

What is Audit?

"An audit is an **INDEPENDENT EXAMINATION** of financial **INFORMATION**, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to express an opinion thereon"

Responsibility of Management: Preparation & Presentation of FS

Responsibility of Auditor: To give an opinion thereon

SA 200 Overall Objectives of an Independent Auditor & The Conduct of Audit in acc with SA

OBJECTIVES:

- 1. To obtain **RA** - FS - free from **MM**
 Enabling the auditor to express an **opinion**
 FS = AFRF
- 2. To **report** on FS & **communicate** aspects

AFRF: Framework adopted in the preparation & presentation of FS as per law regulation.

SCOPE OF AUDIT:

- | ↓ Includes | ↓ Excludes |
|---|--|
| 1. Coverage of all aspects | 1. Preparation & presentation of FS |
| 2. Reliability & sufficiency of Fi | 2. Duties outside competence |
| 3. Proper disclosure of Fi | 3. Authentication of doc |
| 4. Expression of opinion | 4. Investigation |

Benefits of Audit:

1. ↑ quality info; confidence to users
2. Sh. H X involved daily
3. E'ee X fraud
4. Govt. Authorities
5. Lenders, bankers
6. Controls (deficiency)

Limitations of Audit:

1. Nature of FR
2. Nature of A. Procedure
3. Not in nature of investigation
4. Future events
5. Timeliness of FR

Audit requirements:

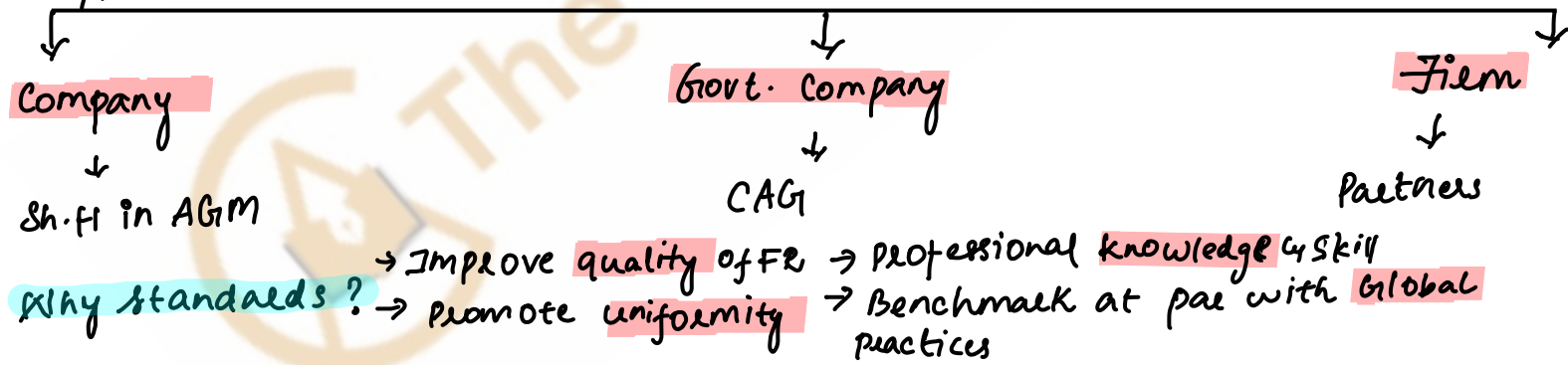
Mandatory (under Law)

1. Co governed by Companies Act 2013
2. Banking co under Banking Reg. Act, 1949
3. Others statutory bodies required by Regulators / Specific act

Voluntary

1. Proprietary entities, Partnership HUF etc
2. Internal rules
3. Sanction of Grant or loans

Appointment of Auditors: (Report submitted to person making appointment)



- ## DUTIES:
1. Follow standards
 2. If specific procedure ineffective - alt. procedures to be documented
 3. Reason for departure to be documented
 4. Report should draw attn to departures
 5. Mere disclosures doesn't absolve from complying with standards.

QUALITIES OF AUDITOR

1. Reporting on fin. matters
2. Tact, caution, firmness, good temper, integrity
3. Personal qualities
4. Shine of culture
5. Integrity backed by independence
6. Trust, human-qualities
7. Critically review FS, expert knowledge
8. Exhaustive knowledge of accounting

Engagement?

Arrangement to do something

Formal agreement b/w Auditor and Client

Takes the shape of Engagement Letter

Assurance Engagement?

Practitioner expresses an conclusion

Design to enhance degree of confidence for the intended users

About the outcome of evaluation or measurement of subject matter against criteria

Types of Assurance Engagement

Reasonable assurance engagement

↑ level of assurance

Elaborate & extensive procedure

Reasonable conclusion

Eg: Audit engagement

Limited Assurance Engagement

↓ level of assurance

Fewer procedure

Limited conclusion

Eg: Review engagement

ICAI (AASB)

Assurance Engagement

Historical FS

Absolute assurance
(100%)

Investigation

Full feast

Reasonable assurance
(< 100%)

Audit - SA

Biryani

Limited / Moderate level

Review

Upma

Prospective / Projected FS

SAE 3400,
3402, 3420

Agreed upon Service

SRS 4400,
4410

Historical Fi

Info expressed in financial terms about economic events / condition in past period

Prospective Fi

Based on assumption about future events & possible actions by entity

SA 210 - Agreeing the terms of Audit Engagement

OBJECTIVES: Accept (or) continue only when basis have been agreed

1. Preconditions

2. Common understanding
- FS = AFRF
 - IC - FS - free from MM
 - Provide auditor
 - Access all info
 - Addl info
 - Unrestricted access to persons.

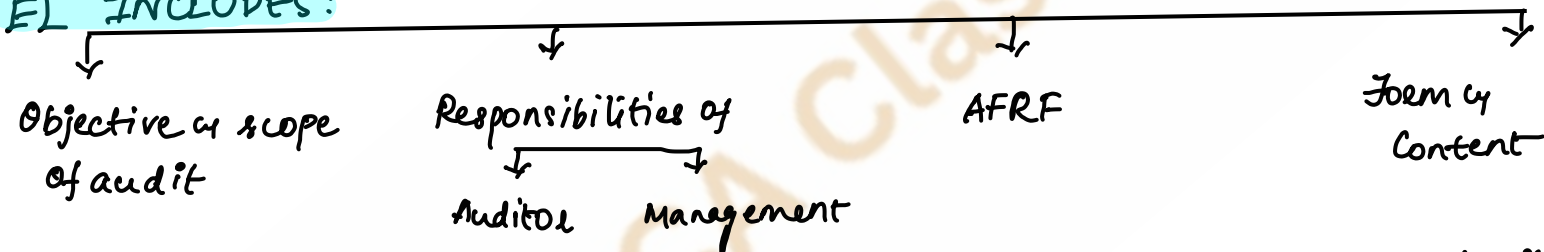
EL: Why - How - What

Why? Imp for both the parties (Auditor & client) to be clear about nature of engagement

How? In writing

What? To specify scope of work

EL INCLUDES:



If law regulations prescribes the terms of audit engagement in detail auditor need not record them in written agreement

FOUR CASES:

- Case 1 - Precondition or terms
- YES - accept
 - NO - required by law
 - YES - accept
 - NO - reject
- Case 2 - Limitation of scope
- Prior to acceptance of eng } Disclaimer of opinion the proposal auditor shouldn't accept
- Case 3 - Δ in terms - "Reasonable justification"
- YES - accept
 - NO - don't accept
- CMisunderstanding in Responsibility / Scope
- Case 4 - Non-agreement to change in terms
- Lack of permission to continue original audit engagement
 - Withdraw from eng.
 - Any obligation to report to owners, twg, regulators

RECURRING AUDIT: Audit performed over the years

Revise the terms / remind the entity of existing terms:

- ① Misunderstands obj/scope
- ② Revised / spl terms
- ③ Δ in ownership
- ④ Δ in senior mgmt
- ⑤ Δ in nature/size of business
- ⑥ legal/regulatory req
- ⑦ FRF
- ⑧ other reporting req

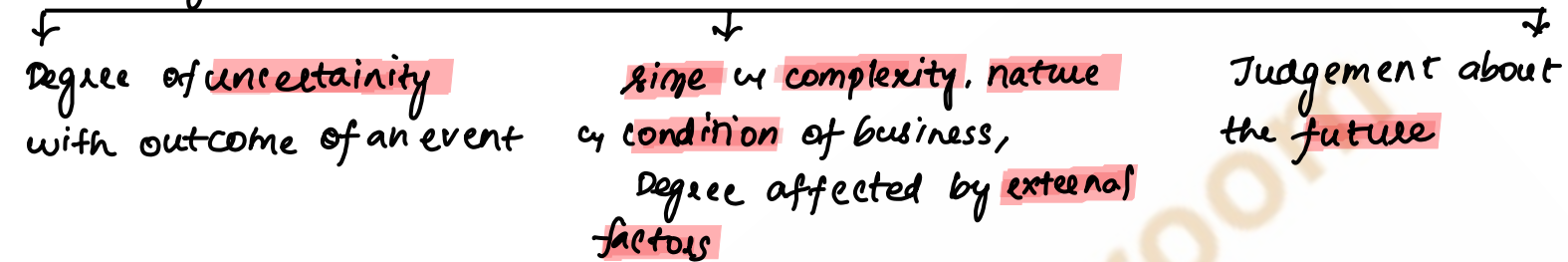
SA 570 - GOING CONCERN

- OBJECTIVES:**
1. To obtain SAAE - appropriateness of mgmt's use of GIC
 2. To conclude - material uncertainty exists
 3. To report - SA

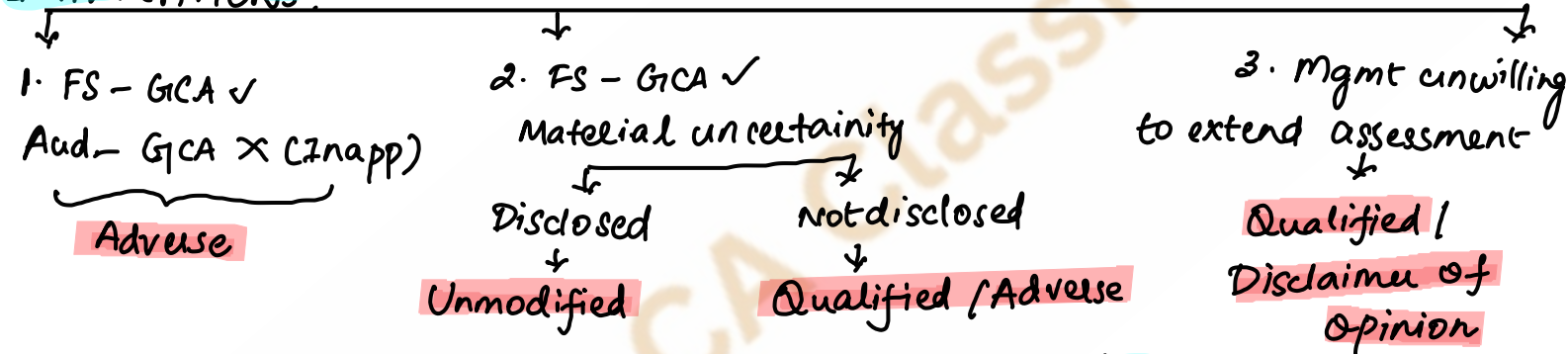
RESPONSIBILITY (Mgmt)

