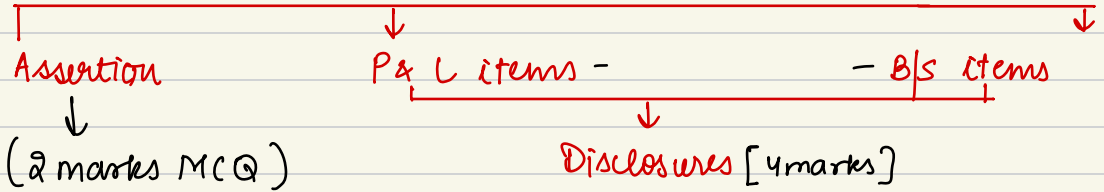


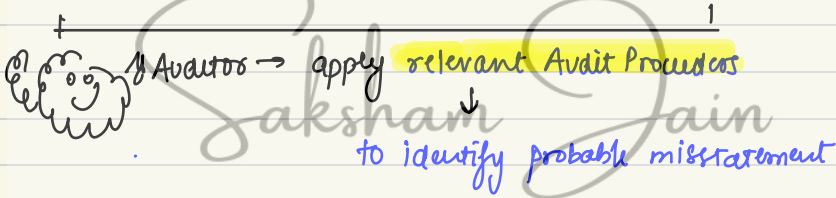
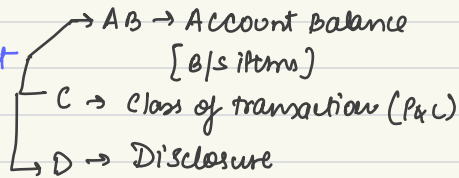
# Audit of items of Financial Statement

[16-18 marks]



## I). Assertion

Representation by mgmt  
[either implicitly or explicitly]



Example → 31/3 - PPE = 1000k<sup>Valuation</sup>  
↓  
[Existence] } Completeness  
↓  
[Rights & obligations]

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

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

eg. Inventory as on 31/3 → xxx

↓  
actually exist at B/S Date....

ii). Completeness [All genuine Recorded]

eg. PPE → Addition & Deletion → all are recorded.

eg. 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 FRF.

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.

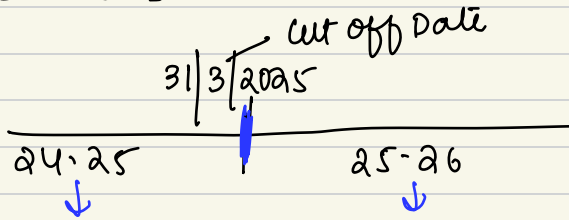
ii). Completeness [All genuine recorded]  
↓

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

- Tolly period end S.C. to previous year.
  - Authorised, Issue, Paid up
  - If no change  
↓  
obtain written Confirmation from C.S. [Company Secretary]
  - If change → verify paid up within Authorised Limit.  
→ check from A.O.A. / MOA.
- Fresh Issue → check compliance with Companies Act.
  - with regard to
    - Return of Allotment
    - Minimum Subscription
    - payment of underwriting commissions, etc
- check shares issued
  - [ for cash
  - [ for other than cash consideration
- NO shares → issued at Discount
- ↑ in S.C → calculate fee & stamp duty payable to MCA.
- Compliance with SEBI regulation & Guideline.
- Form SH-7 & Form PAS-3 } filed with MCA → Share Capital Changes  
→ Share Allotment
- Form FCBPR filed with RBI → FDI by NRI

{ BB Sir ki baat ko write off nhi krna. }  
Premium Teacher Hai

## \* Shares Issued at Premium ✓

Application of Security Premium A/c for following purpose

- ↓
- Writing off — (i) preliminary exp  
(ii) expenses or Commission paid or Discount Allowed on issue of Share / Debenture
- (ii). Towards issue of Unissued Shares as fully paid Bonus Shares
- iv). Providing for premium payable on — Redemption of Redeemable Pref Shares or Deb
- v). 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 — lower 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 (SEC 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.

