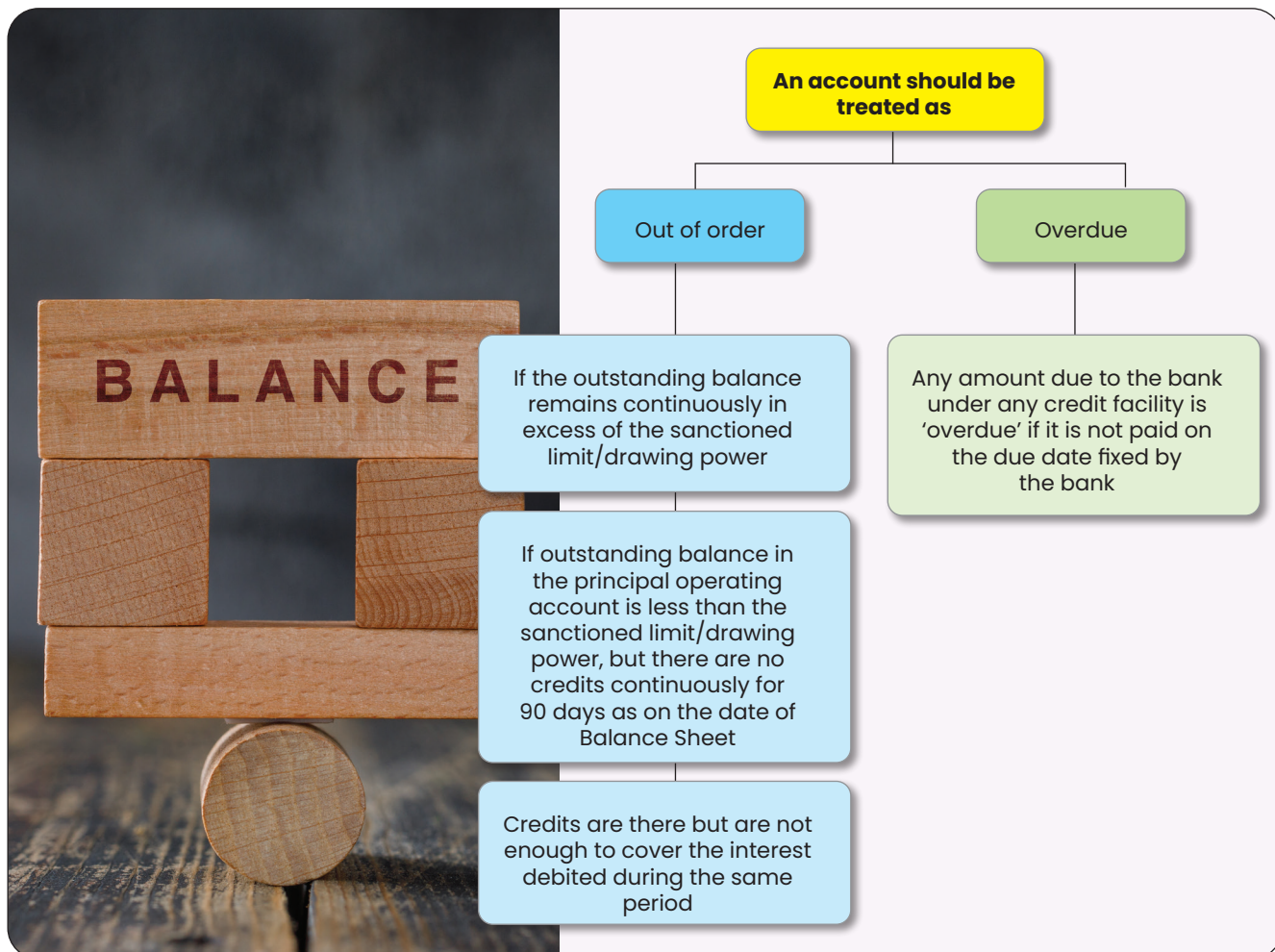
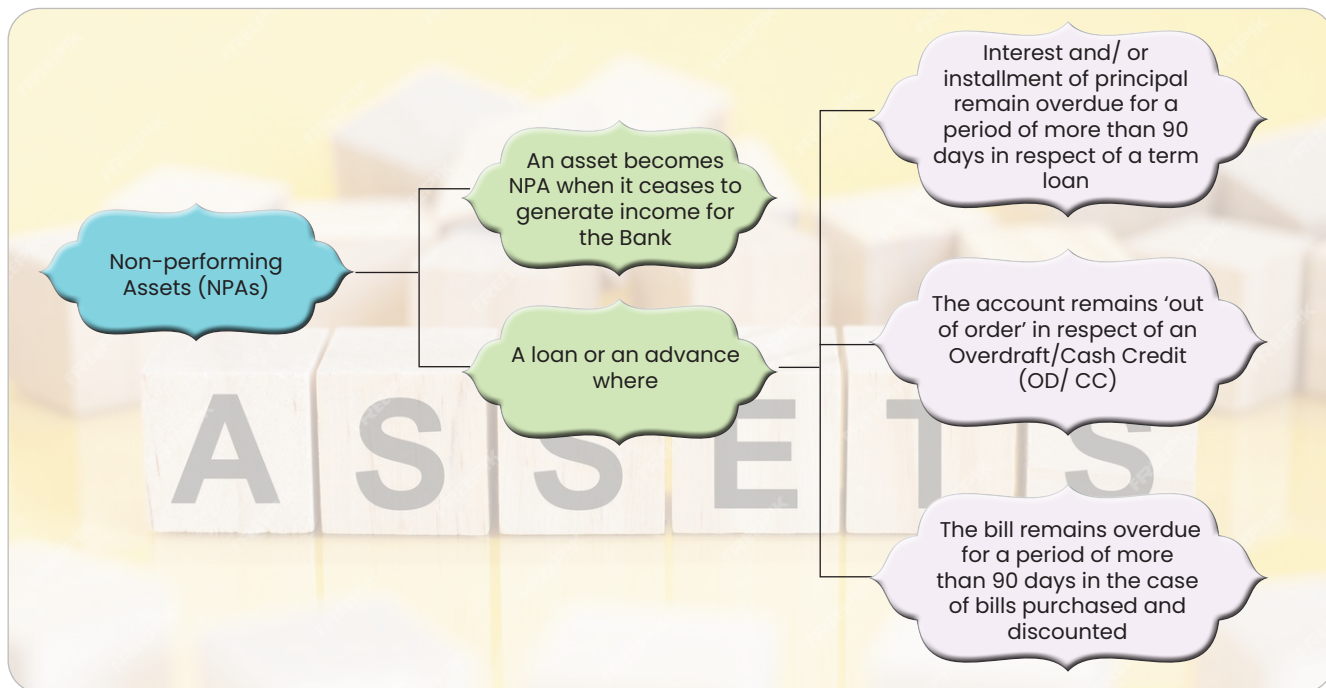
Advances are amount of money or credit, given as a loan from a bank to another party with an agreement that the money will be repaid

