

Chapter 5 – Audit of Items of Financial Statements

Assertions

- Assertions refers to the **representations** by **management**, **explicit** or **otherwise**, that are **embodied** in the FS, as **used** by the **auditor** to consider the different types of potential **misstatements** that may occur.
- In preparing FSs, Company's management makes implicit or explicit claims (i.e. assertions).
- These assertions are categorised for Account balance, Transaction and related disclosures
- The auditor then needs to draw an audit programme to verify the assertions made by the management by obtaining sufficient and appropriate audit evidence for each of the claims made on Account Balances, Class of Transactions and Related Disclosures.

Assertions about classes of transactions and events for the period under audit

1. **Occurrence** – transactions and events that have been recorded have **occurred** and **pertain** to the entity.
2. **Completeness** – **all** transactions and events that should have been **recorded** have been recorded.
3. **Accuracy** – amounts and other data relating to recorded transactions and events have been **recorded appropriately**.
4. **Cut-off**– transactions and events have been recorded in the **correct accounting period**.
5. **Classification** – transactions and events have been recorded in the **proper accounts**.

Assertions about account balances at the period end

1. **Existence** – assets, liabilities, and equity interests **exist**.
2. **Rights and obligations** – the entity **holds** or **controls** the rights to assets, and liabilities are the obligations of the entity.
3. **Completeness** – **all** assets, liabilities and equity interests that should have been **recorded** have been recorded.
4. **Valuation and allocation** – assets, liabilities, and equity interests are included in the financial statements at **appropriate amounts** and any resulting valuation or allocation **adjustments** are appropriately **recorded**.

For example

If Company PK Girpade PVT LTD. balance sheet shows Building with carrying amount of ₹ 150 lakh, the auditor shall assume that the management has claimed/ asserted that:

- The building recognized in the balance sheet exists as at the period- end (**existence assertion**);
- Company PK Girpade PVT LTD. owns and controls such building (**Rights and obligations assertion**);
- The building has been valued accurately in accordance with the measurement principles (**Valuation assertion**);

- All buildings owned and controlled by Company X are included within the carrying amount of ₹ 150 lakh (**Completeness assertion**).

For example

- **Existence:** Inventory recognized in the balance sheet actually existed as at the period end.
- **Rights and obligations:** The entity owns or controls the inventory recorded in the FS i.e. the purchase invoices have been made in the name of client. Any inventory held by the entity on behalf of another entity has not been recognized as part of inventory of the entity.
- **Completeness:** All inventory units held by the entity that should have been recorded, have been recognized appropriately in the FS. Any inventory held by a third party on behalf of the entity has been included as part of the inventory balance. Inventory held by the entity as a Consignee shall be excluded.
- **Valuation:** Inventory has been recognized at the lower of
 - cost and
 - NRV in accordance with AS 2 – Inventories.
 - Any costs that could not be reasonably allocated to the cost of production (e.g. general and administrative costs) and any abnormal wastage have been excluded from the cost of inventory. An acceptable valuation basis (eg.FIFO, Weighted average etc.) has been used to value inventory as at the period-end.

Assertions about presentation and disclosure

1. **Occurrence and rights and obligations** – disclosed events, transactions, and other matters have **occurred** and **pertain** to the entity.
2. **Completeness** – **all** disclosures that should have been included in the financial statements have been **included**.
3. **Classification and understandability** – financial information is appropriately **presented** and **described**, and disclosures are clearly expressed.
4. **Accuracy and valuation** – financial and other information are disclosed **fairly** and at **appropriate amounts**.

Example on Assertion

		₹
Plant & Machinery (at Cost)		4,00,000
Less: Depreciation till the end of previous year	1,40,000	<u>26,000</u>
For the year		<u>1,66,000</u>
		2,34,000

The assertions are as follows:

- the firm owns the plant and machinery;
- the historical cost of plant and machinery is ₹ 4 lacs;
- the plant and machinery physically exists;
- the asset is being utilised in the business of the company productively;

- total charge of depreciation on this asset is ₹ 1,66,000 to date on which ₹ 26,000 relates to the year in respect of which the accounts are drawn up; and
- the amount of depreciation has been calculated on a recognised basis and the calculation is correct.
- The above assertions are **implicit**

Explicit assertions are made when otherwise the reader will be left with an incomplete picture; it may even be misleading.

- Secured Loans ₹ 4,00,000
- The description does not give us a complete picture. We do not know:
 - the name of the lender, if it is relevant;
 - the nature of security provided; and
 - the rate at which interest is payable.
- Negative assertions are also encountered in the financial statements and the same may be expressed or implied. For example, if it is stated that there is **no contingent liability** it would be an expressed **negative assertion**.

On the other hand, if in the balance sheet there is no item as "building", it would be an **implied negative assertion** that the entity did not own any building on the balance sheet date.

Audit of Share Capital

General Audit procedures

- Tally** the period-end share capital balance authorised, issued and paid up to the previous year audited FS
- If there is **no change** during the year, obtain a **written confirmation/representation** from the **Company Secretary** that there were no changes to the entity's capital structure during the year.
- If there is any **change**, verify whether the paid up capital as at the period-end is within the **limits** of authorised capital. Authorised capital should be verified by examining **MOA**.
- Obtain the certified copies of relevant **resolutions** passed at the meetings of board of directors, shareholders authorising the **increase/ decrease** in **authorised** share capital, if required, or **paid up** share capital.
- In case of **Fresh issue** made in the current year, check with compliance of the Companies Act 2013 with regard to
 - Return of **Allotment**;
 - Minimum Subscription**;
 - minimum application** money to be collected;
 - maintenance of **separate Bank** account;
 - payment of **underwriting commission** as per Sec 40 etc
- No shares have been issued at **Discount** (Sec. 53 of the Companies Act)
- Check if Shares are issued for **cash** or for **Consideration other than cash**.
- Compliance with **SEBI regulations** and **Guidelines**

- Obtain and verify copies of **forms filed** with Ministry of Corporate Affairs (MCA)
 - Form SH 7 for increase in authorised share capital,
 - Form PAS 3 for increase in paid up capital and
 - Form FC-GPR with RBI in case of Foreign Direct Investment (FDI) by a Non-resident shareholder and verify the number of securities issued along with the issue price.
- In case there was an **increase** in **share capital**, verify whether the Company has **accurately calculated** the **required fee** and stamp duty payable to MCA.

Issue of Shares at Premium

- Section 52** of the Companies Act, 2013 provides that a Company shall transfer the amount received as premium to **securities premium account** and state the **purpose** for which the amount in the account can be applied.
- There is no restriction or conditions prescribed in the Act for issue of shares at premium.

Application of securities premium account

The securities premium account may be applied by the company for the following purposes:

- towards the issue of unissued shares of the company to the members of the company as fully paid **bonus Shares**
- in writing off the **preliminary expenses** of the Company;
- in writing off the **expenses** of, or the **commission** paid or **discount** allowed on, any issue of shares or debentures of the company;
- in providing for the **premium payable** on the **redemption** of any redeemable **preference shares** or of any **debentures** of the company; or
- for the **purchase** of its **own shares** or other securities under Section 68. (Buyback)

The auditor needs to verify

- whether the premium received on shares, if any, has been transferred to a "securities premium account" and
- whether the application of any amount out of the said "securities premium account" is only for the purposes mentioned above.

Issue of Shares at Discount

According to **Section 53** of the Companies Act, 2013,

- A company shall **not issue shares** at a **discount, except** in the case of an issue of **sweat equity** shares given u/s 54 of the Companies Act, 2013.
- Any shares issued by a company at a discounted price shall be **void**.
- Notwithstanding anything mentioned in above two points, a company **may issue 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 RBI under RBI Act, 1934 or the Banking (Regulation) Act, 1949.

- Where any company fails to comply with the provisions of this section, such company and every officer who is in default shall be liable to a penalty which may extend to an amount equal to the amount raised through the issue of shares at a discount or ₹5 lakh, whichever is less, and the company shall also be liable to refund all monies received with interest at the rate of 12% p.a. from the date of issue of such shares to the persons to whom such shares have been issued.

Verification aspects

The auditor needs to check the following:

- movement in share capital during the year
- Verify that Company has not issued any of its shares at a discount by reading the minutes of meeting of its directors and shareholders
- verify that 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 RBI under RBI Act, 1934 or the Banking (Regulation) Act, 1949.

Issue of Sweat Equity Shares

Meaning

According to Section 54 of the Companies Act, 2013, the employees may be compensated in the form of 'Sweat Equity Shares'. "Sweat Equity Shares" mean equity shares issued by

- the company to employees or directors at a
 - discount or
 - for consideration other than cash
- for providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.

Verification aspects

The auditor needs to verify that the Sweat Equity Shares issued by the company are of a class of shares already issued and following conditions have been complied with (as per Section 54):

- The issue is authorised by a special resolution passed by the company;
- the resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;
- 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 Securities and Exchange Board and if they are not so listed, the sweat equity shares are issued in accordance with such rules as may be prescribed.

The rights, limitations, restrictions and provisions as applicable to equity shares shall be applicable to the sweat equity shares issued under this section and the holders of such shares shall rank *pari passu* with other equity shareholders.

Reduction of Capital (Section 66)

The auditor will carry out the following audit procedures:

- Confirm that the shareholders' meeting, which was held to pass the special resolution, was duly convened and that the proposal was circularised in advance to all the shareholders;
- Check that the Articles of Association authorises reduction of capital;
- Evaluate that there has been no default w.r.t repayment of deposits accepted by company or payment of interest on such deposits. Reduction of capital shall not be affected if such default exists.
- Examine the order of the Tribunal confirming the reduction and ensure that a copy of the order and the 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;
- Check whether the Requirements of Schedule III wrt reduced capital have been complied with.
- Confirm whether the revaluation of assets has been properly disclosed in the Balance Sheet;
- Verify the adjustment made in the members' accounts in the Register of Members and confirm that either the paid-up amount shown on the old share certificates has been altered or new certificates have been issued in lieu of the old, and the old ones have been cancelled
- 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 amended.