At a particular point in time, mgmt - assessment of entity's ability - GIC

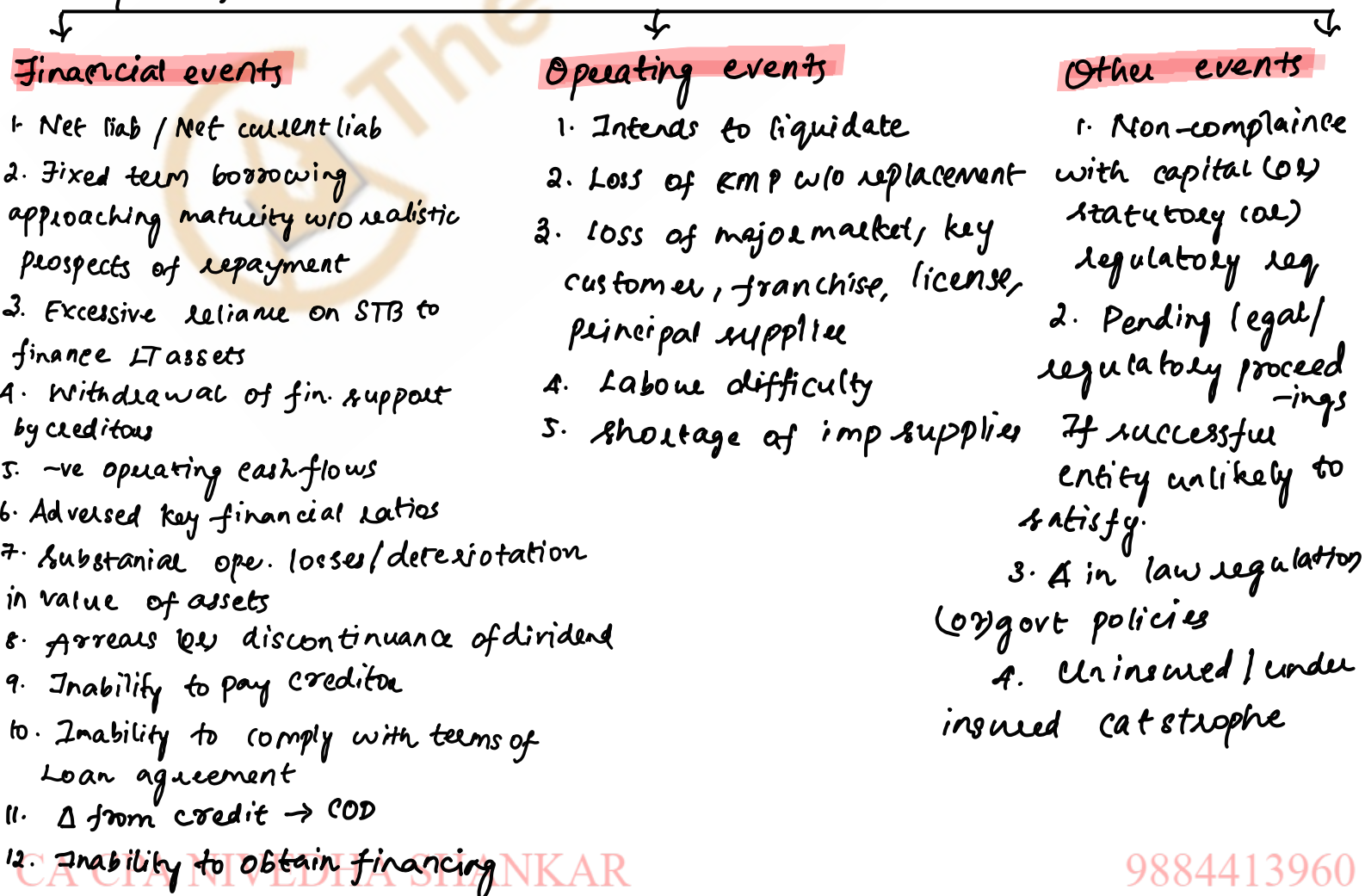
Following factors are relevant for judgement:



IMPLICATIONS:



Examples of events (or) conditions that cause a doubt on GIC



SAS 60: SUBSEQUENT EVENTS.

As per AS $\left\{ \begin{array}{l} \text{Adjusting} \rightarrow \text{Evidence of conditions that existed @ Dt. of FS} \\ \text{Non Adjusting} \rightarrow \text{Evidence of conditions that arose after dt. of FS} \end{array} \right.$

As per SA : 3 CASES.

CASE 1: Events occurring between the Dt. of FS and Dt. of AR. [FS $\rightarrow$ AR]

Aud. shall perform Aud. procedures to obtain SAAE

1. Und the procedures mgt performed to identify SE.
2. Inquire mgt / TCWG.
3. Minutes of meeting.
4. Interim FS, Budgets.

• Acc policy • Borrowing.
• Acc adj • Contingencies
• Acq of assets • Destroyed.

Link to SAS 60 : Aud. shall request the mgt / TCWG to provide written representation.

CASE 2: Facts which become known to the auditor after Dt. of AR but before Dt. of FS are issued.

Aud. has no obligation to perform Aud. procedures after Dt. of AR.

- ① Discuss w/ mgt + TCWG
- ② Determine if FS needs amendments.
- ③ Inquire how mgt intends to address in FS.

Mgt amends

- ① Aud. procedures
- ② SAAE.

Mgt does not amend.

AR not provided

SA 705.

AR provided

Not to issue FS to 3rd parties

Issued w/o amendm-ents.

Aud to prevent reliability

CASE 3: Facts which become known to the auditor after FS is issued

Aud - No obligation - AProced - after Dt. of AR $\left\{ \begin{array}{l} \text{Discuss w/ mgt. + TCWG.} \\ \text{FS needs amendments.} \\ \text{Inq. how mgt intends to address.} \end{array} \right.$

Management amends

1. Aud. proced.
2. Inform to already issued users
3. Obtain amended FS
4. Provide new Audit report.

Management doesn't amend

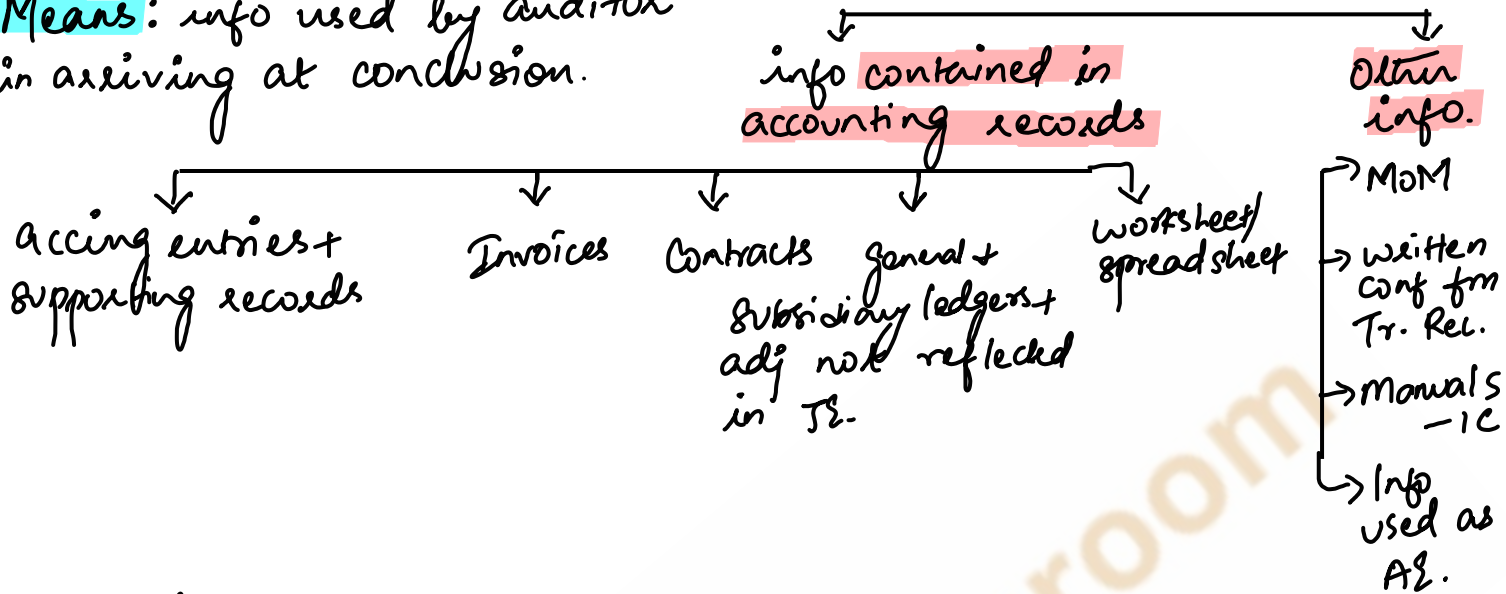
Prevent reliance.

S. 706 - EMP + OMP.

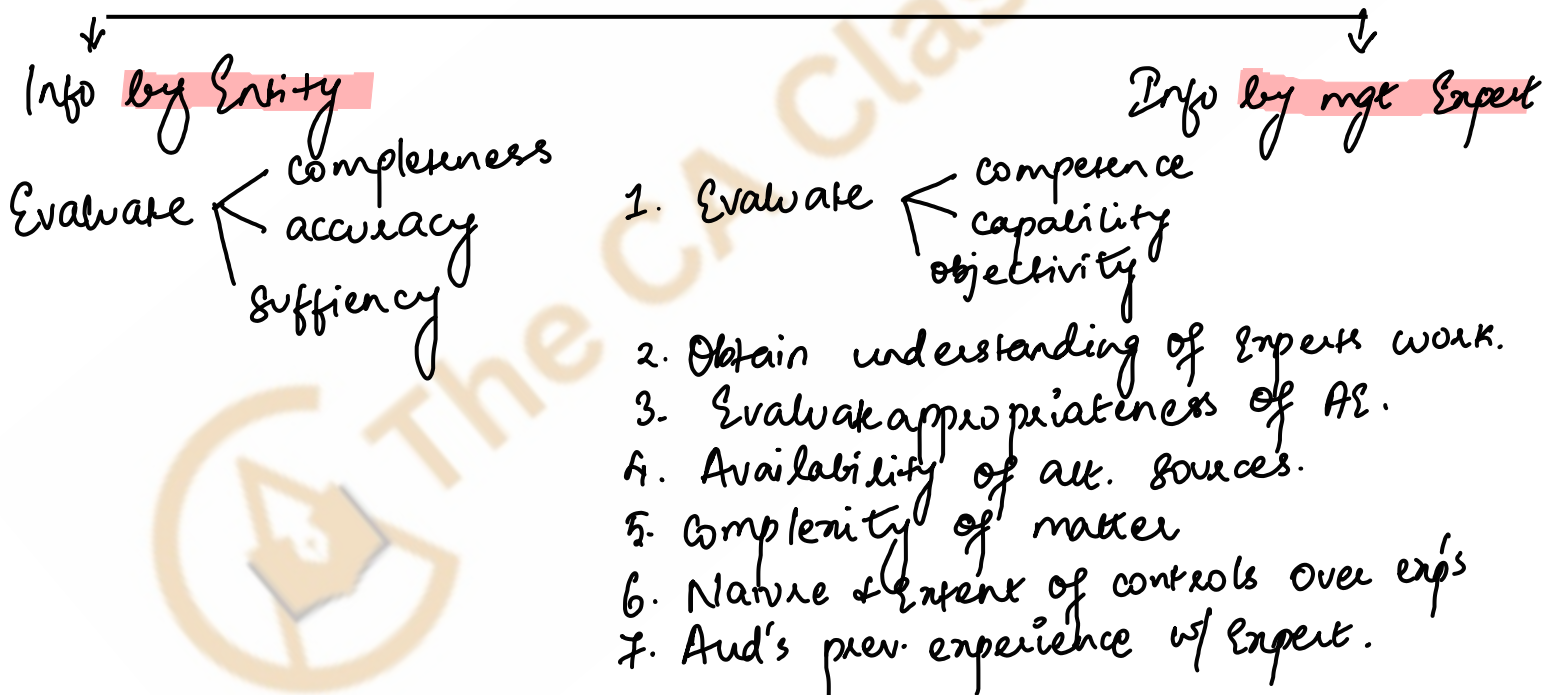
SA 500 AUDIT EVIDENCE.

Means: info used by auditor in arriving at conclusion.

Includes:



Info used as AE.



AUDIT PROCEDURES [EII ROAR].

TYPES OF AE



RELEVANCE AND RELIABILITY.

Relevance → logical connection w/ purpose of AP and appropriate assertions.

Reliability →

1. Obtained - Indep sources
2. Related controls effective
3. Obtained directly.
4. Documentary form.
5. OG documents.

SUFFICIENCY & APPROPRIATENESS.

Sufficiency (Quantity)

Inter related.

Appropriateness (Quality).

FACTORS AFFECTING AUD'S JUDGEMENT.

1. Materiality
2. ROMM
3. Size + characteristics of population.

1. Relevance
2. Reliability.

AUDIT TRAIL.

1. Documented flow of transac.
2. Source doc translated
3. Maintaining record of sys + user activity
4. Record of log on attempts.
5. Step by step record.
6. Track transacs incl. Accing + Fin transacs.

SELECTING ITEMS FOR TESTING TO OBTAIN AS.

- Selecting All items
- Selecting specific items
- SAS30.

ASSERTIONS: Representations by mgt, explicit or otherwise, embodied in the FS. to consider diff. types of potential misstatements...



Class of transactions

1. Occurrence
2. Completeness
3. Accuracy
4. Cutoff
5. Classification.

Account Balances

1. Existence
2. Rights + oblig.
3. Completeness
4. Valuation + allocation.

Presentation + Disclosure

1. Occurrence + Rights + obligation
2. Completeness.
3. Classification + understandability
4. Accuracy + Valuation

SA505 : EXTERNAL CONFIRMATION.

