Contents

Abbreviations Used

Mgmt: Management:

FS: Financial Statement

Info: Information

Engg: Engagement

BOA: Books of Accounts

ROMM: Risk of Material Misstatement

CTABD: Class of Transactions, Account Balance, Disclosure

NTE: Nature, time and extent

SA: Standard on Auditing

AS: Accounting Standard

FRF: Financial Reporting Framework

EP: Engagement Partner

ET: Engagement Team

RAP: Risk Assessment Procedures

FAP: Further Audit Procedures

SAP: Substantive Analytical Procedure

Chapter wise Past Attempt Breakup

Standards on Auditing (Based on New Audit Course)										
Chapter	**May'25**	**Jan'25**	**Sep'24**	**May'24**	**Nov'23**	**May'23**	**Nov'22**	**May'22**	**Dec'21**	**Jul'21**
1	5	5	5	3	0	0	2	3	0	5
2	11	12	13	11	0	2	0	2	4	0
3	13	10	13	10	9	19	12	14	12	8
4 & 6	18	21	24	14	21	15	17	19	19	19
5	21	11	13	18	11	15	16	11	17	7
7	12	14	14	7	3	4	0	0	4	4
8	14	13	10	7	15	9	16	16	8	9
9	11	11	8	7	16	13	10	3	12	17
10	4	8	7	4	0	0	4	3	4	7
11	9	13	11	7	6	0	4	0	4	2
Total	118	118	118	88	81*	77*	81*	71*	84*	78*

*After excluding marks of removed topic of old course.

Chapter 1

Chapter 1	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
Basics of Auditing										
1. Meaning and Nature of Auditing										
2. How Auditor ensures FS won't Mislead?										
3. What comes under Scope of Audit										
3.1 What doesn't come under Scope of Audit			3							
4. Advantages of Auditing										
5. Audit Mandatory or Voluntary										
6. Who Appoints Auditor?										
7. To Whom Report is Submitted										
8. Meaning of Assurance Engagement										
8.1 Elements of an Assurance Engagement										
8.2 Audit vs Review										
8.3 Assurance Not restricted to Auditing										
8.4 Prospective Financial Info. (PFI) & Historical Financial Info.		5					2			
9. Engagement and Quality Control Standards	3									
9.1 Standards on Quality Control										
10. Why are Standards needed?	2		2							
11. Duties in relation to Standards										
SA 200										
1. Objective of SA 200								3		
2. Inherent Limitation of Audit				3					0	5
3. Professional Skepticism										
Total	5	5	5	3	0	0	2	3	0	5
ICAI Weightage	4% to 6%									

Basics of Auditing

1. Meaning and Nature of Auditing

An audit is an independent examination of financial info. of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon.

Analysis of the Definition:

a. Independence, here, implies that the judgement of a person is not subordinate to the wishes or direction of another person who might have engaged him.

b. Audit is independent examination of financial information of any entity – that entity may be profit oriented or not and irrespective of its size or legal form. For example – Profit oriented – Audit of Listed company engaged in business. On the other hand, Audit of NGO – not profit oriented.

c. Purpose of the audit is to express an opinion on the FS.

Auditing provide Assurance to users of FS – providing confidence to users that financial info. contained in FS can be relied upon.

Note: Preparation and presentation of FS is responsibility of mgmt. Auditor express opinion on FS by means of Audit Report.

2. How Auditor ensures FS won't Mislead?

1. Accounts have been drawn up (prepared) with reference to entries in the BOA.
2. Entries in the BOA are adequately supported by sufficient and appropriate evidence.
3. None of the entries in the BOA has been omitted in the process of compilation.
4. Info. conveyed by the statements is clear and unambiguous.
5. FS amounts are properly classified, described and disclosed in conformity with AS.
6. Statement of accounts presents a true and fair picture of the operational results and of the assets and liabilities.

3. What comes under Scope of Audit

The following points are included in scope of audit of FS:

- Coverage of all aspects of entity relevant to the FS being audited.
- Reliability and sufficiency of financial info: Auditor should be reasonably satisfied that info. contained in underlying accounting records and other source data (like bills, vouchers, documents etc.) is reliable and sufficient basis for preparation of FS.
- Proper Disclosure of financial information:

  a. Auditor should decide whether relevant info. is properly disclosed in the FS as the applicable FRF.

  b. It is done by ensuring that FS properly summarize transactions and events and consider the judgments made by mgmt in preparation of FS.

  c. "Choosing of appropriate accounting policies is responsibility of mgmt. Role of auditor lies in evaluating selection and consistent application of accounting policies by mgmt."

  d. Mgmt is responsible for preparation and presentation of FS and makes many judgments in this process of preparing and presenting FS. For example, choosing of appropriate accounting policies in relation to various accounting issues like choosing method of charging depreciation on fixed assets or choosing appropriate method for valuation of inventories.

e. Auditor evaluates selection and consistent application of accounting policies by mgmt; whether such a selection is proper and whether chosen policy has been applied consistently on a period-to-period basis.

3.1 What doesn't come under Scope of Audit

1. Preparation and presentation of FS.
2. Auditor is not expected to perform duties which fall outside the domain of his competence.
3. Auditor is not an expert in authentication of documents.
4. **Audit is not an official** investigation:
   a. Audit is not an official investigation into alleged wrong doing. He does not have any specific legal powers of search or recording statements of witness on oath which may be necessary for carrying out an official investigation.
   b. Audit is distinct from investigation. Investigation is a critical examination of the accounts with a special purpose. For example, if fraud is suspected and it is specifically called upon to check the accounts whether fraud really exists, it takes character of investigation.
   c. Objective of audit is to obtain reasonable assurance about whether the FS as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion.
   d. Scope of audit is general and broad whereas scope of investigation is specific and narrow.

4. Advantages of Auditing

1. Audited accounts provide high quality info. It gives confidence to users that info. on which they are relying is qualitative and it is the outcome of an exercise carried out by following Auditing Standards recognized globally.
2. In case of companies, shareholders may or may not be involved in daily affairs of the company. FS are prepared by mgmt consisting of directors. As shareholders are owners of the company, they need an independent mechanism so that financial info. is qualitative and reliable. Hence, their interest is safeguarded by an audit.
3. Audit acts as a moral check on employees from committing frauds for the fear of being discovered by audit.
4. Audited FS are helpful to government authorities for determining tax liabilities.
5. Audited FS can be relied upon by lenders, bankers for making their credit decisions *i.e.* whether to lend or not to lend to a particular entity.

6. An audit may also detect fraud or error or both.
7. An audit reviews existence and operations of various controls operating in any entity. Hence, it is useful at pointing out deficiencies.

5. Audit Mandatory or Voluntary

Audit is not always legally mandatory. There are entities like companies who are compulsorily required to get their accounts audited under law.

Even non-corporate entities may be compulsorily requiring audit of their BOA under tax laws. For example, in India, every person is required to get accounts audited if turnover crosses certain threshold limit under income tax law.

6. Who Appoints Auditor?

Generally, an auditor is appointed by owners or in some cases by constitutional or government authorities in accordance with applicable laws and regulations.

a. **Companies:** Members (shareholders) in Annual General Meeting (AGM).
b. **Government companies in India:** Appointed by Comptroller and Auditor General of India (CAG), an independent constitutional authority.
c. **Firm:** Appointed by partners of firm.

7. To Whom Report is Submitted

Outcome of an audit is written audit report in which auditor expresses an opinion. The report is submitted to person making the appointment.

In case of companies → Shareholders, in case of a firm→ partners who have engaged him.

8. Meaning of Assurance Engagement

Assurance engagement means an engagement in which:

- ✓ a practitioner expresses a conclusion
- ✓ designed to enhance the degree of confidence
- ✓ of the intended users other than the responsible party
- ✓ about the outcome of the evaluation or measurement of
- ✓ a subject matter against criteria.

It means that the practitioner gives an opinion about specific information due to which users of information are able to make confident decisions. knowing well that chance of information being incorrect is diminished.

8.1 Elements of an Assurance Engagement (RIP-3SR)

Following elements comprise an assurance engagement:

1. Three party relationship involving a practitioner, responsible party, and intended users

- Practitioner is a person who provides the assurance. The term practitioner is broader than auditor. Audit is related to historical financial info. whereas practitioner may provide assurance not necessarily related to historical financial info.
- Responsible party is the party responsible for preparation of subject matter.
- Intended users are the persons for whom an assurance report is prepared. These persons may use the report in making decisions.

2. Appropriate Subject matter: It refers to the info. to be examined by the practitioner.
3. Suitable criteria: These refer to benchmarks used to evaluate the subject matter like standards, guidance, laws, rules and regulations.
4. Sufficient appropriate evidence: Practitioner performs an assurance engagement to obtain sufficient and appropriate evidence. It is on the basis of evidence that conclusions are arrived and an opinion is formed by auditor. "Sufficiency" related to Quantity of audit evidence and "Appropriateness" relates to Quality of audit evidence.
5. Written assurance report in appropriate form: A written report is provided containing conclusion that conveys the assurance about the subject matter. A written assurance report is the outcome of an assurance engagement.

8.2 Audit vs Review

- ✓ Audit is a Reasonable assurance engagement. It provides Reasonable assurance.
- ✓ Review is a limited assurance engagement. It provides lower level of assurance than audit.
- ✓ Review involves fewer procedures and gathers sufficient appropriate evidence on the basis of which limited conclusions can be drawn up.
- ✓ Both Audit and Review are related to FS prepared on the basis of historical financial info.

Reasonable Assurance Engagement	Limited Assurance Engagement
Reasonable assurance engagement provides high level of assurance.	Limited assurance engagement provides lower level of assurance than reasonable assurance engagement.
It performs elaborate and extensive procedures to obtain sufficient appropriate evidence.	It performs fewer procedures as compared to reasonable assurance engagement.
It draws reasonable conclusions on the basis of sufficient appropriate evidence.	It involves obtaining sufficient appropriate evidence to draw limited conclusions.
E.g. of reasonable assurance engagement is an audit engagement.	**E.g.** of limited assurance engagement is review engagement.

8.3 Assurance Not restricted to Auditing

Audit engagement is an assurance engagement. However, assurance engagements are not restricted to auditing alone.

There are other assurance engagements too like review engagements, engagements providing assurance involving prospective financial info, engagements providing assurance on internal controls in an entity.

Assurance engagements provide assurance to users. The difference is of degree. Whereas an audit provides reasonable assurance which is a high level of assurance, review provides lower level of assurance as compared to audit.

In assurance reports involving prospective financial info, the practitioner obtains sufficient appropriate evidence to the effect that mgmt's assumptions on which the prospective financial info. is based are not unreasonable, the prospective financial info. is properly prepared on the basis of the assumptions, and it is properly presented, and all material assumptions are adequately disclosed.

Assurance engagements are not restricted to the audit of FS alone. Following are the examples of assurance engagements:

- Audit of financials statements
- Review of FS
- Examination of prospective financial info.
- Report on controls operating at an organisation

8.4 Prospective Financial Information (PFI) & Historical Financial Information

"PFI" means financial info. based on assumptions about events that may occur in the future and possible actions by an entity. It can be in the form of a forecast or projection or combination of both.

In assurance reports involving PFI, the practitioner obtains sufficient appropriate evidence to the effect that mgmt's assumptions on which the PFI is based are:

1. Not unreasonable
2. PFI is properly prepared on the basis of the assumptions and it is properly presented
3. All material assumptions are adequately disclosed.

While evidence may be available to support the assumptions on which the PFI is based, such evidence is itself generally future- oriented.

In such assurance engagements, practitioner provides a report assuring that nothing has come to practitioner's attention to suggest that these assumptions do not provide a reasonable basis for the projection. Hence, such type of assurance engagement provides only a "moderate" level of assurance.

What is Historical Financial Information?

Info. expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

Note: HFI is rooted in past events which have already occurred whereas PFI is related to future events.

9. Engagement and Quality Control Standards (Engagement Standards)

Following standards issued by the Auditing and Assurance Standards Board (AASB) under the authority of the Council are collectively known as the Engagement Standards.

1. Standards on Auditing (SAs) which apply in audit of historical financial info. These establish high quality benchmarks and are followed by auditors in conducting audit of historical financial info.

   Example of Standards on Auditing are:

   a. SA 230: Audit Documentation

   b. SA 500: Audit Evidence.

2. Standards on Review Engagements (SREs) which apply in review of historical financial info. Review is a limited assurance engagement and it provides assurance which is lower than that provided by audit. It is due to the fact that review involves fewer procedures as compared to audit. Since a review also provides assurance to users, it also involves obtaining sufficient appropriate evidence.

   Example of Standards on Review Engagement are:

   a. SRE 2400: Engagements to Review Historical Financial Statements.

   b. SRE 2410: Review of Interim Financial Information Performed by the Independent Auditor of the Entity

3. Standards on Assurance Engagements (SAEs)

   ✓ Standards which apply in assurance engagements dealing with subject matter other than audits and review of historical financial info.

   ✓ For e.g. an assurance engagement relating to examination of Prospective financial info.

   ✓ Engagement may relate to providing assurance regarding non-financial matters like design and operation of internal control in an entity.

   Examples of Standard on Assurance Engagements are:

   a. SAE 3400: The Examination of Prospective Financial Information.

   b. SAE 3420: Assurance Engagements to Report the Compilation of Pro Forma Financial Information Included in a Prospectus.

4. Standards on Related Services (SRSs) which apply in *Agreed upon procedures* (AUP) to info, *Compilation engagements* and other related service engagements.

   AUP may require the auditor to perform certain procedures concerning individual items of financial data, say, accounts payable, accounts receivable, purchases from related parties and sales and profits of a segment of an entity, or a FS, say, a balance sheet or even a complete set of FS.

An engagement in which practitioner may be called upon to assist mgmt with the preparation and presentation of historical financial info. without obtaining assurance on that info. Such type of compilation engagements fall in the category of related services and practitioner issues a report clearly stating that it is not an assurance engagement and no opinion is being expressed.

Example of Standard on Related Services are:

a. SRS 4400: Engagements to perform agreed-upon procedures regarding financial Information
b. SRS 4410: (Revised) Compilation engagements

9.1 Standards on Quality Control

Standards on Quality Control (SQCs) have been issued to establish standards and provide guidance regarding a firm's responsibilities for its system of quality control for the conduct of audit and review of historical financial info. and for other assurance and related service engagements.

10. Why are Standards needed?

- ✓ Ensure carrying out of audit against established benchmarks at par with global practices.
- ✓ Improve quality of financial reporting thereby helping users to make diligent decisions.
- ✓ Promote uniformity as audit of FS is carried out following these Standards.
- ✓ Equip professional accountants with professional knowledge and skill.
- ✓ Ensure audit quality.

11. Duties in relation to Engagement and Quality Control Standards

1. Duty of professional accountants to see that Standards are followed in engagements undertaken by them.
2. However, a situation may arise when a specific procedure as required in Standards would be ineffective in a particular engagement.
3. In such a case, he is required to document:
   - ➢ How alternative procedures performed achieve the purpose of required procedure.
   - ➢ Reason for departure unless it is clear.
4. Further, his report should draw attention to such departures. It is also to be noted that a mere disclosure in the report does not absolve a professional accountant from complying with applicable Standards.

SA 200: Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing

1. Objective of SA 200

In conducting audit of FS, objectives of auditor in accordance with SA 200 are:

1. Obtain reasonable assurance about whether the FS as a whole are free from MM, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the FS are prepared, in all material respects, in accordance with an applicable FRF; and
2. Report on the FS, and communicate as required by the SAs, in accordance with the auditor's findings.

An analysis of above brings out following points clearly:

- Auditor obtains Reasonable Assurance

  Auditor’s objective is to obtain a reasonable assurance whether FS as a whole are free from material misstatement whether due to fraud or error.

  Reasonable assurance is to be distinguished from absolute assurance. Absolute assurance is a complete assurance or a guarantee that FS are free from material misstatements.

  However, reasonable assurance is not a complete guarantee. Although it is a high-level of assurance but it is not complete assurance.

- Misstatements in FS can occur due to fraud or error or both. Auditor has to see effect of misstatements on FS as a whole, in totality.
- Opinion is reported and communicated in accordance with audit findings through a written report (Audit Report) as required by SA.

Q. What is applicable FRF?

Applicable FRF means a framework adopted in the preparation and presentation of the FS that is acceptable in view of the nature of the entity and the objective of the FS, or that is required by law or regulation.

2. Inherent Limitation of Audit (ILA)

The process of audit suffers from certain inbuilt limitations due to which an auditor cannot obtain an absolute assurance that FS are free from material misstatement due to fraud or error.

These fundamental limitations arise due to the following factors:

1. Nature of Financial Reporting:

a. Preparation of FS involves making many judgments by mgmt. These judgments may involve subjective decisions or a degree of uncertainty. Therefore, auditor may not be able to obtain absolute assurance that FS are free from MM due to frauds or errors.

b. One of the premises for conducting an audit is that mgmt acknowledges its responsibility of preparation of FS in accordance with applicable FRF and for devising suitable internal controls. However, such controls may not have operated to produce reliable financial info. due to their own limitations.

c. For example, mgmt of a company has devised a control that all purchase bills should reflect stamp and signatures of an authorised person in "Goods Receiving Section" of the company stating the date and time of receiving goods in premises. It is an example of internal control devised by the company to ensure that only those purchase bills are produced for payment for which goods have been actually received. Now, what happens if concerned accountant and authorised person in "Goods Receiving Section" collude. It is a case of overriding of internal controls due to collusion between two persons. Such a probable collusion is one of limitations of internal controls itself.

2. Nature of Audit Procedures:

a. Auditor carries out his work by obtaining audit evidence through performance of audit procedures. However, there are practical and legal limitations on ability of auditor to obtain audit evidence.

b. For example, an auditor does not test all transactions and balances. He forms his opinion only by testing samples. It is an example of practical limitation on auditor's ability to obtain audit evidence.

c. Mgmt. may not provide complete info. as requested by auditor. There is no way by which auditor can force mgmt to provide complete info. He can only report. It is an example of legal limitation on auditor's ability to obtain audit evidence.

d. It may be engaged in concealing fraud by designing sophisticated and carefully organised schemes which may be hard to detect by the auditor. It may produce fabricated documents before auditor to lead him to believe that audit evidence is valid. However, in reality, such documents could be fake or non-genuine.

e. Auditor is not an expert in authentication of documents. Therefore, he may be led to accept invalid audit evidence on the basis of unauthentic documents.

f. It is possible that entity may have entered into some transactions with related parties. Such transactions may be only paper transactions and may not have actually occurred. Auditor may not be aware of such related party relationships.

3. Not in nature of investigation: Audit is not an official investigation. Hence, auditor cannot obtain absolute assurance that FS are free from MM due to frauds or errors.

4. Timeliness of financial reporting and decrease in relevance of information over time: Relevance of info. decreases over time and auditor cannot verify each and every matter. Therefore, a balance has to be struck between reliability of info. & cost of obtaining it.

   For e.g. an auditor who is conducting audit of a company since last two years. During these two years, he has sought detailed information from mgmt of company regarding various matters. During his third year, he chooses to rely upon some info obtained as part of audit procedures of second year. However, it could be possible that something new has happened and that info is not relevant. So, the info being relied upon by auditor is not timely and may have lost its reliability.

5. Future events: Future events or conditions may affect an entity adversely. Adverse events may seriously affect ability of an entity to continue its business. Business may cease to exist in future due to change in market conditions, emergence of new business models or products or due to onset of some adverse events.

Therefore, it is in view of above factors, that an auditor cannot provide a guarantee that FS are free from material misstatements due to frauds or errors.

3. Professional Skepticism (ACQ-CFAR-OOI)

As per SA 200, PS refers to an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

PS includes being alert to, for example:

1. Audit evidence that Contradicts other audit evidence obtained.
2. Info. that brings into question the Reliability of documents and responses to inquiries to be used as audit evidence.
3. Conditions that may indicate possible Fraud.
4. Circumstances that suggest the need for Audit procedures in addition to those required by the SAs.

Maintaining PS throughout the audit is necessary if the auditor is to reduce the risks of:

1. Overlooking unusual circumstances.
2. Over generalising when drawing conclusions from audit observations.
3. Using Inappropriate assumptions in determining the NTE of the audit procedures and evaluating the results thereof.

Notes:

- ✓ PS includes consideration of sufficiency and appropriateness of audit evidences in the light of the circumstances.
- ✓ Auditor may accept the documents as genuine unless have reason to the contrary.

- ✓ In cases of doubt or indications of fraud, SAs require auditor to investigate further & determine modification or addition to audit procedures as necessary.
- ✓ Auditor can't disregard the past experience of honesty and integrity of entity's mgmt and TCWG, however this doesn't relieve the auditor of the need to maintain PS.

Chapter 2

Chapter 2	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
SA 300										
1. Objective of SA 300										
2. Involvement of Engagement Team members in Planning Audit										
3. Benefits of Planning in the audit of FS										
4. Planning is a Continuous Process				4						
5. Discussion of elements of planning with entity's mgmt										
6. Planning Process: Elements of Planning										
6.1 Preliminary Engagement Activities										
6.2 Planning Activities										
A. Establishing Audit Strategy	4	5								
A.1 Audit Strategy: Assistance in Resource Mobilisation			4	3						
B. Development of Audit Plan			2			2				
7. Relationship between Audit Strategy and Audit Plan	2		3							
8. Overall Audit Strategy and the Audit Plan - Auditor's Responsibility										
9. Changes to Planning Decisions during the Audit								2		
10. DSR of work of Team Members										
11. Documentation		5								
Audit Programme										
1. Meaning of Audit Programme		2								
2. Constructing an Audit Programme				2						
3. Evolving one Audit Programme- Not Practicable for All businesses				2						
4.. The Assistant Engaged – Be Encouraged to Keep an Open Mind									4	
5. Periodic Review of the Audit Programme			4							
6. Audit Programme- Designed to provide audit evidence	5									
7. Advantages and Disadvantages of Audit Programme										
8. Extract of Sample audit programme pertaining to sales of an entity										
Total	11	12	13	11	0	2	0	2	4	0
ICAI Weightage		**8% to 12%**								

SA 300

SA 300 – Planning an Audit of FS
1. Objective of SA 300
Objective is to plan the audit so that it will be performed in an effective manner.
2. Involvement of Engagement Team members in Planning Audit
• EP and other key members of the ET shall be involved in planning. • Involvement of the EP and other key members of the ET in planning the audit draws on their experience and insight, thereby enhancing the effectiveness and efficiency of the planning process.
3. Benefits of Planning in the audit of FS / Why Planning an Audit is necessary?
Adequate planning benefits the audit of FS in several ways, including the following: 1. Helping auditor to devote appropriate attention to important areas of audit. 2. Helping the auditor identify and resolve potential problems on a timely basis. 3. Helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner. 4. Assisting in selection of ET members with appropriate levels of capabilities and competence to respond to anticipated risks, and proper assignment of work. 5. Facilitating direction & supervision of ET members and the review of their work. 6. Assisting, where applicable, in coordination of work done by others such as experts. When the audit work is adequately and properly planned, it reduced risk of inappropriate opinion by auditor. Planning an audit ensure audit risk is reduced to an acceptable level.
4. Planning is a Continuous Process
Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after the completion of the previous audit and continues until the completion of the current audit engagement. Planning, however, includes consideration of the timing of certain activities and audit procedures that need to be completed prior to the performance of further audit procedures. **For example:** planning includes the need to consider, prior to the auditor's identification and assessment of the ROMM, such matters as: 1. Analytical procedures to be applied as RAP 2. Obtaining a general understanding of the L&R framework applicable to the entity and how the entity is complying with that framework

3. Determination of materiality

4. Involvement of experts

5. Performance of other risk assessment procedures

Planning also includes need to consider determination of material or significant matters. It also involves considering whether experts need to be involved taking into account complexity of business. Further, it also involves considering need to perform risk assessment procedures for identifying and assessing ROMM.

5. Discussion of elements of planning with entity's mgmt

Auditor may decide to discuss elements of planning with the entity's mgmt to facilitate the conduct and mgmt of the audit engagement.

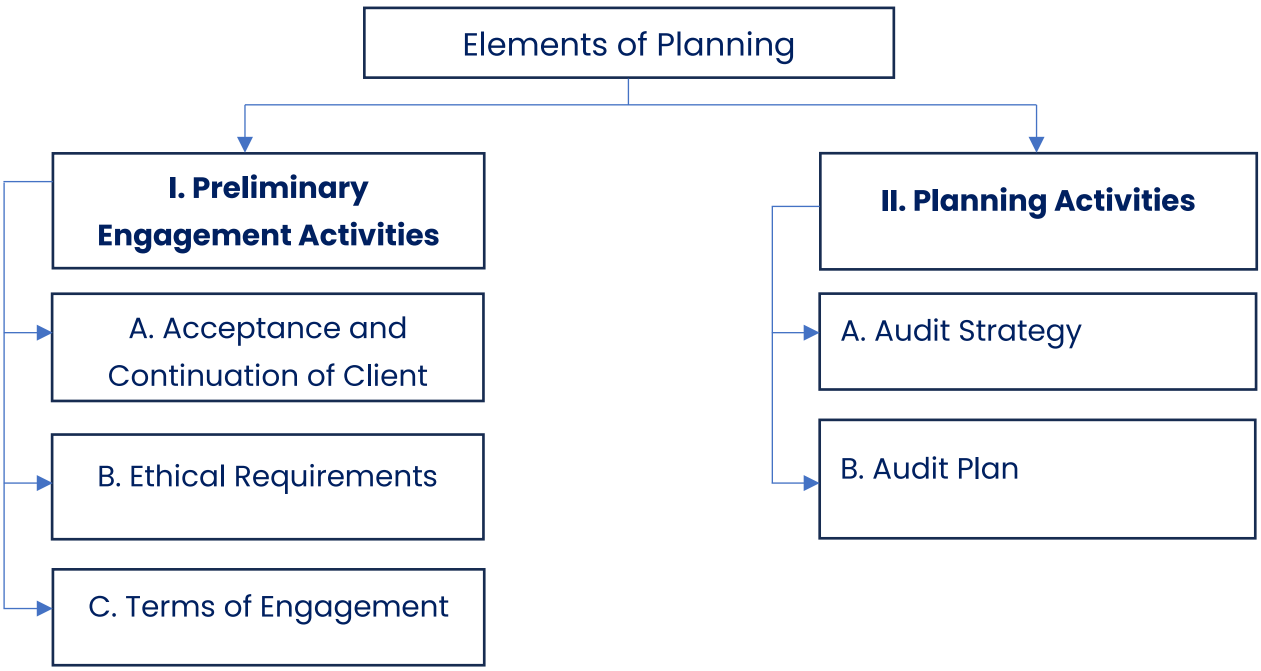
When discussing matters included in the overall audit strategy or audit plan, care is required in order not to compromise the effectiveness of the audit.

6. Planning Process: Elements of Planning

Elements of planning can be categorized as under:

I. Preliminary Engagement Activities

II. Planning Activities



6.1 Preliminary Engagement Activities

Performing preliminary engagement activities assists the auditor in identifying and evaluating events or circumstances that may affect auditor's ability to plan and perform audit engagement.

Auditor considers whether relationship with client should be continued and whether ethical requirements including independence continue to be complied with. It includes:

A) Performing procedures regarding the continuance of the client relationship.

B) Evaluating compliance with ethical requirements, including independence.

C) Establishing an understanding of terms of engagement.

(A) Performing procedures regarding the Continuance of Client Relationships

Acceptance and Continuance of Client Relationships and Audit Engagements (SA 220)

1. Ensure that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed and that conclusions reached in this regard are appropriate.
2. Firm should obtain info. considered necessary before accepting a new client, continuing an existing engagement, or taking on a new engagement with existing client.
3. Consider Integrity of principal owners and key mgmt.
4. Consider Competence of engagement team to perform the audit engagement.
5. Consider Compliance with ethical requirements
6. Consider Implications of matters that have arisen during current and previous audit engagement may need to be considered.

In case of initial engagements, communication with predecessor auditor should be made, where there has been change of auditor.

(B) Evaluating Compliance with Ethical requirements including Independence (SA 220)

a. Auditor shall continuously evaluate compliance with ethical requirements including independence.

b. "Independence" means that the judgement of a person is not subordinate to the wishes or direction of another person who might have engaged him.

c. Throughout the audit, EP shall remain alert, for evidence of non-compliance with relevant ethical requirements by members of the ET.

Engagement partner shall form a Conclusion on Compliance with Independence Requirements that apply to the audit engagement. In doing so, the engagement partner shall:

1. Obtain relevant information from the firm to identify and evaluate circumstances and relationships that create threats to independence
2. Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement and
3. If matters come to the engagement partner's attention that indicate that members of the engagement team have not complied with relevant ethical requirements, the

engagement partner, in consultation with others in the firm, shall determine the appropriate action.

4. Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is permitted by law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action.

(C) Establishing an understanding of terms of engagement (SA 210)

Auditor should send an engagement letter before the audit begins to prevent misunderstandings and ensure clarity on the engagement terms.

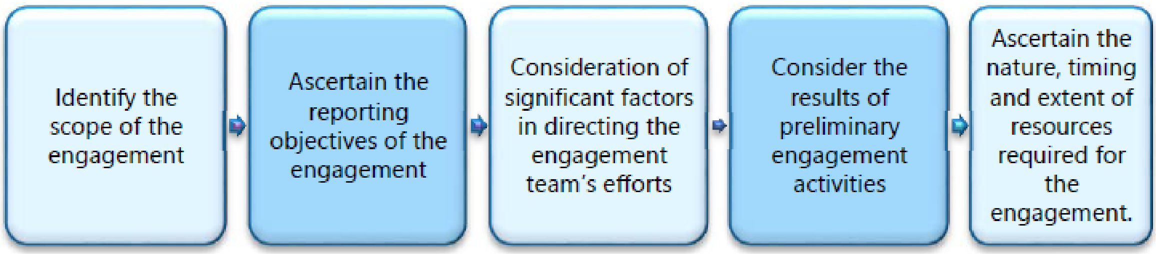
6.2 Planning Activities

Planning Activities involves two elements:

A. Establishing the Overall Audit Strategy

B. Developing an Audit Plan

A. Establishing the Overall Audit Strategy



As per SA-300, "Planning an Audit of FS", auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.

Auditor shall take following factors into consideration while establishing audit strategy:

1. Identify the characteristics of the engagement that define its scope:

   It is important for auditor to identify scope of the engagement. Only a well identified scope can lead to establishment of a sound audit strategy. There are many characteristics of engagement defining its scope. Some of characteristics are as under:

   a. Applicable FRF to the entity.

   b. Industry specific reporting requirements required by industry regulators.

   c. Nature of business segments to be audited.

   d. Expected use of audit evidence obtained in previous audits.

2. Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required:

Ascertaining of reporting objectives of engagement helps the auditor to plan timing of different audit procedures and also nature of communications. Some of the instances are given under:

a. Entity's timetable for reporting.

b. Expected nature and timing of communications among ET members, including the nature and timing of team meetings and timing of the review of work performed.

c. Organisation of meetings to discuss of NTE of audit work with mgmt.

d. Discussion with mgmt regarding the expected communications on the status of audit work throughout the engagement.

e. Discussion with mgmt regarding the expected type and timing of reports to be issued including the auditor's report.

3. Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts.

   Auditor needs to direct efforts of ET towards matters that in his professional judgment are significant. Preliminary identification of material classes of transactions, account balances and disclosures help auditor in establishing overall audit strategy. More energies need to be devoted to significant matters to obtain desired outcomes.

   Few examples of such factors are as under:

   a. Volume of transactions which may determine whether it is more efficient for the auditor to rely on internal control.

   b. Significant industry developments such as changes in industry regulations and new reporting requirements.

   c. Significant changes in the FRF, such as changes in accounting standards.

   d. Other significant relevant developments such as changes in the legal environment affecting the entity.

4. Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the EP for the entity is relevant.

   Examples are as under:

   a. Considering results from earlier audits where the internal controls were tested, including what weaknesses were found and what steps the company took to address them.

   b. The approach (manner) in which the auditor emphasizes to engagement team members to maintain and exercise professional skepticism in gathering and evaluating audit evidence.

5. Ascertain the NTE of resources necessary to perform the engagement.

   a. Selection of ET & assignment is a significant factor.

b. Experience team members may be assigned in areas where this is higher ROMM.

c. Engagement budgeting and devotion of more time to areas of higher ROMM.

A.1 Audit Strategy: Assistance/Benefits in Resource Mobilisation

Process of establishing the overall audit strategy assists the auditor to determine, subject to the completion of the auditor's RAP, such matters as:

1. Nature of Resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high-risk areas or the involvement of experts on complex matters.
2. Amount of resources to allocate to specific audit areas, such as the number of team members assigned to observe the inventory count at material locations
3. When these resources are to be deployed, such as whether at an interim audit stage or at key cut-off dates.
4. How such resources are managed, directed and supervised, such as when team briefing and debriefing meetings are expected to be held, how EP and manager reviews are expected to take place and whether to complete engagement quality control reviews.

B. Development of Audit Plan

Once the overall audit strategy has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources.

Understanding client's business is one of the important principles in developing an audit plan. Without adequate knowledge of client's business, a proper audit is not possible. Gaining knowledge of client's business is, therefore, one of the foremost requirements to develop audit plan.

As per SA 300, Auditor shall develop an Audit plan that shall include description of:

1. NTE of planned risk assessment procedures.
2. NTE of planned further audit procedures at assertion level.
3. Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.

Auditor plans what type of audit procedures are to be performed, their timing and how much work should be done taking into account sample size etc.

Other Points:

- Audit plan is more detailed than the overall audit strategy that includes the NTE of audit procedures to be performed by ET members.
- Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops.

- For example:
  - Planning of RAP occurs early in audit process.
  - Planning of NTE of FAP depends on outcome of RAP's.
  - Auditor may begin execution of FAP of some CTABD before planning all remaining FAP.

7. Relationship between Audit Strategy and Audit Plan

1. Audit strategy sets the broad overall approach to the audit whereas audit plan addresses the various matters identified in the overall audit strategy.
2. Audit strategy determines scope, timing and direction of audit. Audit plan describes how strategy is going to be implemented.
3. Audit plan is more detailed than the overall audit strategy that includes the NTE of audit procedures to be performed by ET members.
4. Once the overall audit strategy has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources.
5. Establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.

8. Overall Audit Strategy and the Audit Plan - Auditor's Responsibility

Auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan. The auditor plans what type of audit procedures are to be performed, their timing and how much work should be done taking into account sample size etc.

The overall audit strategy and the audit plan remain the auditor's responsibility. It is the auditor who is responsible for establishing overall audit strategy and developing audit plan. However, auditor may discuss elements of planning with entity's mgmt without compromising effectiveness of audit.

9. Changes to Planning Decisions during the Audit

Auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. As a result of:

- Unexpected events
- Changes in conditions, or
- Audit evidence obtained from the results of audit procedures

The auditor may need to modify the overall audit strategy and audit plan and thereby the resulting planned NTE of FAP, based on the revised consideration of assessed risks.

This may be the case when information comes to the auditor's attention that differs significantly from the information available when the auditor planned the audit procedures.

For e.g. audit evidence obtained through the performance of substantive procedures may contradict the audit evidence obtained through TOC.

10. DSR of work of Team Members

Auditor shall plan the NTE of DSR of their work. The NTE of the DSR of their work vary depending on many factors, including:

- Size and complexity of the entity
- Area of the audit
- Assessed ROMM
- Capabilities & competence of the individual team members

11. Documentation

Auditor shall document:

- ✓ The overall audit strategy;
- ✓ The audit plan; and
- ✓ Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.

1. The overall audit strategy - documentation of the overall audit strategy is record of the key decisions considered necessary to properly plan the audit and to communicate significant matters to the ET.
2. The audit plan record of the planned NTE of RAP and FAP at the assertion level in response to the assessed risks.
   - Serves as a record of the proper planning of the audit procedures that can be reviewed and approved prior to their performance.
   - Auditor may use standard audit programs and/or Audit checklists as per the circumstances.
3. Record of any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes. This explains why the significant changes were made, and the overall strategy and audit plan finally adopted for the audit. It also reflects the appropriate response to the significant changes.

Audit Programme

1. Meaning of Audit Programme

Audit programme consists of a series of verification procedures to be applied to the FS of a given entity for the purpose of obtaining sufficient evidence to enable the auditor to express an informed opinion on FS.

In other words, an audit programme is a detailed plan of applying the audit procedures in the given circumstances with instructions for the appropriate techniques to be adopted for accomplishing the audit objectives.

2. Constructing an Audit Programme

Audit planning ideally commences at the conclusion of the previous year's audit. The plan and the related audit programme should be reviewed and updated as the audit progresses.

Such consideration is based on the auditor's review of the internal control, his preliminary evaluation thereof, and the results of his compliance and substantive procedures carried out during the audit.

While developing an audit programme, the auditor may conclude that relying on certain internal controls is an effective and efficient way to conduct his audit. However, the auditor may decide not to rely on internal controls when there are other more efficient ways of obtaining sufficient appropriate audit evidence.

Auditor should also consider the:

- ✓ timing of the procedures,
- ✓ coordination of any assistance expected from the client,
- ✓ availability of assistants, and
- ✓ involvement of other auditors or experts.

Further, the auditor normally has flexibility in deciding when to perform audit procedures. However, in some cases, the auditor may have no discretion as to timing, for example, when observing the taking of inventories by client personnel or verifying the securities and cash balances at the year-end.

For the purpose of Programme Construction, the following points should be kept in mind:

1. Stay within the scope and limitation of the assignment.
2. Determine the evidence reasonably available and identify the best evidence for deriving the necessary satisfaction.
3. Apply only those steps and procedures which are useful in accomplishing the verification purpose in the specific situation.
4. Consider all possibilities of error.

5. Co-ordinate the procedures to be applied to related items.

3. Evolving one Audit Programme- Not Practicable for All businesses

- Businesses vary in nature, size and composition;
- Work which is suitable to one business may not be suitable to others;
- Efficiency and operation of internal controls and the exact nature of the service to be rendered by the auditor are the other factors that vary from assignment to assignment.

On account of such variations, evolving one audit programme applicable to all businesses under all circumstances is not practicable.

However, it becomes a necessity to specify in detail in the audit programme the nature of work to be done so that no time will be wasted on matters not pertinent to the engg. and any special matter or any specific situation can be taken care of.

