Saransh Last Mile Referencer

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Preface

BOS, the student wing of the Institute, does not leave any stone unturned in providing best-in-class services to its students. It imparts quality academic education through its value added study materials, wherein concepts are explained in lucid language. Illustrations and Test Your Knowledge Questions contained therein facilitate enhanced understanding and application of concepts learnt. Booklet on MCQs & Case Scenarios contain a rich bank of MCQs and Case Scenarios to hone the analytical skills of students, by applying the concepts learnt in problem solving. Revision Test Papers contain updates and Q & A to help students update themselves with the latest developments before each examination and revise the concepts and provisions by solving questions contained therein. Suggested Answers containing the ideal manner of answering questions set at examination also helps students revise for the forthcoming examination. Mock Test Papers help students assess their level of preparedness before each examination. BoS also conducts live virtual classes through eminent faculty for its students across the length and breadth of the country.

To reach out to its students, the BoS has also been publishing subject-specific capsules in its monthly Students' Journal "The Chartered Accountant Student" since the year 2017 for facilitating effective revision of concepts dealt with in different topics of each subject at the Foundation, Intermediate and Final levels of the chartered accountancy course. Each issue of the journal includes a capsule relating to specific topic(s) in one subject at each of the three levels. In these capsules, the concepts and provisions are presented in attractive colours in the form of tables, diagrams and flow charts for facilitating easy retention and quick revision of topics.

The **Board of Studies (BoS)** is introducing a comprehensive booklet, "Saransh – Last Mile Referencer for Intermediate Paper 5: Auditing and Ethics", designed to capture significant concepts across key topics in the subject through diagrams, flowcharts, and tables. Auditing plays a crucial role in ensuring transparency, accountability, and reliability in financial reporting. It involves a systematic examination of financial statements to provide assurance to stakeholders regarding their accuracy and compliance with applicable laws and regulations. Ethics, on the other hand, form the backbone of the auditing profession, guiding auditors in upholding integrity, objectivity, and due diligence in their practice.

The Saransh booklet consolidates key provisions from Standards on Auditing (SAs), Bank Audit, Ethics, and other relevant topics, serving as a one-stop repository for structured revision. This booklet, thus, consolidate all significant topics of auditing and ethics at one place, by capturing the key points. This would help the reader appreciate the requirements contained in the subject and grasp the essence of the subject as a whole by serving them as a ready reckoner.

Happy Reading

President Message



It is with immense pride that I introduce the Saransh booklets, a meticulously curated resource available across the Foundation and Intermediate levels of the Chartered Accountancy course. ICAI has always been dedicated to providing our students with the best possible resources to succeed in their studies and careers, and Saransh is a demonstration of this commitment.

The Saransh — Last Mile Referencers have been thoughtfully designed by the Board of Studies (BoS) to serve as an invaluable companion for your studies and exam preparation. Our aim is to simplify complex concepts and provisions, making them easier to understand, memorize, and revise. However, Saransh is not a substitute for the detailed BoS study material but a supplementary tool to complement your in-depth study.

The newly revamped Saransh booklets have been updated not only in content but also in their presentation. With a more logical and organized structure, enhanced visual appeal, and a user-friendly layout, these booklets are now more effective in aiding your studies.

We have extended the Saransh series to cover all core areas of the Chartered Accountancy course. Saransh is designed not only to help you grasp and recall essential concepts but also to guide you in approaching each subject strategically. The insights provided in these booklets will help you develop a structured approach to your studies, ensuring that you are well-prepared for your examinations.

I urge you to make the most of the Saransh booklets. While these booklets will support you, it is your dedication, perseverance, and hard work that will ultimately determine your success.

I wish each of you the very best in your studies and future careers.

Warm regards,

CA. Ranjeet Kumar Agarwal

President, ICAI

SARANSH

Vice President Message



The Chartered Accountancy curriculum is known for its rigorous standards and comprehensive scope and coverage. Understanding and mastering the complexities of various subjects requires not only dedication but also effective learning tools. Utilizing well-designed learning tools can significantly enhance your understanding and retention.

As we advance in our journey of nurturing the next generation of Chartered Accountants, it is with great pleasure that I introduce the revised and updated Saransh — Last Mile Referencers. These booklets, intended to be your academic companions, have been meticulously developed by the Board of Studies (BoS) of ICAI and are designed to enhance your academic experience across the Foundation and Intermediate levels of the Chartered Accountancy course. They will serve as a vital resource, condensing complex topics into easily digestible formats.

However, I must emphasize that Saransh is not intended to replace the detailed study material provided by the Board of Studies (BoS). Instead, Saransh is designed to complement the study material, offering a streamlined overview for revision and quick reference as you prepare for your exams.

The BoS has revamped both the content and presentation, ensuring that these booklets are more user-friendly and visually appealing. These enhancements are aimed at helping you not just memorize information, but also better understand and apply the concepts that are crucial to your success as a Chartered Accountant.

A major benefit of the Saransh booklets is their strategic approach to studying each subject. By providing a clear and concise summary of each topic, these booklets help you organize your revision more efficiently, allowing you to concentrate on the most critical areas in preparation for your exams. Strategic learning is crucial in the Chartered Accountancy course, and Saransh equips you with the tools needed to master this approach effectively.

I am confident that the Saransh booklets will play a crucial role in your journey towards becoming a Chartered Accountant.

I wish you all the best in your studies and future endeavours.

Warm regards,

CA. Charanjot Singh Nanda

Vice President, ICAI

Chairman's Message



It gives me great pleasure to unveil the updated Saransh — Last Mile Referencer series, a crucial resource for aspiring Chartered Accountants. This year, we have extended our efforts to cover all papers across Foundation and Intermediate levels, enhancing the booklets with new sections. The Board of Studies (BoS) remains committed to offering quality academic materials, presenting key concepts in visually appealing formats such as tables, diagrams, and flowcharts. These improvements aim to aid students in mastering critical topics and serve as a quick reference for effective exam preparation and professional growth.

It is essential to understand that Saransh is not a substitute for the detailed study of the material provided by the Board of Studies. Students need to develop an in-depth understanding of the concepts and provisions involved in the subject and then refer to the encapsulated form of the same as given in Saransh. This approach ensures that students build a solid foundation before relying on the summarized content for revision.

The presentation of the Saransh booklets has been revamped to provide students with an enriched learning experience through enhanced visual appeal and an aesthetic user-friendly layout. The booklets now feature a more logical and organized structure, with a special emphasis on facilitating easy memorization and retention of the concepts and provisions with the aid of visual imagery, tables, diagrams, and flowcharts.

Saransh booklets provide an insightful overview of each subject and offer strategic guidance on how to approach each subject strategically. To effectively understand and master complex topics, students are encouraged to familiarize themselves with strategic learning techniques. Begin by reading the relevant content from your Study Material. Then, write an explanation of the topic in your own words, using simple language and examples, as if you are teaching someone unfamiliar with the subject. Identify areas where your understanding is lacking and revisit those portions in the Study Material, focusing on examples, illustrations, and diagrams provided. This iterative process will strengthen your understanding of complex topics.

Additionally, employ effective memorization techniques. At the end of each study day, review the concepts and provisions you covered during the day. The next day, before starting new topics, revisit what you studied previously. This continuous revision will enhance your retention. Utilize mnemonics such as acronyms, acrostics, and visual imagery based on your interests to further reinforce your memory of the concepts and provisions.

The Saransh booklets serve as a powerful tool for students to bridge the gap between understanding and application. By presenting information in a visually appealing and concise manner, these booklets help students quickly grasp and recall essential concepts. The revamped layout and strategic presentation ensure that students can efficiently navigate through complex topics and prepare effectively for their examinations.

Chairman's Message

Furthermore, the Board of Studies remains dedicated to continuously updating and improving the Saransh booklets to reflect the latest developments in the field of accountancy. By staying abreast of changes in the industry standards, we aim to provide students with the most relevant and up-to-date information.

To further support students in their preparation, the Board of Studies has also developed supplementary materials and resources that complement the Saransh booklets. These include revision test papers and mock test papers that provide students with additional opportunities to test their knowledge and practice applying the concepts they have learned. By offering a comprehensive suite of study aids, we aim to cater to the diverse learning needs of students and help them achieve their academic goals.

Moreover, the Board of Studies recognizes the importance of continuous feedback and improvement. We encourage students to provide their feedback on the Saransh booklets and other study materials, as it helps us identify areas for improvement and make necessary updates.

As we move forward, the Board of Studies will continue to innovate and enhance the Saransh series and other academic resources. Our goal is to equip students with the knowledge, skills and confidence they need to excel in their examinations and professional careers.

The updated Saransh — Last Mile Referencer series represents a significant step forward in our efforts to support and guide aspiring Chartered Accountants. We encourage all students to make full use of Saransh and integrate it into their study routines to achieve their goals and excel in their examinations.

I would like to extend my heartfelt thanks to the members of the Board of Studies and all those who have contributed to the development and enhancement of the Saransh booklets.

CA. (Dr.) Rajkumar S Adukia Chairman, Board of Studies

Vice Chairman's **Message**



I am delighted to present the newly updated Saransh – Last Mile Referencer series, a flagship initiative of Board of Studies, designed to facilitate the students in their journey of becoming future ready Chartered Accountants. This initiative exemplifies the ICAI's unwavering commitment to deliver excellence in education and foster a culture of continuous learning.

The Saransh booklets have been meticulously developed for all the papers at the Foundation and Intermediate levels to serve as an invaluable resource for the students, simplifying complex topics into concise, visually engaging and easy-to-retain format. Through flowcharts, tables and diagrams, these booklets are designed to help students understand, retain and strategically apply the key concepts/provisions.

I would like to highlight that Saransh is an invaluable tool for revision and quick reference. Students should first immerse themselves in the comprehensive study of each subject to establish a strong fundamental understanding of the concepts/provisions. Saransh should then be utilized as a complementary resource to augment their preparation and reinforce their learning for greater retention and success.

The content of the Saransh booklets is systematically arranged for easy comprehension. With their logical structure and aesthetic design, they make learning both effective and enjoyable. They are designed to help the students navigate the success path in the Chartered Accountancy course with confidence and clarity.

I encourage our students to make the best use of the Saransh booklets alongwith the other BoS publications. They are advised to approach their studies with a focussed, disciplined and progressive mindset.

My dear students, I wish you all the very best in your studies and the exciting career that lies ahead!

Warm regards,

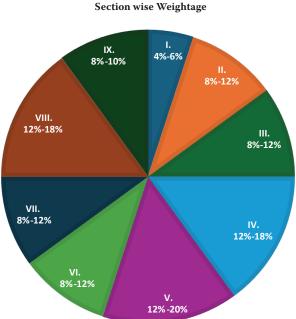
My Joseph .

CA. Sridhar MuppalaVice Chairman, Board of Studies

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:





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.

Stay Organized

Create a study schedule and stick to it. Being organized helps you cover all the necessary topics andreduces lastminute stress

Avoid Selective Study

Students should refrain from selective study during preparation. Comprehensive study across all topics strengthens confidence and ensures you arewell-prepared in the exam



Study Tips for Exams Preparation

Prepare Challenging Questions

Compile a list of tough questions you encounter while studying, and revisit them for focused review and clarity

Handwritten Notes

Make short, crisp notes on key points of each chapter and summarize them in tables, charts, or mind maps for better retention



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.

SARANSH



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Chapter 6: Audit Documentation

Engagement & Quality Control Standards

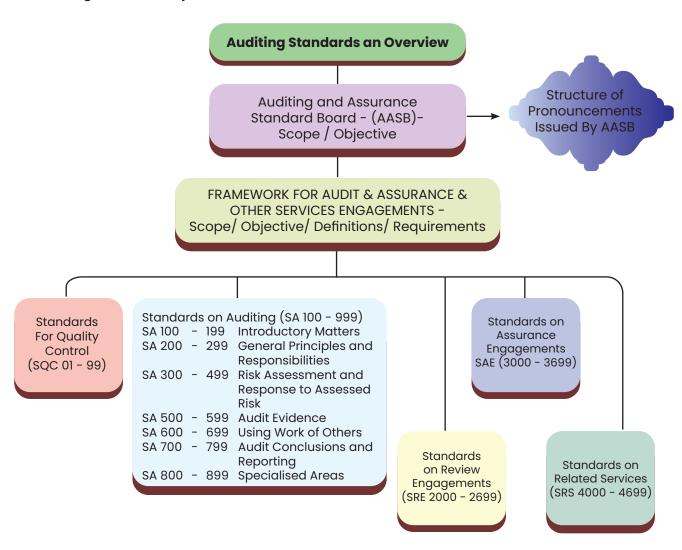
International Auditing and Assurance Standards Board (IAASB):

- 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

To obtain a reasonable assurance that financial statements as a whole are free from material misstatement due to fraud or error

To gain a reasonable assurance leads to formation of opinion whether financial statements are prepared, in all material respects as per applicable financial reporting framework[FRF]

To report on the financial statements

Reporting of opinion in accordance with audit findings

Communication of reporting

Reporting and communication in accordance with Standards on Auditing





Benefits of Audit

Audited accounts provide high quality information

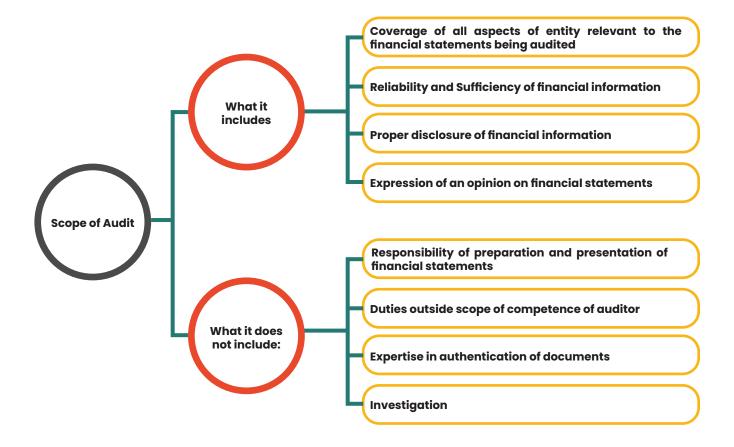
Acts as a moral check on employees from committing frauds for the fear of being discovered by audit

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





Inherent Limitations of **Audit**

Nature of financial reporting

Nature of Audit procedures

Not in nature of investigation

Timeliness of financial reporting and decrease in relevance of information over time

Future events

Preparation of financial statements involves judgment by management

obtains audit evidence that management or others may not provide, the complete <u>information</u> relevant for preparation and presentation of FS

Management may be engaged in concealing fraud by designing sophisticated and carefully

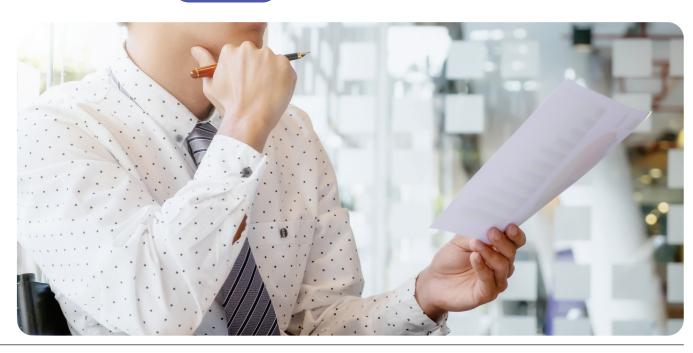
organized schemes which may be hard to detect by the auditor

Auditor

An audit is not an official investigation into alleged wrongdoing

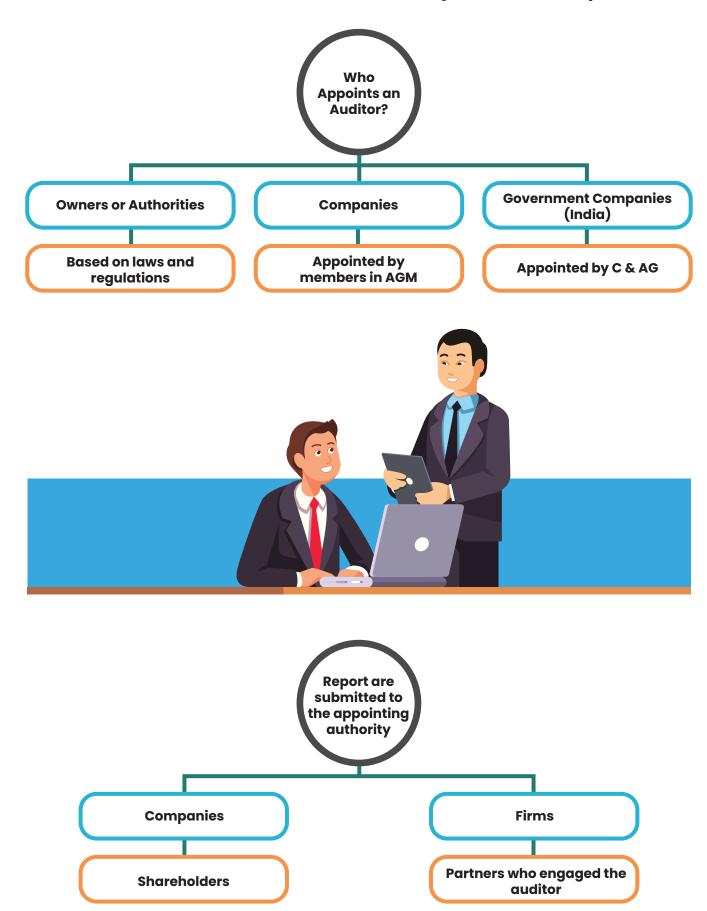
Relevance of information, and thereby its value, tends to diminish over time, and there is a balance to be struck between the reliability of information and its cost

Future events or conditions may affect an entity adversely. Adverse events may seriously affect ability of an entity to continue its Business

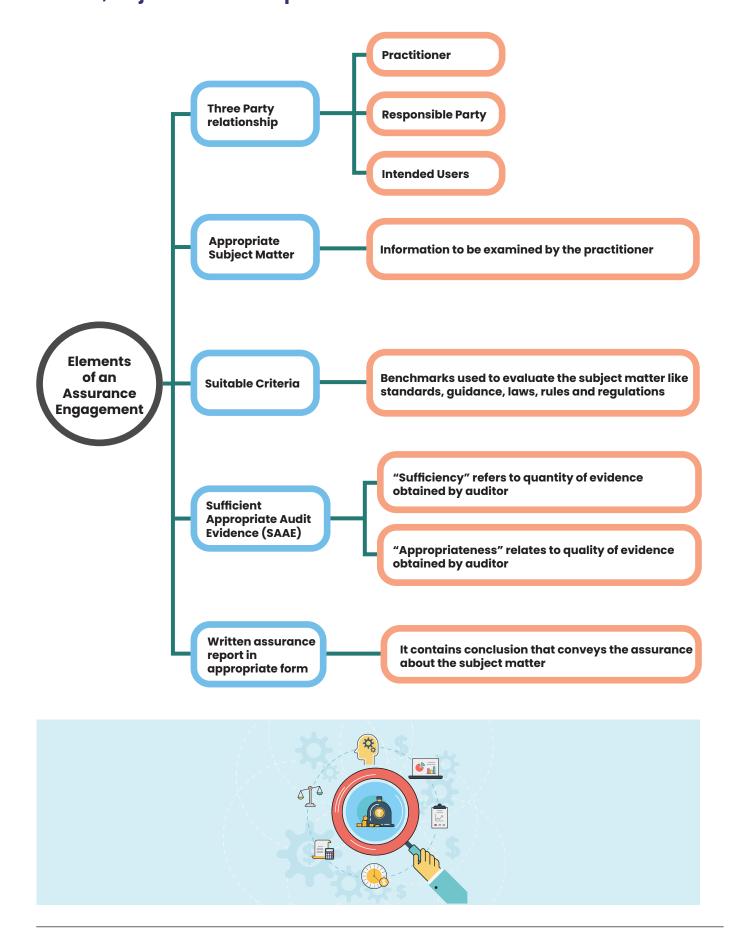


Nature, Objective and Scope of Audit

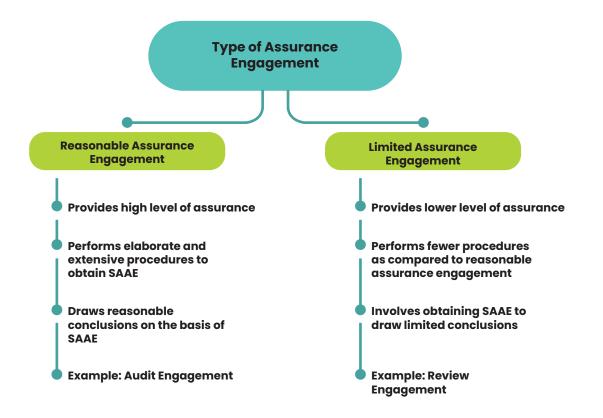
Interdisciplinary Nature of Auditing-Relationship with diverse Subjects Auditing reviews the financial statements which are result of the overall accounting process An auditor should have Good auditor is one who a good knowledge of business laws affecting understands the client and Auditing and his business functions such the entity Accounting as production, cost system, marketing etc **Auditing** and Auditor is **Auditing** and Law expected to Production have knowledge Auditor is about various expected to be financial familiar with techniques Auditing and the overall such as **Economics** economic working capital environment of management, the client funds flow, ratio analysis, capital Auditing **Auditing and** budgeting etc and Data Behavioural **Processing** Science **Auditing and** Statistics & EDP auditing in itself **Mathematics** is developing as a Knowledge of human discipline in itself behaviour is essential for an auditor to effectively discharge Auditor is expected to his duties have the knowledge of statistical sampling for meaningful conclusions and mathematics for verification of inventories **Mandatory Audit:** Required by law for entities like companies and some noncorporate entities under tax laws **Audit: Mandatory** or Voluntary? **Voluntary Audit:** Entities may choose audit for its benefits, even when not legally required



Nature, Objective and Scope of Audit



Nature, Objective and Scope of Audit





Engagement and Quality Control Standards are needed



To equip professional accountants with professional knowledge and skill

05 To ensure audit quality



Engagement and Quality Control Standards

Standards on Auditing (SAs)

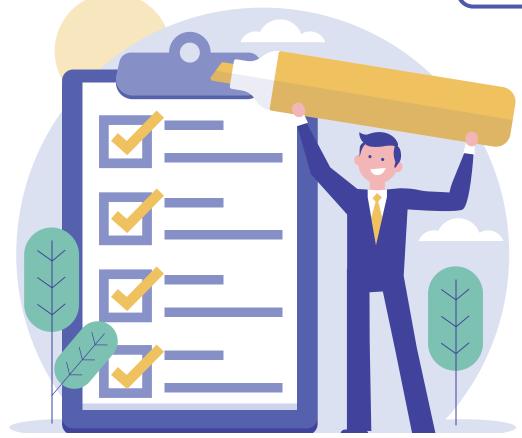
n Standards on Review s) Engagements (SREs) Standards on Assurance Engagements (SAEs) Standards on Related Services (SRSs)

Applicable on audit of historical financial information

Applicable on review of historical financial information

Applicable
on assurance
engagements
other than audits
and review of
historical financial
information

Applicable on agreed upon procedures to information, compilation engagements and other related service engagements



Chapter 2 : Audit Strategy, Audit Planning and Audit Programme

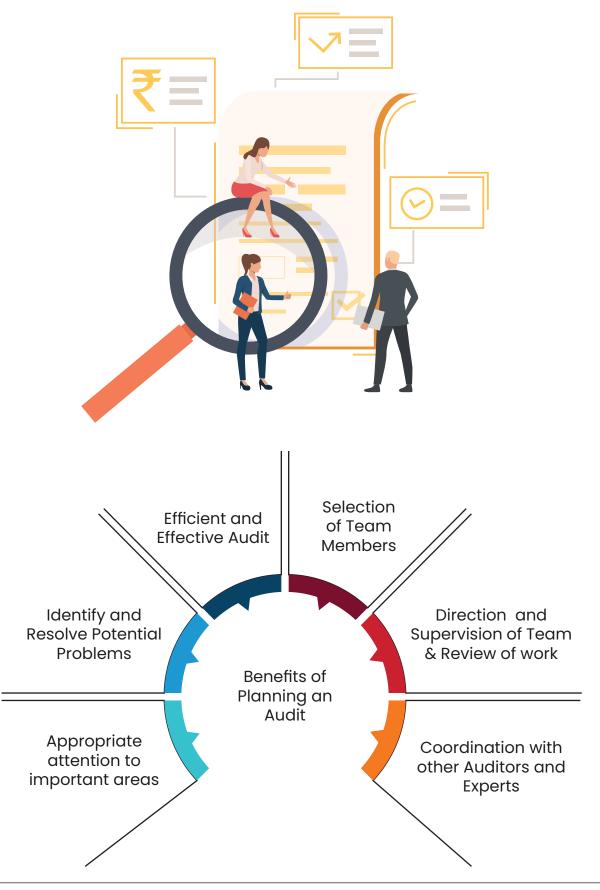
Auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner

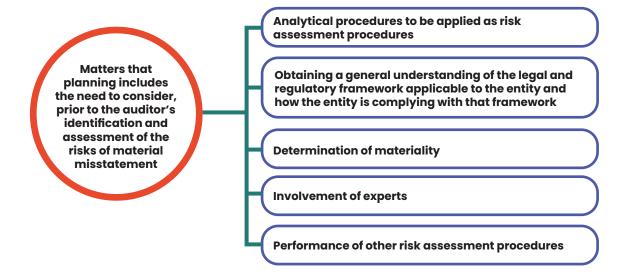
SA 300, "Planning an Audit of Financial Statements" deals with the auditor's responsibility to plan an audit of financial statements. It states that

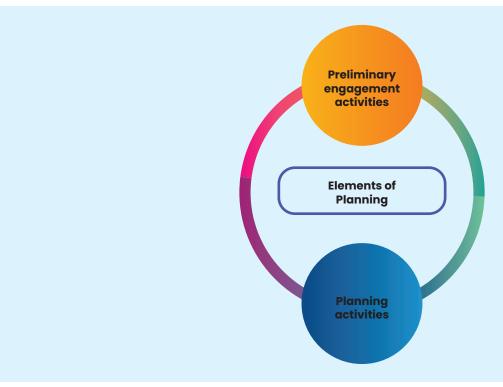
Plans should be based on knowledge of the client's business

Plans should be further developed and revised as necessary during the course of the audit











Preliminary engagement activities includes:

Performing procedures regarding the continuance of the client relationship

Evaluating compliance with ethical requirements, including independence

Establishing an understanding of terms of engagement

Firm should obtain information considered necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client

For forming a conclusion on compliance with independence requirements that apply to the audit engagement, the engagement partner shall:

information from the firm to identify and evaluate circumstances and relationships that create threats to independence

Obtain relevant

policies and procedures to determine whether they create a threat to independence

Evaluate information on identified breaches of the firm's independence

Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards

It is in the interests of both the entity and the auditor that the auditor sends an audit engagement letter before the commencement of the audit to help avoid misunderstandings with respect to the audit

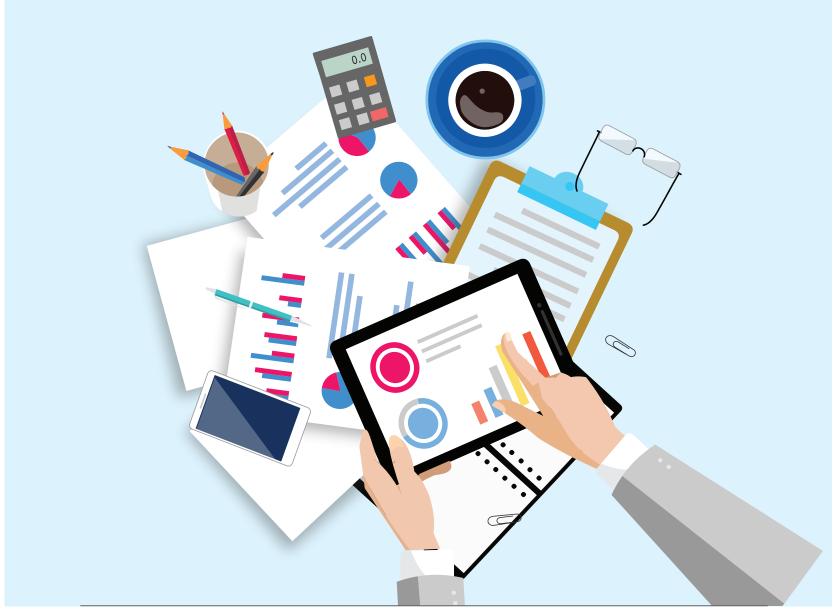




Development of Audit plan include

Nature, timing and extent of planned risk assessment procedures

Nature, timing and extent of planned further audit procedures at assertion level Other planned audit procedures that are required to be carried out so that the engagement complies with SAs