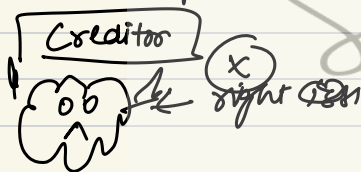
\* If not listed → as per rules prescribed.

## \* Reduction of Capital (Sec 66)

- AOA - authorise reduction of capital.
- MOA - 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

$\rightarrow$  Better financial position  
Capital  $\rightarrow$  10% 1-  $\rightarrow$  Rs called up  
 $\rightarrow$  Rs 80000

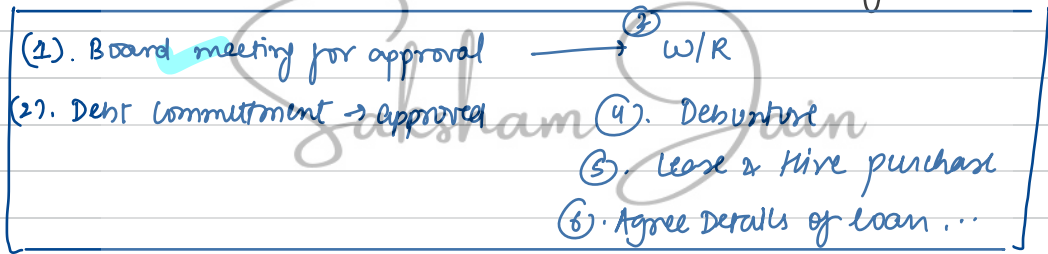


# \* Borrowing

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 (SASOS) → from lender
- Debentures → examine trust deed for t/c
- Obtain W/R → all liab represent valid claims.
- Agree Detail of lease & hire purchase recorded → with underlying/ agreements.



b). **Completeness**

i). Obtain Schedule

Short term

long term

}

Borrowing

— opening

— Borrowing taken

— Repay

— closing

Perform following

- Considered evidence of additional debt obtained through
  - Examination of minutes of B.O.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.

i.ii). 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 Hire purchase agreements for purchase of Assets  
↓  
insure 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 be 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 + looking for Provision made.

eg. → { 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  
Completeness → of Source Data used  
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.

h). **Completeness** ← Additions properly recorded  
Do not include PPE belong to 3<sup>rd</sup> parties.

→ Verify movement in PPE schedule → Asset class wise  
Opening + Add - Deletions  
= Closing Balance  
↓  
Tally with B.O.A.

→ **Recalculation** ∴ check arithmetic accuracy of movement in PPE Schedule.

→ Tally opening Balance → P.V. Audited F.S.

### → **ADDITIONS**

Obtain listing of all addition from mgmt

↓  
Perform following procedures

- PPE additions ∴ properly authorised (Approved)
- Verify proper process & 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  
↓  
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 need to be considered

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

## \* Valuation

- 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.V
- Verify Write off done → Proper Authority Ageing Schedule

Example

Debtor's — < 6m

26m - 14

14 - 24

2 - 34

Provision %

5%

10%

20/50%

Example

## \* Existence → (No fake Debtor)

- Ask for Period end Ageing Report → Trace Balance as per Report to General ledgers.
- Check Realisation Recorded → Invoice wise or Not.  
↓  
If not → check adjusted chronologically Invoice wise
- Any large Balance Due → Ask Reasons & justifications.
- Check controls relating to → No Invoice recorded twice.  
→ 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 → whether at arm's length  
→ whether properly authorised  
→ Check collectability
- Perform Analytical Procedures → to check Reasonableness  
[ Trade Receivable & Sales ] → (C.V - P.V)
- Direct Confirmation Procedures for all significant A/c Bal  
\* External Confirmation → Sample Basis for other.  
↓  
give explanation of SASO → Mgmt Consent  
→ 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 A.P."