OBJECTIVE: Relevant + Reliable AE.

DEFINITION: Audit Evidence obtained as a **direct written response** to aud. from a **3rd party**, in paper/electronic/any medium

IMP. TERMS

1. **true** → Agrees / Disagrees
2. **-ve** → Only if disagrees
3. **Non Response** → Failure to respond
4. **Exception** → Diff. betw. info req. + contained in records

USES:

1. Confirming terms of agreement
2. Contracts
3. Transacs
4. Amt to lenders
5. Property title deed as security.

← entities
← 3rd parties

EC PROCEDURES:

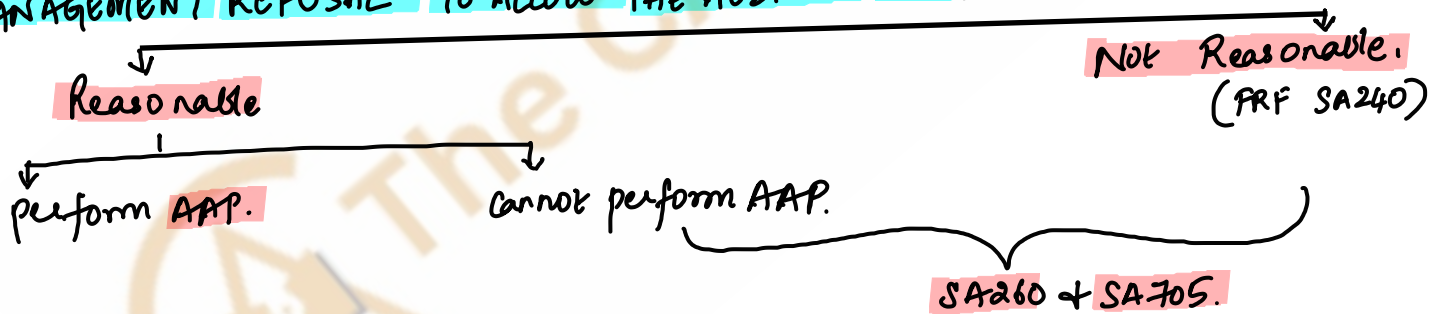
1. Info?
2. Select party
3. Design request
4. Send request

↓
Directly affects the response rate.

FACTORS CONSIDERED BY AUDITOR WHEN DESIGNING CONFIRMATION REQ.:

1. Assertions addressed
2. Specific risk incl. FRF
3. Layout + presentation
4. Prior experience
5. Method of commn.
6. Mgt authorisation
7. Ability to confirm.

MANAGEMENT REFUSAL TO ALLOW THE AUDITOR TO SEND CONFIRMATION REQUEST



RESULTS.

- **Doubts abt Reliability.** → Further Audit Evidence
- **Not Reliable** → Evaluate implications on asst. of Romm.

-ve CONFIRMATION. USES:

↳ **↓ evidence than +ve**

1. ROMM ↓
2. Population - small, homogeneous ABCD.
3. ↓ Exception rate.
4. Will not disregard.

SA 501 AE - Specific considerations for Selected items.

INVENTORY - material to FS

- Existence
 - Condition
1. Phy count
2. And proved.

That date phy count X possible

Alternate date -
AP on intervening transactions

St. on 5/4 end
+ sales - purch (1/4 - 5/4)
St. on 3/3
=

Phy count
impracticable

Alt. Audit proced.

↓ (Not poss)

SA 705

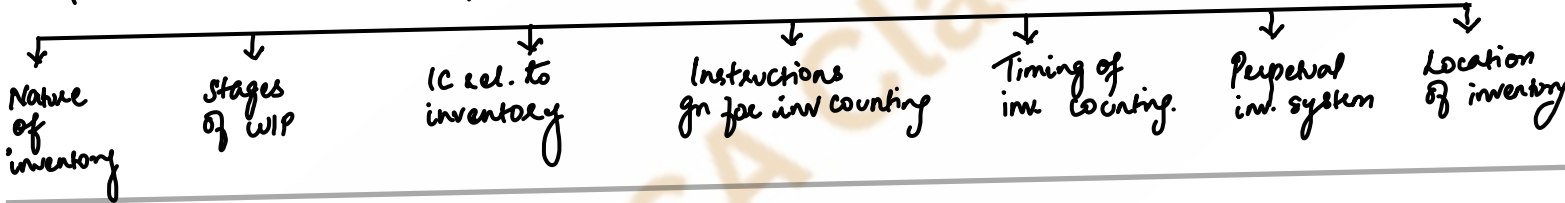
custody of
3rd party.

1. Confirmation
- Qty - condition
2. Inspection/
Other AP.

- Doc
- Confirmation - pledged
- Another aud.
- 3rd party IC.

ACID

Matters relevant in planning attendance:



LITIGATION & CLAIMS - completeness

AUDIT PROCEDURES

1. Inquiry - mgt + inhouse legal counsel
2. MoM
3. Legal exps acc
4. Correspondence w/ Ext legal counsel

WHEN - MEET THE EXT. LEGAL COUNSEL?

1. ↑ risk
 2. Complex.
 3. Disagreement
- _____ Mgt permission? _____
_____ Ext legal counsel response? _____

↓
AAP

↓
705

SEEK DIRECT COMMUNICATION W/ EXT LEGAL COUNSEL.

→ ROMM

→ AP = Existence of other litigations.

"Letter of inquiry" (general / specific).
(permission).

↓
No Response

↓
AAP.

SEGMENT INFO. - presentation + disclosure.

↳ Diff product/service, Diff geo Area.

1. Obtain an understanding of methods used by mgt
2. Perform analytical procedures / other audit procedures

SAAE → presentation + disclosure → AFRF.

SA 520 Analytical Procedures

MEANING: Evaluation of Financial information through analysis of plausible relationships among financial & non-financial data.

TYPES: comparison of client data with

- Industry data
- similar prior period data
- Client determined expected results
- " " (non-financial)
- Auditor determined expected results

OBJECTIVE OF AUDITOR / SCOPE OF SA 520

- 1) To obtain RWR AE
 - 2) Design and perform Analytical procedure near end of audit to assist forming the overall conclusion w.r.t FS are consistent with auditor's understanding of the entity
- When designing/performing AP, aud shall

TECHNIQUES

Trend	Ratio	
		1. Determine suitability
		2. Evaluate reliability
		2. Develop expectations
Reasonableness	Structural modelling	4. Determine acceptable difference

PURPOSE

ABC appear reasonable?

Helps identify unusual transaction, unusual state of affairs.

Unusual (or) unexpected relationships identified may assist identifying ROMM - Fraud

TIMING: Planning, Testing, Completion stage

FACTORS TO BE CONSIDERED:

⇒ Availability ⇒ Disaggregation ⇒ Acc. type ⇒ Source
⇒ Predictability ⇒ Nature of assertion ⇒ Inherent risk

RESULTS: Inquiry AND Other Audit Procedures

AUDITORS CONCLUSION

Revise ROMM & modify

FAP accordingly

→ Help to collaborate conclusion
→ Help to draw reasonable conclusion on overall FS
→ Results may identify pre-recognized ROMM

SA 510. Initial Audit Engagement - Opening Balances

DEFINITION: An eng in which the FS of the prior period
X Not audited ✓ Audited by predecessor auditor

OBJECTIVES SAAE → OB MM - affecting
→ Acc policies consistent.

AP regarding OPENING BALANCE:

- ① Read recent FS
- ② Obtain SAAE - op. balance misstatement - affecting cy
 - ↳ Cl. balance py - blf to cy correctly
 - ↳ Appropriate acc'ing policies
 - ↳ py FS audited — AP of cy — specific AP to obtain persuing copies of audited FS relevant to op. evidence regarding op balance

CASES:

- ① Audit Evidence ✓ opening balance misstatement → material ✓ cy affecting
 - ↳ Additional audit procedure
 - ↳ exists — communicated TCWG & mgmt
- ② Acc policies NOT consistent
 - Δ in acc. policy → Not accounted for } SA 705
 - ↳ Not disclosed } QIA opinion
 - ↳ Not presented properly }

SA 580 - WRITTEN REPRESENTATION

MEANING: 'WRITTEN' statement by mgmt to auditor
For confirmation in support AE
Doesn't incl. FS, Assertion, BOA

OBJECTIVE OF AUDITOR: 1. Preparation of FS and for completeness of information
2. To support other AE → Other SA's reqt → acc. policy are appropriate
3. To respond appropriately. → CV of asset
→ Liability (actual/contingent)
→ Laws or regulations

WHY WR about mgmt responsibility necessary?

- ① signed eng - No responsibility
- ② Aud. eng prepared in. py
- ③ mgmt misunderstands
- ④ Δ in circumstance

TO RESPOND APPROPRIATELY

Reliability?

Effect on AE

↓
If inconsistent with other AE
Perform aud. procedure
↓
Unresolved - reconsider asset
Effect on AE

↓
shall not be reliable on SA 705
Disclaimer of opinion

Not provided?

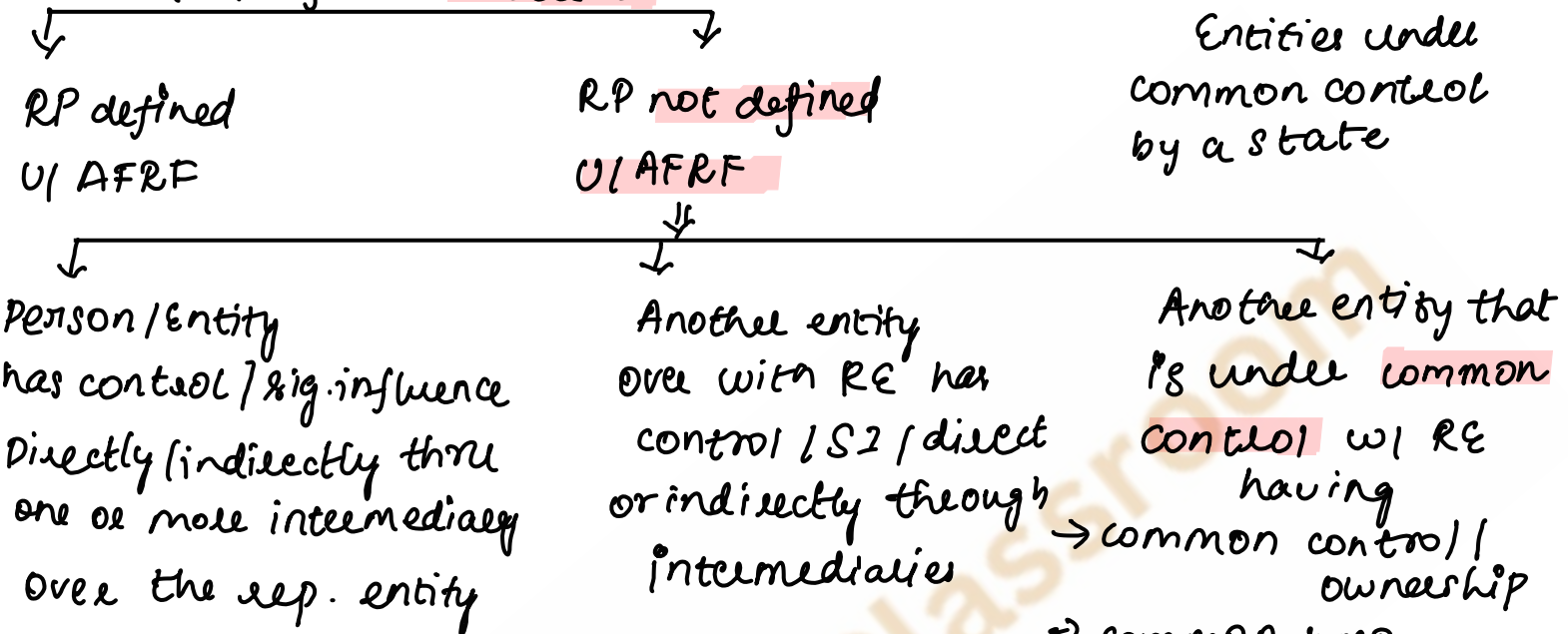
- ① Discuss with mgmt
- ② Re-evaluate integrity & check reliability of AS
- ③ SA 705 - Disclaimer

DATE: Near as practical to AR
but not after AR

SA 550 RELATED PARTIES

SCOPE: Auditor's responsibilities regarding RPT or relationships when performing audit of FS

DEFINITION OF RP: Includes



CONTROL & SI

- ① Power to govern financial & oper policies to obtain benefits from its activities
- ② SI → Sh of ownership, statute, agreement power to participate in fin & oper policies but not in control

Following relationship have C/SI

- ① Direct/Indirect equity holding / fin. int in entity
- ② RE holds direct/indirect " " in other entity
- ③ KMP / family mem of (3) significant busi. relationship with (3)

AUDIT ENQUIRE MGMT

- ① Identity of RP in c/a in from prior period
- ② Nature of relationship
- ③ Transaction details

RAP to understand controls

- 1. Identify, account & disclose RPT with AFRF
- 2. Authorise & approvals → RPT → O/S normal course of busi?