4. The Assistant Engaged – Be Encouraged to Keep an Open Mind

To start with, an auditor having regard to:

- Nature, size and composition (structure) of the business
- Dependability of the internal control and
- Scope of work

Auditor should frame a programme which should aim at providing for a minimum essential work which may be termed as a standard programme.

- ✓ As experience is gained by actually carrying out the work, the programme may be altered to take care of situations which were left out originally, but are found relevant later on.
- ✓ Similarly, if any work originally provided for proves beyond doubt to be unnecessary or irrelevant, it may be dropped.
- ✓ Assistant engaged in the job should be encouraged to keep an open mind beyond the programme given to him.
- ✓ Assistants should be instructed to note and report significant matters coming to his notice, to his seniors or to the partners or proprietor of the firm engaged for doing the audit.

5. Periodic Review of the Audit Programme

- There should be periodic review of the audit programme to assess whether the same continues to be adequate for obtaining requisite knowledge and evidence about the transactions.
- Unless this is done, any change in the business policy of the client may not be adequately known, and consequently, audit work may be carried on, on the basis of an obsolete programme and, for this negligence, the whole audit may be held as negligently conducted and the auditor may have to face legal consequences.

- Utility of the audit programme can be retained and enhanced by periodically reviewing both the programme and client's operations and internal controls. This ensures that any inadequacies or redundancies in the audit programme are identified and removed.
- Audit programme not only lists the tasks to be carried out but also contains a few relevant instructions, like the extent of checking, the sampling plan, etc.
- As long as the programme is not officially changed by the principal, every assistant deputed on the job should unfailingly carry out the detailed work according to the instructions governing the work.
- Many persons believe that this brings an element of rigidity in the audit programme. This is not true provided the periodic review is undertaken to keep the programme as up-to-date as possible and by encouraging the assistants on the job to observe all salient features of the various accounting functions of the client.

6. Audit Programme- Designed to provide audit evidence

1. Evidence is the very basis for formulation of opinion and an audit programme is designed to provide for that by prescribing procedures and techniques.
2. What is best evidence for testing the accuracy of any assertion is a matter of expert knowledge and experience.
3. This is the primary task before the auditor when he draws up the audit programme.
4. Transactions are varied in nature and impact; procedures to be prescribed depend on prior knowledge of what evidence is reasonably available in respect of each transaction.
5. In most of the assertions much of the evidence be drawn and each one should be considered and weighed to ascertain its weight to prove or disprove the assertion.
6. In this process, an auditor would be in a position to identify the evidence that brings the highest satisfaction to him about the appropriateness or otherwise of the assertion.

An auditor picks up evidence from a variety of fields and it is generally of the following broad types:

- Documentary examination
- Physical examination
- Statements and explanation of mgmt, officials and employees
- Statements and explanations of third parties
- Arithmetical calculations by the auditor
- State of internal controls and internal checks
- Inter-relationship of the various accounting data
- Subsidiary and memorandum records
- Minutes

- Subsequent action by the client and by others.

Example

1. For cash in hand, the best evidence is 'count'
2. For investment pledged with a bank, the banker's certificate.
3. For verifying assertions about book debts, the client's ledger invoices, debit notes, credit notes, monthly accounts statement sent to the customers are all evidence: some of these are corroborative, other being complementary. In addition, balance confirmation procedure is often resorted to, to obtain greater satisfaction about the reliability of the assertion.

Auditor, however, has to place appropriate weight on each piece of evidence and accordingly should prescribe the priority of verification.

It is true that in all cases one procedure may not bring the highest satisfaction and it may be dangerous for the auditor to ignore any evidence that is available. By the word "available" we do not mean that the evidence available with the client is the only available evidence. The auditor should know what normally should be available in the context of the transaction having regard to the circumstances and usage.

7. Advantages and Disadvantages of Audit Programme

Advantages of an audit programme are:

1. **Clear Instructions:** It provides the assistant carrying out the audit with total and clear set of instructions of the work generally to be done.
2. **Systematic Approach:** It is essential, particularly for major audits, to provide a total perspective of the work to be performed.
3. **Efficient Staff Allocation:** Selection of assistants for the jobs on the basis of capability becomes easier when the work is rationally planned, defined and segregated.
4. **Systematic Work:** Without a written and pre-determined programme, work is necessarily to be carried out on the basis of some 'mental' plan. In such a situation there is always a danger of ignoring or overlooking certain books and records. Under a properly framed programme, the danger is significantly less and the audit can proceed systematically.
5. **Accountability:** The assistants, by putting their signature on programme, accept the responsibility for the work carried out by them individually and, if necessary, the work done may be traced back to the assistant.
6. **Progress Monitoring:** The principal can control the progress of the various audits in hand by examination of audit programmes initiated by the assistants deputed to the jobs for completed work.
7. **Future Reference:** It serves as a guide for audits to be carried out in the succeeding year.

8. **Legal Protection:** A properly drawn up audit programme serves as evidence in the event of any charge of negligence being brought against the auditor. It may be of considerable value in establishing that he exercised reasonable skill and care that was expected of professional auditor.

Some **Disadvantages** are also there in the use of audit programmes but most of these can be removed by taking some concrete steps. The disadvantages are:

1. The work may become mechanical and particular parts of the programme may be carried out without any understanding of the object of such parts in the whole audit scheme.
2. The programme often tends to become rigid and inflexible following set grooves; the business may change in its operation of conduct, but the old programme may still be carried on. Changes in staff or internal control may render precaution necessary at points different from those originally decided upon.
3. Inefficient assistants may take shelter behind the programme i.e. defend deficiencies in their work on the ground that no instruction in the matter is contained therein.
4. A hard and fast audit programme may kill the initiative of efficient and enterprising assistants.

8. Extract of Sample audit programme pertaining to sales of an entity

Sample audit programme pertaining to Purchases:

Name of Concern: Broad Industries

Financial Year: 20XX-XX

Prepared by: Name of person with date

Reviewed by: Name of person with date

Approved by: Name of person with date

S.no.	Nature of Procedure	Extent of Check	Basis of Sample	Done by
(a)	Vouch few purchase invoices of paper from purchase records of concern.			
(b)	Trace these invoices into account books of concern.			
(c)	Verify few purchase invoices of paper on GST portal.			
(d)	Trace few purchase invoices of paper in stock records to ensure that these have been added to stocks of raw material.			

Chapter 3

Overall Summary

Topics	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
Concept of Risk	**0**	**0**	**0**	**0**	**0**	**7**	**0**	**0**	**3**	**0**
SA 315	**13**	**10**	**7**	**7**	**3**	**9**	**12**	**10**	**7**	**8**
SA 320	**0**	**0**	**0**	**0**	**4**	**3**	**0**	**2**	**2**	**0**
SA 330	**0**	**0**	**4**	**0**	**0**	**0**	**0**	**2**	**0**	**0**
IFC	**0**	**0**	**2**	**3**	**2**	**0**	**0**	**0**	**0**	**0**
Total	**13**	**10**	**13**	**10**	**9**	**19**	**12**	**14**	**12**	**8**
ICAI Weightage	**8% to 12%**									

Concept of Risk

Concept of Risk	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. What is Misstatement?										
2. Audit Risk										
2.1 Risk of Material Misstatement (ROMM)										
2.1.1 Inherent Risk (IR)										
2.1.2 Control Risk (CR)										
2.2 Detection Risk										
3. Audit risk: What is not included?						**4**				
4. Assessment of Risk – Matter of Professional Judgement										
5. Combined Assessment of Audit Risk										
6. Risk that Requires Special Considerations – Significant Risks										
7. Identifying Significant Risks						**3**				
8. ROMM – Greater for Significant Non-Routine Transactions									**3**	
9. ROMM – Greater for Significant Judgmental Matters										
Total	**0**	**0**	**0**	**0**	**0**	**7**	**0**	**0**	**3**	**0**

1. What is Misstatement?

Misstatement refers to a difference between the ACPD of a reported FS item and the ACPD that is required for the item to be in accordance with the applicable FRF. Misstatements can arise from error or fraud.

[ACPD: Amount, Classification, Presentation, or Disclosure]

Examples of misstatements:

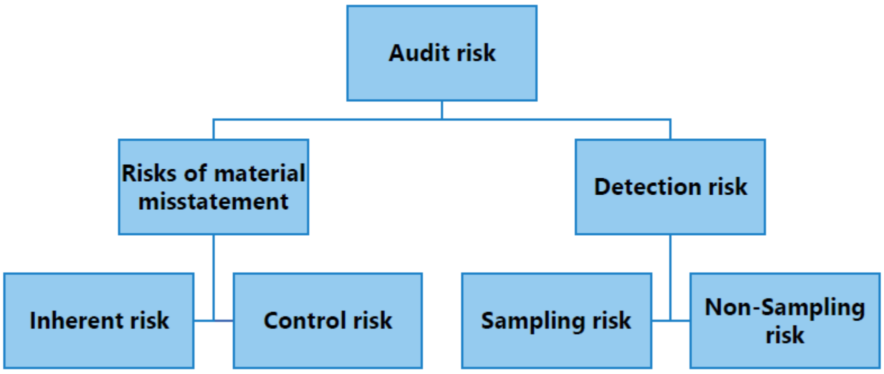
1. Charging of an item of capital expenditure to revenue or vice-versa.
2. Difference in disclosure of a FS item vis-à-vis its requirement in applicable FRF.
3. Selection or application of inappropriate accounting policies.
4. Diff. in accounting estimate of a FS item vis-à-vis its appropriateness in applicable FRF.
5. Intentional booking of fake expenses in statement of profit and loss.
6. Overstating of receivables in FS by not writing off irrecoverable debts.
7. Overstating or understating inventories.

2. Audit Risk

Audit risk means the risk that the auditor gives an inappropriate audit opinion when the FS are materially misstated. It means that an auditor expresses an unmodified opinion when FS are materially misstated.

SA 200 states that the auditor shall obtain SAAE to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.

Audit risk is a function of the ROMM and detection Risk [AR = ROMM * DR]



2.1 Risk of Material Misstatement (ROMM)

SA 200 states that ROMM is the risk that the FS are materially misstated prior to audit. It simply means that there is a probability of frauds or errors in FS before audit.

ROMM may exist at two levels:

1. Overall FS level
2. Assertion level for CTABD

ROMM at the overall FS level refer to ROMM that relate pervasively to the FS as a whole and potentially affect many assertions.

ROMM at the assertion level are assessed in order to determine the NTE of FAP necessary to obtain SAAE. This evidence enables the auditor to express an opinion on the FS at an acceptably low level of audit risk.

Components of ROMM: IR & CR

ROMM at assertion level comprises of two components:

1. Inherent risk
2. Control risk

Both inherent risk and control risk are the entity's risks and they exist independently of the audit of FS. Inherent risk and control risk are influenced by the client.

2.1.1 Inherent Risk (IR)

As per SA 200, Inherent risk is the susceptibility of an assertion about a CTABD to a misstatement that could be material, either individually or when aggregated with other misstatements before consideration of any related controls.

There is always a risk that before considering any existence of internal control in an entity, a particular CTABD required to be made in the FS of an entity have a chance of being misstated and such misstatement can be material. This risk is known as inherent risk.

Inherent risk factors are considered while designing TOC and substantive procedures.

Examples of inherent risks could include:

1. An AS provides guidance on some complex issue which might not be understood by the mgmt. Therefore, recording of this issue in FS carries inherent risk of being misstated.
2. There are large number of business failures in an industry. Therefore, assertions in FS of an entity operating in such an industry carry an inherent risk of being misstated.

Note: It is imp to consider reason for each identified Inherent Risk, even if risk is lower, when auditor design TOC and Substantive procedures.

What could influence IR?

- External circumstances giving rise to business risk.
- Factors in the entity and its environment.

2.1.2 Control Risk (CR)

As per SA 200, control risk is the risk that a misstatement that could occur in an assertion about a CTABD and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

There exists an inverse relation between control risk and efficiency of internal control of an entity (When efficiency of internal control is high, the control risk is low and when efficiency of internal control is low, the control risk is high).

Examples of Control Risk:

1. A company has devised control that cash and cheque books should be kept in a locked safe and access is granted to authorized personnel only. There is risk that control is not being followed and it was accessed by unauthorised users.
2. An entity has devised a control that fire extinguishers and smoke detectors are in place and are in working condition at all times to reduce the risk of damage to inventories caused by fire. There is a risk that fire extinguishers in place are expired and are not being refilled. Similarly, there is a possibility that smoke detectors are not working.
3. A company has devised a control relating to petty cash that items of expenditure of only less than Rs. 10,000 should be routed through imprest system of petty cash. There is a risk that control is not being followed.

2.2 Detection Risk

As per SA 200, Detection risk as the risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

For example, auditor of a company uses certain audit procedures for the purpose of obtaining audit evidence and reducing audit risk, but still there will remain a risk that audit procedures used by the auditor may not be able to detect a misstatement which by nature is material, then that risk is known as detection Risk.

Detection risk comprises sampling and non-sampling risk.

a. Sampling risk is the risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. It simply means that the sample was not representative of the population from which it was chosen.
b. Non-sampling risk is the risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk. Like an auditor may reach an erroneous conclusion due to application to some inappropriate audit procedure.

Examples of Detection Risk could include:

- Sizeable work-in-progress inventories are expected in FS of a company. However, auditor of the company does not devote time to attending inventory count. Instead, he chooses to rely upon alternative audit procedures.
- Auditor of a company has audited revenue of a company by taking a sample. However, there is a risk that sample of revenue is not representative of overall revenue.

Note:

Auditor can only influence detection risk. Inherent risk and control risk belong to the entity and are influenced by the entity. Therefore, auditor must reduce detection risk in order to keep audit risk at low level.

Detection risk may be reduced by:

- increasing area of checking,
- testing larger samples and
- by including competent and experienced persons in the ET.

3. Audit risk: What is not included?

Audit risk is a technical term related to the process of auditing; it does not refer to the auditor's business risks such as loss from litigation, adverse publicity, or other events arising in connection with the audit of FS.

For purposes of the SAs, audit risk does not include the risk that the auditor might express an opinion that the FS are materially misstated when they are not. This risk is ordinarily insignificant.

4. Assessment of Risk – Matter of Professional Judgement

Audit risk is a function of the ROMM and detection risk. Assessment of risks is a matter of professional judgment, rather than a matter capable of precise measurement. It is based on audit procedures to be performed and evidence obtained.

5. Combined Assessment of Audit Risk

SAs do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the "ROMM":

1. Auditor may make separate or combined assessments of inherent and control risk depending on preferred audit techniques or methodologies and practical considerations.
2. Assessment of the ROMM may be expressed in quantitative terms, such as in percentages, or in non-quantitative terms.
3. In any case, the need for the auditor to make appropriate risk assessments is more important than the different approaches by which they may be made.

6. Risk that Requires Special Considerations – Significant Risks

As part of the risk assessment, the auditor shall determine whether any of the risks identified are, in the auditor's judgment, a significant risk.

In exercising judgment as to which risks are significant risks, the auditor shall consider at least the following:

1. Whether the risk is a risk of fraud
2. Whether the risk is related to recent significant economic, accounting, or other developments like changes in regulatory environment, etc. and, therefore, requires specific attention
3. Complexity of transactions
4. Whether the risk involves significant transactions with related parties

5. Degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty and
6. Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

7. Identifying Significant Risks

Significant risks often relate to:

- Significant non-routine transactions or
- Judgmental matters

Non-routine transactions: Transactions that are unusual, due to either size or nature, and that therefore occur infrequently.

Judgmental matters: may include the development of accounting estimates for which there is significant measurement uncertainty.

Significant risks are inherent risks with both a higher likelihood of occurrence and a higher magnitude of potential misstatement. The auditor assesses assertions affected by a significant risk as higher inherent risk.

The following are always significant risks:

- ROMM due to fraud
- Significant transactions with related parties that are outside the normal course of business for the entity.

8. ROMM – Greater for Significant Non-Routine Transactions

ROMM may be greater for significant non-routine transactions arising from matters such as the following:

⇨ Greater mgmt intervention to specify the accounting treatment.

⇨ Greater manual intervention for data collection and processing.

⇨ Complex calculations or accounting principles.

⇨ Nature of non-routine transactions, which may make it difficult for the entity to implement effective controls over the risks.

9. ROMM – Greater for Significant Judgmental Matters

ROMM may be greater for significant judgmental matters that require the development of accounting estimates, arising from matters such as the following:

⇨ Accounting principles for accounting estimates or revenue recognition may be subject to differing interpretation.

⇨ Required judgment may be subjective or complex, or require assumptions about the effects of future events, for example, judgment about fair value.

SA 315

SA 315	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
Part 1 – Risk Assessment				4						3
Part 2 – Understanding entity and its environment						4				
Part 3 – Internal controls		4	4				7	4	4	
Part 4 – Evaluation of internal controls	8									
Part 5 – Automated controls	5	6	3	3	3	5	5	6	3	5
Grand Total	13	10	7	7	3	9	12	10	7	8

SA 315	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
Part 1 – Risk Assessment										
1. Objective of SA 315										
2. Steps to identifying and assessing the ROMM										
3. Risk Assessment Procedures (RAP)										
3.1 Inquiries of Mgmt & Others Within the Entity				4						
3.2 Analytical Procedures										
3.3 Observation & Inspection										3
Part 2 – Understanding entity and its environment										
1. Understanding the Entity and its Environment						4				
2. Why understanding the entity and its environment is significant?										
3. Understanding the Entity- a Continuous Process										
Part 3 – Internal controls										
1. Meaning, Purpose and Benefits of Internal Control*							3	4	2	
2. Limitations of Internal Control									2	
3. Components of Internal Control			4							
3.1 Control Environment							4			
3.1.1 Existence of a Satisfactory Control Environment: Not an absolute deterrent to fraud		4								
3.2 Entity's Risk Assessment Process										

SA 315	May’25	Jan’25	Sep’24	May’24	Nov’23	May’23	Nov’22	May’22	Dec’21	Jul’21
3.3 The Information System										
3.4 Control Activities										
3.5 Monitoring of Controls										
4. Are All Controls Relevant to Audit?										
5. Controls Over Completeness and Accuracy of Information										
6. Internal Control over Safeguarding of Assets										
7. Controls Relating to Objectives that are Not Relevant to Audit										
8. Nature & Extent of Understanding of Relevant Controls										
Part 4 – Evaluation of internal controls	**2**									
1. Benefits of Evaluation of Internal Control to the Auditor										
2. Formulate Audit Program after understanding Internal Control										
3. Methods of Evaluation of Internal Control										
3.1 Narrative Record	**2**									
3.2 Check List	**2**									
3.3 Internal Control Questionnaire	**2**									
3.4 Flow Chart										
4. Documentation (SA 315)										
Part 5 – Automated controls										
1. What is an Automated Environment?										
2. Key Features of Automated Environment*						**2**			**3**	
3. Understanding & Documenting Automated Environment								**3**		
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SA 315	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
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SA 315 - Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment"

Part 1: Risk Assessment

1. Objective of SA 315

Objective of the auditor is to identify and assess ROMM, whether due to fraud or error, at:

- FS and
- assertion levels

through understanding the

- entity and its environment, including
- entity's internal control

thereby providing a basis for designing and implementing responses to the assessed ROMM.

2. Steps to identifying and assessing the ROMM

For the purpose of identifying and assessing the ROMM, the auditor shall:

1. Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the CTABD in the FS.
2. Assess the identified risks, and evaluate whether they relate more pervasively to the FS as a whole and potentially affect many assertions.

3. Relate the identified risks to what can go wrong (WCGW) at the assertion level, taking account of relevant controls that the auditor intends to test and
4. Consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement.

3. Risk Assessment Procedures (RAP)

Audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the ROMM, whether due to fraud or error, at the FS and assertion level are defined as Risk Assessment Procedures (RAP).

Auditor shall perform RAP to provide a basis for the identification and assessment of ROMM at the FS and assertion levels.

RAP by themselves, however, do not provide SAAE on which to base the audit opinion. Risks to be assessed include both those due to error and those due to fraud.

What is included in RAP?

RAP shall include the following:

1. Inquiries of mgmt and of others within the entity who in the auditor's judgment may have info. that is likely to assist in identifying ROMM due to fraud or error.
2. Analytical procedures
3. Observation and inspection

3.1 Inquiries of Mgmt & Others Within the Entity

1. Much of info. obtained by the auditor's inquiries is obtained from mgmt and those responsible for financial reporting. However, the auditor may also obtain info or a different perspective in identifying ROMM, through inquiries of others within the entity and other employees with different levels of authority.
2. Other Inquiries:

- Inquiries directed toward internal audit personnel may provide info. about internal audit procedures performed during the year relating to the design and effectiveness of the entity's internal control and whether mgmt has satisfactorily responded to findings from those procedures.
- Inquiries of employees involved in initiating, processing or recording complex or unusual transactions may help the auditor to evaluate the appropriateness of the selection and application of certain accounting policies.
- Inquiries directed toward in-house legal counsel may provide info. about such matters as litigation, compliance with laws and regulations, knowledge of fraud or suspected fraud affecting the entity, warranties, post-sales obligations, arrangements (such as joint ventures) with business partners and the meaning of contract.

- Inquiries directed towards marketing or sales personnel may provide info. about changes in the entity's marketing strategies, sales trends, or contractual arrangements with its customers.
- Inquiries directed to the risk mgmt function (or those performing such roles) may provide info. about operational and regulatory risks that may affect financial reporting.
- Inquiries directed to information systems personnel may provide info. about system changes, system or control failures, or other info. system related risks.

3.2 Analytical Procedures

Analytical procedures performed as RAP may:

1. identify aspects of the entity of which the auditor was unaware and
2. assist in ROMM assessment in order to provide a basis for designing and implementing responses to the assessed risks.
3. include both financial and non-financial info, for e.g. relationship between sales and square footage of selling space or volume of goods sold.
4. help identify the existence of unusual transactions, relationships, events, amounts, ratios, and trends that might indicate matters that have audit implications. Unusual or unexpected relationships that are identified may assist the auditor in identifying ROMM, especially ROMM due to fraud.

However, when such analytical procedures use data aggregated at a high level, the results of those analytical procedures only provide a broad initial indication about whether a material misstatement may exist.

Accordingly, in such situations, the auditor considers other info. gathered during risk assessment—together with the results of analytical procedures—to better understand and evaluate the results of the analytical procedures.

3.3 Observation & Inspection

Observation and inspection may support inquiries of mgmt and others, and may also provide info. about the entity and its environment.

Examples of such audit procedures include observation and inspection of the following:

1. Entity's operations.
2. Documents (such as business plans and strategies), records and Internal control manuals.
3. Reports prepared by mgmt (such as Quarterly mgmt reports and interim FS) and TCWG (such as minutes of board of director's meetings).
4. Entity's premises and plant facilities.

Part 2: Understanding Entity and its Environment

1. Understanding the Entity and its Environment (Knowledge of Business)

It is one of the important principles in developing an overall audit plan. In fact, without adequate knowledge of client's business, a proper audit is not possible.

As per SA 315, Auditor shall obtain an understanding of the following:

1. Relevant industry, regulatory, & other external factors including the applicable FRF.
2. Nature of the entity.
3. Entity's selection and application of accounting policies, including the reasons for changes thereto.
4. Entity's objectives and strategies, and those related business risks that may result in ROMM.
5. Measurement and review of the entity's financial performance.

A. Relevant industry, regulatory, and other external factors including the applicable financial reporting framework

Relevant industry factors include industry conditions such as the competitive environment, supplier and customer relationships, and technological developments.

Examples of matters the auditor may consider include:

- ✓ market and competition, whether entity is engaged in seasonal activities,
- ✓ product technology relating to the entity's products.
- ✓ industry in which the entity operates, that may give rise to specific ROMM arising from nature of business or degree of regulation

Relevant regulatory factors include the regulatory environment. Regulatory environment includes, among other matters, the applicable FRF and legal and political environment.

Examples of matters the auditor may consider include:

- ✓ accounting principles and industry specific practices,
- ✓ regulatory framework for a regulated industry,
- ✓ legislation and regulation that significantly affect the entity's operations, including direct supervisory activities,
- ✓ taxation,
- ✓ government policies affecting entity's business,
- ✓ environmental requirements affecting the industry and entity's business.

Examples of other external factors affecting the entity that the auditor may consider include the general economic conditions, interest rates and availability of financing, and inflation etc.

B. Nature of the entity, including:

1. its operations;

2. its ownership and governance structures;
3. the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and
4. the way that the entity is structured and how it is financed; to enable the auditor to understand the CTABD to be expected in the FS.

Examples of matters that the auditor may consider while obtaining understanding of nature of entity include:

1. Business operations such as nature of revenue sources, products or services, conduct of operations, location of production facilities, key customers and suppliers of goods and services
2. Investment and investment activities such as capital investment activities and planned or recently executed acquisitions
3. Financing and financing activities such as major subsidiaries, debt structure etc.
4. Financial reporting such as accounting principles and revenue recognition practices

C. Entity's selection and application of accounting policies, including the reasons for changes thereto

Auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable FRF and accounting policies used in the relevant industry.

D. Entity's objectives and strategies, and those related business risks that may result in ROMM

- The entity conducts its business in the context of industry, regulatory and other internal and external factors. To respond to these factors, the entity's mgmt define objectives, which are the overall plans for the entity.
- Strategies are the approaches by which mgmt intends to achieve its objectives.
- Entity's objectives and strategies may change over time. Business risk is broader than the ROMM of the FS, though it includes the latter.
- An understanding of the business risks facing the entity increases the likelihood of identifying ROMM, since most business risks will eventually have financial consequences and, therefore, an effect on the FS.
- However, the auditor does not have a responsibility to identify or assess all business risks because not all business risks give rise to risks of material misstatement.

Examples of matters that the auditor may consider when obtaining an understanding of the entity's objectives, strategies and related business risks that may result in a ROMM of the FS include:

- ♦ Industry developments (a potential related business risk might be, for example, that the entity does not have the personnel or expertise to deal with the changes in the industry).

- New products and services (a potential business risk might be, for e.g., there is increased product liability).
- Expansion of the business (a potential business risk might be, for e.g., demand has not been accurately estimated).

Note:

Auditor does not have a responsibility to identify or assess all business risks because not all business risks give rise to ROMM.

E. Measurement and review of the entity's financial performance

Mgmt and others will measure and review those things they regard as important. Performance measures whether internal or external create pressures on the entity. These pressures in turn may motivate mgmt to take actions to improve the business performance or misstate FS.

An understanding of the entity's performance measures assists the auditor in considering whether pressures to achieve performance targets may result in mgmt actions that increase the ROMM, including those due to fraud.

Examples for measuring and reviewing financial performance which may be used by an auditor may include:

- Key performance indicators (financial and non-financial) and key ratios, trends and operating statistics.
- Period-on-period financial performance analyses.
- Budgets, forecasts, variance analyses, and departmental.
- Credit rating agency reports.

2. Why understanding the entity and its environment is significant?

Understanding the entity and the environment in which it operates is very significant. It helps the auditor in planning the audit and in identifying areas requiring special attention. Gaining knowledge about client's business is one of the important principles in developing an overall audit plan. In fact, without adequate knowledge of client's business, a proper audit is not possible.

3. Understanding the Entity-a Continuous Process

Obtaining an understanding of the entity and its environment, including the entity's internal control (referred to hereafter as an "understanding of the entity"), is a continuous, dynamic process of gathering, updating and analysing info. throughout the audit.

Understanding establishes a frame of reference within which the auditor plans the audit and exercises professional judgment throughout the audit, for example, when:

1. Assessing ROMM of the FS.
2. Determining materiality in accordance with SA 320.

3. Considering appropriateness of selection and application of accounting policies.
4. Identifying areas where special audit consideration may be necessary, for example, related party transactions, the appropriateness of mgmt's use of the going concern assumption, or considering the business purpose of transactions.
5. Developing expectations for use when performing analytical procedures.
6. Evaluating the sufficiency and appropriateness of audit evidence obtained such as the appropriateness of assumptions and of mgmt's oral and written representations.

Part 3: Internal Control

1. Meaning, Purpose and Benefits of Internal Control

Internal control may be defined as process designed, implemented and maintained by TCWG, mgmt and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to:

- reliability of financial reporting,
- effectiveness and efficiency of operations,
- safeguarding of assets, and
- compliance with applicable laws and regulations.

Term "controls" refers to any aspects of one or more of the components of internal control.

Benefits of Understanding Internal Control:

- Identifying types of potential misstatements;
- Identifying factors that affect the ROMM, and
- Designing the NTE of FAP

2. Limitations of Internal Control

1. Internal control can provide only reasonable assurance: Internal control, no matter how effective, can provide an entity with only reasonable assurance about achieving the entity's financial reporting objectives. The likelihood of their achievement is affected by inherent limitations of internal control.
2. Human judgment in decision-making: human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human error.
3. Lack of understanding the purpose: the operation of a control may not be effective, such as where info produced for the purposes of internal control (for example, an exception report) is not effectively used because the individual responsible for reviewing the info does not understand its purpose or fails to take appropriate action.
4. Collusion among People: controls can be bypassed by the collusion of two or more people or inappropriate mgmt override of internal control. For example, mgmt may enter into side

agreements with customers that alter the terms and conditions of the entity's standard sales contracts, which may result in improper revenue recognition. Also, edit checks in a software program that are designed to identify and report transactions that exceed specified credit limits may be overridden or disabled.

5. Judgements by Management: in designing and implementing controls, mgmt may make judgments on the nature and extent of the controls it chooses to implement, and the nature and extent of the risks it chooses to assume.
6. Limitations in case of Small Entities: Smaller entities often have fewer employees due to which segregation of duties is not practicable. However, in a small owner-managed entity, the owner-manager may be able to exercise more effective oversight than in a larger entity. This oversight may compensate for the generally more limited opportunities for segregation of duties. However, the less structured control system increases the risk of mgmt override, considered by auditors when assessing the risk of fraud.

3. Components of Internal Control

Division of internal control into the following five components provides a useful framework for auditors to consider how different aspects of an entity's internal control may affect the audit:

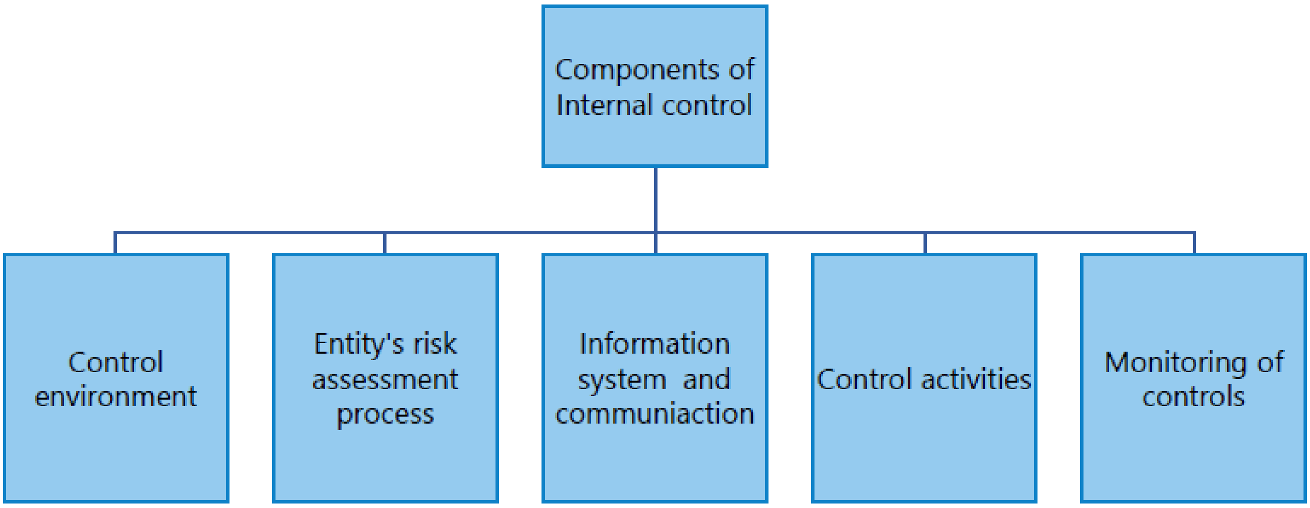
A. The Control environment

B. The Entity's risk assessment process

C. The Information system, including the related business processes, relevant to financial reporting, and communication.

D. Control activities

E. Monitoring of controls



3.1 Control Environment

Auditor shall obtain an understanding of the control environment. As part of obtaining this understanding, the auditor shall evaluate whether:

- Mgmt. has created and maintained a culture of honesty and ethical behaviour and
- Strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control

What is included in Control Environment?

Control environment includes:

- Governance and mgmt functions and
- Attitudes, awareness, and actions of TCWG and mgmt
- Control environment sets the tone of an organisation, influencing the control consciousness of its people.

Elements of the Control Environment

Elements that may be relevant when obtaining an understanding of the control environment include the following:

1. Communication and enforcement of integrity and ethical values: Effectiveness of controls cannot rise above the integrity and ethical values of the people who create, administer, and monitor them.
    a. Enforcement of integrity and ethical values includes, for e.g. mgmt actions to eliminate or mitigate incentives or temptations that might prompt personnel to engage in dishonest or unethical acts.
    b. Communication of entity policies on integrity and ethical values may include the communication of behavioural standards through policy statements and codes of conduct and by example.
2. Commitment to competence: Matters such as mgmt's consideration of the competence levels for particular jobs and how those levels translate into requisite skills and knowledge.
3. Participation by TCWG: It includes attributes such as
    - their independence from mgmt,
    - their experience and stature,
    - extent of their involvement and info they receive & scrutiny of activities
4. Mgmt's philosophy and operating style: Mgmt's philosophy and operating style encompass a broad range of characteristics. For example:
    - mgmt's attitudes and actions towards financial reporting
    - approach of mgmt to taking and managing business risks
    - mgmt's attitude towards info processing and accounting function and personnel
5. Organisational structure: Framework within which an entity's activities for achieving its objectives are planned, executed, controlled, and reviewed.

6. Assignment of authority and responsibility: Matters such as how authority and responsibility for operating activities are assigned and how reporting relationships and authorisation hierarchies are established.
7. HR policies and practices: Policies and practices that relate to, for example, recruitment, orientation, training, evaluation, counselling, promotion, compensation, & remedial actions. Human resource policies and practices often demonstrate important matters in relation to the control consciousness of an entity.

3.1.1 Existence of a Satisfactory Control Environment: Not an absolute deterrent to fraud

- Existence of a satisfactory control environment can be a positive factor when the auditor assesses the ROMM. However, although it may help reduce the risk of fraud, a satisfactory control environment is not an absolute deterrent to fraud.
- Conversely, deficiencies in the control environment may undermine the effectiveness of controls, in particular in relation to fraud.
- For example, mgmt's failure to commit sufficient resources to address IT security risks may adversely affect internal control by allowing improper changes to be made to computer programs or to data, or unauthorized transactions to be processed.
- Control environment in itself does not prevent, or detect and correct, a material misstatement. It may, however, influence the auditor's evaluation of the effectiveness of other controls.
- For example, the monitoring of controls and the operation of specific control activities) and thereby, the auditor's assessment of the ROMM.

3.2 Entity's Risk Assessment Process

Auditor shall obtain an understanding of whether the entity has a process for:

1. Identifying business risks relevant to financial reporting objectives
2. Estimating the significance of the risks
3. Assessing the likelihood of their occurrence
4. Deciding about actions to address those risks

Entity's RAP forms the basis for the risks to be managed. If that process is appropriate, it would assist the auditor in identifying ROMM.

Risks can arise or change due to factor such as new technology, new business models, products or activities, changes in operating environment etc. Whether the entity's RAP is appropriate to the circumstances is a matter of judgment.

3.3 The Information System

Auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the areas:

1. Class of transactions in the entity's operations that are significant to the FS.
2. Procedures by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the FS.
3. Related accounting records, supporting information and specific accounts in the FS that are used to initiate, record, process and report transactions.
4. How the info. system captures events and conditions that are significant to the FS.
5. Financial reporting process used to prepare the entity's FS.
6. Controls surrounding journal entries.

Information system refers to all of the business processes relevant to financial reporting and communication. It includes the procedures within both information technology and manual systems.

Auditor shall obtain an understanding of how the entity communicates financial reporting roles and responsibilities. It may take such forms as policy manuals, accounting and financial reporting manuals, and memoranda.

Communication also can be made electronically, orally, and through the actions of mgmt.

3.4 Control Activities

Auditor shall obtain an understanding of control activities relevant to the audit, which auditor considers necessary to assess the ROMM.

Control Activities are the policies and procedures that help ensure mgmt directives are carried out. During an audit, the auditor assesses the risk and considers only the relevant control activities related to a significant CTABD.

Control activities relevant to audit generally include policies and procedures relating to:

- Performance reviews (reviews of actual performance with budgets),
- Information processing (for example controls over checking arithmetical accuracy of records, program change controls etc),
- Physical controls (like controls over physical security of assets) and
- Segregation of duties (controls over ensuring that different people are assigned the responsibilities of authorising.

3.5 Monitoring of Controls

Auditor shall obtain an understanding of the major activities that the entity uses to monitor internal control over financial reporting.

1. Monitoring of controls is a process to assess the effectiveness of internal control performance over time.
2. Helps in assessing the effectiveness of controls on a timely basis and taking necessary remedial actions.
3. It includes considering whether controls are operating as intended and that they are modified as appropriate for change in conditions.
4. Management accomplishes monitoring of controls through ongoing activities, separate evaluations, or a combination of the two.
5. Ongoing monitoring activities are often built into the normal recurring activities of an entity and include regular mgmt and supervisory activities.
6. Management's monitoring activities may include using info. from communications from external parties such as customer complaints and regulator comments that may indicate problems or highlight areas in need of improvement.

4. Are All Controls Relevant to Audit?

There is a direct relationship between an entity's objectives and the control it implements to provide reasonable assurance about their achievement. However, not all of these objectives and controls are relevant to the auditor's risk assessment.

Factors relevant to the auditor's judgment about whether a control, individually or in combination with others, is relevant to the audit may include such matters as the following:

- Materiality
- Significance of the related risk
- Size of the entity
- Nature of the entity's business, including its organisation and ownership characteristics
- Diversity and complexity of the entity's operations
- Applicable legal and regulatory requirements
- Circumstances and the applicable component of internal control
- Nature and complexity of the systems that are part of the entity's internal control
- Whether, and how, a specific control, individually or in combination with others, prevents, or detects and corrects material misstatement.