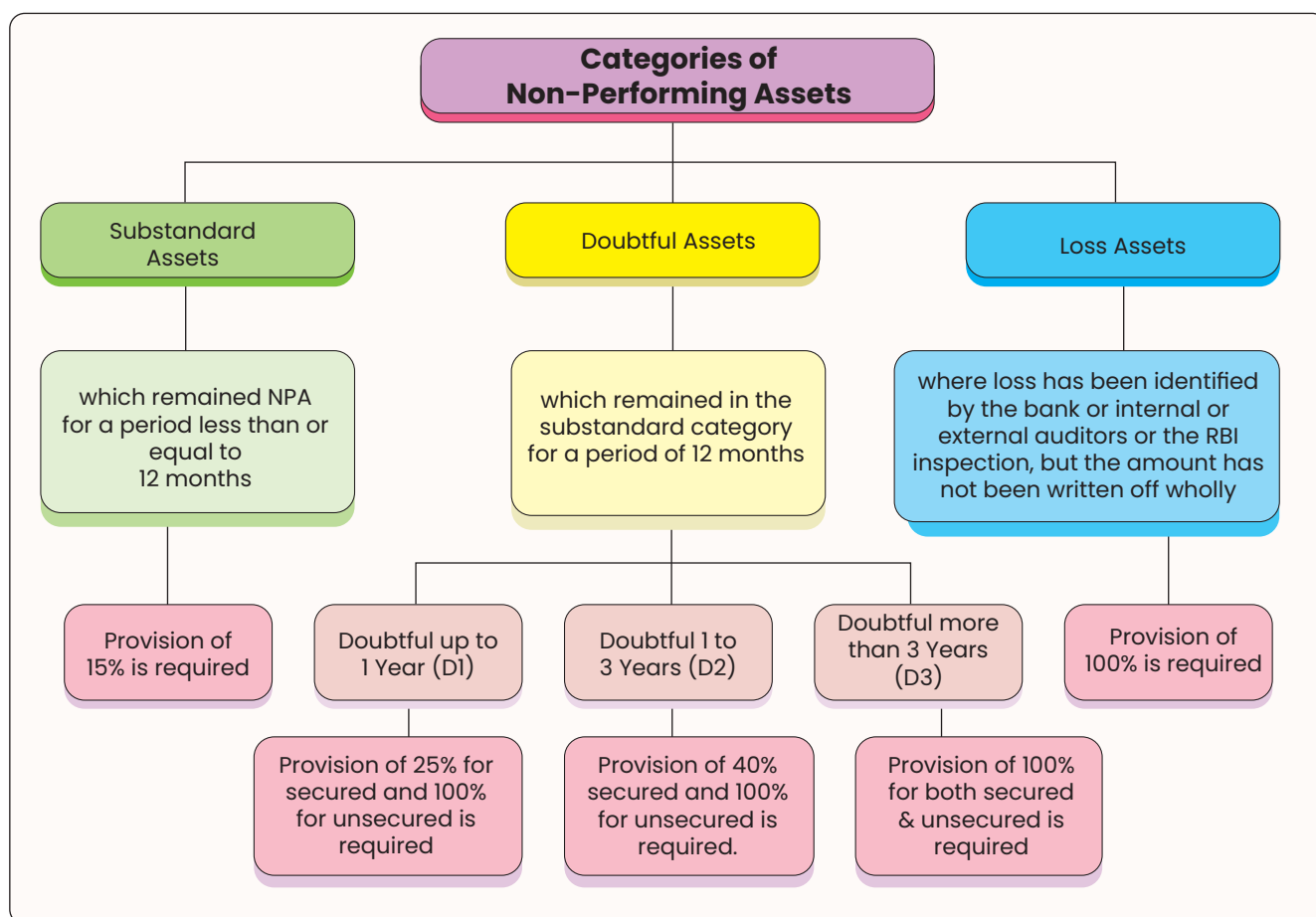


A Letter of Credit









Accounts regularized near the Balance Sheet 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.

Government Guaranteed advances

- Central Government guaranteed Advances, where the guarantee is not invoked/ repudiated would be classified as Standard Assets, but regarded as NPA for Income Recognition purpose.
- Advances guaranteed by State Government is to be considered NPA if it remains overdue for more than 90 days for both Provisioning and Income recognition purposes.

Advances under Consortium

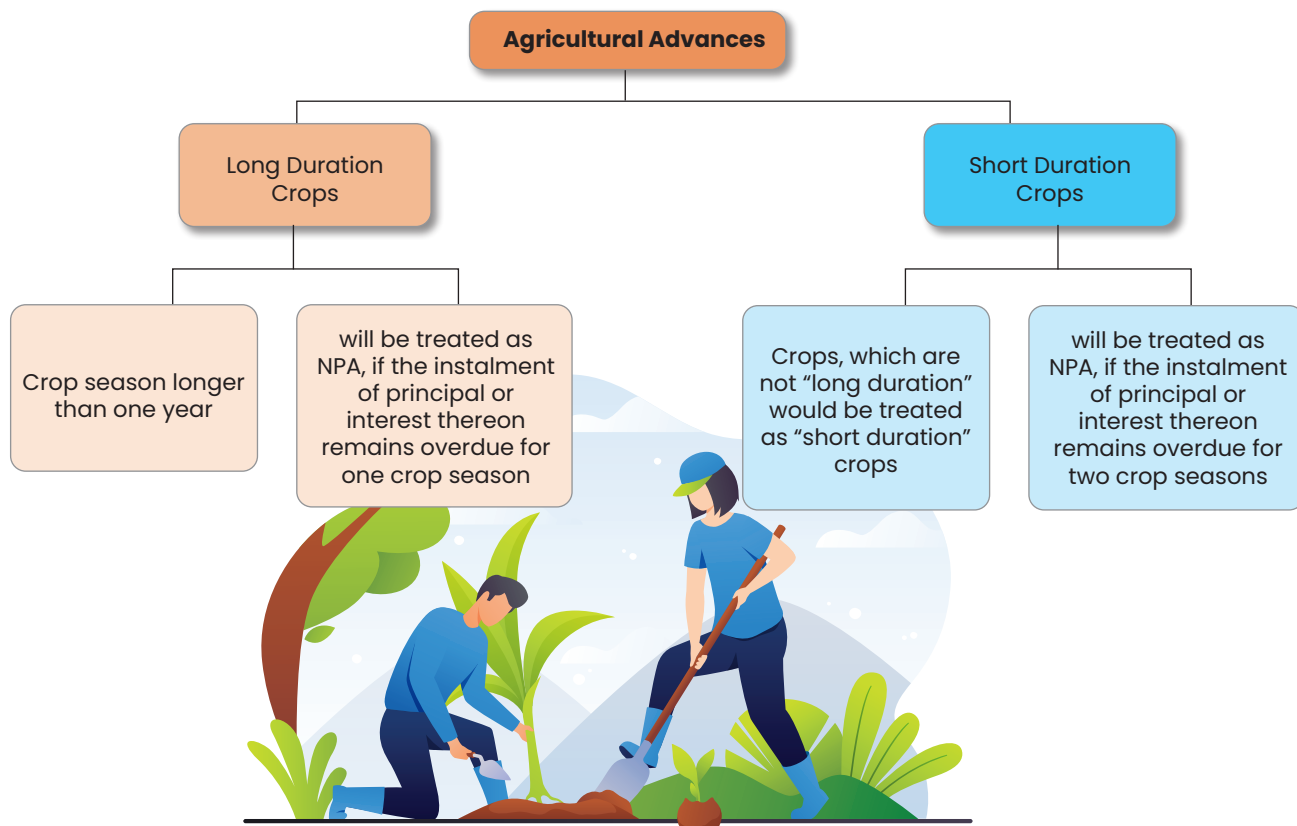
Consortium advances mean advancing loans to a borrower by two or more Banks jointly by forming a Consortium. Joint appraisal, control and monitoring will facilitate for exchange of valuable information among the Banks. Usually, a Bank with a higher share will lead the consortium.