Disclosures regarding Funds advanced or loaned or invested with other persons

- Where company has
 - advanced or loaned or invested funds (either borrowed funds or share premium or any other sources or kind of funds)
 - to any other person(s) or entity(ies), including foreign entities (Intermediaries)
 - with the understanding (whether recorded in writing or otherwise)

- that the Intermediary shall
 - directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company (Ultimate Beneficiaries) or
 - provide any guarantee, security or the like to or on behalf of the Ultimate Beneficiaries;
- The company shall disclose the following:-
 - a. date and amount of fund advanced or loaned or invested in Intermediaries with complete details of each Intermediary.
 - b. date and amount of fund further advanced or loaned or invested by such Intermediaries to other intermediaries or Ultimate Beneficiaries along with complete details of the ultimate beneficiaries.
 - c. date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries
 - d. declaration that relevant provisions of the Foreign Exchange Management Act, 1999 and Companies Act has been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering act, 2002

Disclosures regarding Funds received from other persons

- Where a company has
 - received any fund
 - from any person(s) or entity(ies), including foreign entities (Funding Party)
 - with the understanding (whether recorded in writing or otherwise)
 - that the company shall
 - directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (Ultimate Beneficiaries) or
 - provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries,
- The company shall disclose the following
 - a. date and amount of fund received from Funding parties with complete details of each Funding party.
 - b. date and amount of fund further advanced or loaned or invested by other intermediaries or Ultimate Beneficiaries along with complete details of the other intermediaries or ultimate beneficiaries.
 - c. date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries
 - d. declaration that relevant provisions of the Foreign Exchange Management Act, 1999 and Companies Act has been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering act, 2002

Disclosure requirements of Schedule III

For each class of share capital (different classes of preference shares to be treated separately):

- a. the number and amount of shares authorised;
- b. the number of shares issued, subscribed and fully paid, and subscribed but not fully paid;
- c. par value per share;
- d. a reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period;
- e. the rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital;
- f. shares in respect of each class in the company held by its holding company or its ultimate holding company including shares held by or by subsidiaries or associates of the holding company or the ultimate holding company in aggregate;
- g. shares in the company held by each shareholder holding more than 5% shares specifying the number of shares held;
- h. shares reserved for issue under options and contracts/commitments for the sale of shares/disinvestment, including the terms and amounts;
- i. for the period of 5 years immediately preceding the date as at which the Balance Sheet is prepared:
 - i. Aggregate number and class of shares allotted as fully paid up pursuant to contract(s) without payment being received in cash.
 - ii. Aggregate number and class of shares allotted as fully paid up by way of bonus shares.
 - iii. Aggregate number and class of shares bought back.
- j. terms of any securities convertible into equity/preference shares issued along with the earliest date of conversion in descending order starting from the farthest such date.
- k. calls unpaid (showing aggregate value of calls unpaid by directors and officers)
- l. forfeited shares (amount originally paid up)
- m. A company shall disclose Shareholding of Promoters as below

Shares held by promoters at the end of the year				% Change during the year***
S. No.	Promoter Name	No. of shares	% of total shares**	
Total				

** Details shall be given separately for each class of shares

*** % change shall be computed with respect to the number at the beginning of the year or if issued during the year for the first time then with respect to the date of issue.

Where in respect of an issue of securities made for a specific purpose, the whole or part of the amount has not been used for the specific purpose at the balance sheet date, there shall be indicated by way of note how such unutilised amounts have been used or invested.

Audit of Reserves and Surplus

Meaning

Reserves are the amounts appropriated out of profits that are not intended to meet any liability, contingency, commitment or diminution in the value of assets known to exist as at the date of the Balance Sheet

Types of Reserves

The reserves can be segregated as revenue or capital reserves.

Revenue reserves

Revenue reserves represent profits that are available for distribution to shareholders or below purposes such as:

- To supplement divisible profits in lean years,
- to finance an extension of business,
- to augment the working capital of the business or
- to generally strengthen the company's financial position.

Capital Reserve

- Capital Reserve represents a reserve which does not include any amount regarded as free for distribution. They can be utilised only for certain limited purposes. Example, Securities premium, CRR
- Capital Reserve is created from capital profits earned through sale of capital assets such as sale of fixed assets, profit on sale of shares.
- A capital reserve, generally, can be utilised for writing down fictitious assets or losses or (subject to provisions in the Articles) for issuing bonus shares if it is realised.
- But the amount of securities premium or capital redemption reserve account can be utilised only for the purposes specified in Sections 52 and 55 of the Companies Act, 2013, respectively.

Assertions to be Examined

1. **Existence** – To establish the existence of reserves and surplus as at the year end.
2. **Completeness** – Reserves and Surplus balances that were supposed to be recorded have been recognized in the FS
3. **Valuation** – Reserves and Surplus balances have been valued appropriately as per relevant law and regulation and applicable FRF
4. **Presentation and disclosure** – Required disclosures for reserves and surplus have been appropriately made.

Audit Procedures

1. Compare opening balance of reserves and surplus to the previous year audited FS

2. For addition/utilisation in current year, in case of:

- a. Profit and Loss balance –
 - Trace the movement to surplus/ deficit as per the Statement of profit and loss for the year under audit.
 - The movement should be traced in the Statement of Changes in Equity.
 - Check the resolution passed by the board of directors regarding the recommendation of dividend and resolution passed by shareholders regarding declaration of dividend.
- b. Securities Premium – Confirm whether the company has issued any shares in excess of the nominal value of the shares. Ensure that application of securities premium amount is as per Section 52.

Disclosure requirements of Schedule III

Ensure whether the following disclosure requirements of Schedule III (Part 1) to Companies Act, 2013 have been complied with:

1. Reserves and Surplus shall be classified as:
 - a. Capital Reserves;
 - b. Capital Redemption Reserve;
 - c. Securities Premium;
 - d. Debenture Redemption Reserve;
 - e. Revaluation Reserve;
 - f. Share Options Outstanding Account;
 - g. Other Reserves– (specify the nature and purpose of each reserve and the amount in respect thereof);
 - h. Surplus i.e., balance in Statement of Profit and Loss disclosing allocations and appropriations such as dividend, bonus shares and transfer to/ from reserves, etc.; (Additions and deductions since last balance sheet to be shown under each of the specified heads);
2. A reserve specifically represented by earmarked investments shall be termed as a "fund".
3. Debit balance of statement of profit and loss shall be shown as a negative figure under the head "Surplus". Similarly, the balance of "Reserves and Surplus", after adjusting the negative balance of surplus, if any, shall be shown under the head "Reserves and Surplus" even if the resulting figure is in the negative.

Audit of Borrowings

Borrowings are the amount borrowed using external sources like bank loans, debentures, public fixed deposits etc.

Audit procedures for "Existence"

(Ensure that all borrowings on the balance sheet represent valid claims by banks or other third parties)

1. Review board minutes for approval of new lending agreements. During review, make sure that any new loan agreements or bond issuances are authorized.

2. **Ensure** that significant debt commitments should be **approved** by the board of directors
3. **Agree** details of loans recorded such as interest rate, nature and repayment terms to the **loan agreement**.
4. **Verify** that the loans obtained are within the **borrowing limits** of the entity.
5. **Roll out** and obtain independent **balance confirmations** (SA 505) in respect of all the borrowings from the lender (banks/ financial institutions etc.).
6. **Agree** details of leases and hire purchase creditors recorded to **underlying contracts/agreements**.
7. In case of **Debentures**, **examine trust deeds** for terms and dates of redemption borrowing restrictions and compliance with covenants.
8. When debt is retired, **ensure** that a discharge is received on assets securing the debt.
9. Obtain **Written Representation** that all the liabilities which have been recorded represent a valid claim by the lenders.

Direct confirmation procedures

Roll out and **obtain independent** balance **confirmations** in respect of all the borrowings from the lender (banks/financial institutions etc.) and perform the following:

- a. Ascertain that the confirmation asks for **all** information likely to be relevant to the tests of debt and related interest balances (e.g., applicable interest rates, due dates, collateral and security interests).
- b. Send reminders for non-replies.
- c. **Compare** the balances as per the confirmations obtained to the books of the accounts. Ask for **reconciliations**, if there are any **differences** and test the **supporting** documents for the reconciling items on a test check basis.

Audit procedures for "Completeness"

(Check that all borrowings have been accounted for in the books of the company on a timely basis)

- Obtain a **schedule** of short term and long term borrowings (including debts outstanding at the end of the previous year, as well as any new debt or renewal of debt) showing beginning and ending balances and borrowings taken and repaid during the year, and perform the following:
 - Consider any **evidence** of **additional debt** obtained through **examination** of minutes of the board of directors, significant contracts, confirmations from banks/ lenders, support for subsequent cash disbursements (when testing payables) etc.
 - Trace the closing balances as per the schedules to the general ledger.
- **Review subsequent transactions** after the end of the reporting period to determine if there are unrecorded liabilities at year

end and the transactions are recorded in the correct period. (Eg: Fresh loan taken near the balance sheet date)

Audit procedures for "Valuation"

(Ensure that liability is recorded at the correct amount)

- **Determine** that the **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 **amortisation** of **premium** or **discount** if any.
- For foreign currency loans, check the **closing exchange rate(s)** used and **verify** the **computations** of the restatements of foreign currency balances outstanding at year end. (As per AS 11)
- Read the **provisions** in loan and debt **agreements** and perform the following:
 - Test that the entity is in **compliance** with **loan covenants** and other significant provisions of the agreements.
 - If there are any provisions with which the entity is **not in compliance**, **determine** whether the **debt** should be **classified** as **current**. If **enforcement** of the provisions has been **waived** by the lender in case of breach of any covenant by the entity, **obtain confirmation** of the waiver from the lender.
- Examine the **due dates** on loans for proper **classification** between long-term and short-term.
- Where instalments of long-term loans falling due within the next twelve months have been disclosed in the financial statements (e.g. in parentheses or by way of a footnote), verify the **correctness** of the **amount** of such **instalments**.
- Examine the **debt agreements** for any restrictive covenants. Review restrictive covenant and provisions relating to default and ensure disclosure thereof in FS.
- Examine the important **terms** in the loan agreements and the documents, if any, evidencing charge in respect of such loans and advances. Examine whether the **requirements** of the applicable **statute** regarding creation and registration of charges have been **complied** with including disclosure of the same to the extent mandated by statute and considered necessary for proper understanding of the user of financial statements.
- In case the **value** of the **security falls** below the amount of the loan outstanding, **examine** whether the loan is classified as secured only to the extent of the market value of the security.
- Examine the **hire purchase agreements** for the purchase of assets by the entity and ensure the correctness of the amounts shown as outstanding in the accounts, and also examine the security aspect.

- He should carefully review the borrowings from related parties and ensure compliance with AS 18 or IND AS 24.
- Verify whether liabilities towards the bank in respect of bills discounted, bills negotiated, cheques discounted, etc. are correctly reflected and disclosed in the financial statements.
- The auditor should also verify that the amount borrowed is within the borrowing powers of the company as laid down by the Articles of Association and Memorandum of Association.
- 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. Also, check compliance of Sections 185 and 186 of the Companies Act, 2013.
- Examine the purpose for which the amount is borrowed and ensure that the amount is not used against the interest of the company.
- Where the entity has accepted deposits, examine whether the directives issued by RBI or other appropriate authority have been complied with.

Disclosure as per Schedule III

(Ensure that borrowings have been presented, classified and disclosed in the FS in accordance with the requirements of applicable FRF)

Long-term borrowing

- i. Long-term borrowings shall be classified as:
 - a. Bonds/debentures;
 - b. Term loans:
 - A. from banks.
 - B. from other parties.
 - c. Deferred payment liabilities;
 - d. Deposits;
 - e. Loans and advances from related parties;
 - f. Long term maturities of finance lease obligations;
 - g. Other loans and advances (specify nature).
- ii. Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.
- iii. Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.
- iv. Bonds/debentures (along with the rate of interest and particulars of redemption or conversion) shall be stated in descending order of maturity or conversion, starting from farthest redemption or conversion date.
- v. Particulars of any redeemed bonds/debentures which the company has power to reissue shall be disclosed.
- vi. Terms of repayment of term loans and other loans shall be stated.
- vii. Period and amount of continuing default as on the balance sheet date in repayment of loans and interest, shall be specified separately in each case.

viii. Other Long term Liabilities shall be classified as:

- Trade Payables
- Others

Short Term Borrowings

- i. Short-term borrowings shall be classified as:
 - a. Loans repayable on demand;
 - A. from banks.
 - B. from other parties.
 - b. Loans and advances from related parties;
 - c. Deposits;
 - d. Other loans and advances (specify nature).
- ii. Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.
- iii. Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.
- iv. Period and amount of default as on the balance sheet date in repayment of loans and interest, shall be specified separately in each case.
- v. Current maturities of Long term borrowings shall be disclosed separately.