Auditor verify existence of RP relationship SRI CLIPS CC

- Contracts → KMP & tcwg → IT return
- not old. course
- re-negotiated
- Conflict of interest → mgmt
- Life Insurance Policy
- Internal Audit
- Sh. H register
- Reg. authority
- Prof. advice
- Sec. regulator

SA 230 AUDIT DOCUMENTATION

DEFINITION Record of AP performed
AE obtained

conclusions auditor reached

on paper (or)
e-mode (or)
other media

OBJECTIVES

↳ sufficient record for
BASIS of AR

→ In accordance with SA

AD INCLUDES CCLAIMS

Correspondence

checklists

Letter of confirmation & representation

Analyses

Audit program

Issue Memorandum

Summaries of sig matters

PURPOSE ① Eng. team → Plan & perform ② Future audits
→ Direct & supervise ③ External inspection
→ Accountable ④ Quality control on

FORM, CONTENT &

EXTENT: The auditor shall prepare AD as per 8QC-1

that is sufficient to enable an experienced auditor with no connection of audit to understand:

① AP performed ② AE obtained ③ Significant matters

AD depends on factors like:

① Size & complexity of entity

② Nature of AP performed

③ Identified ROMM

④ Significance of AE obtained

⑤ Nature & extent of expectations

⑥ Aud. methodology & tools

⑦ Need to document a conclusion

AUDIT FILE

One or more folders / storage media } completion of audit file
in phy/electronic form } ≤ 60 days from AR
containing records
that comprise AD for spec. eng

when? Timely Basis. Not after audit

In Audit Documentation (Administrative charges)

- ① Deleting superseded document
- ② Sorting, collating & cross referencing workpapers
- ③ Sign-off relating to file assembly
- ④ Documenting AE before the date of AR

SQC 1 → Policies & procedures for timely completeness of assembly of audit file
→ Retention - minimum 7 years from AR / Group AR

Part of audit documentation - summary (completion memorandum)

- Significant matters identified &
- How they are addressed

Owner? SQC 1

↓
Auditor unless specified by law & regulation

SA530 AUDIT SAMPLING

MEANING Application of AP for $<100\%$ of items in population such that, all sampling units have a **equal chance** of getting selected

OBJECTIVES: Reasonable basis $\left\{ \begin{array}{l} \rightarrow \text{Draw a conclusion} \\ \rightarrow \text{About population} \end{array} \right.$

KEY TERMS

Population - entire set

Sample design

Sample size - $\downarrow$ Samp. risk

Sample unit - Individual unit

METHODS

Statistical

- Random $\left\{ \begin{array}{l} \rightarrow \text{Simple} \\ \rightarrow \text{stratified} \end{array} \right.$
- Systematic / Internal
- Value weighted

Non-statistical

- Haphazard
- Block

CHARACTERISTICS OF POPULATION

[CAR]

- Completeness
- Appropriateness
- Reliable

ADVANTAGE:

1. More objective
2. Calculated risk
3. Widely accepted
4. Large mass of data
5. Minimum sample size allocated with specified risk

SAMPLING PROCESS: **Test of control** - Identify deviation
Test of Details - Identify misstatement (ABC)

DIFFERENCE	Statistical sampling	Non-statistical sampling
Probability	✓	✗
Bias	✗	✓
Accuracy	✓	✗
Scientific evaluation	✓	✗
Population	Large	Small
Representation	More	Less

SAMPLING PLAN (FACTORS)

- 1) Size of organisation
- 2) Internal control
- 3) Tolerable error
- 4) Desired confidence
- 5) Adequacy or reliability of books

FACTORS INFLUENCING THE SS OF

SAMPLING

Test of control

- ↑ assurance } ↑ SS
- ↑ controls } ↑ SS
- ↑ expected rate of deviation } ↑ SS
- ↑ Tolerable risk ↓ SS

Test of Details

- ↑ assurance } ↑ SS
- ↑ ROMM } ↑ SS
- Other substantive procedure } ↓ SS
- ↑ tolerate rate } ↓ SS

DESIGN

TOC - expected rate of deviation

700 - rate of mis statement

A in sample units → No change

PROJECTION OF MIS-STATEMENT

TOC

x project deviation

700

Extrapolate except anomalies

Anomaly

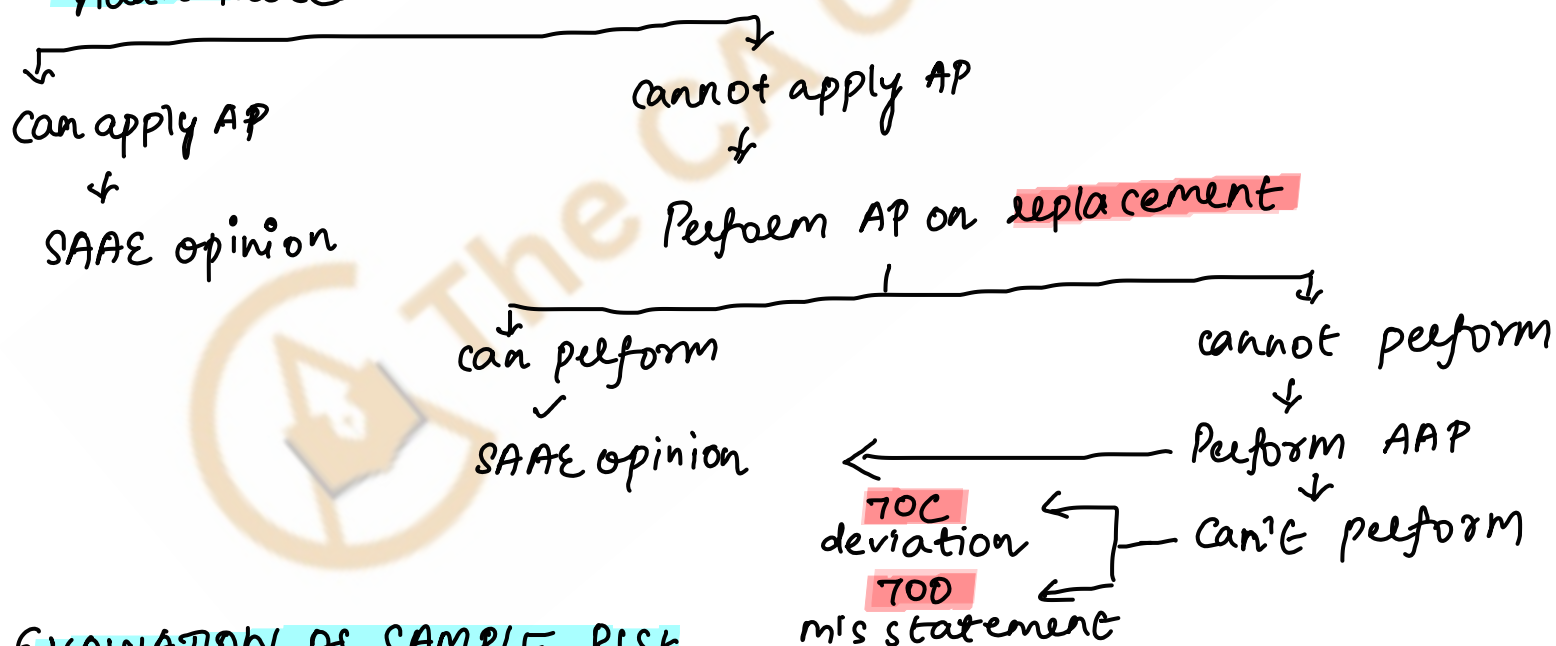
mis-statement

↓ continue (project)

x continue

↓ can't project

Audit Procedure



EVALUATION OF SAMPLE RISK

TOC

↑ deviation

↑ ROMM

700

↑ mis-stat

ABC mm

Proj + Anomaly

> tolerance acceptable

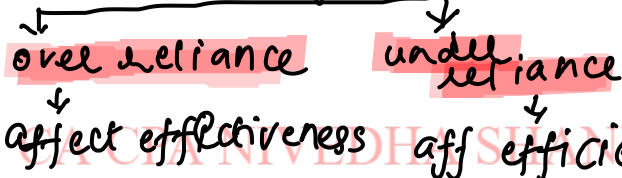
↓ sampling x

Project > Anomaly

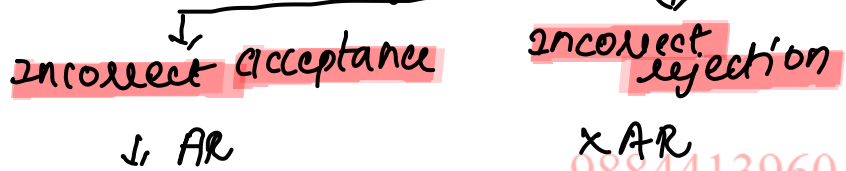
↓ unacceptable sample risk

SAMPLING RISK

TOC Risk of



700 Risk of

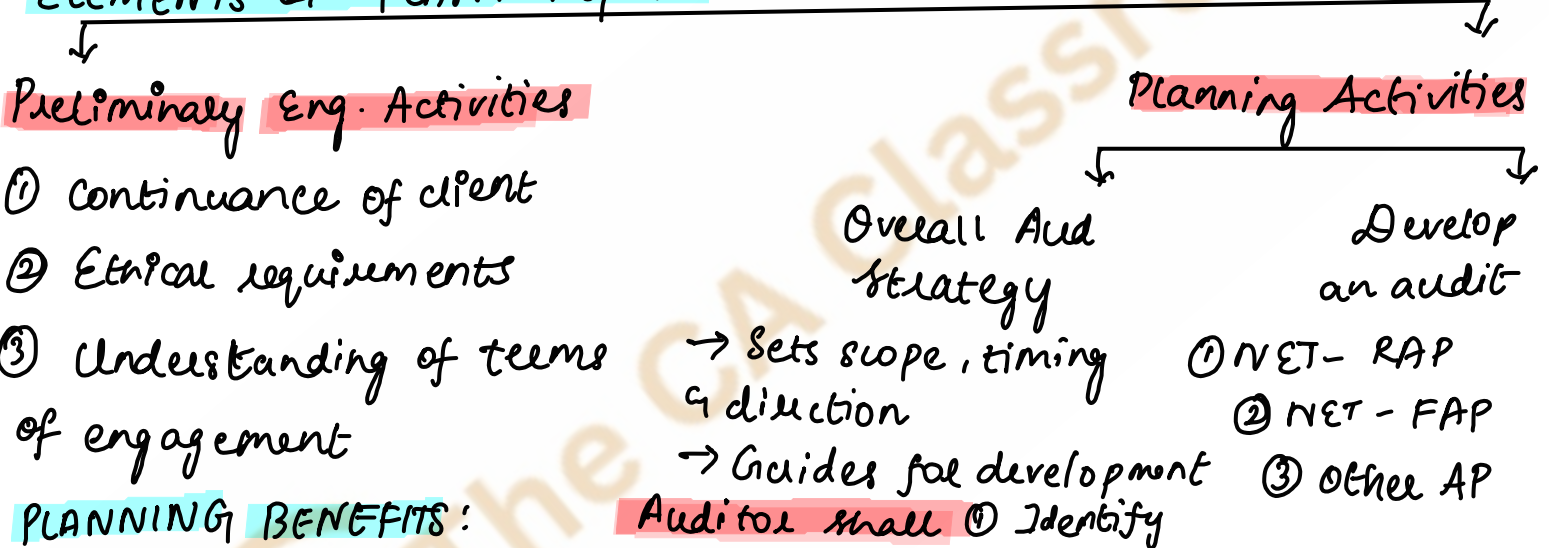


SA 300 PLANNING AN AUDIT OF FS

AUDIT PLANNING: Needs to consider **prior to the auditor's identification**
Assessment of ROMM:
→ Analytical procedures → Risk assessment procedures
→ Legal or regulatory requirement
→ Materiality
→ Experts
→ Other RAP