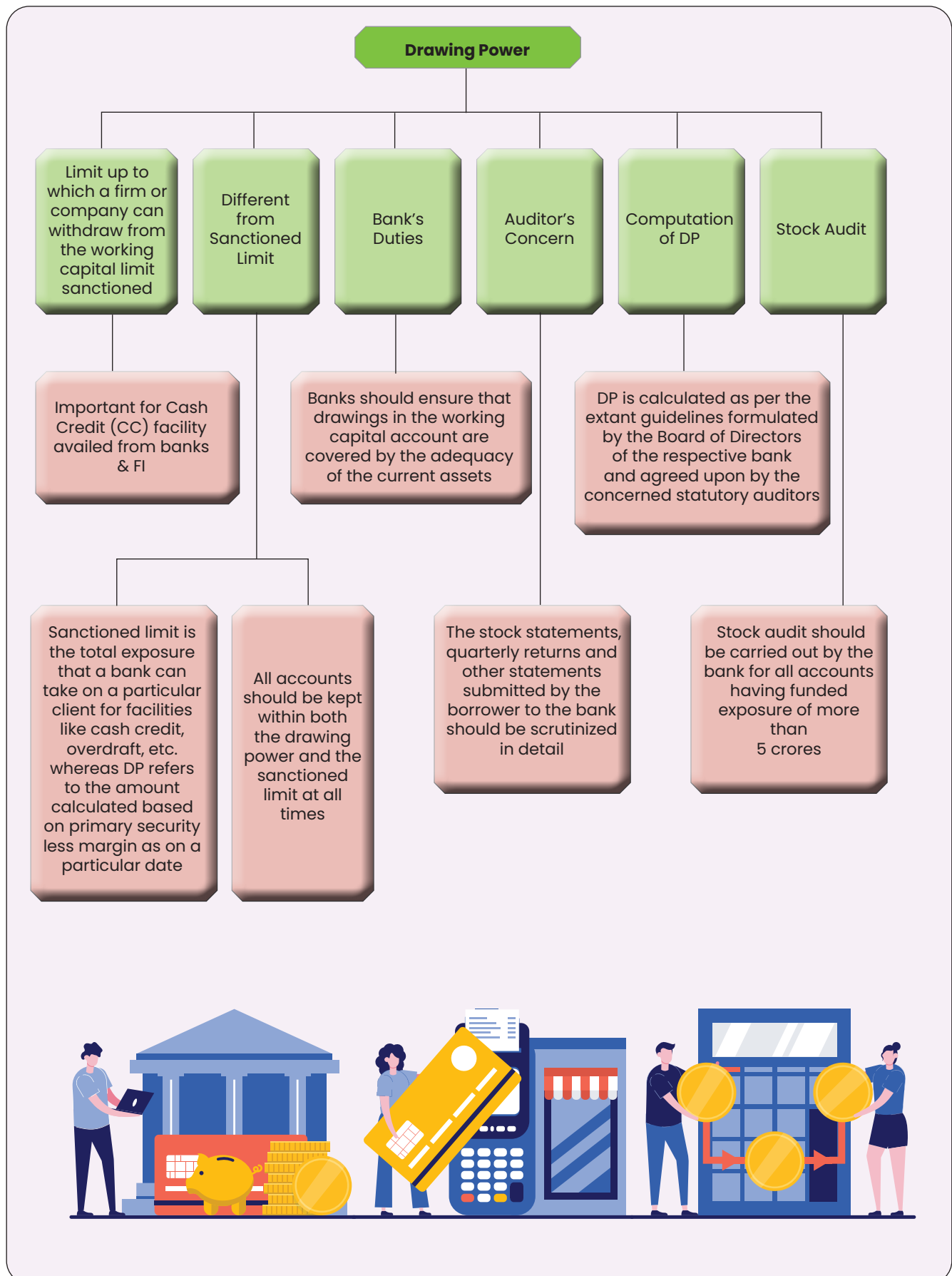


Classification of Assets when there is erosion in the value of security / frauds committed by borrowers

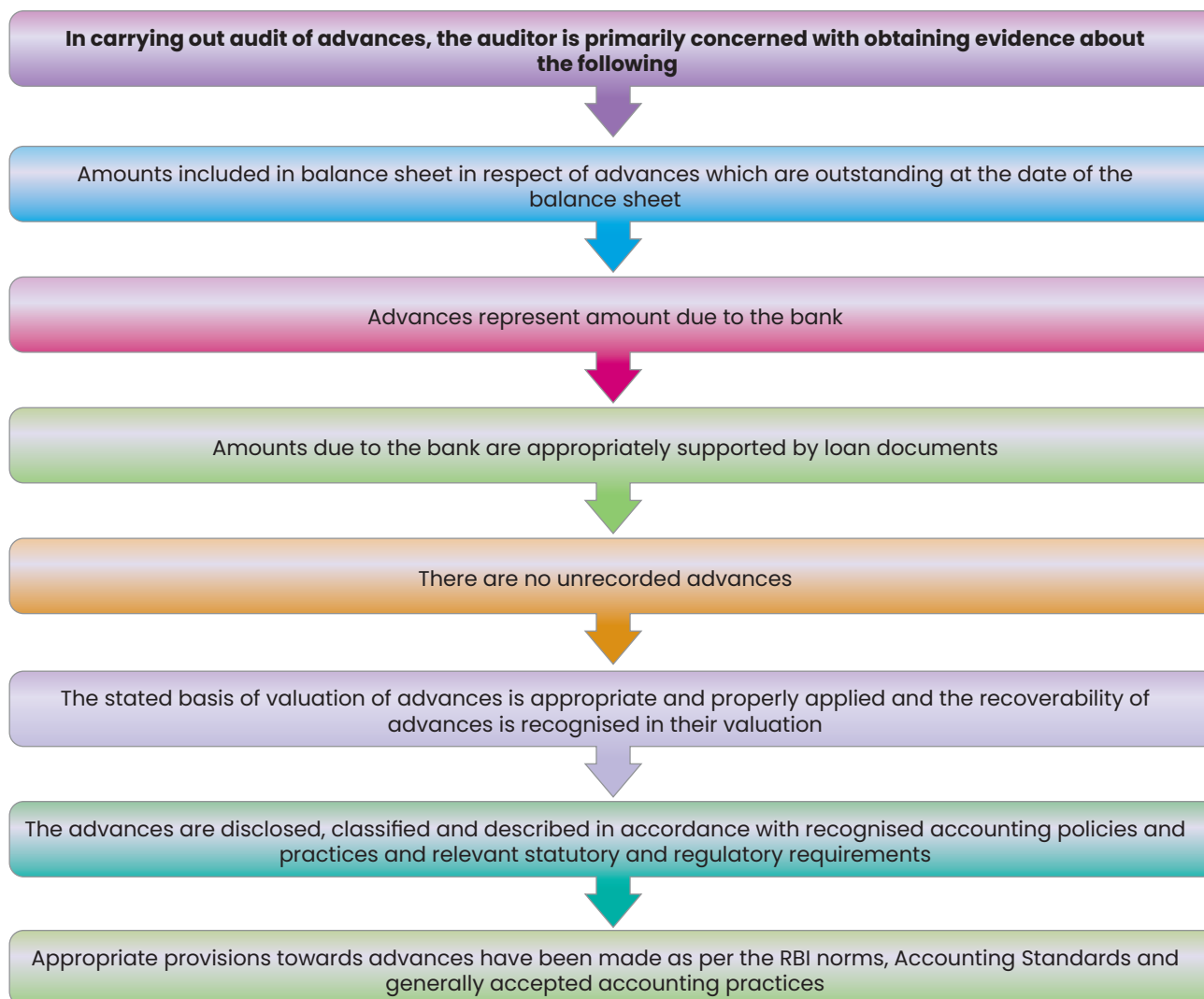
Erosion in the value of security can be reckoned as significant when the realisable value of the security is less than 50% of the value assessed by the bank or accepted by RBI at the time of last inspection. Such NPAs may be straight-away classified under **doubtful category** and provisioning should be made accordingly

If the realisable value of the security, as assessed by the bank/ approved valuers/ RBI is less than 10% of the outstanding in the borrower accounts, the existence of security should be ignored and the asset should be straight-away classified as **loss asset**. It may be either written off or fully provided for by the bank