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











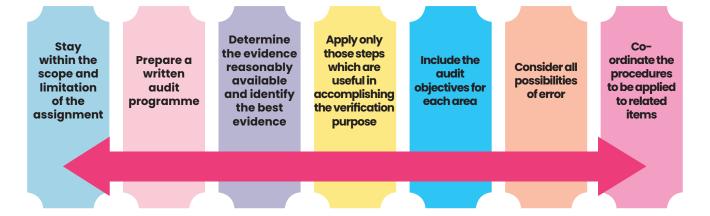
Audit Programme



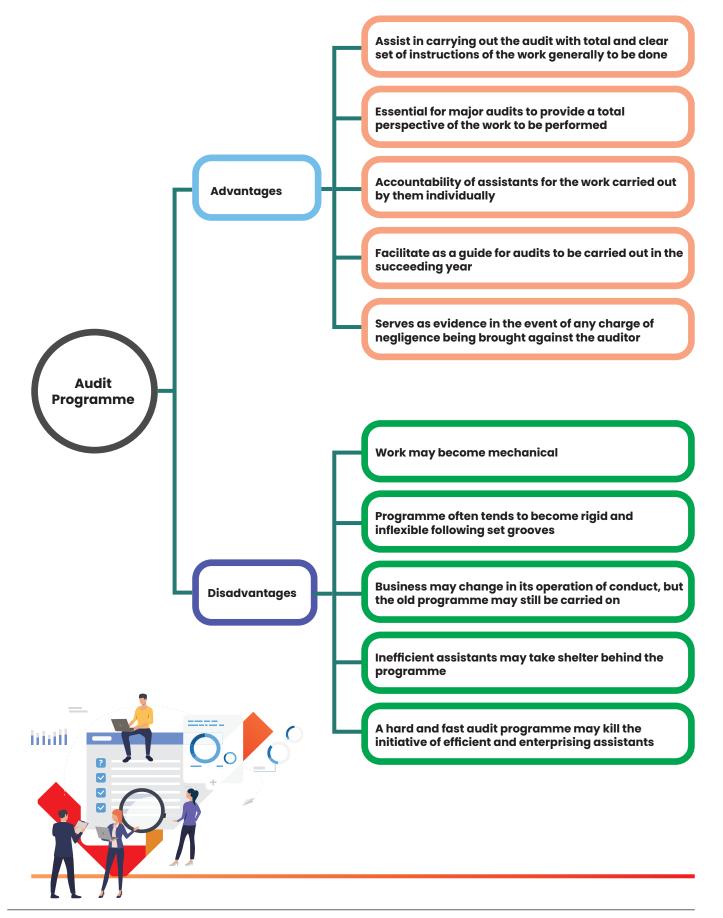
An audit programme consists of a series of verification procedures to be applied to the financial statements and accounts of a given entity for the purpose of obtaining sufficient evidence to enable the auditor to express an informed opinion on financial statements



Constructing an audit programme

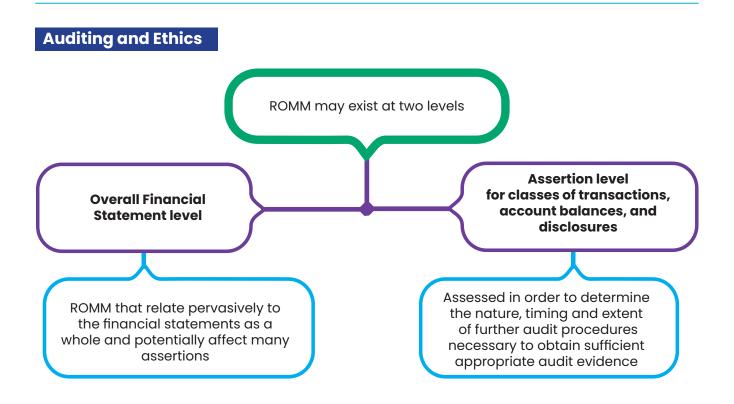


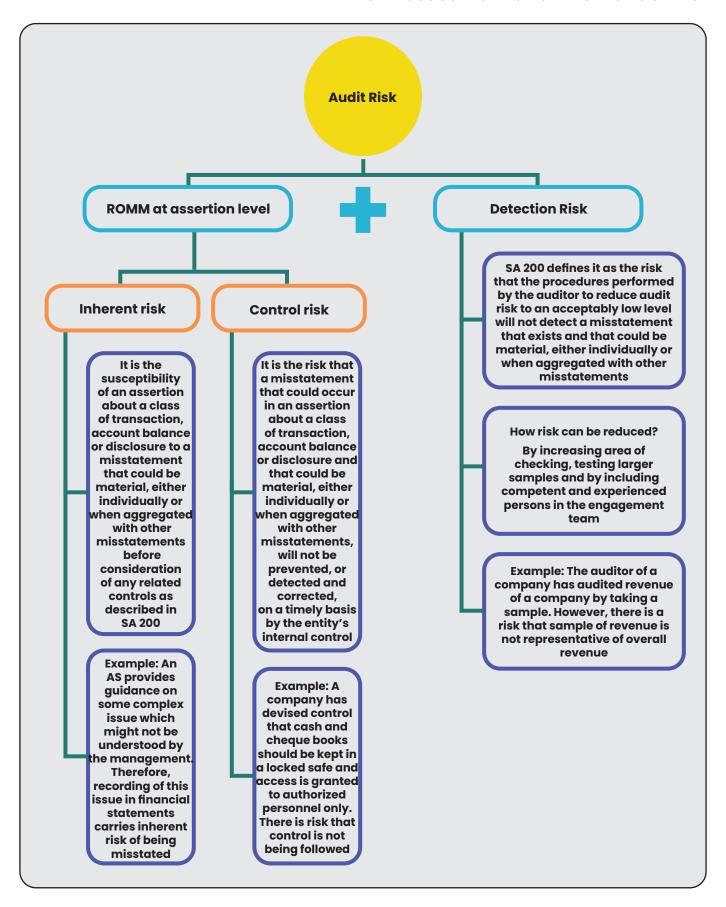
Types of fields auditor picks up evidence from **Documentary examination Physical examination** Statements and explanation of management, officials and employees Statements and explanations of third parties Arithmetical calculations by the auditor State of internal controls and internal checks Inter-relationship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



Chapter 3: Risk Assessment and Internal Control

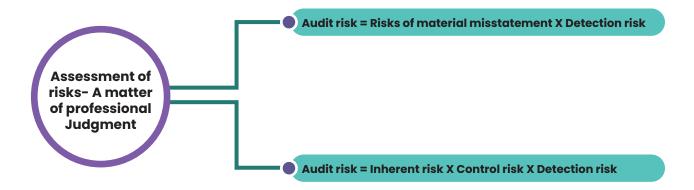




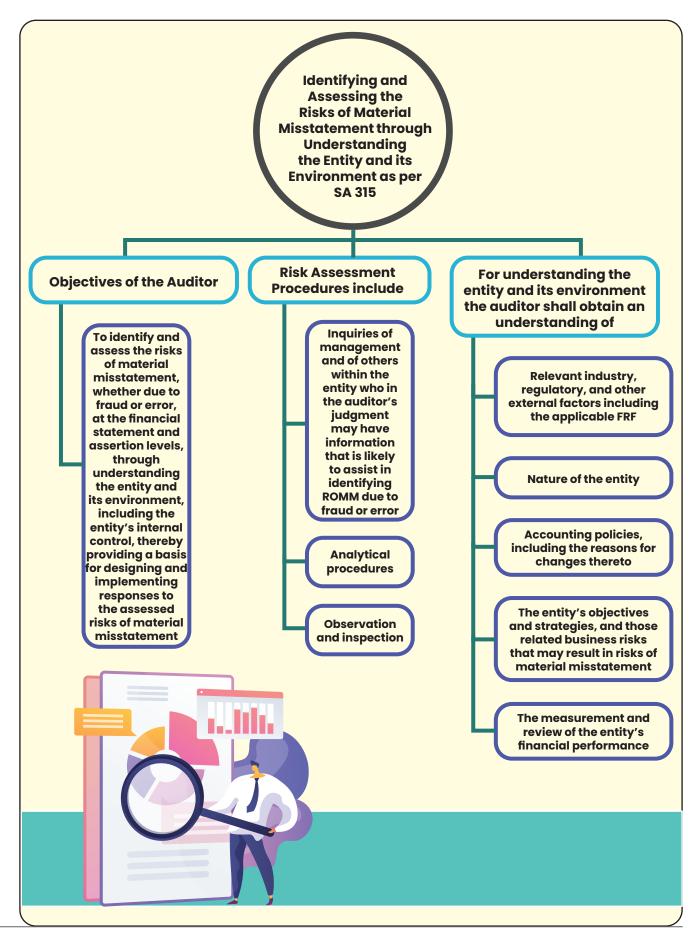


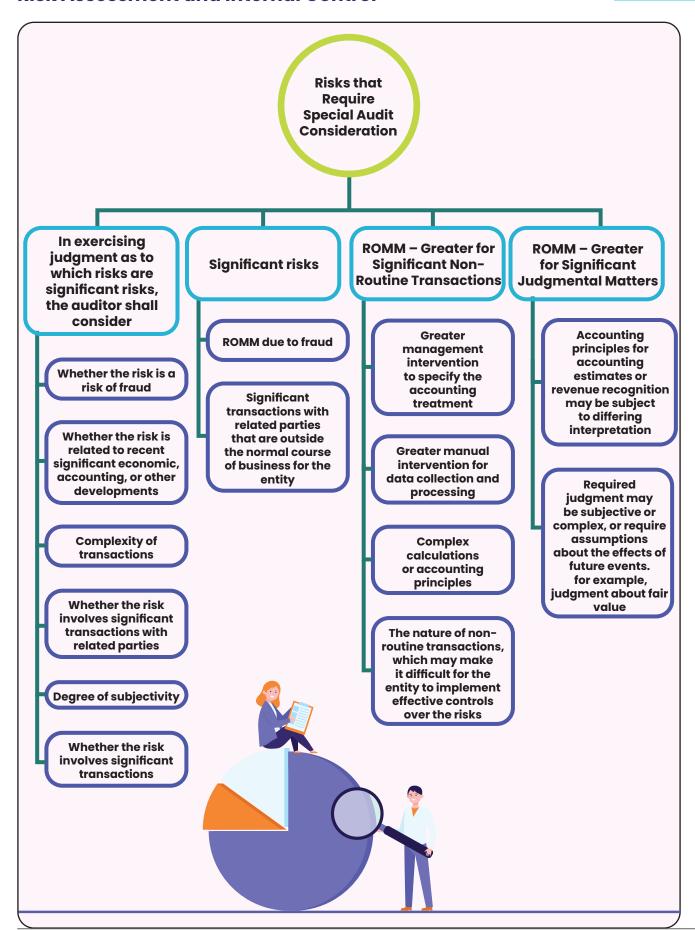
Risk Assessment and Internal Control

Auditing and Ethics









Internal Control

The process designed, implemented and maintained by TCWG, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, safeguarding of assets, and compliance with applicable laws and regulations

Understanding of Internal Control assist the aduitor in

Limitations of Internal Control Components of Internal Control

Factors relevant to the auditor's judgment about a control:

Identifying types of potential misstatements.

Identifying factors that affect the ROMM.

Designing the nature, timing, and extent of further audit procedures. Internal control can provide only reasonable assurance

Human judgment in decision-making

Lack of understanding the purpose

Collusion among People

Judgments by Management

Limitations in case of Small Entities The control environment

The entity's risk assessment process

The information system, including the related business processes, relevant to financial reporting, and communication

Control activities

Monitoring of controls

Materiality.

Significance of the related risk.

Size of entity.

Nature of entity's business, including its organisation and ownership characteristics.

Diversity and complexity of the entity's operations.

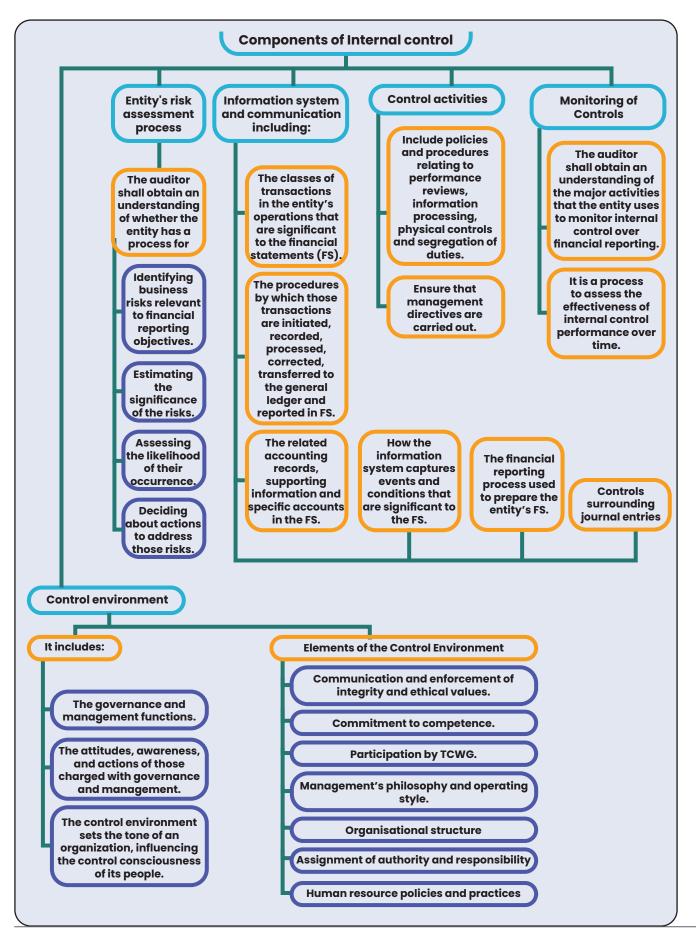
Applicable legal and regulatory requirements.

Circumstances and applicable component of internal control.

Nature and complexity of the systems that are part of the entity's internal control.

Whether and how a specific control prevents, or detects and corrects, material misstatement.





Evaluation of Internal Control System

Benefits of Evaluation of Internal Control to the Auditor Enable the auditor to know:

Methods Of Evaluation Of Internal Control

Whether errors and frauds are likely to be located in the ordinary course of operations of business

Narrative record

Whether an adequate internal control system is in use and operating.

Check list

Whether an effective internal auditing department is operating.

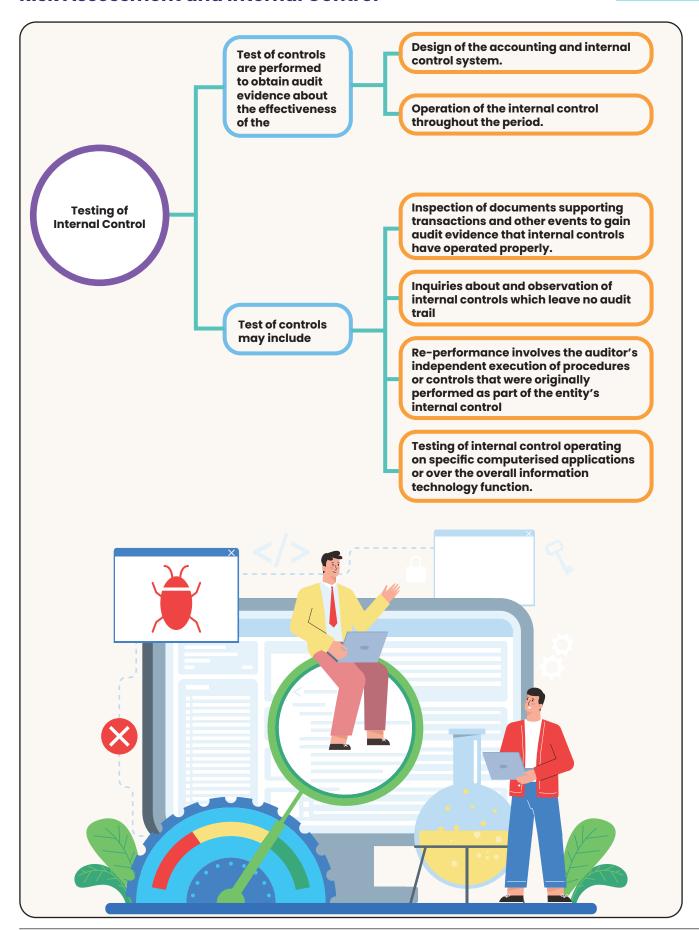
Internal Control questionnaire

Whether the controls adequately safeguard the assets.

Flow Chart

How reliable the reports, records and certificates to the management can be





SA 320 "Materiality in Planning and Performing an Audit" Determining Documenting **Revision in** Materiality Scope & Use of and Audit Risk Materiality **Materiality** the **Objectives Benchmarks Materiality** and level as Considered **Performance** the Audit when: **Materiality Progresses** Scope: SA **Determining Materiality** for materiality deals with the financial Identifying **Auditor shall** the auditor's involves the statements Materiality and assessing determine responsibility exercise of as a whole for financial the ROMM materiality for professional to apply the statements the financial judgment concept of as a whole Materiality materiality statements Determining may need to level or levels nature, timing as a whole be revised for particular A percentage and extent of as a result of is often classes of Objective: further audit a change in transactions, To obtain If there is applied to procedures circumstances account one or more a chosen reasonable that occurred balances or assurance particular benchmark **Evaluatina** during the about whether disclosures classes of as a starting effect of audit transactions, the financial point in uncorrected statements as account determining Performance misstatements, a whole are balances or materiality for If auditor materiality if any, on free from disclosures the financial concludes financial material for which that a lower statements statements misstatement, **Any revision** misstatements as a whole materiality for and in whether due to as the audit of lesser the financial forming the fraud or error progressed amounts statements as opinion in **Examples of** than the a whole than the auditor's benchmarks materiality for that initially report are profit the financial determined is before tax, statements as appropriate, total revenue, a whole could the auditor gross profit reasonably shall and total be expected determine expenses. to influence whether it is total equity the economic necessary or net asset decisions of to revise value users taken performance on the basis of materiality, the financial and whether statements. the nature, the auditor timing and shall also extent of the determine the further audit materiality procedures level or levels remain to be applied appropriate to those particular classes of transactions, account balances or disclosures

Risk Assessment and Internal Control

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

Risk

Identify significant accounts and disclosures

Qualitative and Quantitative considerations

Relevant Financial Statement Assertions (FSA)

Identify likely sources of misstatement

Consider risk arising from use of IT systems

Understand and Evaluate

Document understanding of business processes using Flowcharts/ Narratives

Prepare Risk and Control Matrices (RCM)

Understand design of controls by performing walkthroughs of endto-end process

Process wide considerations for Entity Level Controls, Segregation of duties

IT General Controls, Application Controls

Test for Operating Effectiveness

Assess Nature, Timing and Extent of controls testing

Assess reliability of source data; completeness of population

Testing of key reports and spreadsheets

Sample testing

Consider competence and independence of staff/team performing controls testing

Reporting

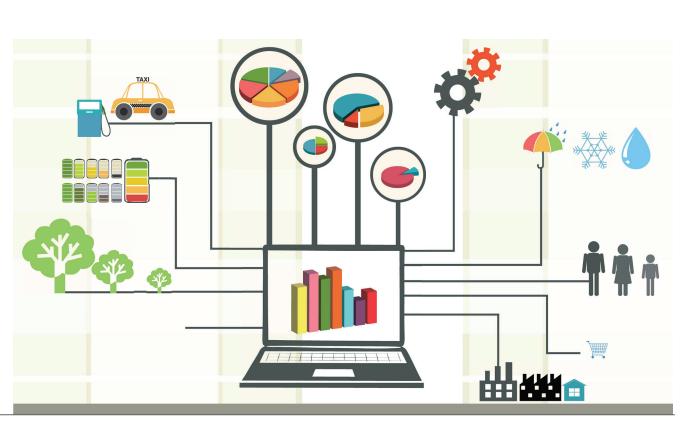
Evaluate Control Deficiencies

Significant deficiencies, Material Weaknesses

Remediation of control weaknesses

Internal Controls Memo (ICM) or Management Letter

Auditor's report



Risk Assessment and Internal Control

Data analytics for audit

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

Can be used in testing of electronic records and data residing in IT systems using specialised audit tools to perform:

- Check completeness of data used in Test of Controls or substantive audit tests
- Selection of audit samples
- Re-computation of balances
- Reperformance of mathematical calculations
- Analysis of journal entries
- · Fraud investigation
- Evaluating impact of control deficiencies



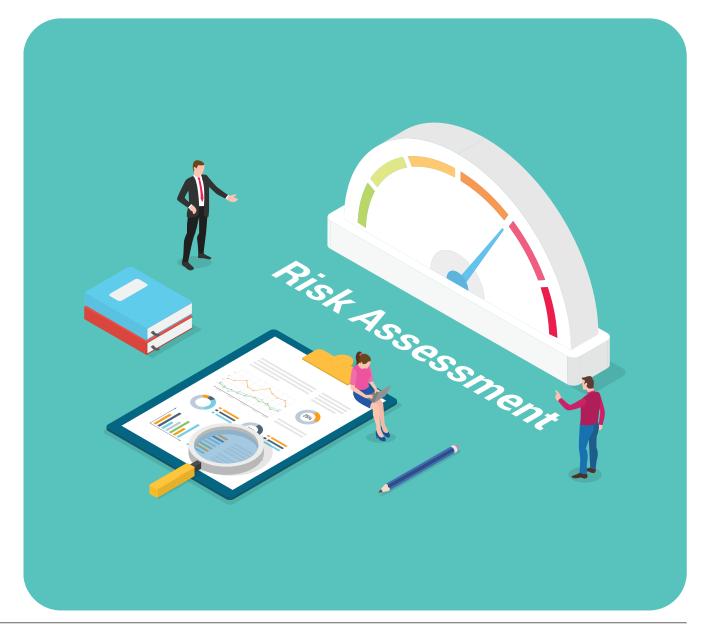
Documentation of the Risks includes

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



Substantive

analytical

procedures

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

Scope of SA & Objective of Auditor

Scope: This
SA deals with
the auditor's
responsibility
to design and
implement
responses to the
ROMM identified
and assessed
by the auditor in
accordance with
SA 315

Objective: To obtain sufficient appropriate audit evidence about the ROMM, through designing and implementing appropriate responses to those risks

Requirements of SA

The auditor shall design and implement overall responses to address the assessed ROMM at the financial statement level

The auditor shall design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed ROMM at the assertion level

In designing the

further audit procedures to be performed, the auditor shall: * Consider the reasons for the assessment given to the ROMM at the assertion level for each class of transactions, account balance, and disclosure. Obtain more persuasive audit evidence the

higher the auditor's

assessment of risk

Test of Controls

The auditor shall design and perform tests of controls when: (i)The Auditor

(I)The Auditor
expects that
the controls are
operating effectively.
(ii)Substantive
procedures
alone cannot
provide sufficient
appropriate audit
evidence at the
assertion level

The Auditor shall perform other audit procedures in combination with inquiry & determine whether the controls to be tested depend upon other controls

The auditor shall test controls for the particular time, or throughout the period, for which the auditor intends to rely on those controls

Auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls by establishing the continuing relevance of that evidence

The auditor shall evaluate whether misstatements that have been detected by substantive procedures indicate that controls are not operating effectively

When deviations from controls are detected, the auditor shall make specific inquiries to understand these matters and their potential consequences

Tests of Details

Classified into tests of transactions i.e., vouching and tests of balances i.e., verification

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

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

"analytical procedures" means evaluations of financial information through analysis of plausible relationships among both financial and nonfinancial data

Depending on the circumstances, the auditor may determine that:

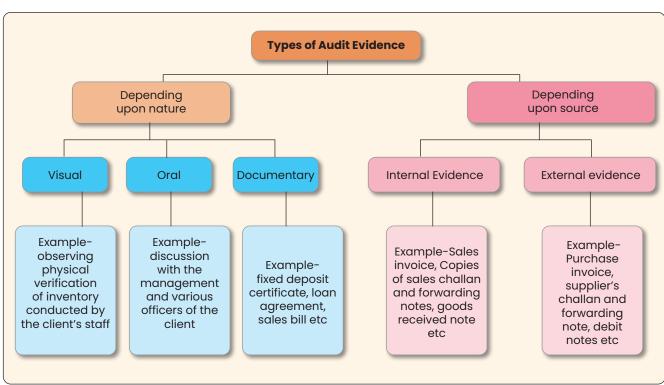
Performing only substantive analytical procedures will be sufficient to reduce audit risk to an acceptably low level

Only tests of details are appropriate

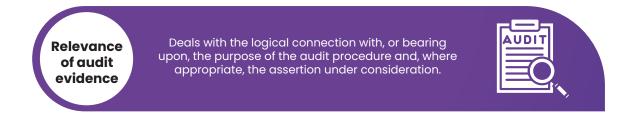
A combination of substantive analytical procedures and tests of details are most responsive to the assessed risks

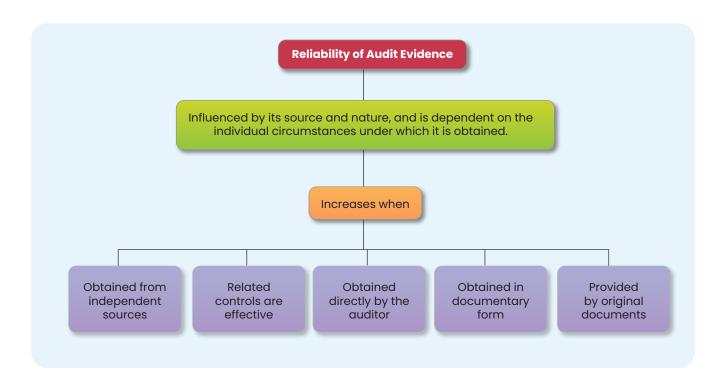
Chapter 4: Audit Evidence





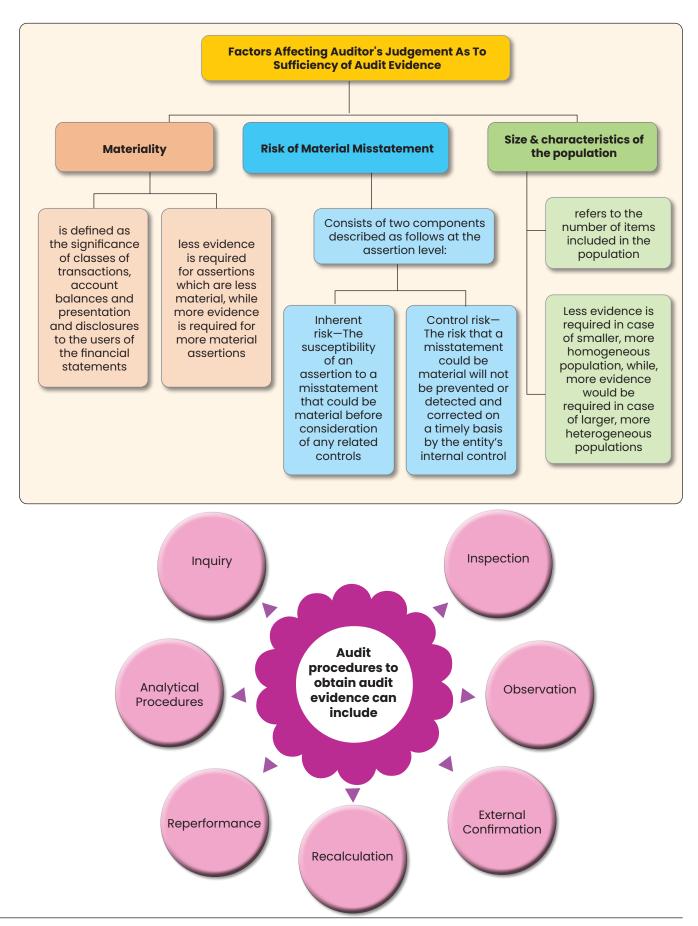
Relevance and Reliability of Audit Evidence



