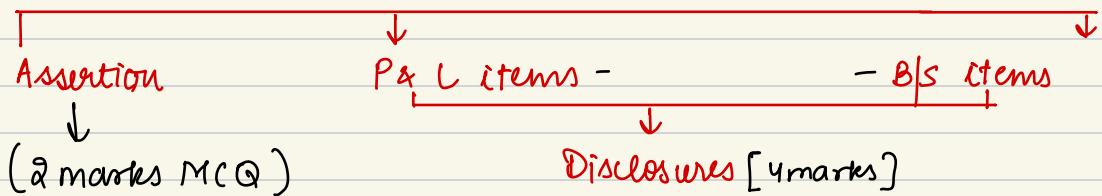


# Audit of items of Financial Statement

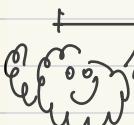
[16-18 marks]



## I). Assertion

Representation by mgmt  
[either implicitly or explicitly]

A → AB → Account Balance  
[B/S items]  
C → Class of transaction (P&L)  
D → Disclosure

 Auditor → apply relevant Audit Procedures  
to identify probable misstatement

Example →  $3/1/3 - \underline{\text{PPE}} = 10 \text{ lakh}$  Valuation

[Existence] } Completeness  
[Rights & obligations]

Assertion about A/C Balance [B/S items]

i). Existence [No fake Asset & liability exist]

e.g. Inventory as on 3/1/3 → XXX

actually exist at B/S date....

ii). Completeness [All genuine Recorded]

e.g. PPE → Addition & Deletion → all are recorded.

e.g. Inventory of entity lying with 3<sup>rd</sup> party should be included.

iii). Rights & Obligation  
↓  
Asset - Right to Hold  
Liability → obligation.

eg- PPE as on 31/3 & Entity has right to hold  
Audit Procedures → PPE → "Invoice"  
→ C&B → "Sale Deed"

Depreciation Calculation ← VALUATION Not rights

iv). Valuation

→ Asset & liability rightly valued as per app F.R.F.

Assertion about Class of Transactions [P&L items]

i). Occurrence [No fake] → Pertains to entity.

eg. Employee Benefit expense should be recorded for authorised personnel only & not for fake employees.

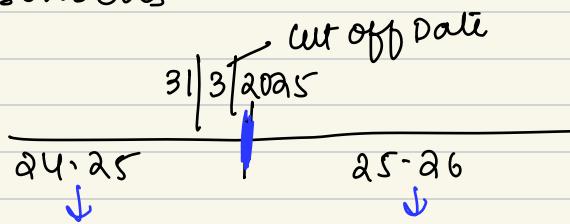
ii). Completeness [All genuine recorded]

eg. All expense of employee benefits during year recorded.

iii). Measurement / Accuracy [Right Amount]

## "Extra Assertions"

i). Cut off



ii). Presentation & Disclosure



Properly classified, presented or di

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# Balance Sheet Items

## i) Share Capital & Related Elements

### \* Share Capital

- Tally period end S.C. to previous year.
  - If no change → obtain Written Confirmation from C.S. [Company Secretary]
  - If change → verify paid up within Authorised limit.
    - check from A.O.A./MDA.

- Fresh Issue → check compliance with Companies Act
  - check shares issued [for cash for other than cash consideration]
- NO shares → issued at Discount
- ↑ in S.C. → calculate fee & stamp duty payable to NCA.
- Compliance with SEBI regulation & Guideline.
- Form ST-7 if filed with MCA → Share Capital Changes  
Form PAS-3 → Share Allotment

Form FC6PR filed with RBI → FDI by NRI

{ BB Sir ki baato ko write off nahi karna. }  
Premium Teacher Mai

## \* Shares Issued at Premium ✓

Application of Security Premium A/c for following purpose

↓  
Writing off - preliminary exp

↓ (i).  
expenses or Commission paid  
or Discount Allowed on  
Issue of Share / Debenture

- ii). towards issue of Unissued shares as  
fully paid **Bonus Shares**
- iii). Providing for premium payable on  
- **Redemption** of **Redeemable Preference Shares**  
or **Debs**
- iv). For purchase of own Share or Securities.  
[ **Buy Back** ]

Auditor to verify

[ Whether premium received → t/f to securities premium A/c

whether Application of security premium → Only for  
purpose mentioned  
above.

## \* Shares Issued at Discount (Sec 53)

- Issue of share at Discount → void.
- Exception

[ Issue of sweat equity shares (Sec 54) ]

Issue share at discount to its creditors when  
Debt Converted into shares in pursuance of any  
**Statutory resolution plan or Debt restructuring scheme.**

- **Penalty** - **Officer & Company** - power of → Amt raised  
→ 500,000 → Interest  
- Refund all money with 12% p.a. from  
Date of Issue of shares.