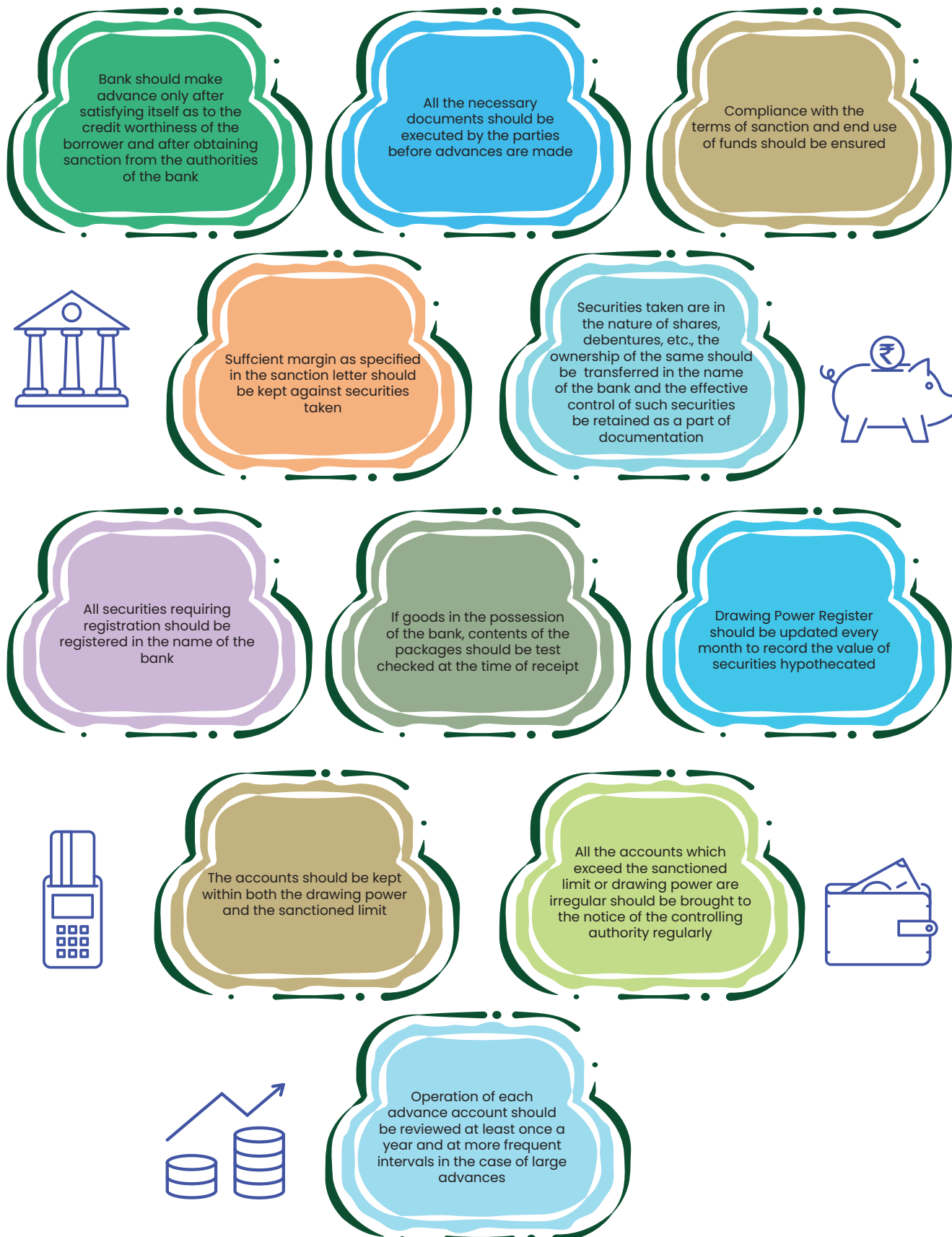
Audit of Advances

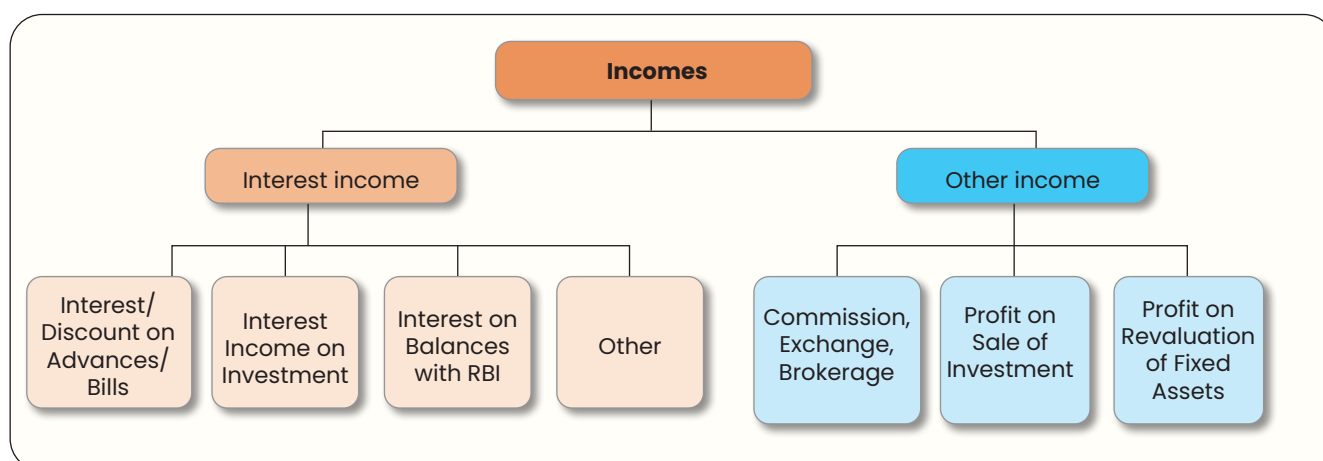


The auditor can obtain sufficient appropriate audit evidence about advances by study and evaluation of internal controls relating to advances, and by:

- Examining the validity of the recorded amounts
- Examining loan documentation
- Reviewing the operation of the accounts
- Examining the existence, enforceability and valuation of the security
- Checking compliance with RBI norms including appropriate classification and provisioning
- Carrying out appropriate analytical procedures

Evaluation of Internal Controls over Advances





Audit Approach and Procedures for incomes

Auditor's Concern

The auditor is primarily concerned with obtaining reasonable assurance that 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 Accounting Standard 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

Revenue Certainty

Banks recognize income on accrual basis, i.e., as it is earned

Revenue Uncertainty

Banks should not recognize income on non-performing assets until it is actually realised

Advances against Securities

Interest on advances against Term Deposits, NSC, IVPs, KVPs, and Life policies may be taken to income account on the due date, provided adequate margin is available in the accounts

Bills for Collection

Auditor should also examine the procedure for crediting the party on whose behalf 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

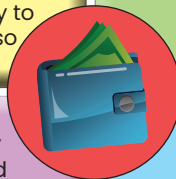
Reversal of Income

If any advance, including bills purchased and discounted, becomes NPA at the close of any year, the entire interest accrued and credited to income account in the past periods, should be reversed or provided for if the same is not realised. This will apply to Government guaranteed accounts also

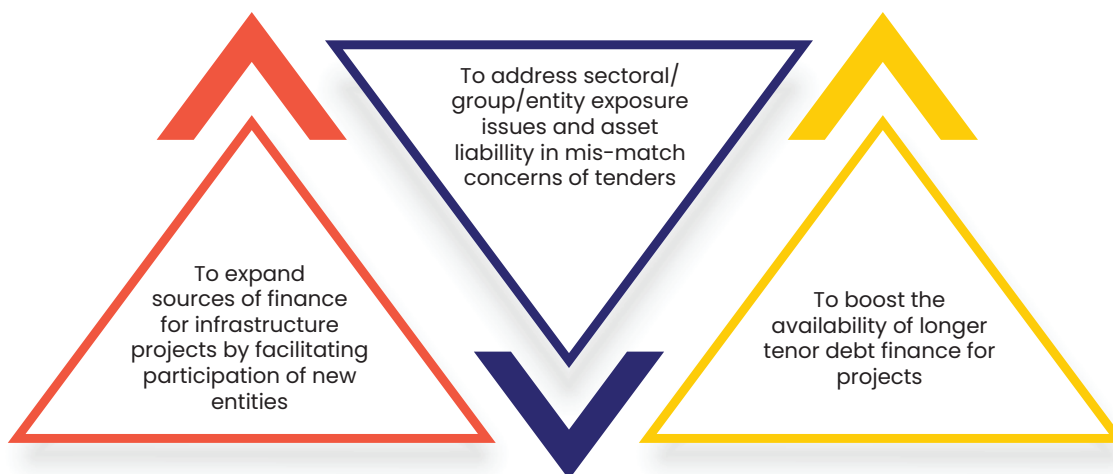
In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed or provided for with respect to past periods, if uncollected