Where the company has not used the borrowings from banks and financial institutions for the specific purpose for which it was taken at the balance sheet date, the company shall disclose the details of where they have been used.

Disclosures related to borrowings in special cases

Borrowings on the basis of security

Where the Company has borrowings from banks or financial institutions on the basis of security of current assets, it shall disclose the following:-

- whether quarterly returns or statements of current assets filed by the Company with banks or financial institutions are in agreement with the books of accounts.
- if not, summary of reconciliation and reasons of material discrepancies, if any to be adequately disclosed.

Wilful Defaulter

Where a company is a declared wilful defaulter by any bank or financial institution or other lender, following details shall be given:

- Date of declaration as wilful defaulter,
- Details of defaults (amount and nature of defaults),

A person or a company is termed as a "wilful defaulter" When the borrower (individual or company) defaults on their payment obligation, even when it has the capacity to honour the said obligations. There is a deliberate intention of not repaying the loan. (other reasons are also there, but we will stick to this only for our limited understanding).

Wilful defaulter" here means a person or an issuer who or which is categorized wilful defaulter by any bank or financial institution or consortium thereof, in accordance with the guidelines on wilful defaulters issued by the Reserve Bank of India.

Registration of charges or satisfaction with Registrar of Companies

Where any charges or satisfaction yet to be registered with Registrar of Companies beyond the statutory period, details and reasons thereof shall be disclosed.

Disclosure Regarding – Funds advanced or loaned or invested with other persons & Funds received from other persons – Refer "Audit of share capital topic"

Audit of Trade Receivables

Features of Internal Control

It is important to carry out Test of Controls for checking the effectiveness of internal control over sales as a part of the debtors' audit procedure. Following points need to be considered in respect of trade receivables:

- Only bona fide sales lead to trade receivables.
- Sales are made to approved customers.
- Such sales are properly recorded in the books.
- Once recorded, the debtors can be settled only by receipt of cash or on the authority of a responsible official.
- Segregation of duties at every point in sales transaction.
- Debtors are collected on time.
- In case debtors are not collected in time, sending reminders and taking legal actions if required.
- Balances are regularly reviewed.
- A proper system of follow up exists and if necessary, adequate provision for bad debt should be made by preparing adequate ageing schedule of the debtors.

To establish the EXISTENCE of trade receivables as at the period-end

- i. Check whether there are controls in place to ensure that
 - invoices cannot be recorded more than once and
 - receivable balances are automatically recorded in the general ledger from the original invoice.
- ii. Ask for a period-end accounts receivable ageing report and trace the balance as per the report to the general ledger.
- iii. Check whether realization is recorded invoice-wise or not.
 - If not, check that money received from debtors is adjusted chronologically invoice-wise and on FIFO basis i.e. previous bill is adjusted first.
- iv. If any large balance is due for a long time, auditor should ask for reasons and justification for the same.

Direct confirmation procedures

- i. A list of trade receivables selected for confirmation should be given to the entity for preparing request letters for confirmation which should be properly addressed.
- ii. The auditor should maintain strict control to ensure the correctness and proper dispatch of request letters. It should be ensured that confirmations as well as any undelivered letters are returned to the auditor and not to the client.
- iii. Any discrepancies revealed by the confirmations received or by the additional tests carried out by the auditor may have a bearing on other accounts not included in the original sample.
- iv. Where no reply is received, the auditor should perform alternative procedures regarding the balances. This could include:
 - Agreeing the balance to cash received subsequently;
 - Preparing a detailed analysis of the balance, ensuring it consists of identifiable transaction and confirming that these revenue transactions actually occurred. (examination in depth for those balances)
- v. If there are any related party receivables, review them for collectability as well as whether they were properly authorized and the value of such transactions were reasonable and at arm's length.
- vi. Check that receivables for other than sales or services are not included in the list.
- vii. Review a trend line of sales and accounts receivable, or a comparison of the two over time, to check if there are any unusual trends i.e. perform Analytical procedures. Make inquiries about reasons for changes in trends with the management and document the same in audit work papers.

All Trade receivable balances that were supposed to be recorded have been recognized in the financial statements. (COMPLETENESS)

1. The auditor needs to satisfy himself of the cut-offs. Without a cut-off, sales could be understated or overstated hence there is a need to perform the following cut off procedure:
 - a. Ensure that all goods dispatched prior to the cut off have been invoiced and included in debtors on a test check basis;
 - b. Ensure that no goods dispatched after the year- end have been invoiced and included in debtors for the period under audit.
2. Test invoices listed in the receivable report. Select a few invoices from the accounts receivable ageing report and compare them to supporting documentation to see if they were billed with the correct amounts, to the correct customers, and on the correct dates.
3. Match invoices to shipping/ dispatch log. Match invoice dates to the shipment dates for those items in the shipping/ dispatch log, to see if sales are being recorded in the correct accounting

- period.** This can include an examination of invoices issued subsequent to the period being audited, to see if they should have been included in the period under audit.
- Assess bills and hold sales.** If there is a situation where the Company is billing customers for sales despite still retaining the goods on-site (known as “bill and hold”), examine **supporting documentation** to determine whether a **sale has actually taken place or not.**
 - Check if the Company has recorded an inordinately **large amount** of **customer returns** after the audit period, which would suggest that the Company may have shipped more goods near the end of the audit period than what the customers had authorized to inflate the profits of the company;
 - Review the **process** of giving **discounts/ incentives** and check whether the same were given as per the Company’s policy/ general industry trends.
 - Review **credit memos**, on a sample basis, issued during the audit period to see if they were properly **authorized.**

Trade receivable balances have been VALUED appropriately

- Review the **process** followed by the Company to derive an **allowance** for doubtful accounts.
- Check if provisions are made at **appropriate rates** considering the recoverability of amounts due.
- Obtain the **ageing report** of accounts receivable (both Dr/Cr balance).
- Obtain the list of **debtors** under **litigation** and compare with previous year.
- 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.
 - Perform further testing where any disputes exist.
- Check that **write-offs** of the receivable balances have been **approved** by an appropriate authority i.e. the Board of Directors in case of a company.

Required DISCLOSURE for trade receivables have been appropriately made

- Check that the restatement of foreign currency trade receivables has been done properly in accordance with AS 11.
- Proper disclosure of Related Party Transactions regarding receivables have been made as per AS 18 or IND AS 24.
- Ensure that the transactions with parties covered under Section 189 of the Companies Act, 2013 are reported properly in CARO, 2020.
- Ensure whether the following disclosures as required under Schedule III (Part 1) to Companies Act, 2013 are made for each amount disclosed under the heading “Trade Receivables”
 - Trade Receivables ageing schedule. (given below)
 - Trade receivables shall be sub-classified as:
 - Secured, considered good
 - Unsecured, considered good

- Doubtful.
- Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.
 - Debts due by
 - directors or other officers of the company or any of them either severally or jointly with any other person or
 - firms or private companies respectively in which any director is a partner or a director or member should be separately stated.

Trade Receivables ageing schedule

	Amount (in ₹)					
Particulars	Outstanding for following periods from due date of payment#					
	Less than 6 Months	6 Months to 1 year	1-2 years	2-3 years	More than 3 years	Total
Undisputed Trade receivables considered good						
Undisputed Trade Receivables considered doubtful						
Disputed Trade Receivables considered good						
Disputed Trade Receivables considered doubtful						

#Where no due date of payment is specified, in that case disclosure shall be from the date of the transaction.
Unbilled dues shall be disclosed separately.

Audit of Cash and cash equivalents

To establish the Existence of cash and cash equivalent balances as at the period- end.

- Check by Surprise
 - Special care is necessary in regard to verification of cash balances.
 - The cash should be checked not only on the last day of the year, but also checked again sometime after the close of the year without giving notice of the auditor’s visit either to the entity or to his staff. (Surprise check)
- More than one cash balance
 - If there are more than one cash balances, e.g., when there is a cashier, a petty cashier, a branch cashier and, in addition, there are imprest balances with employees, all of them should be checked simultaneously.
- Presence of cashier and sign

- It is desirable for the cashier to be present while cash is being counted and he should be made to sign the statement prepared containing details of the cash balance counted along with denomination of Cash.

Cash and cash equivalent balances that were supposed to be recorded have been recorded in the financial statements. (COMPLETENESS)

- If there is any rough Cash Book or details of daily balance are separately kept, the auditor should test entries from the rough Cash Book with those in the Cash Book to prove that entries in the Cash Book are correct.
- If the auditor finds any slip, chit or I.O.U.s in respect of temporary advances paid to the employees included as part of the cash balance, he should check whether those are approved by an authorized official and recorded in the appropriate accounts.
- The auditor should also perform a cash sensitivity analysis
 - by compiling a summary of total cash receipts and payments each month and
 - analyzing the trends to see if there have been variations in any specific month and
 - request brief descriptions from the management.

Verification of BRS

- The auditor needs to obtain bank reconciliation statements (BRS) for all bank accounts maintained by the entity as at the reporting period and additionally need to understand the client's process and periodicity of making the BRS.
- The auditor should ensure that BRS is signed by the authorized personnel so that he is able to assign responsibility in case of any errors.
- Verification of BRS shall entail the following:
 - Tallying the balance as per bank book to the bank confirmation/ statement.
 - Checking of all material reconciling items included under cheques issued but presented for payment to the underlying bank book forming part of books of account. For all cases where cheques have become stale i.e. 3 months or more have lapsed since the issue date, the same should not appear in the BRS and should instead be taken back to liabilities
 - Checking of all material reconciling items included under cheques deposited but not credited by bank by requesting for bank deposit slips, duly acknowledged by bank and verifying if the balances were credited by bank subsequently by tallying to the bank statement of subsequent period.
 - Checking of all material reconciling items included under amounts or charges debited/ credited by bank but not accounted for by requesting for bank statements for the period under audit and tallying the same. If the amounts are found to be material, the auditor should ensure that

the management records the adjustments for the same in its books of account. If management does not adjust, the auditor shall consider to qualify his report.

Direct confirmation procedure

- A significant and important audit activity is to contact banks/ financial institutions directly and ask them to confirm the amounts held in current accounts, deposit accounts, etc as of the end of the reporting period under audit.
- The Company should be asked to investigate and reconcile the discrepancies, if any, including seeking written explanations/ clarifications from the banks/ financial institutions on any unresolved queries.
- The auditor should emphasize for confirmation of 100% of bank account balances. In remote situations, where no reply is received, the auditor should perform additional testing regarding the balances. This testing could include
 - Agreeing the balance to bank statement received by the Company or internet/ online login to account in auditor's personal presence;
 - Sending the audit team member to the bank branch along with the entity's personal to obtain balance confirmation from the bank directly.