Auditor need to check

- Movement in S.C. During year.
- verify no issue of share at Discount

Read minutes of meeting authorising issue of S.C.

- verify share issued at Discount to its creditors when Debt is converted into shares in accordance with guideline or direction issued by RBI.

\* Issue of Sweat Equity Shares (SIC 54) rank pari passu with equity S/H.

Equity Share issued to employee or Director at Discount or for consideration other than cash.

for providing know-how or making available in nature of Intellectual property or value additions.

#### Audit Procedures

- Sweat Equity Share Issued → class of share already issued & following condition have been complied
- \* Authorised by "Special Resolution".
- \* Resolution specifies
  - No. of Shares, CMP, Consideration
  - Class or classes of Director or employee to whom issued.
- \* If equity shares listed → Issued should be as per regulation of SEBI.
- \* If not listed → as per rules prescribed.

## \* Reduction of Capital (sec 66)

- AOA - authorise reduction of capital.
- MDA - Suitably altered.
- Verify meeting of S/H held to pass Special Resolution + proposal  
*Circulated in Advance*
- Check Registrar Certificate as regard to Reduction of Capital.
- Vouch Accounting entries
- Revaluation of Asset  $\rightarrow$  properly Disclosed.
- Examine Order of Tribunal confirming reduction
- Verify all Condition Complied as imposed by Tribunal.

### Gyan

→ Better financial position  
capital  $\rightarrow$  10/-  $\rightarrow$  8/- called up



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# \* Borrowing

a). Existence → Borrowing represent valid claims by Bank/3<sup>rd</sup> party.

## AUDIT PROCEDURES

- New lending authorized → Review Board meeting for approval  
→ Check whether authorized.
- Significant Debt Commitment → approved by BOD.
- Agree Detail of loan recorded → with **loan agreement**
- Obtain Balance Confirmation (SAS 505) → from lender
- Debentures → examine trust deed for t/c
- Obtain W/R → all liens represent valid claims.
- Agree Detail of lease & hire purchase recorded → with **underlying agreements**.



## b). Completeness

i). Obtain Schedule

<b>Short term</b>	<b>Borrowing</b>	<b>opening</b>
<b>long term</b>		<b>Borrowing taken</b>
		<b>- Repay</b>
		<b>- closing</b>

Perform following

- Considered evidence of additional debt obtained through
  - examination of minutes of B.D.D.
  - Significant Contract
  - Confirmation from Bank/ lenders
- Tracing closing balance → as per schedule of general ledger.

ii). Review Subsequent Transactions after end of reporting period → Determine if any Unrecorded liabilities.

iii). Direct Confirmation Procedures

- Roll out & obtain Balance Confirmation & perform following

a). Ascertain confirmation asks for all likely information relating to test of debt & related interest balances.

b). Sending reminders for non-replies.

c). Compare Balance

Confirmation

Books of A/c.

Ask for reconciliation for differences & test supporting documents.

c). Valuation

- Determine A/c policy & methods of recording debt → appropriate & applied consistently.
- Agree loan Balance & loan payable → loan agreement.
- Recalculation → Interest, Discount or Premium on Redemption.
- Foreign currency loan → check closing exchange rates & verify computations of restatement of foreign currency balance o/s at year end.
- Review Borrowing from related party → Compliance with AS 18.

- If entity has accepted Deposits → examine Directive issued by RBI Have Been Complied.
- Verify Borrowing limit within as laid Down → By MOA & AOA.
- Examine purpose of Amt Borrowed → check usage of amount.
- Examine Due Dates of loan → for proper classification. n/w short term & long term.
- Examine Here purchase agreements for purchase of Assets  
↓  
ensure correctness of amounts + examine security.

# Provisions & Contingent liabilities

## \* Provision

Recognition criterion

- Entity Has Present obligation
- Probable of outflow of resources
- Reliable estimation of Amt can be made

## \* Contingent liability

(i). Possible obligation →

- Arise from past event
- existence will be confirmed only by occurrence / Non occurrence of future events

ii). Present obligation → But not recognized due to

↓  
Amt of obligation  
cannot measured  
reliably

or

↓  
not probable of  
outflow of resources

## \* Audit Procedures

→ "obtain w/r" →

"all provisions made"

### Existence & Completeness

- Obtain list of all Provisions → compare them with ledger balances
- Inspect underlying agreements

### Valuation

- Obtain underlying working & Basis for - All provisions from mgmt → verify whether accurate & complete.