In case of banks which have wrongly recognised income in the past should reverse the interest if it was recognised as income during the current year or make a provision for an equivalent amount if it was recognized as income in the previous year(s)

The auditor should enquire if there are any large debits in the Interest Income account that have not been explained



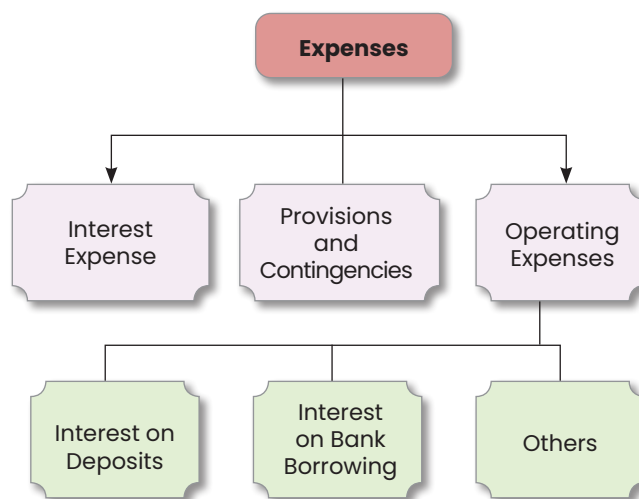
Objective of Takeout Finance



Income from Investments

Interest Income on Investments:	Profit on Sale of Investments:	Profit/Loss on Revaluation of Investments
It 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	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	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

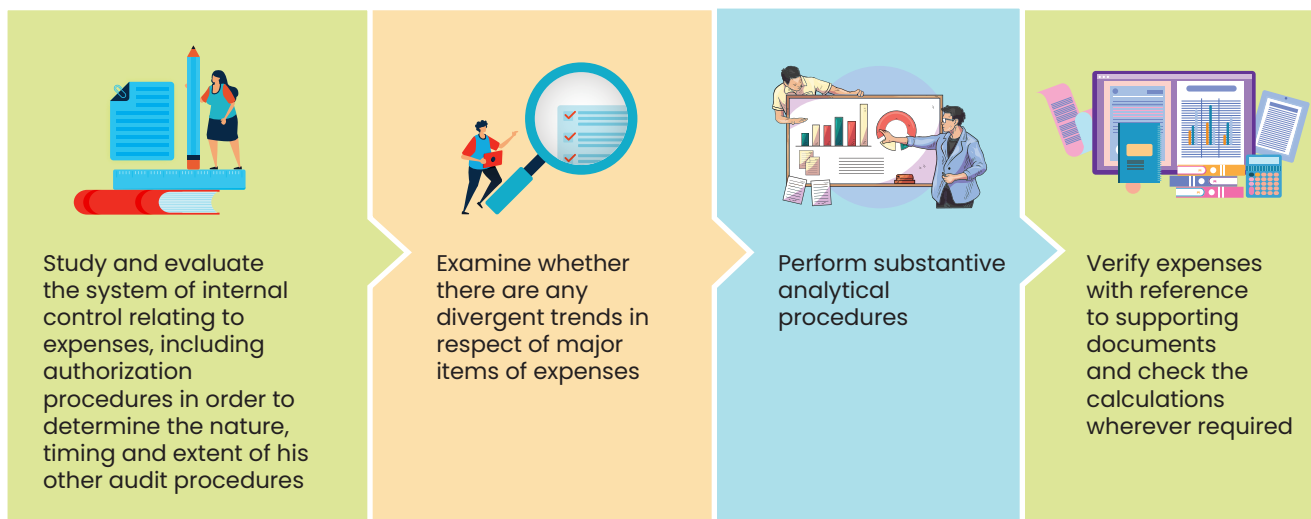
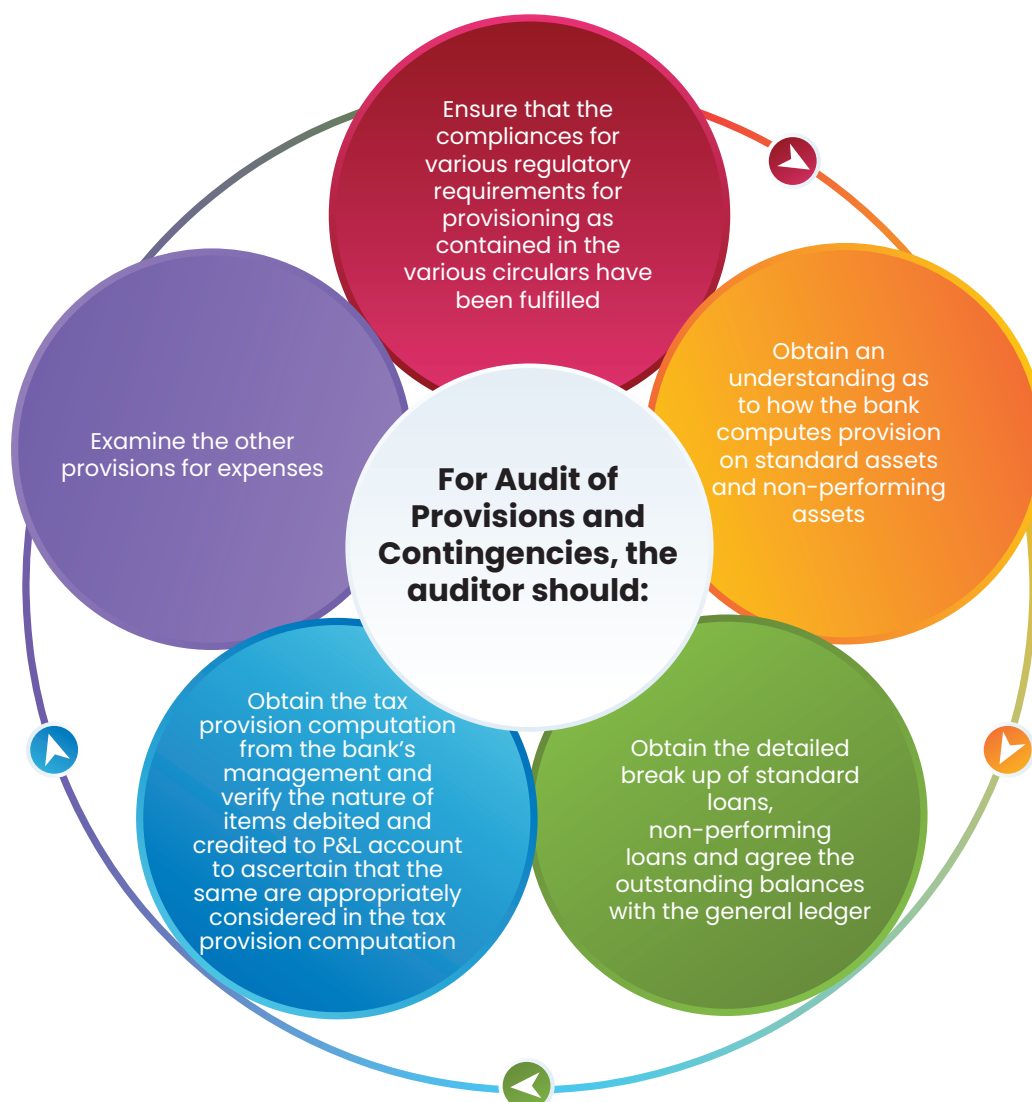