Cash and cash equivalent balances have been VALUED appropriately

In addition to the procedures performed above, the auditor should ensure that all bank accounts holding foreign currency have been restated at the closing exchange rates as per applicable FRF

Required DISCLOSURES for cash and cash equivalents have been appropriately made.

- Cash and cash equivalents shall be classified as:
 - Balances with banks;
 - Cheques, drafts on hand;
 - Cash on hand;
 - Others (specify nature)
- Earmarked balances with banks (for example, for unpaid dividend) shall be separately stated.
- Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately.
- Repatriation restrictions, if any, in respect of cash and bank balances shall be separately stated.
- Bank deposits with more than 12 months' maturity shall be disclosed separately.

Audit of Inventories

To establish the EXISTENCE of Inventories as at the period- end.

- Review entity's plan for performing inventory count.
- Ensure that consigned goods have been segregated
- Auditor should participate in the inventory count with the management.

- **Test counts** of inventory by auditor should include:
 - **observing employees** are adhering to the agreed plan.
 - assuring that **all items** are properly **tagged**
 - Assuring that there is **appropriate supervision** on the count procedure.
 - Observing that **proper amounts** are shown on tags.
 - Staying **alert** at all times and specifically being cautious about empty boxes, etc. and obsolete items.
 - Performing **cut-off testing** by documenting the last 5-10 receiving reports and shipping documents as of the period end.
 - Ensuring **exclusion** of **third party stock** and damaged or obsolete stock.
 - **Investigating** any **significant differences** between the physical stock take and the stock records as per Books. The auditor should ask the entity's personnel to sign all stock count sheets and also agree the variances observed, if any, to avoid any conflicts.
- When the entity uses a periodic system for inventory count, it should be undertaken at the end of the period. If the entity uses a perpetual system with proper and adequate records, inventory may be counted at interim dates.
- **Confirm** or investigate any **inventory** of the entity **lying with a third party** (specifically relevant for cases where the entity gets job work done in its process of production).

Only the inventories held by the entity have been recorded in the financial statements and do not include any inventories that belong to third parties but does include inventories owned by the entity and lying with a third party (COMPLETENESS)

- Perform **analytical procedures** (comparison tests with industry averages, budgets, prior years, trend analysis, etc.).
 - Compute inventory turnover ratio (COGS/ average inventory)
 - Perform vertical analysis (inventory/ total assets)
 - Compare budgetary expectations vis-à-vis actuals
- Examine non-financial information related to inventory, such as weights and other measurements.
- Perform purchase and sales **cutoff tests**. **Trace shipping documents** (bills of lading and receiving reports, warehouse records, and inventory records) to accounting records immediately before and after year-end.
- 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, warehouses, port authorities etc.

- Goods received on **consignment basis** have been properly **segregated** from other items of inventory.

Valid legal ownership rights (RIGHTS AND OBLIGATIONS)

The entity has valid legal ownership rights over the inventories claimed to be held by the entity and recorded in the FS.

- Vouch recorded purchases to underlying **documentation** (purchase requisition, purchase order, receiving report, vendor invoice and cancelled cheque or payment file).
- Evaluate the **consigned** goods.
- Examine client **correspondence**, sales and receivables records, purchase documents.
- Determine existence of collateral agreements.
- Review consignment agreements.
- Review material purchase commitment **agreements**.
- Examine **invoices** for evidence of ownership i.e. the invoices shall be in the name of the client.
- Auditors shall obtain **confirmation** for significant items of inventory as per **SA 501**.
- For instances of inventory held by third party, the auditor should insist on obtaining declaration from the third party on its business letterhead and signed by an authorized personnel of that third party confirming that the items of inventory belong to the entity and are being held by such third party on behalf of and for the benefit of the entity under audit.

Inventories have been VALUED appropriately and as per generally accepted accounting policies and practices (VALUATION)

General Points

- Depending on how the business **operates**, the management may value inventory using **First-in-first-out (FIFO) or weighted average basis**.
- Compare recorded costs with replacement costs.
- Examine **vendor price lists** to determine if recorded cost is less than current prices.
- Calculate inventory turnover **ratio**. Obsolete inventory may be revealed if the ratio is significantly lower.
- In manufacturing environments, test overhead allocation rates and ensure that **only direct labour, direct material and overhead** have been **included**.
- Confirm inventory is valued at lower of cost or NRV

For Raw materials and consumables

- Ascertain what **elements of cost** are included e.g. carriage inward, non-refundable duties etc.
- If standard costs are used, enquire into the **basis of standards**, how these are compared with actual costs and how variances are analyzed and accounted for/ treated in accounting records.
- **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 with a view to establishing a realistic net realizable value.

For Work in progress

- Ascertain how the various stages of production/ value additions are measured and in case estimates are made, understand the basis for such estimates.
- Ascertain what elements of cost are included. If overheads are included, ascertain the basis on which they are included and compare such basis with the available costing and financial data/ information maintained by the entity.
- Ensure that material costs exclude any abnormal wastage factors.

For Finished goods and goods for resale

- Enquire as to what costs are included, how these have been established and ensure that the overheads included have been determined based on normal costs and appear reasonable in relation to the information disclosed in the financial statements.
- Ensure that inventories are valued at net realizable value if they are likely to fetch a value lower than their cost.
- Follow up for items that are obsolete, damaged, slow moving and ascertain the possible realizable value of such items. For the purpose, request the client to provide inventory ageing split
- Follow up any inventories which at time of observance of physical counting were noted as being damaged or obsolete.

Goods Lying with Third Party

The auditor should check that the materiality of the item under this caption is included in inventories.

- He should obtain confirmation of the amount of goods lying with them.
- He should inquire into the necessity of sub contractor retaining the inventory.
- The goods lying with them for a very long period would merit auditors' special attention for making provision.
- The records, voucher/slips for the regulating the movement of inventory into and out of entity for sub-contracting work be reviewed by vouching for few transactions for ensuring existence and working of internal control system for them.
- The valuation of inventories should be correctly made for including material cost on appropriate inventory valuation formulae and also for inclusion of proportionate processing charges for the work in process with the contractors.
- Evaluate the condition of goods and see whether adequate provision has been made.
- Check whether subsequently the goods lying with third party were sold or received back after the expiry of the stipulated time period.
- Ensure that the goods have been included in the closing inventory though lying with a third party.

Examples of costs to be excluded in determining cost of Inventory

In determining the cost of inventories, it is appropriate to exclude certain costs and recognise them as expenses in the period in which they are incurred. Examples of such costs are:

- abnormal amounts of wasted materials, labour, or other production costs;
- storage costs, unless those costs are necessary in the production process prior to a further production stage;
- administrative overheads that do not contribute to bringing the inventories to their present location and condition; and selling and distribution costs.

Goods Sent on Consignment

- The auditor verifies the accounts sales submitted by the consignee which detail goods sold and inventory of goods still on hand.
- The auditor reconciles the figure of the goods on hand, as reported in the last accounts sales, with Performa invoices and accounts sales received during the year.
- Obtain confirmation from the consignee of consigned goods as of the balance sheet date.
- Verify agreement terms for commission/expenses and ensure accurate in accounts.
- Confirm consignee goods are valued at cost plus relevant expenses, or at net realisable value if lower, accounting for damaged/obsolete items.
- Ensure consigned goods are listed separately in inventories.

Required DISCLOSURES for inventories have been appropriately made

Ensure whether the following disclosures as required under Schedule III (Part 1) to the Companies Act, 2013 have been made:

- Whether inventory has been classified as:
 - Raw materials
 - Work-in-progress
 - Finished goods
 - Stock-in-trade (goods acquired for trading)
 - Stores and spares
 - Loose tools
 - Others (specify nature).
- Whether goods-in-transit have been disclosed separately under each sub-head of inventories.
- Mode of valuation shall be stated.

Audit of Tangible Fixed Assets**Recognition Criteria for PPE**

- The cost of an item of PPE should be recognised as an asset if
 - It is probable that future economic benefits associated with the item will flow to the enterprise, and
 - The cost of the item can be measured reliably.
- An item that qualifies for recognition as an asset should be measured at its cost.

Elements of Cost

The cost of an item of PPE comprises:

- its **purchase price**, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- any **costs** directly **attributable** to **bringing** the asset to the **location** and condition.
- the initial estimate of the costs of dismantling, removing the item and restoring the site on which it is located, referred to as decommissioning, restoration and similar liabilities.

Examples of directly attributable costs

- Costs of employee benefits arising directly from the construction or acquisition of the item of PPE
- costs of site preparation;
- initial delivery and handling costs;
- installation and assembly costs;
- costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition
- professional fees.

Examples of costs that are not costs of an item of PPE

- costs of opening a new facility or business, such as, inauguration costs;
- costs of introducing a new product or service (advertising and promotional activities);
- costs of conducting business in a new location or with a new class of customer and
- administration and other general overhead costs.

To establish the EXISTENCE of PPE as at the period-end

- Review **entity's plan** for performing **physical verification** of PPE
 - By whom
 - Period
- Evidence** of appropriate **supervision** of those performing physical verification of PPE should be examined.
- Obtain PPE physical verification **report** backed by the **working** sheets from the entity and perform the following procedures:
 - Assess if **all** items of PPE are properly **tagged** and carry **identification marks/** numbers.
 - Reconciliation** of items of PPE as physically verified with the fixed asset register
 - Verify the **discrepancies** noted, based on physical verification undertaken and the manner in which such discrepancies have been **dealt** with in the entity's books and financial statements.

Additions to PPE during the period under audit have been recorded in the financial statements (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. Tally the closing balance to the entity's books of account.

- Check the **arithmetical accuracy** of the movement in PPE schedule.
- Tally** the opening balances to the previous year audited financial statements.
- For additions during the period under audit, obtain a **listing** of **all additions** from the management and perform the following procedures:
 - For all material additions, verify if such expenditure meets the **criteria** of PPE as per **AS 10** Revised.
 - Ensure that the entity is not recognizing costs of the day-to-day servicing in the carrying amount of an item of property, plant and equipment.
 - Test** the **purchase invoice**, installation certificate or report or other similar documentation maintained by the entity to verify the date of addition, for all additions samples of PPE during the period under audit.
 - Verify whether the PPE additions have been **approved** by authorized personnel.
 - Verify whether proper **internal processes** and **procedures** like inviting competitive quotations/ floating tenders etc. were followed prior to finalising the vendor for procuring items of PPE/ awarding of work contract for capital projects by checking the supporting documents of the samples selected.
- In relation to **deletions** to PPE, understand from the management the reason and rationale for deletion and the manner of disposal.
 - Obtain the management **approval** and discard note authoring disposal of the asset
 - Verify the **process** followed for sale of discarded PPE.
 - Verify that the management has accurately **recorded** the deletion, profit or loss on disposal of PPE

PPE have been VALUED appropriately and as per generally accepted accounting policies and practices

- Verify that the entity has **charged depreciation on all items** of PPE **unless** any item of PPE is **non-depreciable** like freehold land;
- Assess that the **depreciation method** used reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.
- The auditor should also verify whether the management has done an **impairment assessment** to determine whether an item of PPE is impaired as per the requirements of AS 28.

The entity has valid legal ownership rights over the PPE claimed to be held by the entity and recorded in the financial statements (RIGHTS AND OBLIGATION)

- Verify that **purchase invoices** are in the name of the entity that entitles legal title of ownership to the respective entity.