- If required → obtain Expert Report + working for provision made.

e.g. → 

- warranty calculations → Actuarial
- litigations & claims → legal expert

### Management Expert Concept

- \* Evaluate Competence, Capabilities & Objectivity
  - Employed or outside party.
  - Independent
  - Previous experience
  - Knowledge of expert, Qualification, membership of professional body.
- \* Obtain understanding of work of that expert
  - Evaluating assumptions & method used
  - Evaluating nature of data
    - [Internal used by expert]
    - [External]
  - Evaluate expertise.
- \* Evaluate appropriateness of Mgmt Expert Work
  - Relevance + Reasonableness of expert findings & conclusions.
  - Evaluate
    - [Relevance → of source data used]
    - [Completeness]
    - [Accuracy]

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# Property Plant & Equipment

## a). Existence

- Review entity plan of physical verification of PPE
  - whether performed by own staff or 3<sup>rd</sup> party
  - Policy regarding periodicity
- Evidence of appropriate supervision of those performing physical verification should be examined.
- Obtain PPE physical verification report with working sheet
  - ↓
  - perform procedures like

a). All items → properly tagged + carry identification marks

physical report → capture identification marks of asset verified.

## b). Reconciliation of Items

physically verified  
↓  
Fixed Asset Register maintained

c). Check PPE Additions → updated in F.A. Register.

d). Verify Discrepancy noted + manner of Dealing Discrepancy

Example → Identified Shortage / Asset not in Working mode  
or Active use

↓  
Should be Deleted in B.O.A - after  
proper approval.

Additions properly recorded

b). Completeness ← Do not include PPE belong to 3<sup>rd</sup> parties.

→ Verify movement in PPE Schedule → Asset class wise

$$\begin{aligned} \text{Opening} + \text{Add} - \text{Deletions} \\ = \text{Closing Balance} \end{aligned}$$

Tally with  $B.O.A.$

→ Recalculation :- check arithmetic accuracy of movement in PPE Schedule.

→ Tally opening Balance → P.Y. Availed F.S.

→ **ADDITIONS**

Obtain listing of all addition from mgmt

↓  
Perform following procedures

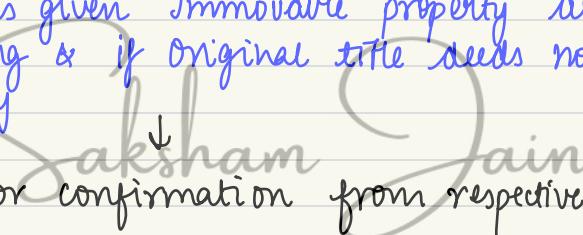
- PPE additions :: properly authorised (Approved)
- Verify proper processes & procedure followed
  - inviting tenders, Quotations etc
- Verify Date of Addition
  - Test purchase invoice
  - Installation certificate / reports
  - Any other document maintain

→ **DELETIONS**

- Understand mgmt reason for deletions
- Obtain Mgmt Approval & Discard note authorizing Disposal of Asset
- Verify internal process followed for deletion
- Check Accuracy of recording of Deletions of PPE
  - ↓  
Resultant Gain/Loss → Rightly Recorded.

### c). Rights & Obligation

- All PPE Purchase Invoice name of entity  
→ legal title of ownership
- Addition to C & B → check conveyance Deed / sale deed
- All immovable property at B/s Date → verify original title deeds
- Verify Register of charges :: to check any charge created against PPE.
- If entity has given immovable property as security for borrowing & if original title deeds not available with entity

  
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Req for confirmation from respective lenders.

### D). Valuation

- Verify entity charge Depreciation on all PPE except freehold land.
- Assess Depreciation method reflect pattern in which asset future benefits expected to consume.
- Verify whether mgmt has done impairment assessment  
AS-28 Impairment of Asset

# TRADE RECEIVABLE

## \* Test of Controls

TOC for checking effectiveness of Internal control over sales as part of debtor audit procedure.

Following points needs to be considered

- Only Bonafide sales
- Properly recorded
- Balance Reviewed regularly
- Debtor settled
  - Cash or
  - By Authority of official
- Approved customers ← Sales
- Segregation of Duties
- Follow up + Provision Policy
- Debtors are collected on time.