5. Controls Over Completeness and Accuracy of Information

Controls over the completeness and accuracy of IPE may be relevant to the audit if the auditor intends to make use of the info. in designing and performing FAP.

For e.g. in auditing revenue by applying standard prices to records of sales volume, the auditor considers the accuracy of the price information and the completeness and accuracy of the sales volume data.

Controls relating to operations and compliance objectives may also be relevant to an audit if they relate to data the auditor evaluates or uses in applying audit procedures.

6. Internal Control over Safeguarding of Assets

Internal controls over safeguarding of assets against unauthorised acquisition, use, or disposition may include controls relating to both financial reporting and operations objectives.

- Auditor's consideration of such controls is generally limited to those relevant to the reliability of financial reporting.
- For e.g., use of access controls, such as passwords, that limit access to the data and programs that process cash disbursements may be relevant to a FS audit.
- Conversely, safeguarding controls relating to operations objectives, such as controls to prevent the excessive use of materials in production, generally are not relevant to a FS audit.

Objectives of Internal Control are:

1. Transactions are executed in accordance with mgmt's general or specific authorisation;
2. All transactions are promptly recorded in the correct amount in the appropriate accounts and in the accounting period in which executed so as to permit preparation of financial information within a framework of recognized accounting policies and practices and relevant statutory requirements, if any, and to maintain accountability for assets;
3. Assets are safeguarded from unauthorised access, use or disposition; and
4. Recorded assets are compared with the existing assets at reasonable intervals and appropriate action is taken with regard to any differences.

Note: Objectives of Internal control not covered in ICAI module notes but asked in a Descriptive question.

7. Controls Relating to Objectives that are Not Relevant to Audit

An entity generally has controls relating to objectives that are not relevant to an audit and therefore need not be considered.

For example, an entity may rely on a sophisticated system of automated controls to provide efficient and effective operations, but these controls ordinarily would not be relevant to the audit.

Further, although internal control applies to the entire entity or to any of its operating units or business processes, an understanding of internal control relating to each of the entity's operating units and business processes may not be relevant to the audit.

In certain circumstances, the statute or the regulation governing the entity may require the auditor to report on compliance with certain specific aspects of internal control as a result, the auditor's review of internal control may be broader and more detailed.

8. Nature & Extent of Understanding of Relevant Controls

Evaluating the design of a control involves considering whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements.

Implementation of a control means that the control exists and that the entity is using it. There is little point in assessing the implementation of a control that is not effective, and so the design of a control is considered first.

RAP to obtain audit evidence about the design and implementation (D&I) of relevant controls may include:

- Inquiring of entity personnel.
- Observing the application of specific controls.
- Inspecting documents and reports.
- Tracing transactions through the info system relevant to financial reporting.

Inquiry alone, however, is not sufficient for such purposes.

Q. "Why just understanding a control is not the same as testing whether it works properly throughout the audit period — unless it is an automated control?"

Just obtaining understanding the controls of an entity is not sufficient to say they are working effectively, unless there is some automation that provides for the consistent operation of the controls.

For e.g., obtaining audit evidence about the implementation of a manual control at a point in time does not provide audit evidence about the operating effectiveness of the control at other times during the period under audit.

However, because of the inherent consistency of IT processing, performing audit procedures to determine whether an automated control has been implemented may serve as a test of that control's operating effectiveness, depending on the auditor's assessment and testing of controls such as those over program changes.

Part 4: Evaluation of Internal Control System

1. Benefits of Evaluation of Internal Control to the Auditor

Review of internal controls will enable the auditor to know:

1. whether errors and frauds are likely to be located in the ordinary course of operations of the business.
2. whether an adequate internal control system is in use and operating as planned by mgmt.
3. whether an effective internal auditing department is operating.
4. whether any administrative control has a bearing on his work.

5. whether the controls adequately safeguard the assets.
6. how far and how adequately the mgmt is discharging its function in so far as correct recording of transactions is concerned.
7. how reliable the reports, records and the certificates to the mgmt can be.
8. the extent and the depth of the examination that he needs to carry out in the different areas of accounting.
9. what would be appropriate audit technique and the audit procedure in the given circumstances.
10. what are the areas where control is weak and where it is excessive and
11. whether some worthwhile suggestions can be given to improve the control system.

2. Formulate Audit Program after understanding Internal Control

1. Auditor can formulate his entire audit programme only after having satisfactory understanding of the internal control systems and their actual operation.
2. If he does not study this aspect, it is very likely that his audit programme may become lengthy, unmanageable, ineffective, possibly missing the objectives of audit.
3. It is important to verify whether the Internal control system is actually in operation.
4. Often, after installation of a system, no proper follow-up is there by the mgmt to ensure compliance.
5. In such circumstances, auditor may be led to believe that a system is in operation which in reality may not be in operation or may be operating only partially.
6. This kind of situation can cause confusion and affect the effectiveness of the audit.
7. It would be better if the auditor can undertake the review of the internal control system of the client.
   a. This will give him enough time to assimilate the controls and implications.
   b. It will enable him to be more objective in the framing of the audit programme.
8. He will also be in a position to bring to the notice of the mgmt the weaknesses of the system and to suggest measures for improvement.
9. At a further interim date or in the course of the audit, he may ascertain how far the weaknesses have been removed.
10. In deciding upon a plan of test checking, the existence and operation of internal control system is of great significance.
11. A proper understanding of the internal control system in its content and working also enables an auditor to decide upon the appropriate audit procedure to be applied in different areas to be covered in the audit programme.

Conclusion: Nature and extent of the audit programme is substantially influenced by the internal control system in operation.

3. Methods of Evaluation of Internal Control

To facilitate the accumulation of the info necessary for the proper review and evaluation of internal controls, the auditor can use one of the following to help him to know and assimilate the system and evaluate the same:

1. Narrative record
2. Check List
3. Internal Control questionnaire and
4. Flow chart

3.1 Narrative Record

Narrative record is a complete and exhaustive description of the system as found in operation by the auditor. Actual testing and observation are necessary before such a record can be developed. It may be recommended in cases where no formal control system is in operation and would be more suited to small business.

The basic disadvantages of narrative records are:

- To comprehend the system in operation is quite difficult.
- To identify weaknesses or gaps in the system.
- To incorporate changes arising on account of reshuffling of manpower, etc

3.2 Check List

- This is a series of instructions and/or questions which a member of the auditing staff must follow and/or answer.
- When he completes instruction, he initials the space against the instruction.
- Answers to the check list instructions are usually Yes, No or Not Applicable.
- This is again an on-the-job requirement and instructions are framed having regard to the desirable elements of control.

Example:

A few examples of check list instructions are given hereunder:

1. Are tenders called before placing orders?
2. Are the purchases made on the basis of a written order?
3. Is the purchase order form standardised?
4. Are purchase order forms pre-numbered?

5. Are the inventory control accounts maintained by persons who have nothing to do with custody of work, receipt of inventory, inspection of inventory and purchase of inventory?

3.3 Internal Control Questionnaire

1. This is a comprehensive series of questions concerning internal control.
2. Most widely used form for collecting information about the existence, operation and efficiency of internal control in an organisation.
3. Important advantage of the questionnaire is that oversight or omission of significant internal control review procedures is less likely to occur with this method.
4. With a proper questionnaire, all internal control evaluation can be completed at one time or in sections. The review can more easily be made on an interim basis.
5. Questionnaire form also provides an orderly means of disclosing control defects.
6. In the questionnaire, generally questions are so framed that a 'Yes' answer denotes satisfactory position and a 'No' answer suggests weakness. Provision is made for an explanation or further details of 'No' answers. In respect of questions not relevant to the business, 'Not Applicable' reply is given.
7. Questionnaire is usually issued to the client and the client is requested to get it filled by the concerned executives and employees.
8. If on a perusal of the answers, inconsistencies or apparent incongruities are noticed, the matter is further discussed by auditor's staff with the client's employees for a clear picture.
9. Concerned auditor then prepares a report of deficiencies and recommendations for improvement.

3.4 Flow Chart

1. It is a graphic presentation of each part of the company's system of internal control.
2. A flow chart is considered to be the most concise way of recording the auditor's review of the system.
3. It minimises the amount of narrative explanation and thereby achieves a consideration or presentation not possible in any other form.
4. It gives bird's eye view of the system and the flow of transactions and integration and simpler to identify gaps in documentation and suggest improvements.

4. Documentation (SA 315)

Auditor shall document:

1. Discussion among the engagement team and the significant decisions reached.

2. Key elements of the understanding obtained regarding each of the aspects of the entity and its environment and of each of the internal control components, the sources of information from which the understanding was obtained; and the RAP performed.

3. Identified and assessed ROMM at the FS level and at the assertion level and

4. Risks identified, and related controls about which the auditor has obtained an understanding.

Part 5: Automated Controls

1. What is an Automated Environment?

An automated environment basically refers to a business environment where the processes, operations, accounting and even decisions are carried out by using computer systems – also known as Information Systems (IS) or Information Technology (IT) systems.

2. Key Features of Automated Environment

Complexity of a business environment depends on the level of automation i.e., if a business environment is more automated, it is likely to be more complex.

Key features of an automated environment are as under:

- Enables faster business operation
- Accuracy in data processing and computation
- Ability to process large volume of transactions
- Integration amongst business operations
- Better security and controls
- Less prone to human errors
- Provides latest info
- Connectivity and networking capability

Fundamental principle of an automated environment is the ability to carry out business with less manual intervention and more system driven. The complexity of a business environment depends on the level of automation i.e., if a business environment is more automated, it is likely to be more complex.

If a company uses an integrated enterprise resource planning system (ERP) viz., SAP, Oracle etc., then it is considered more complex to audit. On the other hand, if a company is using an off-the-shelf accounting software, then it is likely to be less automated and hence less complex environment.

3. Understanding & Documenting Automated Environment

Understanding the entity and its automated environment involves understanding:

- How IT department is organised,
- IT activities,
- IT dependencies,
- Relevant risks and controls

The understanding obtained should be documented.

Given below are some of the points that an auditor should consider to obtain an understanding of the company's automated environment:

1. Information systems being used (one or more application systems and what they are)
2. Their purpose (financial and non-financial)
3. Location of IT systems - local vs global
4. Architecture (desktop based, client-server, web application, cloud based)
5. Version (functions and risks could vary in different versions of same application)
6. Interfaces within systems (in case multiple systems exist).
7. In-house vs Packaged
8. Outsourced activities (IT maintenance and support).
9. Key persons (CIO, CISO, Administrators)

4. Risk arising from use of IT System

Auditor should understand risks that arise from the use of IT systems. Given below are some such risks that should be considered:

- ⇨ Inaccurate processing of data, processing inaccurate data, or both.
- ⇨ Unauthorized access to data.
- ⇨ Direct data changes (backend changes).
- ⇨ Excessive access /Privileged access (super users).
- ⇨ Lack of adequate segregation of duties.
- ⇨ Unauthorized changes to systems or programs.
- ⇨ Failure to make necessary changes to systems or programs.
- ⇨ Loss of data.

5. Impact of IT Related Risks on Audit

1. Impact on Substantive checking
    - Inability to address IT related risks may lead to non-reliance of data obtained from systems.

- In such a case, all information, data, and reports would have to be tested thoroughly for their completeness and accuracy.
- It could lead to increased substantive checking i.e., detailed checking.

2. Impact on Controls

   It can lead to non-reliance on automated controls, system calculations and accounting procedures built into applications. It may result in additional audit work.

3. Impact on Reporting

   Due to regulatory requirements in respect of internal financial controls (discussed in subsequent paras) in case of companies, it may lead to modification of auditor's report in some instances.

6. Types of Controls in an Automated Environment

Controls in an automated environment can be categorized as under:

A) General IT controls (GITC)

B) Application controls

C) IT-dependent controls

A) General IT Controls (GITC)

GITC are policies and procedures that relate to many applications and support the effective functioning of application controls.

GITC that maintain the integrity of info. and security of data commonly include controls over the following:

1. Data centre and network operations
2. Program Change
3. Access Security
4. Application system acquisition, development, and maintenance

These are IT controls generally implemented to mitigate the IT specific risks and applied commonly across multiple IT systems, applications and business processes. Hence, GITC are known as "pervasive" controls or "indirect" controls.

1. Data centre and network operations:

   Objective: To ensure that production systems are processed to meet financial reporting objectives.

   Activities:

   - overall mgmt of computer operation activities,
   - preparing, scheduling and executing of batch jobs,

- monitoring, storage and retention of backups.

2. Program Change:

   Objective: To ensure that modified systems continue to meet financial reporting objectives.

   Activities

   - change mgmt process,
   - change requests: recording, managing and tracking
   - making and testing changes etc

3. Access Security:

   Objective: To ensure that access to programs and data is authenticated and authorized to meet financial reporting objectives.

   Activities

   - security organization & mgmt
   - security policies & procedures,
   - application security,
   - data security,
   - operating system security,
   - network security,
   - physical security etc.

4. Application system acquisition, development, and maintenance:

   Objective: To ensure that systems are developed, configured and implemented to meet financial reporting objectives.

   Activities:

   - Overall mgmt of development activities,
   - Project initiation,
   - Analysis & design,
   - Construction,
   - testing & quality assurance etc.

B. Application Controls

- Application controls include both automated or manual controls that operate at a business process level
- Automated Application controls are embedded into IT applications viz., ERPs

- Help in ensuring the completeness, accuracy and integrity of data in those systems
- E.g. of automated applications include edit checks and validation of input data, sequence number checks, user limit checks, reasonableness checks, mandatory data fields.

C. IT Dependent Controls

IT dependent controls are basically manual controls that make use of some form of data or info. or report produced from IT systems and applications.

In this case, even though the control is performed manually, the design and effectiveness of such controls depends on the reliability of source data.

Due to the inherent dependency on IT, the effectiveness and reliability of automated application controls and IT dependent controls require the GITC to be effective.

General IT V/S Application Controls

- Application control and General IT control are interrelated.
- GITC are needed to support the functioning of application controls
- Both types of controls are required for to ensure complete and accurate info. processing through IT systems.

7. Testing Methods in Automated Environment

There are basically four types of audit tests that should be used. These are:

1. Inquiry
2. Observation
3. Inspection and
4. Reperformance

Inquiry is the most efficient audit test but it also gives the least audit evidence. Hence, inquiry should always be used in combination with any one of the other audit testing methods. Inquiry alone is not sufficient.

Reperformance is most effective as an audit test and gives the best audit evidence. However, testing by reperformance could be very time consuming and least efficient most of the time.

Generally, applying inquiry in combination with inspection gives the most effective and efficient audit evidence. However, which audit test to use, when and in what combination is a matter of professional judgement and will vary depending on several factors including:

- risk assessment,
- control environment,
- desired level of evidence required,
- history of errors/misstatements,

- complexity of business,
- assertions being addressed etc.

Auditor should document the nature of test (or combination of tests) applied along with the judgements in the audit file.

When testing in an automated environment, some of the more common methods are as follows:

1. Obtain an understanding of how an automated transaction is processed by doing a walkthrough of one end-to-end transaction using a combination of inquiry, observation and inspection.
2. Observe how user processes transactions under different scenarios.
3. Inspect the configuration defined in an application.

Where the GITC are not existing or existing but ineffective, the auditor should assess the impact of IT risks and complexity of the automated environment in which the business operations take place and plan alternative audit procedures in order to rely on the system-based info.

8. Characteristics of Manual and Automated Elements of Internal Control Relevant to the Auditor's Risk Assessment

Entity's system of internal control contains manual elements and often contains automated elements. Characteristics of manual or automated elements are relevant to the auditor's risk assessment and FAP based thereon.

Use of manual or automated elements in internal control also affects the manner in which transactions are initiated, recorded, processed, and reported.

1. Controls in a manual system involve procedures carried out by people, such as approvals, reviews, reconciliations, and following up on differences.
2. Controls in IT systems are usually a mix of automated controls (e.g., those built into software programs) and manual controls. An entity may use automated procedures to initiate, record, process, and report transactions. Manual controls may be independent of IT, may use info produced by IT or limited to monitoring functioning of IT and handling exceptions.

<u>Manual elements vs Automated elements in entity's Internal Control:</u>

Manual elements in internal control may be more suitable where judgment and discretion are required such as for the following circumstances:

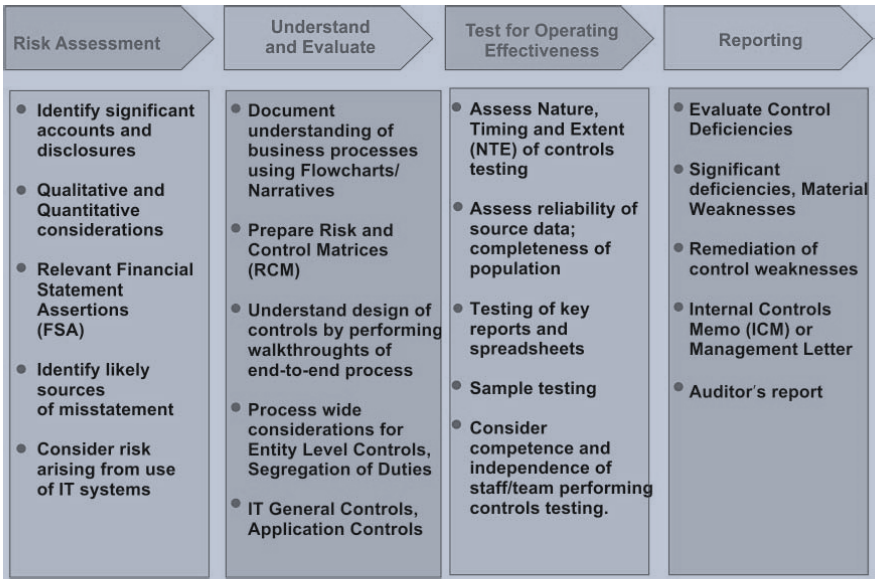
1. Large, unusual or non-recurring transactions.
2. Circumstances where errors are difficult to define, anticipate or predict.
3. In changing circumstances that require a control response outside the scope of an existing automated control.
4. Monitoring the effectiveness of automated controls.

Manual elements in internal control may be less reliable than automated elements because they can be more easily bypassed, ignored, or overridden and they are also more prone to simple errors and mistakes. Consistency of application of a manual control element cannot therefore be assumed.

Manual control elements may be less suitable for the following circumstances:

- High volume or recurring transactions
- Situations where errors that can be anticipated or predicted can be prevented, or detected and corrected, by control parameters that are automated.
- Control activities where the specific ways to perform the control can be adequately designed and automated.

9. Audit Approach in an Automated Environment



10. Assess and Report Audit Findings

At the conclusion of each audit, it is possible that there will be certain findings or exceptions in IT environment and IT controls of the company that need to be assessed and reported to relevant stakeholders including mgmt and TCWG viz., Board of directors, Audit committee.

Some points to consider are as follows:

1. Are there any weaknesses in IT controls?
2. What is the impact of these weaknesses on overall audit?
3. Report deficiencies to mgmt – Internal controls memo or mgmt letter.
4. Communicate in writing any significant deficiencies to TCWG.

11. Data Analytics

In today's digital age when companies rely on more and more on IT systems and networks to operate business, the amount of data and information that exists in these systems is enormous.

The Combination of processes, tools and techniques that are used to tap vast amounts of electronic data to obtain meaningful information is called data analytics.

While it is true that companies can benefit immensely from the use of data analytics in terms of increased profitability, better customer service, gaining competitive advantage, more efficient operations, etc., even auditors can make use of similar tools and techniques in the audit process and obtain good results.

The tools and techniques that auditors use in applying the principles of data analytics are known as Computer Assisted Auditing Techniques or CAATs in short.

Data analytics (CAATs) can be used in testing of electronic records and data residing in IT systems using spreadsheets and specialised audit tools viz., IDEA and ACL to perform the following:

1. Check completeness of data and population that is used in either test of controls or substantive audit tests.
2. Selection of audit samples - random sampling, systematic sampling.
3. Re-computation of balances - reconstruction of trial balance from transaction data
4. Reperformance of mathematical calculations – depreciation, bank interest calculation
5. Analysis of journal entries
6. Fraud investigation
7. Evaluating impact of control deficiencies

12. Digital Audit

Entities are embracing digitization as part of their operations to keep pace with changing times. New technologies are helping companies revamp their operations and rethink the way business is conducted.

Companies are restructuring their business models driven by technology. Automation is key to digitization.

In such a business environment, use of digital technology is being made by auditors right from planning to expression of final opinion.

- Auditors are making use of artificial intelligence, data analytics and other latest technologies to help understand business processes in a better way.
- By using such tools, auditors can conduct audits in a better way and devote more attention to areas requiring greater focus.
- Digital audit is helping auditors to better identify risks making use of technology.

SA 320

SA 320	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. What is Material?								2		
2. Materiality in Planning and Performing Audit: Auditor's Responsibility										
3. Materiality Not Just Matter of Size										
4. Determination of Materiality – Matter of Professional Judgement (Assumptions)					4					
5. Performance Materiality										
6. Determining Materiality and PM										
7. Materiality for Particular CTABD										
8. Use of Benchmark in Determining Materiality for FS as a whole						3			2	
9. Revision of Materiality										
10. Documenting the Materiality										
11. Materiality and Audit Risk										
Total	0	0	0	0	4	3	0	2	2	0

SA 320 - Materiality in Planning & Performing an Audit

1. What is Material?

Misstatements, including omissions, are considered to be material if they

- individually or in the aggregate,
- could reasonably be expected to influence the economic decisions
- of users taken on the basis of the FS.

2. Materiality in Planning and Performing Audit: Auditor's Responsibility

The Concept of materiality is applied by the auditor both in:

- planning and performing the audit, and
- in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the FS and in forming the opinion in the auditor's report.

Concept of Materiality from FRF Perspective:

FRF often discuss the concept of materiality in the context of the preparation and presentation of FS. They generally explain that:

- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of FS;

- Judgments about materiality are made in the light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both;
- Judgments about matters that are material to users of the FS are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

Note: Such discussion, if present in applicable FRF: provide a frame of reference for determining materiality. If applicable FRF does include such discussion, the above provide a frame of reference.

In planning the audit, the auditor makes judgments about the size of misstatements that will be considered material. These judgments provide a basis for:

- Determining the NTE of RAP;
- Identifying and assessing the ROMM; and
- Determining the NTE of FAP

3. Materiality Not Just Matter of Size *

1. Materiality is not always a matter of relative size. For example, a small amount lost by fraudulent practices of certain employees can indicate a serious flaw in the enterprise's internal control system requiring immediate attention to avoid greater losses in future.
2. Materiality determined during audit planning does not establish an amount below which all uncorrected misstatements, individually or in aggregate, will always be considered immaterial.
3. Certain misstatements may still be evaluated as material based on their circumstances, even if they fall below materiality.
4. While it is impractical to design audit procedures specifically to detect misstatements material only by nature, the auditor considers not just the size but also the nature and circumstances of uncorrected misstatements when assessing their impact on the FS.
5. Professional judgment is essential in determining materiality, selecting an appropriate benchmark, and establishing its level.
6. Materiality guides the audit scope and the extent of transaction testing. When assessing materiality, the significance of an item must be evaluated from multiple perspectives, including its impact on profit and loss, the balance sheet, the relevant category of expenditure or income, and its comparison with the previous year's figures.
7. If there is any statutory requirement of disclosure, it is to be considered material irrespective of the value of amount. Examples
   - As per Division I of schedule III of Companies Act, 2013, any item of income or expenditure which exceeds one percent of the revenue from operations or ` 1,00,000, whichever is higher, needs to be disclosed separately.

- A company should disclose in notes to accounts, shares in the company held by each shareholder holding more than 5 per cent shares specifying the number of shares held as per requirements of Division I of Schedule III of Companies Act,2013.

4. Determination of Materiality – Matter of Professional Judgement (Assumptions)

Auditor's determination of materiality is a matter of professional judgment, and is affected by the auditor's perception of the financial information needs of users of the FS.

In this context, it is reasonable for the auditor to assume that users:

1. Have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the FS with reasonable diligence;
2. Understand that FS are prepared, presented and audited to levels of materiality;
3. Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and
4. Make reasonable economic decisions on the basis of the information in the FS.

5. Performance Materiality

Performance materiality means:

- ✓ the amount or amounts set by the auditor
- ✓ at less than materiality for the FS as a whole
- ✓ to reduce to an appropriately low level the probability that
- ✓ the aggregate of uncorrected and undetected misstatements
- ✓ exceeds materiality for the FS as a whole.

If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular CTABD.

Performance materiality is set at a value lower than overall materiality. It lowers the risk that auditor will not be able to identify misstatements that are material when added together.

6. Determining Materiality and PM

When establishing the overall audit strategy, the auditor shall determine materiality for the FS as a whole.

If, in the specific circumstances of the entity, there is one or more particular CTABD for which misstatements of lesser amounts than the materiality for the FS as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the FS, the auditor shall also determine the materiality level or levels to be applied to those particular CTABD.

7. Materiality for Particular CTABD

Factors that may indicate the existence of one or more particular CTABD for which misstatements of lesser amounts than materiality for the FS as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the FS include the following:

1. Whether law, regulations or the applicable FRF affect users' expectations regarding the measurement or disclosure of certain items like in case of RPT, and the remuneration of mgmt and TCWG.
2. The key disclosures in relation to the industry in which the entity operates. For example, research and development costs for a pharmaceutical company.
3. Whether attention is focused on a particular aspect of the entity's business that is disclosed in the FS like in case of newly acquired business.

8. Use of Benchmark in Determining Materiality for FS as a whole

Determining materiality involves the exercise of professional judgment. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the FS as a whole.

Factors that may affect the identification of an appropriate benchmark include the following:

- ✓ The elements of the FS like assets, liabilities, equity, revenue, expenses
- ✓ Whether there are items on which the attention of the users of the particular entity's FS tends to be focused.
- ✓ The nature of the entity, where the entity is at in its life cycle, and the industry and economic environment in which the entity operates, the entity's ownership structure and the way it is financed.
- ✓ The relative volatility of the benchmark.

Examples of benchmarks used to determine materiality include financial statement figures such as:

- profit before tax,
- total revenue,
- gross profit and
- total expenses,
- total equity or net asset value.

Profit before tax from continuing operations is often used for profit-oriented entities. When profit before tax from continuing operations is volatile, other benchmarks may be more appropriate, such as gross profit or total revenues.

Chosen Benchmark - Relevant financial data

In relation to the chosen benchmark, relevant financial data ordinarily includes:

- ✓ Prior -periods financial results and financial positions,
- ✓ Period to-date financial results and financial position, and
- ✓ Budgets or forecasts for the current period, adjusted for:
  - significant changes in the circumstances of the entity
  - relevant changes of conditions in the industry or economic environment in which the entity operates.

For e.g. when, as a starting point, the materiality for the FS as a whole is determined for a particular entity based on a percentage of PBT from continuing operations, circumstances that give rise to an exceptional decrease or increase in such profit may lead the auditor to conclude that the materiality for the FS as a whole is more appropriately determined using a normalized PBT from continuing operations figure based on past results.

Determining a percentage to be applied to a chosen benchmark involves the exercise of PJ. There is a relationship between the percentage and the chosen benchmark, such that a percentage applied to profit before tax from continuing operations will normally be higher than a percentage applied to total revenue.

9. Revision of Materiality

Materiality for the FS as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) may need to be revised as a result of

- ✓ Change in circumstances that occurred during the audit,
- ✓ New information, or
- ✓ Change in the auditor's understanding of the entity and its operations as a result of performing further audit procedures.

If during the audit it appears that actual financial results are likely to be substantially different from the anticipated period end financial results that were used initially to determine materiality for the FS as a whole, the auditor revises that materiality.

If the auditor concludes →lower materiality for the FS than initially determined is appropriate, auditor shall determine is it necessary to revise PM, and NTE of the further audit procedures remain appropriate.

10. Documenting the Materiality

Audit documentation includes the following amounts and factors considered in their determination:

- ♦ Materiality for the FS as a whole
- ♦ If applicable, the materiality level or levels for particular CTABD
- ♦ Performance materiality and
- ♦ Any revision of (a)-(c) as the audit progressed

11. Materiality and Audit Risk

Concept of Materiality [Point No.2] (+) SA 200 objectives + The auditor obtains reasonable assurance by obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.

Audit risk is the risk that the auditor expresses an inappropriate audit opinion when the FS are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.

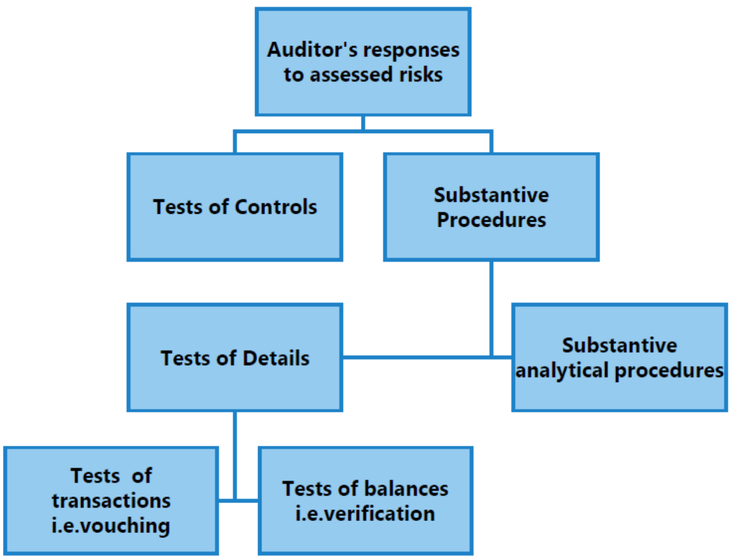
Materiality and Audit Risk are considered throughout the audit, in particular, when:

- Identifying and assessing the ROMM;
- Determining the NTE of FAP; and
- Evaluating the effect of uncorrected misstatements, if any, on the FS and in forming the opinion in the auditor's report.

SA 330

SA 330	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Objective of SA 330										
1.1 Definition										
2. Designing FAP based on Risk Assessment										
3. Test of Controls			4							
4. Nature and Extent of TOC										
5. Timing of TOC										
6. Using Evidence Obtained in Previous Audits										
7. Evaluating Operating Effectiveness of Internal Control										
8. Specific Inquiries by Auditor when Deviations from Control are Detected										
9. Substantive Procedures										
9.1 Test of Controls										
9.2 Substantive Analytical Procedures										
10. Nature and extent of Substantive Procedures										
11. Test of Controls (Extra)										
Total	0	0	4	0	0	0	0	2*	0	0

SA 330 - The Auditor's Response to Assessed Risk



1. Objective of SA 330

Objective of the auditor is to obtain SAAE about the assessed ROMM, through designing and implementing appropriate responses to those risks.

SA 330 states that:

1. Auditor shall design and *implement* overall responses to address the assessed ROMM at the FS level.
2. Auditor shall design and *perform* FAP whose NTE are appropriate to the assessed ROMM at the assertion level.

1.1 Definition

Test of controls: audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.

Substantive procedures are audit procedures designed to detect material misstatements at the assertion level. Substantive procedures comprise:

a. Tests of details (TOD)

b. Substantive analytical procedures (SAP)

2. Designing FAP based on Risk Assessment

In designing the FAP to be performed, the auditor shall:

a) Consider the reasons for the assessment given to the ROMM at the assertion level for each CTABD, including:

- Likelihood of MM due to the particular characteristics of the relevant CTABID (i.e. the inherent risk); and
- Whether the risk assessment takes into account the relevant controls (i.e. the control risk), thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (i.e. the auditor intends to rely on the operating effectiveness of controls in determining the NTE of substantive procedures); and

b) Obtain more persuasive audit evidence where auditor's assessment of risk is higher.

3. Test of Controls

Auditor shall design and perform TOC to obtain SAAE as to the operating effectiveness of relevant controls when:

- Auditor's assessment of ROMM at the assertion level includes an expectation that the controls are operating effectively (i.e., the auditor intends to rely on the operating effectiveness of controls in determining the NTE of substantive procedures); or
- Substantive procedures alone cannot provide SAAE at the assertion level.

In designing and performing TOC, the auditor shall obtain more persuasive audit evidence the greater the reliance the auditor places on the effectiveness of a control.

A higher level of assurance may be sought about the operating effectiveness of controls when the approach adopted consists primarily of TOC, in particular, where it is not possible or practicable to obtain SAAE only from substantive procedures.

4. Nature and Extent of TOC

In designing and performing TOC, the auditor shall:

a. Perform other audit procedures in combination with inquiry to obtain audit evidence about the operating effectiveness of the controls, including:

   i. How the controls were applied at relevant times during the period

   ii. Consistency with which they were applied

   iii. By whom or by what means they were applied

b. Determine whether the controls to be tested depend upon other controls (indirect controls), and if so, whether it is necessary to obtain audit evidence supporting the effective operation of those indirect controls.

Inquiry alone is not sufficient to test the operating effectiveness of controls. Accordingly, other audit procedures are performed in combination with inquiry. In this regard, inquiry combined with inspection or reperformance may provide more assurance than inquiry and observation, since an observation is pertinent only at the point in time at which it is made.

The nature of the particular control influences the type of procedure required to obtain audit evidence about whether the control was operating effectively.

For example, if operating effectiveness is evidenced by documentation, the auditor may decide to inspect it to obtain audit evidence about operating effectiveness.

When more persuasive audit evidence is needed regarding the effectiveness of a control, it may be appropriate to increase the extent of testing of the control as well as the degree of reliance on controls.

Matters auditor may consider in determining the extent of TOC include the following:

1. Frequency of the performance of the control by the entity during the period.
2. Length of time during the audit period that the auditor is relying on the operating effectiveness of the control.
3. Expected rate of deviation from a control
4. Relevance and reliability of the audit evidence to be obtained regarding the operating effectiveness of the control at the assertion level.
5. Extent to which audit evidence is obtained from tests of other controls related to the assertion.

5. Timing of TOC

Auditor shall test controls for the:

- particular time, or
- throughout the period,

for which the auditor intends to rely on those controls in order to provide an appropriate basis for the auditor's intended reliance.

Audit evidence pertaining only to a point in time may be sufficient for the auditor's purpose, for example, when testing controls over the entity's physical inventory counting at the period end.

If, on the other hand, the auditor intends to rely on a control over a period, tests that are capable of providing audit evidence that the control operated effectively at relevant times during that period are appropriate. Such tests may include tests of the entity's monitoring of controls.

6. Using Evidence Obtained in Previous Audits

In determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits, and, if so, the length of the time period that may elapse before retesting a control, the auditor shall consider the following:

a) Effectiveness of other elements of internal control, including the control environment, the entity's monitoring of controls, and the entity's risk assessment process

b) Risks arising from the characteristics of the control, including whether it is manual or automated

c) Effectiveness of general IT-controls

d) Effectiveness of the control and its application by the entity, including the nature and extent of deviations in the application of the control noted in previous audits, and whether there have been personnel changes that significantly affect the application of the control

e) Whether the lack of a change in a particular control poses a risk due to changing circumstances and

f) ROMM and the extent of reliance on the control.

If the auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls, the auditor shall establish the continuing relevance of that evidence by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit.

7. Evaluating Operating Effectiveness of Internal Control

When evaluating the operating effectiveness of relevant controls, the auditor shall evaluate whether misstatements that have been detected by substantive procedures indicate that controls are not operating effectively.

Absence of misstatements detected by substantive procedures, however, does not provide audit evidence that controls related to the assertion being tested are effective.

A material misstatement detected by the auditor's procedures is a strong indicator of the existence of a significant deficiency in internal control.

8. Specific Inquiries by Auditor when Deviations from Control are Detected

When deviations from controls upon which the auditor intends to rely are detected, the auditor shall make specific inquiries to understand these matters and their potential consequences, and shall determine whether:

a. TOC that have been performed provide an appropriate basis for reliance on controls

b. Additional TOC are necessary or

c. Potential risks of misstatement need to be addressed using substantive procedures.

9. Substantive Procedures

Why Substantive procedures must for material CTABD?

Irrespective of the assessed ROMM, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

This requirement reflects the facts that:

1. the auditor's assessment of risk is judgmental and so may not identify all risks of material misstatement and
2. there are inherent limitations to internal control, including mgmt override.

9.1 Test of Details

TOD are further classified into:

- Tests of transactions i.e. vouching and
- Tests of balances i.e. verification.

For example:

1. Purchase transaction may be verified by examining the purchase invoice, goods received note, inward gate entry register. Such tests of transactions help in establishing the authenticity of transactions recorded in BOA.
2. Tests of balances consist of verification of assets as well as liabilities. Verification of an item of fixed asset, for example, would help in establishing existence of that asset as on date of balance sheet. This may be obtained by reviewing entity's plan for performing

physical verification of fixed assets and obtaining evidence for performance of physical verification of fixed assets by mgmt.

9.2 Substantive Analytical Procedures

Refer SA 520

10. Nature and extent of Substantive Procedures

Depending on the circumstances, the auditor may determine that:

- Performing only SAP will be sufficient to reduce audit risk to an acceptably low level. For example, where the auditor's assessment of risk is supported by audit evidence from tests of controls.
- Only TOD are appropriate.
- Combination of SAP and TOD are most responsive to the assessed risks.

Because the assessment of the ROMM takes account of internal control, the extent of substantive procedures may need to be increased when the results from test of controls are unsatisfactory.

In designing TOD, the extent of testing is ordinarily thought of in terms of the sample size. However, other matters are also relevant, including whether it is more effective to use other selective means of testing.

11. Test of Controls (Extra)

After assimilating the internal control system, the auditor needs to examine whether and how far the same is actually in operation. For this, he resorts to actual testing of the system in operation.

TOC are performed to obtain audit evidence about the effectiveness of the:

1. Design of the accounting and internal control system
2. Operation of the internal control throughout the period

TOC may include:

- Inspection of documents supporting transactions and other events to gain audit evidence that internal controls have operated properly, for example, verifying that a transaction has been authorised.
- Inquiries about, and observation of, internal controls which leave no audit trail, for example, determining who actually performs each function and not merely who is supposed to perform it.
- Re-performance involves the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control, for e.g., reconciliation of bank accounts, to ensure they were correctly performed by the entity.

- Testing of internal controls operating on specific computerised applications or over the overall IT function, for e.g., access or program change controls.