- For all additions to land and building in particular, the auditor should check the conveyance deed/ sale deed to verify whether the entity is the legal and valid owner or not.
- Verify the original title deeds for all immovable properties held as at the balance sheet date.
- If immovable property is given as security for any borrowings and the original title deeds are not available with the entity, 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 immovable property as security.
- Verify the register of charges to assess that any charge has been created against the PPE.

Required DISCLOSURES for PPE have been appropriately made

- Classification shall be given as:
 - Land;
 - Buildings;
 - Plant and Equipment;
 - Furniture and Fixtures;
 - Vehicles;
 - Office equipment;
 - Others (specify nature).
- Assets under lease shall be separately specified under each class of asset.
- A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations, amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of PPE) and other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately.
- Where sums have been written-off on a reduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every balance sheet subsequent to date of such write-off, or addition shall show the reduced or increased figures as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date thereof for the first five years subsequent to the date of such reduction or increase.

Additional Disclosures

Title deeds of Immovable Property not held in name of the Company

The company shall provide the details of all the immovable property (other than properties where the Company is the lessee and the lease agreements are duly executed in favour of the lessee) whose title deeds are not held in the name of the company in format given below and where such immovable property is jointly held with others, details are required to be given to the extent of the company's share.

Relevant line item in the Balance sheet	Description of item of property	Gross carrying value	Title deeds held in the name of	Whether title deed holder is a Promoter, director or relative* of promoter*/director or employee of promoter/director	Property held since which date	Reason for not being held in the name of the company (Also indicate the dispute if any)
PPE	Land & Building	-	-	-	-	
Investment property	Land & Building					
PPE retired from active use and held for disposal	Land & Building					
Others						

#Relative here means relative as defined in the Companies Act, 2013.

*Promoter here means promoter as defined in the Companies Act, 2013.

Where the Company has revalued its Property, Plant and Equipment,

Company shall disclose as to whether the revaluation is based on the valuation by a registered valuer as defined under rule 2 of the Companies (Registered Valuers and Valuation) Rules, 2017.

Capital-Work-in Progress (CWIP)

- For Capital-work-in progress, following ageing schedule shall be given:

(Amount in ₹)					
	Amount in CWIP for a period of				Total*
CWIP	Less than 1 year	1-2 years	2-3 years	More than 3 years	
Projects in Progress					
Projects temporarily suspended					

Total shall tally with CWIP amount in the balance sheet

- For capital-work-in progress, whose completion is overdue or has exceeded its cost compared to its original plan, following CWIP completion schedule shall be given**.

(Amount in ₹)				
	To be completed in			
CWIP	Less than 1 year	1-2 years	2-3 years	More than 3 years
Project 1				
Project 2				

**Details of projects where activity has been suspended shall be given separately

Audit of Intangible Assets

Meaning

An intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes

Other General Points

- As per AS 26 Intangible Assets, internally generated goodwill should not be recognized as an asset.
- Computer software for a computer controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as a fixed asset.

To establish the EXISTENCE of intangible fixed assets as at the period- end.

- Auditor should ensure that an intangible asset shall be recognised only if
 - it is probable that future economic benefits associated with the asset will flow to the entity;
 - cost of the item can be measured reliably
- For verifying the existence of software, the auditor should verify whether such software is in active use by the entity and for the purpose, the auditor should verify the sale of related services/ goods during the period under audit, in which such software has been used.
- For verifying the existence of design/ drawings, the auditor should verify the production data to establish if such products for which the design/ drawings were purchased, are being produced and sold by the entity.
- In case any intangible asset is not in active use, deletion should have been recorded in the books of account post approvals by the entity's management and amortization charge should have ceased beyond the date of deletion.

Additions to Intangible assets during the period under audit have been recorded appropriately in the financial statements (COMPLETENESS)

- Verify the movement in the intangible assets schedule compiled by the management i.e. Opening balances + Additions - Deletions = Closing balances.
- Tally the closing balances to the entity's books of account.
- Check the arithmetical accuracy of the movement in intangible assets schedule.
- For additions during the period under audit, obtain a listing of all additions from the management and undertake the following procedures:
 - For all material additions, verify whether such expenditure meets the criterion for recognition of an intangible asset as per AS 26.

- Ensure that no cost related to research gets recognized as an intangible asset.
- Check the certificate or report or other similar documentation maintained by the entity to verify the date of use of the intangible which could be linked to date of commencement of commercial production/ economic use to the entity, for all additions to intangible assets during the period.
- Verify whether the additions (acquisitions) have been approved by appropriate personnel.
- Verify whether proper internal processes and procedures like inviting competitive quotations/ proper tenders etc. were followed prior to finalizing the vendor for procuring item of intangible assets by testing those documents on a sample basis.
- In relation to deletions of intangible assets,
 - understand from the management the reason and rationale for deletion and the manner of disposal.
 - Obtain the management approval and disposal note authoring disposal of the asset from its active use.
 - Verify the process followed for sale of discarded asset,
 - example inviting competitive quotes, tenders and the basis of calculation of sales proceeds.
 - Verify that the management has accurately recorded the deletion of intangible asset (original cost and accumulated amortization up to the date of disposal) and the resultant gain/ loss on disposal in the entity's books of account.

Intangible assets have been VALUED appropriately and as per generally accepted accounting policies and practices

- Verify that the entity has charged amortization on all intangible assets;
- Verify that the amortization method used reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.
- The auditor should also verify whether the management has done an impairment assessment to determine whether an intangible asset is impaired. For this purpose, the auditor needs to verify whether the entity has applied AS 28 - Impairment of Assets.

The entity has valid legal ownership rights over the Intangible Assets claimed to be held by the entity and recorded in the financial statements (RIGHTS AND OBLIGATION)

The auditor while performing testing of additions should also verify that all expense invoices/ purchase contracts are in the name of the entity that entitles legal title of ownership to the entity.

Required DISCLOSURES for Intangible Assets have been appropriately made

- Classification shall be given as:
 - Goodwill

- b. Brands /trademarks;
 - c. Computer software;
 - d. Mastheads and publishing titles;
 - e. Mining rights;
 - f. Copyrights, and patents and other intellectual property rights, services and operating rights;
 - g. Recipes, formulae, models, designs and prototypes;
 - h. Licences and franchise;
 - i. Others (specify nature).
- ii. A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations, amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of intangible assets) and other adjustments and the related depreciation and impairment losses or reversals shall be disclosed separately.
- iii. Where sums have been written-off on a reduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every balance sheet subsequent to date of such write-off, or addition shall show the reduced or increased figures as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date thereof for the first five years subsequent to the date of such reduction or increase.

Additional Disclosures

Intangible assets under development:

- Intangible assets under development ageing schedule shall be given

(Amount in ₹)					
	Amount in CWIP for a period of				Total*
Intangible asset under development	Less than 1 year	1-2 years	2-3 years	More than 3 years	
Projects in Progress					
Projects temporarily suspended					

* Total shall tally with the amount of Intangible assets under development in the balance sheet.

- For Intangible assets under development, whose completion is overdue or has exceeded its cost compared to its original plan, a different Intangible assets under development completion schedule shall be given.

(Amount in ₹)				
	To be completed in			
Intangible asset under development	Less than 1 year	1-2 years	2-3 years	More than 3 years

Project 1				
Project 2				

**Details of projects where activity has been suspended shall be given separately.

Audit of Trade Payables and Other Current Liabilities

Classification of Liabilities

A liability shall be classified as current when it satisfies any of the following criteria:

- it is expected to be settled in the company's normal operating cycle;
- it is held primarily for the purpose of being traded;
- it is due to be settled within twelve months after the reporting date; or
- the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities shall be classified as non-current.

To establish the EXISTENCE of trade payables and other current liabilities as at the period-end

- Check whether there are controls in place to ensure that any purchase/ expense invoice does not get recorded more than once and payable balances are automatically recorded in the general ledger at the time of recording of expense.
- Obtain the accounts payable ageing report and trace its balances to the general ledger.
 - If there are any differences, investigate reconciling items.
 - Journal entries specially for large amounts should be carefully examined.

Direct confirmation procedure

- An important audit activity is to contact vendors directly/independently and ask them to confirm the amounts of accounts payable. This should necessarily be done for all significant account payable balances as at the period-end and for parties from whom material purchases have been made during the period under audit even if period-end balance of such parties is not significant.
- The auditor employs direct confirmation procedure with the consent of the entity under audit.
- There may be situations where the management of the entity requests the auditor not to seek confirmation from certain trade payables. In such cases, the auditor should consider whether there are valid grounds for such a request.
- The trade creditors may be requested to confirm the balances either
 - as at the date of the balance sheet, or

- as at any other selected date which is reasonably close to the date of the balance sheet.

The date should be decided by the auditor in consultation with the Company.

- The form of requesting confirmation from the trade creditor may be either
 - the form with balance as at year end wherein the trade creditor is requested to respond whether or not he is in agreement with the balance shown, or
 - the form with no balance wherein the trade creditor is requested to respond to the balance as per his records. The use of the form with no balance is preferable.
- The method of selection of the trade creditors should not be revealed to the Company.
- A list of trade creditors selected for confirmation should be given to the entity for preparing request letters for confirmation which should be properly addressed.
- In the alternative, the auditor may request the client to furnish duly **authorised confirmation letters** and the auditor may fill in the names, addresses and the amounts relating to trade creditors selected by him and mail the letters directly.
- The auditor should maintain strict **control** to ensure the correctness and proper dispatch of request letters.
- It should be ensured that confirmations as well as any undelivered letters are returned to the auditor and not to the client.
- Any discrepancies revealed by the confirmations received or by the additional tests carried out by the auditor, may have a bearing on other accounts not included in the original sample.
- Where **no reply** is received, the auditor should perform **additional testing** regarding the balances. This testing could include:
 - Testing of **subsequent payments** in respect of the trade payables to whom confirmations were rolled out but no replies received.
 - Agreeing the details of the respective balance to the underlying **vendor invoices**.
 - Preparing a **detailed analysis** of the balance, ensuring it consists of identifiable transactions and confirming that these purchases/ expense transactions actually occurred. (examination in depth).
- If there are any **related party payables**, review whether they were **properly authorized** and the **value** of such transactions were **reasonable** and at **arm's length**.
- Review a **trend line** of **purchases/ expenses** and **accounts payable**, or a comparison of the two over time, to see if there are any unusual trends. Make inquiries about reasons for changes in trends from the management.