## \* Valuation

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- Review Company process to derive Provision for doubtful
  - ↳ Consistency Comparison with method used last year
  - ↳ Determining method appropriate
- Obtain Ageing Report [Both Dr & Cr Balance]
- Obtain Debtor under litigation → Compare with P.V.
- Check Provisions are made at appropriate rates
- Prepare Schedule of movement of Bad Debts
  - ↳ Provisions Accounts & Debt Written off
  - ↳ Compare Bad Debt / Sales of C.Y → P.Y
- Verify write off alone → Proper Authority Ageing Schedule

Example

Debtor 6/s - < 6m

2 6m - 1y

1y - 2y

2 - 3y

}

Provision %

5%

10%

20% 50%

"Example"

\* Existence  $\rightarrow$  (No fake Debtor)

- Ask for Period end Ageing Report  $\rightarrow$  Trace Balance as per Report to General ledger.
- Check Realisation Recorded  $\rightarrow$  Invoice wise or Not.  
    ↓  
    If not  $\rightarrow$  check adjusted chronologically Invoice wise
- Any large Balance Due  $\rightarrow$  Ask Reasons & justifications.
- Check controls relating to  $\rightarrow$  No invoice recorded twice.  
 $\rightarrow$  Receivable Balance automatically recorded from Original invoice
- Check Receivable for other than Sale or services  
    Not to be included in list
- If any Related Party Transactions  
    Review  $\rightarrow$  whether at arm's length  
 $\rightarrow$  whether properly authorised  
 $\rightarrow$  Check collectability
- Perform Analytical Procedures  $\rightarrow$  to check Reasonableness  
    [ Trade Receivable & Sales ]  $\rightarrow$  (C v - P.v)
- Direct Confirmation Procedures  $\rightarrow$  for all significant A/c Bal  
    \* External Confirmation  $\rightarrow$  Sample Basis for other.  
        give explanation of SAS 505  $\rightarrow$  Mgmt consent  
         $\rightarrow$  Mgmt refusal if

(MCQ).

\* Confirmation of Balance

At Date of B.S. Date

Any other date close to B.S. Date

Decided by Auditor [with mgmt consultation]

Form of External Confirmation

Positive

Negative

If no reply received → "Perform AAP"

Agree balance  
to cash received

Detail Analysis  
of balances  
- Transaction  
- Revenue booking

\* Completeness [No omission] → Genuinely recorded

(i)  Avator → Cut off Procedure

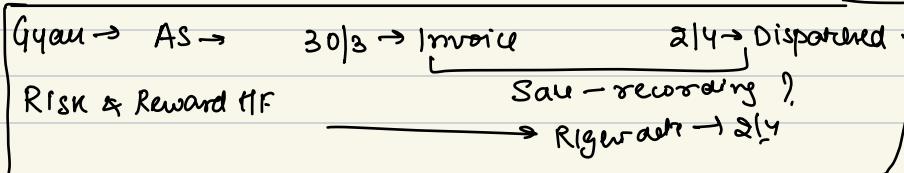
→  Cut off Date 31/3  
Invoice issued in last 5 days  
↓ included in Debtor  
Check Goods Dispatched.

{ Invoice Record  
Angle }

"3 months" Question

→ All Goods Dispatched Prior to Period end  
↳ Included in Debtor { Shipping Record Angle }

→ No Invoice for Goods → Dispatched after year end  
Not be included in Debtor.



- ii). Test invoices listed on Receivable Report.
- iii). Match invoices to Shipping log  
 Compare - Invoice Date  $\leftrightarrow$  Shipping Date.
- iv). Assess Bill & Hold Sales [To Be Included in Debito]   
 Examining supporting documentation to check genuineness.
- v). Review Discount  $\longrightarrow$  As per Company Policy

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cut off procedure

- i).  31/3  
 last 5 day invoice  $\longrightarrow$  to check whether Dispatched  
 test
- ii).  31/3  
 last 5 days  $\rightarrow$  shipping detail  $\longrightarrow$  should be recorded.
- iii) 31/3   $\longrightarrow$  Dispatch sales booking only  
 in next year.

## ★ Sales

### Risk Assessment procedures

i). Obtain understanding of mgmt Internal Control in respect of sale process.

eg.

- whether segregation of Duty exists ?
- who checks credit limit ?
- who authorize sale order ?
- who raise sale invoice ?
- who collect amt received from Dchtr ?
- who record " " " "
- who ensure risk & reward t/f ?

ii Auditor tests controls entity has set up for sale cycle to determine how strong & reliable they are.