While obtaining audit evidence about the effective operation of internal controls, the auditor considers

- how they were applied,
- the consistency with which they were applied during the period and
- by whom they were applied.

The concept of effective operation recognises that some deviations may have occurred.

Deviations from prescribed controls may be caused by such factors as changes in key personnel, significant seasonal fluctuations in volume of transactions and human error.

When deviations are detected, the auditor makes specific inquiries regarding these matters, particularly, the timing of staff changes in key internal control functions.

Auditor then ensures that TOC appropriately cover such a period of change or fluctuation.

Based on the results of the TOC, the auditor should evaluate whether the internal controls are designed and operating as contemplated in the preliminary assessment of control risk.

The evaluation of deviations may result in the auditor concluding that the assessed level of control risk needs to be revised. In such cases, the auditor would modify the NTE of planned substantive procedures.

Before the conclusion of the audit, based on the results of substantive procedures and other audit evidence obtained by the auditor, the auditor should consider whether the assessment of control risk is confirmed.

In case of deviations from the prescribed accounting and internal control systems, the auditor would make specific inquiries to consider their implications. Where, on the basis of such inquiries, the auditor concludes that the deviations are such that the preliminary assessment of control risk is not supported, he would amend the same unless the audit evidence obtained from other tests of control supports that assessment.

Where the auditor concludes that the assessed level of control risk needs to be revised, he would modify the NTE of his planned substantive procedures.

Internal Financial Controls

Topics	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
IFC	0	0	2	3	2	0	0	0	0	0

1. Meaning of IFC

The term Internal Financial Controls (IFC) basically refers to the policies and procedures put in place by companies for ensuring:

- Reliability of financial reporting
- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Safeguarding of assets
- Prevention and detection of frauds

2. Relevant Companies Act Provisions

Relevant provision of Companies Act,2013	Nature of Responsibility
Section 134(5)(e)	In case of listed Companies, the Directors' responsibility statement shall state that the Directors had laid down Internal financial controls to be followed by the company and that such Internal financial controls are adequate and were operating effectively.
As per Section 149(8) of the Act	The company and independent directors shall abide by the provisions specified in Schedule IV which lays down the Code for independent Directors. As per this code, the role and functions of independent directors include that they shall satisfy themselves on the integrity of financial information and that financial controls and the systems of risk mgmt are robust and defensible.
Section 177(4)(vii) of the Act	Every audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include - evaluation of internal financial controls and risk mgmt systems.

The directors and mgmt have primary responsibility of implementing and maintaining an effective internal controls framework and auditors are expected to evaluate, validate and report on the design and operating effectiveness of internal financial controls.

Distinction between Internal Financial Control and Internal Control over financial reporting.

The term Internal Financial Controls (IFC) refers to the policies and procedures put in place by companies for ensuring reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and regulations, safeguarding of assets and prevention and detection of frauds.

On the other hand, Internal controls over financial reporting is required where auditors are required to express an opinion on the effectiveness of an entity's internal controls over financial reporting, such opinion is in addition to and distinct from the opinion expressed by the auditor on the FS.

Therefore, "internal financial control" is a wider term where as "internal controls over financial reporting" is a narrower term restricted to entity's internal controls over financial reporting only.

Chapter 4 & 6

Chapter 4 & 6	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
Assertions	2	5	2	0	0	0	0	0	0	2
SA 500	2	4	4	4	9	2	4	0	7	0
SA 501	5	5	2	4	0	0	0	3	4	0
SA 505	5	0	3	0	0	4	0	0	0	4
SA 510	0	0	0	0	0	0	0	3	0	0
SA 520	0	0	0	0	3	5	5	6	0	3
SA 530	0	0	7	0	6	4*	3	3	5	6
SA 550	0	2	0	0	3	0	0	4	0	0
SA 610	0	5	0	3	Na	Na	Na	Na	Na	Na

SA 230 (CH-6)	4	0	6	3	0	0	5	0	3	4
Total	18	21	24	14	21	15	17	19	19	19
ICAI Weightage (CH 4 + CH 6)	**12% to 18%**									

Assertions

Assertions	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Meaning of Assertions	2	5	2							2
2. Negative Assertions										
Total	2	5	2	0	0	0	0	0	0	2

1. Meaning of Assertions

Assertions refer to representations by mgmt, 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 representing that the FS are in accordance with the applicable FRF, mgmt implicitly or explicitly makes assertions regarding the recognition, measurement, presentation and disclosure of the various elements of FS and related disclosures.

Assertions used by the auditor to consider the different types of potential misstatements that may occur fall into the following three categories:

Classes of Transactions	Account Balances	Presentation and Disclosure
• Completeness • Accuracy • Occurrence • Classification • Cut - Off	• Completeness • Valuation & allocation • Rights and obligations • Existence	• Completeness • Accuracy and Valuation • Occurrence & Rights and obligations • Classification and Understandability

Assertions about Classes of Transactions and Events for 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 FS at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.

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 FS 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.

Note:

- ✓ The auditor may use the assertions as described above or may express them differently provided all aspects described above have been covered. For e.g. the auditor may choose to combine the assertions about transactions and events with the assertions about account balances.
- ✓ When making assertions about the FS of certain entities, especially, for e.g., where the Govt is a major stakeholder, in addition to assertions, mgmt may often assert that transactions and events have been carried out in accordance with legislation or proper authority. Such assertions may fall within the scope of the FS audit.

2. Negative Assertions

Negative assertions are also encountered in the FS and the same may be expressed or implied. For e.g. if it is stated that there is no contingent liability it would be an expressed negative assertion; On the other hand, if in the BS there is no item as "building", it would be an implied negative assertion that the entity did not own any building on the BS date.

SA 500

SA 500	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Meaning of Audit Evidence					6					
2. Types of Audit Evidence	2					2				
3. Sufficient and Appropriate Audit Evidence		4								
3.1 Sufficiency and Appropriateness are Interrelated										
4. Factors that affect Auditor's judgement as to Sufficiency										
5. Relevance and Reliability of Audit Evidence										
5.1 Relevance										
5.2 Reliability										
6. Obtaining SAAE by the Auditor										
7. Source of Audit Evidence										
8. Audit procedures for Obtaining Audit Evidence							4		5	
9. Nature and Timing of the Audit Procedures										
10. Information to be Used as Audit Evidence										
10.1 Information prepared using work of Mgmt. Expert										
10.2 Information Produced by Entity										
11. Relying on the Work of Mgmt. Expert			4							
12. Selecting Items for Testing to Obtain AE				4						
13. Inconsistency in or Doubts over Reliability of Audit Evidence										
14. Evaluation of Audit Evidence										
15. Audit Trail										
Total	2	4	4	4	9	2	4	0	7	0

SA 500 – Audit Evidence

1. Meaning of Audit Evidence

Audit evidence may be defined as the information used by the auditor in arriving at the conclusions on which the auditor's opinion is based.

Audit evidence includes both:

- Info. contained in the a/c records underlying the FS and
- Other info.

Explaining this further, audit evidence includes:

A. Information contained in the accounting records:

1. Invoices
2. Contracts
3. Records of initial accounting entries and supporting records, such as cheques and records of electronic fund transfers
4. General and subsidiary ledgers, journal entries and other adjustments to the FS that are not reflected in journal entries; and
5. Records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.

B. Other information that authenticates the accounting records and also supports the auditor's rationale behind the true and fair presentation of the FS:

1. Minutes of the meetings,
2. Written confirmations from trade receivables and trade payables,
3. Manuals containing details of internal control etc.

2. Types of Audit Evidence

Depending upon Nature:

- Visual: For example, observing physical verification of inventory conducted by the client's staff.
- Oral: For example, discussion with the mgmt and various officers of the client.
- Documentary: For example, fixed deposit certificate, loan agreement, sales bill etc.

Depending upon Source:

Internal Evidence: Evidence which originates within the organisation being audited is internal evidence. E.g. - Sales invoice, Copies of sales challan and forwarding notes, goods received note

External evidence: Evidence that originates outside the client's organization is external evidence. E.g. - Purchase invoice, supplier's challan and forwarding note, debit notes and credit notes coming from parties, quotations, confirmations etc.

Audit evidence obtained externally is more reliable as compared to those which are obtained internally because there is a very low risk that they can be altered or changed.

3. Sufficient and Appropriate Audit Evidence

Auditor has to obtain SAAE to draw reasonable conclusions on FS.

3.1 Sufficiency and Appropriateness are Interrelated

⇨ Sufficiency is the measure of the Quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the

- Risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and
- Quality of such audit evidence (the higher the quality, the less may be required)

⇨ Appropriateness is the measure of the Quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and nature, and is dependent on the individual circumstances under which it is obtained.

4. Factors that affect Auditor's judgement as to Sufficiency

1. Materiality: It may be defined as the significance of CTABD to the users of the FS. Less evidence would be required in case assertions are less material to users of the FS. But on the other hand, if assertions are more material to the users of the FS, more evidence would be required.
2. ROMM: It may be defined as the risk that the FS are materially misstated prior to audit. This consists of two components: Inherent risk & Control risk- Refer SA 200. Less evidence would be required in case assertions that have a lower ROMM. But on the other hand, if assertions have a higher ROMM, more evidence would be required.
3. Size & characteristics of a population: It refers to the number of items included in the population. Less evidence would be required in case of smaller, more homogeneous population but on the other hand in case of larger, more heterogeneous populations, more evidence would be required.

5. Relevance and Reliability of Audit Evidence

Auditor has to express opinion on the truth and fairness on the FS. He shall consider the relevance and reliability of the info. to be used as audit evidence.

The quality of all audit evidence is affected by the relevance and reliability of the information upon which it is based.

5.1 Relevance

Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure and, where appropriate, the assertion under consideration. The relevance of information to be used as audit evidence may be affected by the direction of testing.

Example:

- If the purpose of an audit procedure is to test for overstatement in the existence or valuation of accounts payable, testing the recorded accounts payable may be a relevant audit procedure.

- On the other hand, when testing for understatement in the existence or valuation of accounts payable, testing the recorded accounts payable would not be relevant, but testing such information as subsequent disbursements, unpaid invoices, suppliers' statements, and unmatched receiving reports may be relevant.
- Given set of audit procedures may provide audit evidence that is relevant to certain assertions, but not others. **For example**, inspection of documents related to the collection of receivables after the period end may provide audit evidence regarding existence and valuation, but not necessarily cut-off.
- Similarly, obtaining audit evidence regarding a particular assertion, **for example**, the existence of inventory, is not a substitute for obtaining audit evidence regarding another assertion, **for example**, the valuation of that inventory.
- On the other hand, audit evidence from different sources or of a different nature may often be relevant to the same assertion.

5.2 Reliability

Reliability of information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant.

Therefore, generalisations about the reliability of various kinds of audit evidence are subject to important exceptions. Even when information to be used as audit evidence is obtained from sources external to the entity, circumstances may exist that could affect its reliability.

For e.g. info obtained from an independent external source may not be reliable if the source is not knowledgeable, or a mgmt's expert may lack objectivity.

While recognising that exceptions may exist, the following generalisations about the reliability of audit evidence may be useful:

1. Reliability of AE is increased when it is obtained from independent sources outside the entity.
2. Reliability of AE that is generated internally is increased when the related controls, including those over its preparation and maintenance, imposed by the entity are effective.
3. Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference
4. Audit evidence in documentary form, whether paper, electronic, or other medium, is more reliable than evidence obtained orally
5. Audit evidence obtained as original documents is more reliable than AE obtained as photocopies or facsimiles, or documents that have been filmed, digitised or otherwise transformed into electronic form.

6. Obtaining Sufficient and appropriate audit evidence by the Auditor

1. Audit evidence is necessary to support the auditor's opinion and report.
2. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit.
3. It may, however, also include information obtained from other sources such as previous audits. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared using the work of a mgmt's expert.
4. Audit evidence comprises both information that supports and corroborates mgmt's assertions, and any information that contradicts such assertions.
5. In addition, in some cases the absence of information (for example, mgmt's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.
6. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence. The auditor uses various audit procedures to obtain audit evidence such as inspection, observation, confirmation, recalculation, reperformance and analytical procedures, often in some combination, in addition to inquiry.
7. Although inquiry may provide important audit evidence, and may even produce evidence of a misstatement, inquiry alone ordinarily does not provide sufficient audit evidence of the absence of a material misstatement at the assertion level, nor of the operating effectiveness of controls.
8. As explained in SA 200, Reasonable assurance is obtained when the auditor has obtained SAAE to reduce audit risk to an acceptably low level.
9. The sufficiency and appropriateness of audit evidence are interrelated.

7. Source of Audit Evidence

Some audit evidence is obtained by performing audit procedures to test the a/c records.

Example:

- through analysis and review,
- reperforming procedures followed in the financial reporting process and
- reconciling related types and applications of the same information.

Example:

Corroborating information obtained from a source independent of the entity may increase the assurance the auditor obtains from audit evidence that is generated internally, such as evidence existing within the accounting records, minutes of meetings, or a mgmt representation.

8. Audit procedures for Obtaining Audit Evidence

Audit evidence to draw reasonable conclusions on which to base the auditor's opinion is obtained by performing:

a. Risk assessment procedures; and

b. Further audit procedures, which comprise:

   (i) TOC, when required by the SAs or when the auditor has chosen to do so; and

   (ii) Substantive procedures, including tests of details and substantive analytical procedures.

8. Audit procedures to obtain audit evidence can include:

1. Inspection
2. Observation
3. External Confirmation
4. Recalculation
5. Reperformance
6. Analytical Procedures
7. Inquiry

8.1 Inspection

Inspection involves examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset.

Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production.

An example of inspection used as a TOC is inspection of records for evidence of authorisation.

Some documents represent **direct audit evidence of the existence of an asset, for example**, a document constituting **a financial instrument such as a stock or bond.** Inspection of such documents may not necessarily provide audit evidence about ownership or value.

In addition, inspecting an executed contract may provide audit evidence relevant to the entity's application of accounting policies, such as revenue recognition.

Inspection of tangible assets may provide reliable audit evidence with respect to their existence, but not necessarily about the entity's rights and obligations or the valuation of the assets.

8.2 Observation

Observation consists of looking at a process or procedure being performed by others.

For e.g. auditor's observation of inventory counting by the entity's personnel, or of the performance of control activities.

Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place.

8.3 External Confirmation

External confirmation represents audit evidence obtained by the auditor as:

- direct written response to the auditor
- from a third party (the confirming party),
- in paper form, or by electronic or other medium.

External confirmation procedures frequently are relevant when addressing assertions associated with certain account balances and their elements.

However, external confirmations need not be restricted to account balances only.

Auditor may request confirmation of:

1. Terms of agreements or
2. Transactions an entity has with third parties;
3. Any modifications have been made to the agreement and, if so, what the relevant details are.
4. Absence of certain conditions. E.g. absence of a "side agreement" that may influence revenue recognition.

8.4 Recalculation

Recalculation consists of checking the mathematical accuracy of documents or records. Recalculation may be performed manually or electronically.

8.5 Reperformance

Reperformance involves the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.

Example: Re-performing the reconciliation of bank statement, re-performing the aging of accounts receivable.

8.6 Analytical Procedures

Analytical procedures consist of evaluations of financial information made by a study of plausible relationships among both financial and non-financial data.

Analytical procedures also encompass the investigation of identified fluctuations and relationships that are inconsistent with other relevant information or deviate significantly from predicted amounts.

8.7 Inquiry

1. Inquiry consists of seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity.
2. Inquiry is used extensively throughout the audit in addition to other audit procedures.
3. Inquiries may range from formal written inquiries to informal oral inquiries.
4. Evaluating responses to inquiries is an integral part of the inquiry process.
5. Responses to inquiries may provide the auditor with info. not previously possessed or corroborative audit evidence.
6. Alternatively, responses might provide information that differs significantly from other information that the auditor has obtained, for example, information regarding the possibility of mgmt override of controls.
7. Corroborating inquiry-based evidence is important, but info. available to support mgmt's intent may have limited. Past actions, reasons for decisions, and feasibility of execution help verify intent.
8. The auditor may seek written representations from mgmt or governance to confirm oral responses on certain matters.
9. Although inquiry may provide important audit evidence, and may even produce evidence of a misstatement, inquiry alone ordinarily does not provide sufficient audit evidence of the absence of a material misstatement at the assertion level, nor of the operating effectiveness of controls.

9. Nature and Timing of the Audit Procedures

- Nature and timing may be affected by fact that some of accounting data and other information may be available only in electronic form or only at certain points or periods in time.
- For e.g. source documents, such as purchase orders and invoices, may exist only in electronic form when an entity uses electronic commerce, or may be discarded after scanning when an entity uses image processing systems to facilitate storage and reference.
- Certain electronic information may not be retrievable after a specified period of time. For e.g. if files are changed and if backup files do not exist.
- Accordingly, the auditor may find it necessary as a result of an entity's data retention policies to request retention of some information for the auditor's review or to perform audit procedures at a time when the information is available.

10. Information to be Used as Audit Evidence

10.1 Information prepared using work of Management Expert

When information to be used as AE has been prepared using the work of a mgmt's expert, the NTE of audit procedures may be affected by matters;

1. Nature and complexity of the matter to which the mgmt's expert relates.
2. ROMM in the matter.
3. Availability of alternative sources of audit evidence.
4. Nature, scope and objectives of the mgmt's expert's work.
5. Whether the mgmt's expert is employed by the entity, or is a party engaged by it to provide relevant services.
6. Extent to which mgmt can exercise control or influence over the work of the mgmt's expert.
7. Whether the mgmt's expert is subject to technical performance standards or other professional or industry requirements.
8. Nature and extent of any controls within the entity over the mgmt's expert's work.
9. Auditor's knowledge and experience of the mgmt's expert's field of expertise.
10. Auditor's previous experience of the work of that expert.

10.2 Information Produced by Entity

When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes, including as necessary in the circumstances:

- Obtaining AE about the accuracy and completeness of the information; and
- Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes

11. Relying on the Work of Management Expert

If the entity has employed or engaged experts, the auditor may rely on the works of experts, provided he is satisfied that SAAE is obtained with reasonable assurance to form an opinion on the FS.

When information to be used as audit evidence has been prepared using the work of a mgmt's expert, the auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes;

- ⇨ Evaluate the competence, capabilities and objectivity of that expert;
- ⇨ Obtain an understanding of the work of that expert; and
- ⇨ Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion.

Who is management's expert?

An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the FS.

As per SA 500: "Audit Evidence", when using the work of a mgmt's expert, audit evidence that the auditor should obtain include:

Evaluate the competence, capabilities and objectivity of that expert:

1. Whether the expert is employed by the entity or is an outside party.
2. Whether the expert is independent in respect of the entity.
3. Auditor's previous experience of the work of the expert.
4. Knowledge of the expert, his qualification, membership of a professional body or industry association, etc.

Obtain an understanding of the work of that expert:

1. Whether the auditor has expertise to evaluate the work of the expert.
2. Evaluating the assumptions and methods used by the mgmt.
3. Evaluating the nature of internal or external data used by the expert.

12. Selecting Items for Testing to Obtain AE

When designing TOC and TOD, the auditor shall determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure.

Means available to the auditor for selecting items for testing are:

a. Selecting all items (100% examination);
b. Selecting specific items; and
c. Audit sampling.

Selecting ALL Items (100% examination):

Auditor may decide that it will be most appropriate to examine the entire population of items that make up a class of transactions or account balance (or a stratum within that population). 100% examination is unlikely in the case of tests of controls; however, it is more common for tests of details.

100% examination may be appropriate when, For e.g.

- Population constitutes a small number of large value items;
- There is a significant risk and other means do not provide sufficient appropriate audit evidence; or
- Repetitive nature of a calculation or other process performed automatically by an information system makes a 100% examination cost effective

Selecting Specific Items:

Auditor may decide to select specific items from a population. In making this decision, factors that may be relevant include:

- ✓ auditor's understanding of the entity,
- ✓ assessed ROMM, and
- ✓ characteristics of the population being tested.

The judgmental selection of specific items is subject to non-sampling risk. Specific items selected may include:

- High value or key items: Auditor may decide to select specific items within a population because they are of high value, or exhibit some other characteristic.
- All items over a certain amount: Auditor may decide to examine items whose recorded values exceed a certain amount so as to verify a large proportion of the total amount of a class of transactions or account balance.
- Items to obtain information: Auditor may examine items to obtain information about matters such as the nature of the entity or the nature of transactions.

Audit sampling:

Audit sampling is designed to enable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it. Audit sampling is discussed in SA 530.

13. Inconsistency in or Doubts over Reliability of Audit Evidence

If:

a. audit evidence obtained from one source is inconsistent with that obtained from another; or
b. auditor has doubts over the reliability of information to be used as audit evidence.

Auditor shall determine what modifications or additions to audit procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the audit.

14. Evaluation of Audit Evidence

SA 500 "Audit Evidence" is applicable to all the audit evidence obtained during the course of the audit to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

The auditor has to conclude whether SAAE has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgment.

15. Audit Trail

- ✓ Audit trail is a documented flow of a transaction.
- ✓ Used to investigate how a source document was translated into an account entry and from there it was inserted into FS of an entity.
- ✓ Used as audit evidence to establish authentication and integrity of a transaction.
- ✓ Help in maintaining record of system and user activity. Like, in case of banks, there is an audit trail keeping track of log-on activity detailing record of log-on attempts and device used.
- ✓ It is a Step-by-step record by which accounting, trade details, or other financial data can be traced to their source.
- ✓ Audit trails are used to verify and track many types of transactions including accounting and financial transactions.
- ✓ Audit trails (or audit logs) act as record-keepers that document evidence of certain events, procedures or operations, because their purpose is to reduce fraud, material errors, and unauthorised use.
- ✓ Help to enhance internal controls and data security.
- ✓ Help in fixing responsibility, rebuilding events and in thorough analysis of problem areas. For example, audit trails can track activities of users thus fixing responsibility for users. These can also be used to rebuild events upon occurring of some problem.
- ✓ Audit trail analysis can specify reason of the problem.
- ✓ Also help in ensuring operation of system as intended.
- ✓ In this way, audit trails can help entities in their regular system operations.

However, it involves costs. The cost is not only in terms of system expenditure but also in terms of time involved in analysing data made available by audit trails. However, use of automated tools can be made to analyse large volume of data thrown up by audit trails.

Advantages to Auditor:

- Systems which have a feature of audit trail inspires confidence in auditors.
- Helps auditors in verifying whether controls devised by the mgmt were operating effectively or not.
- Aids in verification whether a transaction was indeed performed by a person authorised to do it.
- Also enhance data security, these can be used by auditor while performing audit procedures thus increasing reliability of obtained.

SA 501

SA 501	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Objective of SA 501										
2. Purpose of Physical Verification of Inventory										
3. Attendance at Physical Inventory Counting										
4. Matters Relevant in Planning Attendance at Physical Inventory Counting	**5**								**2**	
5. Physical Inventory Counting Conducted other than Date of FS			**2**							
6. Auditor unable to Attend PIC due to Unforeseen Circumstances										
7. Attendance at Physical Inventory Counting becomes impractical										
8. When inventory under the custody and control of a third party									**2**	
9. Litigation and Claims										
10. Communication with the Entity's External Legal Counsel				**4**				**3**		
11. Segment Information		**2**								
12. Auditor's responsibility regarding presentation & disclosure of segment information										
13. Understanding of methods used by Management		**3**								
Total	**5**	**5**	**2**	**4**	**0**	**0**	**0**	**3**	**4**	**0**

SA 501 – Audit Evidence – Considerations for Selected Items

Objective of SA 501

Objective of the auditor is to obtain SAAE regarding the:

a. Existence and condition of inventory;

b. Completeness of litigation and claims involving the entity; and

c. Presentation and disclosure of segment information in accordance with the applicable financial reporting framework.

2. Purpose of Physical Verification of Inventory

When inventory is material to the FS, the auditor shall obtain SAAE regarding the existence and condition of inventory by:

a. Attendance at physical inventory counting (PIC), unless impracticable, to:

- Evaluate mgmt's instructions and procedures for recording & controlling the results of the entity's PIC
- Observe the performance of mgmt's count procedures
- Inspect the inventory and
- Perform test counts

b. Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results

Flow: Evaluate → Observe → Test Check → Inspect → Final Test Results

3. Attendance at Physical Inventory Counting

Attendance at Physical Inventory Counting Involves:

- Inspecting the inventory to check its existence and condition, & performing test counts;
- Observing compliance with mgmt's instructions and the performance of procedures for recording and controlling the results of the PIC; and
- Obtaining audit evidence as to the reliability of mgmt's count procedures.

4. Matters Relevant in Planning Attendance at Physical Inventory Counting

1. Nature of inventory.
2. Stages of completion of work in progress.
3. ROMM related to inventory.
4. Nature of the internal control related to inventory.
5. Whether adequate procedures are expected to be established and proper instructions issued for PIC.
6. Timing of physical inventory counting.
7. Whether the entity maintains a perpetual inventory system.
8. The locations at which inventory is held, including the materiality of the inventory and the ROMM at different locations, in deciding at which locations attendance is appropriate.
9. Whether the assistance of an auditor's expert is needed to obtain SAAE.

Flow: Nature → WIP → ROMM → Controls → Instructions → Timing → System → Locations → Expert

5. Physical Inventory Counting Conducted other than Date of FS

Auditor shall, in addition to the procedures required above, perform audit procedures to obtain audit evidence about whether changes in inventory between the count date and the date of the FS are properly recorded.

Relevant matters for consideration include:

- ⇨ Whether the perpetual inventory records are properly adjusted.
- ⇨ Reliability of the entity's perpetual inventory records.
- ⇨ Reasons for significant differences between the information obtained during the physical count and the perpetual inventory records

6. Auditor unable to Attend PIC due to Unforeseen Circumstances

If the auditor is unable to attend physical inventory counting due to unforeseen circumstances, the auditor shall make or observe some physical counts on an alternative date, and perform audit procedures on intervening transactions.

7. Attendance at Physical Inventory Counting becomes impractical

- ♦ If attendance at physical inventory counting is impracticable, the auditor shall perform alternative audit procedures to obtain SAAE regarding the existence and condition of inventory.
- ♦ For e.g. - inspection of documentation of the subsequent sale of specific inventory items acquired or purchased prior to the PIC, may provide SAAE about the existence and condition of inventory.
- ♦ However, it may not be possible to obtain SAAE regarding the existence and condition of inventory by performing alternative audit procedures. In such cases, SA 705 requires the auditor to modify the opinion in the auditor's report as a result of the scope limitation.
- ♦ Note: In some cases, attendance at physical inventory counting may be impracticable. This may be due to factors such as the nature and location of the inventory.

General Inconvenience not a Valid reason:

- ♦ The matter of general inconvenience to the auditor, however, is not sufficient to support a decision that attendance is impracticable.
- ♦ Further, as explained in SA 200, the matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive.

8. When inventory under the custody and control of a third party?

When inventory under the custody and control of a third party is material to the FS, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory by performing one or both of the following:

1. Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity.
2. Perform inspection or other audit procedures appropriate in the circumstances.

Other audit procedure may include, for Example:

a. Inspecting documentation regarding inventory held by third parties, for example, warehouse receipts.
b. Requesting confirmation from other parties when inventory has been pledged as collateral.
c. Attending, or arranging for another auditor to attend, the third party's physical counting of inventory, if practicable.
d. Obtaining another auditor's report, or a service auditor's report, on the adequacy of the third party's internal control for ensuring that inventory is properly counted and adequately safeguarded.

9. Litigation and Claims

Auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a ROMM, including:

- Inquiry of mgmt and, where applicable, others within the entity, including in-house legal counsel;
- Reviewing minutes of meetings of TCWG and correspondence between the entity and its external legal counsel; and
- Reviewing legal expense accounts.

In addition to the procedures identified above other relevant procedures include, for example, using info. obtained through risk assessment procedures carried out as part of obtaining an understanding of the entity and its environment to assist the auditor to become aware of litigation and claims involving the entity.

10. If the Auditor Assesses a ROMM regarding Litigation or Claims – Communication with the Entity's External Legal Counsel

If the auditor assesses, ROMM regarding litigation or claims that have been identified, or audit procedures performed indicate that other material litigation or claims may exist, the auditor shall, in addition to the procedures required by other SAs, seek direct communication with the entity's external legal counsel.

- Auditor shall do so through a letter of inquiry requesting the entity's external legal counsel to communicate directly with the auditor.
- If law, regulation or respective legal professional body prohibits the entity's external legal counsel from communicating directly with auditor, the auditor shall perform alternative audit procedures.

- If it is considered unlikely that the entity's external legal counsel will respond appropriately to a letter of general inquiry, the auditor may seek direct communication through a letter of specific inquiry.

  For this purpose, a letter of specific inquiry includes:

  1. List of litigation and claims;
  2. Where available, mgmt's assessment of the outcome of each of the identified litigation and claims and its estimate of the financial implications, including costs involved; and
  3. Request that the entity's external legal counsel confirm the reasonableness of mgmt's assessments and provide the auditor with further information if the list is considered by the entity's external legal counsel to be incomplete or incorrect.

Meeting the legal Counsel:

In certain circumstances, the auditor also may judge it necessary to meet with the entity's external legal counsel to discuss the likely outcome of the litigation or claims. This may be the case, for example, where:

⇨ The auditor determines that the matter is a significant risk.

⇨ The matter is complex.

⇨ There is disagreement between mgmt and the entity's external legal counsel.

Ordinarily, such meetings require mgmt's permission and are held with a representative of mgmt in attendance.

Refusals

Further if:

a. Mgmt. refuses to give the auditor permission to communicate or meet with the entity's external legal counsel, or the entity's external legal counsel refuses to respond appropriately to the letter of inquiry, or is prohibited from responding; and

b. the auditor is unable to obtain SAAE by performing alternative audit procedures, the auditor shall modify the opinion in in accordance with SA 705.

11. Segment Information

Auditor shall obtain SAAE regarding the presentation and disclosure of segment information in accordance with the applicable FRF by:

1. Obtaining an understanding of the methods used by mgmt in determining segment information, and:
2. Evaluating whether such methods are likely to result in disclosure in accordance with the applicable FRF; and
3. Where appropriate, testing the application of such methods; and

4. Performing analytical or other audit procedures appropriate in the circumstances.

12. Auditor's responsibility regarding presentation & disclosure of segment information

Auditor's responsibility is in relation to the FS taken as a whole. Accordingly, the auditor is not required to perform audit procedures that would be necessary to express an opinion on the segment information presented on a standalone basis.

13. Understanding of the Methods Used by Management

Audit procedure to ensure methods used by the mgmt to present segment information are in accordance with the applicable FRF should include:

- ⇨ Sales, transfers and charges between segments, and elimination of intersegment amounts.
- ⇨ Comparisons with budgets and other expected results, for example, operating profits as a percentage of sales.
- ⇨ Allocation of assets and costs among segments.
- ⇨ Consistency with prior periods, and the adequacy of the disclosures with respect to inconsistencies.

SA 505

SA 505	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. SA 505 – External Confirmations										
2. Objective of SA 505										
3. Important Terms			3							
4. External Confirmation Procedures adopted by the Auditor to Obtain Audit Evidence										
5. Management's refusal to allow the auditor to send a confirmation request						4				
5.1 Reasonableness of Management's Refusal										
5.2 Implications of Refusal on Assessment of ROMM										
5.3 Alternative Audit Procedures										
6. Negative Confirmation Request	5									4
7. Evaluating the Evidence Obtained										
Total	5	0	3	0	0	4	0	0	0	4

1. SA 505 - External Confirmations

SA 500 also includes the following generalisations applicable to AE:

- ⇨ AE is more reliable when it is obtained from independent sources outside the entity.
- ⇨ AE obtained directly by auditor is more reliable than AE obtained indirectly or by inference.
- ⇨ AE is more reliable when it exists in documentary form, whether paper, electronic or other medium.

2. Objective of SA 505

Objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit evidence.

3. Important Terms

External confirmation - may be defined as audit evidence obtained as a:

- Direct written response to the auditor
- From a third party (the confirming party),
- In paper form, or by electronic or other medium.

Positive confirmation request - A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information.

Negative confirmation request - A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.

Non-response - A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered.

Exception - A response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party. The exception needs to be assessed to the entire population after analyzing the reason for difference.

4. External Confirmation Procedures adopted by the Auditor to Obtain Audit Evidence

When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:

a. Determining the information to be confirmed or requested; (Kya Jaan nah hai)

b. Selecting the appropriate confirming party; (Kiss se Jaan nah ai)

c. Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and (Sahi Pate Par)

d. Sending the requests, including follow-up requests when applicable, to the confirming party. (Bhej do)

A. Determining the Information to be Confirmed or Requested

External confirmation procedures frequently are performed to confirm or request information regarding account balances and their elements.

They may also be used to confirm:

- terms of agreements, contracts, or
- transactions between an entity and other parties, or
- to confirm the absence of certain conditions, such as a "side agreement".

B. Selecting the Appropriate Confirming Party

Confirmation responses provide more reliable and relevant audit evidence when sent to confirming party the auditor believes is knowledgeable about info. to be confirmed.

For example, a financial institution official who is knowledgeable about the transactions or arrangements for which confirmation is requested may be the most appropriate person at the financial institution from whom to request confirmation.

C. Designing the Confirmation Requests

1. Design of a confirmation request - It may directly affect the confirmation response rate, and the reliability and the nature of the audit evidence obtained from response
2. Factors to be considered by auditor when designing confirmation requests Factors to consider when designing confirmation requests include:
   - Assertions being addressed.
   - Specific identified ROMM, including fraud risks.
   - Layout and presentation of the confirmation request.
   - Prior experience on the audit or similar engagements.
   - Method of communication
   - Mgmt's authorisation or encouragement to the confirming parties to respond to the auditor. Confirming parties may only be willing to respond to a confirmation request containing mgmt's authorisation.
   - Ability of the intended confirming party to confirm or provide the requested information (for example, individual invoice amount versus total balance).
3. Positive confirmation request:
   - A positive external confirmation request asks the confirming party to reply to the auditor in all cases, either by indicating the confirming party's agreement with the given information, or by asking the confirming party to provide information.
   - A response to a positive confirmation request ordinarily is expected to provide reliable audit evidence.

- There is a risk, however, that a confirming party may reply to the confirmation request without verifying that the information is correct.
- Auditor may reduce this risk by using positive confirmation requests that do not state the amount on the confirmation request, and ask the confirming party to fill in the amount or furnish other information.
- On the other hand, use of this type of "blank" confirmation request may result in lower response rates because additional effort is required of the confirming parties.

4. Determination of properly addressed requests: Determining that requests are properly addressed includes testing the validity of the addresses on confirmation requests before they are sent out.

D. Follow-Up on Confirmation Requests

Auditor may send an additional confirmation request when a reply to a previous request has not been received within a reasonable time. For e.g., the auditor may, having re-verified the accuracy of the original address, send an additional or follow-up request.

5. Management's refusal to allow the auditor to send a confirmation request: Steps taken by the Auditor

If mgmt refuses to allow the auditor to send a confirmation request, the auditor shall:

a. Inquire as to mgmt's reasons for the refusal, and seek audit evidence as to their validity and reasonableness;
b. Evaluate the implications of mgmt's refusal on the auditor's assessment on relevant ROMM, including the risk of fraud, and on the NTE of other audit procedures; and
c. Perform alternative audit procedures designed to obtain relevant and reliable audit evidence.

If the auditor concludes that mgmt's refusal to allow the auditor to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the auditor shall communicate with those charged with governance in accordance with SA 260.

The auditor also shall determine the implications for the audit and the auditor's opinion in accordance with SA 705.

5.1 Reasonableness of Management's Refusal

Refusal by mgmt to allow the auditor to send a confirmation request is a limitation on the audit evidence the auditor may wish to obtain. The auditor is therefore required to inquire as to the reasons for the limitation.

A common reason advanced is existence of a legal dispute or ongoing negotiation with intended confirming party, the resolution of which may be affected by an untimely confirmation request.

The auditor is required to seek audit evidence as to the validity and reasonableness of the reasons because of the risk that mgmt may be attempting to deny the auditor access to audit evidence that may reveal fraud or error.

5.2 Implications of Refusal on Assessment of ROMM

Auditor may conclude that it would be appropriate to revise the assessment of the ROMM at the assertion level and modify planned audit procedures.

For example, if mgmt's request to not confirm is unreasonable, this may indicate a fraud risk factor that requires evaluation in accordance with SA 240.

5.3 Alternative Audit Procedures

Examples of alternative audit procedures the auditor may perform include:

- For accounts receivable balances - examining specific subsequent cash receipts, shipping documentation, and sales near the period-end.
- For accounts payable balances - examining subsequent cash disbursements or correspondence from third parties, and other records, such as goods received notes.

6. Negative Confirmation Request

Negative confirmations is a request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.

Negative confirmations provide less persuasive audit evidence than positive confirmations. Accordingly, the auditor shall not use negative confirmation requests as the sole substantive audit procedure to address an assessed ROMM at the assertion level unless ALL of the following are present:

⇨ Auditor has assessed the ROMM as low and has obtained SAAE regarding the operating effectiveness of controls relevant to the assertion;

⇨ Population of items comprises a large number of small, homogeneous, account balances, transactions or conditions;

⇨ Very low exception rate is expected; and

⇨ Auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.

Note:

- Failure to receive a response to a negative confirmation request does not explicitly indicate receipt by the intended confirming party or verification of the accuracy of the information contained in the request.
- Failure of a confirming party to respond to a negative confirmation request provides significantly less persuasive audit evidence than does a response to a positive confirmation request.

- Confirming parties also may be more likely to respond indicating their disagreement when the info in the request is not in their favour, and less likely to respond otherwise.

7. Evaluating the Evidence Obtained

Auditor shall evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or whether performing FAP is necessary.

When evaluating the results of individual external confirmation requests, the auditor may categorise such results as follows:

- Response by the appropriate confirming party indicating agreement with the information provided in the confirmation request, or providing requested info. without exception;
- Response deemed unreliable;
- Non-response; or
- Response indicating an exception.

Auditor's evaluation, when taken into account with other audit procedures the auditor may have performed, may assist the auditor in concluding whether SAAE has been obtained or whether performing further audit procedures is necessary, as required by SA 330.