Agree Balance to cash received

Detail Analysis of Balances

Transaction

Revenue Booking

\* Completeness [No Omission] → Genuine & Recorded

(i) Auditor → Cut off Procedure

→ Invoice Issued in last 5 days  
31/3 — cut off Date  
↓  
included in Debtors  
↳ Check Goods Dispatched.

{ Invoice Record Angle }

"3 months" Question

→ All Goods Dispatched Prior to Period end  
↳ Included in Debtors

{ Shipping Record Angle }

→ No Invoice for Goods — Dispatched after year end  
↓  
Not be included in Debtors

Gyan → AS → 30/3 → Invoice 21/4 → Dispatched.  
Risk & Reward HF  
Sale - recording ?  
→ R/gwark → 21/4

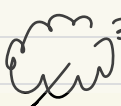
- ii). Test Invoices listed on Receivable Report.
- iii). Match Invoices to Shipping log  
Compare - Invoice Date  $\leftrightarrow$  Shipping Date.
- iv). Assess Bill & Hold Sales [To Be Included in Debit]  
Examining supporting Documentation to check genuineness.
- v). Review Discount  $\rightarrow$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

cut off procedure

i).  31/3


last day invoice  $\rightarrow$  to check whether Dispatched  
Text

ii).

 31/3

last day  $\rightarrow$  shipping detail  $\rightarrow$  should be recorded.

iii)

31/3 

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 authorise sale order?
- Who raise sale invoice?
- Who collect amt received from Debtor?
- 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 → Reduce extent of Substantive Procedures  
If I.C. weak → ↑ " " " "

+

Communicate Deficiency to TCW  
[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 & agreement of customers  
{focus on year end}
  - 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]

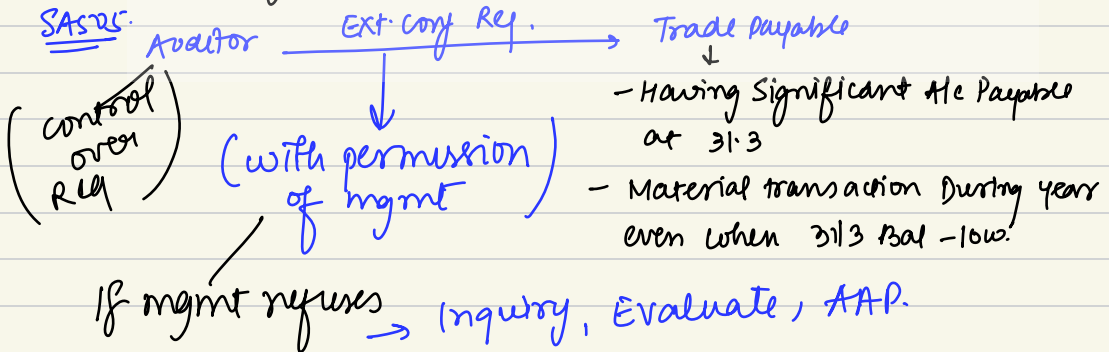
i). Check Controls → No Purchase/Expense recording twice  
→ Payable Balance created automatically at time of recording expense.

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 → check unusual trends  
A/c Payable  
Inquiry to mgmt.

v). Direct Confirmation Procedures



nt 31/3

- Date of Ext. Com. Rep

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

- Rep  $\begin{cases} \text{Positive} \\ \text{Negative} \end{cases}$

(\*) 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

ai). 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 ledgers

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

iii). Match Purchase Invoice Date to Gate 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  $\times$  % → 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-11.