If I.C. strong  $\rightarrow$  Reduce extent of Substantive Procedures

If I.C. weak  $\rightarrow$  ↑

+

Communicate Deficiency to TChair [SA 265]

iii) Auditor select Random sample of transactions & examine - customer orders  
- Invoices

iv). Performing Substantive audit procedure is must

## \* Occurrence [No fake sale booked]

- i). Ensure Revenue is not overstated (4 marks)
  - a. Check whether single invoice recorded twice or cancelled invoice could also be recorded.
  - b). Test few invoices → with Relevant Journal entry.
  - c). Obtain Confirmation from few customers {Genuineness}
  - D). Whether any fictitious customers & sales have been recorded.
  - e). Whether any substantial uncertainty exists about collectability.
  - f). Whether Shipment Done → without consent & {Focus on year end} Agreement of customers
  - g). Whether Unearned revenue → Recorded as earned.
- ii). Review sequence of sale invoices.
- iii). Review Journal entry → of unusual transactions
- IV). Calculate Sales Return → Supporting documents
- v). Calculate Sales Return to Sale Ratio. → Compare C.Y → P.Y.

→ (All genuine recorded)

## \* Completeness [cut off Procedure]

- Perform CUT-OFF Procedures
  - ↳ to identify cut off errors.

[Revenue Books on Invoice Basis  
rather than Risk & Reward Basis]

- Verify credit notes issued after accounting period end → to identify fictitious sales.

- Tracing from Shipping Documents to Sales Journal.

- Review GST Return → apply reasonableness test

$$\text{GST Output} = \text{Sales} \times \% \text{ GST Rate}$$

## \* Measurement [May 2025]

- Trace few transaction from Inception to Completion.

eg Receipt of Sales Order ↪ to Payment of Balance

Trace → to verify revenue recognition as per company policy.

- Export Sales → AS 11 should be complied.

- Auditor to understand
  - client operation
  - GAAP issues

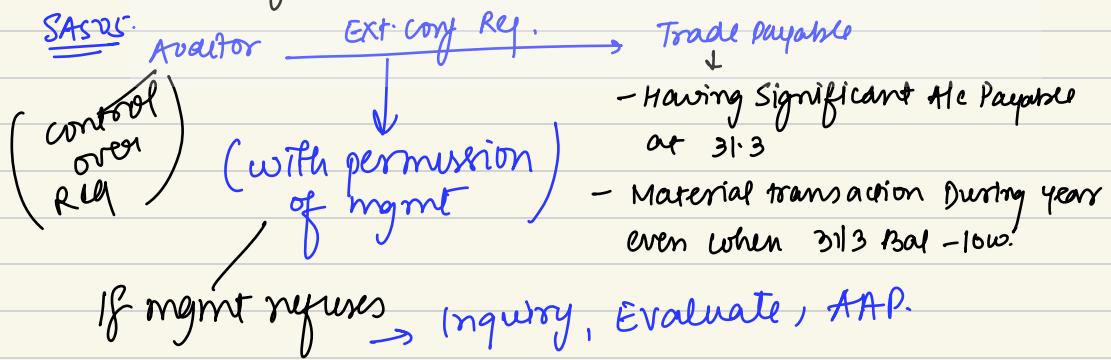
- Related party sales → Compare rate affected
  - Review collectability
  - Properly authorised
  - arm's length transactions.

# Trade Payable & Other Liability

## a). Existence [No fake]

- i). Check Controls → No Purchase / expense recording twice  
→ Payable Balance created automatically at time of recording expense.
- ii). Obtain A/c Payable Ageing Report → Trace Balance to General ledger.  
↳ Any diff → Investigate.
- iii). Related Party Payable → Review proper authorisation  
→ Check arm's length price
- iv). Review Trend line of purchase / expense → A/c Payable → offer unusual trends  
Inquiry to mgmt.
- v). Direct confirmation procedures

SAs 25:



out 31/3

- Date of Ext Comp Rep

Any other nearby Date  
Decided by auditor in  
consultation with mgmt.

- Rep

positive

negative

★ when no reply is received, perform Additional testing  
which include

- a). Testing of subsequent payment in case of no replies
- b). Agreeing Details of Respective Balance to Underlying vendor invoices
- c). Preparing Detailed Analysis of Balance, ensuring it consists of identifiable transactions & purchase / exp have actually occurred. [Examination] in Depth.

b). **Completeness** (All genuine Recorded)

i). Perform Cut-off Procedures

a). Check last 5 days Trade Payable at 31/3.

↓

check goods should be received [Risk & Rewards concept]

b). All goods received prior to year end

→ Should be included in purchases &  
Trade payable

ii). Test Samples of Purchase/exp from A/c Payable ledger

- check their supporting documents
- check whether recorded at correct values.

iii). Match Purchase Invoive Date to Date entry Date  
to check whether recorded at correct period.

iv). Review subsequent expense vouchers

(Material) - Post balance sheet Date to check  
correct period.

v). Statutory Dues → Do Reasonability Test.

eg. GST Sales X %. → Output tax liability

- Verify challan paid after period end for all  
Dues o/s at 31/3.