Audit Approach and Procedures for Expenses

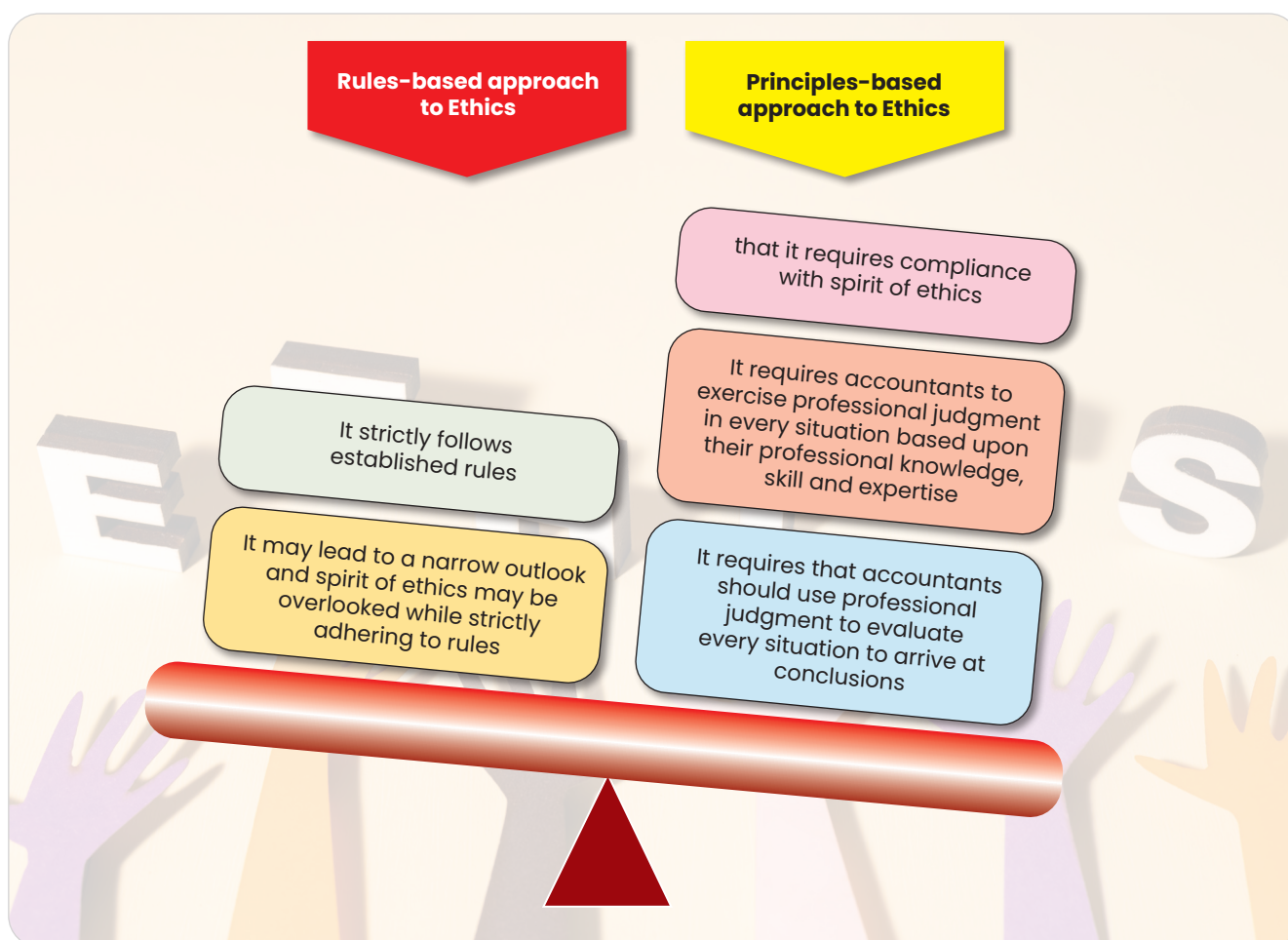
The auditor should:



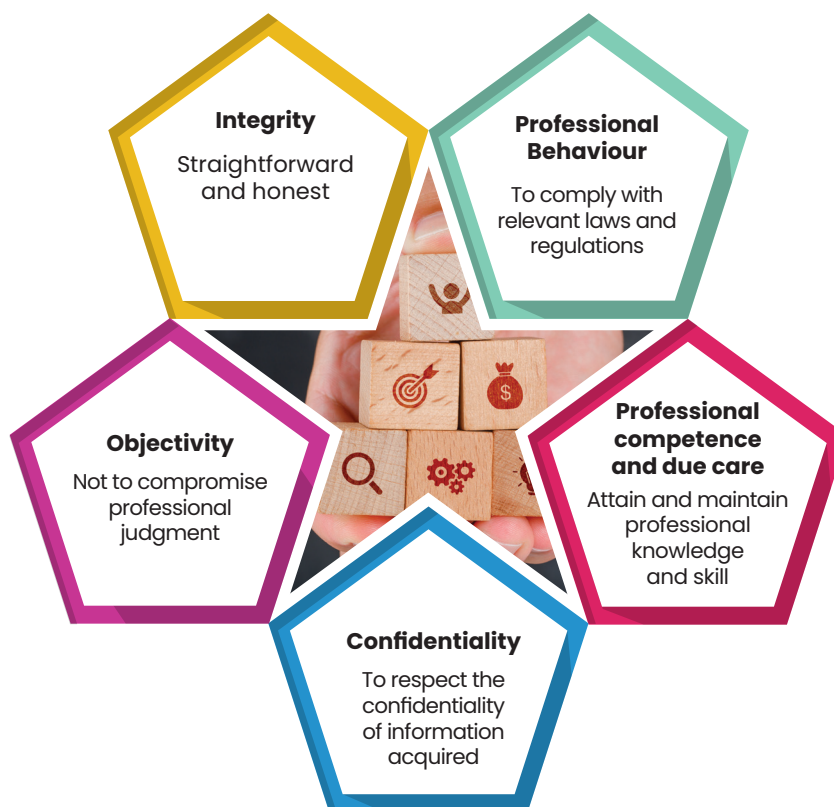
- assess the overall reasonableness of the amount of interest expense by analysing ratios of interest paid on different types of deposits and borrowings to the average quantum of the respective liabilities during the year
- obtain from the bank an analysis of various types of deposits outstanding at the end of each quarter
- compare the average rate of interest paid on the relevant deposits with the corresponding figures for the previous years and analyse any material differences
- verify the calculation of interest on a test check basis, and ensure that:
 - (a) Interest has been provided on all deposits upto the date of the balance sheet
 - (b) Interest rates are in accordance with the bank's internal regulations, the RBI directives and agreements with the respective deposit holder
 - (c) Interest on savings accounts are in accordance with the rules framed by the bank/RBI in this behalf
 - (d) Interest on inter-branch balances has been provided at the rates prescribed by the head office/RBI

For Audit of Operating Expenses, the auditor should:**For Audit of Provisions and Contingencies, the auditor should:**