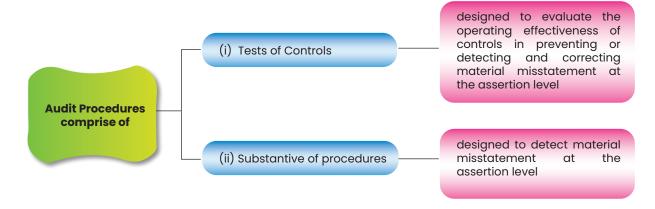


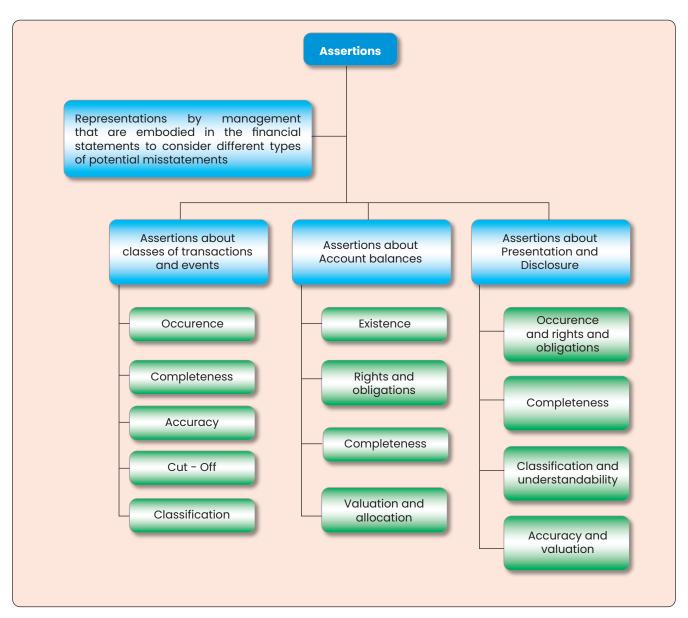
Sufficient Appropriate Audit Evidence (SAAE)





Audit Evidence SARANSH





Audit Trail

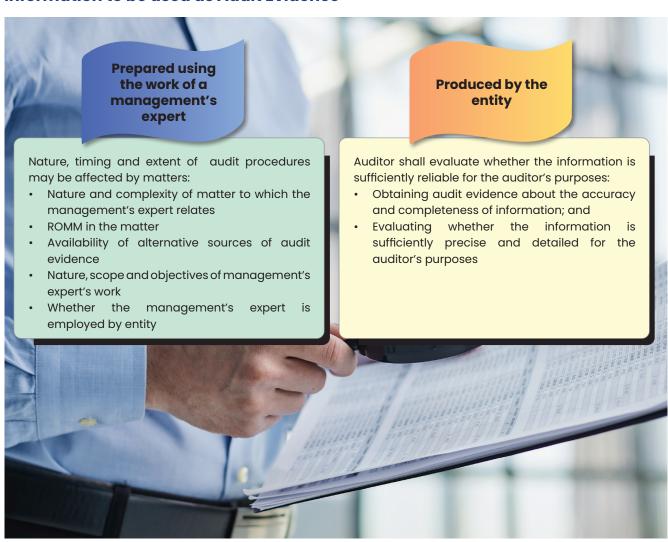
is a Documented flow of a transaction

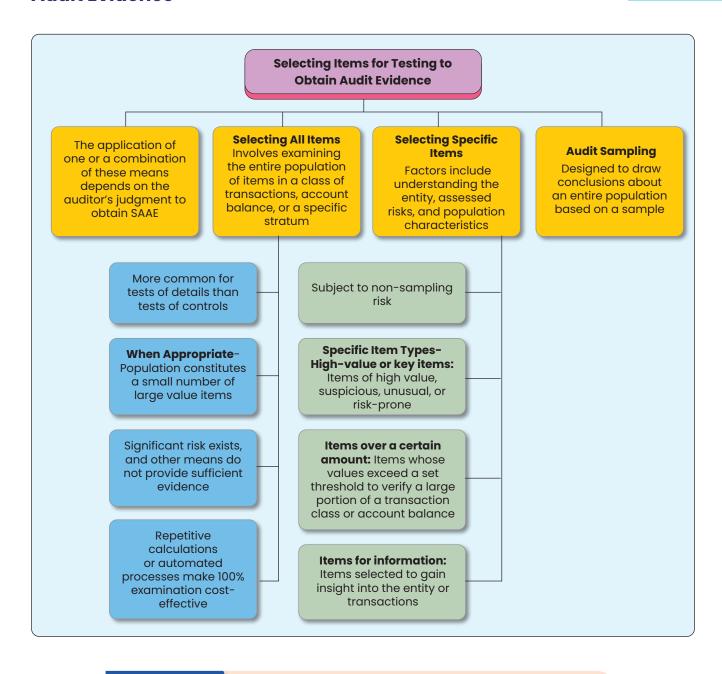
Used to investigate how a source document was translated into an account entry and from there it was inserted into financial statement of an entity

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





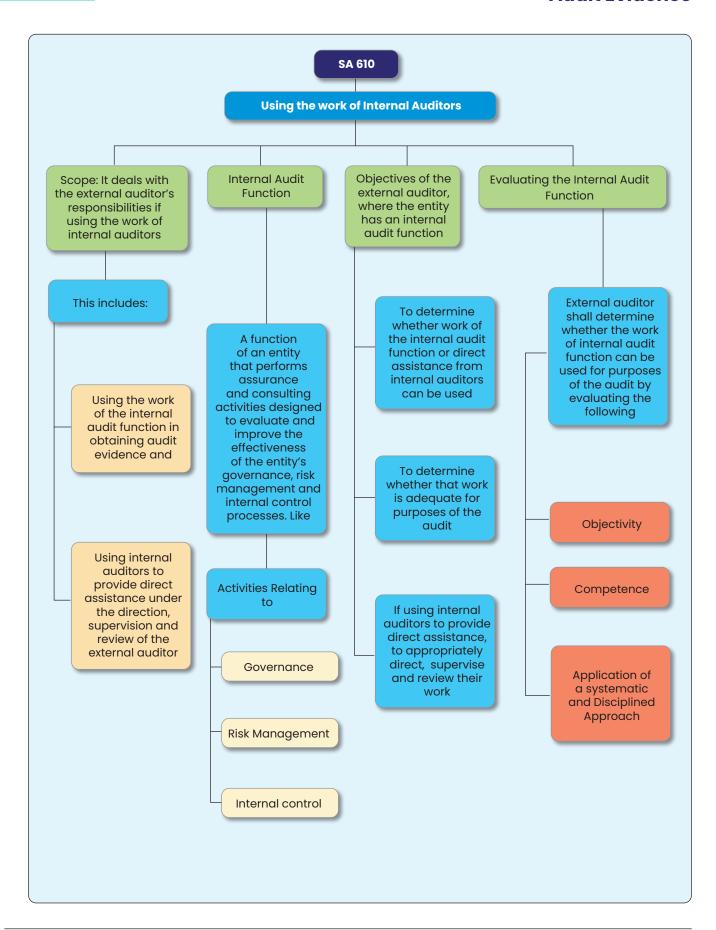
Relying on the work of a management's expert

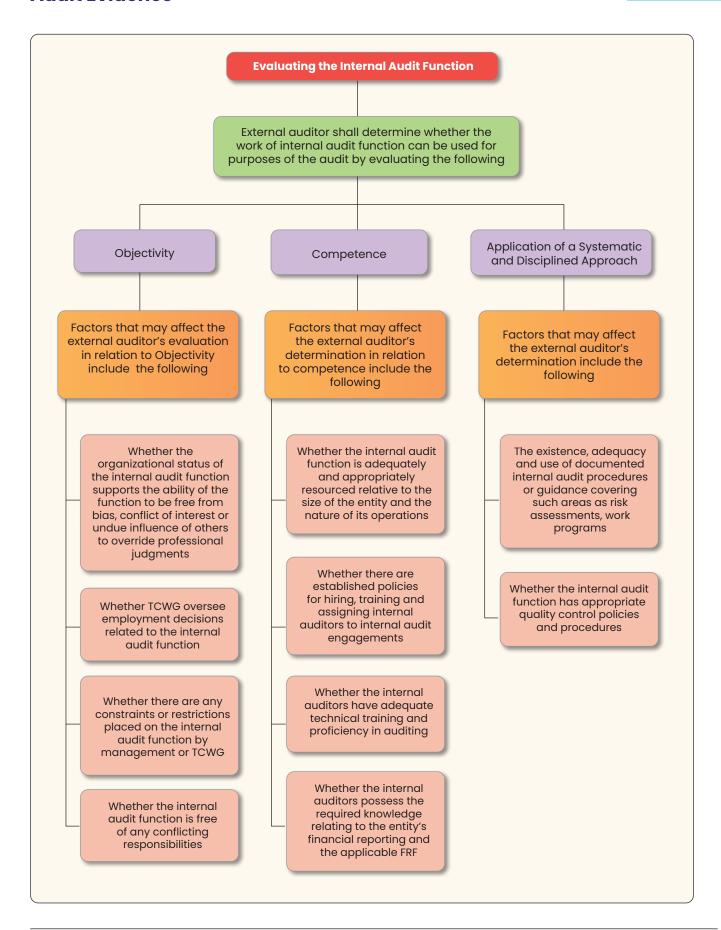
The Auditor shall

Evaluate the competence, capabilities and objectivity of that expert;

Obtain an understanding of the work of that expert; and

Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion





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Audit Evidence

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

External auditor shall

Using the Work of the Internal Audit Function

- 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

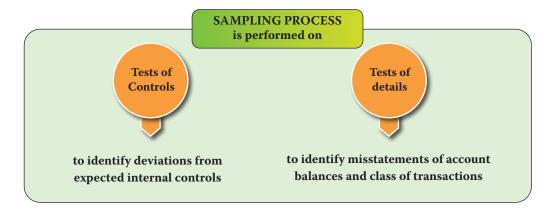
Audit Sampling (SA 530)

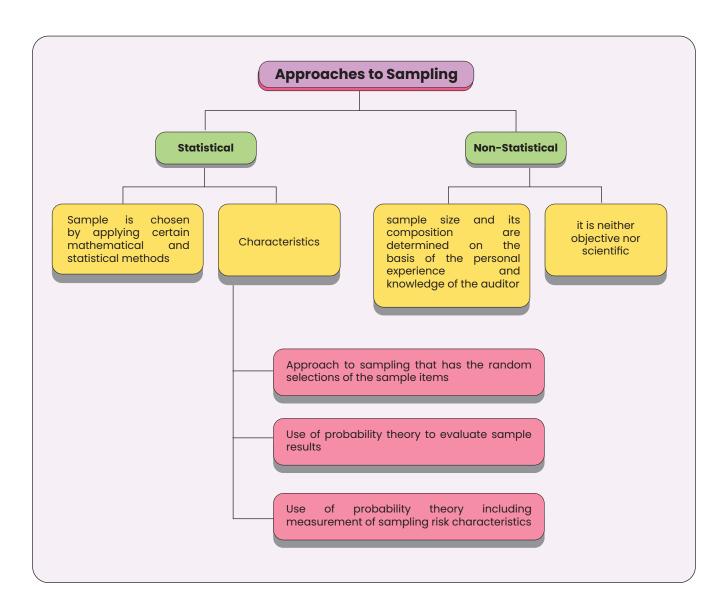
Scope of SA-530

- 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.

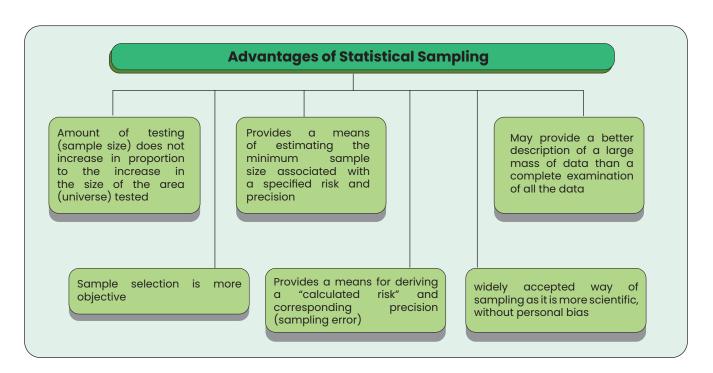
Population

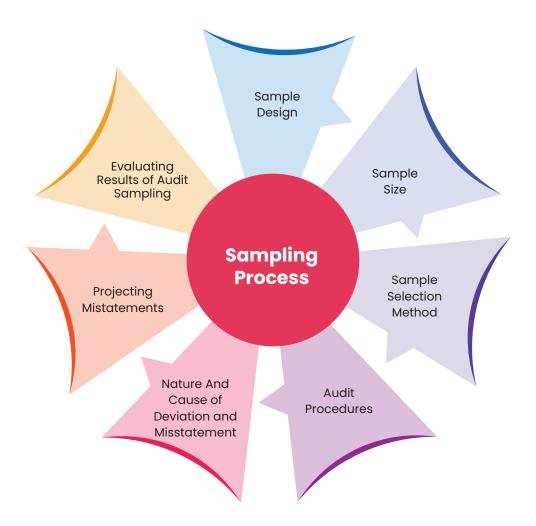
- Population refers to the entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.
- · Characteristics:
- Appropriateness
- ▶ Completeness
- ▶ Reliable











Sample Design

When designing an audit sample:

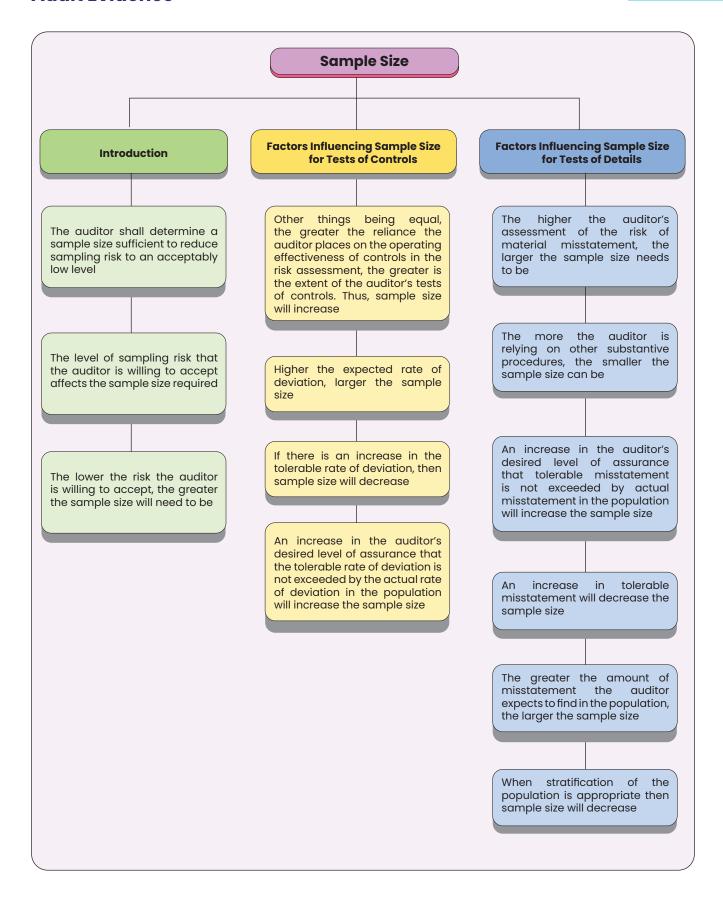
- Auditor's consideration includes the specific purpose to be achieved and the combination of audit procedures that is likely to best achieve that purpose
- Consideration of nature of the audit evidence sought and possible deviation or misstatement conditions

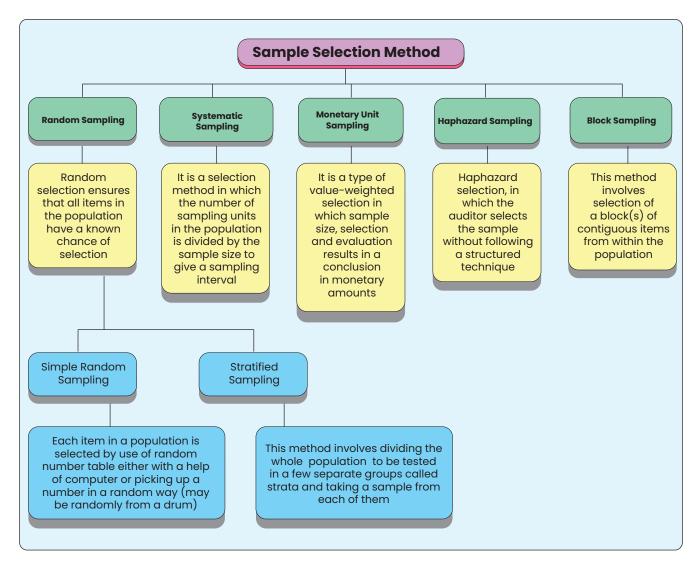
Stratification and Value-Weighted Selection

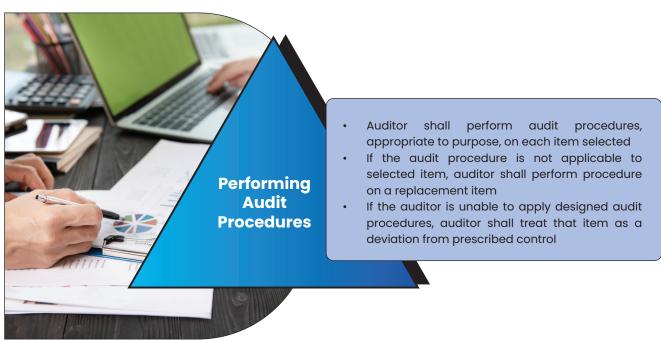
- Stratification: Dividing a population into discrete sub population which have identifying characteristics
- The results of audit procedures applied to a sample of items within a stratum can only be projected to the items that make up that stratum
- To draw a conclusion on entire population, the auditor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







Nature and Cause of Deviations and Misstatements Auditor shall investigate the nature and causes of any deviations or misstatements identified, and evaluate their possible When misstatement or deviation is considered as anomaly, auditor shall obtain a high degree of certainty that it is not representative of the population

The auditor shall obtain this degree of certainty by performing additional audit procedures to obtain SAAE that misstatement or deviation does not affect remainder of population



- For tests of details, the auditor shall project misstatements found in the sample to the population
- For tests of controls, no explicit projection of deviations is necessary since 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

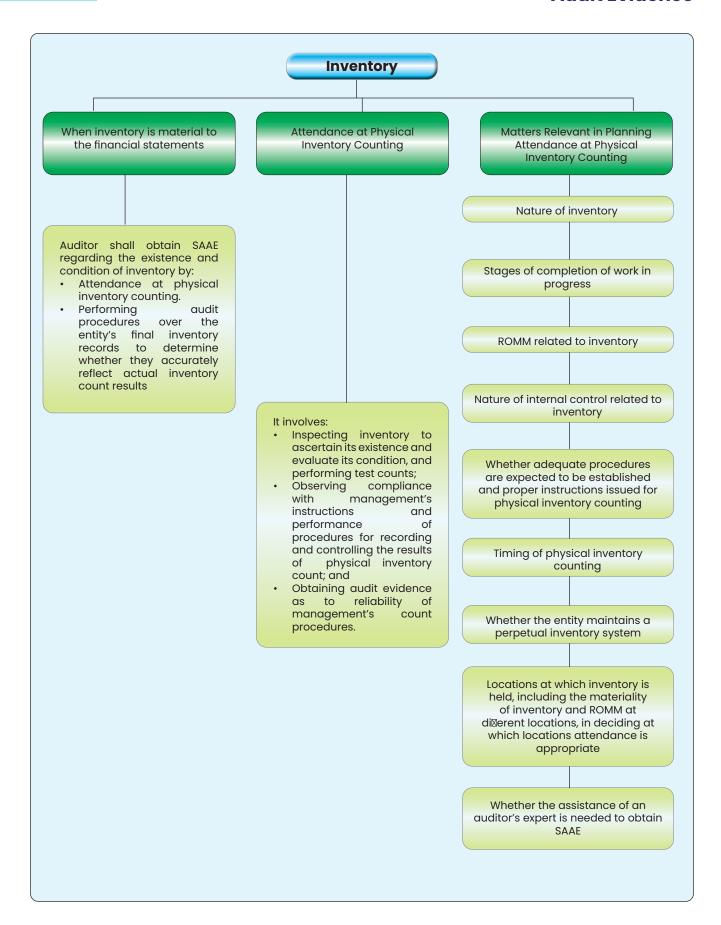
SA 501 deals with specific considerations by auditor in obtaining SAAE with respect to certain aspects of inventory, litigation and claims involving the entity, and segment information in an audit of financial statements

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

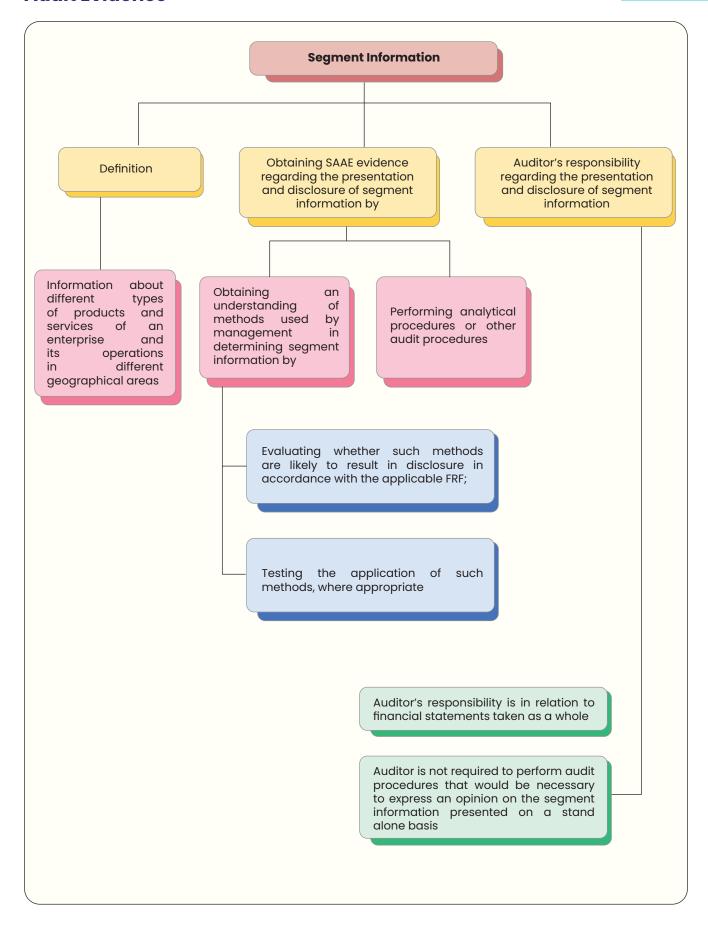


Cases where auditor also may judge it necessary to meet with the entity's external legal counsel

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

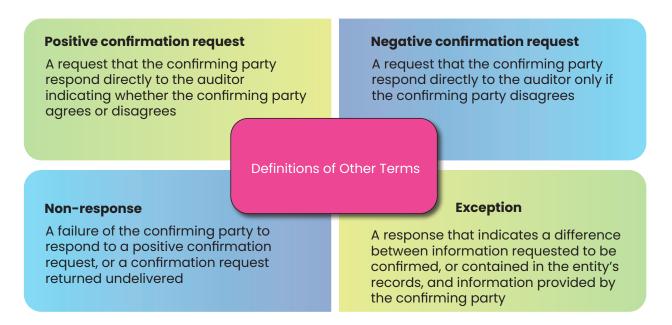


External Confirmations (SA 505)

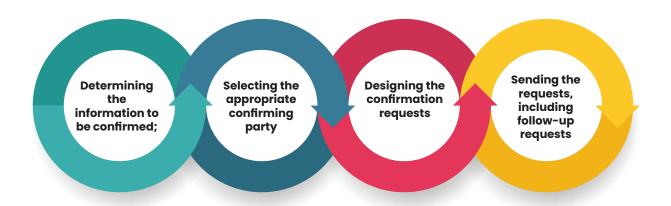
Definition of External Confirmation



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

Inquire as to
management's reasons
for the refusal and
seek audit evidence
as to their validity and
reasonableness

Evaluate the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement

Perform alternative audit procedures designed to obtain relevant and reliable audit evidence

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)

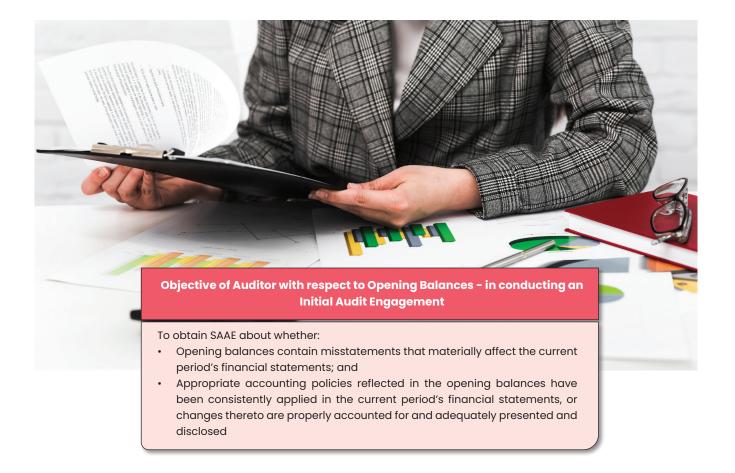
Initial audit engagement refers to an engagement in which either:

- Financial statements for the prior period were not audited; or
- Financial statements for the prior period were audited by a predecessor auditor

Definitions

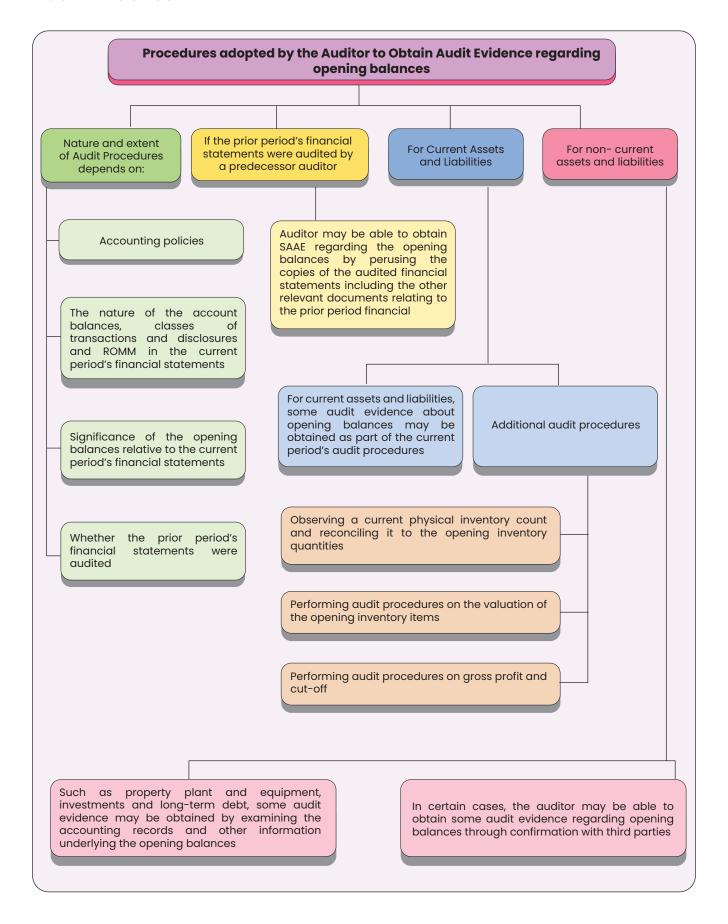
Opening balances means those account balances that exist at the beginning of the period

Predecessor auditor – The auditor from a different audit firm, who audited the financial statements of an entity in the prior period and who has been replaced by the current auditor



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



Consistency of Accounting Policies relating to opening balances If the auditor concludes that: Current period's accounting policies are not consistently applied; or Change in accounting policies is not properly accounted for or not adequately presented or disclosed, Auditor shall express a qualified opinion or an adverse opinion

Reporting by auditor with regard to opening balances

- If Auditor is unable to obtain SAAE regarding the opening balances, auditor shall express a qualified opinion or a disclaimer of opinion
- Auditor concludes that the opening balances contain a misstatement is not properly accounted for or not adequately presented or disclosed, auditor shall express a qualified opinion or an adverse opinion

Related Parties (SA 550)

Scope of this SA

This deals with the auditor's responsibilities regarding related party relationships and transactions when performing an audit of financial statements

Meaning of Control
and significant
influence in reference
to related party

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities

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

Meaning of Related
Parties with
Dominant Influence

Related parties may be in a position to exert dominant influence over the entity or its management, by virtue of their ability to exert control or significant influence

Meaning of Special-Purpose Entities as Related Parties

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

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Audit Evidence

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

Analytical Procedures means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data

Scope of SA 520

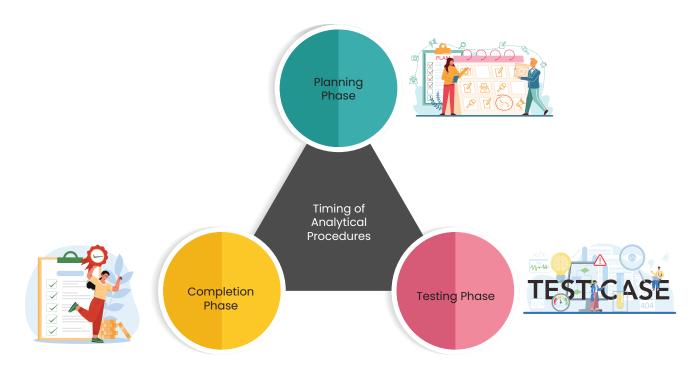
• This SA deals with the auditor's use of analytical procedures as substantive procedures and as procedures near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements

Objectives of the auditor

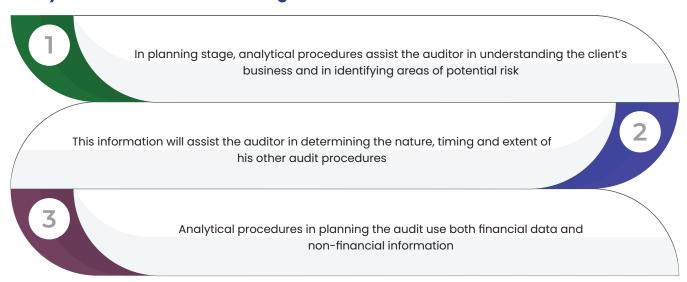
- To obtain relevant and reliable audit evidence when using substantive analytical procedures
- To design and perform analytical procedures near the end of the audit

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Audit Evidence



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

Audit Evidence

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

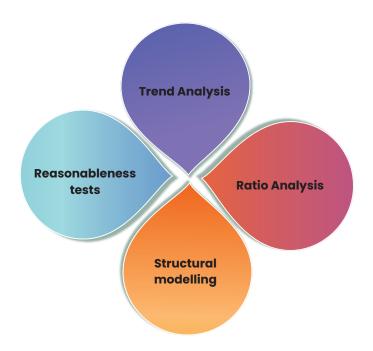
Substantive analytical procedures may be more effective in providing evidence for some assertions (e.g., completeness or valuation) than for others (e.g., rights and obligations)

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:

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

Ratio analysis:

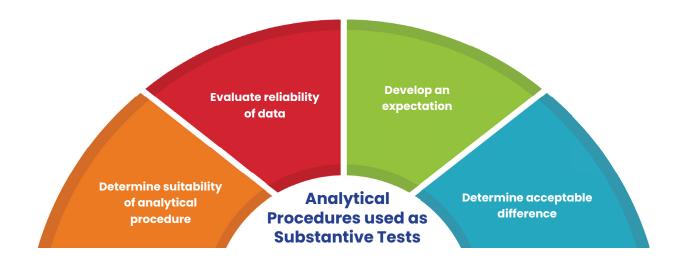
It analysis is useful for analysing asset and liability accounts as well as revenue and expense accounts

Reasonableness tests:

It does not rely on events of prior periods, but upon non-financial data for the audit period under consideration

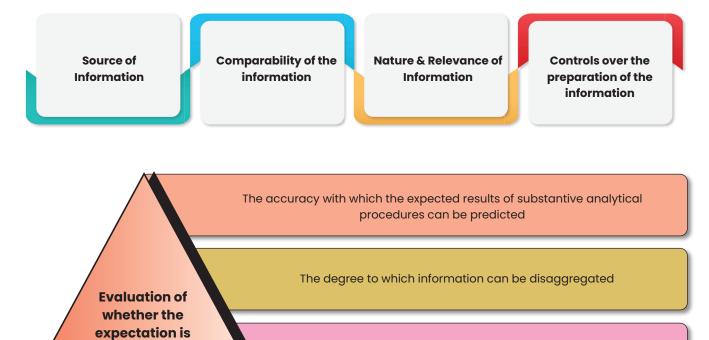
Structural modelling:

A modelling tool constructs a statistical model from financial and/or non-financial data of prior accounting periods to predict current account balances



The reliability of DATA is influenced by:

sufficiently precise



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

The availability of the information, both financial and non-financial

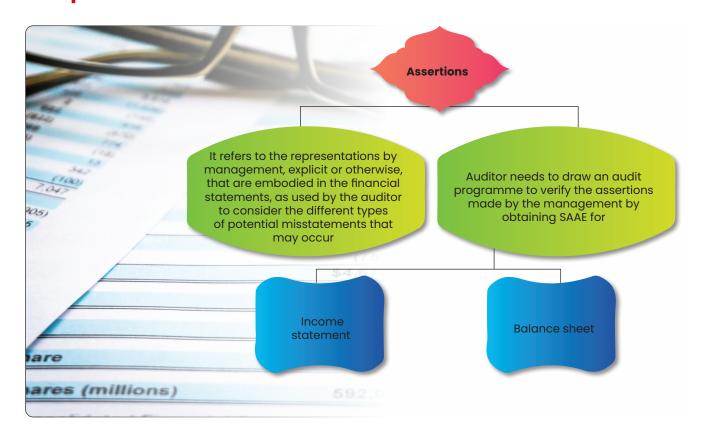
As the assessed risk increases, the amount of difference considered acceptable without investigation decreases in order to achieve the desired level of persuasive evidence.

Investigating results of Analytical Procedures

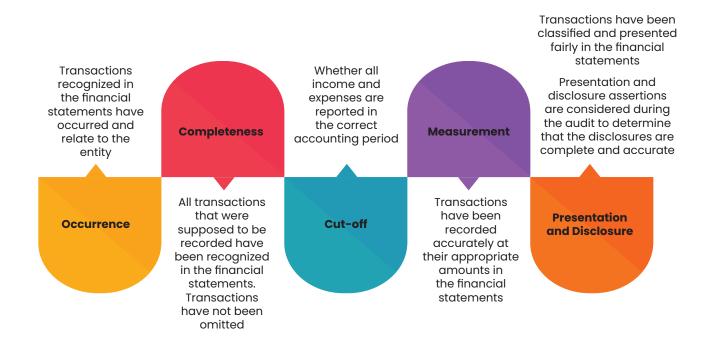
Inquiring of management and obtaining appropriate audit evidence relevant to management's responses

Performing other audit procedures as necessary in the circumstances

Chapter 5: Audit of Items of Financial Statements



Income Statement Captions Comprising Revenue and Expense Balances

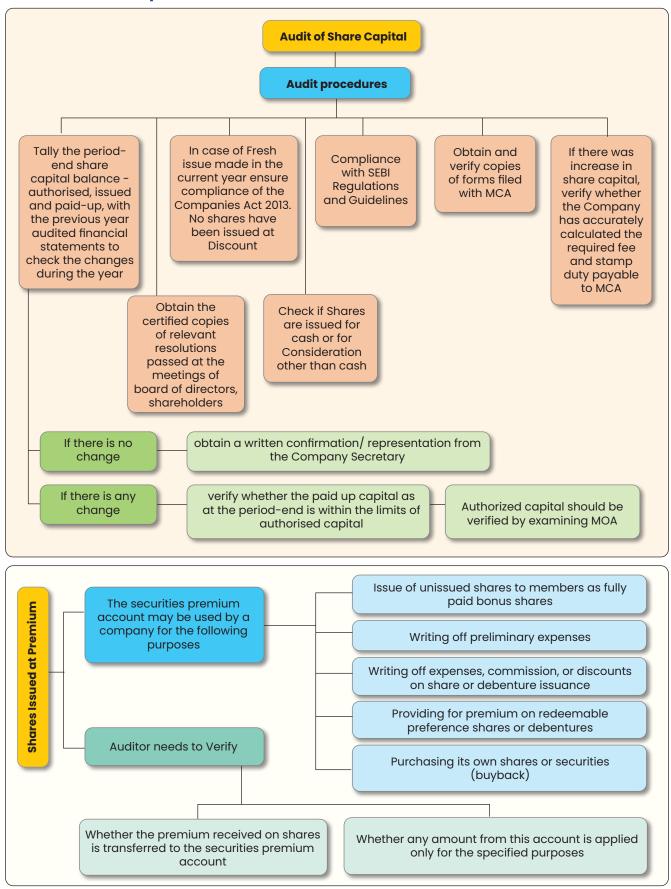


Balance Sheet Captions Comprising Assets, Liabilities and Equity Balances

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	Whether particular items in the financial statements are properly classified, described and disclosed The disclosures that are most susceptible to material misstatement are those that require significant judgement and qualitative assessments



Balance Sheet Captions



In case shares are issued at discount, the auditor should verify

Movement in share capital during the year and wherever there is any issue Company has not issued any of its shares at a discount by reading the minutes of meeting

Whether the company has issued shares at a discount to its creditors when its debt is converted into shares in pursuance of any statutory resolution plan or debt restructuring scheme in accordance with any guidelines or directions or regulations specified by the RBI

In case of issue of Sweat Equity Shares, the auditor needs to verify:

- The issue is authorized by a special resolution passed by the company
- The resolution specifies the number of shares, market price, consideration, and directors/employees
- where the equity shares of the company are listed on a recognised stock exchange, the sweat equity shares are issued in accordance with the Regulations made by the SEBI

Verify that meeting of shareholders held to pass the special resolution was properly convened and that the proposal was circularized in advance to all the shareholders

Verify that the Articles of Association authorises reduction of capital

Examine that there has been no default w.r.t repayment of deposits accepted by company or payment of interest on such deposits

Examine order of Tribunal confirming reduction and verify that a copy of order and minutes have been registered and filed with the ROC

Check the Registrar's Certificate as regards to reduction of capital

Vouch the accounting entries recorded to reduce the capital and to write down the assets by reference to the resolution of shareholders and other documentary evidence

Confirm whether the revaluation of assets has been properly disclosed in the Balance Sheet

The company may reduce the capital by reduction in unpaid capital or cancellation of lost capital or paying off excess paid up capital

Confirm that the words "and reduced", if required by the order of the Tribunal, have been added to the name of the company in the Balance Sheet

Check if the company have complied with all the terms and conditions imposed by the tribunal while confirming reduction of share capital

Verify that the Memorandum of Association of the company has been suitably altered

Exemption to Buy-Back According to Section 66 (6), nothing in this section shall apply to buy-back of its own securities by a company under Section 68 If the Company has made any buyback of securities, ensure compliance of specific requirements as given under section 68 of the Companies Act 2013



Reserves and Surplus

Audit Procedure for

Existence

Trace and tally the opening balance to the previous year audited FS

Completeness

Trace the movement to surplus/ deficit as per the Statement of profit and loss for the year under audit

Audit Procedure for Valuation

If dividends to holders of equity instruments are proposed or declared after the balance sheet date, an entity should not recognize those dividends as a liability as at the balance sheet date

Utilisation of securities premium account could be done only for limited purposes, Auditor needs to ensure the same. (Sec 52 of the Companies Act 2013)

Audit procedures for Disclosure

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



Borrowings

Agree details of loans recorded to the loan agreement

Roll out and obtain independent balance confirmations (SA 505) in respect of all the borrowings from the lender

Procedure for Existence

Examine trust deed, borrowing restrictions and compliance with covenants in case of Debentures

Ensure that a discharge is received on assets securing the debt if debt is retired

Obtain Written Representation that all the liabilities which have been recorded

Audit Procedure for Completeness

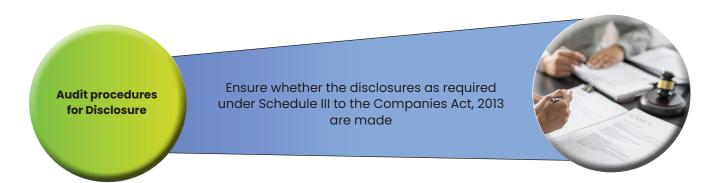
Obtain a schedule of short term and long term borrowings showing beginning and ending balances and borrowings taken and repaid during the year

Review subsequent transactions after the end of reporting period

represent a valid claim by the lenders

Apply direct confirmation procedures

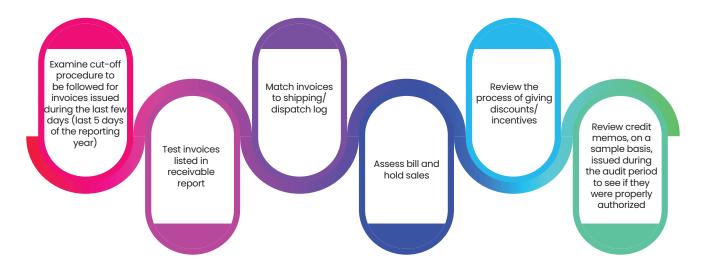
Determine that accounting policies and methods of recording debt are appropriate and applied consistently Agree loan balance and loan payables to the loan agreement Recompute the interest and discount or premium on redemption, if any Check computation of the amortization of premium or discount, if any 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 **Audit Procedure for Valuation** 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 Rreview 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



Trade Receivables



Audit Procedure for Completeness



RESERVE BANK OF INDIA

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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

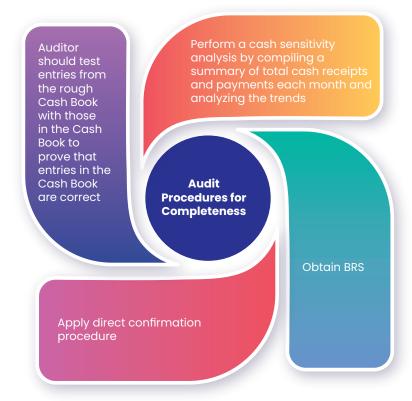
Cash and Cash Equivalents

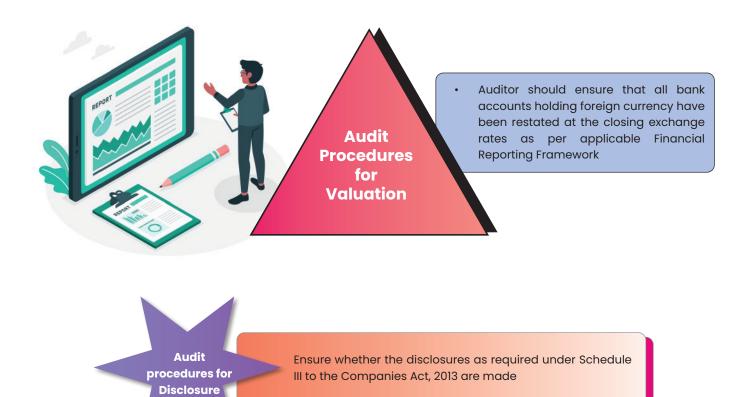
Audit Procedures for Existence

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

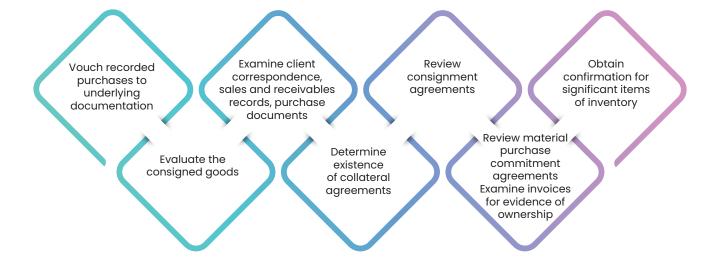
Audit procedures for Existence

- 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

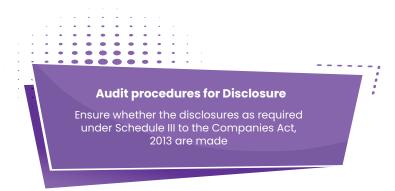


Audit procedures for Valuation

Management may value inventory using FIFO or weighted average basis

Raw materials & Work in progress Finished goods & Goods for Resale

- 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
- 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
- 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





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 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
Valuation

Verify entity has charged amortization on all intangible assets Verify that
amortization
method used
reflects pattern in
which asset's future
economic benefits
are expected to be
consumed by entity

Verify whether the management has done an impairment assessment

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



Audit Procedures for Disclosure

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

Trade Payables and Other Current Liabilities

Check controls in place to ensure invoice does not get recorded more than once

Audit Procedures for Existence



Obtain the accounts payable ageing report and trace its balances to the general ledger

Apply Direct confirmation procedure

Trade creditors to confirm the balances either as at the date of balance sheet, or as at any other selected date which is reasonably close to the date of the balance sheet

Audit Procedures for Completeness

Test check purchases/ expenses on a sample basis selecting same from accounts payable ledgers

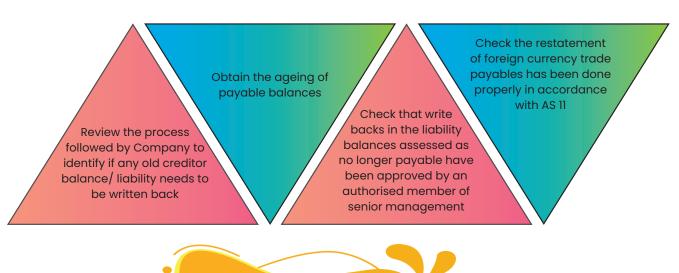
Match purchase invoice dates to the gate entry (inward) dates

Review subsequent expense vouchers

For advance received, obtain the customer wise listing along with its ageing and the nature

In relation to statutory dues liability, prepare a reasonability with respect to sales/ purchases/ employee benefit expenses

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

Obtain a list of all advances & other current assets and compare them with balances in the ledger

Verify loan agreements and acknowledgements of parties in respect of outstanding loans

Check if loan or an advance are material, is granted only if authorised by the Memorandum and Article of Association

Confirm that the loans advanced were within the competence of persons who had advanced the same

Obtain statutory returns filed with the authorities like GST returns and verify whether the amount recorded as per books of account tallies with the claim made with the authorities

Review whether related party loans and advances were properly authorized and the value are at ALP

Prepare a reasonability with respect to purchases/ expenses by applying the applicable rate to the purchases/ expenses for balances with statutory authorities like GST input credit

Inspect the minutes of board of directors meeting

Audit Procedures for Valuation

Assess the allowance for doubtful accounts

Scrutinize the analysis and identify those loans and advances that appear doubtful

Check that write-offs or other reductions in the recoverable balances have been approved by the authorised authority

Obtain the ageing report of loans and advances

Assess bad loans/ advances write-offs

Check that the restatement of foreign currency loans and advances/ other current assets as per AS 11

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Audit Procedures for Completeness

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

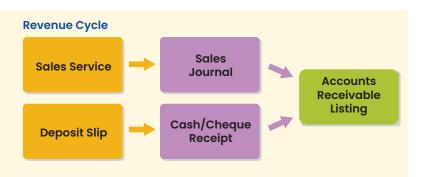
Audit Procedures for Disclosure

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

As part of the year-end audit of an entity's financial statements, auditors test sales transactions and the internal controls over those transactions to ensure that the entity is not materially misstating its revenues or accounts receivable



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

To obtain an understanding of the management control (internal control) in respect of sales process

To tests the controls the entity has set up for the sales cycle to determine how strong and reliable they are for deciding extent of substantive testing To select a random sample of transactions and examines the related customer purchase orders, invoices and customer statements to ensure that the control being tested is a numbered sales invoice

To perform substantive audit procedures consisting of sales trend analysis, comparison with previous accounting period, category-wise sales analysis, building a sales expectation and comparing that with the client's sales records, etc

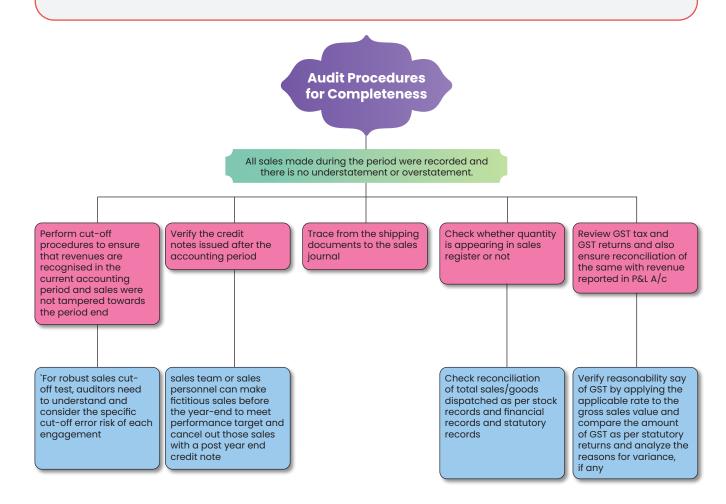
Any deficiencies in the internal control shall be communicated as per SA 265 This will enable the auditor to determine the nature, timing and extent of his substantive procedures to be applied

Audit Procedures for Occurence

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



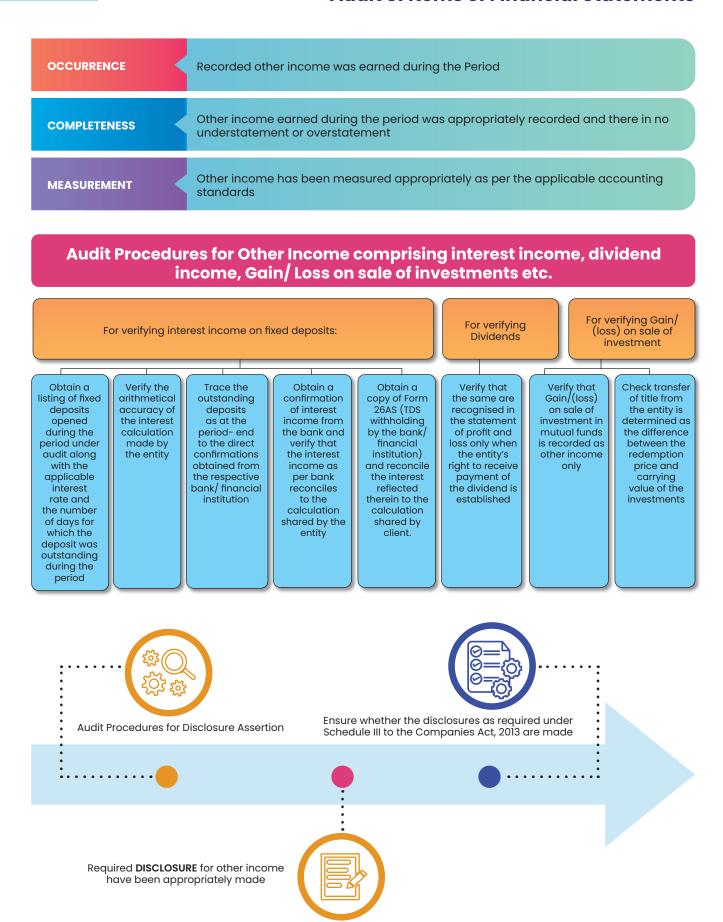
Gain/(loss) on sale of investment in mutual funds is recorded as other income on transfer of title from the entity and is determined as the difference between the redemption price and carrying value of the

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



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

obtain a clear understanding about the organisation and its production centres

identify the control points over purchases

controls the entity has set up for the ourchase cycle to determine whether they are effective or not. If the controls are effective, the auditor can reduce the extent of substantive testing

selects a random sample of transactions and examines the related purchase orders, GRN, purchase invoices, inward gate entry register and vendor reconciliation/statements

perform substantive analytical procedure including purchase trend analysis, comparison with previous accounting period, category wise purchases, etc

set a purchase expectation in relation to the sales made during the period under audit and compare that with the client's purchase records

know the purchase prices of the products or services over the year, monthly average purchase price per product or service etc

Audit Procedures for Occurence: 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

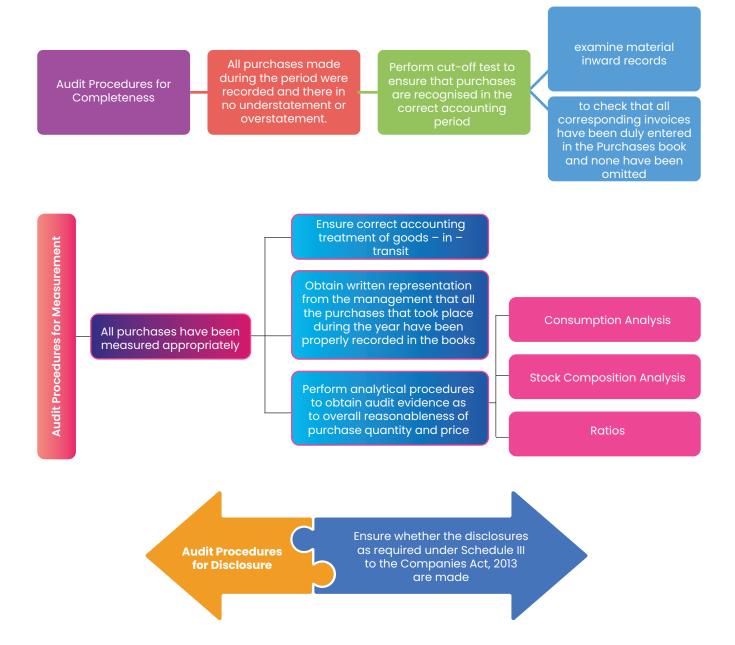
Purchase invoice should have been booked only once risk and reward incidental to ownership has been transferred to the entity

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



Employee Benefits Expenses



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:

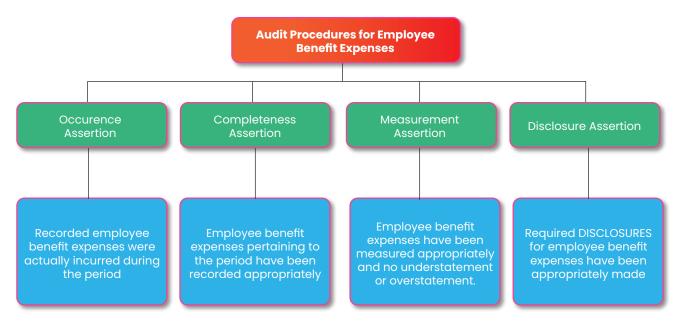
To tests the controls the entity has set around employee benefit payment process to determine how effective they are. If they are effective, the auditor can reduce the substantive testing.

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.





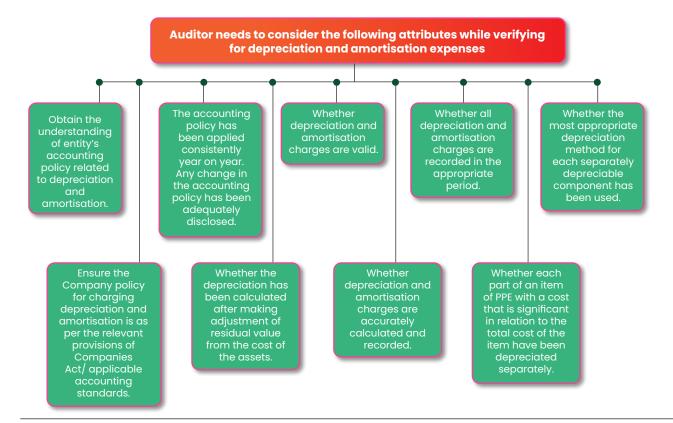
Obtain an understanding of entity's process of capturing employee attendance whether all their dues including post-retirement benefits like To address the risk that an entity could record gratuity, leave encashment expense for fictitious employees, auditor may have been paid choose to meet the employees in person, on a sample basis whether the respective employee's acknowledgement Select a sample of employees and ask the payroll on final computation has been department to share their bank details/identity obtained. proofs of the employees. Obtain a list of employees as at the period- end along with a monthly movement split between Compile a monthly payroll new hires, leavers and continuing employees. reasonability by calculating the average salary per employee per month and For a sample (selected randomly) of new hires, **Audit Procedures** obtain the appointment letter and verify whether compare with the previous year the salary for first month and subsequent months and preceding month and was processed as per the agreed terms. analyse the reasons for Obtain full and final computation of resigned variance which could be attributable to annual employees on sample basis, and verify increments, an employee at senior level joining/leaving the entity, bonus pay-out etc. Obtain the monthly salary registers for all 12 months by applying the rate to the basic wages and comparing to the amount recorded in Verify if accrual/provision has been made for all employee benefits and obligations like bonus, books and analyse reasons for variance, if any gratuity, leave encashment, etc. obtain monthly deposit challans to verify if the Compile a reasonability if PF & ESI are applicable month on month liability was subsequently deposited with to the entity the authorities and within the defined timelines. Perform analytical procedures to obtain audit Aanalyse units produced per evidence as to overall reasonableness of employee and compare the employee benefit expenses which may include same with previous years and present industry trends and production per employee analysis. ask for the reasons from the management, if any significant variations are found.