### 4). Valuation

- Obtain Ageing of A/c Payable + list of vendor (disputed)
- Review Company policy of old creditor written back
- Check written off Bal proper approval from mgmt.
- Restatement of foreign currency trade payable  
*as per AS 011.*

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# Purchases

## \* General

i). Auditor to identify Control Points over Purchases

- whether segregation of duties exist

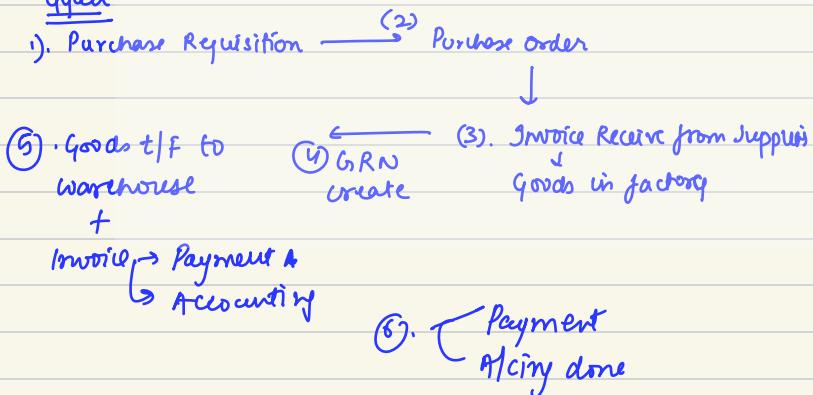
- whether competitive quotes are invited, etc

ii). Auditor Test of controls

iii). Auditor select Random sample of transactions  
& examine Related Purchase Order, G.R.N., Purchase Order,  
Inward Gate entry register.

iv). Perform Substantive Audit Procedure is must.

Gyan



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whether \* **Occurrence [No fake Purchases]**

- fictitious vendors → examine vendor selection process
- Quality Inspection Done
- Goods Received at factory gate. + entry at gate register
- Goods Received Note Prepared & Signed by Authorised 
- Purchase Invoice approval → Done by Authorised 
- Updation of stock records

Special Consideration During audit of purchase.

- Purchase Invoice Received → original copy.
- Booking of Purchase Invoice → Only Risk & Reward t/F to entity.
- Purchase made from Related Parties
  - Auditor to check → Transaction at arms length.  
→ Done only after approval of BOD.
- Input Tax Component → Jally ITC of Books with GST Portal.

## \* Completeness

i). Perform cut off Procedures to ensure purchase recorded in correct accounting period.

 Auditor → Examine last 5 days transaction at period end  
↳ Goods Have been recorded.  
No purchase Omission

ii) Ensure correct treatment of Goods in Transit as per agreed terms with vendor regarding RISK & REWARD t/f

iii) Obtain w/R from mgmt → all purchase have been recorded.

(4 marks)

iv). Perform Analytical Procedures to obtain Audit evidence as to overall reasonableness of Purchase Quantity & Price which include

### A). Consumption Analysis

- Auditor to check Raw Material Consumed as per manufacturing Alc, compare with p.y. with closing stock → if significant variations → ask reason from mgmt.

### B). Stock Composition Analysis

- Auditor to collect reports for composition of stocks  
i.e. R.M as % of Total Stock  
& compare same with P.Y., ask mgmt, if significant variations.

c). Ratios

→ Compare Ratios

Creditors Turnover

Stock Turnover

of C.Y → P.Y.

d). Quantitative Reconciliation

- Review Quantitative Reconciliation of closing stock  
with opening stock, purchases & consumption

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# Inventory

## a). Rights

- i). Vouch Recorded Purchases with underlying documents.
  - Purchase Requisition
  - Purchase Order
  - Receiving Report
  - Vendor Invoice
- ii). → Review Consignment agreements
- iii). → Evaluate Consignee goods → this is not entity ownership
- iv). Examine Invoices to verify ownership.  
[Name of client]
- v). Inventory held by 3<sup>rd</sup> party → Obtain Declaration from 3<sup>rd</sup> party on letterhead signed confirming same.

## b). Existence → [SA 501 Guidance]

- Attending physical inventory count
  - evaluate mgmt instructions to perform counting
  - Participate with mgmt
  - Inspect inventory
  - Perform Test Counts
- Ensure Consignee goods have been segregated.
- Entity using
  - Periodic System
  - Inventory counting at period end
- Perpetual Count
  - At Interim Dates.