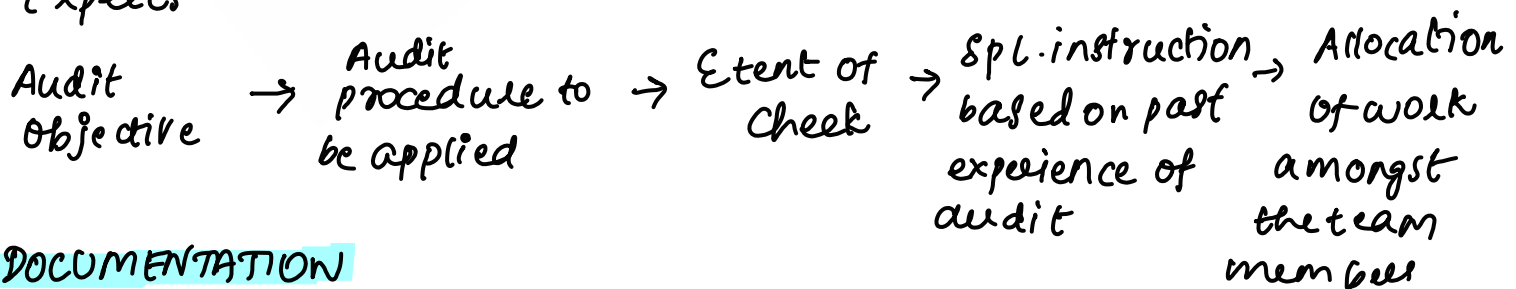
RISK ASSESSMENT PROCEDURE: ⇒ Planning is not a separate or distinct phase. Continual or repetitive process. Begins with completion of previous audit & continues till the completion of current AE

ELEMENTS OF PLANNING PROCESS:



PLANNING BENEFITS:

- 1 Attention to ~~ix~~ areas
 - 2 Resolve problems - timely
 - 3 Selection of ET - assign work
 - 4 Review of work
 - 5 Experts
- Auditor shall**
- 1 Identify Scope of eng
 - 2 Ascertain reporting objectives
 - 3 Consider results of prelim. Eng
 - 4 " factors directing the team efforts



DOCUMENTATION

- 1 Overall au. strategy
- 2 Au. plan
- 3 Significant Δ of 1 & 2

↑ reasons

AUDIT PROGRAMME

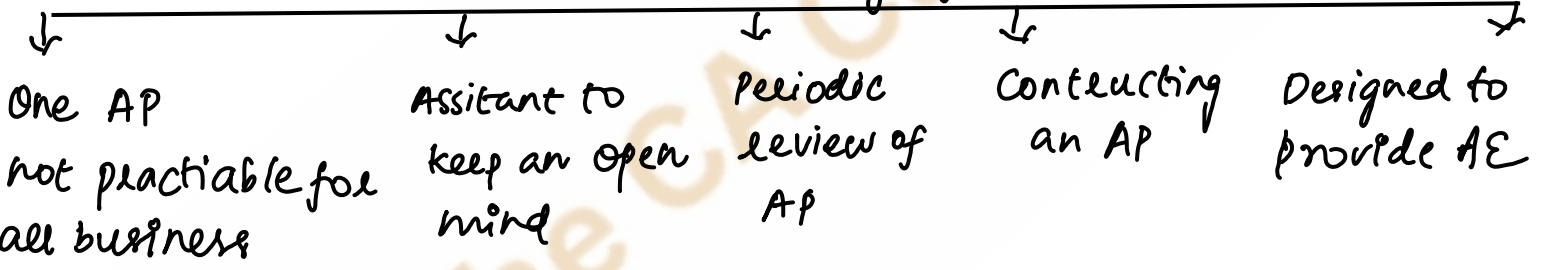
- ↳ Detailed Plan
- ↳ Series of verification

Advantage

- ① Clear set of inst-uction
- ② Essentials for major audit
- ③ Selection of assistants - easier
- ④ Mental Plant
- ⑤ Signature denotes acceptance
- ⑥ Controls progress
- ⑦ Guide for next year
- ⑧ Evidence i.c.o negligence

disadvantage

- ① mechanical
- ② Rigid, inflexible
- ③ Inefficient assistants - shelter
- ④ KPI initiative of enterprising assistant



Name of the concern	xxx
Financial year	xxx
Prepared by	xxx
Reviewed by	xxx
Approved by	xxx

Serial no Nature of Procedure Extent of Check Basis of sample Done by

AUDIT RISK FS x RISK that gives Inapp. opinion
AUD ✓ when FS are materially mis-stated
f (ROMM x DR)

MM? Diff b/w Amt, Classify, Present, Disclosure } of a reported FS item
4
required for items to be in AFRF

ROMM $\left\{ \begin{array}{l} \rightarrow \text{FS Level} \\ \rightarrow \text{ABCD Level} \end{array} \right.$

components of ROMM $\left\{ \begin{array}{l} \rightarrow \text{inherent risk} \\ \rightarrow \text{control risk} \end{array} \right.$

Detection risk

- Sampling (sample $\neq$ pop)
- Non-sampling (Inapp. audit procedure)

SA 315 Identification and Assessing the ROMM

OBJECTIVES :

① To identify & assess the RMM $\begin{matrix} \text{FS} \\ \text{ABCD} \end{matrix}$ to provide basis for designing & performing FAP

② For identification & assessing Roman audience shall:

- Identify risk → Assess risk
- Relate to identified risk → consider the likelihood of mis-stat

RAP! AP performed
to obtain understanding
of entity & environment (IC)
Identify & assess ROMM
↓ ↓
Fraud error

@ FS / assertion level

Entity in its environment

- a) Industry, regulatory, AFRF
- b) Nature of entity
- c) Acc. policy Incl. reason for A
- d) Obj & strategies of business disc
- e) Financial performance

Internal Control

reasonable assurance

Objectives

- Reliability of FS
- effectiveness & efficiency of operations
- safeguarding assets
- laws

OBJECTIVES OF IC

- ① Authorization (General / specific)
- ② Recorded correct $\Rightarrow$ amt $\Rightarrow$ acc $\Rightarrow$ period
- ③ Assets $\begin{matrix} \swarrow & \searrow \\ \text{safeguarded} & \text{physical verification} \end{matrix}$

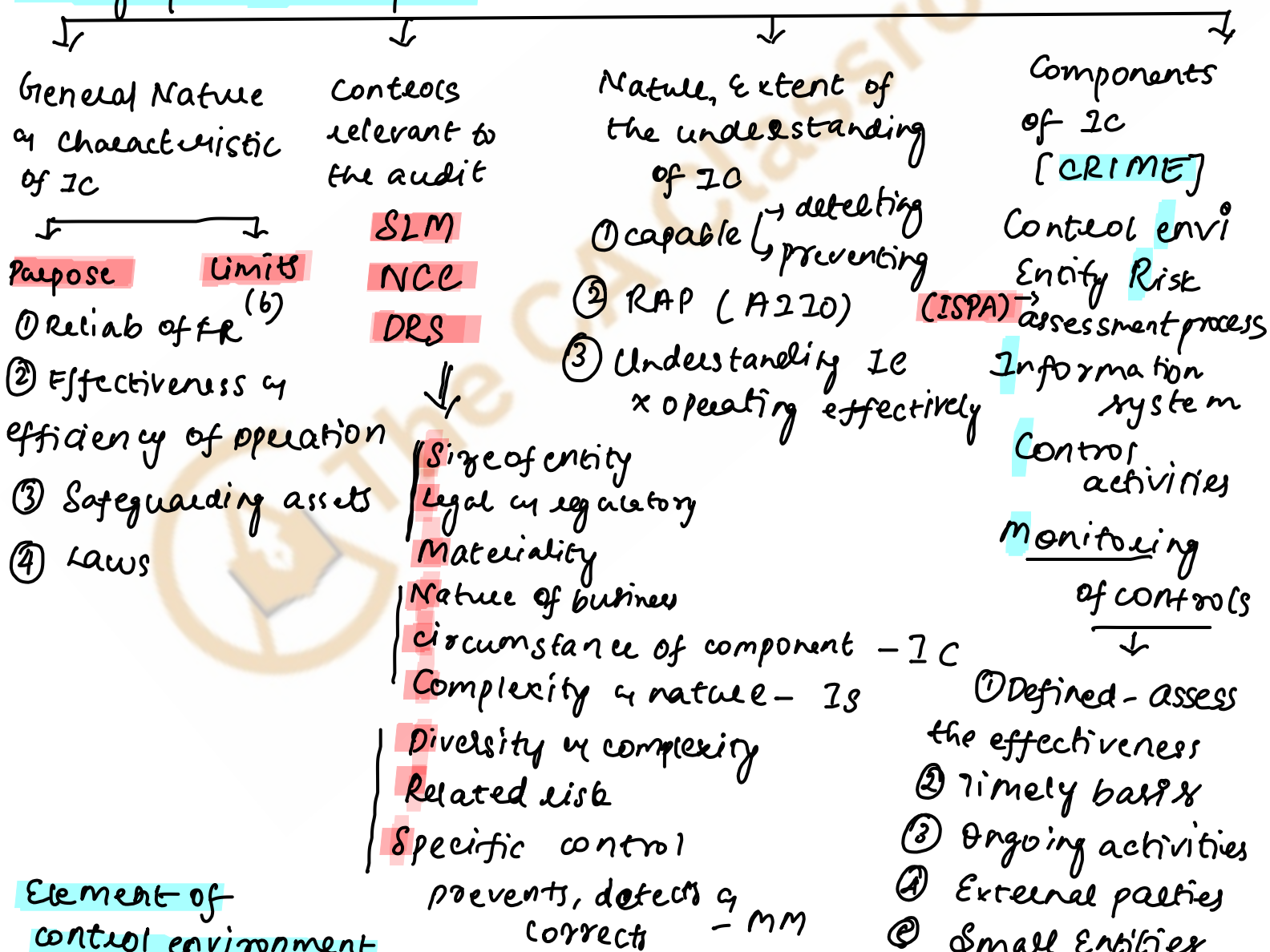
BENEFITS (for auditor)

- a) Identifying $\begin{matrix} \rightarrow \text{mis statement} \\ \rightarrow \text{ROMM} \end{matrix}$
- b) Design - NET - FAP

LIMITATIONS

- | | |
|----------------------|-------------------------------|
| Reasonable Assurance | Judgement by mgmt |
| Human judgement | Lack of understanding purpose |
| Collusion | Limitation - small entities |

Study of various aspects



Element of control environment

Ethics - SHAPE PC

Ethical values

Org. structure

HR policies & practices

Assignment of authority & responsibility

Philosophy - mgmt

Participation with tcwg

Commitment to competence

Info. processing

Segregation of duty

Phy. controls

Performance review

Authorization

Methods

- ① Narrative record - exhaustive description
- ② Checklist - answer (or) follow
- ③ IC Questionnaire -
- ④ Flowchart - graphic representation

Evaluation

Enable auditor to know

- Adequate IC system
- error / fraud
- Int auditor - effective
- Admin controls
- Recording of trans
- Reliable reports, records & certificate
- extent & depth
- A. procedure & audit technique
- weak? areas?
- suggestions?