SA 510

SA 510	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Definitions										
2. Objective of SA 510										
3. Obtain sufficient appropriate Audit evidence about Opening balances										
4. Procedures Adopted by Auditor to Obtain Audit Evidence regarding Opening Balance								3		
4.1 Nature and extent of Audit Procedures										
4.2 If the prior period's FS were audited by a predecessor auditor										
4.3 Audit Procedure for Opening Balances – Specific Items										
5. Consistency of Accounting Policies relating to Opening Balances										
6. Reporting by the auditor with regard to Opening Balances										
Total	0	0	0	0	0	0	0	3	0	0

SA 510 – Initial Audit Engagements – Opening Balances

1. Definitions

1. Initial audit engagement refers to an engagement in which either:
   - ⇨ FS for the prior period were not audited; or
   - ⇨ FS for the prior period were audited by predecessor auditor.
2. Opening balances means those account balances that exist at the beginning of the period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and a/c policies applied in the prior period. Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.
3. Predecessor auditor - The auditor from a different audit firm, who audited the FS of an entity in the prior period and who has been replaced by the current auditor.

2. Objective of SA 510 – w.r.t to Opening Balances

To Obtain SAAE whether:

a. Opening balances contain misstatements that materially affect the current period's FS; and

b. Appropriate accounting policies reflected in the opening balances have been
   - consistently applied in the current period's FS, or
   - changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable FRF.

3. Obtain sufficient appropriate Audit evidence about Opening balances

Auditor shall obtain SAAE about whether the Opening balances contain misstatements that materially affect the current period's FS by:

1. Determining whether prior period's closing balances have been correctly brought forward to current period or, any adjustments have been disclosed as prior period items in the current year's Statement of Profit and Loss;
2. Determining whether the opening balances reflect the application of appropriate accounting policies; and
3. Performing one or more of the following:
   - ⇨ Where the prior year FS were audited, perusing the copies of the audited FS including the other relevant documents relating to the prior period FS;
   - ⇨ Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances; or

⇨ Performing specific audit procedures to obtain evidence regarding the opening balances.

If the auditor obtains evidence that Opening balance contains misstatements that could materially affect the current period's FS, the auditor shall perform such additional audit procedures as are appropriate in the circumstances to determine the effect on the current period's FS.

If the auditor concludes that such misstatements exist in the current period's FS, the auditor shall communicate the misstatements with the appropriate level of mgmt and TCWG.

4. Procedures Adopted by Auditor to Obtain Audit Evidence regarding Opening Balance

4.1 Nature and extent of Audit Procedures

The nature and extent of audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances depend on such matters as:

⇨ Accounting policies followed by the entity.

⇨ Nature of the CTABD and the ROMM in the current period's FS.

⇨ Significance of the opening balances relative to the current period's FS.

⇨ Whether the prior period's FS were audited and, if so, whether the predecessor auditor's opinion was modified.

4.2 If the prior period's FS were audited by a predecessor auditor

If the prior period's FS were audited by a predecessor auditor, the auditor may be able to obtain SAAE regarding the opening balances by perusing the copies of the audited FS including the other relevant documents relating to the prior period FS such as supporting schedules to the audited FS.

Ordinarily, the auditor can place reliance on the except when during the performance of audit procedures for the current period the possibility of misstatements in opening balances is indicated.

4.3 Audit Procedure for Opening Balances – Specific Items

Some audit evidence about opening balances may be obtained as part of the current period's audit procedures. Additional audit procedure to obtain SAAE.

For Current Assets and Liabilities

Debtors-Creditors:

Collection (payment) of opening accounts receivable (accounts payable) during the current period will provide some audit evidence of their existence, rights and obligations, completeness and valuation at the beginning of the period.

Inventory:

In an initial audit engagement, in the case of inventories, the current period's audit procedures on the closing inventory balance provide little audit evidence regarding inventory on hand at the beginning of the period. Therefore, additional audit procedures may be necessary, and one or more of the following may provide sufficient appropriate audit evidence:

1. Observing a current PIC and reconciling it to the opening inventory quantities.
2. Performing audit procedures on the valuation of the opening inventory items.
3. Performing audit procedures on gross profit and cut-off.

For Non-Current Assets and Liabilities

1. Such as PPE, investments and long-term debt, some audit evidence may be obtained by examining the accounting records and other information underlying the opening balances.
2. In certain cases, the auditor may be able to obtain some audit evidence regarding opening balances through confirmation with third parties.

5. Consistency of Accounting Policies relating to Opening Balances

If the auditor concludes that:

(a) The current period's accounting policies are not consistently applied in relation to opening balances in accordance with the applicable FRF; or

(b) A change in accounting policy is not properly accounted for or not adequately presented or disclosed in accordance with the applicable FRF,

The auditor shall express a qualified opinion or an adverse opinion as appropriate in accordance with SA 705.

6. Reporting by the auditor with regard to Opening Balances

a. **If Auditor is Unable to obtain SAAE** – Qualified opinion or a disclaimer of opinion

b. **If Opening balance contain a misstatement** that materially affects the current period's FS and the effect of the misstatement is not properly accounted for or not adequately presented or disclosed, the auditor shall express a qualified opinion or adverse opinion.

SA 520

SA 520	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. SA 520 – Analytical Procedures										
2. Meaning of Analytical Procedures							5			
3. Objective of SA 520										
4. Purpose of Analytical Procedures								4		
5. Timing of Analytical Procedures						2		2		

SA 520	May’25	Jan’25	Sep’24	May’24	Nov’23	May’23	Nov’22	May’22	Dec’21	Jul’21
6. Analytical Procedures in Planning the Audit										
7. Substantive Analytical Procedures										
8. Factors to be considered for Substantive Audit Procedure										
9. Techniques available as SAP										
10. Analytical procedures used as Substantive Tests										
10.1 Determine suitability of Analytical Procedure for given Assertion										
10.2 Reliability of Data						3				
10.3 Evaluation of whether the Expectation is Sufficiently Precise					3					
10.4 Diff. b/w recorded amounts vs. expected values that is acceptable										
11. Investigating Results of Analytical Procedures										3
12. Analytical Procedures that Assist in Forming an Overall Conclusion										
Total	0	0	0	0	3	5	5	6	0	3

1. SA 520 – Analytical Procedures

Routine checks cannot be depended upon to disclose all the mistakes or manipulation that may exist in accounts, certain other procedures also have to be applied like comparisons, trend and ratio analysis in addition to reasonable tests. These collectively are known as overall tests.

With the passage of tests, analytical procedures have acquired lot of significance as substantive audit procedure. SA-520 on Analytical Procedures discusses the application of analytical procedures during an audit.

2. Meaning of Analytical Procedures

As per SA 520, the term Analytical Procedures means:

- evaluations of financial information
- through analysis of plausible relationships
- among both financial and non-financial data.

Analytical procedures also encompass (include) such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant info. or that differ from expected values by a significant amount.

<u>Analytical procedures include:</u>

1. Consideration of Comparisons of the entity's financial info. with
2. Consideration of Relationships.

E.g. of Analytical Procedures having consideration of Comparisons of entity's financial info. are:

a. Comparable info. for prior periods.
b. Anticipated results of the entity, such as budgets or forecasts, or expectations of the auditor, such as an estimation of depreciation.
c. Similar industry information, such as a comparison of the entity's ratio of sales to accounts receivable with industry averages or with other entities of comparable size in the same industry.

E.g. of Analytical Procedures having consideration of Relationships are:

a. Among elements of financial info. that would be expected to conform to a predictable pattern based on the entity's experience, like gross margin %.
b. Between financial info. and relevant non-financial info., such as payroll costs to number of employees.

Analytical Procedures may be segregated into the following major types: comparison of client data with

- industry data,
- similar prior period data,
- client-determined expected results,
- auditor-determined expected results and
- expected results, using non-financial data.

3. Objective & Scope of SA 520

Objectives of auditor are:

a. To obtain relevant and reliable audit evidence when using substantive analytical procedures; and
b. To design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the FS are consistent with the auditor's understanding of the entity.

Scope of SA 520:

SA 520 deals with auditor's use of analytical procedures as:

a. substantive procedures ("substantive analytical procedures"), and
b. as procedures near the end of the audit that assist the auditor when forming an overall conclusion on the FS.

4. Purpose of Analytical Procedures (Cover with ICAI Module)

Analytical procedures use Comparisons and Relationships to assess whether account balances or other data appear reasonable.

For E.g.

- Establishing relationship between certain balances included in the BS and P&L and comparing them with the PY balances.
- Reconciling physical asset balances with financial records.
- Obtaining account balances from banks, receivables, payables and reconcile them with relevant BOA.
- Confirming outstanding income and expenses by preparing reconciliation statements etc.

4.1 Comparing various items of P&L with PY

Overall tests can be extended for making inter-firm and intra-firm Comparison of Trading results (P&L):

1. If balances included in the Statement of Profit and Loss of an entity are compared with those contained in the Statement of Profit and Loss with that of the previous period, it would be possible to find out the reasons for increase or decrease in the amount of profits of those years.
2. By setting up certain expenses ratios on the basis of balances included in the Statement of Profit and Loss, for the year under audit, comparing them with the same ratios for the previous year, it is possible to ascertain the extent of increase or decrease in various items of expenditure in relation to sales and that of trading profit in relation to sales.
3. If differences are found to be material, the auditor would ascertain the reasons thereof and assess whether the accounts have been manipulated to inflate or suppress profits.
4. It would be possible to identify the existence of unusual transactions, amounts, ratios and trends that might indicate matters that have audit implications.
5. Unusual or unexpected relationships that are identified may assist the auditor in identifying ROMM, especially ROMM due to fraud.

Q. What could be the possible reasons for fall in the cost of manufacture or in administrative cost apart from economy of expense?

Answer:

1. There could be no provision or less provision for expenses incurred in the year.
2. When it is suspected, the auditor should compare entries in the outstanding book with those in the PY.

3. He must also check the vouchers for one month immediately before the close of the following years, to verify that none of the expenses in the accounts under audit have been charged to the accounts of the following years.

Q. Often it is possible to independently verify the correctness of some of the items of expenses included in the Statement of Profit and Loss.

- For instance, the cost of importing goods which are subjected to an ad-valorem duty at uniform rate can be verified from the amount of duty paid. Similarly, a quantity of sugar sold by sugar mill can be verified independently from the amount of excise duty/ GST paid.
- Amount of any income or expenses which has a direct relationship with the amount of profits or sales can be verified independently, e.g., commission paid to a manager calculated on the basis of net profits, commission paid to a selling agent as percentage of sales, etc. Such calculation of ratios, trends and comparisons is also termed as analytical review.
- Analytical procedures may help identify the existence of unusual transactions or events, and amounts, ratios, and trends that might indicate matters that have audit implications.
- Unusual or unexpected relationships that are identified may assist the auditor in identifying ROMM, especially ROMM due to fraud.

5. Timing of Analytical Procedures

Analytical procedures in all stages of the audit. Analytical Procedures are required in:

- Planning phase
- Testing phase.
- Completion phase

6. Analytical Procedures in Planning the Audit

In the planning stage, analytical procedures assist the auditor in

- Understanding the client's business
- Identifying areas of potential risk by indicating aspects entity's business of which he was previously unaware.

This info. will assist the auditor in determining the NTE of his other audit procedures.

Analytical procedures in planning the audit use both financial data and non-financial info., such as number of employees, square feet of selling space, volume of goods produced and similar information.

For example, analytical procedures may help the auditor during the planning stage to determine the nature, timing and extent of audit procedures that will be used to obtain audit evidence for specific account balances or classes of transactions.

7. Substantive Analytical Procedures

- Auditor's Substantive procedures at the assertion level may be TOD, SAP, or a combination of both.
- Decision about which audit procedures to perform depends on judgment about the expected effectiveness and efficiency of the procedures to reduce audit risk at assertion level to an acceptably low level.
- Auditor may Inquire mgmt as to the availability and reliability of info. needed to apply SAP, and the results of any such analytical procedures performed by the entity.
- It may be effective to use analytical data prepared by mgmt, provided the auditor is satisfied that such data is properly prepared.

8. Factors to be considered for Substantive Audit Procedure

1. Availability of Data - Availability of reliable and relevant data will facilitate effective analytical procedures.
2. Disaggregation - Degree of disaggregation in available data can directly affect the degree of its usefulness in detecting misstatements.
3. Account Type – SAP are more useful for certain types of accounts than for others. Income statement accounts tend to be more predictable because they reflect accumulated transactions over a period, whereas balance sheet accounts represent the net effect of transactions at a point in time or are subject to greater mgmt judgment.
4. Source - Some classes of transactions tend to be more predictable because they consist of numerous, similar transactions, Whereas the transactions recorded by non-routine and estimation SCOTs (Significant Classes of Transactions) are often subject to mgmt judgment and therefore more difficult to predict.
5. Predictability - SAP are more appropriate when an account balance or relationships between items of data are predictable (e.g., between sales and cost of sales or between trade receivables and cash receipts). A predictable relationship is one that may reasonably be expected to exist and continue over time.
6. Nature of Assertion – SAP may be more effective in providing evidence for some assertions (e.g., completeness or valuation) than for others (e.g., rights and obligations). Predictive analytical procedures using data analytics can be used to address completeness, valuation/measurement and occurrence.
7. Inherent Risk or "What Can Go Wrong" -
   - When we are designing audit procedures to address an inherent risk or "what can go wrong", we consider the nature of the ROMM in order to determine if a SAP can be used to obtain audit evidence.
   - When inherent risk is higher, we may design TOD to address the higher inherent risk.

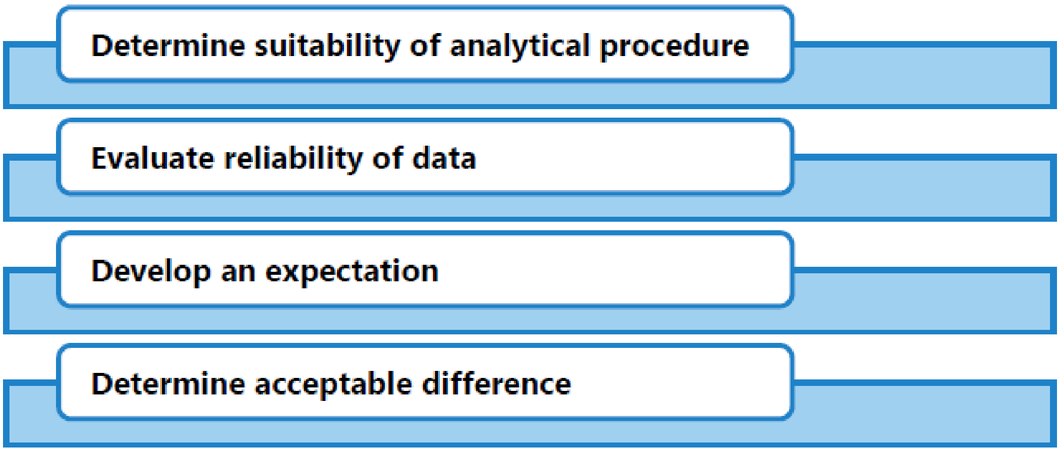
- When significant risks have been identified, audit evidence obtained solely from SAP is unlikely to be sufficient.
- Example: When side agreements with respect to revenue recognition have been identified as a significant or fraud risk, it is unlikely that an analysis of sales compared to cash receipts or cost of sales would be appropriate to respond to that risk.

9. Techniques available as SAP

1. **Trend analysis** - It is the comparison of current data with the prior period balance or with a trend in two or more prior period balances.
   - Auditor evaluates whether the current balance of an account moves in line with the trend established with previous balances for that account, or based on an understanding of factors that may cause the account to change.
   - In other words, trend analysis implies analysing account fluctuations by comparing current year to prior year info. and also to info. derived over several years.
2. **Ratio analysis** - Ratio analysis is useful for analysing asset and liability accounts as well as revenue and expense accounts.
   - An individual balance sheet account is difficult to predict on its own, but its relationship to another account is often more predictable (e.g., the trade receivables balance related to sales).
   - Ratios can also be compared over time or to the ratios of separate entities within the group, or with the ratios of other companies in the same industry.
3. **Reasonableness tests** - Unlike trend analysis, this analytical procedure does not rely on events of prior periods, but upon non-financial data for the audit period under consideration (e.g., occupancy rates to estimate rental income or interest rates to estimate interest income or expense). These tests are generally more applicable to income statement accounts and certain accrual or prepayment accounts.

   For Example:
   - Interest expense against interest bearing obligations
   - Raw Material Consumption to Production (quantity)
   - Wastage & Scrap % against production & raw material consumption (quantity)
   - Work-in-Progress based on issued of materials & Sales (quantity)
   - Sales discounts and commissions against sales volume
   - Rental revenues based on occupancy of premises
4. **Structural modelling** - Modelling tool constructs a statistical model from financial and/or non-financial data of prior accounting periods to predict current account balances (e.g., linear regression).

10. Analytical Procedures used as Substantive Tests



When designing and performing SAP, either alone or in combination with TOD, as substantive procedures in accordance with SA 330, the auditor shall:

1. Determine the suitability of particular SAP for given assertions, taking account of the assessed ROMM and TOD, if any, for these assertions;
2. Evaluate the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed, taking account of source, comparability, and nature and relevance of info. available, and controls over preparation;
3. Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify a misstatement that, individually or when aggregated with other misstatements, may cause the FS to be materially misstated; and
4. Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation.

10.1 Determine Suitability of Analytical Procedure for given Assertion

1. SAP are generally more applicable to large volumes of transactions that tend to be predictable over time.
2. Application of planned analytical procedures is based on the expectation that relationships among data exist and continue in the absence of known conditions to the contrary.
3. However, Suitability of a particular analytical procedure will depend upon the auditor's assessment of how effective it will be in detecting a misstatement that, individually or when aggregated with other misstatements, may cause the FS to be materially misstated.
4. In some cases, even an unsophisticated predictive model may be effective as an analytical procedure.
5. For example: If an entity has a known number of employees at fixed rates of pay throughout the period, it may be possible for the auditor to use this data to estimate the total payroll costs for the period with a high degree of accuracy, thereby providing audit evidence for a significant item in the FS and reducing the need to perform TOD on the payroll. The use of widely recognized trade ratios (such as profit margins for different

types of retail entities) can often be used effectively in SAP to provide evidence to support the reasonableness of recorded amounts.

6. Determination of the suitability of particular substantive analytical procedure is influenced by the nature of the assertion and the auditor's assessment of the ROMM.

10.2 Reliability of Data

The following are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures:

a. Source of the information available. For example, information may be more reliable when it is obtained from independent sources outside the entity;

b. Comparability of the information available. For example, broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialised products;

c. Nature and relevance of the information available. For example, whether budgets have been established as results to be expected rather than as goals to be achieved; and

d. Controls over the preparation of the information that are designed to ensure its completeness, accuracy and validity. For example, controls over the preparation, review and maintenance of budgets.

10.3 Evaluation of whether the Expectation is Sufficiently Precise

Matters relevant to the auditor's evaluation of whether the expectation can be developed sufficiently precisely to identify a misstatement that, when aggregated with other misstatements, may cause the FS to be materially misstated, include:

a. Accuracy with which the expected results of SAP can be predicted. For e.g. auditor may expect greater consistency in comparing gross profit margins from one period to another than in comparing discretionary expenses, such as research or advertising.

b. Degree to which info. can be disaggregated. For e.g. SAP may be more effective when applied to financial info. of specific segments or component of a diversified entity, rather than to FS of the entity as a whole.

c. Availability of the information, both financial and non-financial. For e.g. the auditor may consider whether financial info, such as budgets or forecasts, and non-financial info, such as the number of units produced or sold, is available to design substantive analytical procedures. If the information is available, the auditor may also consider the reliability of the info.

10.4 Amount of diff. b/w recorded amounts vs. expected values that is acceptable

Auditor's determination of the amount of difference from the expectation that can be accepted without further investigation is influenced by:

1. materiality and

2. the consistency with the desired level of assurance

taking into account the possibility that a misstatement, individually or when aggregated with other misstatements, may cause the FS to be materially misstated.

SA 330 states that when auditor assess a higher ROMM, they are required to obtain more persuasive audit evidence.

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

11. Investigating Results of Analytical Procedures

If analytical procedures performed in accordance with SA 520 identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences by:

a. Inquiring of mgmt and obtaining appropriate audit evidence relevant to mgmt's responses: Audit evidence relevant to mgmt's responses may be obtained by evaluating those responses taking into account the auditor's understanding of the entity and its environment, and with other audit evidence obtained during the course of the audit.

b. Performing other audit procedures as necessary in the circumstances: The need to perform other audit procedures may arise when, for example, mgmt is unable to provide an explanation, or the explanation, together with the audit evidence obtained relevant to mgmt's response, is not considered adequate.

12. Analytical Procedures that Assist in Forming an Overall Conclusion

1. Conclusions drawn from the results of analytical procedures are intended to corroborate conclusions formed during the audit of individual components or elements of the FS.
2. Assists the auditor to draw reasonable conclusions on which to base the auditor's opinion.
3. Results of such analytical procedures may identify a previously unrecognised ROMM. In such circumstances, SA 315 requires the auditor to revise the auditor's assessment of the ROMM and modify the further planned audit procedures accordingly.

SA 530

SA 530	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Why Sampling?										
2. Meaning of Audit Sampling										
3. Objective and Scope of SA 530										
4. Population										
5. Sampling Unit										
6. Approaches to Sampling (Type of Sampling)					2				2	

SA 530	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
7. Statistical Sampling - More Scientific										
8. Non-Statistical Sampling										
9. Sampling vs Traditional Method of Auditing					4					
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11.1 Sample Design							3			2
11.1.1 Stratification and Value Weighted Selection										
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14. Nature and cause of Deviations and Misstatements										
15. Projecting Misstatements										
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Total	0	0	7	0	6	4*	3	0	5	6

SA 530 – Audit Sampling

1. Why Sampling?

No conscious effort in human society is divested of economic considerations and auditing is no exception. Explain.

- Traditional approach to audit is economically wasteful because all the efforts are directed to check all transactions without any exception.
- This leads to more emphasis on routine checking, which often is not necessary in view of the time and the cost involved.
- With growing emphasis on formal internal controls in the mgmt of affairs of organisations, the possibilities of routine errors and frauds have greatly diminished i.e. the internal controls as designed by the mgmt are for the very purpose of prevention, detection and correction of frauds and errors.
- Thus, the auditors often find extensive routine checking as nothing more than a ritual because it seldom reveals anything material.

- Now the approach to audit and the extent of checking are undergoing a progressive change in favour of more attention towards the questions of principles and controls with a curtailment (reduction) of nonconsequential routine checking.
- By routine checking we traditionally think of extensive checking and vouching of all the entries, disregarding the concept of materiality.
- Extent of the checking to be undertaken is primarily a matter of judgment of the auditor, there is nothing statutorily stated anywhere which specifies what work is to be done, how it is to be done and to what extent it has to be done.
- "It is also the duty of an auditor to express his opinion on the FS and be held responsible for it."
- To ensure good and reasonable standard of work, he should adopt standards and techniques that can lead him to an informed professional opinion.
- On consideration of this fact, it can be said that it is in the interest of the auditor that if he decides to form his opinion on the basis of a part checking (i.e. sampling), he should adopt standards and techniques which are widely followed and which have a recognised basis.
- Since statistical theory of sampling is based on a scientific law, it can be relied upon to a greater extent than any arbitrary technique which lacks in basis and acceptability.
- This enables the auditor to make conclusions and express fair opinion without having to check all of the items within the FS.

2. Meaning of Audit Sampling

Audit sampling' refers to the application of audit procedures to:

- less than 100% of items
- within a population relevant under the audit,
- such that all sampling units (i.e. all the items in the population) have an equal chance of selection.

in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

3. Objective and Scope of SA 530

Objective of the auditor when using audit sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.

Scope: SA 530 becomes applicable when the auditor has decided to use audit sampling in performing audit procedures. This standard deals with the auditor's use of Statistical and Non-statistical sampling when designing and selecting the:

1. Audit sample,

2. Performing TOC & TOD, and
3. Evaluating the results from the sample

4. Population

Population refers to the entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.

Characteristics of Population

1. Appropriateness:
   a. Auditor need to determine that the population from which the sample is drawn is appropriate for the specific audit objective.
   b. Appropriate means population from which the samples are drawn shall be relevant for the specific objective under audit.
   c. This is because when the samples are drawn, the audit procedures are applied on the sample and the conclusions are projected on the population.
   d. It is important for the auditor to ensure that the population is appropriate to the objective of the audit procedure, which will include consideration of the direction of testing.
   e. For e.g. If the auditor's objective were to test for overstatement of accounts receivable, the population could be defined as the accounts receivable listing. On the other hand, when testing for understatement of accounts payable, the population would not be the accounts payable listing, but rather subsequent payments, suppliers' statements or other populations that would provide audit evidence of understatement of accounts payable.
2. Completeness:
   a. Population also needs to be complete, which means that if the auditor intends to use the sample to draw conclusions about whether a control activity is operated effectively during the financial reporting period, the population needs to include all relevant items i.e. all the activities that form part of that relevant internal control, throughout the entire period.
   b. If population is complete in all respects, the conclusions drawn on the population will be considered to be reasonable.
3. Reliable:
   a. When performing the audit sampling, the auditor performs audit procedures to ensure that the information upon which the audit sampling is performed is sufficiently complete and accurate.
   b. Auditor should obtain evidence about the reliability of population.
   c. If population is not reliable with respect to accuracy and source, the sample drawn will definitely not be relevant for the specific audit objective.

5. Sampling Unit

Individual items that make up the population are known as sampling units. The population can be divided into sampling units in a variety of ways.

For e.g. If the auditor's objective were to test the validity of accounts receivables, the sampling unit could be defined as customer balances or individual customer invoices. Auditor defines the sampling unit in order to obtain an ***efficient and effective*** sample to achieve the particular audit objectives.

Conclusion on the population is based on the audit procedures applied on the sampling unit.

6. Approaches to Sampling (Type of Sampling)

Audit sampling can be applied using either:

a. non-statistical or

b. statistical sampling approaches.

Statistical sampling is an approach to sampling that has:

- random selection of the sample units;
- use of probability theory to evaluate sample results,
- including measurement of sampling risk characteristics.

Sample is chosen by applying certain mathematical and statistical methods.

Non-Statistical Sampling: Sampling approach that does not have the above features is considered as non-statistical sampling.

Sample must be representative:

- Whatever may be the approach, statistical or non-statistical sampling, the sample must be representative.
- It must be closely similar to the whole population although not necessarily exactly the same.
- Sample must be large enough to provide statistically meaningful results.

7. Statistical Sampling - More Scientific

Statistical Sampling is more scientific and appropriate as:

1. Audit testing done through this approach is more scientific than testing based entirely on the auditor's own judgment because it involves use of mathematical laws of probability in determining the appropriate sample size in varying circumstances.
2. Statistical sampling has reasonably wide application where a population to be tested consists of a large number of similar items and more in the case of transactions involving compliance testing, trade receivables confirmation, payroll checking, vouching of invoices and petty cash vouchers.

3. There is no personal bias of the auditor in case of statistical sampling. Since it is scientific, the results of sample can be evaluated and projected on the whole population in a more reliable manner.

In larger organisations, with huge transactions, statistical sampling is always recommended as it is unbiased and the samples selected are not prejudged.

8. Non-Statistical Sampling

- Under this approach, Sample size and composition are determined based on the auditor's personal experience and knowledge.
- This approach has been commonly used for years due to its simplicity in operation.
- Non-statistical sampling is often criticized for being neither objective nor scientific.
- It lacks objectivity because the risk of personal bias in sample selection cannot be eliminated.
- Accuracy or closeness of the sample results to the actual population cannot be measured, since the sample is not selected using statistical methods.
- However, an experienced auditor familiar with the client's business can often make reliable audit decisions based on such samples, even if mathematical proof of accuracy is not available.
- While the method is easy to apply, the sample may not truly represent the entire population due to personal bias and lack of a scientific selection method.

9. Sampling vs Traditional Method of Auditing

1. Audit evidence is rarely conclusive, and even with 100% checking, the auditor may not achieve absolute satisfaction—hence, some calculated risk is always involved.
2. This uneasiness with full checking led auditors to adopt the statistical theory of sampling, allowing them to check only a portion of transactions while still gaining reasonable assurance.
3. Auditors found that satisfaction derived from full checking can also be achieved through sampling, provided it is done properly.
4. It is a mathematical truth that a randomly selected sample reflects the overall features of the population.
5. Sampling works effectively when internal controls are reliable, as they enhance the auditor's confidence in the accuracy of records.
6. Sampling is a key part of TOC, where the auditor evaluates internal controls and their operating effectiveness.
7. Based on the control testing, the auditor decides the sample size for TOD; better controls require smaller samples, while weaker controls require larger samples.

8. Sampling cannot provide complete certainty—it is an estimation process and may involve some level of error, which the auditor must judge as tolerable or not.
9. The decision whether to use a statistical or non-statistical sampling approach is a matter for the auditor's judgement. However, sample size is not a valid criterion to distinguish between statistical and non-statistical approaches.

Factors that should be considered for deciding upon the extent of checking on a sampling plan:

1. Size of the organisation under audit.
2. State of the internal control.
3. Adequacy and reliability of books and records.
4. Tolerable error range.
5. Degree of the desired confidence.

10. Appropriateness / Advantages of Sampling Approaches

Advantages of statistical sampling may be summarized as follows -

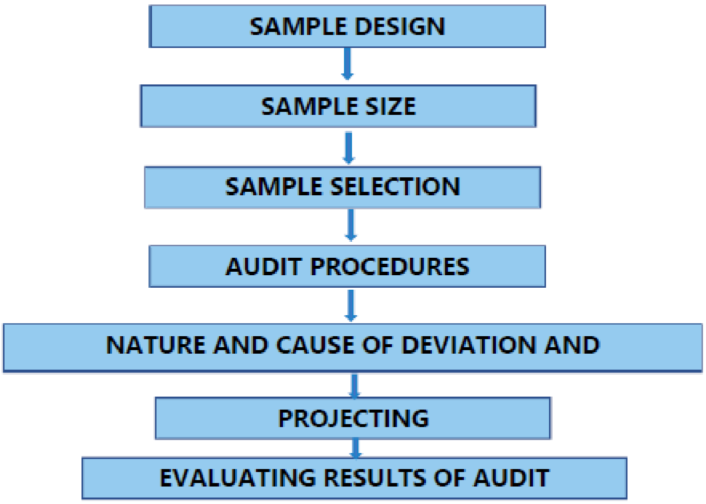
1. Amount of testing (sample size) does not increase in proportion to the increase in the size of the area (universe) tested.
2. Sample selection is more objective and thereby more defensible.
3. Provides a means of estimating the minimum sample size associated with a specified risk and precision.
4. Provides a means for deriving a "calculated risk" and corresponding precision (sampling error) i.e. the probable difference in result due to the use of a sample in lieu of examining all the records in the group (universe), using the same audit procedures.
5. Provide a better description of a large mass of data than a complete examination of all the data, since non-sampling errors such as processing and clerical mistakes are not as large.
6. Widely accepted way of sampling as it is more scientific, without personal bias and the result of sample can be evaluated and projected in more reliable way.

<u>When Statistical Sampling may not be appropriate?</u>

Under some audit circumstances, statistical sampling methods may not be appropriate. The auditor should not attempt to use statistical sampling when:

- Another approach is either necessary or will provide satisfactory information in less time or with less effort. For instance, when exact accuracy is required or in case of legal requirements etc.
- Sometimes the audit staff has no knowledge about sampling technique used, in such circumstances using statistical sampling becomes complex and inappropriate.

11. Sampling Process



The requirements relating to sample design, sample size and selection of items for testing are explained below:

1. Sample design - When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn.
2. Sample Size- Auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level.
3. Selection of Items for Testing- Auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection.

11.1 Sample Design

When designing an audit sample:

1. Auditor's consideration includes the specific purpose to be achieved and combination of audit procedures that is likely to best achieve that purpose.
2. Consideration of the nature of the audit evidence sought and possible deviation or misstatement or other characteristics relating to that audit evidence will assist the auditor in defining what constitutes a deviation or misstatement and what population to use for sampling.
3. In fulfilling the requirement of SA 500 "Audit Evidence", when performing audit sampling, the auditor performs audit procedures to obtain evidence that the population from which the audit sample is drawn is complete.

Auditor's consideration of the purpose of the audit procedure includes a clear understanding of what constitutes a deviation or misstatement so that all, and only, those conditions that are relevant to the purpose of the audit procedure are included in the evaluation of deviations or projection of misstatements.

In considering the characteristics of a population:

- For TOC, the auditor makes an assessment of the expected rate of deviation based on the auditor's understanding of the relevant controls or on the examination of a small number of items from the population. This assessment is made in order to design an audit sample and to determine sample size.
- For TOD, the auditor makes an assessment of the expected misstatement in the population. If the expected misstatement is high, 100% examination or use of a large sample size may be appropriate when performing TOD.

11.1.1 Stratification and Value Weighted Selection

In considering the characteristics of the population from which the sample will be drawn, the auditor may determine that stratification or value-weighted selection is appropriate. SA 530 provides guidance to the auditor on the use of stratification and value-weighted sampling techniques.

Stratification

- Audit efficiency may be improved if the auditor stratifies a population.
- Dividing a population into discrete sub population which have identifying characteristics is called as Stratification.
- Each Sub population is called as Stratum and units under those sub population are referred to as Strata.
- Objective of stratification is to reduce the variability of items within each stratum and therefore allow sample size to be reduced without increasing sampling risk.
- When performing TOD, the population is often stratified by monetary value. This allows greater audit effort to be directed to the larger value items, as these items may contain the greatest potential misstatement in terms of overstatement.
- Similarly, a population may be stratified according to a particular characteristic that indicates a higher risk of misstatement.
- For example, when testing the allowance for doubtful accounts in the valuation of accounts receivable, balances may be stratified by age.

Projection of Misstatement: Stratification

- Results of audit procedures performed on a sample from one stratum can be projected only to that specific stratum.
- To draw a conclusion about the entire population, the auditor must consider ROMM across all other stratas that makes up the entire population.
- Results from each sub-population (or stratum) are projected to their respective stratums.
- In order to draw an opinion on the overall population, the auditor needs to combine the results of all the stratum to check for possible deviation or ROMM.

- Projected misstatements from each stratum are then combined to consider the possible effect of misstatement on account balances and classes of transactions.

Value-Weighted Selection

- When performing TOD, it may be efficient to identify the sampling unit as the individual monetary units that make up the population.
- Having selected specific monetary units from within the population, for example, the accounts receivable balance, the auditor may then examine the particular items, for example, individual balances, that contain those monetary units.
- Benefit of this approach to defining the sampling unit is that audit effort is directed to the larger value items because they have a greater chance of selection, and can result in smaller sample sizes.
- This approach may be used in conjunction with the systematic method of sample selection and is most efficient when selecting items using random selection.
- In value weighted selection, the sample size, its selection and evaluation will result in a conclusion in monetary amounts.

11.2 Sample Size

Factors Influencing Sample Size for TOC

1. Greater reliance on operating effectiveness of controls: Greater is the extent of tests of controls Thus, sample size will increase.
2. Increase in the tolerable rate of deviation: Sample size will decrease, as lower the tolerable rate of deviation, larger the sample size needs to be. Tolerable error is the maximum error in the population that auditor is ready to accept in a given sample size.
3. When there is an increase in the expected rate of deviation of the population to be tested then sample size will increase, as higher the expected rate of deviation, larger the sample size needs to be so that the auditor is in a position to make a reasonable estimate of the actual rate of deviation
4. An increase in the auditor's desired level of assurance that the tolerable rate of deviation is not exceeded by the actual rate of deviation in the population will increase the sample size.
5. Negligible effect on sample size due to increase in the number of sampling units in the population.

Factors Influencing Sample Size for TOD

1. ROMM: Auditor's assessment of the ROMM is affected by inherent risk and control risk. Higher the auditor's assessment of the ROMM, larger the sample size needs to be.
2. More reliance on other substantive procedures (tests of details or substantive analytical procedures) to reduce to an acceptable level the detection risk regarding a particular

population, the less assurance the auditor will require from sampling and, therefore, the smaller the sample size can be.

3. Desired Level of Assurance: Increase in the auditor's desired level of assurance that tolerable misstatement is not exceeded by actual misstatement in the population will increase the sample size. Hence, greater the level of assurance the auditor requires that the results of the sample are representative (indicative) of the actual misstatement in the population, the larger the sample size must be.
4. An increase in tolerable misstatement will decrease the sample size as lower the tolerable misstatement, the larger the sample size needs to be.
5. Greater the amount of misstatement the auditor expects to find in the population, the larger the sample size needs to be in order to make a reasonable estimate of the actual amount of misstatement in the population.
6. When stratification of the population is appropriate then sample size will decrease as when there is a wide range (variability) in the monetary size of items in the population, it may be useful to stratify the population.
7. No. of sampling units: Negligible effect on sample size for large populations.

11.3 Selection of Items for Testing

Auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection.

- With statistical sampling, sample items are selected in a way that each sampling unit has a known probability of being selected
- With non-statistical sampling, judgment is used to select sample items.

Purpose of sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected, it is important that the auditor selects a representative sample, so that bias is avoided, by choosing sample items which have characteristics typical of the population.

12. Sample Selection Methods

1. Random Sampling
   - Simple Random Sampling
   - Stratified Sampling
2. Systematic Sampling
3. Monetary Unit Sampling
4. Haphazard Sampling
5. Block Sampling

12.1 Random Sampling

Random selection ensures that all items in the population or within each stratum have a known chance of selection. It may involve use of random number tables.

Random sampling includes two very popular methods which are discussed below:

Simple Random Sampling:

1. Each unit of the whole population has an equal chance of being selected.
2. Considered simple and easy to use and also provide assurance that the auditors' bias does not affect the selection.
3. Each item in a population is selected by use of random number table either with a help of computer or picking up a number in a random way (may be randomly from a drum).
4. Random numbers are also generated using various applications on the cell phones like the random number generator.
5. This method is considered appropriate provided the population to be sampled consists of reasonably similar units and fall within a reasonable range i.e. it is suitable for a homogeneous population having a similar range.

Stratified Sampling:

1. This method involves dividing the whole population to be tested in a few separate groups called strata and taking a sample from each of them.
2. Each stratum is treated as if it was a separate population and proportionate of items are selected from each of these stratums.
3. No. of groups into which the whole population has to be divided is determined on the basis of auditor judgment.
4. Random sample is chosen from each stratum using random number tables.
5. "Reasoning behind the stratified sampling is that for a highly diversified population, weights should be allocated to different stratas and different proportions are selected from each strata."
6. Stratification means dividing heterogeneous (Diversified) population into Homogeneous (having similar characteristics) sub population, where samples are drawn from each sub population

12.2 Interval or Systematic Sampling

Systematic selection is a selection method in which the number of sampling units in the population as divided by the sample size to give a sampling interval.