- \* Test counts of inventory by auditor shall include.
  - Observing employees → adhering to plan
    - ↳ Appropriate supervision on count procedure.
  - Items → properly tagged
    - ↳ Tag shows proper amount
  - Performing cut off testing
    - Start 5-10. Receiving Report
    - Shipping Documents
  - Ensuring exclusion of 3<sup>rd</sup> party stock + Damaged Stock
  - Ensuring Accounting of all stock sheet
  - Investigate Difference B/w Physical Stock Take & Stock Records as per Books.

a). Completeness - Inventory owned by entity include

- Exclude 3<sup>rd</sup> party inventory.

① Perform Analytical Procedures

- Compute Inventory Turnover Ratio → COGS/Avg Inventory.
- Vertical Analysis → Inventory/Total Assets
- Compare budgetary expectation ↔ Actuals

② Performing Purchase & Sale cut off tests

[Tracing Shipping Documentation ↪ Accounting Records Before & After]

- Reconciling inventory belong to client, Held by 3<sup>rd</sup> party.
- Goods Received on Consignment Basis
  - ↳ to be segregated from Inventory
- For Jagged Inventory → Perform test for omitted transactions
- Verify clerical & arithmetic accuracy of inventory listings.

### D). Valuation

#### Raw Material

- Check what elements of cost are included
- Test check cost prices with purchase invoices received in month.
- Follow up Valuation of Damaged or obsolete items establishing NRV.

[AS. a → lower of  $\begin{cases} \text{cost} \\ \text{NRV} \end{cases}$ ]

#### Work in Progress

- Ensure what elements cost are included

→ Material cost to exclude abnormal wastage.

→ Ascertain how various stages of production are measured.

#### Finished Goods

→ Ensure AS. a valuation [Lower of cost or NRV]

→ Enquire as to what costs are included.

→ Examine Valuation of obsolete & Damaged Inventory.

## Examine Valuation of obsolete & damaged Inventory

- Obtain **Inventory Ageing** split & follow up for Damaged or Obsolete Inventory observed at time of physical inventory counting.
- Calculate Recorded cost with replacement cost
- Examine vendor price lists to determine if Recorded cost < Current Market Price.
- Verify AS.2 Guideline
- Mfg entity — Check Direct <sup>Mat, Lab, O/H</sup> is only included
- Calculate inventory Turnover Ratios.  
If Ratio is very **low** → indication of Obsolete inventory.

## Loans & Advances & Other Current Assets

### a). Existence

- \* Direct Confirmation Procedures (SA505)

↳ for both Principal + Interest Balance

### b). Completeness

- Obtain list of [all advances + other current assets]

↳ Compare them with balances in ledger.

- Verify loan agreements & Acknowledgements of parties in respect of outstanding loans.

- Material loan or Advance → Verify AOA & MOA.  
→ Inspect minutes of meeting of Board of Directors

- In case of Related Party Loans & Advances -

→ check propal authorisation

→ Arms length

- Verify loan Acknowledged by party + check security deposit.

- Ascertain loan repayment regularly as per installments

- GST Input (Statutory Due) → Prepare Reasonability Test.

- Verify Statutory Return filed

## Valuation

- Obtain Ageing Report of Loan & Advances
  - “ List of d & A under litigation. Compare C.Y - P.Y.
- Foreign currency loans & Advances → check restatement done as per S.S - 11.
- Scrutinize d & A that appear doubtful  
↓ Discuss with mgmt abt reasons if provision not made.
- Assess allowance for doubtful accounts.
  - Review company process to derive allowance.
  - check consistency comparision with P.Y.
  - check whether method appropriate.
- Assess Bad loan / Advance write off. Prepare schedule.

# Cash & Cash Equivalent [Existence & Completeness]

- \* Surprise check :- Cash Balance checking

On last day



Again after year end  
without prior notice

- \* Simultaneous Checks

→ cashier  
→ Petty cashier  
→ Branch cashier → verified together

- \* Cashier presence → Mandatory During Count  
→ Sign Document of Confirmation  
of Detail of Balance + Denominations

- \* Cash Sensitivity analysis → Analyze monthly cash

ASK for  
mgmt explanation if needed



R P

- \* Temporary Advances → Verify whether included in Cash Balance with proper approval

- \* Rough Cash Book → If Rough Cash Book maintained.

↓  
Test entry by comparing with Cash Book.

## Bank Reconciliation Statement

- ★ Obtain & Review BRS → for all Accounts + understand process of preparation.

### BRS Verification

- Match Balance in Bank Book ↔ Bank Statement.
- Stale Cheque [ $> 3$  months] → Should be removed & shown [cheque issued but not presented] as liability.
- Verify Deposits not created by bank  
↳ using Deposit slip + Subsequent Bank Statements.
- Review uncleared cheque  
↓  
Seek explanation for overdue + verify revenue recognition
- Ensure material reconciling items  
↓  
e.g. Unpresented cheques → are cleared or explained.
- Check for Dr/cr Amt not Accounted for  
↓  
ensure proper Adjustment made.