Testing

Obtain AE - eff of



Inspection doc

Inq + obs

Reperformance

Testing

(ICO-TR)

IFC

- controls
- ensuring
- Reliability
- FR
- EFF² of ops
- safeguarding of assets
- Laws & Reg



IC over FR

- reporting
- rep. opinion
- aud - opinion



effectiveness of
IC over
FR

→ Opinion in
addition to:

Opinion on FS

IC & IT Environment

- ① controls in manufacturing & automated environment
- ② Use of IT - mix of manual & Auto. env
- ③ IT Benefits
 - Vol. of data
 - Addl. info
 - ↓ risks
- ④ IT risks

Inaccurately processing data or
processing inacc. data or Both

Unauthorized access

Unauthorized Δ in master file

A system / program

Loss of data / loss of access

⑤ Suitability Judgement / MANUAL
Discretion

⑥ Reliability

Automated → A reliable

GOVERNMENT AUDIT

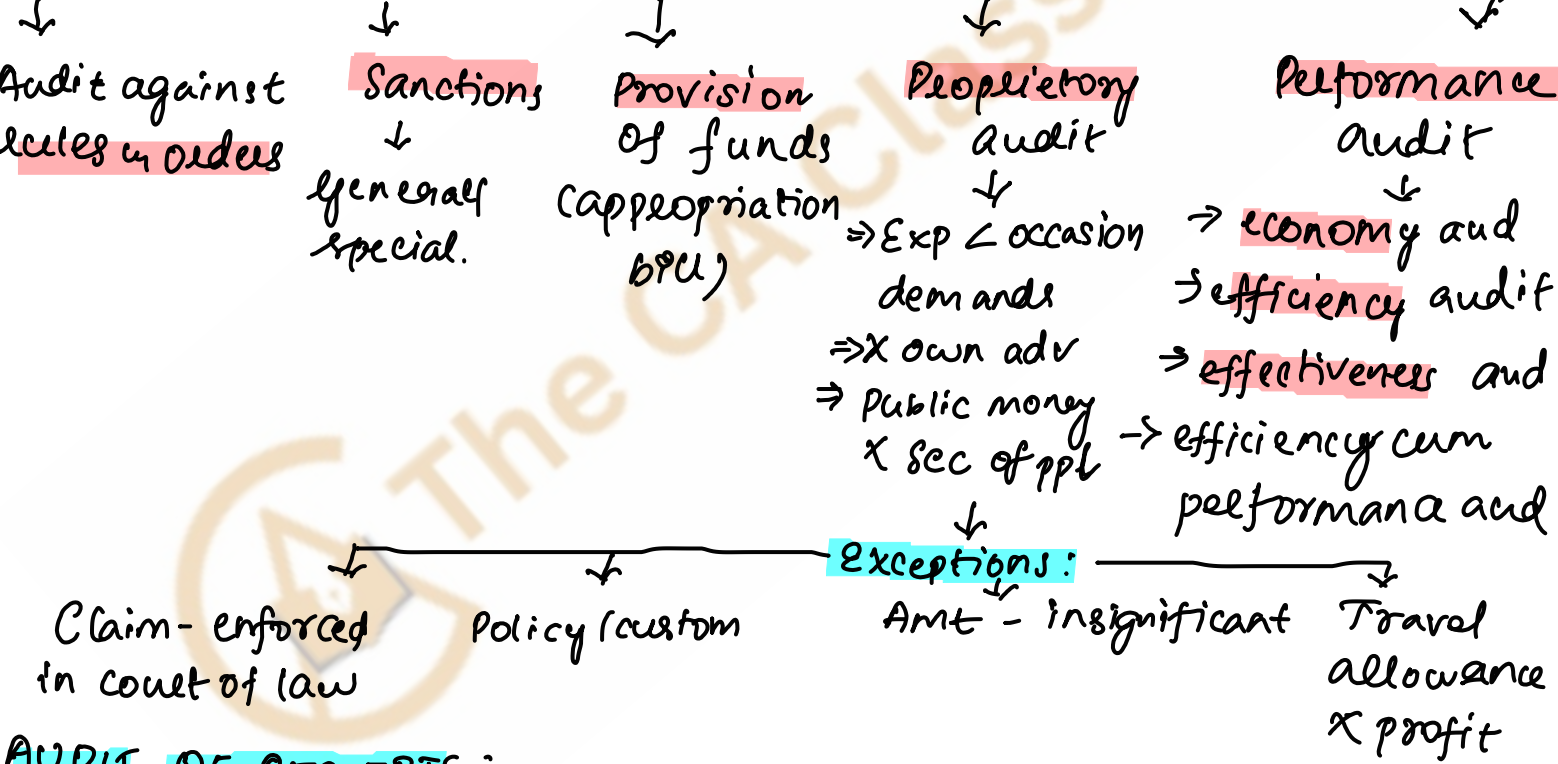
Government Audit is obj & sys professional, indep examination of financial, administrative or oth. operation of a public entity made subsequently to their execution for the purpose of evaluating, verifying & presenting the report and in case of FS expressing an opinion

OBJ → accounting for pub. funds
→ appraisal of govt. policies
→ base for corrective actions

POI
↓ appoints

CAG
(removal): 2/3rd mem of each Parliament

EXPENDITURE AUDIT:



AUDIT OF RECEIPTS:

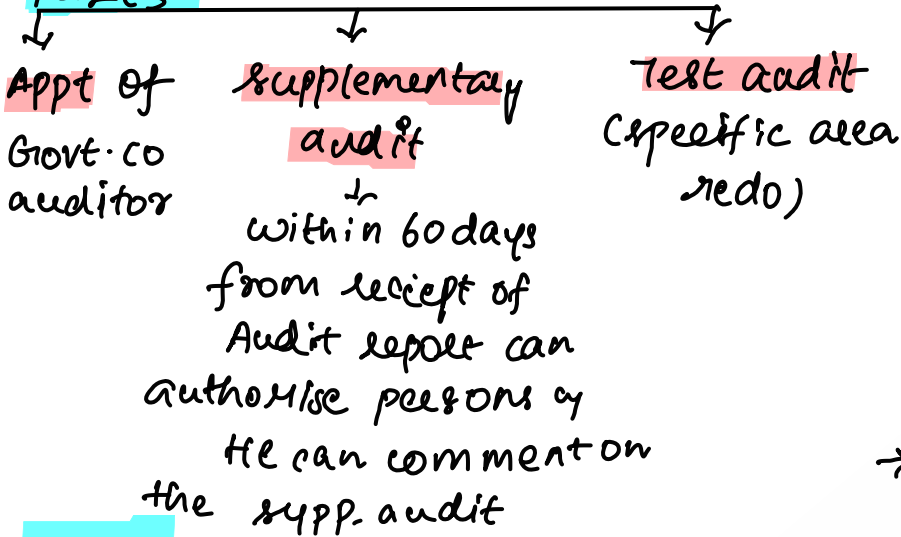
- ① All rev. correctly assessed, realised & credited
- ② Adeq. regulation by dep / agency
- ③ Rules followed?
- ④ Irregularities double refund, loss of revenue
- ⑤ Review of system of procedure framed
- ⑥ Extent & quantum of aud

AUDIT OF STORES & INVENTORIES:

- Regulations governing purch, custody, sale, - proper
- Deficiency in qty of stores (or) defects in IC
- Purchases
- Prices - reasonable
- Idle inventory
- valuation

C & AG

ROLES



POWERS

- Inspect any office of acc
- to require any books, paper, accounts
- any other place
- Question / Observe / Call for info
- Power to dispense with any part of detailed audit &
- apply limited checks.

DUTIES:

1. Compile & submit accounts $\left\{ \begin{array}{l} \rightarrow \text{Union} \\ \rightarrow \text{State} \end{array} \right\}$ to PDI Governance
 2. General provisions related to audit $\left\{ \begin{array}{l} \rightarrow \text{consolidated fund of Ind} \\ \rightarrow \text{contingency FDI} \\ \rightarrow \text{Public account} \end{array} \right\}$
 3. Audit of receipts & expenditure
 - ↳ If substantially financed from CFI / State / UT, CAG will audit all receipts & expenditure
 - Grant / loan ≥ 25 lacs AND Amt $\geq 75\%$ of t-expenditure
 4. Audit of Grant / Loans: CAG scrutinises how sanctioning authority is satisfied abt fulfillment of condition in access to BOA.
 5. Audit of receipts of UT / States: Examine accounts for asst. collection & proper allocation of revenue.
 6. Audit of accounts of stores & inventory: CAG has authority to audit & report
 7. Audit of govt. co & corporation
- Appmt of auditor U/s (139(5) or 139(7))
- Direct auditor the manner of audit
- Auditor shall submit copy of Aud. rep incl. $\left\{ \begin{array}{l} \rightarrow \text{directions by CAG} \\ \rightarrow \text{actions taken} \\ \rightarrow \text{impacts on acc} \end{array} \right\}$

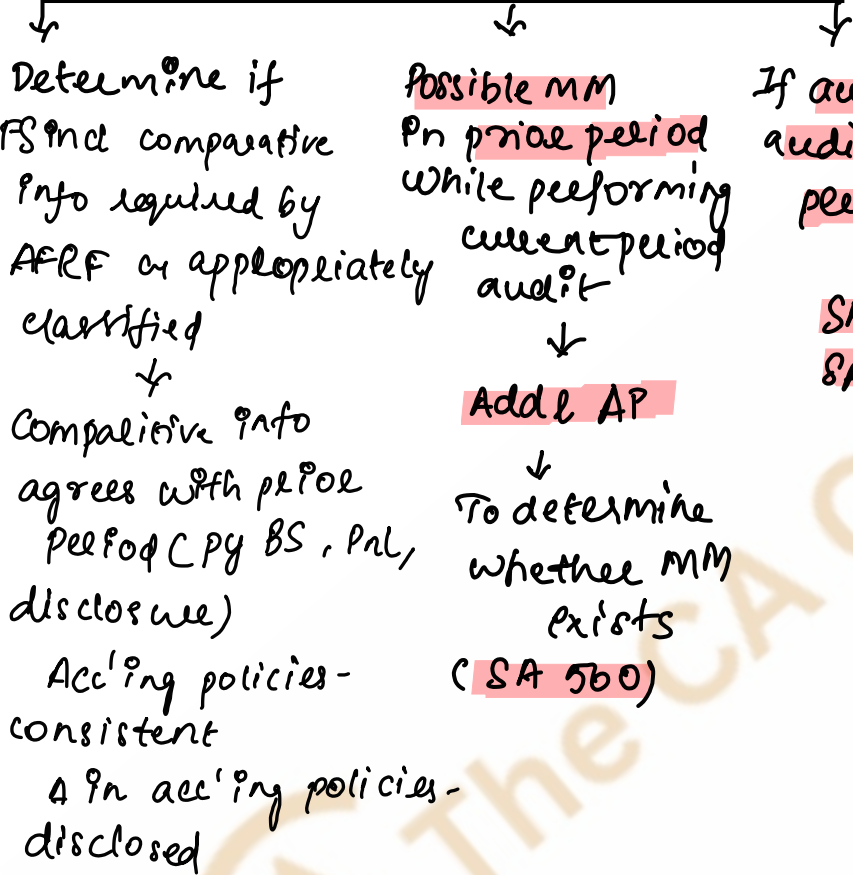
SA 710 COMPARATIVE INFO - CORRESPONDING FIGURES

COMPARATIVE FS

Comparative FS

① Auditor's opinion refers to each period

Audit procedures



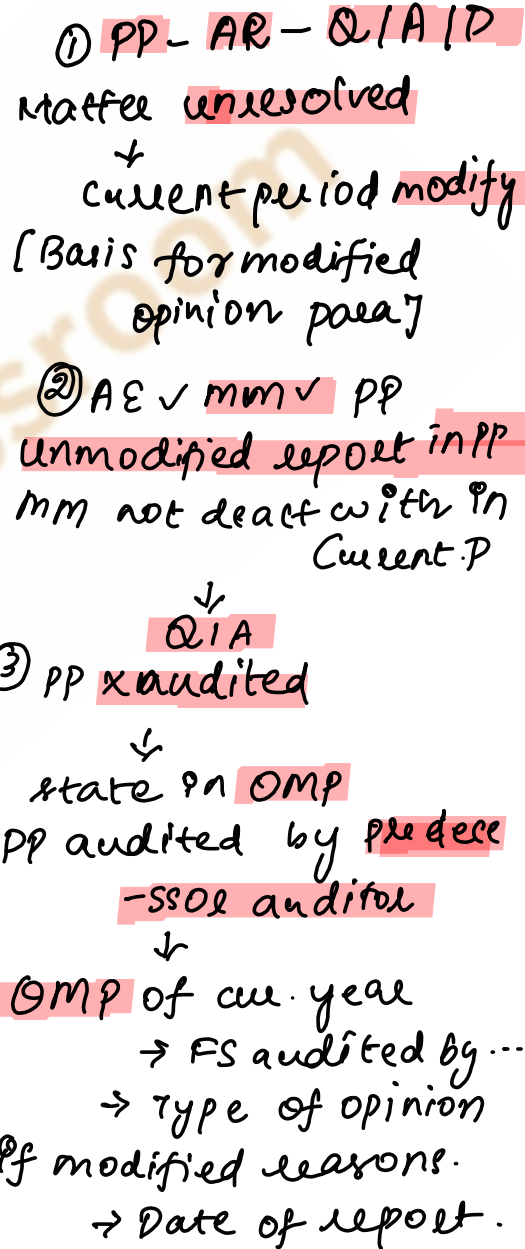
PP audited by predecessor auditor }
Auditor's opinion diff from PP auditor ⇒ disclose the reason for diff (SA 706 OMP)

Py auditor - unmodified report
Cy auditor - MM exist in PP

communicate with tcwg, request to inform the Py auditor. If prev. auditor - New report
If PP x audited → state in OMP
Such a statement doesn't relieve the auditor that op. balance does not contain MM

Corresponding figures

① Auditor's opinion refers to current period only.