Trade payables and liability balances that were supposed to be recorded have been recognized in the financial statements. (COMPLETENESS)

- The auditor needs to perform the following **cut off procedures**:
 - For the last 5 invoices received/ recorded at the end of the reporting date (cut off date) and which have been included in the trade payables; the risk and rewards of ownership in goods should have been transferred in favour of the entity;
- Test purchases/ expenses on a sample basis selecting the same from the accounts payable ledgers and checking their **supporting documents** to ensure that the purchases were recorded at the **correct amounts** and correct **dates**.
- **Match purchase invoice dates to the gate entry** (inward) dates to check whether the purchases are being recorded in the correct accounting period. This can include an examination of purchase/ expense invoices received subsequent to the period being audited, to see if they should have been included in the period under audit.
- Review **subsequent expense vouchers**. Review all material expense vouchers recorded post the balance sheet date to see if they relate to transactions from within the audit period.
- For advance received from customers
 - Obtain a detailed listing of advances received including ageing and nature.
 - Enquire from the entity's management if there has been any dispute with the customer and if there is any additional liability to be recorded. For all such advances, the auditor should verify the underlying documentation based on which the entity had received the advance

Statutory dues liability

- In relation to **statutory dues liability** like withholding tax (TDS) payable, GST payable, luxury tax payable, professional tax payable, PF and ESI payable etc., prepare a **reasonability statement** with respect to sales/ purchases/ employee benefit expenses. Example- GST liability for last month may be calculated by applying the applicable rate to the sales made and in case of any variance with the GST liability recorded by the entity, reasons for variance should be requested from client and in case found satisfactory, the same should be maintained as part of audit documentation.
- Similarly, Provident Fund liability for last month may be calculated by applying the applicable rate to the employee benefit expense and in case of any variance with the liability recorded by the entity, reasons for variance should be requested from client and in case found satisfactory, the same should be maintained as part of audit documentation.
- Further, the auditor should obtain and verify the
 - challans for deposits made subsequent to the period-end for all statutory liabilities as at the balance sheet date and

- also analyse the reasons, if any, in consultation with the management for any variance between the amounts deposited subsequently vis-à-vis the liability recorded in books of account.
- He shall prepare a complete list of all statutory dues and consider his reporting requirements under CARO, 2020.

Trade payables and other liability balances have been VALUED appropriately.

1. Review the process followed by the Company to identify if any old creditor balance/ liability needs to be written back. This will include a consistency comparison with the method used in the last year, and a determination of whether the method is appropriate for the underlying business environment.
2. Obtain the ageing of payable balances.
3. Also, obtain the list of vendors with whom the Company has disputes and any claims from customers, under litigation and compare with previous year.
4. Check that write backs in the liability balances assessed as no longer payable have been approved by an appropriate and authorised member of senior management, for example – CEO/MD.
5. Check that the restatement of foreign currency trade payables has been done properly in accordance with AS.
6. Understand management's process to identify the principal amount and the interest due thereon (if any) remaining unpaid to any Micro, Small and Medium Sized Enterprises suppliers at the end of accounting year. Test check the management process to assess if the auditor could rely on the management process.

Required DISCLOSURES for trade payables and other liabilities have been appropriately made

Ensure whether the following disclosures as required under Schedule III (Part 1) to Companies Act, 2013 have been made:

Disclosures relating to Micro and Small enterprises

- Principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier at the end of each accounting year.
- Amount of interest paid by the buyer in terms of Section 16 of the Micro, Small and Medium Enterprises Development Act, 2006, along with the amount of the payment made to the supplier beyond the appointed day during each accounting year.
- Amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under MSME Development Act, 2006.
- Amount of interest accrued and remaining unpaid at the end of each accounting year.
- Amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues above are actually paid to the small enterprise, for the purpose

of disallowance of a deductible expenditure under section 23 of the MSME Development Act, 2006

Trade payables due for payment

The ageing schedule shall be given for Trade payables due for payment.

(Amount in ₹)					
Particulars	Outstanding for following periods from due date of payment#				
	Less than 1 year	1-2 years	2-3 years	More than 3 years	Total
(i) MSME					
(ii) Others					
(iii) Disputed Dues- MSME					
(iv) Disputed Dues - Others					

similar information shall be given where no due date of payment is specified in that case disclosure shall be from the date of the transaction.

Unbilled dues shall be disclosed separately.

Other Current Liabilities

The amount shall be classified as:

- Current maturities of finance lease obligations
- Interest accrued but not due on borrowings
- Interest accrued and due on borrowings
- Income received in advance
- Unpaid Dividends
- Application money received for allotment of securities and due for refund and interest accrued thereon. Share application money includes advances towards allotment of share capital. The terms and conditions including the number of shares proposed to be issued, the amount of premium, if any, and the period before which shares shall be allotted shall be disclosed. It shall also be disclosed whether the company has sufficient authorised capital to cover the share capital amount resulting from allotment of shares out of such share application money. Further, the period for which the share application money has been pending beyond the period for allotment as mentioned in the document inviting application for shares along with the reason for such share application money being pending shall be disclosed. Share application money not exceeding the issued capital and to the extent not refundable shall be shown under the head Equity and share application money to the extent refundable, i.e., the amount in excess of subscription or in case the requirements of minimum subscription are not met, shall be separately shown under "Other current liabilities";

- Unpaid matured deposits/debentures and interest accrued thereon
- Unpaid matured debentures and interest accrued thereon
- Others (specify nature).

Audit of Loans and Advances and Other Current Assets

To establish the **EXISTENCE** of loans and advances and other current assets as at the period-end.

For establishing existence of loans and advances direct confirmation procedures should be performed, 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.

Loans and advances and other current asset balances that were supposed to be recorded have been recognized in the financial statements. (COMPLETENESS)

1. Obtain a list of all advances and other current assets and compare them with balances in the ledger.
2. Verify loan agreements and acknowledgements of parties in respect of outstanding loans.
3. Examine, in case of material loan or advances, authorisation by the Memorandum and Articles of Association in the case of Company.
4. The auditor should confirm that the loans advanced were within the competence of persons who had advanced the same, directors in the case of a Company, partners in the case of a firm and trustees in the case of a trust.
5. Inspect the minutes of meeting of board of directors to confirm if all material loans and advances were approved by the board of directors.
6. Inspect if any security has been deposited against due repayment of the loan.
7. Ascertain if loans are being recovered regularly as per agreed instalments.
8. If there are any related party loans and advances, review whether they were properly authorized and the value of such transactions were reasonable and at arm's length.
9. In relation to balances with statutory authorities like GST input credit, prepare a reasonability with respect to purchases/ expenses by applying the applicable rate to the purchases/ expenses and in case of any variance with the asset recorded by the entity, reasons for variance should be requested from the entity.
10. 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.

Loans and advances and other current asset balances have been **VALUED** appropriately.

1. Assess the allowance for doubtful accounts.
 - Review the process followed by the Company to derive an allowance for doubtful accounts.

- Compare the process used in the last year and determine the appropriateness of the method used.
2. Obtain the ageing report of loans and advances.
 3. Obtain the list of loans and advances under litigation and compare with previous year.
 4. Identify those loans and advances that appear doubtful; discuss with management about the reasons as to why these loans/ advances are not included in the provision for doubtful balances.
 5. Examine bad loans/ advances write-offs. Prepare schedule of movements on Bad loans/ advances – Provision Accounts and loans/ advances written off
 6. Examine that write-offs or other reductions in the recoverable balances have been approved by the appropriate authority.
 7. Check that the restatement of foreign currency loans and advances/ other current assets has been done properly in accordance with AS 11.

Required **DISCLOSURE** for loans and advances and other current assets have been appropriately made

Ensure whether the following disclosures as required under Schedule III (Part 1) to Companies Act, 2013 have been made:

Long Term loans & Advances

- i. Long-term loans and advances shall be classified as:
 - a. Capital Advances;
 - b. Loans and advances to related parties (giving details thereof);
 - c. Other loans and advances (specify nature).
- ii. The above shall also be separately subclassified as:
 - a. Secured, considered good;
 - b. Unsecured, considered good;
 - c. Doubtful.
- iii. Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.
- iv. Loans and advances due by
 - a. Directors or other officers of the company or any of them either severally or jointly with any other persons or
 - b. amounts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

Short-term loans and advances

- i. Short-term loans and advances shall be classified as:
 - a. Loans and advances to related parties (giving details thereof);
 - b. Others (specify nature).
- ii. The above shall also be sub-classified as:
 - a. Secured, considered good;
 - b. Unsecured, considered good;
 - c. Doubtful.

- iii. Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.
- iv. Loans and advances due by
 - a. directors or other officers of the company or any of them either severally or jointly with any other person or
 - b. amounts due by firms or private companies respectively in which any director is a partner or a director or a member shall be separately stated.

Additional Disclosures

Following disclosures shall be made where Loans or Advances in the nature of loans are granted to promoters, Directors, KMPs and the related parties (as defined under Companies Act, 2013,) either severally or jointly with any other person, that are:

- a. repayable on demand or
- b. without specifying any terms or period of repayment

Type of Borrower	Amount of loan or advance in the nature of loan outstanding	Percentage to the total Loans and Advances in the nature of Loans
Promoters		
Directors		
KMPs		
Related Parties		

Audit of Provisions and Contingent Liabilities

Meaning of Provision

- A provision is a liability which can be measured only by using a substantial degree of estimation.
- A provision is recognised when:
 - an entity has a present obligation (legal or constructive) as a result of a past event;
 - it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
 - a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognized.

Meaning of Contingent Liabilities

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- a present obligation that arises from past events but is not recognized because:

- it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- The amount of the obligation cannot be measured with sufficient reliability.

Audit Procedure for verification

- Obtain a list of all provisions and compare them with balances in the ledger.
- Inspect the underlying agreements like agreement with customers to assess warranty commitments, any legal and other claims on the entity i.e. litigations.
- Obtain the underlying working and the basis for each of the provisions made, from the management and verify whether the same is complete and accurate.

Audit Procedures in case of use of Management Expert

- Wherever required, obtain expert's report, calculation and underlying working for the provision amount,
 - example for warranty involving complex calculations, some entities get that valued through an actuary. In such a case, the auditor may request the management to share the actuarial valuation report.
 - The auditor should then verify the underlying assumptions used by the expert with the data shared by the management.
- As per SA 500 "Audit Evidence", when using the work of a management's expert, audit evidence that the auditor should obtain include:
 - Evaluate the competence, capabilities and objectivity of that expert:
 - Whether the expert is employed by the entity or is an outside party.
 - Whether the expert is independent in respect of the entity.
 - Auditor's previous experience of the work of the expert.
 - Knowledge of the expert, his qualification, membership of a professional body or industry association, etc.
 - Obtain an understanding of the work of that expert:
 - Whether the auditor has expertise to evaluate the work of the expert.
 - Evaluating the assumptions and methods used by the management.
 - Evaluating the nature of internal or external data used by the expert.
 - Evaluate the appropriateness of his work as audit evidence for the relevant assertion:
 - Relevance and reasonableness of the expert's findings or conclusions

- Evaluating the relevance, completeness and accuracy of the source data used by the expert.
- The auditor shall obtain **written representation** from the management that it has made all the provisions which were required to be made as per the recognized accounting principles.

Audit Procedures for Provision for Income Tax

- Check the entity's income and tax computation for compliance with the Income-tax Act, 1961, and its rules.
- Examine adjustments, disallowed expenses, and special rebates against the last completed assessment.
- Inspect records for advance tax, self-assessment tax, and any tax demands.
- Calculate tax payable using the rates from the latest Finance Act.
- Confirm the adequacy of tax provisions against current year provision, advance tax paid, and assessment orders.
- Ensure adherence to AS 22 on Accounting for Taxes on Income, the audited period.

Required DISCLOSURE for provisions have been appropriately made

Ensure whether the following disclosures as required under Schedule III (Part 1) to Companies Act, 2013 have been made:

Provisions

Long-term provisions

The amounts shall be classified as:

- a. Provision for employee benefits;
- b. Others (specify nature).