## \* Direct confirmation Procedure

- i). Obtain for all Bank A/c at period end.
- ii). Investigation of Discrepancy
- iii). Unresponsive Bank → Additional testing

Verifying Balance  
to Bank statement received  
by company  
or

Net Banking login in presence  
of personnel

Sending audit team  
members to Bank  
with entity  
personal.

Valuation → Bank A/c's holding foreign currency

Restated at closing exchange rate  
as per app F.R.F.

# Employee Benefit Expense (E.B.E.)

## \* Assertions (MCQ)

- Occurrence → E.B.E have actually occurred during [No fake] the year.
- Completeness → E.B.E pertaining to year have been [No Omission] Recorded
- Measurement → Measured appropriately.  
→ No overstatement or understatement

## \* Audit Procedures

- Obtain understanding of entity process → capturing attendance.
- Always risk of fictitious employees.
  - Auditor Response :- Meet employees in Person [SAMPLE]
  - :- Ask Payroll Dept to share Bank details, id proof of sample employees.
- Obtain list of employees at period end with monthly movement b/w - New Hires  
- Leavers  
- Continuing ] Employees.
- For New Hires → Obtain appointment letter [SAMPLE] → Check 1<sup>st</sup> Salary & subsequent salary payment processed as per terms.

- For Resigned Employees (SAMPLE)
  - Obtain Full & Final Computation
  - Verify all dues & Retirement Benefit paid
  - Whether employee acknowledgement on final computation has been obtained
- If PF, ESI applicable to entity → apply Rate to Basic Wage
  - ↓
    - (a). Obtain Monthly Challan of payment to check whether deposit in time.
    - Comparing to Amt Recording in Books
- Verify if PROVISION has been made for obligation like Gratuity, Bonus, Leave encashment, etc.
- Obtain Monthly Salary Register for all 12 months.
  - ↓
    - Calculate monthly Avg Salary per employee
    - Compare it b/w months
    - Analyze Difference

Pointers — Understanding

- Fictitious employee
- New Hire
- Leavers
- PF, ESI
- Analytical Procedure

## Other Expenses

\* Auditor to verify following attributes

- 1) Pertains to current year
- 2). Qualified as Revenue & not capital expenditure.
- 3). Authorised by official person.
- 4). Exp relation to entity's business & not personal exp.
- 5). Exp → valid supporting documents
- 6). Classified under correct expense Head.

[Current year ने Authorised बुग करो, Correct Revenue का Support दायेगा]

[ Refer Main Book for examples & focus on attributes & try to make points on own ]

## \* Other Income

i). Interest earned on Fixed Deposit → Time proportion Basis

(MCQ)  
ii). Dividend Recognition in P&L when

- a). Entity Right to Receive Payment is established.
- b). Amt can be measured reliably
- c). Probable economic benefits will flow to entity.

iii). Gain / loss on Sale of Investment in Mutual Funds.

## Audit Procedures

i). For verifying Interest on Fixed Deposits

↓

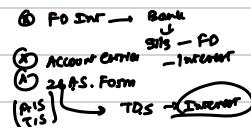
→ Obtain listing of F.D. opened during period along with App Int. Rate & No. of days for which deposit was O/S.

→ Recalculation Int → Deposit Amt x App Rate x No. of days.

→ Deposit O/S at period end :- Obtain Ext Confirmation

→ Obtain confirmation of Int Income from Bank  
↓ Cross check with entity calculation

→ Obtain copy of 26AS :- Reconcile Int Income.



# Depreciation & Amortisation

## \* Attributes

Auditor to consider following attributes

- i). Whether D & A are VALID
- ii). " " " Accurately calculated & recorded
- iii). " " " Recorded in appropriate period
- iv). Ensure Comp Policy for charging D & A  
↳ as per Companies Act / A.S.
- v). Whether Dep. calculated after Adjustment of Residual value from Cost.
- vi). Accounting Policy - Consistently applied  
- changes → Disclosed.
- vii). Whether most appropriate method is used.

## \* Audit Procedures

- i). Obtain Understanding of entity's process for charging
- ii). Obtain FA Register maintained + list of all Additions or Deletions  
↳ Select Sample → on materiality Basis
- iii). Select Sample → on materiality Basis  
↳ verify Rate & Calculations
- iv). Amortisation → on all Intangible
- v). Dep charged → when Ready to use & not from Actual usage.
- vi). Change in Useful life → Prospective treatment
- vii). D, A changed as per useful life.