New report
Cy auditor shall report only on cur. period

SA 299 JOINT AUDIT

Joint Audit:

Divided based on: Assets & Liab / Inc & Expenditure
Geo. areas / Identified units / Period of FS

RESPONSIBILITY:

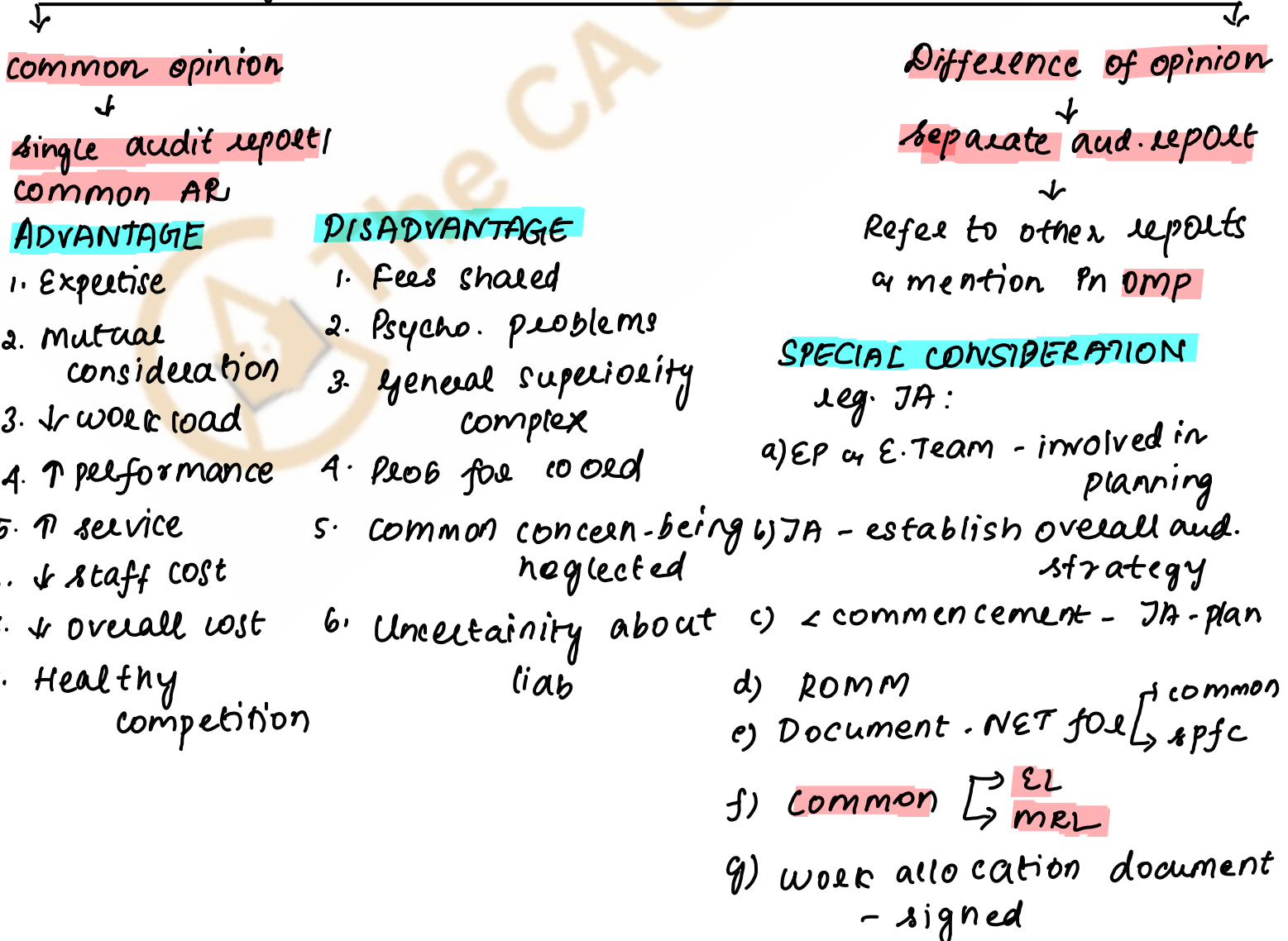
Audit work is divided → Individual / separate responsibility

Audit work is ~~divided~~ → Joint / combined responsibility.

JOINT RESPONSIBILITY:

- work not divided
- common aud. areas
- matters brought by one & agreed by all
- FS-law
- FS - AFRF
- AR - ICAI (SA) & pronouncements ICAI

Audit Reporting in case of Joint Audit



SA 330 Auditor's responses to assessed risks

Response to SA315

→ Design responses → Design FAP $\left\{ \begin{array}{l} \rightarrow \text{prob of mis-stmt (IR)} \\ \rightarrow \text{controls (CR)} \end{array} \right.$

Test of control

i) **Extent** - freq - exp rate of dev
- time - R & R
- other control AE

ii) **Designing & performing TOC**, Aud shall

- ① Inq + OAP
- ② Ind. controls → $\left[\begin{array}{l} \text{sales person} \\ \text{access to POS} \\ \text{strong pw for login} \end{array} \right]$
- ③ Inq + Insp / Reperf not observ

iii) **Timing** $\left\{ \begin{array}{l} \rightarrow \text{particular time} \\ \rightarrow \text{throughout period} \end{array} \right.$

iv) **Using AE obtained in prev audits**

- ① Components of IC
- ② Control $\leftarrow \begin{array}{l} \text{manual} \\ \text{Automated} \end{array}$
- ③ Eff of Gen. IT controls
- ④ A control-risk?
- ⑤ Ext of reliance

v) **specific inq by aud.** when deviation from controls are detected

- ↳ Inq for reasons
- ↳ Re assess control reliance
- ↳ subst. procedure

Substantive procedure

↓
Designed to detect MM @ ass. level

↓
TO D of ABCD

subst. AP

AP + TOD = Best

↓
TOT

ie vouching
↓ (Pnc item)
purch transac

↓
TO B

ie, verification (Bls Item)
A & L

SA 320 Materiality

Aud's Resps

concept of materiality is applied in
Planning & performing the audit &
in evaluating the effect of identified mis-stat on auditor
& uncorrected mis-statement on FS
& in forming an opinion in the AR.

Planning an audit



Aud. makes judgement abt size of mis-statement



provides basis for

NET of RAP

NET of FAAP

I & A - ROMM

BM

Stat. reqt

Inc or Exp > 1% rev (or)

100000

(w.e.h)

> 5% sh.H

Reasonable for the aud to assume that users:

- Have knowledge of business, economic activities & acc'ing
- Understanding FS - prepared, presented & audited to materiality
- Recognise uncertainties in estimates, judgement & consideration of future event
- Make reasonable economic decisions.

Performance materiality < materiality

If ABCD < materiality affect decision of users,
the auditor will determine materiality for ABCD

Benchmarks % is applied to BM

Identification of BM by

→ Elements of FS

→ Item requires attention

→ Nature of entity

→ Relative volatility

Finan. data include

- PP financial results
- Period to date " "
- Budget / Forecasts for the cur. period
- Adjusted for significant & eq. busi. acquisition.

Documenting the materiality

- For FS as a whole
- ABCD
- Performance materiality
- Any revision.

SA 450 Evaluation of mis-statement identified during audit.

Obj: Evaluate $\begin{cases} \rightarrow \text{effect of identified mis-statement on audit} \\ \rightarrow \text{effect of uncorrected mis-statement on FS} \end{cases}$

Accumulation (not small) trivial eg: $\begin{cases} \text{inaccuracy in processing data} \\ \text{omission - amt/disclosure} \\ \text{wrongly capitalised.} \end{cases}$

As the audit progresses:
Audit strategy / aud. plan revised $\begin{cases} \rightarrow \text{identify misstat indicates existence of further mis-statement} \\ \rightarrow \text{accum. of mis-statements} \end{cases}$

Communication to mgt / tchw

Timely basis

$\downarrow$
mgt refuses to correct mis-stat

Written Representation (SA 580)

Summary of - uncorrected mis-statements all immaterial.

$\downarrow$
Aud examine ABCD $\downarrow$ to understand cause of mis-stat

$\downarrow$
Auditor: obtain reasons

$\downarrow$
Evaluate FS - free from MM

Effect on uncorrected mis-statements:

$\rightarrow$ Size & nature of uncorrected mis-stat & effect on ABCD & FS
 $\rightarrow$ Effect of PP uncorrected mis-stat on ABCD & FS

mgt corrected

$\downarrow$
Aud AAP

- check if mis-stat remain

A. Documentation (SA 320)

- ① Amt below which is not material
- ② All mis statements accumulated & whether corrected
- ③ Aud's conclusion $\rightarrow$ uncorrect mis-stat all material &
 $\rightarrow$ basis for conclusion

Automated Environment

What? B env

process, ops, acc, decisions → IT computers

Features:

- large vol → security
- Faster → Human errors ↓
- Accuracy → connectivity

Understanding w/ Doc AE

- IS used → Interface
- Purpose → Inhouse vs packaged
- Location $\left\{ \begin{array}{l} \text{local} \rightarrow \text{Outsourced act} \\ \text{global} \rightarrow \text{key persons} \end{array} \right.$
- Architecture (CIO, CISO)
- Version

Risks Inacc. processing of data / processing inacc. data

- unauthorised access
- Δ prog / master file
- Δ system / prog
- Loss of data

Impact of IT Related Risks

- subst. checking
- controls
- Reporting

TYPES OF CONTROL

General IT Control:

- Data centre w/ n/w operation
- prog Δ
- access security
- Appl. system acq, devel, -opment & maintenance

Application control (Auto + Manual)

- mandatory data field, use limit, seq no: check

IT-dependent control (Manual)

suitability manual & non recurring
→ Δ circumstances
Auto ↑ volume recurring
→ monitoring auto controls

Testing methods (ITD-R)

Inquiry - most efficient but ↓ AE

Reperformance - most effective but ↑ time

* **Inq + Inspection**

↳ examining recs/docs

Audit approach

- Risk asst. → understand & evaluate
- Test for operating effectiveness → Reporting.

Data analytics for audit

Combo of process, tools & techniques used to tap vast amt of data to obtain meaningful info = DA

↑ Pft ↑ Customer Service ↑ competitive adv ↑ operation

Tools & tech for } = **CAAT**
and

Digital audit (Prowers)

AI, data anal. to understand business

IFC "policies & proceed"

- Reliab of FR → safeguarding assets
- eff² operation → prevention & detection of fraud
- compliance → laws & reg

Documenting

- ① Discussion - ET
- ② Und of Ent & env
- ③ ROMM < FS level
- ④ Risks identi & related controls
- ⑤ assestion

Report and findings

→ sh. H

→ tcwg, BOD

? weakness - IC

↓

Deficiency to mgt = IC memo / mgt letter.

ETHICS.

→ moral principles

→ inculcated in the habit

→ withstand any selfish motive / temptation

Professional Ethics protect the int of profession

CA- ethica pract/serv- abide by ethical behaviour

DEVIATION: fines, suspension, removal from mem or other disciplinary action.

Principles: COPP 1

INDEPENDENT
TO AUDIT

Indep. of mind
Indep. Pn
appearance

Confidentiality of info - not disclosed to third party

However if required by law → have to disclose

Objectivity x compromise prof. judgement
bias, conflict of int (or) undue influence

Prof. behaviour x discredit the prof
x knowingly engage in employment / act / occupation
that impairs integrity obj, reputation of prof

Prof comp & Due care Professional knowledge & skill

Integrity straight forward honest / knowingly x associated with
fair dealing, truthful / returns, commn other info
materially false / misleading

THREATS

Self-int

- Firm / partner
- benefit frm fin. int
- a) Loan / g to / frm ©
- b) depend on © fee
- c) Busi. rel w / ©
- d) Pot. empl w / ©
- e) writing fees

Self review

- Aud. director / sr officer
- ↓
- themselves subject matter of audit

Advocacy

- Aud. promotes client's opinion
- pt where ppl believe objectivity is compromised
- eg Aud - sh of ©
- Aud - advocate in clients 3rd party litigation / disputes

Familiarity

- Relative of A team sr position of co.
- former partner now dir / sr c'ee of ©
- Long assoc
- Gifts & Hospital

Intimidation

- threaten the aud
- threat of replacement
- ↓
- where fees
- x objectively act

Prof. Skepticism

Q. mind - Being alert

eg: → AE contradicts another AE ⇒ Possible fraud
→ Q. reliab of docs ⇒ AP in addn to SA

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BANK AUDIT

Types of Banks

1. Commercial
2. Co-operative
3. Development
4. Regional Rural Bank
5. Payments Bank
6. Small finan. Bank

Audit Report

Nationalized bank → CG

① T or F ?