Short-term provisions

The amounts shall be classified as:

- a. Provision for employee benefits.
- b. Others (specify nature).

Contingent liabilities and commitments (to the extent not provided for)

- i. Contingent liabilities shall be classified as:
 - Claims against the company not acknowledged as debt;
 - Guarantees;
 - Other money for which the company is contingently liable.
- ii. Commitments shall be classified as:
 - a. Estimated amount of contracts remaining to be executed on capital account and not provided for;
 - b. Uncalled liability on shares and other investments partly paid;
 - c. Other commitments (specify nature).

Disclosure requirements of AS 29

Provisions

- For each class of provision, an enterprise shall disclose:
 - the carrying amount at the beginning and end of the period;
 - additional provisions made in the period, including increases to existing provisions;
 - amounts used (i.e. incurred and charged against the provision) during the period;
 - unused amounts reversed during the period.
- An enterprise shall disclose the following for each class of provision:
 - a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
 - an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events; and
 - the amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.

Contingent Liability

Unless the possibility of any outflow in settlement is remote, an enterprise should disclose for each class of contingent liability at the balance sheet date a brief description of the nature of the contingent liability and, where practicable:

- an estimate of its financial effect
- an indication of the uncertainties relating to any outflow; and
- the possibility of any reimbursement.

Audit of Sale of Products and Services

Audit Procedures for Sales Verification

Understand the Organization

Gain insights into the entity's services/products, market demand, key revenue drivers, new or discontinued lines, major customers, and sales terms.

Internal Control Assessment

Evaluate controls around the sales process, including segregation of duties, credit checks, order authorization, invoice issuance, delivery processes, revenue recognition, and risk transfer mechanisms.

Control Testing

Test the effectiveness of sales cycle controls, such as pre-numbered invoices and authorization procedures, to gauge their strength and reliability. Communicate any control deficiencies as per SA 265.

Transaction Sampling

Randomly select transactions to review purchase orders, invoices, and customer statements, focusing on controls like invoice sequencing to plan further audit procedures.

Substantive Audit Procedures

Perform detailed sales analysis, including trend analysis, period comparisons, and category-wise sales assessment. Develop sales expectations based on product/service pricing and sales volume to compare with actual records.

Sales Price and Discount Analysis

Analyze sales prices, monthly averages, and discount policies to build a comprehensive picture of expected versus actual sales. Investigate variances, including discount application and booking errors.

Audit Procedures – Recorded sales represent goods shipped/ services performed during the period (OCCURRENCE)

- Ensure revenue is not overstated by performing following audit procedures
 - Check whether a single sales invoice is recorded twice or a cancelled sales invoice could also be recorded.
 - Test check a 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 (financing, resale, etc.).
- 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 a sales invoice, challan, credit note, stock register, etc.

All sales made during the period were recorded and there is no understatement or overstatement. – (COMPLETENESS)

- Perform cut-off procedures to ensure that revenues are recognised in the current accounting period.
 - Cut-off errors will usually arise when companies recognise revenue based on the date on which the sales invoices are generated rather than the date on which the risks and rewards are transferred to the buyer.
- Auditors should verify the credit notes issued after the accounting period.
 - Sometimes sales team or sales personnel can make fictitious sales before the year-end to meet performance

target and cancel out those sales with a post year end credit note.

- Trace from the shipping documents to the sales journal.
- Check whether quantity is appearing in sales register or not.
- Check reconciliation of total sales/goods dispatched as per stock records and financial records and statutory records like GST.
- Review GST tax and GST returns and ensure that the same are reconciled with revenue reported in the profit and loss account.
- Verify the reasonableness of GST by applying the applicable rate to the gross sales value and compare the amount of GST as per statutory returns and analyze the reasons for variance, if any.

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

- Trace a few transactions from inception to completion. (Examination in depth)
 - E.g: Take few sales transaction, and check from the receipt of sales order to the payment of receivable balance, every underlying document to ensure if it is properly recorded at every stage and measured accurately taking into consideration all the incentives, discounts, if any. The recognition shall be according to the revenue recognition policy of the entity.
- If the client is engaged in export sales, then compliance with AS 11 shall be ensured.
- Auditors must understand the client's operations and related GAAP issues e.g. point of sale revenue recognition vs. percentage of completion, wherever applicable.
- Compare the rate of sales affected with related parties and review them for collectability, as well as whether they were properly authorized and the value of such transactions were reasonable and at arm's length.

Goods Sent Out on Sale or Return Basis

- Memoranda Record Verification – Check for a record tracking goods on sale or return, ensuring sales are recorded upon customer confirmation.
- Price Adjustments – Ensure prices are adjusted in sales and receivables upon goods acceptance.
- Approval Period Compliance – Verify goods after the approval period are returned or billed to the customer.
- Closing Inventory Accuracy – Confirm goods still on approval at year-end are included in closing inventory.

Required DISCLOSURE for sales have been appropriately made

Ensure whether the following disclosures as required under Schedule III (Part II) to Companies Act, 2013 have been made:

- A. In respect of a company other than a finance company, revenue from operations shall disclose separately in the notes revenue from—
- Sale of products;
 - Sale of services;
 - Grants or donations received (relevant in case of section 8 companies only)]
 - Other operating revenues;
Less: Excise duty.
- B. In respect of a finance company, revenue from operations shall include revenue from—
- Interest; and
 - Other financial services.
- C. Brokerage and discount on sales other than usual trade discount to be disclosed separately
- D. Transactions with related parties to be disclosed appropriately in notes to accounts.

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

Recognition of Income

Interest income

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

Dividend

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.

Gain/(loss) on sale of investment

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.

Assertions to be examined

- Occurrence**– Recorded other income was earned during the Period
- Completeness** – Other income earned during the period was appropriately recorded and there is no understatement or overstatement.
- Measurement**– Other income has been measured appropriately as per the applicable accounting standards
- Presentation and Disclosure** – Required disclosure for other income have been appropriately made

Audit procedures for verifying interest income on FD

- Obtain a listing of fixed deposits opened during the period under audit along with the applicable interest rate and the number of days for which the deposit was outstanding during the period.
- Verify the arithmetical accuracy of the interest calculation made by the entity by recomputing i.e. multiplying the deposit amount with the applicable rate and number of days during the period under audit.
- For deposits still outstanding as at the period- end, trace the same to the direct confirmations obtained from the respective bank/ financial institution.
- Obtain a confirmation of interest income from the bank and verify that the interest income as per bank reconciles to the calculation shared by the entity.
- Obtain a copy of Form 26AS (TDS withholding by the bank/ financial institution) and reconcile the interest reflected therein to the calculation shared by client.

Audit procedures for verifying Dividend Income

Refer to the topic Recognition of Income – "Dividend"

Audit procedures for verifying Gain/(loss) on sale of investment in mutual funds

- Verify that Gain/(loss) on sale of investment in mutual funds is recorded as other income only on
 - transfer of title from the entity AND
 - is determined as the difference between the redemption price and carrying value of the Investments.
- For the purpose, obtain the mutual fund statement and trace the gain / loss as recorded in the books of account to the gain/ loss as reflected in the statement

Disclosure requirements of Schedule III

Classification of Other Income

'Other income' has been classified as:

- Interest Income (in case of a company other than a finance company);
- Dividend Income;
- Net gain/loss on sale of investments;
- Other non-operating income (net of expenses directly attributable to such income)

Undisclosed income

The Company shall give details of any transaction not recorded in the books of accounts that has been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (such as, search or survey or any other relevant provisions of the Income Tax Act, 1961), unless there is immunity for disclosure under any scheme and also shall state whether the previously unrecorded income and related assets have been properly recorded in the books of account during the year.

Audit of Purchases**Audit Procedures for Purchases****Control Points Identification**

Assess segregation of duties, bid processes, purchase order authorizations, GRN preparations, and the 2/3 way match system.

Controls Effectiveness Testing

Evaluate purchase controls' strength to gauge if substantive testing can be reduced.

Sample Transaction Review

Randomly select and scrutinize purchase orders, GRNs, invoices, and vendor statements.

Conduct Substantive Procedures

Analyze purchase trends, compare historical data, and relate purchases to sales, adjusting for variances like price changes or discounts.

Audit Procedures for Recorded purchases represent goods actually received/ services availed during the period (OCCURRENCE)

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

- Whether any fictitious vendors have been booked or purchases have been recorded by reviewing the vendor selection process followed by the entity and also performing procedures to ensure existence of the vendors.
- Whether the goods were received at the factory gate and whether there exists an entry in the security gate inward register
- Whether quality inspection of goods was done.
- Whether a goods receipt note was prepared and signed by an appropriate client personnel.
- Whether the purchase invoice was approved as per delegation of authority and whether a 3 or 2-way match was done.
- Whether the stock record has been updated by the authorised personnel.

Special considerations during audit of purchases

1. The purchase invoice received should be the "Original" copy (and not photocopy/ carbon copy) against which the entity has recorded the purchase in its books of account.
2. Purchase invoice should have been booked only once risk and reward incidental to ownership has been transferred to the entity.
3. Purchase invoice should be in the name of entity. However, in case of different branches, it should be addressed to the appropriate branch.
4. Input tax component should have been booked in the input tax ledger. The auditor should obtain tax returns filed with the authorities and tally the input tax as reflected in the books to the amount disclosed in the returns.

5. In case of purchases made from related parties or allied and associated concerns, the auditor needs to verify if requisite approval from Board of Directors (appropriate authority) has been obtained and should verify the selected samples and perform analytical procedures in relation to price of goods to confirm that the price charged is at arm's length.
6. The auditor should review whether purchases should be capitalized or expensed off in Statement of Profit and loss according to his professional judgement.
7. Review journal entries for unusual transactions.

Audit Procedures For

- All purchases made during the period were recorded and there is no understatement or overstatement. (COMPLETENESS)
- All purchases have been measured appropriately (MEASUREMENT)

In addition to the procedures for establishing occurrence of purchases as discussed above, the auditor should:

1. Perform cut-off test to ensure that purchases are recognised in the correct accounting period. For the purpose, the auditor should examine material inward records, say, last 5 transactions at the period end to check that all corresponding invoices have been duly entered in the Purchases book and none have been omitted.
2. Ensure correct accounting treatment of goods – in – transit as per the agreed terms with the vendor regarding transfer of risk and reward of ownership in goods.
3. Obtain written representation from the management that all the purchases that took place during the year have been properly recorded in the books.
4. Perform analytical procedures to obtain audit evidence as to overall reasonableness of purchase quantity and price which may include:
 - Consumption Analysis: Auditor should scrutinize raw material consumed as per manufacturing account and compare the same with previous years with closing stock and ask for the reasons from the management, if any significant variations are found.
 - Stock Composition Analysis: Auditor to collect the reports from management for composition of stock i.e. raw materials as a percentage of total stock and compare the same with previous year and ask for reasons from management in case of significant variations.
 - Ratios: Auditor should compare the creditors turnover ratios and stock turnover ratios of the current year with previous years.
 - Auditor should review quantitative reconciliation of closing stocks with opening stock, purchases and consumption.