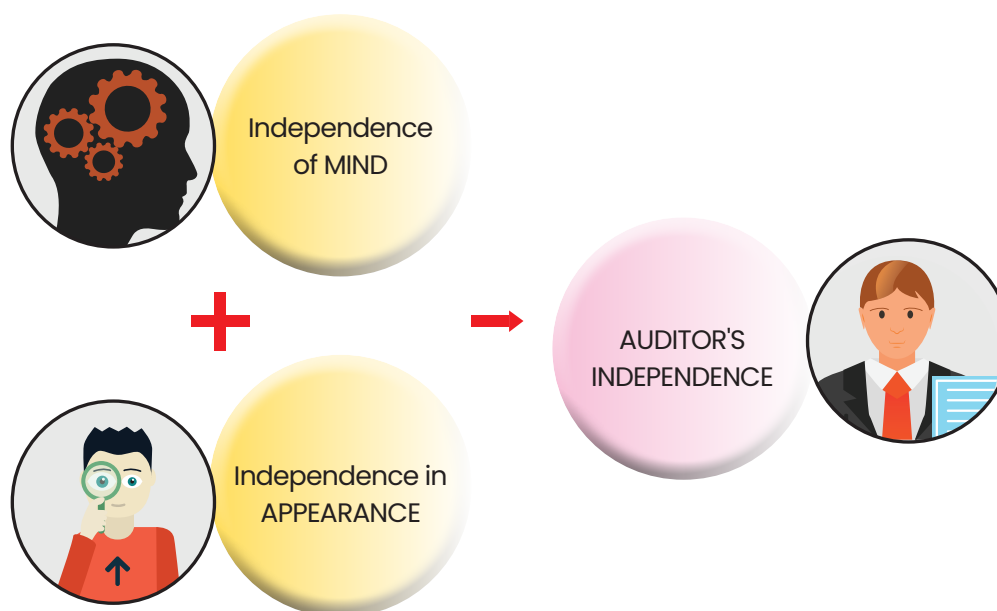
Chapter 11: Ethics and Terms of Audit Engagements

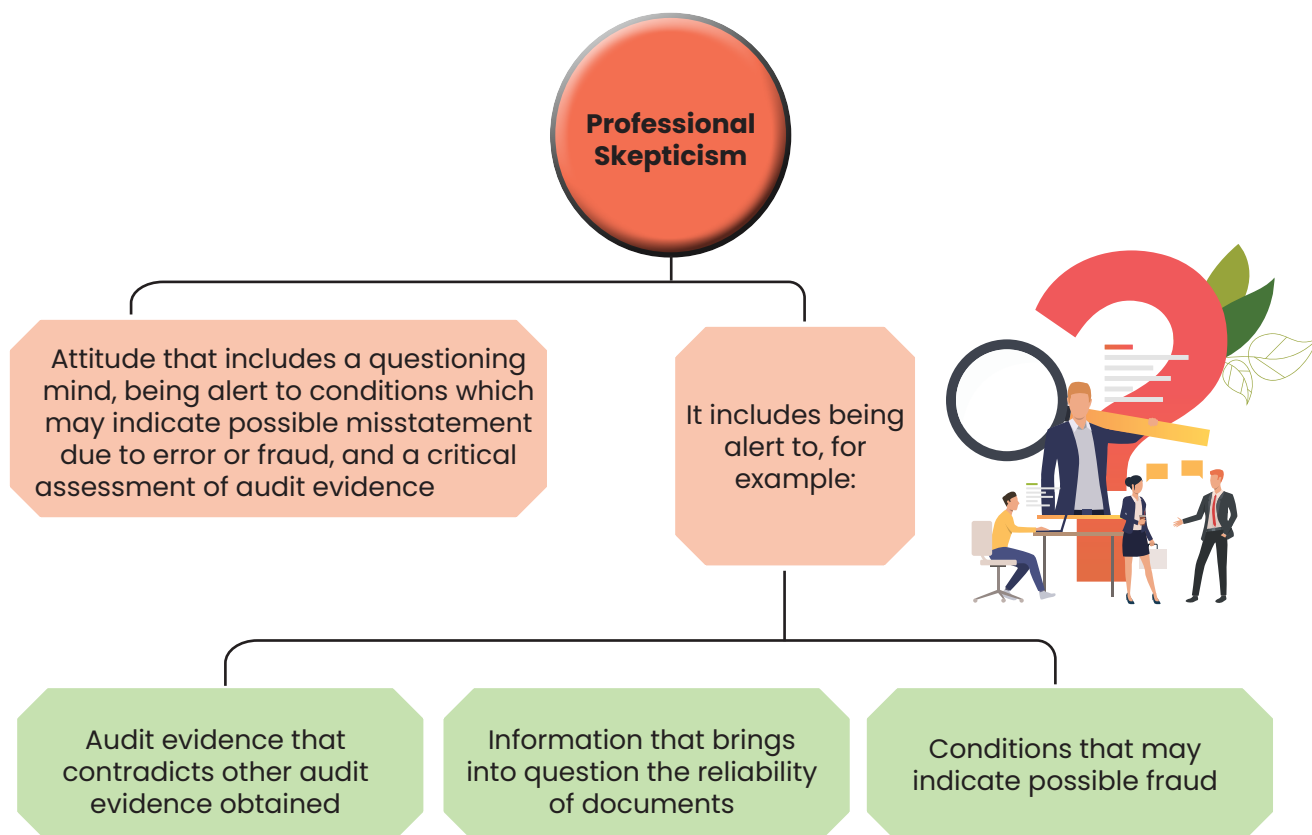
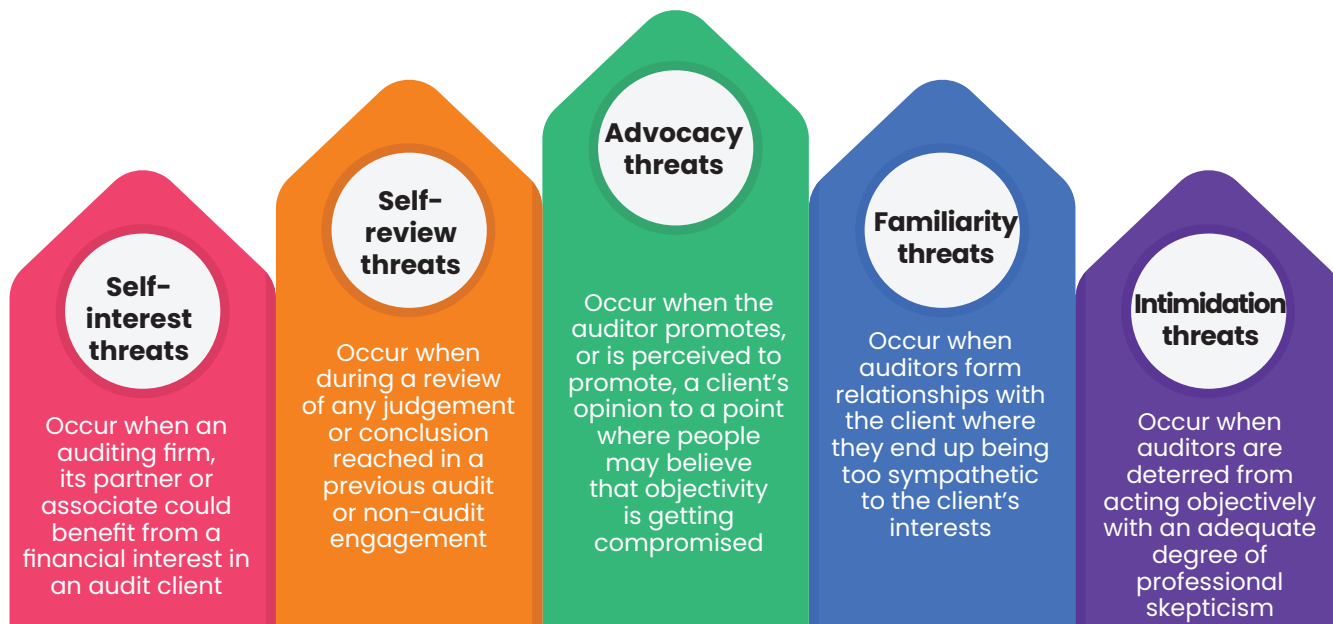