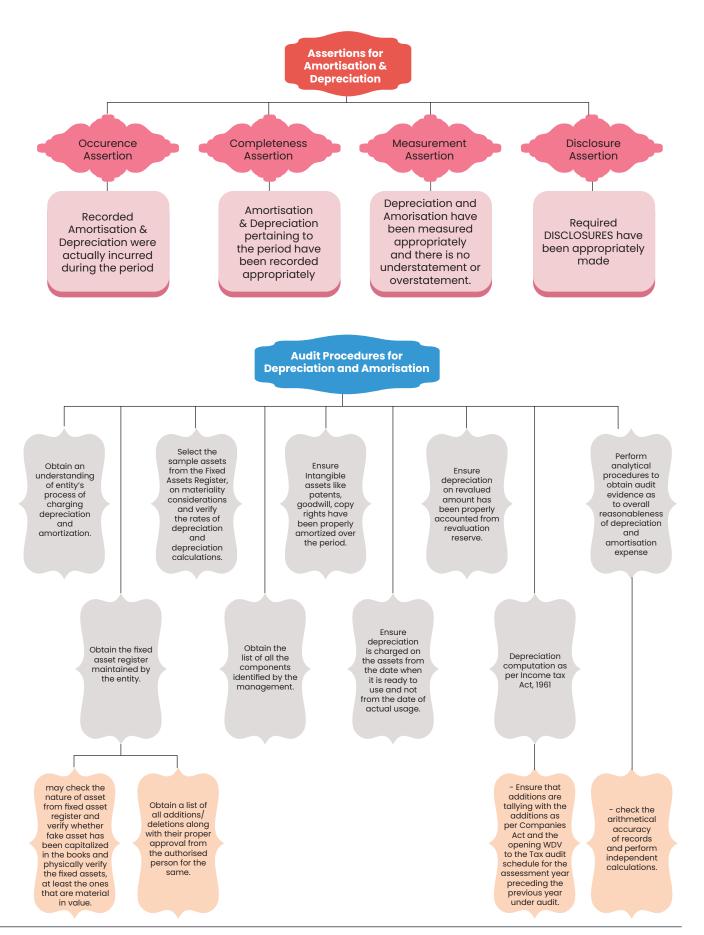


Depreciation and Amortisation



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:

Whether the expenditure had Whether the a valid supporting Whether the expenditure documents like expenditure was pertained to travel tickets, authorised as per current period the delegation of insurance policy, under audit third party invoice authority matrix etc. Whether the Whether the expenditure Whether the expenditure was in relation expenditure has qualified as a to the entity's been classified revenue and business and under the correct not capital not a personal expense head expenditure; expenditure

Audit of Items of Financial Statements

Audit Procedures for Occurence, Completeness & Measurement

Rent expense

Power and fuel expense

Insurance expense

Legal and professional expenses

Travel, repair and maintenance, printing and stationery, miscellaneous expenses

Obtain a month wise expense schedule along with the rent agreements

Verify if expense has been recorded for all 12 months

Specific consideration should be given to escalation clause in the agreement to verify if the rent was required to be recorded on a straight-line basis during the period under audit

Verify if the agreement is in the name of the entity and whether the expense pertains to premises used for running business operations of the entity

Obtain a month wise expense schedule along with the power bills

Verify if expense has been recorded for all 12 months.

Compile a month wise summary of power units consumed and the applicable rate and Check the arithmetical accuracy of the bill raised on monthly basis

Analyse the monthly power units consumed by linking it to units of finished goods produced and investigate reasons for variance in monthly trends Obtain a summary of insurance policies taken along with their validity period

Verify whether the expense has been correctly classified between prepaid and expense for the period based on number of days

Obtain a month-wise and consultant-wise summary

Verify whether the expenditure for all 12 months has been recorded correctly for monthly retainership agreements

Select a sample and vouch nonrecurring expenses

Be cautious while vouching for legal expenses as the same may highlight a dispute for which the entity may not have made any provision and the matter may also not have been discussed/highlighted to the auditor for his specific consideration.

Prepare a summary of expenditure on monthly basis and then analytically compare the trends

> Perform analytical procedures to obtain audit evidence

Analyse expense per unit produced and compare the same with previous years and present industry trends

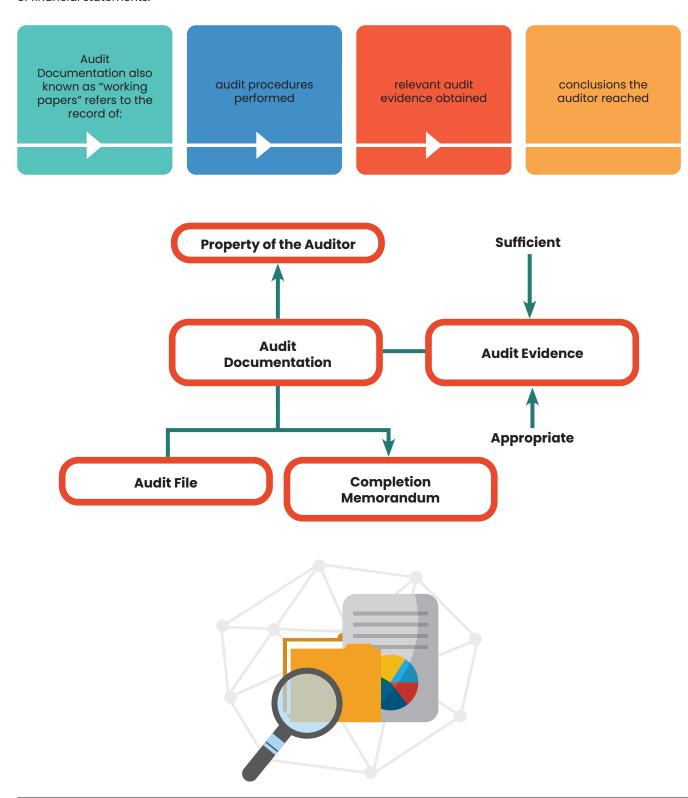
Ensure other expense have been classified under:

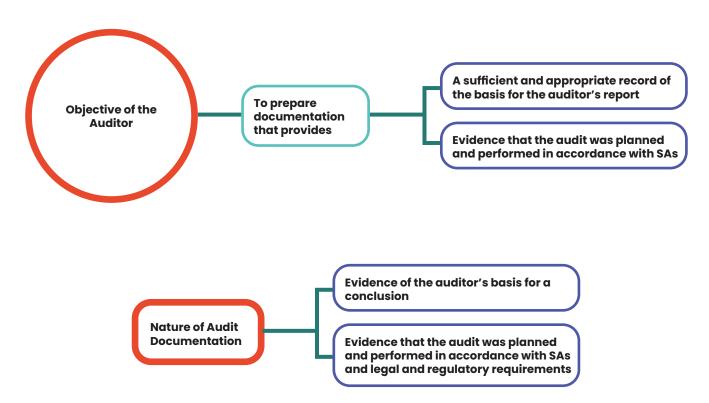
Audit Procedures for Disclosure

- Rent.
- Insurance.
- Power and fuel.
- Repairs and maintenance-Building, Plant and machinery, others.
- Legal and professional.
- Printing and stationary.
- · Travel expenses.
- Miscellaneous expenses.

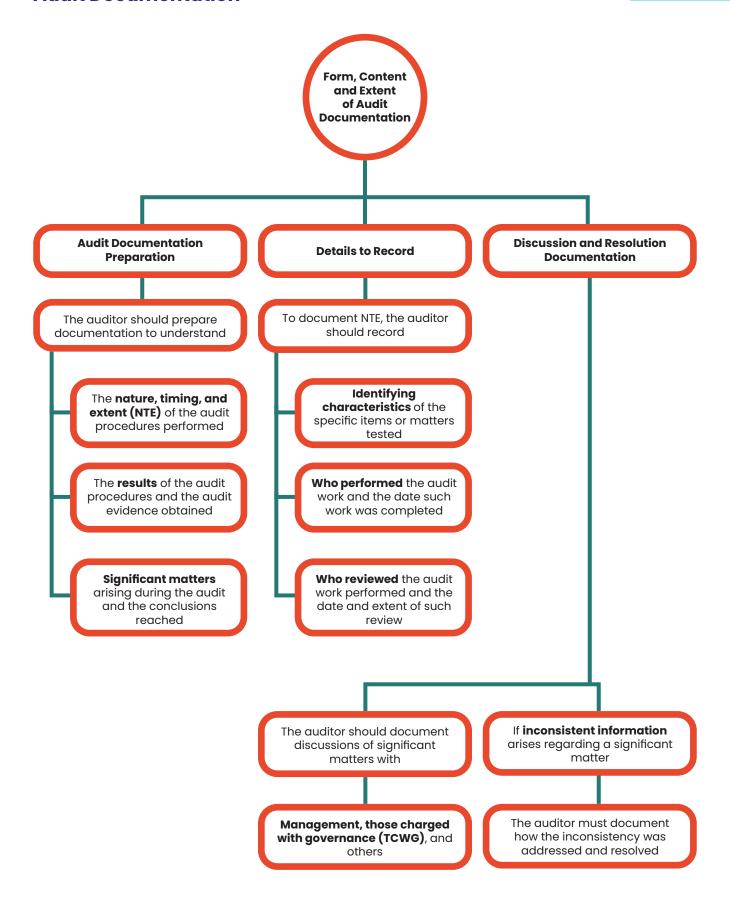
Chapter 6: Audit Documentation

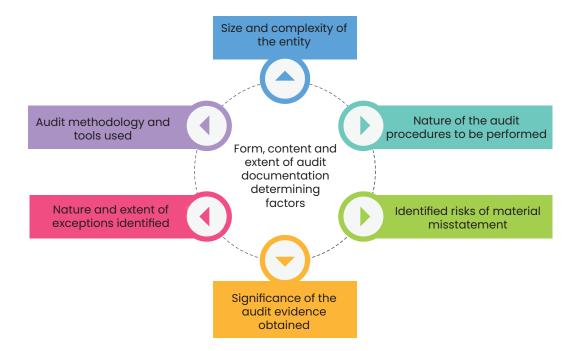
SA 230 on "Audit Documentation", deals with the auditor's responsibility to prepare audit documentation for an audit of financial statements.









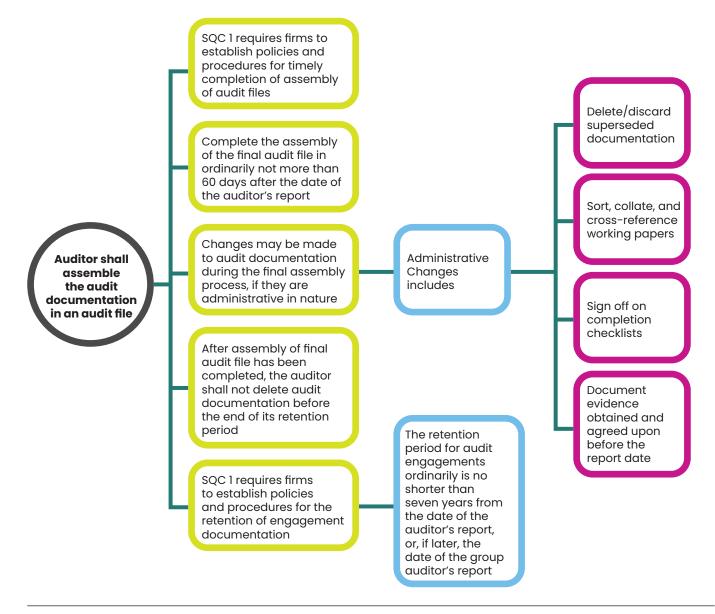






Audit File

- 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

Auditor may consider it helpful to prepare and retain as part of the audit documentation a summary that describes

- Significant matters identified during the audit and
- How they were addressed

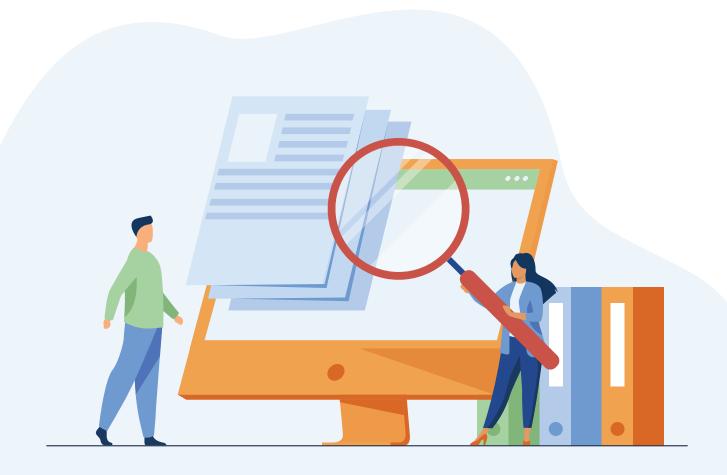




Ownership of Audit Documentation

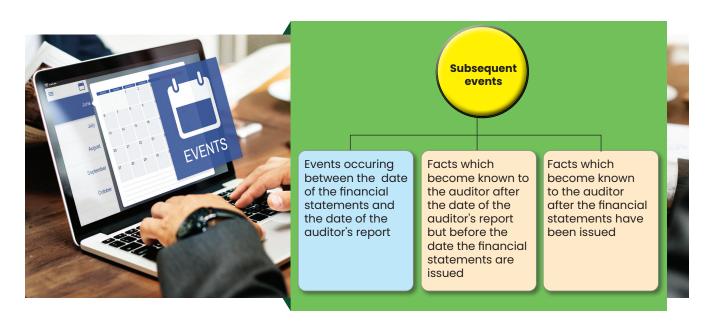
Standard on Quality Control (SQC) 1 provides that audit documentation is the property of the auditor

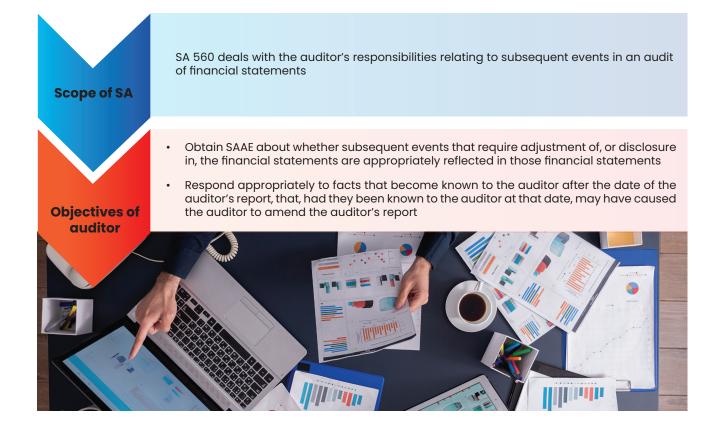
He may make portions of, or extracts from, audit documentation available to clients subject to some conditions



Chapter 7: Completion and Review

SA 560 "Subsequent Events"





Audit procedures relating to events occurring between the date of the financial statements and the date of the auditor's report



Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified



Inquiring of management and, where appropriate, TCWG as to whether any subsequent events have occurred which might affect the financial statements



Reading minutes of meetings, of the entity's owners, management and TCWG, that have been held after the date of the financial statements and inquiring about matters discussed at such meetings for which minutes are not yet available



Reading the entity's latest subsequent interim financial statements

Facts which become known to the auditor after the date of the auditor's report but before the date the financial statements are 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 management amends the financial statements, the auditor shall:

Extend the audit procedures referred to the date of the new auditor's report and

Provide a new auditor's report on the amended financial statements

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"

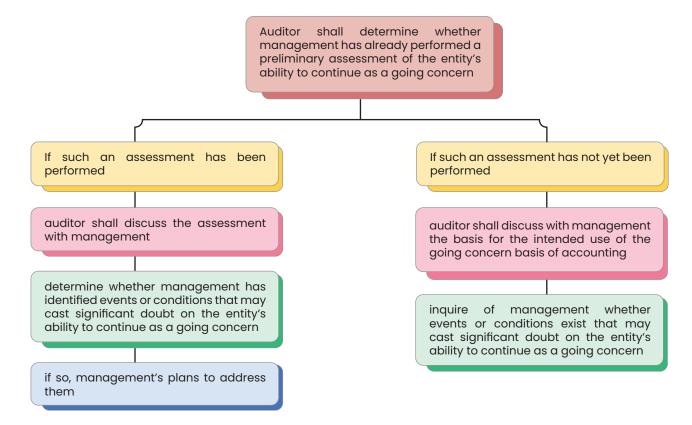
SCOPE OF SA

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

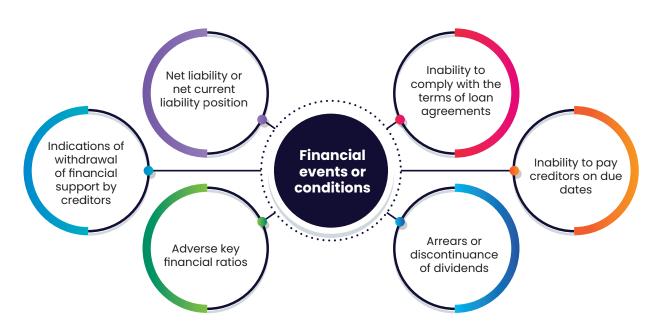
OBJECTIVES OF AUDITOR

- 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

Analysing and discussing cash flow, profit and other relevant forecasts with management

Reading the terms of debentures and loan agreements and determining whether any have been breached

Evaluating the entity's plans to deal with unfilled customer orders

Obtaining and reviewing reports of regulatory actions

Analysing and discussing the entity's latest available interim financial statements

Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties

Confirming the existence, terms and adequacy of borrowing facilities

Determining the adequacy of support for any planned disposals of assets

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

Adequacy of disclosures when events or conditions have been identified and a material uncertainty exists

Adequately disclose the principal events or conditions that may cast significant doubt on entity's ability to continue as a going concern and management's plans to deal with these events or conditions

Adequacy of disclosures when events or conditions have been identified but no material uncertainty exists

Auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework (FRF), the financial statements provide adequate disclosures about these events or conditions

Implications for the Auditor's Report

If use of Going concern basis of accounting is inappropriate

If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion

If use of going concern basis of accounting is appropriate but a material uncertainty exists

Adequate Disclosure of a Material Uncertainty is made in the Financial Statements

- Auditor shall express an unmodified opinion
 - Adequate Disclosure of a Material Uncertainty is Not Made in the Financial Statements
- Express a qualified opinion or adverse opinion

Management unwilling to make or extend its assessment

Qualified opinion or a disclaimer of opinion in the auditor's report may be appropriate

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.

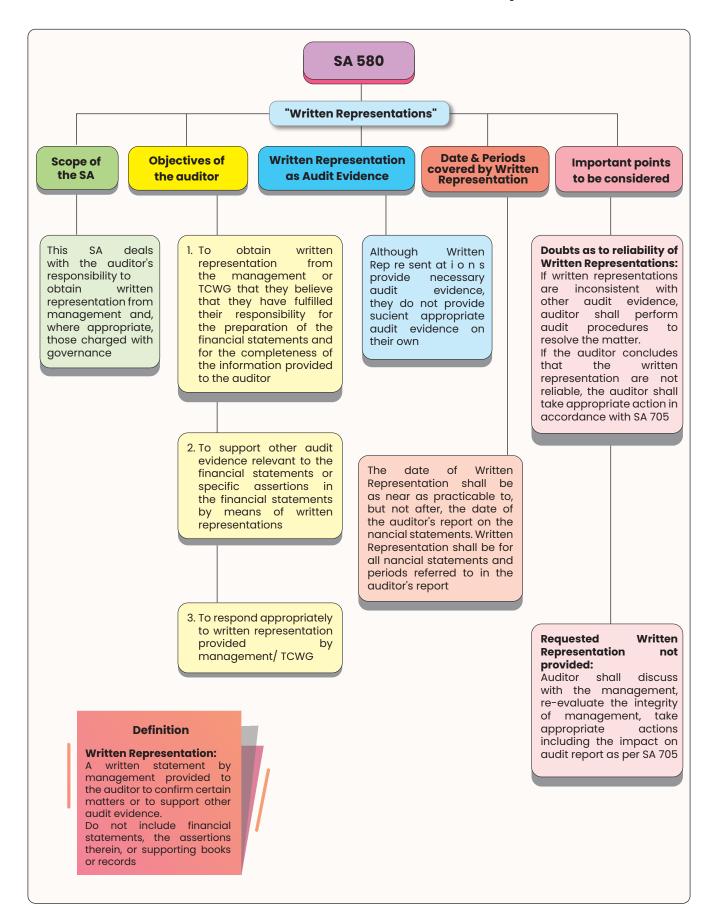
The auditor's communication shall identify material uncorrected misstatements individually and request to correct them

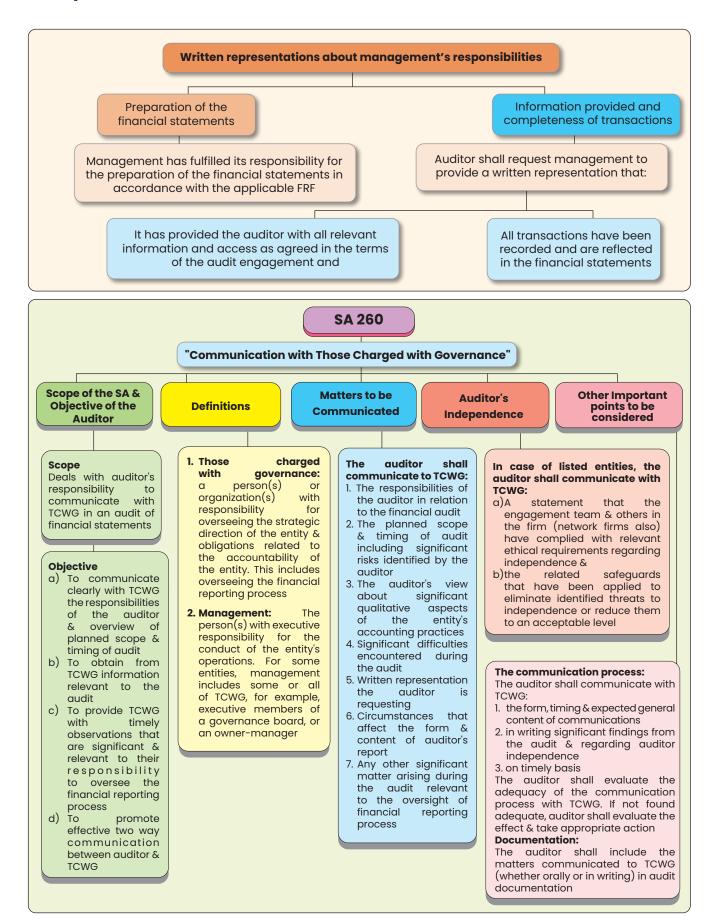
Written Representation from management regarding effects of uncorrected statements

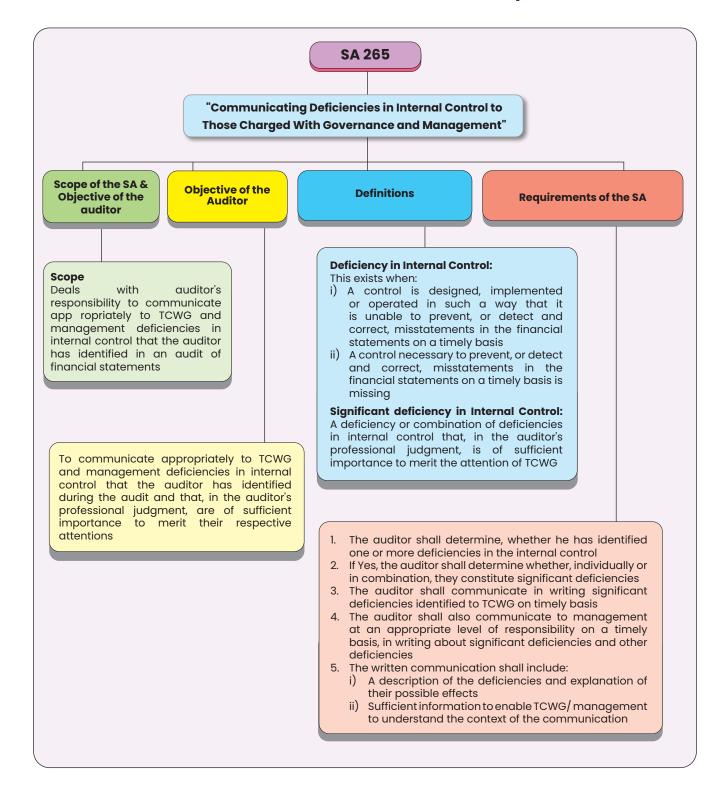
Auditor shall request a written representation from management and, where appropriate, TCWG whether they believe the effects of uncorrected misstatements are immaterial to the financial statements as a whole. A summary of such items shall be included in or attached to the written representation

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

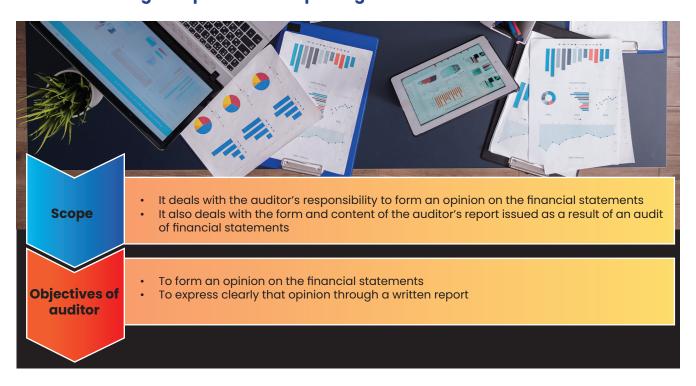


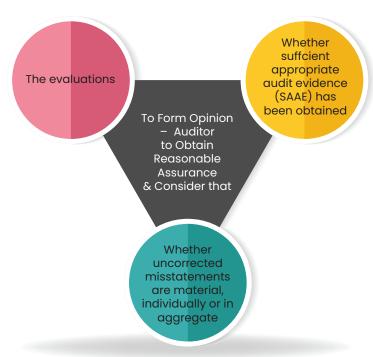




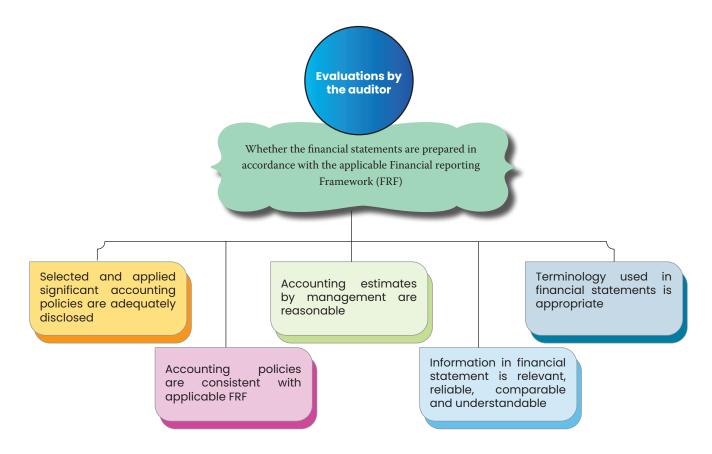
Chapter 8: Audit Report

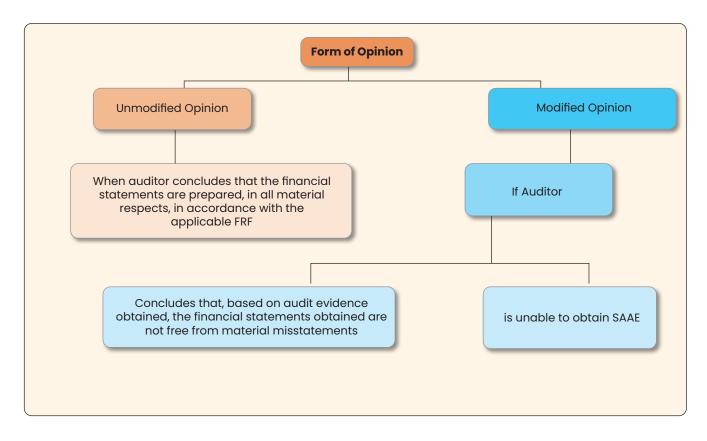
SA 700 "Forming an Opinion and Reporting on Financial Statements"





SARANSH Audit Report





Audit Report

Auditor's Report

Title

Auditor's report shall have a title that clearly indicates that it is the report of an independent auditor

Addressee

Auditor's report shall be addressed, as appropriate based on circumstances of the engagement

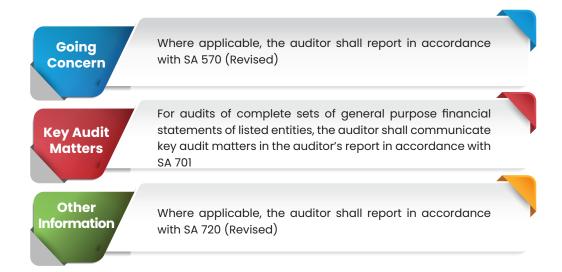


Auditor's Opinion

- Identify the entity whose financial statements have been audited
- State that the financial statements have been audited
- Identify the title of each statement comprising the financial statements
- Refer to the notes, including the summary of significant accounting policies
- Specify the date of, or period covered by, each financial statement comprising the financial statements