Although the starting point may be determined haphazardly, the sample is more likely to be truly random if it is determined by use of a computerized random number generator or random number tables.

When using systematic selection, the auditor would need to determine that sampling units within the population are not structured in such a way that the sampling interval corresponds with a particular pattern in the population.

The multiple random starting point is taken because it minimises the risk of interval sampling pattern with that of the population being sampled.

12.3 Monetary Unit Sampling

It is a type of value-weighted selection in which sample size, selection and evaluation results in a conclusion in monetary amounts.

12.4 Haphazard Sampling

Auditor selects the sample without following a structured technique. Although no structured technique is used, the auditor would nonetheless avoid any conscious bias or predictability (for example, avoiding difficult to locate items, or always choosing or avoiding the first or last entries on a page) and thus attempt to ensure that all items in the population have a chance of selection. It is not appropriate when using statistical sampling.

12.5 Block Sampling

- ✓ Involves selection of a block(s) of contiguous items from within the population.
- ✓ Block selection cannot ordinarily be used in audit sampling because most populations are structured such that items in a sequence can be expected to have similar characteristics to each other, but different characteristics from items elsewhere in the population.
- ✓ Although in some circumstances it may be an appropriate audit procedure to examine a block of items, it would rarely be an appropriate sample selection technique when the auditor intends to draw valid inferences about the entire population based on the sample.
- ✓ Usually, a range of continuous transaction shall have similar characteristics, therefore, selection of a group at one time will not give a reasonable basis for opinion on the overall population as different types of transactions and unusual transactions may not be covered in the group taken all at once.
- ✓ There is a close similarity between this method and non-statistical sampling. Consequently, it has similar characteristics, namely, simplicity and economy. On the other hand, there is a risk of bias and of establishing a pattern of selection which may be noted by the auditees.
- ✓ For Example: Take the first 200 sales invoices from the sales day book in the month of September; alternatively take any four blocks of 50 sales invoices. Therefore, once the first item in the block is selected, the rest of the block follows items to the completion.

13. Performing Audit Procedures

Auditor shall perform audit procedures, appropriate to the purpose, on each item selected.

1. If the audit procedure is not applicable to the selected item, the auditor shall perform the procedure on a replacement item.

   Example:

   a. Cancelled cheque is selected for evidence of payment authorisation. If the auditor is satisfied that the check has been properly cancelled such that it does not constitute a deviation, an appropriately chosen replacement is examined. Replacement would then mean a proper and valid cheque through which payment has been made.

   b. If all transactions of computerised sales are being checked to test the effectiveness of computerised system, for example sales recorded through a bar code scanner, and incidentally a sample of manual billing gets selected, then such item can be replaced after adequately checking the correctness of the manual bill with the supporting documents available. If replacement is not possible or reasonable, alternative audit procedure can be applied.

2. If the auditor is unable to apply designed audit procedures, or suitable alternative procedures, to a selected item, the auditor shall treat that item as a deviation from the prescribed control, in the case of TOC, or a misstatement, in the case of TOD.

   Example

   a. If the documentation of a sales is lost, like the sales order record, sales invoice, etc., then confirmation can be sought from the debtor as per SA 505. If it is a cash sale, the cash book can be cross verified for the existence of such transactions.

   b. If no response is received to confirmation request, the auditor should examine subsequent cash receipts, along with supporting evidence that clearly identifies the source of the payment and specific items being settled.

14. Nature and cause of Deviations and Misstatements

1. Auditor shall investigate the nature and causes of any deviations or misstatements identified, and evaluate their possible effect on the purpose of the audit procedure and on other areas of the audit.
2. In analysing the deviations and misstatements identified, the auditor may observe that many have a common feature, for example, type of transaction, location, product line or period of time.
3. In such circumstances, the auditor may decide to identify all items in the population that possess the common feature, and extend audit procedures to those items. Such deviations or misstatements may be intentional, and may indicate the possibility of fraud.
4. In the extremely rare circumstances when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a high degree of certainty that such misstatement or deviation is not representative of the population.

5. Auditor shall obtain this degree of certainty by performing additional audit procedures to obtain SAAE that the misstatement or deviation does not affect the remainder of the population.
6. Anomaly may be defined as a misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population.

15. Projecting Misstatements

1. Auditor is required to project misstatements for the population to obtain a broad view of the scale of misstatement but this projection may not be sufficient to determine an amount to be recorded.
2. When a misstatement has been established as an anomaly, it may be excluded when projecting misstatements to the population. However, the effect of any such misstatement, if uncorrected, still needs to be considered in addition to the projection of the non-anomalous misstatements.
3. For TOD, the auditor shall project misstatements found in the sample to the population whereas for TOC, no explicit projection of deviations is necessary since the sample deviation rate is also the projected deviation rate for the population as a whole.

16. Evaluating Results of Audit Sampling

Auditor shall evaluate:

(a) Results of the sample; and

(b) Whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.

17. Important Terms

Tolerable misstatement - Monetary amount set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the monetary amount set by the auditor is not exceeded by the actual misstatement in the population.

Tolerable rate of deviation - Rate of deviation from prescribed internal control procedures set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the rate of deviation set by the auditor is not exceeded by the actual rate of deviation in the population.

18. One-off Question

CA B is appointed as an auditor of M/s. Divine Pharmacy, a wholesale medicine supplier. While auditing for the financial year 2020-21, CA B wants to use test checking technique. Advise CA B, what kind of precautions should be taken by him in this regard.

Answer:

While auditing the accounts of Divine Pharmacy, CA B wanted to use Test Checking technique. The following Precautions should to be taken by CA B while applying test check techniques:

- Thorough study of accounting system should be done before adopting sampling
- Proper study of internal control systems.
- Areas which are not suitable for sampling should be carefully considered. e.g.: compliance with statutory provisions, transactions of unusual nature etc.
- Proper planning for Sampling methods to be used and explaining the staff,
- Transactions and balances have to be properly classified (stratified)
- Sample size should be appropriately determined.
- Sample should be chosen in unbiased way,
- Errors located in the sample should be analysed properly.

SA 550

SA 550	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Definition of Related Parties										
2. Meaning of Control and Significant Influence in reference to related party										
3. Other Definitions										
4. Why RPT Carry Higher ROMM than Unrelated Party Transactions?					3					
5. Understanding the Entity's Related Party Relationships & Transactions										
6. Considerations specific to smaller entities by the auditor										
7. How can an auditor verify the existence of RPR & RPT?		2								
Total	0	2	0	0	3	0	0	4*	0	0

SA 550 - Related Parties

1. Definition of Related Parties

Definition of Related Parties:

A party that is either

1. A related party (RP) as defined in the applicable FRF; or
2. Where applicable FRF establishes minimal or no related party requirements:

a. A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity;

b. Another entity over which the reporting entity has control or significant influence, directly or indirectly through one or more intermediaries; or

c. Another entity that is under common control with the reporting entity through having:

- Common controlling ownership;
- Owners who are close family members; or
- Common key mgmt

Exception - However, entities that are under common control by a state (i.e., a national, regional or local government) are not considered related unless they engage in significant transactions or share resources to a significant extent with one another.

2. Meaning of Control and Significant Influence in reference to related party

Many FRF discuss the concepts of control and significant influence. They generally explain that:

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

b. Significant influence (which may be gained by share ownership, statute or agreement) is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

The existence of the following relationships may indicate the presence of control or significant influence: Same as covered in Definition above.

3. Other Definitions

Related Parties with Dominant Influence - Related parties having ability to exert control or significant influence, may exert dominant influence over the entity or its mgmt Relevant while assessing ROMM due to fraud.

Special-Purpose Entities as Related Parties - In some circumstances, a special-purpose entity may be a related party of the entity because the entity may in substance control it, even if the entity owns little or none of the special- purpose entity's equity.

4. Why RPT Carry Higher ROMM than Unrelated Party Transactions?

Many RPT are in the normal course of business. In such circumstances, they may carry no higher ROMM of the FS than similar transactions with unrelated parties.

However, the nature of related party relationships and transactions may, in some circumstances, give rise to higher ROMM of the FS than transactions with unrelated parties.

For Example:

1. Related Parties may operate through an extensive and complex range of relationships and structures, with a corresponding increase in the complexity of RPT.
2. Information systems may be ineffective at identifying or summarising transactions and outstanding balances between an entity and its related parties.
3. RPT may not be conducted under normal market terms and conditions; for example, some RPT may be conducted with no exchange of consideration.

5. Understanding the Entity's Related Party Relationships & Transactions

The auditor shall inquire of mgmt regarding:

1. Identity of the entity's related parties, including changes from the prior period;
2. Nature of the relationships between the entity and these related parties; and
3. Whether the entity entered into any transactions with these related parties during the period and, if so, the type and purpose of the transactions.

The auditor shall inquire of mgmt and others within the entity, and perform other RAP considered appropriate, to obtain an understanding of the controls, if any, that mgmt has established to:

1. Identify, account for, & disclose RPR and RPT as per applicable FRF;
2. Authorise and approve significant transactions and arrangements with related parties;
3. Authorise and approve significant transactions and arrangements outside the normal course of business.

6. Considerations specific to smaller entities by the auditor

There might be no TCWG and Owner Manager actively involves in transactions.

For such entities, the auditor may obtain an understanding of the RPR & RPT, and any controls that may exist over these, through inquiry of mgmt combined with other procedures, such as observation of mgmt's oversight and review activities, and inspection of available relevant documentation.

7. How can an auditor verify the existence of RPR & RPT?

During the audit, the auditor should maintain alertness for related party information while reviewing records and documents. Auditor may inspect the following records or documents that may provide information about related party relationships and transactions, for example:

1. Entity ITR
2. Records of the entity's investments.
3. Info. supplied by the entity to regulatory authorities.
4. Shareholder registers to identify the entity's principal shareholders.

5. Documents associated with the entity's filings with a securities regulator e.g., prospect uses)
6. Statements of conflicts of interest from mgmt and TCWG.
7. Specific invoices and correspondence from the entity's professional advisors.
8. Contracts and agreements with key mgmt or TCWG.
9. Significant contracts and agreements not in the entity's ordinary course of business.
10. Significant contracts re-negotiated by the entity during the period.
11. Internal auditors' reports.
12. Life insurance policies acquired by the entity.

SA 610

SA 610	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Definition of Internal Audit Function										
2. Ways in which EA may make use of the IAF for purposes of the audit										
3. Objective: SA 610		**2**								
4. Scope of SA 610										
5. External Auditor Responsibility for Audit		**1**								
6. Evaluating the Internal Audit Function		**2**								
6.1 Objectivity and Competence may be viewed as a continuum										
6.2 Circumstances When Work of the IAF Cannot Be Used										
6.3 Determining the Nature and Extent of Work of IAF that Can Be Used										
6.4 Circumstances in which the EA shall plan to use less of the work of the IAF and perform more of the work directly										
6.5 If EA plants to use the Work of IAF				**3**						
7. Determining Whether, in which areas and to what extent Internal Auditors can be used to provide Direct Assistance										
Total	**0**	**5**	**0**	**3**	**Na**	**Na**	**Na**	**Na**	**Na**	**Na**

SA 610: Using the Work of Internal Auditors

1. Definition of Internal Audit Function

Internal audit function (IAF) refers to a function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk mgmt and internal control processes.

1. Activities Relating to Governance: Assess the governance process in its accomplishment of objectives on ethics and values, performance mgmt & accountability, communicating risk and control information to appropriate areas of the entity & effectiveness of communication among those TCWG, external & internal auditors, & mgmt.
2. Activities Relating to Risk Mgmt: Assist the entity by identifying and evaluating significant exposures to risk and contributing to the improvement of risk mgmt and internal control The IAF may perform procedures to assist the entity in the detection of fraud.
3. Activities Relating to Internal Control:
    a. Evaluation of internal control: IAF may be assigned specific responsibility for reviewing controls, evaluating their operation, and recommending improvements thereto. In doing so, the internal audit function provides assurance on the control.
    b. Examination of financial and operating information: IAF may be assigned to review the means used to identify, recognize, measure, classify and report financial and operating information, and to make specific inquiry into individual items, including detailed testing of transactions, balances and procedures.
    c. Review of operating activities: IAF may be assigned to review the economy, efficiency and effectiveness of operating activities, including non- financial activities of an entity.
    d. Review of compliance with laws and regulations: IAF may be assigned to review compliance with laws, regulations, and other external requirements, and with mgmt policies and directives and other internal requirements.

2. Ways in which EA may make use of the IAF for purposes of the Audit

While the objectives of an entity's IAF and the EA differ, the function may perform audit procedures similar to those performed by the EA in an audit of FS.

If so, EA may make use of the function for purposes of the audit in one or more of the following ways:

1. To obtain information that is relevant to the EA's assessments of the ROMM due to error or fraud.
2. Unless prohibited, or restricted to some extent, by law or regulation, EA, after appropriate evaluation, may decide to use work that has been performed by the IAF during the period in partial substitution for audit evidence to be obtained directly by the EA.

3. Unless prohibited, or restricted to some extent, by law or regulation, EA may use Internal Auditor to perform audit procedures under the DSR of the external auditor (referred to as "direct assistance").

3. Objective: SA 610

Objectives of the EA, where the entity has an IAF and the EA expects to use the work of the function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the EA, or to use internal auditors to provide direct assistance, are:

a. To determine whether the work of the IAF or direct assistance from internal auditors can be used, and if so, in which areas and to what extent; and having made that determination:

b. If using the work of the IAF, to determine whether that work is adequate for purposes of the audit; and

c. If using internal auditors to provide direct assistance, to appropriately direct, supervise and review their work.

4. Scope of SA 610

SA 610 deals with the EA's responsibilities if using the work of internal auditors. This includes:

a. Using the work of the IAF in obtaining audit evidence and

b. Using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor.

Note: No impact on NTE of audit procedures to be performed directly by the EA - remains decision of EA.

5. External Auditor Responsibility for Audit

"EA has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the EA's use of the work of the IAF or internal auditors to provide direct assistance on the engagement."

Although they may perform audit procedures similar to those performed by the EA, neither the IAF nor the internal auditors are independent of the entity as is required of the external auditor in an audit of FS in accordance with SA 200.

SA 610, therefore, defines the conditions that are necessary for the EA to be able to use the work of internal auditors.

It also defines the necessary work effort to obtain sufficient appropriate evidence that the work of the IAF, or internal auditors providing direct assistance, is adequate for the purposes of the audit.

Requirements are designed to provide a framework for the EA's judgments regarding the use of the work of internal auditors to prevent over or undue use of such work.

6. Evaluating the Internal Audit Function

EA shall determine whether the work of the IAF can be used for purposes of the audit by evaluating the following:

A. Extent to which the IAF's organisational status and relevant policies and procedures support the objectivity of the internal auditors;

B. Level of competence of the internal audit function; and

C. Whether the IAF applies a systematic and disciplined approach, including quality control.

A. Objectivity and its evaluation

Objectivity refers to the ability to perform those tasks without allowing bias, conflict of interest or undue influence of others to override professional judgments.

Factors that may affect the EA's evaluation in relation to objectivity includes:

1. Whether the organisational status of the IAF, including the function's authority and accountability, supports the ability of the function to be free from bias, conflict of interest or undue influence of others to override professional judgments.
2. Whether TCWG oversee employment decisions related to the internal audit function.
3. Whether there are any constraints or restrictions placed on the IAF by mgmt or TCWG, for example, in communicating the internal audit function's findings to the external auditor.
4. Whether the IAF is free of any conflicting responsibilities, for e.g., having managerial or operational duties or responsibilities that are outside of IAF.

B. Competence and its evaluation

Competence of the IAF refers to the attainment and maintenance of knowledge and skills of the function as a whole at the level required to enable assigned tasks to be performed diligently and in accordance with applicable professional standards.

Factors that may affect the EA's determination in relation to competence:

1. Whether the IAF is adequately and appropriately resourced relative to the size of the entity and the nature of its operations.
2. Whether there are established policies for hiring, training and assigning internal auditors to internal audit engagements.
3. Whether the IA have adequate technical training and proficiency in auditing.
4. Whether the internal auditors possess the required knowledge relating to the entity's financial reporting and the applicable FRF.

C. Application of a Systematic and Disciplined Approach

Application of a systematic and disciplined approach to planning, performing, supervising, reviewing and documenting its activities distinguishes the activities of the internal audit function from other monitoring control activities that may be performed within the entity.

Factors that may affect the EA's determination of whether the IAF applies a systematic and disciplined approach include the following:

1. Existence, adequacy and use of documented internal audit procedures or guidance covering such areas as risk assessments, work programs, documentation and reporting, the nature and extent of which is commensurate with the size and circumstances of an entity.
2. Whether the IAF has appropriate quality control policies and procedures.

6.1 Objectivity and Competence may be viewed as a continuum

The more the IAF organizational status and relevant policies and procedures adequately support the objectivity of the IA and the higher the level of competence of the function, the more likely the EA may make use of the work of the function and in more areas.

However, an organizational status and relevant policies and procedures that provide strong support for the objectivity of the IA cannot compensate for the lack of sufficient competence of the IAF. Equally, a high level of competence of the IAF cannot compensate for an organisational status and policies and procedures that do not adequately support the objectivity of the IA.

6.2 Circumstances When Work of the IAF Cannot Be Used

EA shall not use the work of the IAF if the EA determines that:

a. Function's organizational status and relevant policies and procedures do not adequately support the objectivity of internal auditors;

b. Function lacks sufficient competence; or

c. Function does not apply a systematic and disciplined approach, including quality control.

6.3 Determining the Nature and Extent of work of IAF that CAN be Used

EA shall consider the nature and scope of the work that has been performed, or is planned to be performed by the IAF and its relevance to the EA overall audit strategy and audit plan.

Examples of work of the IAF that can be used by the EA include:

1. Testing of the operating effectiveness of controls.
2. Substantive procedures involving limited judgment.
3. Observations of inventory counts.
4. Tracing transactions through the information system relevant to financial reporting.
5. Testing of compliance with regulatory requirements.

6.4 Circumstances in which the EA shall plan to use less of the work of the IAF and perform more of the work directly

1. The more judgment is involved in:
   - Planning and performing relevant audit procedures; and
   - Evaluating the audit evidence gathered;
2. Higher the assessed ROMM at the assertion level, with special consideration given to risks identified as significant;
3. The less the IAF's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors; and
4. Lower the level of competence of the IAF.

6.5 If EA plants to use the Work of IAF

A. Discuss the planned use of its work with the function as a basis for coordinating their respective activities.

B. Read the reports of the IAF relating to the work of the function that the external auditor plans to use to obtain an understanding of the nature and extent of audit procedures it performed and the related findings.

C. Perform sufficient audit procedures on the body of work of the IAF as a whole that the EA plans to use to determine its adequacy for purposes of the audit.

Discussion and Coordination with the Internal Audit Function:

- Timing of such work.
- Nature of the work performed.
- Extent of audit coverage.
- Materiality for the FS as a whole and performance materiality.
- Proposed methods of item selection and sample sizes.
- Documentation of the work performed.
- Review and reporting procedures.

Coordination between the EA and the IAF is effective when, for example;

1. Discussions take place at appropriate intervals throughout the period.
2. EA informs the IAF of significant matters that may affect the function.
3. EA is advised of and has access to relevant reports of the IAF and is informed of any significant matters that come to the attention of the function when such matters may affect the work of the EA so that the EA is able to consider the implications of such matters for the audit engagement.

7. Determining Whether and in which areas and to what extent Internal Auditors can be used to provide Direct Assistance

Direct assistance refers to the use of internal auditors to perform audit procedures under the direction, supervision and review of the EA.

EA may be prohibited by L& R from obtaining direct assistance from internal auditors.

If not prohibited by law or regulation, and the EA plans to use internal auditors to provide direct assistance on the audit, the EA shall evaluate:

- existence and significance of threats to objectivity and
- the level of competence of the internal auditors.

The external auditor shall not use an internal auditor to provide direct assistance if:

a. There are significant threats to the objectivity of the internal auditor; or
b. The internal auditor lacks sufficient competence to perform the proposed work.

EA shall not use internal auditors to provide direct assistance to perform procedures that:

a. Involve making significant judgments in the audit;
b. Relate to higher assessed ROMM, where the judgment required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited;
c. Relate to work with which the internal auditors have been involved and which has already been, or will be, reported to mgmt or TCWG by the IAF; or
d. Relate to decisions the external auditor makes in accordance with this SA regarding the internal audit function and the use of its work or direct assistance.

Prior to using internal auditors to provide direct assistance for purposes of the audit, the external auditor shall:

a. Obtain written agreement from an authorized representative of the entity that the internal auditors will be allowed to follow the EA's instructions, and that the entity will not intervene in the work the internal auditor performs for the external auditor; and
b. Obtain written agreement from the internal auditors that they will keep confidential specific matters as instructed by the external auditor and inform the external auditor of any threat to their objectivity.

SA 230

SA 230 - Chapter 6	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Objective of SA 230										
2. Definition of Audit Documentation										
3. Nature of Audit Documentation										

SA 230 - Chapter 6	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
4. Examples of Audit Documentation			6							
5. Purpose/Importance of Audit Documentation							3			
6. Form, Content and Extent of Audit Documentation										
7. Documentation of Significant Matters and Related Significant PJ									3	
8. Timely Preparation of Audit Documentation										
9. Audit File										
10. Assembly of Audit File	2			3			2			
11. Completion Memorandum	2									
12. Ownership of Audit Documentation										
Total	4	0	6	3	0	0	5	0	3	4*

SA 230 – Audit Documentation

1. Objective of SA 230

Objective of the auditor is to prepare documentation that provides:

- Sufficient and appropriate record of the basis for the auditor's report; and
- Evidence that the audit was planned and performed in accordance with SAs and applicable L&R requirements.

2. Definition of Audit Documentation

Audit Documentation refers to the record of:

- audit procedures performed,
- relevant audit evidence obtained, and
- conclusions the auditor reached.

Terms such as "working papers" or "work papers" are also sometimes used.

3. Nature of Audit Documentation

Audit documentation provides:

- evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and
- evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

4. Examples of Audit Documentation

As per SA 230, Audit documentation may be recorded on paper or on electronic or other media.

- Audit programmes
- Analyses
- Issues memoranda
- Summaries of significant matters
- Letters of confirmation and representation
- Checklists
- Correspondence (including e-mail) concerning significant matters

Auditor may include copies of the entity's records (for example, significant and specific contracts and agreements) as part of audit documentation. Audit documentation is not a substitute for the entity's accounting records.

What need not to be included?

Auditor need not include in audit documentation:

1. Superseded drafts of working papers and
2. Financial statements, notes that reflect incomplete or preliminary thinking,
3. Previous copies of documents corrected for typographical or other errors, and
4. Duplicates of documents.

5. Purpose/Importance of Audit Documentation

Audit documentation serves a number of purposes:

a. Assists the engagement team to plan and perform the audit.
b. Assists members of the engagement team responsible for supervision to direct, supervise and review the audit work
c. Enables the engagement team to be accountable for its work.
d. Retains a record of matters of continuing significance to future audits.
e. Enables the quality control reviews and inspections to be performed.
f. Enables the external quality inspections to be performed.

6. Form, Content and Extent of Audit Documentation

Auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

1. Nature, timing and extent of the audit procedures performed.

- The identifying characteristics of the specific items or matters tested.
- Who performed the audit work and the date such work was completed; and
- Who reviewed the audit work performed and the date and extent of such review.

2. Results of the audit procedures performed and the audit evidence obtained.
3. Significant matters arising during the audit and the conclusions reached thereon and significant PJs made in reaching those conclusions.
   - Auditor shall document discussions of significant matters with mgmt, TCWG, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.
   - If the auditor identified information that is inconsistent with the auditor's final conclusion, the auditor shall document how the auditor addressed the inconsistency.

Form, content and extent of audit documentation depend on factors such as:

1. Size and complexity of the entity.
2. Nature of the audit procedures to be performed.
3. Identified risks of material misstatement.
4. Significance of the audit evidence obtained.
5. Nature and extent of exceptions identified.
6. Audit methodology and tools used.
7. Need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.

7. Documentation of Significant Matters and Related Significant PJ

Documentation of Significant Matters

Judging the significance of a matter requires an objective analysis of the facts and circumstances.

Examples of significant matters include:

- Matters that give rise to significant risks.
- Results of audit procedures indicating
  a. that the FS could be materially misstated, or
  b. a need to revise the auditor's previous assessment of the ROMM and the auditor's responses to those risks.
- Circumstances that cause the auditor significant difficulty in applying necessary audit procedures.

- Findings that could result in a modification to the audit opinion or the inclusion of an Emphasis of Matter Paragraph in the auditor's report.

An important factor in determining the form, content and extent of audit documentation of significant matters is the extent of professional judgment exercised in performing the work and evaluating the results.

Document of matters relating to use of Professional Judgement

Documentation of the professional judgments made, where significant, serves to explain the auditor's conclusions and to reinforce the quality of the judgment.

Such matters are of particular interest to those responsible for reviewing audit documentation, including those carrying out subsequent audits, when reviewing matters of continuing significance **(for example**, when performing a retrospective review of accounting estimates).

Some e.g. of circumstances in which it is appropriate to prepare audit documentation relating to the use of PJ include, where the matters and judgements are significant:

1. Rationale for the auditor's conclusion when a requirement provides that the auditor 'shall consider' certain information or factors, and that consideration is significant in the context of the particular engagement.
2. Basis for the auditor's conclusion on the reasonableness of areas of subjective judgements.
3. Basis for the auditor's conclusions about the authenticity of a document when further investigation is undertaken in response to conditions identified during the audit that caused the auditor to believe that the document may not be authentic.

8. Timely Preparation of Audit Documentation

The auditor shall prepare audit documentation on a timely basis. Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalised.

Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.

9. Audit File

Audit file may be defined as one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.

10. Assembly of Audit File

Auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.

1. SQC 1 requires firms to establish policies and procedures for the timely completion of the assembly of audit files.
2. An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.
3. Completion of the assembly of the final audit file after the date of the auditor's report is an administrative process that does not involve the performance of new audit procedures or the drawing of new conclusions. Changes may, however, be made to the audit documentation during the final assembly process, if they are administrative in nature.
4. Examples of such changes include:
   a. Deleting or discarding superseded documentation.
   b. Sorting, collating and cross-referencing working papers.
   c. Signing off on completion checklists relating to the file assembly process.
   d. Documenting audit evidence that the auditor has obtained, discussed and agreed with the relevant members of the engagement team before the date of the auditor's report.
5. After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.
6. SQC 1 requires firms to establish policies and procedures for the retention of engagement documentation. The retention period for audit engagements ordinarily is no shorter than 7 years from the date of the auditor's report, or, if later, the date of the group auditor's report.

11. Completion Memorandum

Auditor may consider it helpful to prepare and retain as part of the audit documentation a summary (sometimes known as a completion memorandum) that describes:

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

Advantages:

1. Such a Summary facilitate effective and efficient review and inspection of the audit documentation, particularly for large and complex audits.
2. Assist auditor's consideration of the significant matters.
3. It may also help the auditor to consider whether there is any individual relevant SA objective that the auditor cannot achieve that would prevent the auditor from achieving the overall objectives of the auditor.

12. Ownership of Audit Documentation

SQC 1 provides that, unless otherwise specified by law or regulation, audit documentation is the property of the auditor.

Auditor may at his discretion, make portions of, or extracts from, audit documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the auditor or of his personnel.

Chapter 7

Overall Summary

Topics	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
SA 560	0	2	4	0	0	0	0	0	0	4
SA 570	5	7	4	0	0	4	0	0	0	0
SA 580	7	0	2	4	0	0	0	0	4	0
SA 450	0	0	0	3						
SA 260	0	5	0	0						
SA 265	0	0	4	0	3					
Total	12	14	14	7	3	4	0	0	4	4
ICAI Weightage	8% to 12%									

SA 560

SA 560	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Subsequent Events										
2. Objective SA 560										
3. Meaning of Date of Financial Statements										
4. Audit Procedures for Subsequent Events		2	4							4
5. Facts which become known to the auditor after the date of the auditor's report but before the date the FS are issued										
6. Facts which become known to the auditor After the FS have been issued										
Total	0	2	4	0	0	0	0	0	0	4

SA 560: Subsequent Events (Cover Summary from ICAI Module)

1.Subsequent Events

SA 560, "Subsequent Events" deals with the auditor's responsibilities relating to subsequent events in an audit of FS.

Events occurring between the date of the FS and the date of the auditor's report and facts that become known to the auditor after the date of the auditor's report are known as subsequent events.

FRF ordinarily identify two types of events:

1. Those that provide evidence of conditions that existed at the date of the FS and

2. Those that provide evidence of conditions that arose after the date of the FS.

Examples of events providing evidence of conditions that existed at the date of the FS:

✓ Declaration of insolvency of a major debtor of the entity between the date of FS and the date of auditor's report providing evidence on the recoverability of the money due from debtor as on date of the FS.

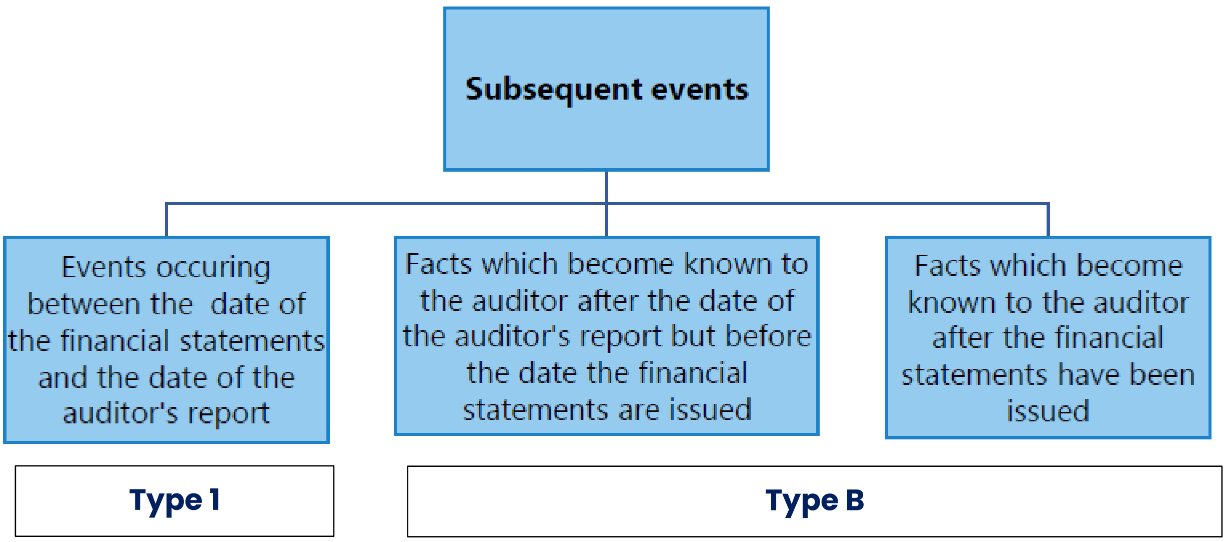
✓ Settling a legal claim outside the court at a reduced amount between the date of FS and the date of auditor's report for which provision has already been made in FS. It provides evidence on adjustment in provision amount already made in FS, if any.

Examples of events providing evidence of conditions that arose after the date of the FS:

✓ Issue of new share capital.

✓ Planned merger of the company.

✓ Destruction of substantial inventories due to fire between the date of the FS and the date of auditor's report.



2. Objective SA 560

Objective of Auditor are to:

a. Obtain SAAE about whether events occurring between the date of the FS and the date of the auditor's report that require adjustment of, or disclosure in, the FS are appropriately reflected in those FS. (Type A)

b. Respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report. (Type B)

3. Meaning of Date of Financial Statements are Issued

- Reflects the date that the auditor's report and audited FS are made available to 3rd parties.

- The date, the FS are issued generally depends on the regulatory environment of the entity.
- In some circumstances, the "date the FS are issued" may be the date that they are filed with a regulatory authority.
- Audited FS can't be issued without the auditor's report. So, the date of issuing the FS be on or after both:
  - ✓ the date of the auditor's report, and
  - ✓ the date the auditor's report is given to the entity.

4. Type A: Audit Procedures for Subsequent Events

Auditor shall perform audit procedures designed to obtain SAAE that all events occurring between the date of the FS and the date of the auditor's report that require adjustment of, or disclosure in, the FS have been identified.

Auditor shall take into account the auditor's risk assessment in determining the nature and extent of such audit procedures include the following:

a. Obtaining an understanding of any procedures mgmt has established to ensure that subsequent events are identified.

b. Inquiring of mgmt and TCWG as to whether any subsequent events have occurred which might affect the FS.

c. Reading minutes, if any, of the meetings, of the entity's owners, mgmt and TCWG, that have been held after the date of the FS and inquiring about matters discussed at any such meetings for which minutes are not yet available.

d. Reading the entity's latest subsequent interim FS, if any.
   - Such info may also be obtained by auditor from accounting records pertaining to period after date of FS, reading entity's latest available budgets etc.
   - When, as a result of the procedures performed, the auditor identifies events that require adjustment of, or disclosure in, the FS, the auditor shall determine whether each such event is appropriately reflected in those FS.
   - Auditor shall request mgmt and, where appropriate, TCWG, to provide a written representation in accordance with SA 580, that all events occurring subsequent to the date of the FS and for which the applicable FRF requires adjustment or disclosure have been adjusted or disclosed.

5. Type B – Case I: Facts which become known to the auditor after the date of the auditor's report but before the date the FS are issued

Auditor has no obligation to perform any audit procedures regarding the FS after the date of the auditor's report.

However, when, after the date of the auditor's report but before the date the FS are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:

a. Discuss the matter with mgmt and, where appropriate, TCWG

b. Determine whether the FS need amendment and, if so,

c. Inquire how mgmt intends to address the matter in the FS

If mgmt amends the FS, the auditor shall:

a. Carry out the audit procedures necessary in the circumstances on the amendment.

b. Unless the circumstances in succeeding para apply:

   (i) Extend the audit procedures to the date of the new auditor's report and

   (ii) Provide a New Auditor's report on the amended FS and new auditor's report shall not be dated earlier than the date of approval of amended FS.

c. When law, regulation or the FRF does not prohibit mgmt from restricting the amendment of the FS only for the subsequent event and those responsible for approving the FS are not prohibited from restricting their approval to that amendment, the auditor is permitted to restrict the audit procedures on subsequent events to that amendment.

In such cases, the auditor shall either:

a. Amend auditor's report to include an additional date restricted to that amendment that indicates that auditor's procedures on subsequent events are restricted solely to the amendment of the FS described in the relevant note to the FS (Dual Dating) or

b. Provide a new or amended auditor's report that includes a statement in an EOM or OM(s) paragraph that conveys that auditor's procedures on subsequent events are restricted solely to the amendment of the FS as described in the relevant note to the FS.

When mgmt does not amend the FS in circumstances where the auditor believes they need to be amended, then:

a. If the auditor's report has not yet been provided to the entity, the auditor shall modify the opinion as required by SA 705 and then provide the auditor's report or

b. If the auditor's report has already been provided to the entity, the auditor shall notify mgmt and TCWG, not to issue the FS to third parties before the necessary amendments have been made.

c. If the FS are nevertheless subsequently issued without the necessary amendments, the auditor shall take appropriate action, to seek to prevent reliance on the auditor's report.

Practical Context

For Understanding Only: We don't have any obligation to do audit procedures post issue of Audit report. If we come across any such event afterwards, we discuss those matters with mgmt, if that require adjustment, we check how mgmt intends to do that.

There are two scenarios:

First where mgmt is allowed as per law and FRF just to incorporate the amendment and get that amendment approved by board, in such case we will also restrict our procedures to that amendment. In this case we can add one para related to this amendment in our report and put a separate date for this. This is called as dual dating (1st: Original Issue date, 2nd: New Date for the additional para) or we can issue new report with EOM or OM para.

Second where specific amendment is not allowed, we will do audit procedures to the revised date (Like full coverage to that date) and issue an amended report.

6. Type B – Case II: Facts which become known to the auditor After the FS have been issued

After the FS have been issued, the auditor has no obligation to perform any audit procedures regarding such FS.

However, when, after the FS have been issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:

a. Discuss the matter with mgmt and, where appropriate, TCWG
b. Determine whether the FS need amendment and, if so,
c. Inquire how mgmt intends to address the matter in the FS

If the mgmt amends the FS, the auditor shall:

a. Carry out audit procedures necessary in the circumstances on the amendment.
b. Review the steps taken by mgmt to ensure that anyone in receipt of the previously issued FS together with the auditor's report thereon is informed of the situation.
c. Unless law, regulation or the FRF does not prohibit mgmt from restricting the amendment of the FS to the effects of the subsequent events and those responsible for approving the FS are not prohibited from restricting their approval to that amendment:
   (i) Extend the audit procedures, already referred, to the date of the new auditor's report, and the date the new auditor's report no earlier than the date of approval of the amended FS and
   (ii) Provide a new auditor's report on the amended FS.
d. When law, regulation or the FRF does not prohibit mgmt from restricting the amendment of the FS to the effects of the subsequent events and those responsible for approving the FS are not prohibited from restricting their approval to that amendment, amend the auditor's report or provide a new auditor's report. (same as above)
e. Auditor shall include in the new or amended auditor's report an EOM paragraph or Other Matter(s) paragraph referring to a note to the FS that more extensively discusses the

reason for the amendment of the previously issued FS and to the earlier report provided by the auditor.

If the mgmt doesn't amends the FS or doesn't take necessary steps:

a. If mgmt does not take the necessary steps to ensure that anyone in receipt of the previously issued FS is informed of the situation and does not amend the FS, where the auditor believes they need to be amended, the auditor shall notify mgmt and TCWG, that the auditor will seek to prevent future reliance on the auditor's report.

b. If, despite such notification, mgmt or TCWG do not take these necessary steps, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report.