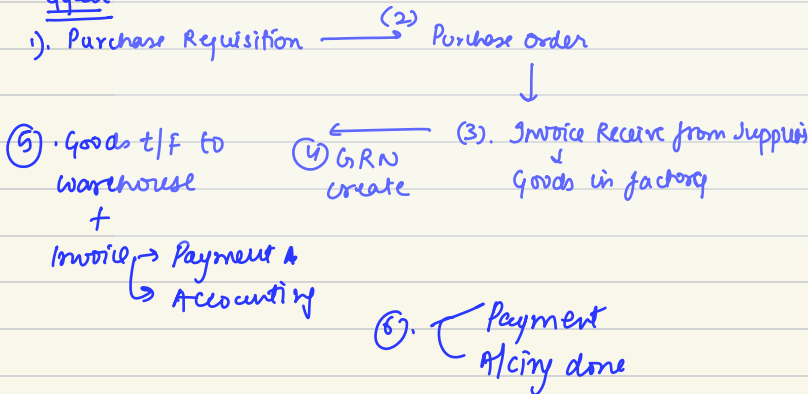
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# Purchases

## \* 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, GRN, Purchase Order. Inward Gate entry register.
- iv). Perform Substantive Audit Procedure is must.

## Gyan




- 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 A/c, 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.
- mca

\* 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 & examine — [last 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.

c). Completeness — Inventory Owned by entity Include  
— Exclude 3<sup>rd</sup> party Inventory.

⊙ Perform Analytical Procedures

- Compute Inventory Turnover Ratio →  $\text{COGS} / \text{Avg Inventory}$ .
- Vertical Analysis →  $\text{Inventory} / \text{Total Assets}$
- Compare budgetary expectation ↔ Actuals

⊙ 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:2 → lower of  $\left\{ \begin{matrix} \text{Cost} \\ \text{NRV} \end{matrix} \right\}$ ]

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:2 valuation  $\left[ \begin{matrix} \text{Lower of} \\ \text{Cost} \\ \text{or} \\ \text{NRV} \end{matrix} \right]$

→ 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 — Mat, Lab, O/H → 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 (SATSOS)

↳ 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.

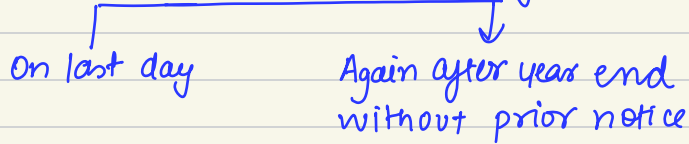
• Verify Statutory Return filed

## 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 StS-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 comparison 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



\* Simultaneous Checks

- Cashier
- Petty cashier
- Branch Cashier

→ verified together

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

\* Cash Sensivity Analysis → Analyze monthly cash

ASK for mgmt explanation if needed ← to identify trends or variation

↓

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 as liability.  
[cheque issued but not presented]
- Verify Deposits not credited by Bank  
↳ using Deposit slip + subsequent Bank Statements
- Review uncleared cheque  
↓  
Seek explanation for overdue + verify revenue recognition
- Ensure material reconciling items  
↓  
eg → 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  
member to Bank  
with entity  
personal.

Valuation → Bank A/c's holding foreign currency

↓  
Restated at closing exchange rate  
as per app FRF.

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

## \* Assertions (MCQ)

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

## \* Audit Procedures

- Obtain understanding of entry 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 → <sup>(1)</sup> apply Rate to Basic Wage &
  - (a). Obtain Monthly Challan of payment to check whether deposited 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 → Authorised Bus karo, Correct Revenue ka support aayega]

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

## \* Other Income

- i). Interest earned on Fixed Deposit  $\rightarrow$  Time proportion Basis  
(MCQ)
- ii). Dividend Recognition in P&L when
- Entity Right to Receive Payment is established
  - Amt can be measured reliably
  - 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

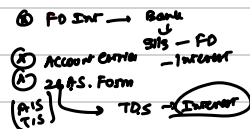
$\downarrow$   
 $\rightarrow$  Obtain listing of F.D. opened during period along with App Int Rate & No. of days for which Deposit was O/S.

$\rightarrow$  Recalculation Int  $\rightarrow$  Deposit Amt  $\times$  App Rate  $\times$  No of days.

$\rightarrow$  Deposit O/S at period end :- Obtain Ext Confirmation

$\rightarrow$  Obtain Confirmation of Int Income from Bank  
 $\downarrow$  Cross check with entry calculation

$\rightarrow$  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 Addition or Deletion
- 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.