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



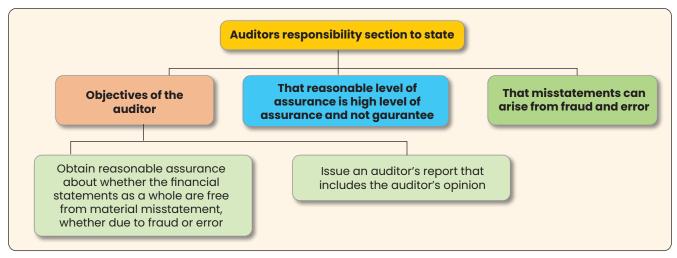
Responsibilities For The Financial Statements

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

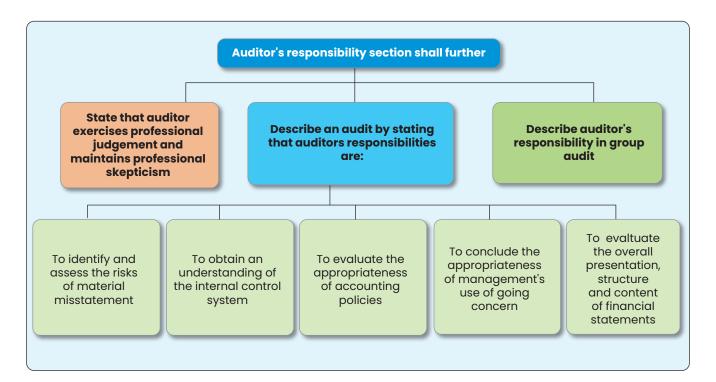
Preparing the financial statements in accordance with the applicable FRF, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

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



Audit Report



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

Within the body of the auditor's report

Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix or

By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or national auditing standards expressly permit the auditor to do so

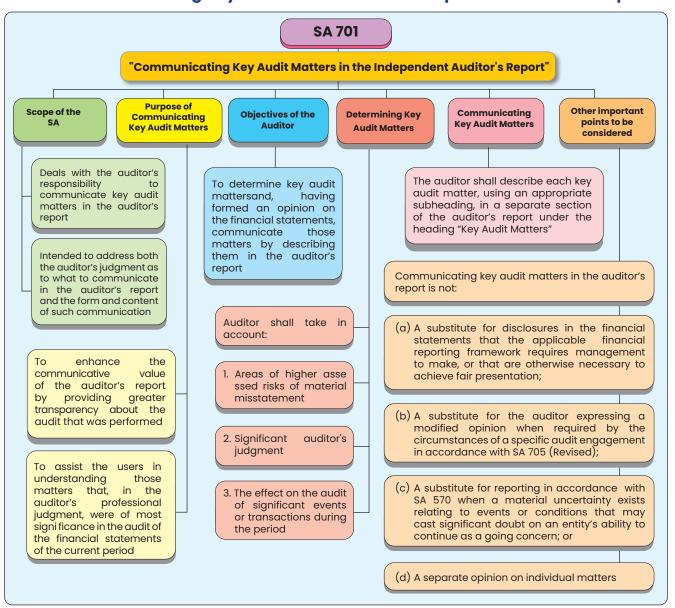
Other Reporting Responsibilities:

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



Signature of the Date of the Auditor's **Place of Signature Auditor** Report Auditor's report shall be dated no earlier than the The auditor's report date on which the auditor shall name specific The audit report is signed has obtained sufficient location, which is by the auditor (i.e. the appropriate audit ordinarily the city engagement partner) in evidence on which to base where the audit report his personal name the auditor's opinion on is signed the financial statements

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



SA 705 "Modifications to the Opinion in the Independent Auditor's Report"



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

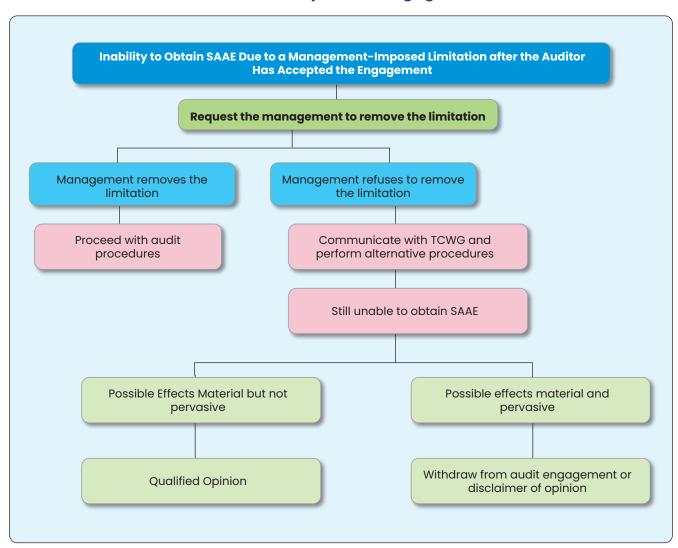


Disclaimer of Opinion

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

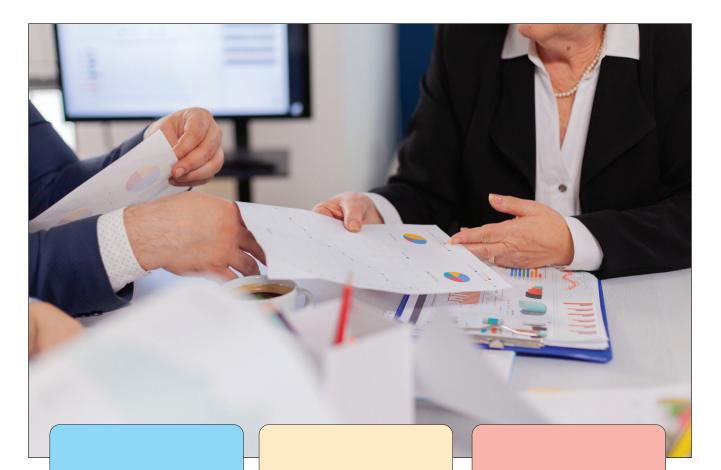
Which type of opinion is appropriate?	Nature of Matter Giving Rise to the Modification?	Auditor's Judgement about the Pervasiveness of the Effects or Possible Effects on the Financial Statements	
		Material but not Pervasive	Material and Pervasive
	Financial statements are materially misstated	Qualified 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

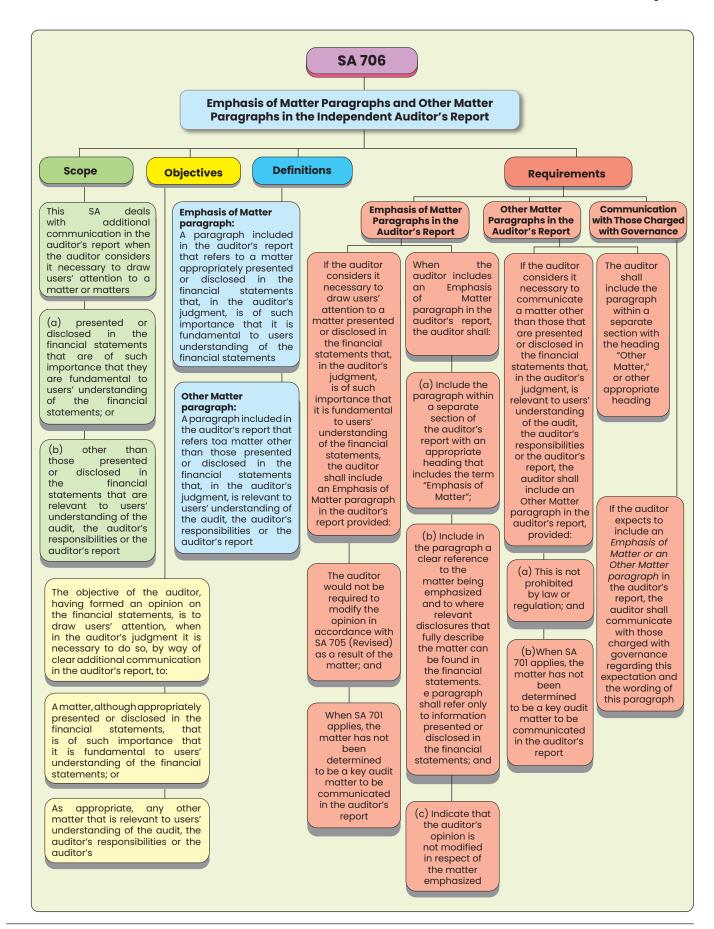


Audit Report

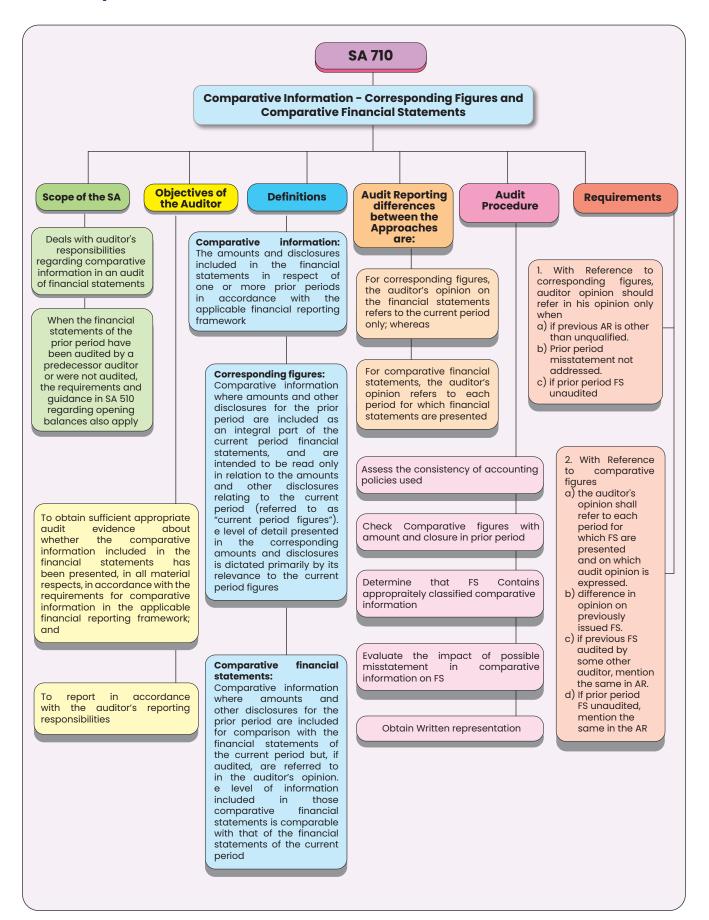
Description of Auditor's Responsibilities for the Audit of the Financial Statements When the Auditor Disclaims an Opinion on the Financial Statements



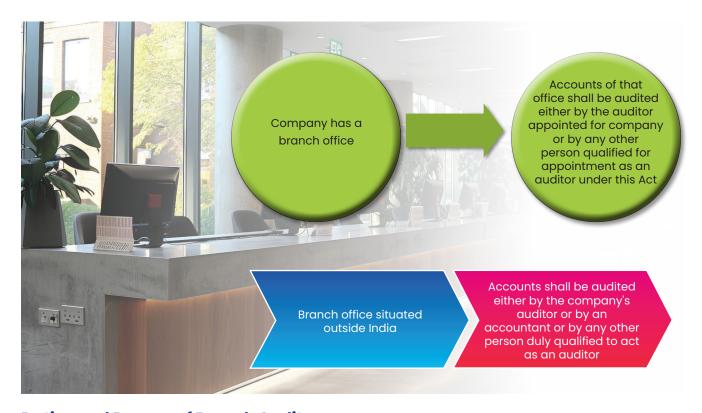
Statement that auditor's responsibility is to conduct an audit in accordance with SA and to issue an auditor's report Statement that, auditor was not able to obtain SAAE to provide a basis for an audit opinion on the financial statements Statement about auditor independence and other ethical responsibilities required by SA 700 (Revised)



Audit Report



Audit of Branch Office Accounts



Duties and Powers of Branch Auditor

Branch auditor shall prepare a report on the accounts of the branch examined by him

Branch auditor shall submit his report to company's auditor and reporting of fraud by auditor shall also extend to such branch auditor to the extent it relates to concerned branch

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

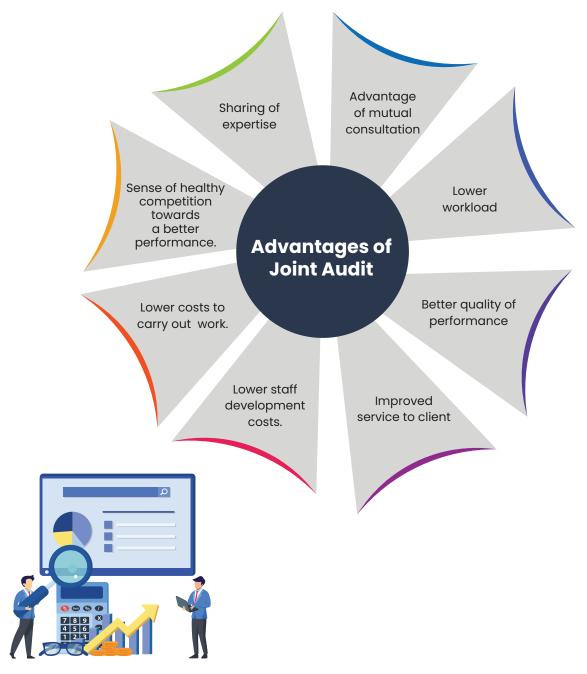
Advise the other auditor of the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them

Audit Report

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"

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

Audit Report

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)

Reporting requirements under the Companies Act, 2013

Reporting on any other matter specified by Central Government

Reporting on frauds

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)]

Whether he has sought and obtained all information and explanations which to the best of his knowledge and belief

Whether the company's balance sheet and profit and loss account dealt with in the report are in agreement with books of account and returns

whether, in his opinion, financial statements comply with the accounting standards Observations or comments of auditors on financial transactions or matters which have any adverse effect on functioning of the company

Whether any director is disqualified from being appointed as a director under subsection (2) of the section 164 Any qualification, reservation or adverse remark relating to maintenance of accounts and other matters connected therewith

whether the company has adequate internal financial controls (IFC) with reference to financial statements in place and the operating effectiveness of such controls

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 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

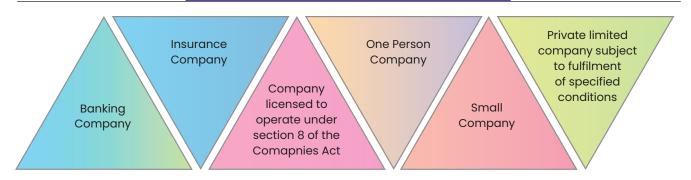
In case of a fraud involving lesser than ₹1 crore, auditor shall report the matter to audit committee constituted under section 177 or to Board in other cases within such time and in such manner as prescribed

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



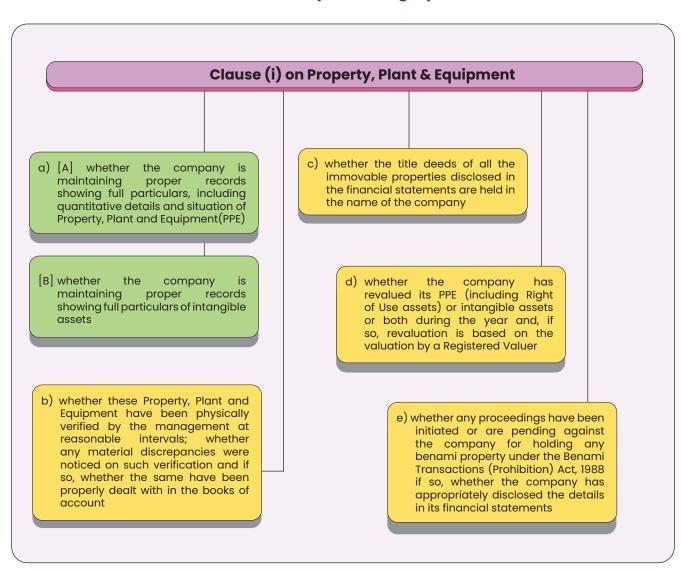
- Apply to every company including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013, except:
 - Banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949
 - Insurance company as defined under the Insurance Act,1938
 - company licensed 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

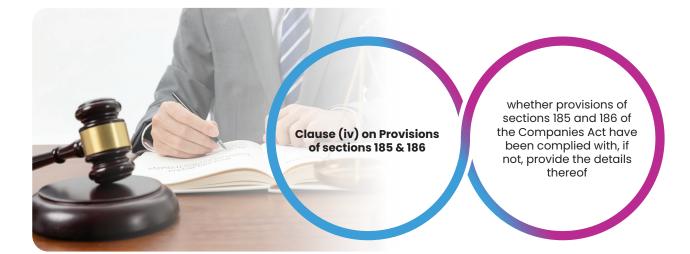
a) Whether physical verification of inventory has been conducted at reasonable intervals. Whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt

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 subclause (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)

Audit Report



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

a) whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default to be reported

b) whether the company is a declared wilful defaulter by any bank or financial institution or other lender; c) whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported;

d) whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated; whether the company has taken any funds from any entity or person on account of or to meet the obligations of its subsidiaries, associates or joint ventures, if so, details thereof with nature of such transactions and the amount in each case;

f) whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies, if so, give details thereof and also report if the company has defaulted in repayment of such loans raised

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

a) Whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated b) whether any report under sub-section (12) of section 143 of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government

c) whether the auditor has considered whistle-blower complaints, if any, received during the year by the company

Clause (xii) on Nidhi Company

(a) whether the Nidhi
Company has complied
with the Net Owned Funds to
Deposits in the ratio of 1:20
to meet out the liability

(b) whether the Nidhi
Company is maintaining ten
per cent. unencumbered
term deposits as specified in
the Nidhi Rules, 2014 to meet
out the liability

(c) whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof

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

- 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

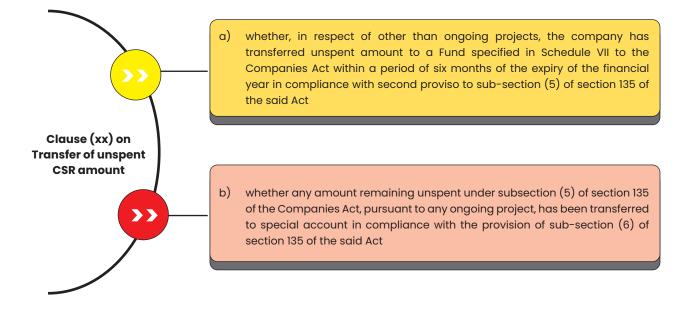
whether the company has incurred cash losses in the financial year and in the immediately preceding financial year, if so, state the amount of cash losses

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.



Audit Report

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

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

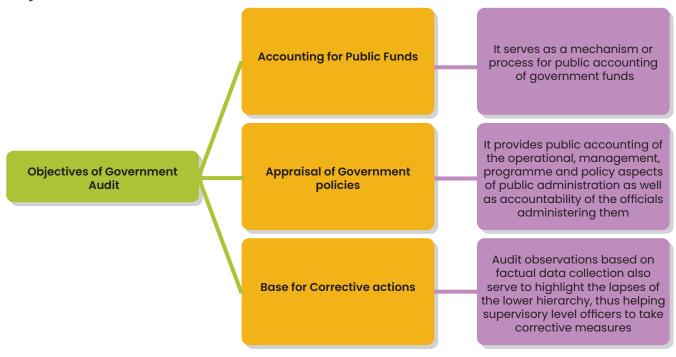
Check the various receipts of the organisation in the form of fees, rent, income on investment, donations and grants

Check the various expenditures of the organization like Salary, Rent, General Expenses etc. Verification of assets and liabilities



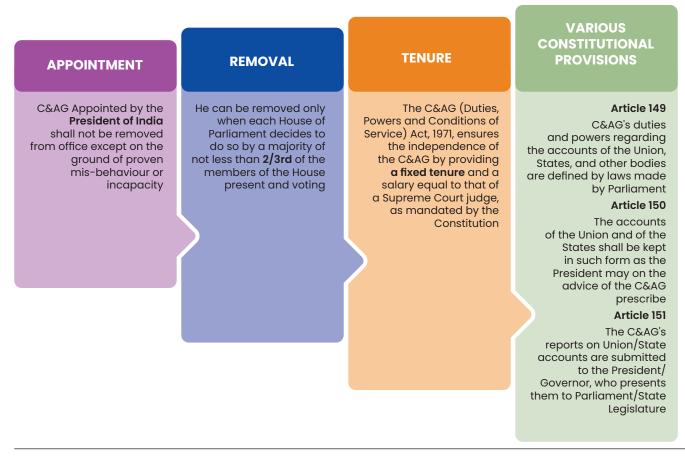
Government auditing is the objective, systematic, professional and independent examination of financial, administrative and other operations of a public entity made subsequently to their execution for the purpose of evaluating and verifying them, presenting a report containing explanatory comments on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



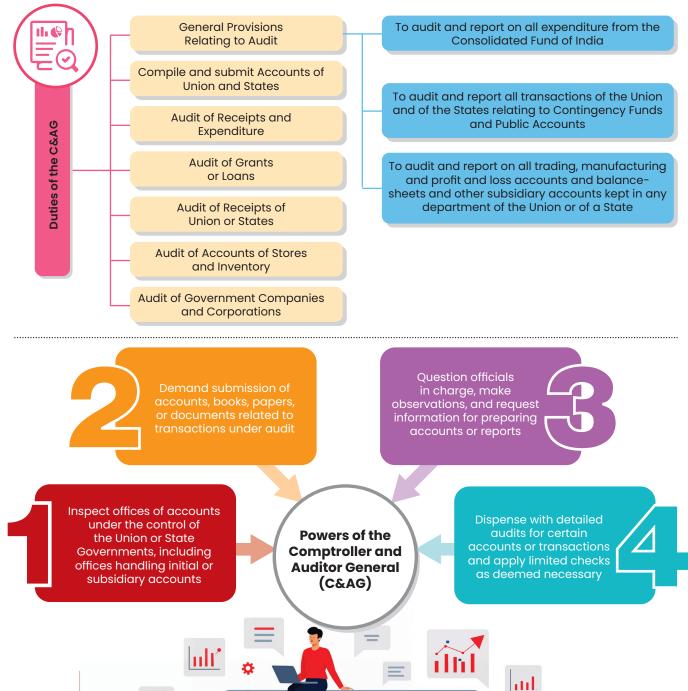
Legal Framework and Comptroller & Auditor General

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



SARANSH

Special Features of Audit of Different Types of Entities





Expenditure Audit

Audit Against Rules & Orders The auditor has to see that the expenditure incurred conforms to the relevant provisions of the statutory enactment and is in accordance with the financial rules and regulations framed by the competent authority

Audit of Sanctions

The auditor has to ensure that each item of expenditure is covered by a sanction, either general or special, accorded by the competent authority, authorising such expenditure

Audit against Provision of Funds It contemplates that there is a provision of funds out of which expenditure can be incurred and the amount of such expenditure does not exceed the appropriations made

Propriety Audit

To ensure compliance with general principles of financial propriety and to bring out cases of improper, avoidable, or in fructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations

Performance Audit

This involves that the various programmes, schemes and projects where large financial expenditure has been incurred are being run economically and are yielding results expected of them

Audit of Receipts



all revenues or other debts due have been correctly assessed, realised and credited



adequate regulations and procedures have been framed by the department to secure an effective check on assessment, collection and proper allocation of cases



regulations and procedures are actually being carried out



adequate checks are imposed to ensure the prompt detection and investigation of irregularities, double refunds etc



review and improvement in systems & procedures to ensure adequate, secure, correct and regular accounting of demands collections and refunds



extent and quantum of audit required to be done under each category of audit are determined by the C&AG

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

Audit of Commercial Accounts

Departmental Enterprises Statutory Bodies, Corporations Government Companies

Audit is undertaken in the same manner as any department of government where commercial accounts are kept

Audit depends on the nature and type of the statute governing the bodies or corporations

Audit is conducted by their own auditors under the statute appointed by C&AG

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

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

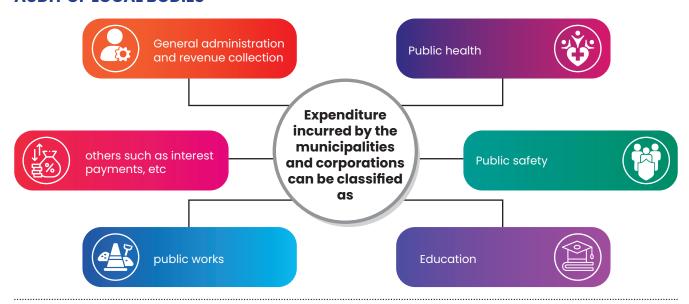
Power to conduct Supplementary Audit & comment Section 143(6) C&AG of India shall within 60 days from the date of receipt of the audit report have a right to, conduct a supplementary audit under section 143(6)(a)

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

AUDIT OF LOCAL BODIES



REVENUE GRANTS ARE OF THREE CATEGORIES:



General purpose grants

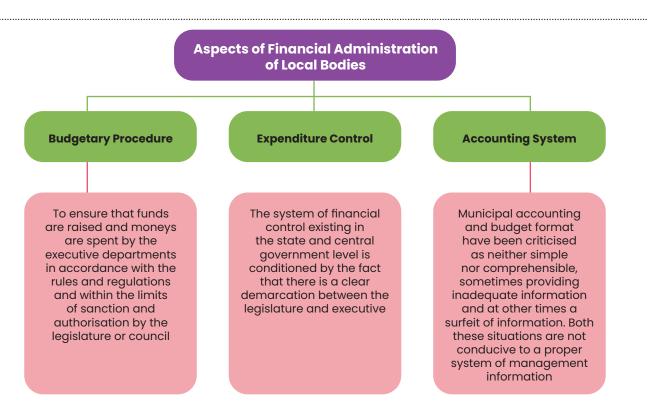
primarily intended to substantially bridge the gap between the needs and resources of the local bodies

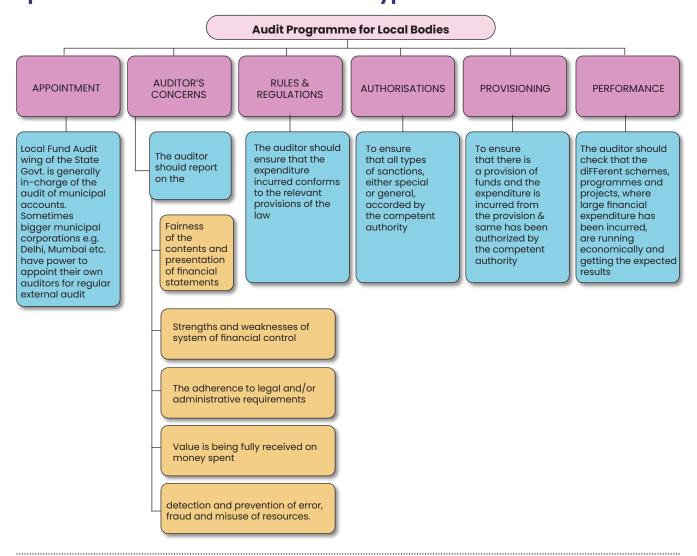
Specific purpose grants

tied to the provision of certain services or performance of certain tasks

Statutory and compensatory grants

These are given to local bodies, under various enactments, as compensation on account of loss of any revenue on taking over a tax by state government from local government

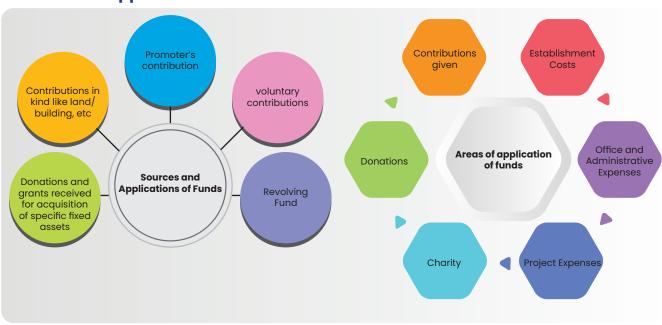


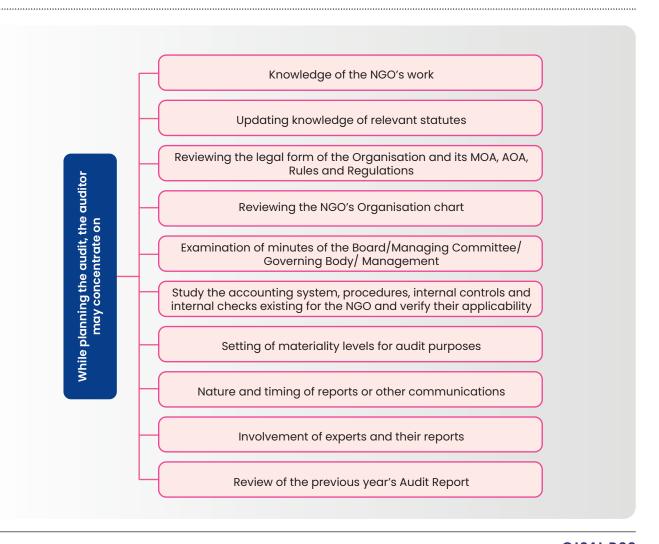


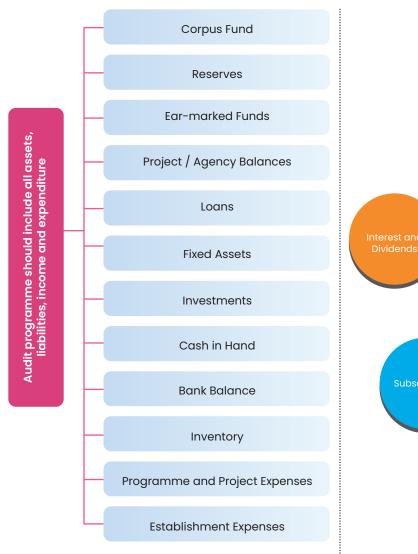
AUDIT OF NON - GOVERNMENTAL ORGANISATION (NGO'S)