SA 570

SA 570	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Meaning of Going Concern and its Significance										
2. Objective - SA 570		3								
3. (Mgmt's) Assessment of the entity's ability to continue as a Going concern										
4. Responsibilities of the Auditor										
5. Risk Assessment Procedures and Related Activities										
6. Examples of Events or Conditions	5		2							
7. Evaluating Mgmt's Assessment of entity's ability to continue as GC										
8. Additional Audit procedures when events or conditions are identified		2								
9. Examples of Audit Procedures										
10. Auditor's conclusions										
11. Adequacy of disclosures when events or conditions have been identified and a Material Uncertainty exists										
12. Adequacy of disclosures when events or conditions have been identified but NO Material Uncertainty exists										
13. Implications for the Auditor's Report		2	2			4				
Total	5	7	4	0	0	4	0	0	0	0

SA 570 - Going Concern

1. Meaning of Going Concern and its Significance

Meaning of Going Concern:

- GC is one of the fundamental accounting assumptions.
- Enterprise is normally viewed as a GC, that it will continue its operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.
- Under the GC basis of accounting, the FS are prepared on the assumption that the entity is a GC and will continue its operations for the foreseeable future.
- FS are prepared using the GC basis of accounting, unless mgmt either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.
- When the use of the GC basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.
- When an enterprise is not viewed as a GC, the FS are prepared on liquidation basis. For example, inventories may need to be written down as these may be sold for a lower price. Assets may have to be recorded at the likely prices they will fetch.

2. Objective - SA 570

The objectives of the auditor are:

1. To obtain SAAE regarding and conclude on the appropriateness of mgmt's use of the going concern basis of accounting in the preparation of the FS;
2. To conclude, based on the audit evidence obtained, whether a MU exists related to E/C that may cast significant doubt on the entity's ability to continue as a GC; and
3. To report in accordance with this SA.

3. (Mgmt's) Responsibility for Assessment of entity's ability to continue as a GC

Preparation of the FS requires mgmt to assess the entity's ability to continue as a GC even if the FRF does not include an explicit requirement to do so.

Mgmt's assessment of the entity's ability to continue as a GC involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of E/C.

The following factors are relevant to that judgement:

a) Degree of uncertainty associated with the outcome of an E/C increases significantly the further into the future an event or condition or the outcome occurs.

b) Size and complexity of the entity, nature and condition of its business and the degree to which it is affected by external factors affect the judgment regarding the outcome of E/C.

c) Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

4. Responsibilities of the Auditor

The auditor's responsibilities are:

a) To obtain SAAE regarding and conclude on the appropriateness of mgmt's use of the going concern basis of accounting.

b) To conclude, based on the audit evidence obtained, whether a MU exists related to E/C that may cast doubt on the entity's ability to continue as a going concern.

c) Responsibilities exist even if the FRF used in the preparation of the FS does not include an explicit requirement for mgmt to make a specific assessment of the entity's ability to continue as a going concern.

d) However, as described in SA 200, due to the potential effects of inherent limitations the absence of any reference to a MU about the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a GC.

e) The auditor cannot predict such future events or conditions. Accordingly, the absence of any reference to a material uncertainty about the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

5. Risk Assessment Procedures and Related Activities

When performing risk assessment procedures as required by SA 315, the auditor shall consider whether E/C exist that may cast significant doubt on the entity's ability to continue as a GC.

Auditor shall determine whether mgmt has already performed a preliminary assessment of the entity's ability to continue as a GC:

1. If such an assessment has been performed:

   a. Auditor shall discuss the assessment with mgmt and

   b. Determine whether mgmt has identified E/C that, individually or collectively, may cast significant doubt on the entity's ability to continue as a GC and,

   c. If so, mgmt's plans to address them

2. If such an assessment has not been performed:

a. Auditor shall discuss with mgmt the basis for the intended use of the GC basis of accounting, and
b. Inquire of mgmt whether E/C exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a GC.

Auditor shall remain alert throughout the audit for audit evidence of E/C that may cast significant doubt on the entity's ability to continue as a GC.

6. Examples of Events or Conditions

Following are examples of events or conditions that, individually or collectively, may cast significant doubt about the going concern:

Operating Events or Conditions

1. Mgmt. intentions to liquidate the entity or to cease operations
2. Loss of key mgmt without replacement
3. Loss of a major market, key customer(s), franchise, license, or supplier(s)
4. Labour difficulties
5. Shortages of important supplies
6. Emergence of a highly successful competitor

Financial Events or Conditions

1. Net liability or net current liability position
2. Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on ST borrowings to finance long-term assets
3. Indications of withdrawal of financial support by creditors
4. Negative operating cash flows indicated by historical or prospective financial Statements
5. Adverse key financial ratios
6. Substantial operating losses or significant deterioration in the value of assets used to generate cash flows
7. Arrears or discontinuance of dividends
8. Inability to pay creditors on due dates
9. Inability to comply with the terms of loan agreements
10. Change from credit to cash-on-delivery transactions with suppliers
11. Inability to obtain financing for essential new product development or other essential investments

Other Events or Conditions

1. Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions
2. Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy
3. Changes in L&R or government policy expected to adversely affect the entity
4. Uninsured or underinsured catastrophes when they occur.

7. Evaluating Mgmt's Assessment of entity's ability to continue as GC

- Auditor shall evaluate mgmt's assessment of the entity's ability to continue as a GC, as it is crucial in assessing the appropriateness of the GC basis of accounting.
- However, the auditor is not responsible for rectifying any lack of analysis by mgmt.
- In some cases, if the entity has a history of profitable operations and access to financial resources, mgmt's assessment may not require a detailed analysis, and the auditor may conclude its appropriateness based on other audit procedures.
- In other circumstances, the auditor's evaluation may involve assessing mgmt's process, underlying assumptions, and feasibility of future plans.
- Auditor must cover the same period as used by mgmt in its assessment, as required by the FRF or applicable laws.
- If mgmt's assessment covers less than twelve months from the FS date, the auditor shall request an extension to at least twelve months.

8. Additional Audit procedures when events or conditions are identified

If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a GC, Auditor shall obtain SAAE to determine whether or not a MU exists related to E/C that may cast significant doubt on the entity's ability to continue as a GC through performing additional audit procedures, including consideration of mitigating factors.

These procedures shall include:

1. Where mgmt has not yet performed an assessment of the entity's ability to continue as a GC, requesting mgmt to make its assessment.
2. Evaluating mgmt's plans for future actions in relation to its GC assessment, whether the outcome of these plans is likely to improve the situation and whether mgmt's plans are feasible in the circumstances.
3. Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of E/C in the evaluation of mgmt's plans for future actions:
   - Evaluating the reliability of the underlying data generated to prepare the forecast; and

- Determining whether there is adequate support for the assumptions underlying the forecast.

4. Considering whether any additional facts or information have become available since the date on which mgmt made its assessment.
5. Requesting written representations from mgmt and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.

9. Examples of Audit Procedures when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as GC

- Analysing and discussing cash flow, profit and other relevant forecasts with mgmt.
- Analysing and discussing the entity's latest available interim FS.
- Reading the terms of debentures and loan agreements and determining whether any have been breached.
- Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.
- Inquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of mgmt's assessments of their outcome and the estimate of their financial implications.
- Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.
- Evaluating the entity's plans to deal with unfilled customer orders.
- Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a GC.
- Confirming the existence, terms and adequacy of borrowing facilities.
- Obtaining and reviewing reports of regulatory actions.
- Determining the adequacy of support for any planned disposals of assets.

10. Auditor's conclusions

1. Auditor shall evaluate whether SAAE has been obtained regarding, and shall conclude on, the appropriateness of mgmt's use of the GC basis of accounting in the preparation of FS.
2. Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgment, a MU exists related to E/C that, individually or collectively, may cast significant doubt on the entity's ability to continue as a GC.

3. A MU exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary.

11. Adequacy of disclosures when events or conditions have been identified and a Material Uncertainty exists

If the auditor concludes that mgmt's use of the GC basis of accounting is appropriate in the circumstances but a MU exists, the auditor shall determine whether the FS:

a) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a GC and mgmt's plans to deal with these E/C and

b) Disclose clearly that there is a MU related to E/C that may cast significant doubt on the entity's ability to continue as a GC and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

12. Adequacy of disclosures when events or conditions have been identified but No Material Uncertainty exists

E/C have been identified + No MU exists: Auditor shall evaluate whether, in view of the requirements of the applicable FRF, the FS provide adequate disclosures about these E/C.

13. Implications for the Auditor's Report

(I) If use of GC basis of accounting is inappropriate:

If FS have been prepared using the GC basis of accounting but, in the auditor's judgment, mgmt's use of the GC basis of accounting in the preparation of the FS is inappropriate, the auditor shall express an Adverse opinion.

(II) If use of GC basis of accounting is appropriate but a Material Uncertainty Exists:

(A) Adequate Disclosure of a MU is made in the FS

If adequate disclosure about the MU is made in the FS, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to GC" to:

1. Draw attention to the note in the FS that discloses such matters.
2. State that these E/C indicate that a MU exists that may cast significant doubt on the entity's ability to continue as a GC and that the auditor's opinion is not modified in respect of the matter.

(B) Adequate Disclosure of a MU is Not Made in FS

If adequate disclosure about the MU is not made in the FS, the auditor shall:

1. Express a Qualified opinion or Adverse opinion, as appropriate, in accordance with SA 705.

2. In the Basis for Qualified/Adverse Opinion section of the auditor's report, state that a MU exists that may cast significant doubt on the entity's ability to continue as a GC and that the FS do not adequately disclose this matter.

(III) Management unwilling to make or extend its assessment

If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider the implications for the auditor's report.

In such a situation, a qualified opinion or a disclaimer of opinion in the auditor's report may be appropriate, because it may not be possible for the auditor to obtain SAAE regarding mgmt's use of the GC basis of accounting in the preparation of the FS.

SA 580

SA 580	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Meaning of WR	2									
1.1. Written representations as audit evidence										
2. Objective of SA 580										
3. From Whom: WR is Requested?										
4. Written representations about mgmt's responsibilities									4	
5. Why WR about mgmt's responsibilities are necessary?										
6. Description of mgmt's responsibilities in the Written representations										
7. Other Written representations	5									
8. Additional Written representations about info. provided to the Auditor										
9. Written representations about Specific Assertions										
10. Date of and Period(s) covered by Written Representations				4						
11. Form of Written representations										
12. Doubt as to Reliability of WR			2							
13. Requested Written representations not provided										
14. Disclaimer of opinion in case of non-reliability of WR's										
Total	7	0	2	4	0	0	0	0	4	0

SA 580: Written Representation

1. Meaning of WR

WR may be defined as:

- written statement by mgmt
- provided to the auditor
- to confirm certain matters or to support other audit evidence.

WR do not include FS, the assertions therein, or supporting books and records.

WR provide necessary audit evidence, they do not provide SAAE on their own about any of the matters with which they deal.

Fact that mgmt has provided reliable WR does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of mgmt's responsibilities, or about specific assertions.

1.1. Written representations as audit evidence

Audit evidence is all the info. used by the auditor in arriving at the conclusions on which the audit opinion is based. WR are necessary info that the auditor requires in connection with the audit of the entity's FS. Accordingly, similar to responses to inquiries, WR are audit evidence.

Written representations are requested from those responsible for the preparation and presentation of the FS.

Although written representations provide necessary audit evidence, they do not provide SAAE on their own about any of the matters with which they deal.

Furthermore, the fact that mgmt has provided reliable WR does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfillment of mgmt's responsibilities, or about specific assertions.

2. Objective of SA 580

The objectives of the auditor are:

1. To obtain WR from mgmt and, where appropriate, TCWG that they have fulfilled their responsibility for the preparation of the FS and for the completeness of the info provided to the auditor;
2. To support other audit evidence relevant to the FS or specific assertions in the FS by means of WR
3. To respond appropriately to WR provided by mgmt and, where appropriate, TCWG, or if mgmt or where appropriate, TCWG do not provide the WR

3. From Whom WR is Requested?

Auditor shall request WR from mgmt with appropriate responsibilities for the FS and knowledge of the matters concerned.

4. Written representations about mgmt's responsibilities

WR about mgmt's responsibilities involves confirmation of fulfilment of mgmt's responsibilities in following areas:

(I) Preparation of the FS

Auditor shall request mgmt to provide a WR that it has fulfilled its responsibility for the preparation of the FS in accordance with the applicable FRF, as set out in the terms of the audit engagement.

Mgmt. have responsibility for the PP of FS and conduct of the entity's business, mgmt would be expected to have sufficient knowledge of the process followed by the entity in preparation and presentation the FS and assertions therein on which to base the WR.

In some cases, however, mgmt may decide to make inquiries of others who participate in preparing and presenting the FS and assertions therein, such as:

- Actuary responsible for actuarially determined accounting measurements.
- Staff engineers who may have responsibility for and specialized knowledge about environmental liability measurements.
- Internal counsel who may provide information essential to provisions for legal claims

<u>Use of Qualifying language in WR?</u>

- Mgmt. may include qualifying language in WR that representations are made to the best of its knowledge and belief.
- It is reasonable for the auditor to accept such wording if the auditor is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.

(II) Information provided and completeness of transactions

Auditor shall request mgmt to provide a WR that:

- It has provided the auditor with all relevant info and access as agreed in the terms of the audit engagement and
- All transactions have been recorded and are reflected in the FS.

5. Why WR about mgmt's responsibilities are necessary?

Audit evidence obtained during the audit is not sufficient without obtaining confirmation that mgmt has fulfilled its responsibilities regarding:

- Preparation of FS
- Info. provided and

- Completeness of info.

Auditor is not able to judge solely on other audit evidence whether mgmt has PP FS and provided info to the auditor on the agreed acknowledgement and understanding of responsibilities.

For example, auditor could not conclude that whether mgmt has provided the auditor with all relevant info. agreed in the terms of the audit engagement without asking it and receiving confirmation that, such info has been provided.

WR requiring fulfillment of mgmt's responsibilities in relation to above are based on its agreed acknowledgment and understanding of their responsibilities as outlined in the Terms of audit engagement. The auditor seeks written confirmation from mgmt that it has fulfilled them.

Auditor may also ask mgmt to reconfirm its acknowledgement and understanding of those responsibilities in WR. This is particularly appropriate when:

- ⇨ Those who signed the terms of the audit engagement on behalf of the entity no longer have the relevant responsibilities;
- ⇨ Terms of the audit engagement were prepared in a previous year;
- ⇨ There is any indication that mgmt misunderstands those responsibilities; or
- ⇨ Changes in circumstances make it appropriate to do so.

6. Description of mgmt's responsibilities in the Written representations

Mgmt's responsibilities shall be described in the WR in the manner in which these responsibilities are described in the terms of the audit engagement.

7. Other Written representations

As per SA 580, in addition to the WR about mgmt's responsibilities regarding preparation of FS, the auditor may consider it necessary to request other WR about the FS.

Other SAs require the auditor to request WR. If, in addition to such required representations, the auditor determines that it is necessary to obtain one or more WR to support other audit evidence relevant to the FS or one or more specific assertions in the FS, the auditor shall request such other WR.

Such WR may supplement, but do not form part of, the WR relating to mgmt's responsibilities regarding preparation of FS. They may include representations about the following:

1. Whether the selection and application of accounting policies are appropriate;
2. Whether matters such as the following, where relevant under the applicable FRF, have been recognized, measured, presented or disclosed in accordance with that framework:
   - Plans or intentions that may affect the carrying value or classification of assets and liabilities;
   - Liabilities, both actual and contingent;

- Title to, or control over, assets, the liens or encumbrances on assets, and assets pledged as collateral; and
- Aspects of L&R and contractual agreements that may affect the FS, including non-compliance.

8. Additional Written Representations about info. provided to the Auditor

In addition to the WR required by auditor regarding mgmt responsibility about info. provided to auditor, the auditor may consider it necessary to request mgmt to provide a WR that it has communicated to the auditor all deficiencies in internal control of which mgmt is aware.

9. Written representations about Specific Assertions

When obtaining evidence about, or evaluating, judgments and intentions, the auditor may consider one or more of the following:

- Entity's past history in carrying out its stated intentions.
- Entity's reasons for choosing a particular course of action.
- Entity's ability to pursue a specific course of action.
- Existence or lack of any other info that might have been obtained during the course of the audit that may be inconsistent with mgmt's judgment or intent.

Note:

In addition, auditor may consider it necessary to request mgmt to provide WR about specific assertions in the FS, in particular to support understanding that auditor has obtained from other audit evidence about mgmt's judgment, intent or completeness of a specific assertion.

For e.g. if the intent of mgmt is important to the valuation basis for investments, it may not be possible to obtain SAAE without a WR from mgmt about its intentions. Although such WR provide necessary audit evidence, they do not provide SAAE on their own for that assertion.

10. Date of and Period(s) covered by Written Representations

✓ Date of the WR shall be as near as practicable to, but not after, the date of the auditor's report on the FS. WR shall be for all FS and period(s) referred to in the auditor's report.

✓ Since WR are necessary audit evidence, the auditor's opinion cannot be expressed and the audit report can't be dated before the date of the WR.

✓ Auditor is concerned with events occurring up to the date of auditor's report that may require adjustment or disclosure in FS, the WR are dated as near as practical to but not after the auditor's report on FS.

✓ WR are for all periods referred to in the Auditor's report because mgmt needs to reaffirm the WR previously made w.r.t prior year remains appropriate.

✓ Situations may arise where current mgmt were not present during all periods referred to in the auditor's report. Such persons may assert that they are not in a position to provide some or all of the WR because they were not in place during the period. This fact, however, does not diminish such persons' responsibilities for the FS as a whole. Accordingly, the requirement for the auditor to request WR from them that cover the whole of the relevant period(s) still applies.

11. Form of Written representations

WR shall be in the form of a representation letter addressed to the auditor.

If law or regulation requires mgmt to make written public statements about its responsibilities, and the auditor determines that such statements provide some or all of the representations required regarding mgmt responsibilities, the relevant matters covered by such statements need not be included in the WR.

12. Doubt as to Reliability of WR

If the auditor has concerns about the competence, integrity, ethical values or diligence of mgmt, or about its commitment to or enforcement of these, the auditor shall determine the effect that such concerns may have on the reliability of representations and audit evidence in general.

If WR are inconsistent with other audit evidence:

- Perform audit procedures to attempt to resolve the matter.
- If the matter remains unresolved, the auditor shall reconsider the assessment of above values,
- Determine the effect that this may have on the reliability of representations and audit evidence in general.

If the auditor concludes that the WR are not reliable, the auditor shall take appropriate actions, including determining the possible effect on the opinion in the auditor's report in accordance with SA 705, having regard to the requirement of disclaimer of opinion.

13. Requested Written representations not provided

If mgmt does not provide one or more of the requested WR, the auditor shall:

a. Discuss the matter with mgmt;
b. Re-evaluate the integrity of mgmt and evaluate the effect it may have on the reliability of representations and audit evidence in general;
c. Take appropriate actions, including determining the possible effect on the opinion in the auditor's report in accordance with SA 705 having regard to the requirement of disclaimer of opinion.

14. Disclaimer of opinion in case of non-reliability of WR's about mgmt's responsibilities or failure to provide such WR's

Auditor shall disclaim an opinion on the FS in accordance with SA 705 if:

a. Auditor concludes that there is sufficient doubt about the integrity of mgmt such that the WR about mgmt fulfilling its responsibilities regarding preparation of FS and about info provided and completeness of transactions are not reliable;

b. Mgmt does not provide the WR relating to fulfilling its responsibilities regarding preparation of FS and about info provided and completeness of transactions.

SA 450

SA 450	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Objective: SA 450										
2. Accumulation of Misstatements Identified										
3. Consideration of Identified Misstatement as Audit Progress										
4. Communication and Correction of Misstatements										
5. Evaluating Effect of Uncorrected Misstatements										
6. Communication with TCWG										
7. Documentation				3						
8. WR from mgmt regarding effects of uncorrected statements										
Total	0	0	0	3	Na	Na	Na	Na	Na	Na

SA 450 - Evaluations of Misstatements Identified During the Audit

1. Objective: SA 450

Objective of the auditor is to evaluate:

- ✓ Effect of identified misstatements on the audit and
- ✓ Effect of uncorrected misstatements, if any, on the FS.

2. Accumulation of Misstatements Identified

Auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial. A misstatement may arise from a variety of factors.

For e.g. an inaccuracy in gathering or processing data from which FS are prepared or an omission of an amount or disclosure can result into a misstatement.

3. Consideration of Identified Misstatement as Audit Progress

Auditor shall determine whether overall audit strategy and audit plan need to be revised if:

- ⇨ Nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material or
- ⇨ Aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with SA 320.

Auditor may request mgmt to examine a CTABD in order for mgmt to understand the cause of a misstatement, perform procedures to determine the amount of the actual misstatement in the CTABD, and to make appropriate adjustments to the FS.

Such a request may be made, for example, based on the auditor's projection of misstatements.

If, at the auditor's request, mgmt has examined a CTABD and corrected misstatements that were detected, the auditor shall perform additional audit procedures to determine whether misstatements remain.

4. Communication and Correction of Misstatements

1. Auditor shall communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of mgmt, unless prohibited by law or regulation.
2. Auditor shall request mgmt to correct those misstatements.
3. Timely communication of misstatements to the appropriate level of mgmt is important as it enables mgmt to evaluate whether the items are misstatements, inform the auditor if it disagrees and take action as necessary.
4. Correction by mgmt of all misstatements, including those communicated by the auditor, enables mgmt to maintain accurate accounting books and records and reduces the ROMM of future FS because of the cumulative effect of immaterial uncorrected misstatements related to prior periods.
5. If mgmt refuses to correct some or all of the misstatements communicated by the auditor, the auditor shall obtain an understanding of mgmt's reasons for not making the corrections and shall take that understanding into account when evaluating whether the FS as a whole are free from material misstatement.

5. Evaluating Effect of Uncorrected Misstatements

Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess materiality determined in accordance with SA 320 to confirm whether it remains appropriate in the context of the entity's actual financial results.

Auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider:

- ⇨ Size and nature of the misstatements, both in relation to particular CTABD and the FS as a whole, and the particular circumstances of their occurrence.

⇨ Effect of uncorrected misstatements related to prior periods on the relevant CTABD, and the FS as a whole.
6. Communication with TCWG
Auditor shall communicate with TCWG regarding uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor's report, unless prohibited by law or regulation. The auditor shall request that uncorrected misstatements be corrected. Auditor shall also communicate with TCWG the effect of uncorrected misstatements related to prior periods on the relevant to CTABD, and the FS as a whole.
7. Documentation
Audit documentation shall include: 1. Amount below which misstatements would be regarded as clearly trivial; 2. All misstatements accumulated during the audit and whether they have been corrected; and 3. Auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion.
8. WR from Mgmt regarding effects of uncorrected statements
Auditor shall request a WR from mgmt and, where appropriate TCWG whether they believe the effects of uncorrected misstatements are immaterial, individually or in aggregate, to the FS as a whole. A summary of such items shall be included in or attached to WR.

SA 260

SA 260	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Significance of communication with TCWG										
1.1 Who are TCWG		5								
2. Objective of SA 260										
3. Matters to be Communicated by Auditor										
4. Communication of Auditors Independence in case of Listed Entities										
5. The Communication Process										
6. Adequacy of Communication Process										
7. Documentation										
Total	0	5	0	0	Na	Na	Na	Na	Na	Na

SA 260 - Communication with TCWG

1. Significance of communication with TCWG

Communication from auditor is important with TCWG. An effective two-way communication is important in assisting:

a. Auditor and TCWG in understanding matters related to the audit in context, and in developing a constructive working relationship. This relationship is developed while maintaining the auditor's independence and objectivity.

b. Auditor in obtaining info. relevant to the audit from TCWG. For example, TCWG may assist the auditor in understanding the entity and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events; and

c. TCWG in fulfilling their responsibility to oversee the financial reporting process, thereby reducing the ROMM of the FS.

1.1 Who are TCWG

- The person(s) or organization(s) (e.g., a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.
- For some entities, those charged with governance may include mgmt personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.
- Governance structures vary by entities, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. For example, in some entities, a supervisory board exists that is separate from executive board.
- In other entities, both supervisory and executive functions are performed by a single board. In some entities, those charged with governance hold positions that are an integral part of the entity's legal structure. For example, company directors. In some cases, some or all of those charged with governance are involved in managing the entity. In others, those charged with governance and mgmt comprise different persons.
- In most entities, governance is the collective responsibility of a governing body, such as a board of directors, a supervisory board, partners, proprietors, a committee of mgmt, trustees, or equivalent persons.
- In some smaller entities, however, one person may be charged with governance, for example, the owner-manager where there are no other owners, or a sole trustee.
- Such diversity means that it is not possible to specify for all audits the persons with whom the auditor is to communicate particular matters. Also, in some cases, the appropriate persons with whom to communicate may not be clearly identifiable from the applicable legal framework or other engagement circumstances, for example, entities where the

governance structure is not formally defined, such as some family-owned entities and some not-for-profit organizations.

- In such cases, the auditor may need to discuss and agree with the engaging party the relevant persons with whom to communicate. In deciding with whom to communicate, the auditor's understanding of an entity's governance structure and processes obtained in accordance with SA 315 is relevant. The appropriate persons with whom to communicate may vary depending on the matter to be communicated.

2. Objective of SA 260

a. To communicate clearly with TCWG the responsibilities of the auditor in relation to the FS audit, and an overview of the planned scope and timing of the audit;

b. To obtain from TCWG information relevant to the audit;

c. To provide TCWG with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process and

d. To promote effective two-way communication between the auditor and TCWG.

3. Matters to be Communicated by Auditor

1. Auditor shall communicate with TCWG the responsibilities of the auditor, in relation to the FS audit, including that:
   - Auditor is responsible for forming and expressing an opinion on the FS that have been prepared by mgmt with the oversight of TCWG
   - Audit of the FS does not relieve mgmt or TCWG of their responsibilities.
2. Planned scope and timing of the audit: Auditor shall communicate with TCWG an overview of the planned scope and timing of the audit, which includes communicating about the significant risks identified by the auditor.
3. Significant findings from the audit: Auditor shall communicate with TCWG:

   a. Auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and FS disclosures.

   b. When applicable, the auditor shall explain to TCWG why the auditor considers a significant accounting practice, that is acceptable under the applicable FRF, not to be most appropriate to the particular circumstances of the entity

   c. Significant difficulties, if any, encountered during the audit;

   d. Unless all of TCWG are involved in managing the entity:
      - Significant matters arising during the audit that were discussed, or subject to correspondence, with mgmt;
      - Written representations the auditor is requesting

   e. Circumstances that affect form and content of the auditor's report

f. Any other significant matters arising during the audit that, in the auditor's professional judgment, are relevant to the oversight of the financial reporting process.

4. Communication of Auditors Independence in case of Listed Entities

In the case of listed entities, the auditor shall communicate with TCWG:

1. Statement that the ET and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence and
2. All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence.
   - This shall include total fees charged during the period covered by the FS for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity.
   - These fees shall be allocated to categories to assist TCWG in assessing the effect of services on the independence of the auditor and
   - Related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

5. The Communication Process

1. Auditor shall communicate with TCWG the form, timing and expected general content of communications.
2. Communicate in writing, if in auditor's PJ oral communication is not adequate. Written communications need not include all matters that arose during the course of the audit.
3. Auditor shall communicate in writing with TCWG regarding auditor independence when required in case of listed entities.
4. Auditor shall communicate with TCWG on timely basis.

6. Adequacy of Communication Process

Auditor shall evaluate whether the two-way communication between the auditor and TCWG has been adequate for the purpose of the audit. If it has not, the auditor shall evaluate the effect, if any, on the auditor's assessment of the ROMM and ability to obtain SAAE, and shall take appropriate action.

7. Documentation

Where matters required by SA 260 to be communicated are communicated Orally – The auditor shall include in audit documentation and when and to whom they were communicated.

Where matters have been communicated in Writing – The auditor shall retain a copy of the communication as part of the audit documentation.

SA 265

SA 265	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Objective of SA 265										
2. Meaning of Deficiency in IC & Significant Deficiency in IC			4							
2.1 Examples of matters that auditor may consider in determining whether a deficiency or combination of deficiencies in IC constitutes a significant deficiency					3					
2.2 Examples of indicators of significant deficiencies in internal control										
3. Determination of significant deficiencies in internal control										
4. Communication of Significant Deficiency in Internal Control to TCWG										
Total	0	0	4	0	3	Na	Na	Na	Na	Na

SA 265-Communicating Deficiencies in Internal Control to TCWG & Mgmt

1. Objective of SA 265

Objective of the auditor is to communicate appropriately to TCWG and mgmt deficiencies in internal control that the auditor has identified during the audit and that, in the auditor's professional judgment, are of sufficient importance to merit their respective attentions.

2. Meaning of Deficiency in IC & Significant Deficiency in IC

1. Deficiency in internal control exists when:
   a. A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the FS on a timely basis or
   b. A control necessary to prevent, or detect and correct, misstatements in the FS on a timely basis is missing.
2. Significant Deficiency in internal control - A deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of TCWG.

Significance of a deficiency or a combination of deficiencies in internal control depends not only on whether a misstatement has actually occurred, but also on the likelihood that a misstatement could occur and the potential magnitude of the misstatement. Significant deficiencies may, therefore, exist even though the auditor has not identified misstatements during the audit.

2.1 Examples of matters that auditor may consider in determining whether a deficiency or combination of deficiencies in IC constitutes a significant deficiency

1. Likelihood of the deficiencies leading to material misstatements in the FS in the future.
2. Susceptibility to loss or fraud of the related asset or liability.
3. Subjectivity and complexity of determining estimated amounts, such as fair value accounting estimates.
4. FS amounts exposed to the deficiencies.
5. Volume of activity that has occurred or could occur in the account balance or class of transactions exposed to the deficiency or deficiencies.
6. Importance of the controls to the financial reporting process, for example:
   - General monitoring controls (such as oversight of mgmt).
   - Controls over the prevention and detection of fraud.
   - Controls over the selection and application of significant accounting policies.
   - Controls over significant transact ions with related parties.
   - Controls over significant transactions outside the entity's normal course of business.
   - Controls over the period-end financial reporting process
7. Cause and frequency of the exceptions detected as a result of the deficiencies in the controls.
8. Interaction of the deficiency with other deficiencies in internal control.

2.2 Examples of indicators of significant deficiencies in internal control

1. Evidence of ineffective aspects of the control environment, such as:
   - ✓ Indications that significant transactions in which mgmt is financially interested are not being appropriately scrutinised by TCWG
   - ✓ Identification of mgmt fraud, whether or not material, that was not prevented by the entity's internal control.
   - ✓ Mgmt's failure to implement appropriate remedial action on significant deficiencies previously communicated.
2. Absence of a risk assessment process within the entity where such a process would ordinarily be expected to have been established.
3. Evidence of an ineffective entity risk assessment process, such as mgmt's failure to identify a ROMM that the auditor would expect the entity's risk assessment process to have identified.
4. Evidence of an ineffective response to identified significant risks

5. Misstatements detected by the auditor's procedures that were not prevented, or detected and corrected, by the entity's internal control.
6. Disclosure of a material misstatement due to error or fraud as prior period items in the current year's Statement of Profit and Loss.
7. Evidence of mgmt's inability to oversee the preparation of the FS.

3. Determination of significant deficiencies in internal control

Auditor shall determine whether, on the basis of the audit work performed, the auditor has identified one or more deficiencies in internal control.

If the auditor has identified one or more deficiencies in internal control, the auditor shall determine, on the basis of the audit work performed, whether, individually or in combination, they constitute significant deficiencies.

4. Communication of Significant Deficiency in Internal Control to TCWG

Auditor shall communicate in Writing SD in internal control identified during the audit to TCWG on a timely basis.

Auditor shall also communicate to mgmt at an appropriate level of responsibility on a timely basis:

- ✓ In writing, SD in internal control that the auditor has communicated or intends to communicate to TCWG, unless it would be inappropriate to communicate directly to mgmt in the circumstances; and
- ✓ Other deficiencies in internal control identified during the audit that have not been communicated to mgmt by other parties and that, in the auditor's professional judgment, are of sufficient importance to merit mgmt's attention.

Auditor shall include in the written communication of significant deficiencies in internal control:

a) Description of the deficiencies and an explanation of their potential effects;

b) Sufficient information to enable TCWG and mgmt to understand the context of the communication.

In particular, the auditor shall explain that:

- ✓ Purpose of audit was for the auditor to express an opinion on the FS;
- ✓ Audit included consideration of internal control relevant to the preparation of the FS in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control;
- ✓ Matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to TCWG.

Chapter 8

Overall Summary

Topics	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
SA 700	0	0	5	0	4	0	2	4	4	2
SA 701	5	0	0	0	0	2	0	0	0	0
SA 705	0	4	0	0	4	3	0	2	0	3
SA 706	0	4	0	0	0	0	0	0	0	0
SA 710	0	5	0	0	3	0	4	4	0	0
SA 600	0	0	0	4	0	0	0	0	0	0
SA 299	5	0	2	0	0	0	4	0	0	0
Reporting under Companies Act										
CARO	4	0	3	3	4	4	6	6	4	4
Total	**14**	**13**	**10**	**7**	**15**	**9**	**16**	**16**	**8**	**9**
ICAI Weightage	**8% to 12%**									

SA 700

SA 700	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
SA 700: Introduction										
1. Objective of SA 700										
2. To Form Opinion – Auditor to Obtain Reasonable Assurance			3						4	
3. Evaluations by the Auditor										
3.1 Qualitative Aspects of the Entity's Accounting Practices										
3.2 Specific Evaluations by the Auditor								4		
4. Definitions										
5. Form of Opinion										
6. Auditors Report										
• Title										
• Addressee										
• Auditor's Opinion										
• Basis for Opinion										
• Going Concern										
• Key Audit Matters										
• Other Information										
• Responsibilities for the Financial Statements					4					

SA 700	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
• Auditor's Responsibilities for the Audit of the Financial Statements										
• Location of the description of the auditor's responsibilities										2
• Other Reporting Responsibilities										
• Signature of the Auditor							2			
• Place of Signature										
• Date of the Auditor's Report										
UDIN			2							
Total	0	0	5	0	4	0	2	4	4	2

SA 700 - Forming an Opinion and Reporting on FS

The requirements of SA 700 are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally and the need to increase the value of auditor reporting by making the info. provided in the auditor's report more relevant to users.

This SA promotes consistency in the auditor's report but recognizes the need for flexibility to accommodate particular circumstances of individual jurisdictions.

Consistency in the auditor's report, when the audit has been conducted in accordance with SAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. It also helps to promote the user's understanding and to identify unusual circumstances when they occur.

1. Objective of SA 700

Objectives of the auditor as per SA 700 (Revised) are:

a. To form an opinion on the FS based on an evaluation of the conclusions drawn from the audit evidence obtained; and

b. To express clearly that opinion through a written report.

2. To Form Opinion – Auditor to Obtain Reasonable Assurance

Factors to be considered to form an opinion:

Auditor shall form an opinion on whether the FS are prepared, in all material respects, in accordance with the applicable FRF.

In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the FS as a whole are free from material misstatement, whether due to fraud or error.

That conclusion shall take into account:

a. Whether SAAE has been obtained

b. Whether uncorrected misstatements are material, individually or in aggregate

c. The evaluations

3. Evaluations by the Auditor

Auditor shall evaluate whether the FS are prepared in accordance with the requirements of the applicable FRF.

This evaluation shall include consideration of the:

- Qualitative aspects of the entity's accounting practices, including
- Indicators of possible bias in mgmt's judgements

3.1 Qualitative Aspects of the Entity's Accounting Practices

The auditor shall evaluate whether the FS are prepared in accordance with the requirements of the applicable FRF.

This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in mgmt's judgments.

Qualitative Aspects of the Entity's Accounting Practices:

1. Mgmt makes a no. of judgements about amounts and disclosures in the FS.
2. SA 260 contains discussion of the qualitative aspects of a/c practices.
3. In considering the qualitative aspects of the entity's a/c practices, the auditor may become aware of possible bias in mgmt's judgements.
4. The auditor may conclude that the cumulative effect of lack of neutrality, together with the effect of uncorrected misstatements, causes the FS as a whole to be materially misstated.
5. Indicators of a lack of neutrality:
   a. Selective correction of misstatements brought to mgmt's attention during the audit. Example: Correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings
   b. Possible mgmt bias in the making of accounting estimates
6. SA 540 addresses possible mgmt bias in making accounting estimates: Indicators of possible mgmt bias do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor's evaluation of whether the FS as a whole are free from material misstatement.

3.2 Specific Evaluations by the Auditor

In particular, the auditor shall evaluate whether:

1. FS adequately disclose the significant accounting Policies selected and applied;
2. Accounting policies selected and applied are Consistent with the applicable FRF and are appropriate;
3. Accounting Estimates made by mgmt are reasonable;
4. Information presented in the FS is relevant, reliable, comparable, and understandable;
5. FS provide adequate Disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the FS; and
6. Terminology used in the FS, including the title of each FS, is appropriate.

Further, when the FS are prepared in accordance with a fair presentation framework, the evaluation mentioned above shall also include an evaluation by the auditor as to whether the FS achieve fair presentation which shall include consideration of:

a. Overall presentation, structure and content of the FS; and
b. Whether the FS, including the related notes, represent the underlying transactions and events in a manner that achieves Fair presentation.

Mnemonic: Please Check Every Important Disclosure Thoroughly for Overall Fair Presentation

4. Definitions

General purpose FS – FS prepared in accordance with a general-purpose framework.

General purpose framework – A FRF designed to meet the common financial information needs of a wide range of users. The FRF may be a fair presentation framework or a compliance framework.

Fair presentation framework: is used to refer to a FRF that requires compliance with the requirements of the framework and:

- Acknowledges explicitly or implicitly that, to achieve fair presentation of the FS, it may be necessary for mgmt to provide disclosures beyond those specifically required by the framework; or
- Acknowledges explicitly that it may be necessary for mgmt to depart from a requirement of the framework to achieve fair presentation of the FS. Such departures are expected to be necessary only in extremely rare circumstances.

Compliance framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.

5. Form of Opinion

Unmodified Opinion: Auditor shall express an unmodified opinion when the auditor concludes that the FS are prepared, in all material respects, in accordance with the applicable FRF.

Modified Opinion: If the auditor:

- Concludes that based on the audit evidence obtained the FS as a whole are not free from material misstatement
- Is unable to obtain SAAE to conclude that the FS are free from material misstatement the auditor shall modify the opinion in the auditor's report in accordance with SA 705.