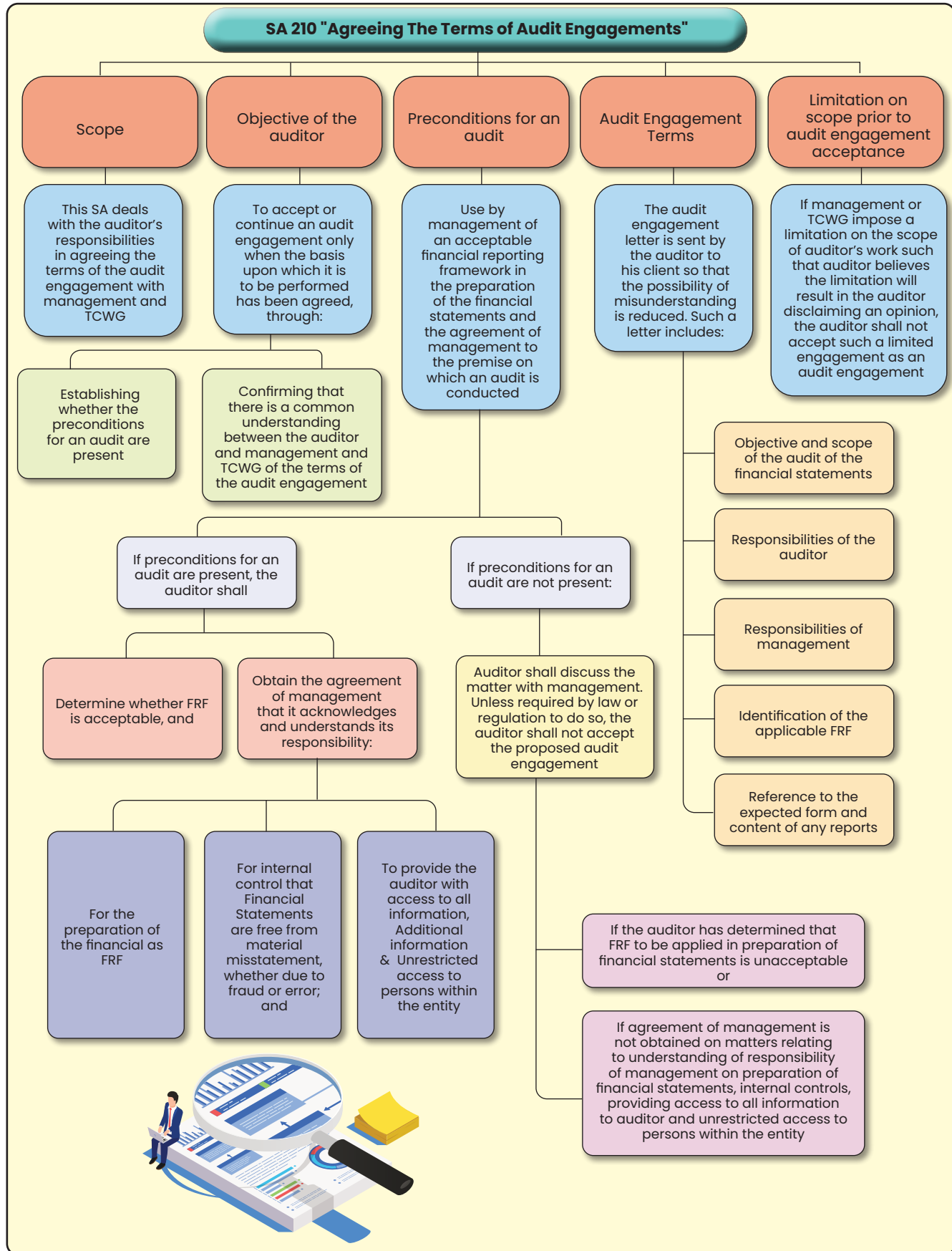
Fundamental Principles of Professional Ethics



Threats To Independence of Auditors







Acceptance of Change in Terms of Audit Engagement

Entity request to change the Terms – Reasonable Justification Exists?

Change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of service originally requested may be considered a reasonable basis for requesting a change in the audit engagement

A change may not be considered reasonable if it appears that change relates to information that is incorrect, incomplete or otherwise unsatisfactory

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



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

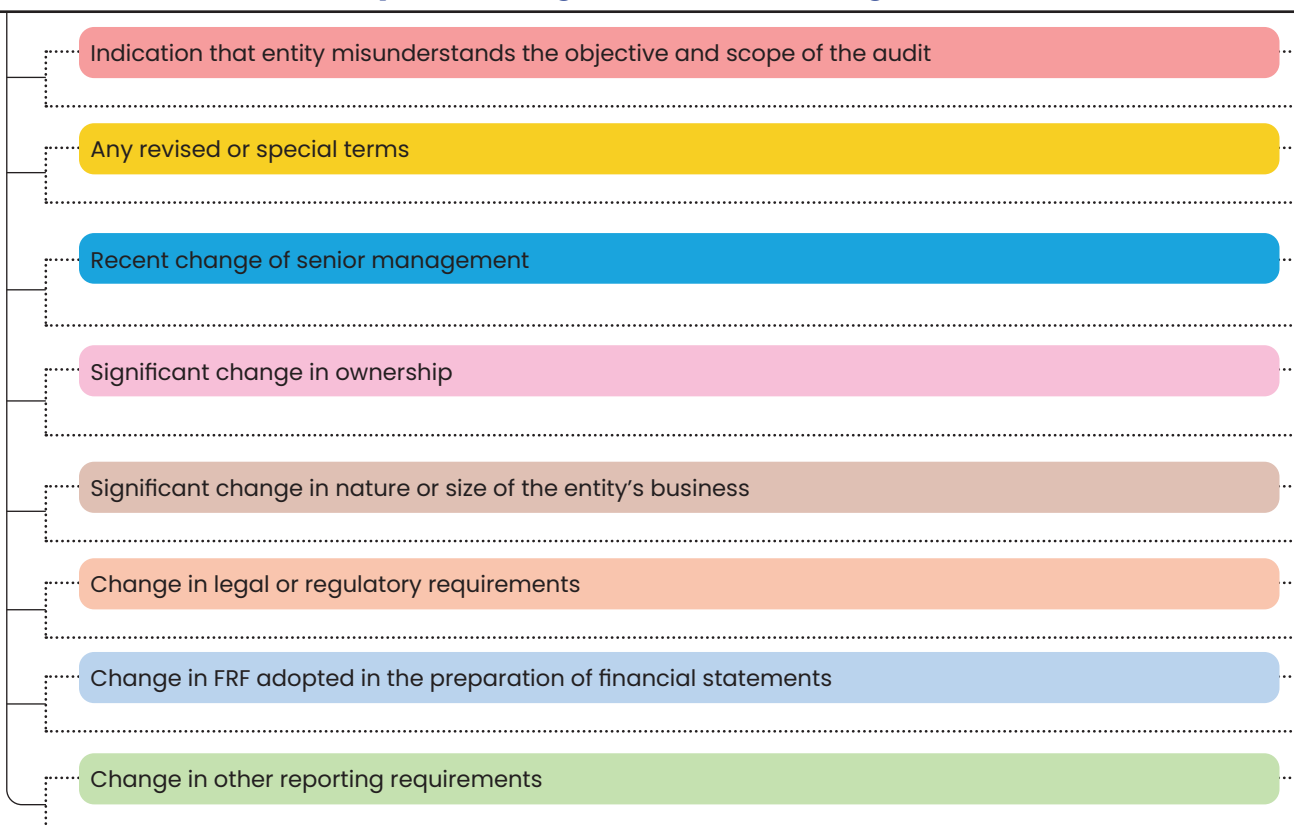
If auditor is unable to agree to a change of the and is not permitted by management to continue the original audit engagement, the auditor shall:

Withdraw from the audit engagement, and

Determine whether there is any obligation to report the circumstances to other parties



Factors to be considered for revising the terms of audit engagement and if there is need to remind the entity of existing terms in Recurring Audit:



SQC 1

- Deal with quality control
- Deals with all engagements including audits, reviews and other assurance and related service engagements
- Applies to entire firm

SA 220

- Deal with quality control
- Deals with all engagements including audits, reviews and other assurance and related service engagements
- Applies to entire firm