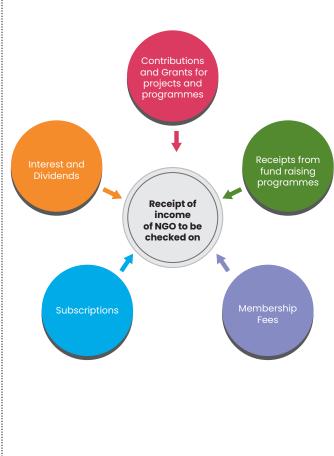


Sources and Applications of Funds









AUDIT OF SOLE TRADER

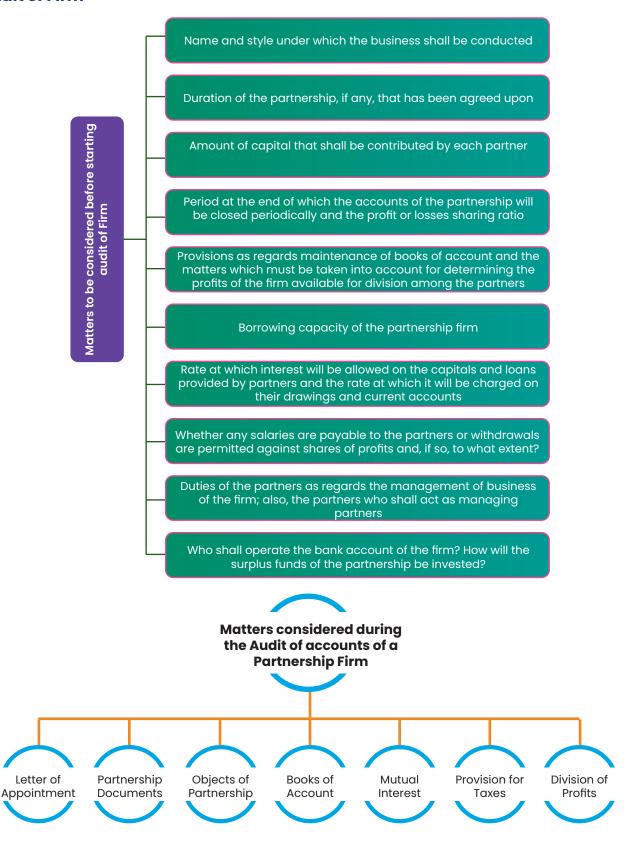


Sole proprietors are not legally required to audit their accounts but may do so for regulatory purposes such as on specific instructions of a bank for approval of loan

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



Audit of Firm



Basics of Limited Liability Partnerships (LLP) Audit

Small LLP

Advantages of Audit

Auditor appointed by the designated partners of the LLP Returns to be maintained and filed by an LLP Auditor's Duty regarding audit of LLP

the **Contribution** of **<=₹25,00,000** or such higher

amount, not exceeding ₹ 5 crore, as may be prescribed; and

the **Turnover** for the immediately preceding financial year, <=**240,00,000** or such higher amount, not exceeding

₹ 50 crore, as may

be prescribed;

Detection of Errors

Disputes

Reliability

Better Compliance and Management

Reconstitution

At any time for the first financial year but before the end of first financial year

At least thirty days prior to the end of each financial year

To fill the casual vacancy in the office of auditor

To fill the casual vacancy caused by removal of auditor

The partners may appoint the auditors if the designated partners have failed to appoint them Every LLP to file annual return in Form 11 with ROC within 60 days of closer of financial year

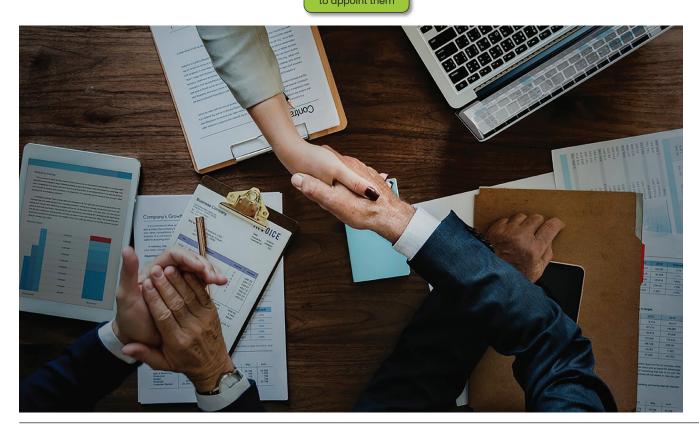
To submit Statement of Account and Solvency in Form 8 which shall be filed within a period of 30 days from the end of 6 months the financial year to which the Statement of Account and Solvency relates

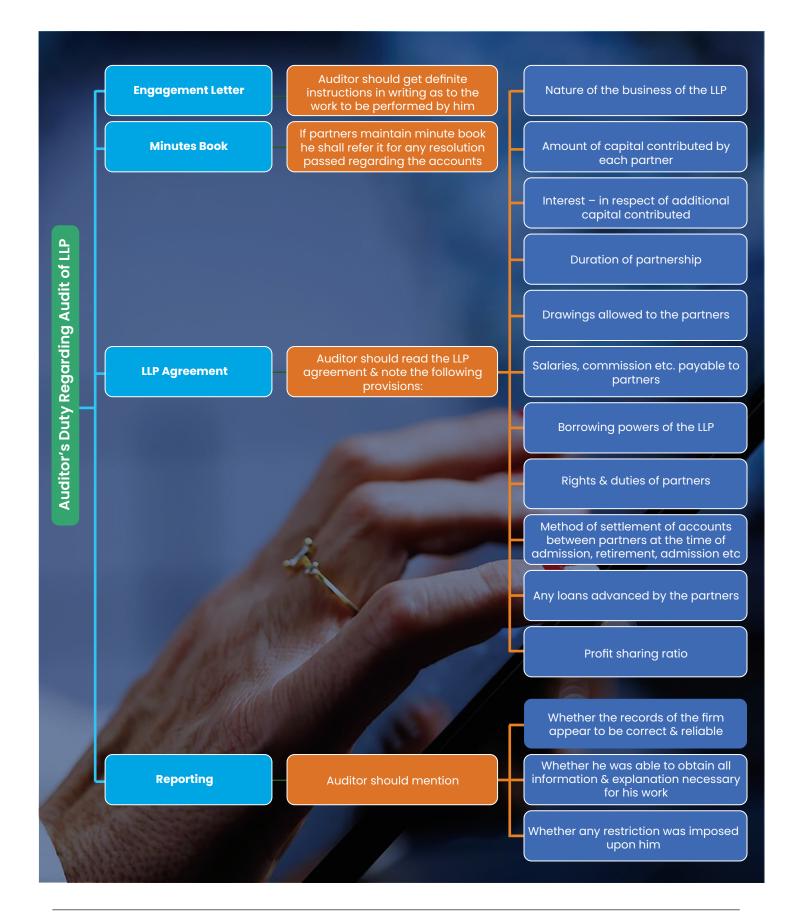
Engagement letter

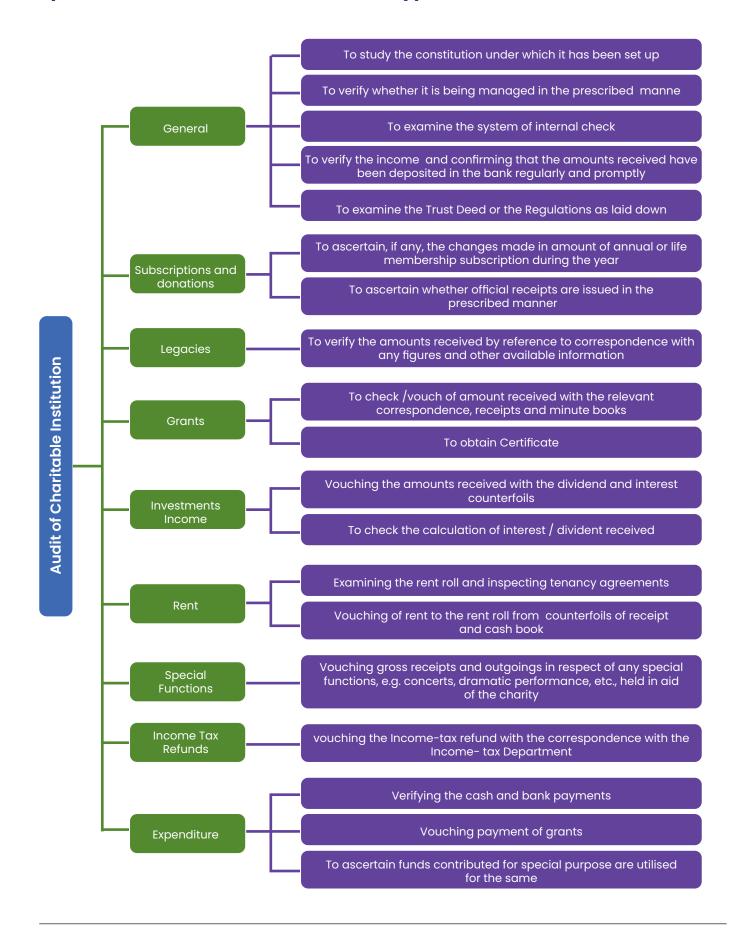
Minutes book

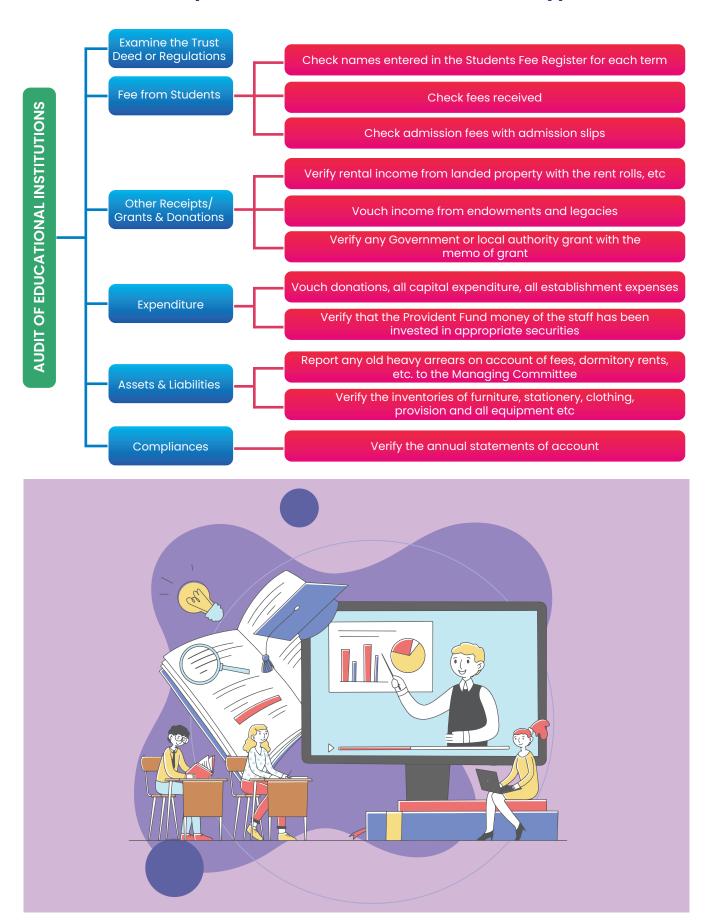
LLP Agreement

Reporting









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

	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
AUDIT OF CLUB	Pricing	Verify the internal check as regards members being charged with the price of foodstuffs
AUDIT	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

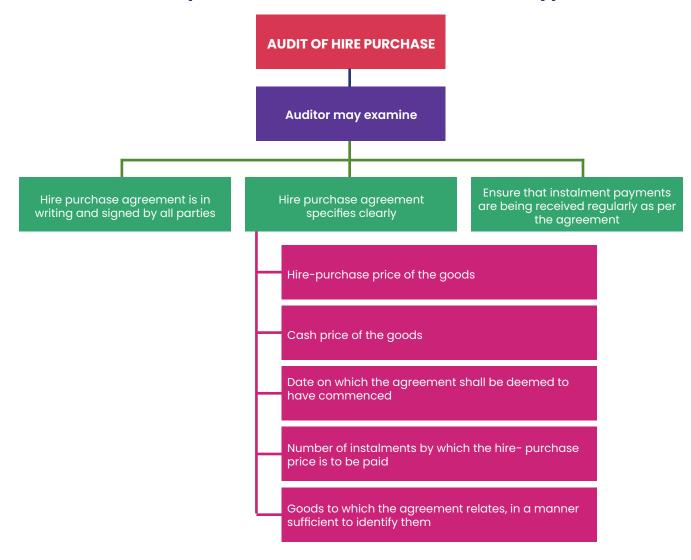
Confirm that depreciation on machinery and furniture has been charged at an appropriate rate

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

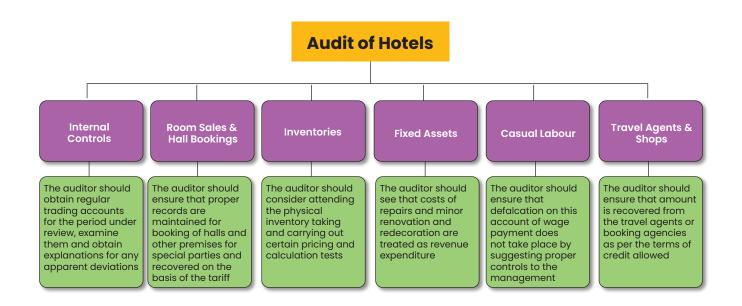
The arrangement for collection of the share in the restaurant income should be enquired into





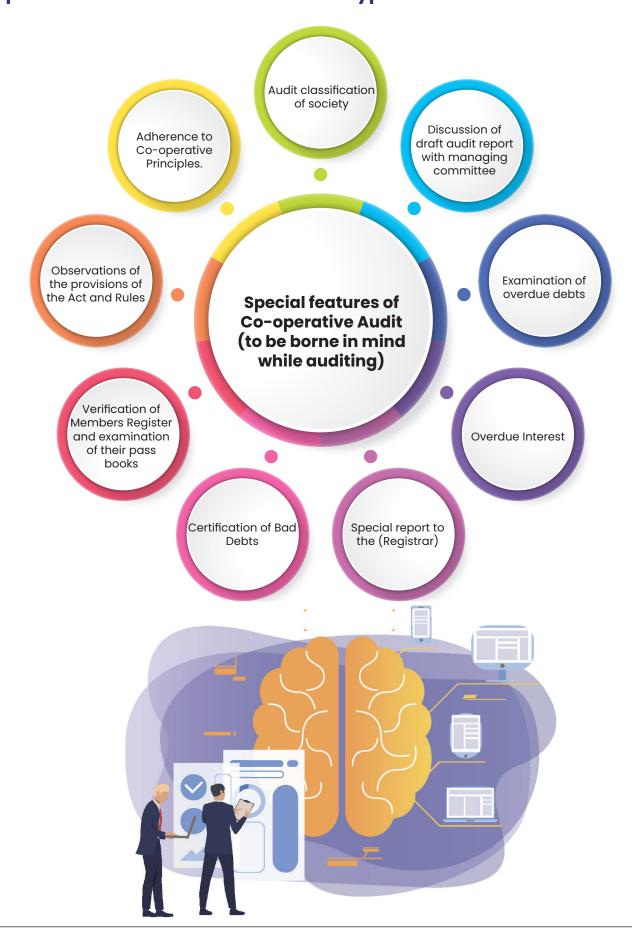


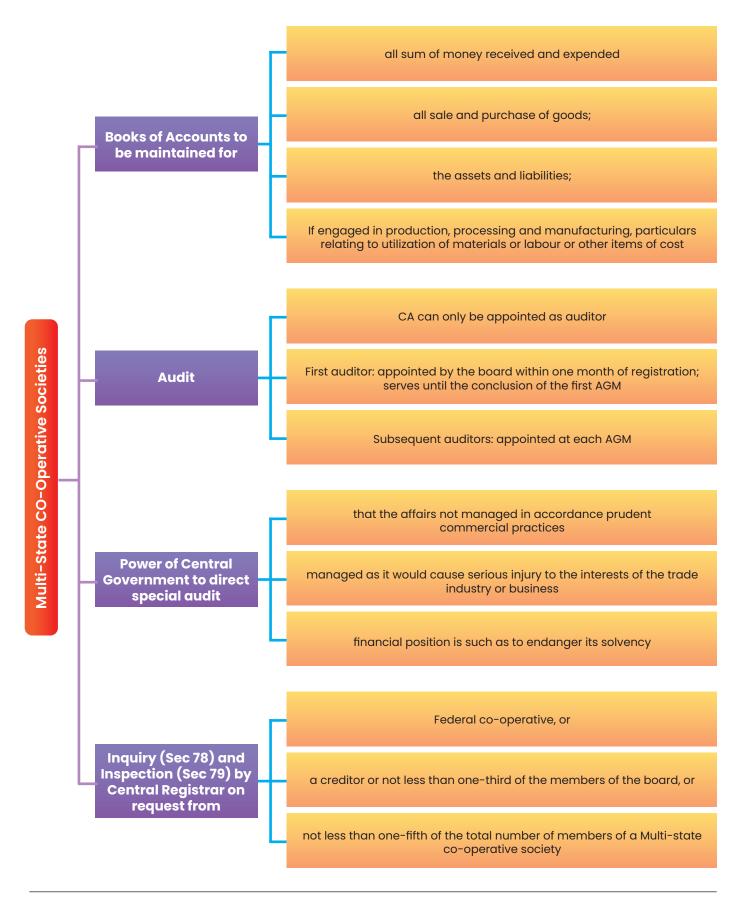
	Operating Lease	Finance Lease
Common examples	Lease of Projector, Computers, Laptops, Coffee Dispensers etc	Lease of Plant and Machinery, Land, Office Building etc
Ownership	Ownership of the asset remains with the lessor for the entire period of lease	Ownership transfer option at the end of the lease period is with the lessee.itle 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

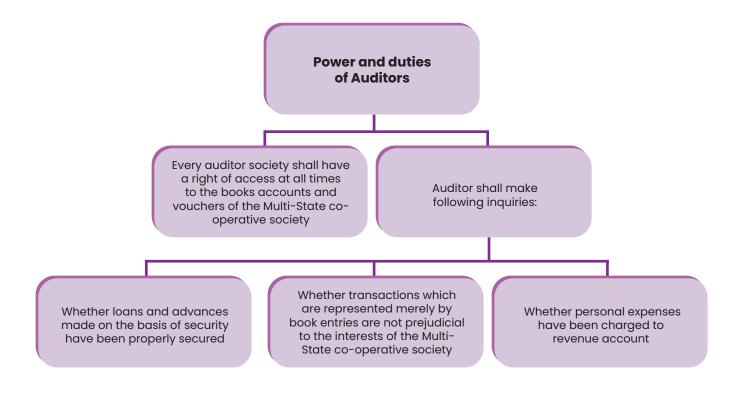


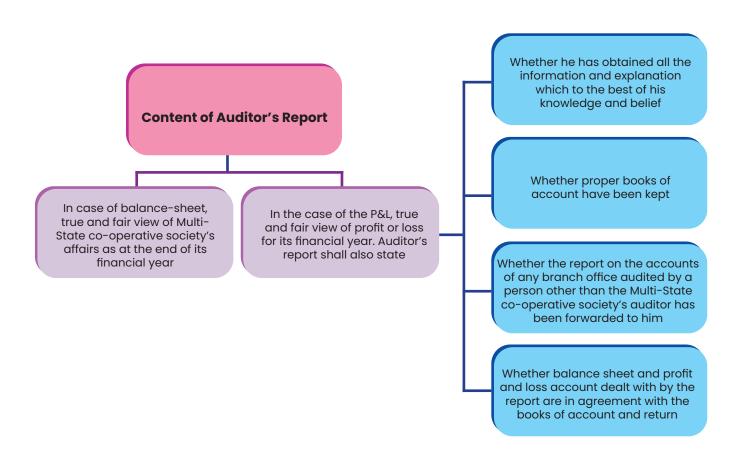
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	- Chartered Accountant
Qualifications of Auditors	Persons holding a government diploma in co-operative accounts
L	person who has served as an auditor in the co-operative government department
Appointment of the Auditor	An auditor is appointed by the Registrar of Co-operative Societies
Books, Accounts and other records of Co-operative Societies	State government can frame rules prescribing the books and accounts to be kept by a co-operative society
Restrictions on shareholdings	No member of a society other than a registered society can hold such portion of the share capital of the society as would exceed a maximum of twenty percent of the total number of shares or of the value of shareholding to ₹ 1,000/-
Restrictions on loans	A registered society shall not make a loan to any person other than a member
Restrictions on borrowings	Registered society shall accept loans and deposits from persons who are not members subject to the restrictions and limits of the bye-laws of the society
Investment of funds	A Society may invest its funds in accordance with Section 32 of the Central Act
Appropriation of profits	A prescribed percentage of the profits should be transferred to Reserve Fund, before distribution as dividends or bonus to members
Contributions to Charitable Purposes	Registered society may, with the sanction of the Registrar, contribute an amount not exceeding 10% of the net profits remaining after the compulsory transfer to the reserve fund for any charitable purpose
Investment of Reserve Fund outside the business or utilisation as working capital	Society may use the Reserve Fund in the business of a society, as working capital, may invest as per provisions of the Act
Contribution to Education Fund	Every society shall contribute annually towards the Education Fund of the State Federal Society, at the appropriate rate as per the class of the society









AUDIT OF SOCIETIES

Auditor's considerations

Object of society needs to be ascertained from its memorandum of association/bye laws

Ascertain whether society has obtained registration under Foreign Contribution (Regulation) Act, 2010

Ascertain whether it is also registered under relevant provisions of Income Tax Act which may make it eligible for tax exemption on its income

Obtain an understanding of internal control to design audit procedures with special reference to donations and various expenditures

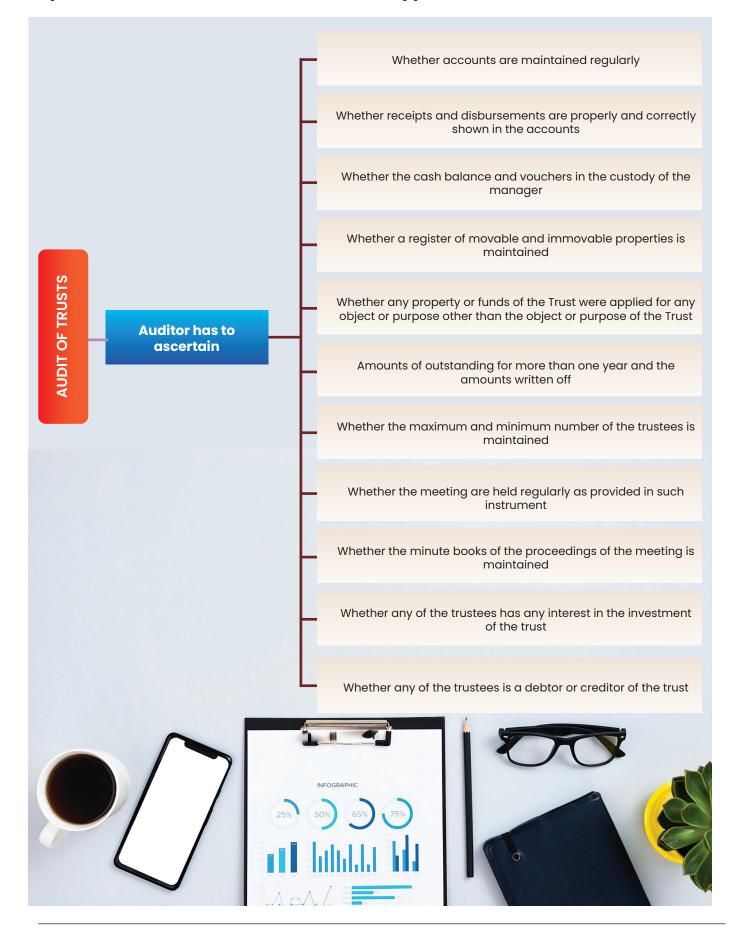
Evaluate appropriateness of accounting policies

Expenses incurred by society are reimbursed by donors, ascertain how these are recognized in financial statements

Ascertain, if any inquiry has been held by Registrar

Ascertain whether such expenditure or waste was caused in consequence of breach of trust



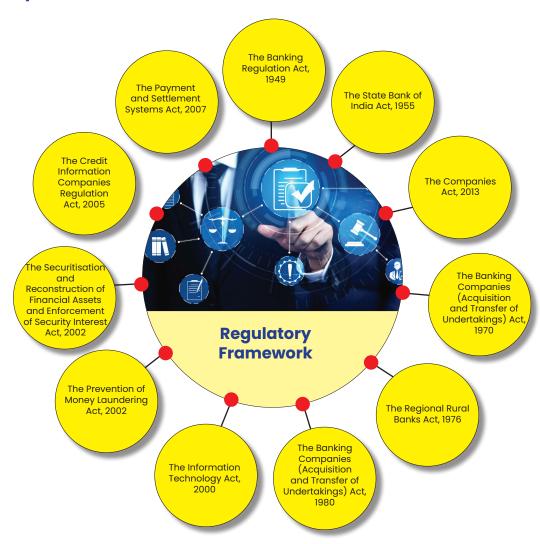


Chapter 10: Audit of Banks



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



Audit of Banks

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

Report on adequacy and operating effectiveness of Internal Controls over Financial Reporting

Long Form Audit Report (LFAR)

Report on compliance with SLR requirements

Report on conduct of treasury operations of bank in accordance with $\,$ instructions issued by the RBI $\,$

Report on whether the income recognition, asset classification and provisioning have been made as per the guidelines issued by the RBI

Report on whether any serious irregularity was noticed in working of bank which requires immediate attention

Report on status of compliance by bank regarding the implementation of recommendations of the Ghosh Committee relating to frauds and malpractices and of the recommendations of Jilani Committee on internal control and inspection/credit system

Report on instances of adverse credit-deposit ratio in the rural areas



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's Report

banks and their branches require the auditors to

furnish LFAR

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:



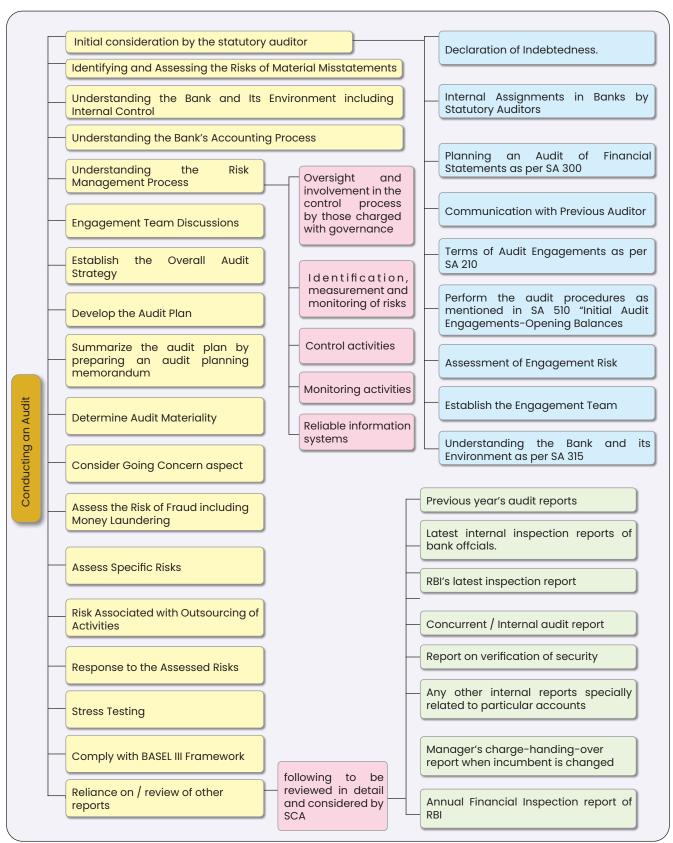
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been specified by the RBI