Required DISCLOSURES for purchases have been appropriately made

Ensure whether the following disclosures as required under Schedule III (Part 1) to Companies Act, 2013 have been made:

- Whether purchases of stock-in-trade have been specifically disclosed.
- Whether changes in inventories of finished goods, stock-in-trade and work-in-progress have been specifically disclosed.
- Whether the transactions with related parties are appropriately disclosed in notes to accounts.

Audit of Employee Benefits Expenses**Obtaining an understanding as to hiring, appraisal and retirement process**

- **Tests** the **controls** the entity has set around the employee benefit payment process to determine how effective they are. If they are **effective**, the auditor can **reduce** the **substantive testing**. Common internal controls over the employee benefit payment cycle includes
 - maintaining of attendance records,
 - employee master,
 - authorisation and approval of monthly payroll processing and disbursement,
 - computation of employee deductions like payroll taxes,
 - accrual of other benefits like gratuity,
 - leave encashment, bonus etc.
- The auditor **selects** a **random sample** of transactions and examines the related appointment letters, appraisal letters, attendance records, HR policies, employee master etc.
- Performing substantive audit procedures is a must. 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 comparing that with the client's business operations and overall trend in the industry.

Assertions to be Examined

- **Occurrence**– Recorded employee benefit expenses were actually incurred during the period
- **Completeness** – Employee benefit expenses pertaining to the period have been recorded appropriately
- **Measurement** – Employee benefit expenses have been measured appropriately. There is no understatement or overstatement.
- **Presentation and Disclosure** – Required disclosures for employee benefit expenses have been appropriately made

Audit Procedures

- Obtain an **understanding** of the entity's **process** of capturing employee attendance.
 - There is always a risk that an entity could record expense for fictitious employees. To address this risk, the auditor

may choose to meet the employees in person, on a sample basis. Further, the auditor may choose to select a sample of employees and ask the payroll department to share their bank details/ identity proofs of the employees.

- Obtain a **list** of **employees** as at the period- end along with a monthly movement **split** between **new hires**, **leavers** and **continuing** employees.
- Select a sample on a random basis of **new hires**, obtain the **appointment letter** and verify whether the **salary** for first month and subsequent months was **processed** as per the agreed terms.
- Select sample on random basis of **resigned employees**, obtain their **full** and **final computation** and verify whether **all** their **dues** including post-retirement benefits like gratuity, leave encashment have been **paid** and whether the respective employee's **acknowledgement** on final computation has been **obtained**.
- Obtain the **monthly salary registers** for **all 12 months**.
 - Calculate the average salary per employee per month and compare with the PY and preceding month and analyse the reasons for variance which could be attributable to annual increments, an employee at senior level joining/ leaving the entity, bonus pay-out etc.
- Verify if accrual/ **provision** has been made for all employee benefits and obligations like bonus, gratuity, leave encashment, etc.
- In **case provident fund** (PF), employee state insurance (ESI) are **applicable** to the entity, compile a **reasonability** by applying the rate to the basic wages and comparing to the amount recorded in books and analyse reasons for variance, if any. Also, obtain monthly deposit challans to verify if the month on month liability was subsequently deposited with the authorities and within the specified timelines.
- Perform **analytical procedures** to obtain audit evidence as to overall **reasonableness** of employee benefit expenses.
 - Auditor should analyse units produced per employee and compare the same with previous years and present industry trends and ask for the reasons from the management, if any significant variations are found.

Required DISCLOSURES for employee benefit expenses have been appropriately made

Ensure whether employee benefit expenses has been classified as:

- salaries and wages,
- contribution to provident and other funds,
- expense on Employee Stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP),
- staff welfare expenses

Audit of Depreciation and Amortisation

Meaning

- An asset's cost should proportionally be expensed based on the period over which the asset is expected to be used. It is done through depreciation and amortization.
- Depreciation represents systematic allocation of the depreciable value of an item of **PPE** over its useful life.
- Amortisation represents systematic allocation of the depreciable amount of an **intangible asset** over its useful life.

Attributes auditor needs to consider while verifying Depreciation and amortisation expense.

Auditor needs to consider the following attributes while verifying for depreciation and amortisation expenses:

- Obtain the **understanding** of entity's **accounting policy** related to depreciation and amortisation.
- Ensure the Company **policy** for **charging depreciation** and **amortisation** is as per the relevant provisions of **Companies Act/ applicable accounting standards**.
- The accounting policy has been **applied consistently** year on year.
- Any **change** in the accounting policy has been **adequately disclosed**.
- Whether the **depreciation** has been **calculated** after making adjustment of **residual value** from the cost of the assets.
- Whether depreciation and amortisation charges are **valid**.
- Whether depreciation and amortisation charges are **accurately calculated** and **recorded**.
- Whether all depreciation and amortisation charges are recorded in the **appropriate period**.
- Ensure the **parts** (components) of each item of property, plant and equipment that are to be **depreciated** separately have been **properly identified**.
- Whether the **most appropriate depreciation method** for each separately depreciable component has been used.

Assertions to be examined

- **Occurrence**– Recorded depreciation and amortisation expenses were actually incurred during the period
- **Completeness** – Depreciation and amortization expenses pertaining to the period have been recorded appropriately and there is no understatement/overstatement
- **Measurement** –Depreciation and amortisation expenses have been measured appropriately.
- **Presentation and Disclosure** – Required disclosures for depreciation and amortisation have been appropriately made

Audit Procedures

1. Obtain an **understanding** of entity's **process** of charging depreciation and amortization.
2. Obtain the **fixed asset register** maintained by the entity.

- There is always a risk that an entity could capitalize expense of revenue nature to increase its profit or charge capital expenditure directly in income and expense statement to reduce its profit. To address this risk, the auditor may choose to check the nature of asset from fixed asset register.
- There is always a risk that a fake asset has been capitalized in the books and to mitigate this risk, auditors should physically verify the fixed assets, at least the ones that are material in value. Obtain a list of all additions/ deletions along with their proper approval from the authorised person for the same.

3. **Select** the **sample** of assets from the Fixed Assets Register, on **materiality** considerations and verify the **rates** of depreciation and depreciation **calculations**.
4. Obtain the list of all the components identified by the management.
5. Ensure Intangible assets like patents, goodwill, copy rights have been **properly amortized** over the period.
6. Ensure depreciation is charged on the assets from the date when it is **ready to use** and not from the date of actual usage
7. Ensure depreciation on **revalued** amount has been **properly accounted** for from revaluation reserve.
8. Depreciation computation as per **Income tax Act, 1961**
9. Ensure that additions are **tallying** with the **additions** as per **Companies Act** and the opening WDV to the Tax audit schedule for the assessment year preceding the previous year under audit.
10. Perform **analytical procedures** to obtain audit evidence as to **overall reasonableness** of **depreciation** and **amortisation** expense
11. Check the arithmetical accuracy of records and perform independent calculations.
12. Ensure that the depreciation and amortization has been **charged** as per the **useful lives** of PPE and intangible assets.
13. Ensure that **residual values** have been properly verified as that impacts the computation of depreciation.
14. Ensure that the depreciation and amortization has been computed **prospectively whenever there is any change in useful lives of PPE and intangible assets**.

Required disclosures for depreciation and amortisation have been appropriately made

Ensure whether the following disclosures as required have been made:

- 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.

Audit of Other Expenses like Power and Fuel, Rent, Repair to Building, Plant and Machinery, Insurance, Travelling, Legal and Professional, Miscellaneous Expenses

Attributes to be examined while vouching expenses

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

Audit procedures for Rent expense

- Obtain a month wise expense schedule along with the rent agreements.
- Examine whether expense has been recorded for all 12 months and whether the rent paid is as per the underlying agreement.
- Examine whether the agreement contains any escalation clause and if yes, verify whether the rent has been increased or adjusted during the period only as per escalation clause.
- Verify whether the agreement is in the name of the entity
- Verify whether the expense pertains to premises used for running business operations of the entity.

Audit procedures for Power and fuel expense

- Obtain a month wise expense schedule along with the power bills.
- Verify whether the expenses have 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 a 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.

Audit procedures for Insurance expense

- 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 the number of days.

Audit procedures for Legal and professional expenses

- Obtain a month-wise and consultant-wise summary.
- In case of monthly retainerhip agreements, verify whether the expenditure for all 12 months has been recorded correctly.

- For non-recurring expenses, select a sample and vouch for the attributes discussed above.
- The auditor should 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.

Audit procedures for Travel, repair and maintenance, printing and stationery, miscellaneous expenses

- The auditor should select a sample and vouch for the attributes.
- Wherever possible, the auditor should try to prepare a summary of expenditure on a monthly basis and then analytically compare the trends.
- Perform analytical procedures to obtain audit evidence as to overall reasonableness of other expense which may include expenditure per unit of production analysis.
- Auditor should analyse expenses per unit produced and compare the same with previous years and present industry trends and ask for the reasons from the management, if any significant variations are noticed.

Required DISCLOSURE for other expenses have been appropriately made

Ensure other expense have been classified under:

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

Other Points

Details of Benami Property held

Where any proceedings have been initiated or pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and the rules made thereunder, the company shall disclose the following:-

- Details of such property, including year of acquisition,
- Amount thereof,
- Details of Beneficiaries
- If property is in the books, then reference to the item in the Balance Sheet,
- If property is not in the books, then the fact shall be stated with reasons,
- Where there are proceedings against the company under this law as an abettor of the transaction or as the transferor then the details shall be provided,

- g. **Nature** of proceedings, **status** of same and company's view on same.

Details of Crypto Currency or Virtual Currency

Where the Company has traded or invested in Crypto currency or Virtual Currency during the financial year, the following shall be disclosed:-

- profit** or **loss** on transactions involving Crypto currency or Virtual Currency
- amount** of **currency** held as at the reporting date,
- deposits** or **advances** from any person for the purpose of **trading** or **investing** in Crypto Currency/ virtual currency.

Following Ratios to be disclosed

Current Ratio	Debt-Equity Ratio	Debt Service Coverage Ratio
Return on Equity Ratio	Inventory turnover ratio	Trade Receivables turnover ratio
Trade payables turnover ratio	Net capital turnover ratio	Net profit ratio
Return on Capital employed	Return on investment.	

The company shall explain the items included in numerator and denominator for computing the above ratios. Further explanation shall be provided for any change in the ratio by more than 25% as compared to the preceding year.

Corporate Social Responsibility (CSR)

Where the company covered under section 135 of the companies act, the following shall be disclosed with regard to CSR activities:-

- amount **required** to be spent by the company during the year,
- amount** of expenditure **incurred**
- shortfall** at the end of the year,
- total** of **previous years shortfall**,
- reason** for shortfall,
- nature** of CSR activities,
- details of **related party transactions**, e.g., contribution to a trust controlled by the company in relation to CSR expenditure as per relevant Accounting Standard,
- where a **provision** is made with respect to a liability incurred by entering into a contractual obligation, the movements in the provision during the year should be shown separately.

Relationship with Struck off Companies

Where the company has any transactions with companies struck off under section 248 of the Companies Act, 2013, the Company shall disclose the following details:-

Name of struck off Company	Nature of transactions with struck off Company	Balance outstanding	Relationship with the Struck off company, if any, to be disclosed
	Investments in securities		
	Receivables		
	Payables		
	Shares held by struck off company		
	Other outstanding balances (to be specified)		