- ② Transaction & powers of the bank
- ③ Returns from branches - adequate
- ④ Any other matter

TYPES OF AUDIT REPORT

- IC over FR
- Long format audit report (30th June)
- SLR requirements
 - ↳ % of NDTL
- Treasury operation (as per RBI)
- Inc. recognition, asset classification & provisions
- any serious irregularities
- Ghosh committee
- Jilani committee
- Adverse credit deposit ratio in rural areas.

Powers

Same powers as co. act

inspect BOA
info, addl info
719, 73(2)

INITIAL CONSIDERATION

- Declaration of indebtedness
- X internal assgmts in bank (stat and)
- planning
- communication with prev. aud
- Terms of AE
- Ini. engagement
- understanding banking env

FUNCTIONS

- accept deposits
- grant loan

Regulatory Framework

Banking Reg. act SBI COMP-REG
Banking co. act IT Companies Act
SARFAESI act Credit info PMLA

Payments & settlement system

Appmt of auditor

Banking co → AGM } RBI approval
Nationalised Bank → BOD

RBI → bank itself + approval CG

Remuneration

Banking co → sec 142 of co. act

Nationalised Bank w/ SBI } RBI in consultation with CG

Banking co → CO in GM

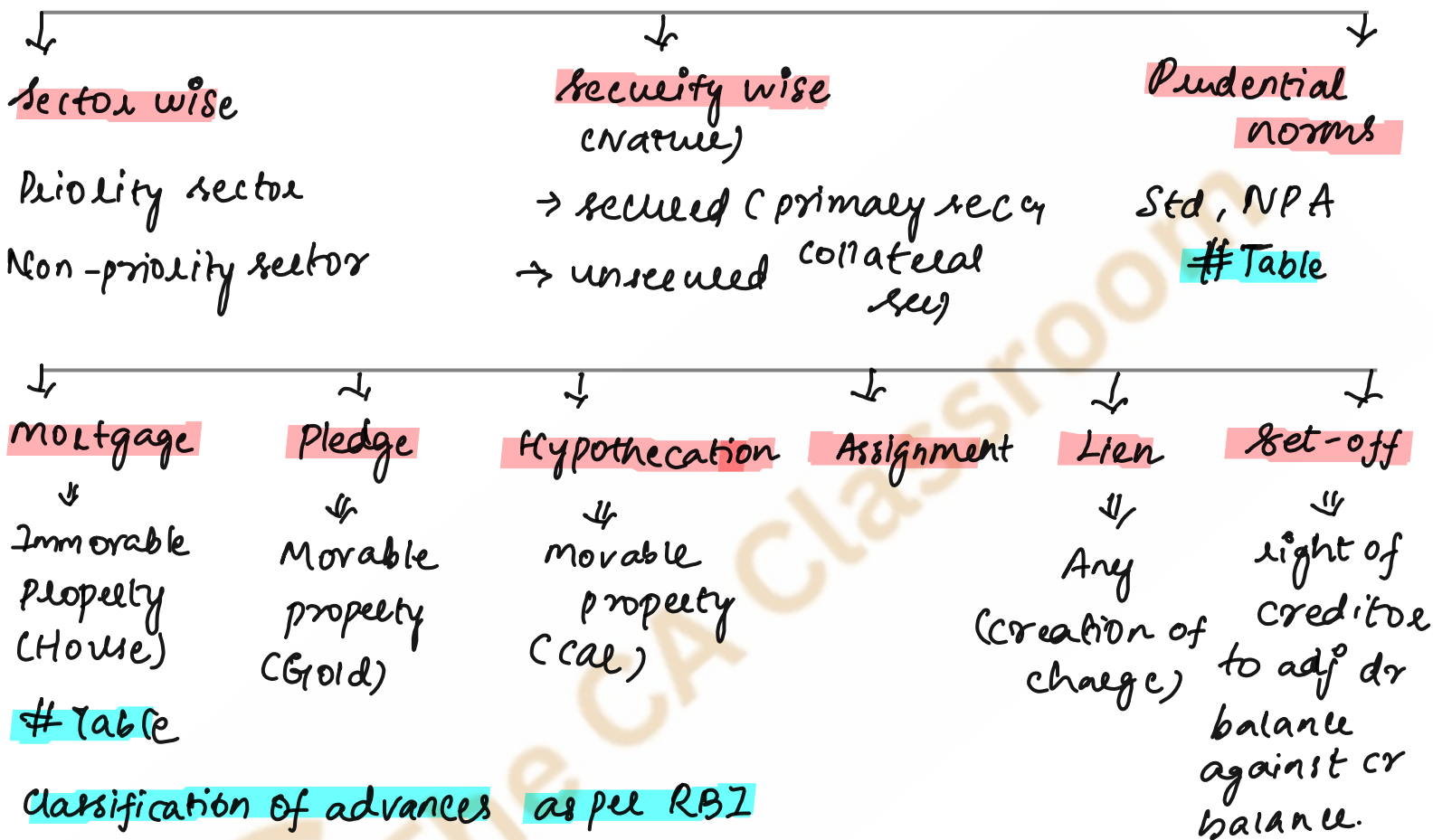
Conducting an audit

- Initial consideration → I or ASS of ROM
- Und. bank & environ → Und. bank accl'g process
- RM process → ET discussion
- SA 300 OAS → Develop and plan
- Aud planning memorandum → SA 320
- SA 570 → Fraud - PMLA
- spfc risks → Response-assessed risk
- Outsourcing risks → Stress testing
- Basel III → other reports
 - a) Finan. stability Board
 - b) Basel committee on banking supervision
- assessing eng. risk
- establishing eng. team

ADVANCES: (Asset side of BIS)

TYPES → Funded loan (actual trfr of funds) → TL, CC, OD
→ Non-funded loan (no trfr) → LOC, BG

CLASSIFICATION OF ADVANCES



Classification of advances as per RBI

Standard (or) regular

SMA → SMA-0
→ SMA-1 (31-60)
→ SMA-2 (61-90)

NPA (> 90 days)

Sub-standard

Doubtful

Loss

Erosion in value of security.

Realisable < 50% - Doubtful

Realisable < 10% - Loss category

Agricultural Advances.

Long duration > 1 yr → one season - NPA (LDC)

Short duration? < 1 yr → 2 crop seasons - NPA (SDC)

Advances under consortium

Advancing loans by 2 or more banks jointly

Bank w/ higher share will lead the consortium

Participating banks need to arrange to get sh. of recovery from lead bank/ get express consent from lead bank.

DP allocation - Responsibility of lead bank.

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Evidences regarding advances.

1. Amt as advance as on B's date
2. Adv $\rightarrow$ amt due to the bank
3. Collateral
4. No unrecorded adv.
5. Valuation - proper
6. Adv - disclosed, classified & described - AS
7. Provision towards adv $\rightarrow$ RBI

AP

- $\Rightarrow$ loan doc $\Rightarrow$ Analy. procedures
- $\Rightarrow$ security? $\Rightarrow$ Reviewing operation of accs.
- $\Rightarrow$ RBI Norm

Drawing Power.

Meaning: $\rightarrow$ concept of cash credit - limit upto which a co can withdraw from WC limit sanctioned

Different from sanction limit

SL - total exposure a bank can take for a client (CC, OD, non-funded exposures)

DP - amt calculated - primary security (-) Margin

DP - based on stock statement < 3 months

stock audit - If funded exposure $> 5\%$

AUDIT OF REVENUE ITEMS / INCOME

- ① Income - RA period, amt, x unrecorded income
- ② RBI -
 - $\geq 1\%$ of T1 gross basis
 - 1% of PBT net of cost
- ③ x material $\rightarrow$ x qualifications
- ④ Accrual basis ACCRUAL
- ⑤ NPA - on realisation
- ⑥ Int on adv - taken to inc alc on due date if marginal available
- ⑦ Bills purchased @ 1% on 31st March - apportioned b/w 2 years
- ⑧ Bills for collection - proceed. for crediting the party
- Rediscounting - x netting
- ⑨ Fees for de neg / re-ech $\rightarrow$ accrual
- ⑩ Test check

Reversal of Income

Advance Encl. bills purchased or discounted → NPA

Fees, commission accrued - ceased to accrue in cur. period -
reversed w.r.t past periods if uncollected

Wrongly recognised income

Large debit int income acc not explained

Communication from borrowers - diff in int. charge

Leased asset component of finance income accrued &
credited to inc acc before asset became NPA

Take-out finance **OBJ** → expands sources of finance
→ address sectoral, group exposure issue
→ availability of longer tenure debt finance

↓
loan i.e. procured later

to replace initial loan

RBI - Banker's bank

Functions:

1. Issuance - currency
2. Regulation of currency issue
3. Banker - SG/SG
4. Banker - Bank
5. Regulatory activities of bank

All banks - license from RBI
RBI Power - Inspect any bank

Bank audit approach:

1. Drawing an audit plan
2. control environment @ bank
3. ET discussions

Form / CONTENTS OF FS 29(1) & (2) of BR act

(i) schedule → Part / BIS
↓ ↓

Form B Form A

of the (ii) sch of BR act

Disclosure - as per co. act
section 133

Qualification & Disqualification same as co. act

CO-OPERATIVE SOCIETY.

Co-op is autonomous assoc of person united voluntarily
→ common economic, social & cult needs

coop soc - b. org
spl mode of doing biz
by pulling all means of prodn co-operatively
Elimination of middlemen & exploitation from its forces

Powers

Registrar → AUDIT

Registrar → any Person
(gen 1 spl order)

AUDIT of MPSC

Qual only CA
BC
X eligible
officer/ee - MSCS
Person - mem/employment
Indebted
guarantee > 1000/-

Appt
1st auditor
↓
By board < 1m
↓
Hold office till
concl of 1st AGM
subs. auditor
↓
MSCS @ AGM
↓
Hold office till
next AGM

Powers & Duties
→ access B, A, vouchers
→ req officer/ee info
→ Inq U/73(2)

73(2) → L & A sec
→ rep by BE
→ P exps charge to revenue
→ sh. allot for cash
cash sec? if no - acc?

Law

↓
co-op soc
act 1912
↓
MSCS
2002
↓
state coop
soc law

Professional services rendered

→ Guidance in ACCS writing
→ Install - accing system
→ Internal audit
→ mgmt & accing service
→ Taxation etc

Qualif

CA
govt diploma in co-op accs
and in coop dept of govt

Appt By Reg.

Report to registrar

Fees by society as per reg. stat scale

Records, BDA Sgr; Discretion

Restriction on sh. H cap of mem
- Unlimited
x registered ≤ 20%
or 1000/-
Check STATE laws

Restriction on loans
coop - mem ✓
- co op soc ✓
(spl sanction of reg)

Restriction on borrowings

accepts dep other than mem
sub to: by laws

Invest. of funds:
→ co op bank
→ any money as perm by Sgr/CGT
Pft
→ cl's coop bank
→ sec U/ITA
→ sh, sec, bond
deb of any other
soc w/ lim liab

Res fund

Pft after
Res + e
→ 10% of m
charitable
persons

Use

1) Biz of soc - wc
2) promote obj
3) Invest as per prov

Edu fund

charge on profits
State act have
compulsory as per
class of soc

Contents of AR

FS - t4f view < BS
↓ ↓
all info BOA return And other
↓ expl from than him
not visited branches report
forwarded

Special Features

overdue debt we affecting? recovery 6m - 5y; > 5y
Old int int dis int accd → Old int
Certif. b debt m# - and - mnging com m
val. AUL No prov
co op princel
prov - acc rules

CGI ↓

spl. and → affairs x mngd - sound
b. princel
→ Inquiry to int of tr/biz/lindus
→ Endanger insolvency - try

mem res

w PB
check for
• loan gn
• repayment
• confirm of bal dis

SPI report

pp. firm, disprop. adv
x sec

and - class

criteria: REG
→ appeal to reg
Draft AR
- mnging committee

CG → appf aud/ same aud → CG/Sy → exp. debt by CG
order ≥ 51% Pops paid - mscs
↓

Govt takes action on basis of rep
x action → < 4m → circulate to mem

Inq/Inspection

Central reg on req fm below - hold inquiry / direct person

Federal creditor 4 1/3rd 4 1/5th
coop MSCS of B. mem mem of MSCS

Is affiliated For inspection = General / spl. order Is reqd

15 days notice to MSCS

Powers of person conducting

Inquiry
1) Access to BOA, doc, rec, cash, prop
2) Summon any person y @ any place specified
resp for BOA, doc....
3) Reg. officer of soc to call for GM Notice 4 7d
If officer fails, he can call

Inspection Access to BOA, paper, vouchers, rec, stock, prop
If irreg - take them into custody
call for General meeting (Gen / spl order)

Time for C. reg < 3m communicate to MSCS