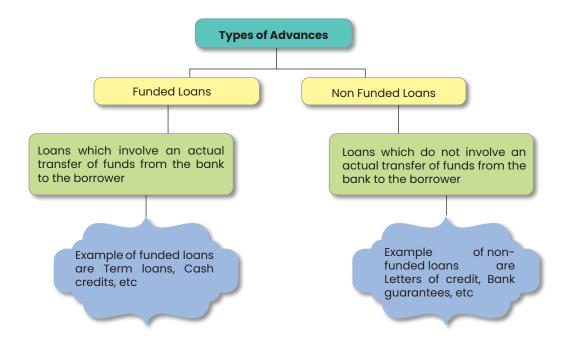
year

Conducting An Audit

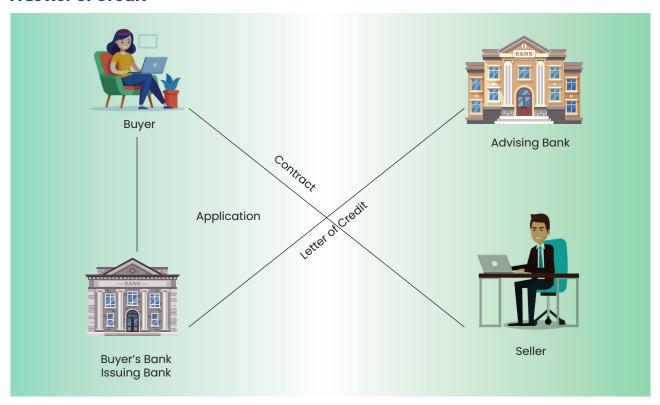
The audit of banks or their branches involves the following stages

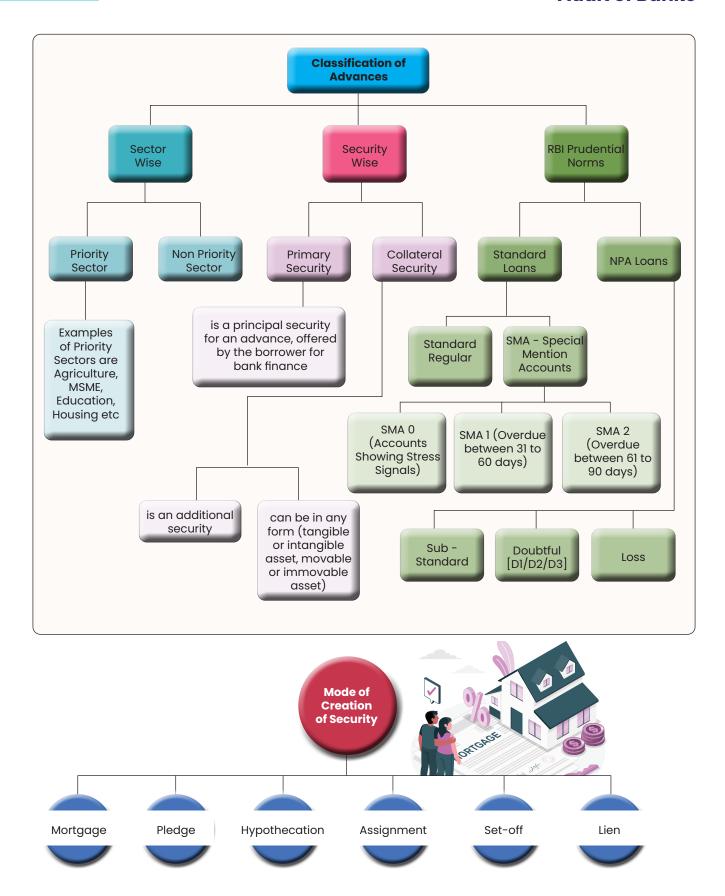


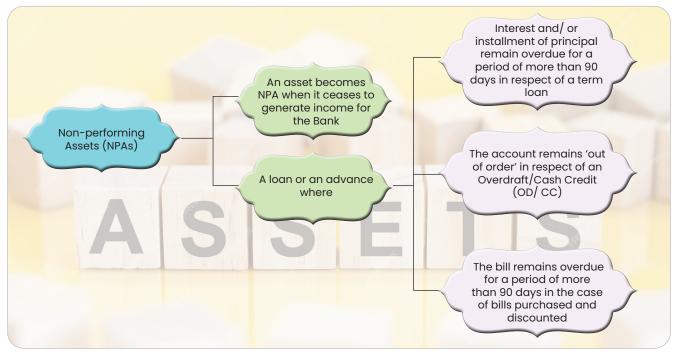
Advances are amount of money or credit, given as a loan from a bank to another party with an agreement that the money will be repaid

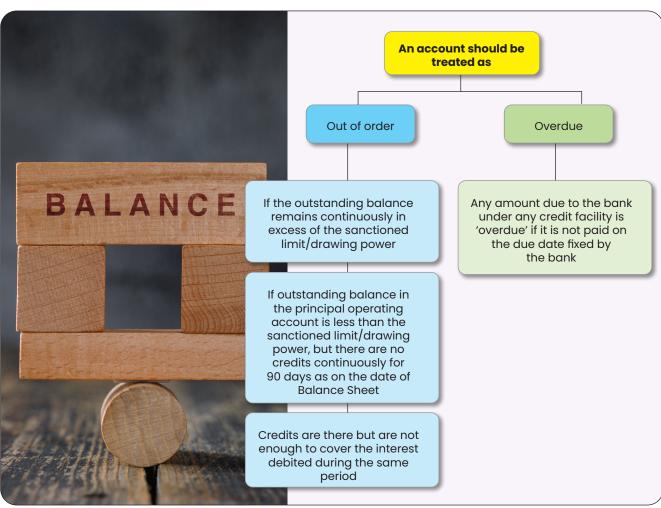


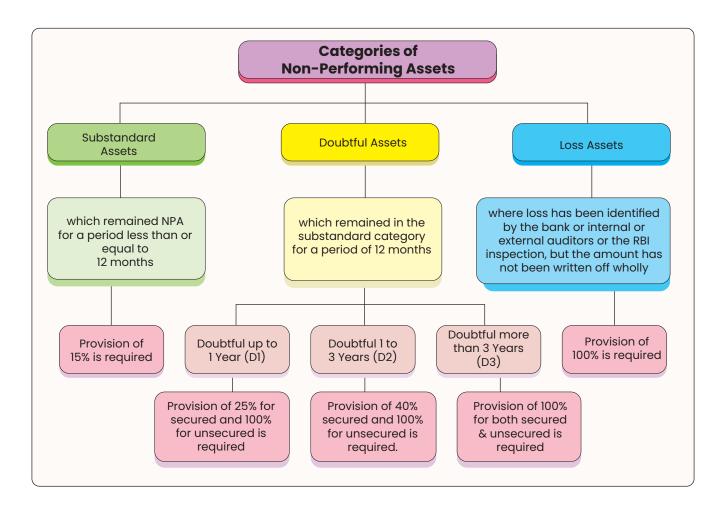
A Letter of Credit











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.

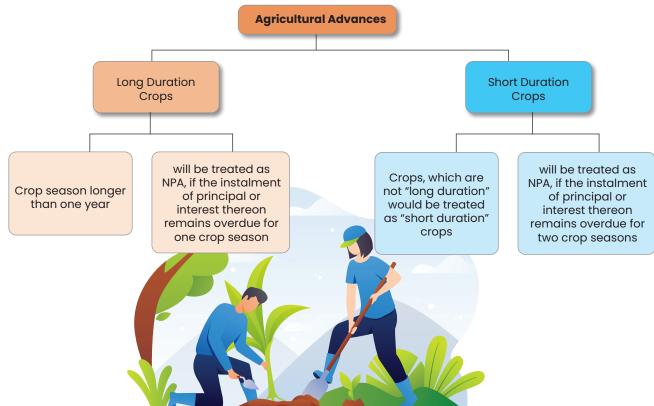
Government Guaranteed advances

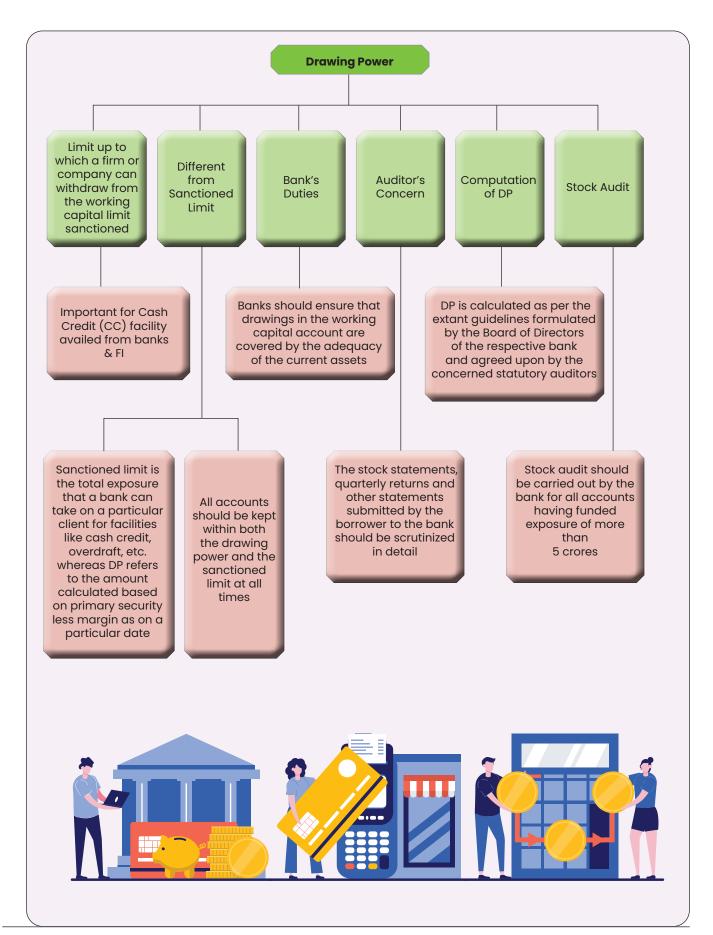
- Central Government guaranteed Advances, where the guarantee is not invoked/ repudiated would be classified as Standard Assets, but regarded as NPA for Income Recognition purpose.
- Advances guaranteed by State Government is to be considered NPA if it remains overdue for more than 90 days for both Provisioning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







Audit of Advances

In carrying out audit of advances, the auditor is primarily concerned with obtaining evidence about the following

Amounts included in balance sheet in respect of advances which are outstanding at the date of the

Advances represent amount due to the bank

balance sheet

Amounts due to the bank are appropriately supported by loan documents

There are no unrecorded advances

The stated basis of valuation of advances is appropriate and properly applied and the recoverability of advances is recognised in their valuation

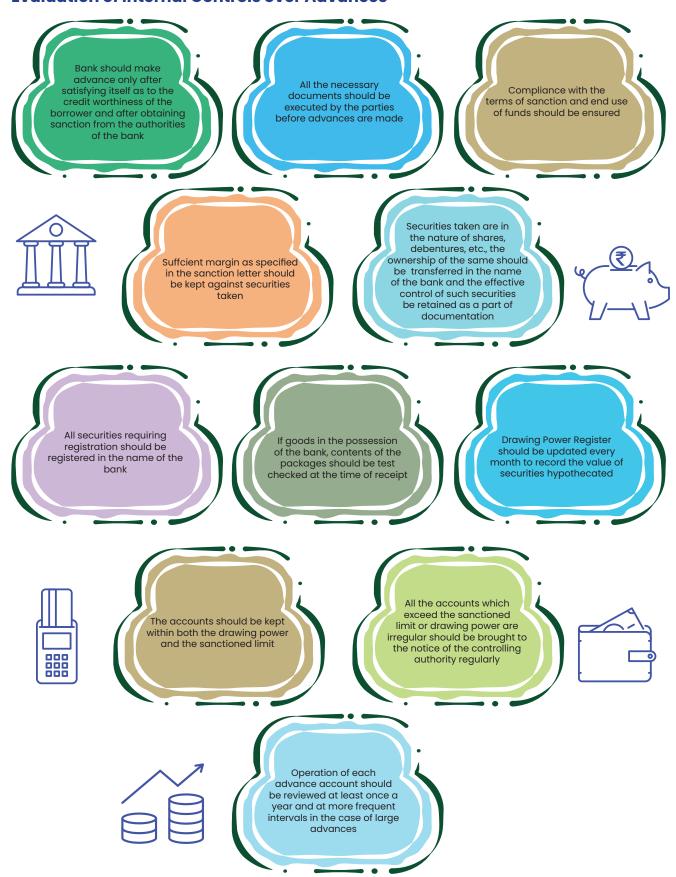
The advances are disclosed, classified and described in accordance with recognised accounting policies and practices and relevant statutory and regulatory requirements

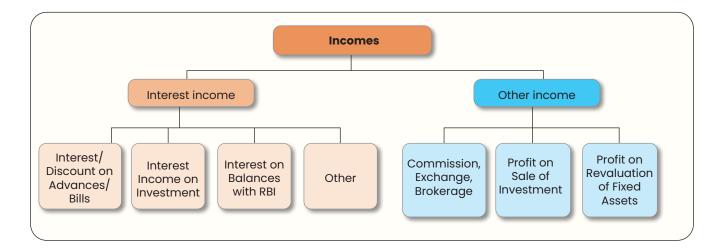
Appropriate provisions towards advances have been made as per the RBI norms, Accounting Standards and generally accepted accounting practices

The auditor can obtain suffcient 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

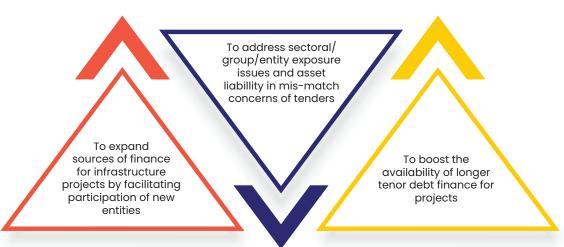
If any advance, including bills purchased and discounted, becomes NPA at the close of any year, the entire interest accrued and credited to income account in the past periods, should be reversed or provided for if the same is not realised. This will apply to Government guaranteed accounts also

In 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)

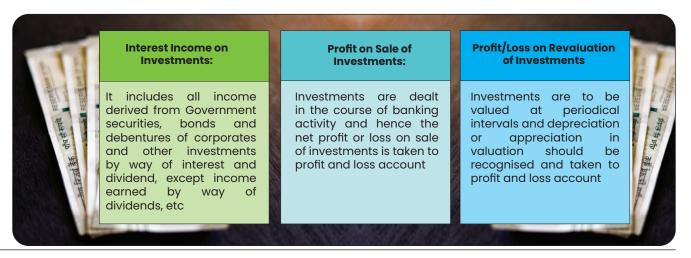
In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed or provided for with respect to past periods, if uncollected

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

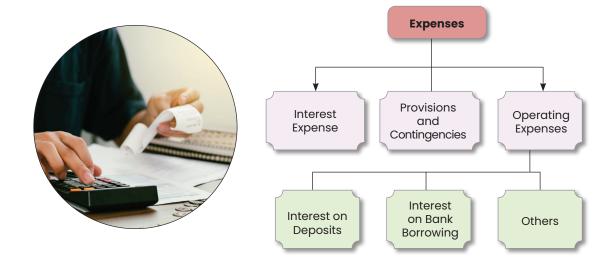
Objective of Takeout Finance



Income from Investments



Expenses



Audit Approach and Procedures for Expenses



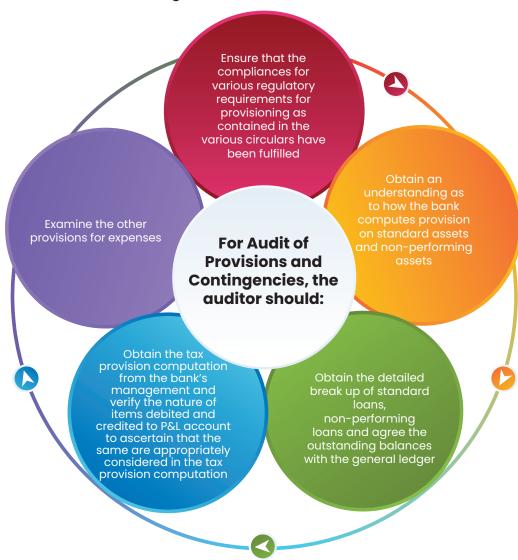


- assess the overall reasonableness of the amount of interest expense by analysing ratios of interest paid on dilerent types of deposits and borrowings to the average quantum of the respective liabilities during the year
- obtain from the bank an analysis of various types of deposits outstanding at the 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:



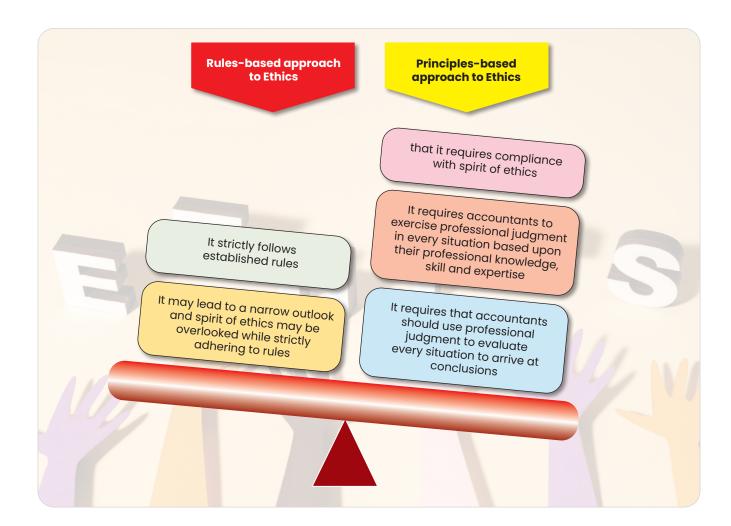
For Audit of Provisions and Contingencies, the auditor should:



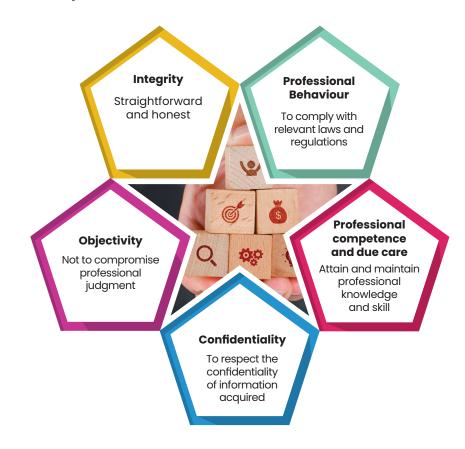
Chapter 11: Ethics and Terms of Audit Engagements



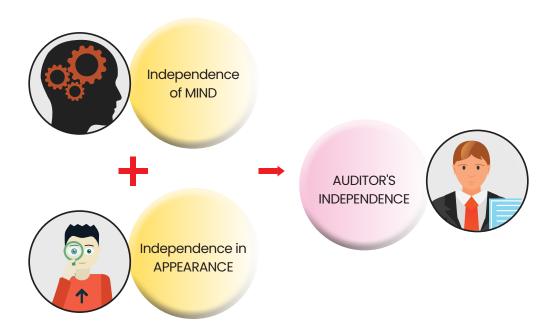




Fundamental Principles of Professional Ethics



Threats To Independence of Auditors



Selfinterest threats

Occur when an auditing firm, its partner or associate could benefit from a financial interest in an audit client

Selfreview threats

during a review of any judgement or conclusion reached in a previous audit or non-audit engagement

Advocacy threats

Occur when the auditor promotes, or is perceived to promote, a client's opinion to a point where people may believe that objectivity is getting compromised

Familiarity threats

Occur when auditors form relationships with the client where they end up being too sympathetic to the client's interests

Intimidation threats

Occur when auditors are deterred from acting objectively with an adequate degree of professional skepticism

Professional Skepticism

Attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence

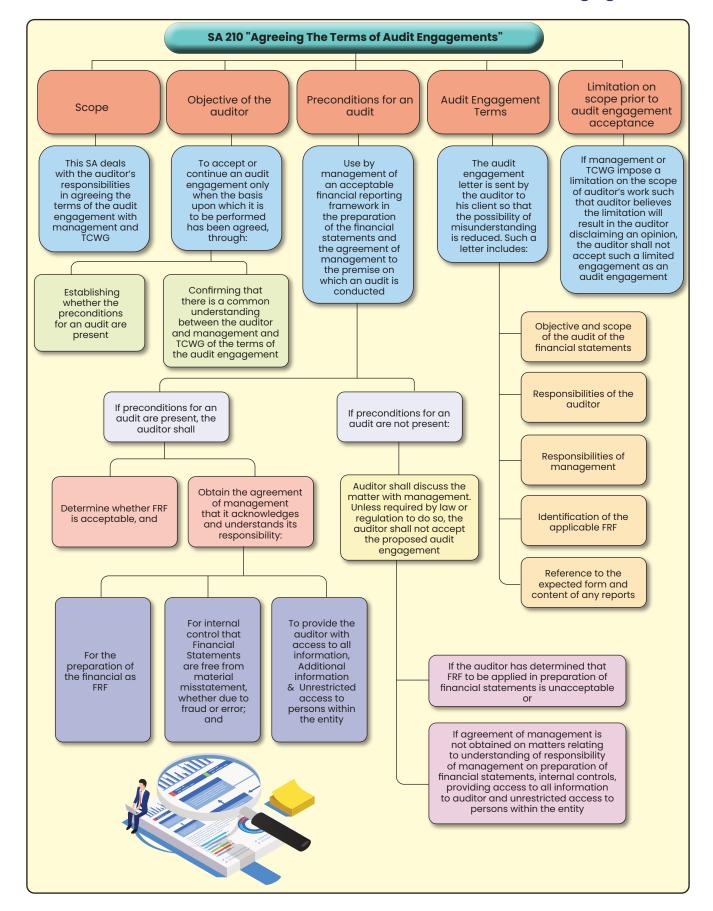
It includes being alert to, for example:



Audit evidence that contradicts other audit evidence obtained

Information that brings into question the reliability of documents

Conditions that may indicate possible fraud



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

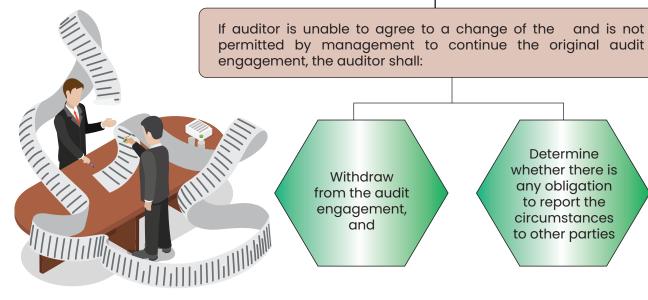
A change may not be considered reasonable if it appears that change relates to information that is incorrect, incomplete or otherwise unsatisfactory

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



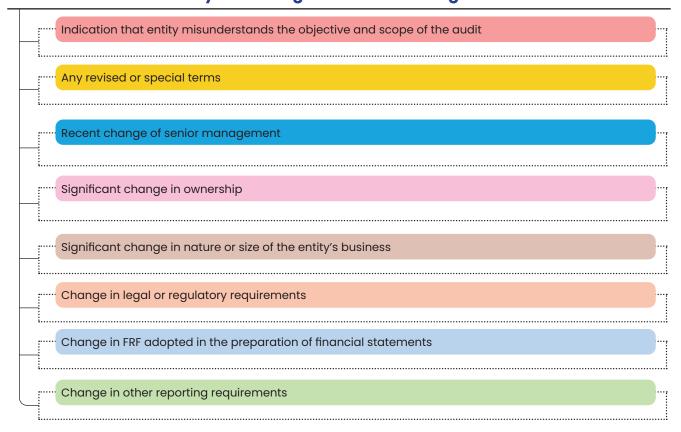
Recourse available to auditor in situation of non-agreement to a change in terms of engagement and lack of permission from management to continue original audit engagement



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 exixting terms in Recurring Audit:



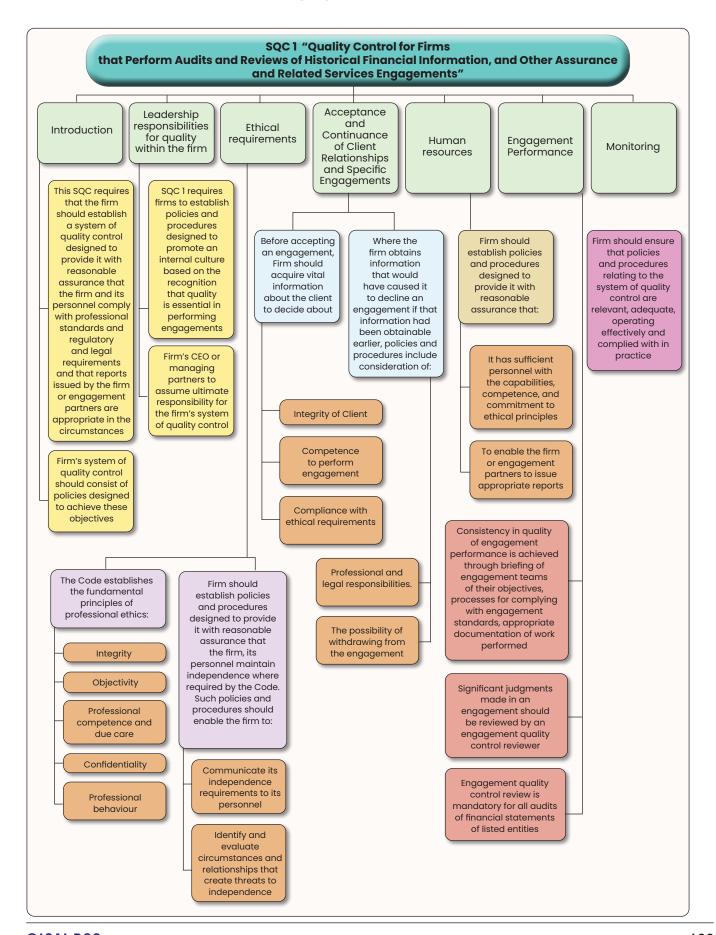
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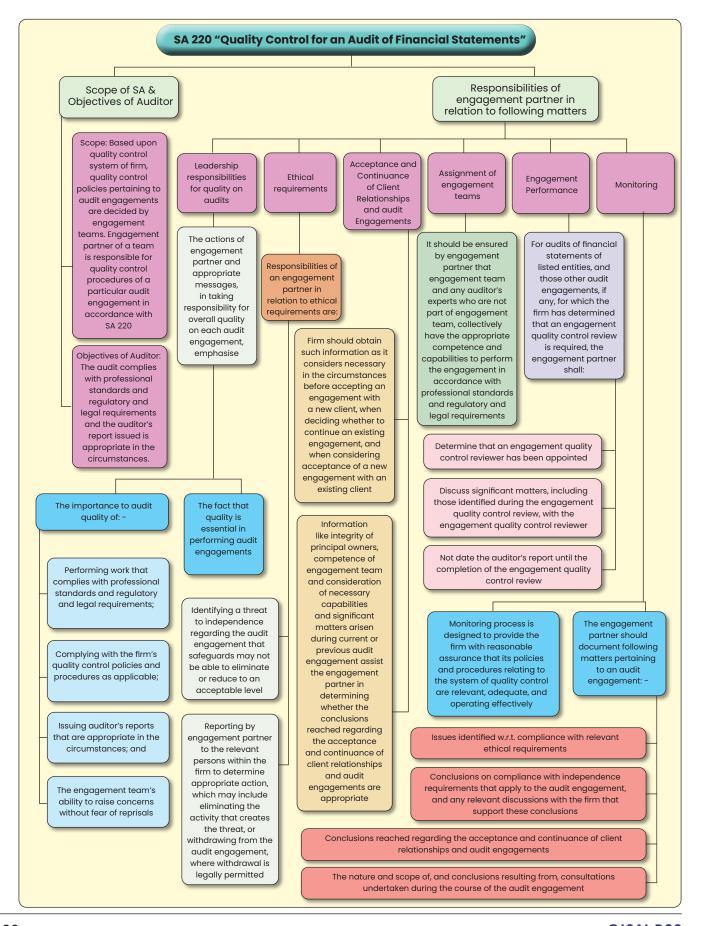
- Deal with quality control
- Deals with all engagements including audits, reviews and other assurance and related service engagements
- Applies to entire firm

SA 220

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







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