6. Auditors Report

Auditor's report shall be in writing. SA 700 requires the use of specific headings, which are intended to assist in making auditor's report more recognizable, where audit is conducted in accordance with the relevant SA.

Elements of Audit Report

1. Title
2. Addressee
3. Auditor's Opinion
4. Basis for Opinion
5. Going Concern
6. Key Audit Matters
7. Other Information
8. Responsibilities for the Financial Statements
9. Auditor's Responsibilities for the Audit of the Financial Statements
10. Location of the description of the auditor's responsibilities
11. Other Reporting Responsibilities
12. Signature of the Auditor
13. Place of Signature
14. Date of the Auditor's Report

1. Title

Auditor's report shall have a title that clearly indicates that it is the report of an independent auditor. [Independent Auditor's Report]

2. Addressee

Auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement. Law, regulation or the terms of the engagement may specify to whom the auditor's report is to be addressed. [To the Members/Partners]

3. Auditor's Opinion

The first section of the auditor's report shall include the auditor's opinion, and shall have the heading "Opinion."

Opinion section of the auditor's report shall:

1. Identify the entity whose FS have been audited;
2. State that the FS have been audited;
3. Identify the title of each statement comprising the FS;
4. Refer to the notes, including the summary of significant a/c policies; and
5. Specify the date of, or period covered by, each FS.

When expressing an unmodified opinion on FS, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:

a. In our opinion, the accompanying FS present fairly, in all material respects, […] in accordance with [the applicable FRF]; or
b. In our opinion, the accompanying FS give a true and fair view of […] in accordance with [the applicable FRF].

The phrases "present fairly, in all material respects," and "give a true and fair view" are regarded as being equivalent.

When expressing an unmodified opinion → not appropriate to use phrases such as 'subject to' or 'with the forgoing explanation' as these suggest conditional opinion or weaking or modification.

4. Basis for Opinion

Basis for opinion section provides important context about the auditor's opinion.

Auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that:

1. States that the audit was conducted in accordance with SA's;
2. Refers to the section of the auditor's report that describes the auditor's responsibilities under the SAs;
3. Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.
4. States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

5. Going Concern (SA 570)

Where applicable, the auditor shall report in accordance with SA 570

- ✓ Under the GC basis of accounting, the FS are prepared on the assumption that the entity is a GC and will continue its operations for the foreseeable future.
- ✓ General purpose FS are prepared using the GC basis of accounting, unless mgmt either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.
- ✓ When the use of the GC basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.
- ✓ Auditor shall evaluate whether SAAE has been obtained regarding, and shall conclude on, the appropriateness of mgmt's use of the going concern basis of accounting in the preparation of the FS.
- ✓ Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgement, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a GC.
- ✓ A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgement, an appropriate disclosure of the nature and implications of the uncertainty is necessary for:
    - In the case of fair presentation FRF, the fair presentation of the FS, or
    - In the case of a compliance framework, the FS not to be misleading.

6. Key Audit Matters (SA 701)

For audits of complete sets of general-purpose FS of Listed entities: Auditor shall communicate KAM in the auditor's report in accordance with SA 701.

When the auditor is otherwise required by law or regulation or decides to communicate KAM in the auditor's report, the auditor shall do so in accordance with SA 701.

Law or regulation may require communication of KAM for audits of entities other than listed entities.

Auditor may also decide to communicate KAM for other entities, including those that may be of significant public interest, for e.g. because they have a large number and wide range of stakeholders and considering the nature and size of the business.

Note: These matters are selected from matter communicated to TCWG

7. Other Information

Where applicable, the auditor shall report in accordance with SA 720.

8. Responsibilities for FS

Auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements"

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

- Preparing the FS in accordance with the applicable FRF, and for such internal control as mgmt determines is necessary to enable the preparation of FS that are free from material misstatement, whether due to fraud or error.
- Assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern.

SA 200 explains the premise, relating to the responsibilities of mgmt and, where appropriate, TCWG, on which an audit in accordance with SAs is conducted.

- Mgmt and where appropriate TCWG accept responsibility for the preparation of FS.
- Mgmt also accepts responsibility for such internal control as it determines is necessary to enable the preparation of FS that are free from material misstatement, whether due to fraud or error.

The description of mgmt's responsibilities in the auditor's report includes reference to both responsibilities as it helps to explain to users the premise on which an audit is conducted.

SA 210 requires the auditor to agree mgmt's responsibilities in an engagement letter or other suitable form of written agreement.

Oversight of the financial reporting process: This section shall also identify those who are responsible for oversight so, heading of this section shall also refer to "Those Charged with Governance" or such term that is appropriate in the context of the legal framework applicable to the entity.

9. Auditor's Responsibilities for the Audit of the Financial Statements

Auditor's report shall include a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements."

Section 1:

1. Objectives of the auditor
2. That reasonable level of assurance is high level of assurance and not guarantee.
3. That misstatements can arise from fraud and error

Section 2:

1. State that auditor exercises professional judgement and maintains professional skepticism
2. Describe an audit by stating that auditors' responsibilities are:
    - To identify and assess ROMM
    - To obtain an understanding of the internal control system
    - To evaluate the appropriateness of accounting policies

- To conclude the appropriateness of mgmt's use of going concern
- To evaluate the overall presentation, structure and content of FS

3. Describe auditor's responsibility in group audit

Section 3:

1. State auditor communicates with TCWG
2. For audit of FS of listed entities: Auditor provide statement of compliance with independence and compliance requirements
3. State that for audit of FS of Listed entities and other entities for which KAM is communicated are from those communicated to TCWG and were of most significance to audit of FS of current period.

10. Location of description of Auditor's Responsibilities for the audit of FS

Description of the auditor's responsibilities for the audit of the FS shall be included:

1. Within the body of the auditor's report
2. Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix or
3. By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or national auditing standards expressly permit the auditor to do so.

11. Other Reporting Responsibilities

If the auditor addresses other reporting responsibilities in the auditor's report on the FS that are in addition to the auditor's responsibilities under the SA:

- Address in a separate section in the auditor's report with a heading titled "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate
- If this address the same topics as required by the SAs in which case it may be presented in the same section of the report element required by the SAs.
- If presented in the same section, the auditor's report shall clearly differentiate the other reporting responsibilities from the reporting that is required by the SAs.
- If the auditor's report contains a separate section, it shall be included under a section with a heading 'Report on the Audit of the FS' and 'Report on Other Legal and Regulatory Requirements' shall follow the "Report on the Audit of the FS."

12. Signature of the Auditor

- Report is signed by the auditor (i.e. the engagement partner) in his personal name.
- Firm: Signed in the personal name of the auditor and in the name of the audit firm.

- Mention the membership number assigned by the ICAI + Registration number of the firm, in the audit reports signed by them. Example:

For M/s XYZ & Co. Chartered Accountants Firm Registration No.: 012345C	Sd/- CA Ramesh Mehta Partner Membership No.: 123456 Place: Mumbai Date: 30th April 20XX UDIN: 20123456AAAAAA1234

13. Place of Signature

Auditor's report shall name specific location, which is ordinarily the city where the audit report is signed.

14. Date of Auditor's Report

Auditor's report shall be dated no earlier than the date on which the auditor has obtained SAAE on which to base the auditor's opinion on the FS, including evidence that:

a. All the statements that comprise the FS, including the related notes, have been prepared; and

b. Those with the recognized authority have asserted that they have taken responsibility for those FS.

Date of the auditor's report informs that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date.

The auditor's responsibility for events and transactions after the date of the auditor's report is addressed in SA 560.

UDIN

It was noticed that financial documents/ certificates attested by third person misrepresenting themselves as CA Members were misleading the Authorities and Stakeholders. ICAI also received number of complaints of signatures of CAs being forged by non CAs.

To curb the malpractices of fake signatures, the Professional Development Committee of ICAI implemented in phased manner an innovative concept of UDIN i.e. Unique Document Identification Number.

All Certificates were made mandatory with effect from 1st February, 2019 as per the Council decision taken at its 379th Meeting held on 17th – 18th December, 2018.

Chartered Accountants having full-time Certificate of Practice can register on UDIN Portal and generate UDIN by registering the certificates attested/certified by them. Accordingly, an auditor is required to mention the UDIN with respect to each audit report being signed by him, along with his membership number while signing an audit report.

SA 701

SA 701	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Meaning of Key Audit Matters	2									
2. Purpose of Communicating KAM										
3. SA 701: Objective										
4. Applicability										
5. How would an Auditor Determine KAM?	3									
6. Communicating KAM						2				
7. KAM – Not A Substitute For?										
8. Communicating with TCWG										
9. Related: KAM in case of Disclaimer of Opinion?										
Total	5	0	0	0	0	2	0	0	0	0

SA 701: Communicating Key Audit Matters in the Independent Auditor's Report

1. Meaning of Key Audit Matters

Key Audit Matters are those matters that, in the auditor's PJ were of most significance in the audit of the FS of the current period. KAM are selected from matters communicated with TCWG.

2. Purpose of Communicating KAM

As per SA 701, "Communicating Key Audit Matters in the Auditor's Report", the purpose of communicating KAM is:

a. To enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed.

b. Assist intended users in understanding the entity and areas of significant mgmt judgement in the audited FS.

c. Provides additional information to intended users of the FS to assist them in understanding those matters that, in the auditor's PJ, were of most significance in the audit of the FS of the current period.

3. SA 701: Objective

Objectives of the auditor are to: determine KAM and, having formed an opinion on the FS, communicate those matters by describing them in the auditor's report.

4. Applicability

This SA applies to audits of complete sets of general-purpose FS of:

1. Listed entities and
2. Circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report and
3. Required by law or regulation to communicate key audit matters in the auditor's report.

5. How would an Auditor Determine KAM?

Auditor shall determine, from the matters communicated with TCWG, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:

- Areas of higher assessed ROMM, or significant risks identified in accordance with SA 315.
- Significant auditor judgements relating to areas in the FS that involved significant mgmt judgement, including accounting estimates that have been identified as having high estimation uncertainty.
- The effect on the audit of significant events or transactions that occurred during the period.

The auditor shall determine which of the matters determined, as stated above, were of most significance in the audit of the FS of the current period and therefore are the key audit matters.

6. Communicating KAM

Auditor shall describe each KAM, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters". The introductory language in this section of the auditor's report shall state that:

a. KAM are those matters that, in the auditor's PJ, were of most significance in the audit of the FS [of the current period]; and

b. These matters were addressed in the context of the audit of the FS as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.

7. KAM - Not A Substitute For?

Communicating key audit matters in the auditor's report is not:

a. A substitute for disclosures in the FS that the applicable FRF requires mgmt to make, or that are otherwise necessary to achieve fair presentation;

b. A substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705

c. A substitute for reporting in accordance with SA 570 when a MU exists relating to E/C that may cast significant doubt on an entity's ability to continue as a going concern; or

d. A Separate opinion on individual matters.

8. Communicating with TCWG

The auditor shall communicate with TCWG:

a) Those matters the auditor has determined to be the KAM; or

b) If applicable, depending on the facts and circumstances of the entity and the audit, the auditor's determination that there are no KAM to communicate in the auditor's report.

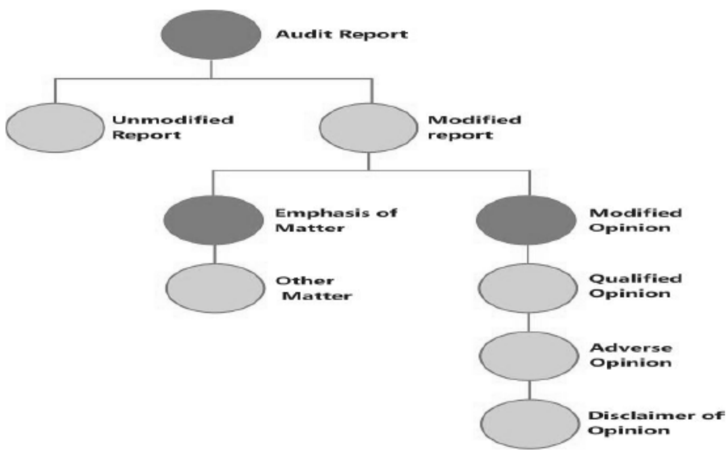
9. Related: KAM in case of Disclaimer of Opinion?

SA 705 requires that unless required by law or regulation, when the auditor disclaims an opinion on the FS, the auditor's report shall not include a Key Audit Matters section in accordance with SA 701.

SA 705

SA 705	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Objective of Auditor						3				
2. Types of Opinion										
3. Definition of Pervasive								2		
4. Which Type of Opinion is Appropriate?										
5. Consequence of an Inability to Obtain SAAE Due to a Mgmt Imposed Limitation after the Auditor Has Accepted the Engagement										
6. Form and Content of the Auditor's Report When the Opinion is Modified										
6.1 Qualified Opinion										
6.2 Adverse Opinion										
6.3 Disclaimer of Opinion					4					
7. Basis for Opinion		4								
8. Description of Auditor's responsibility in case of Disclaimer										3
9. Consideration When Auditor Disclaims Opinion on FS										
10. Communication With TCWG										
Total	0	4	0	0	4	3	0	2	0	3

SA 705 - Modification to the Opinion in the Independent Auditor's Report



1. Objective of Auditor

Objective of the auditor is to express clearly an appropriately modified opinion on the FS that is necessary when:

(a) Auditor concludes, based on the audit evidence obtained, that the FS as a whole are not free from material misstatement; or

(b) Auditor is unable to obtain SAAE to conclude that the FS as a whole are free from material misstatement

Note: These are the two scenarios when modification of opinion is required.

2. Types of Opinion

Qualified Opinion

Auditor shall express a qualified opinion when:

a. Auditor, having obtained SAAE, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the FS; or
b. Auditor is unable to obtain SAAE on which to base the opinion, but the auditor concludes that the possible effects on the FS of undetected misstatements, if any, could be material but not pervasive.

Adverse Opinion

Auditor shall express an adverse opinion when the auditor, having obtained SAAE, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the FS.

Disclaimer of Opinion

Auditor shall disclaim an opinion when the auditor is unable to obtain SAAE on which to base the opinion, and the auditor concludes that the possible effects on the FS of undetected misstatements, if any, could be both material and pervasive.

Auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained SAAE regarding each of the individual uncertainties, it is not possible to form an opinion on the FS due to the potential interaction of the uncertainties and their possible cumulative effect on the FS.

3. Definition of Pervasive

A term used, in the context of misstatements, to describe the effects on the FS of misstatements or the possible effects on the FS of misstatements, if any, that are undetected due to an inability to obtain SAAE.

Pervasive effects on the FS are those that, in the auditor's judgement:

1. Are not confined to specific elements, accounts or items of the FS;
2. If so confined, represent or could represent a substantial proportion of the FS;
3. In relation to disclosures, are fundamental to user's understanding of the FS

4. Which Type of Opinion is Appropriate?

Decision regarding which type of modified opinion is appropriate depends upon:

a. The nature of the matter giving rise to the modification, that is, whether the FS are materially misstated or, in the case of an inability to obtain SAAE, may be materially misstated;

b. The auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the FS.

Nature of Matter Giving Rise to the Modification	Auditor's Judgement about the Pervasiveness of the Effects or Possible Effects on the Financial Statements	
	Material but not Pervasive	**Material and Pervasive**
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

5. Consequence of an Inability to Obtain SAAE Due to a Mgmt Imposed Limitation after the Auditor Has Accepted the Engagement

If, after accepting the engagement, the auditor becomes aware that mgmt has imposed a limitation on the scope of the audit that the auditor considers is likely to result in the need to express a qualified opinion or to disclaim an opinion on the FS, the auditor shall request that mgmt remove the limitation.

If mgmt refuses to remove the limitation referred above, the auditor shall communicate the matter to TCWG and determine whether it is possible to perform alternative procedures to obtain SAAE.

If the auditor is unable to obtain SAAE, the auditor shall determine the implications as follows:

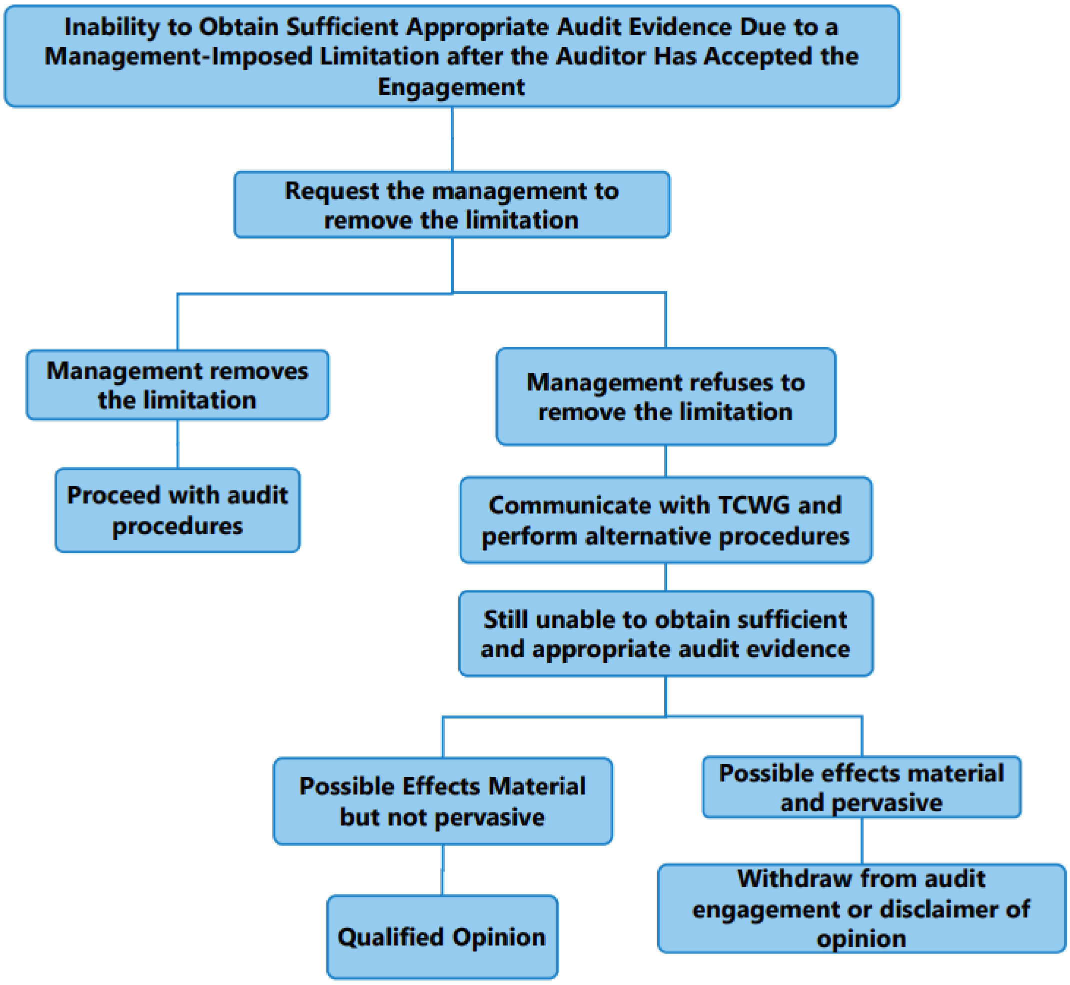
a. If the auditor concludes that the possible effects on the FS of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or

b. If the auditor concludes that the possible effects on the FS of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:

   (i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or

   (ii) If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the FS.

c. If the auditor withdraws as contemplated by point (b)(i) above, before withdrawing, the auditor shall communicate to TCWG any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.



6. Form and Content of the Auditor's Report When the Opinion is Modified

6.1 Qualified Opinion

When the auditor expresses a qualified opinion due to a material misstatement in the FS, the auditor shall state that, in the auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion section,

(a) When reporting in accordance with a fair presentation framework, the accompanying FS present fairly, in all material respects (or give a true and fair view of) [...] in accordance with [the applicable FRF]; or

(b) When reporting in accordance with a compliance framework, the accompanying FS have been prepared, in all material respects, in accordance with [the applicable FRF].

When the modification arises from an inability to obtain SAAE, the auditor shall use the corresponding phrase "except for the **possible** effects of the matter(s) ..." for the modified opinion.

6.2 Adverse Opinion

When the auditor expresses adverse opinion, the auditor shall state that, in the auditor's opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion section:

(a) When reporting in accordance with a fair presentation framework, the accompanying FS do not present fairly (or give a true and fair view of) [...] in accordance with [the applicable FRF]; or

(b) When reporting in accordance with a compliance framework, the accompanying FS have not been prepared, in all material respects, in accordance with [the applicable FRF].

6.3 Disclaimer of Opinion

When the auditor disclaims an opinion due to an inability to obtain SAAE, the auditor shall:

a) State that the auditor does not express an opinion on the accompanying FS;

b) State that, because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor has not been able to obtain SAAE to provide a basis for an audit opinion on the FS; and

c) Amend the statement required by SA 700 (Revised), which indicates that the FS have been audited, to state that the auditor was engaged to audit the FS.

7. Basis for Opinion

When the auditor modifies the opinion on the FS, the auditor shall, in addition to the specific elements required by SA 700:

Amend the heading "Basis for Opinion" required by SA 700 to:

- "Basis for Qualified Opinion"
- "Basis for Adverse Opinion" or
- "Basis for Disclaimer of Opinion" as appropriate;

within this section, include a description of the matter giving rise to the modification.

♦ If there is a material misstatement of the FS that relates to specific amounts in the FS (including quantitative disclosures in the notes to the FS), the auditor shall include in the Basis for Opinion section a description and quantification of the financial effects of the misstatement, unless impracticable.

♦ If it is not practicable to quantify the financial effects, the auditor shall so state in this section.

♦ If there is a material misstatement of the FS that relates to narrative disclosures, the auditor shall include in the Basis for Opinion section an explanation of how the disclosures are misstated.

♦ If there is a material misstatement of the FS that relates to the **non-disclosure of information** required to be disclosed, the auditor shall:

(a) Discuss the non-disclosure with those charged with governance;

(b) Describe in the Basis for Opinion section the nature of the omitted information;

(c) Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information.

♦ If the modification results from an inability to obtain SAAE, the auditor shall include in the Basis for Opinion section the reasons for that inability.

♦ When the auditor expresses a qualified or adverse opinion, the auditor shall amend the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion required by SA 700 to include the word "qualified" or "adverse", as appropriate.

Disclaimer of Opinion

♦ When the auditor disclaims an opinion on the FS, the auditor's report **shall not include** the following elements required by SA 700:

(a) Reference to the section of the auditor's report where the auditor's responsibilities are described; and

(b) A statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the FS, the auditor shall describe in the Basis for Opinion section the reasons for any other matters of

which the auditor is aware that would have required a modification to the opinion, and the effects thereof.
8. Description of Auditor's responsibility in case of Disclaimer
When the auditor disclaims an opinion on the FS due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the description of the auditor's responsibilities required by SA 700 (Revised) to include only the following: 1. A statement that the auditor's responsibility is to conduct an audit of the entity's FS in accordance with SA and to issue an auditor's report; 2. A statement that, however, because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain SAAE to provide a basis for an audit opinion on the FS; and 3. Statement about auditor independence and other ethical responsibilities required by SA 700 (Revised).
9. Consideration When Auditor Disclaims Opinion on FS
Unless required by L&R, when the auditor disclaims an opinion on the FS, the auditor's report shall not include a KMA section in accordance with SA 701.
10. Communication With TCWG
When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with TCWG the circumstances that led to the expected modification and the wording of the modification.

SA 706

SA 706	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Definition										
2. Objective of SA 706										
3. EOM Paragraphs in the Auditor's Report										
4. Separate Section for EOM PARA		4								
5. EOM paragraph is not a Substitute for										
6. OM Paragraph in Auditor's Report										
7. Separate Section for OM Para										
8. Communication with TCWG										
Total	0	4	0	0	0	0	0	0	0	0

SA 706: Emphasis Of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

1. Definition

1. EOM is introduced in Audit Report to draw users attention to a matter or matters presented or disclosed in the FS that are of such importance that they are fundamental to users' understanding of the FS; [EOM] or
2. OM is introduced in Audit Report to draw users' attention to any matter or matters other than those presented or disclosed in the FS that are relevant to user's understanding of the audit, the auditor's responsibilities or the auditor's report [OM].

Difference: EOM is for matters disclosed and OM is for matters not disclosed.

2. Objective of SA 706

Objective of the auditor, having formed an opinion on the FS, is to draw users' attention, when in the auditor's judgement it is necessary to do so, by way of clear additional communication in the auditor's report, to:

a. A matter, although appropriately presented or disclosed in the FS, that is of such importance that it is fundamental to users' understanding of the FS; or
b. As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

3. Emphasis of Matter Paragraphs in the Auditor's Report

Auditor shall include an EOM paragraph in the auditor's report provided:

a. The auditor would not be required to modify the opinion in accordance with **SA 705** as a result of the matter; and
b. When **SA 701** applies, the matter has not been determined to be a KAM to be communicated in the auditor's report.

4. Separate Section for EOM PARA

When the auditor includes an EOM paragraph in the auditor's report, the auditor shall:

a. Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter";
b. Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the FS. The paragraph shall refer only to information presented or disclosed in the FS; and
c. Indicate that the auditor's opinion is not modified in respect of the matter emphasized.

Example: We draw attention to **Note Y** of the FS, which describes the effects of a fire in the Company's factory. Our opinion is not modified in respect of this matter.

Some examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph.

1. An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
2. A significant subsequent event that occurs between the date of the FS and the date of the auditor's report.
3. Early application (where permitted) of a new accounting standard that has a material effect on the FS.
4. A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

5. Emphasis of Matter paragraph is not a Substitute for

1. A modified opinion in accordance with SA 705 when required by the circumstances of a specific audit engagement;
2. Disclosures in the FS that the applicable FRF requires mgmt to make, or that are otherwise necessary to achieve fair presentation; or
3. Reporting in accordance with SA 570 when a MU exists relating to E/C that may cast significant doubt on an entity's ability to continue as a going concern.

6. OM Paragraph in Auditor's Report

Auditor shall include an OM para in the auditor's report, provided:

a) This is not prohibited by law or regulation; and

b) When SA 701 applies, the matter has not been determined to be a KAM to be communicated in the auditor's report.

7. Separate Section for OM Para

The auditor shall include the paragraph within a separate section with the heading "Other Matter," or other appropriate heading.

8. Communication with TCWG

If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report, the auditor shall communicate with TCWG regarding this expectation and the wording of this paragraph.

SA 710

SA 710	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Definition & Objective					3					
2. Audit Procedure for Comparative Information - General										
3. Audit Procedures – Comparative FS										
3.1 PY Opinion issued was Incorrect – Current Auditor										
3.2 PY Opinion issued was Incorrect – Predecessor Auditor										
3.3 PY Not Audited										
3.4 Prior Period FS: Audited by Predecessor Auditor							4			
4. Audit Procedures Regarding – Corresponding Figures										
4.1. PY Modification - Unresolved		5						4		
4.2 PY Opinion Not Correct										
4.3 PY Not Audited										
4.4 Prior Period FS: Audited by Predecessor Auditor										
Total	0	5	0	0	3	0	4	4	0	0

SA 710: Comparative Information-Corresponding Figures and Comparative FS

1. Definition & Objective

Definition of Comparative Information: Amounts and disclosures included in the FS in respect of one or more prior periods in accordance with the applicable FRF. For e.g. FY 23 is presented along with FY 24.

Objective:

a) To obtain SAAE about whether the comparative information included in the FS has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable FRF; and

b) To report in accordance with the auditor's reporting responsibilities.

Nature of comparative info. to be presented depends on the requirements of applicable FRF. There are two different broad approaches to the auditor's reporting responsibilities in respect of such comparative information:

- Corresponding figures and
- Comparative financial statements

The essential audit reporting differences between the approaches are:

1. For Comparative FS, the auditor's opinion refers to each period for which FS are presented.
2. For Corresponding figures, the auditor's opinion on the FS refers to the current period only;

2. Audit Procedure for Comparative Information - General

Auditor shall determine whether:

1. Comparative information agrees with the amounts and other disclosures presented in the prior period; and
2. Accounting policies reflected in the comparative information are
   - ✓ Consistent with those applied in the current period or,
   - ✓ if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed.
3. If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, the auditor shall perform such additional audit procedures as are necessary in the circumstances to obtain SAAE to determine whether a material misstatement exists.
4. If the auditor had audited the prior period's FS, the auditor shall also follow the relevant requirements of SA 560.
5. As required by SA 580, the auditor shall request written representations for all periods referred to in the auditor's opinion.
6. Auditor shall also obtain a specific written representation regarding any prior period item that is separately disclosed in the current year's statement of profit and loss.

3. Audit Reporting: Comparative Financial Statements

Approach 1: Comparative FS (Refer Each Period)

Comparative info. where amounts and other disclosures for the prior period are included for comparison with the FS of the current period but, if audited, are referred to in the auditor's opinion.

The level of information included in those comparative FS is comparable with that of the FS of the current period.

Auditor's opinion to refer each period: When comparative FS are presented, the auditor's opinion shall refer to each period for which FS are presented and on which an audit opinion is expressed.

3.1 PY Opinion issued was Incorrect – Current Auditor

When reporting on prior period FS in connection with the current period's audit, if the auditor's opinion on such prior period FS differs from the opinion the auditor previously expressed:

The auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with SA 706.

Note for Understanding: We audited last year and during the year auditor may found out some material misstatement pertaining to last year and that lead to change in opinion.

3.2 PY Opinion issued was Incorrect – Predecessor Auditor

If the auditor concludes that a material misstatement exists that affects the prior period FS on which the predecessor auditor had previously reported without modification:

⇨ Auditor shall communicate the misstatement with the appropriate level of mgmt and TCWG and request that the predecessor auditor be informed.

⇨ If the prior period FS are amended, and the predecessor auditor agrees to issue a new auditor's report on the amended FS of the prior period, the auditor shall report only on the current period.

3.3 PY Not Audited

Prior Period FS Not Audited: If the prior period FS were not audited, the auditor shall state in an Other Matter paragraph that the comparative FS are unaudited.

Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's FS.

3.4 Prior Period Financial Statements Audited by a Predecessor Auditor

If the FS of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period's FS, the auditor shall state in an Other Matter paragraph:

a. FS of the prior period were audited by a predecessor auditor;
b. Type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefor; and
c. Date of that report

4. Audit Reporting regarding Corresponding Figures

Approach 2: Corresponding Figure

Comparative information where amounts and other disclosures for the prior period are included as an

- Integral part of the current period FS and

- Intended to be read only in relation to the amounts and other disclosures relating to the current period.
- The level of detail presented in the corresponding amounts and disclosures is dictated primarily by its relevance to the current period figures.

When **corresponding figures** are presented, the auditor's opinion **shall not refer** to the corresponding figures Except in the following circumstances:

4.1. PY Modification – Unresolved (Exception)

When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in the following circumstances:

If the auditor's report on the prior period, as previously issued, included a modified opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's FS.

In the Basis for Modification paragraph in the auditor's report, the auditor shall either:

a. Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material; or
b. In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.

4.2 PY Opinion issued was Incorrect – Current Auditor

If the auditor obtains audit evidence that a material misstatement exists in the prior period FS on which an unmodified opinion has been previously issued then:

⇨ The auditor shall verify whether the misstatement has been dealt with as required under the applicable FRF and

⇨ If that is not the case, the auditor shall express a qualified opinion or an adverse opinion in the auditor's report on the current period FS, modified with respect to the corresponding figures.

4.3 PY Not Audited

Prior Period FS Not Audited: If the prior period FS were not audited, the auditor shall state in an Other Matter paragraph in the auditor's report that the corresponding figures are unaudited.

Such a statement does not, however, relieve the auditor of the requirement to obtain SAAE that the opening balances do not contain misstatements that materially affect the current period's FS.

4.4 Prior Period FS Audited by a Predecessor Auditor

If the FS of the prior period were audited by a predecessor auditor and the auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures and decides to do so, the auditor shall state in an Other Matter paragraph in the auditor's report:

a) FS of the prior period were audited by the predecessor auditor;

b) Type of opinion expressed by the predecessor auditor and if the opinion was modified. the reasons therefore: and

c) Date of that report

SA 600

SA 600	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Companies Act Related										
2. Definitions										
3. Audit Procedures				4						
Total	0	0	0	4	0	0	0	0	0	0

SA 600 - Using the Work of another Auditor

1. Reference from Companies Act

- Section 128(1): Every company shall prepare and keep at its registered office BOA, FS etc + true and fair view + of the company, including its branch office + accrual basis + double entry system of accounting.
- If kept at any other place → Inform ROC within 7 days.
- Branch Accounts: It can keep proper books of account at that office and send proper summarised returns periodically to the company at its registered office or the other place.
- Section 143(8) prescribes the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor.
- Branch office Auditor: Accounts shall be audited either by the auditor appointed for the company (company's auditor) or by any other person qualified for appointment as an auditor of the company under this Act and appointed as such under section 139.
- Brach outside India: The accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country.

- Branch Audit Report: Branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the auditor of the company who shall deal with it in his report in such manner as he considers necessary.
- Rule 12 of the Companies (Audit and Auditors) Rules, 2014: Branch auditor shall submit his report to the company's auditor and reporting of fraud by the auditor shall also extend to such branch auditor to the extent it relates to the concerned branch.

2. Definitions

Principal auditor means the auditor with responsibility for reporting on the FS of an entity when that FS includes the FS of one or more components audited by another auditor.

Other auditor means an auditor, other than the principal auditor, with responsibility for reporting on the FS of a component which is included in the FS audited by the principal auditor.

Component means a division, branch, subsidiary, joint venture, associated enterprises or other entity whose financial information is included in the FS audited by the principal auditor.

3. SA 600: "Using the Work of another Auditor"

When the accounts of the branch are audited by a person other than the company's auditor (or principal auditor), there is need for a clear understanding of the role of such other auditor and the company's auditor in relation to the audit of the accounts of the branch and the audit of the company as a whole; also, there is great necessity for a proper rapport between these two auditors for the purpose of an effective audit. In recognition of these needs, the Council of the ICAI has dealt with these issues in **SA 600, "Using the Work of another Auditor"**.

In certain situations, the statute governing the entity may confer a right on the principal auditor to visit a component and examine the books of account and other records of the said component, if he thinks it necessary to do so.

Where another auditor has been appointed for the component, the principal auditor would normally be entitled to rely upon the work of such auditor unless there are special circumstances to make it essential for him to visit the component and/or to examine the books of account and other records of the said component.

Further, it requires that the principal auditor should perform procedures to obtain SAAE, that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment.

When using the work of another auditor, the principal auditor should ordinarily perform the following procedures:

1. Advise the other auditor of the use that is to be made of the other auditor's work and report and make sufficient arrangements for co-ordination of their efforts at the planning stage of the audit.
2. Principal auditor would inform the other auditor of:
   - Matters requiring special consideration,

- Procedures for the identification of inter -component transactions that may require disclosure and
- Time-table for completion of audit

3. Advise the other auditor of the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them.
4. Discuss the audit procedures applied or review a written summary of the other auditor's procedures and findings which may be in the form of a completed questionnaire or check-list.
5. Principal auditor may also wish to visit the other auditor.

NTE of procedures will depend on the circumstances of the engagement and the principal auditor's knowledge of the professional competence of the other auditor. This knowledge may have been enhanced from the review of the previous audit work of the other auditor

SA 299

SA 299	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Advantages of Joint Audit	5									
2. Disadvantages of Joint Audit										
3. Special Consideration in carrying Joint Audit										
4. Responsibility of Joint Auditor							4			
5. Audit Reporting			2							
Total	5	0	2	0	0	0	4	0	0	0

SA 299- Joint Audit of Financial Statements

The practice of appointing Chartered Accountants as joint auditors is quite widespread in big companies and corporations. Joint audit basically implies pooling together the resources and expertise of more than one firm of auditors to render an expert job in a given time period which may be difficult to accomplish acting individually. It essentially involves sharing of the total work. This is by itself a great advantage.

1. Advantages of Joint Audit	2. Disadvantages of Joint Audit
♦ Sharing of expertise. ♦ Advantage of mutual consultation. ♦ Lower workload. ♦ Better quality of performance. ♦ Improved service to the client. ♦ Lower staff development costs.	♦ Fees being shared. ♦ Psychological problem where firms of different standing are associated in the joint audit. ♦ General superiority complex of some auditors.

♦ Lower costs to carry out the work ♦ For MNCs, the work can be distributed using local firms' expertise, as they are better equipped to handle detailed work and local laws and regulations.	♦ Problems of co-ordination of work ♦ Areas of work of common concern being neglected. ♦ Uncertainty about the liability for the work done.

3. Special Consideration in carrying Joint Audit

The ICAI has issued SA 299, which lays down the principles for effective conduct of joint audit to achieve the overall objectives of the auditor as laid down in SA 200. This SA deals with the special considerations in carrying out audit by joint auditors. It requires that:

1. EP and other key members of the ET from **each** of the joint auditors should be involved in planning the audit.
2. Joint auditors should jointly establish an overall audit strategy which sets the STD of the audit, and also guides the development of the audit plan.
3. Before the commencement of the audit, the joint auditors should discuss and develop a joint audit plan. In developing the joint audit plan, the joint auditors should:
   - Identify division of audit areas and common audit areas;
   - Ascertain the reporting objectives of the engagement;
   - Consider and communicate among all joint auditors the factors that are significant in directing the engagement team's efforts;
   - Consider the results of preliminary engagement activities, or similar engagements performed earlier.
   - Ascertain the NTE of resources necessary to accomplish the engagement.
4. **ROMM: Each** of the joint auditors should consider and assess the risks of material misstatement and communicate to other joint auditors.
5. Joint auditors should discuss and document the NTE of the audit procedures for (I) common and (II) specific allotted areas of audit to be performed.
6. Joint auditors should obtain common EL and common MRL.
7. Work allocation document should be signed by all the joint auditors and communicated to TCWG.

4. Responsibility of Joint Auditor

Separate Responsibility – As per SA 299, in respect of audit work divided among the joint auditors, each joint auditor shall be responsible only for the work allocated to such joint auditor including proper execution of the audit procedures

Joint Responsibility - all the joint auditors shall be jointly and severally responsible for:

1. Audit work which is not divided among the joint auditors and is carried out by all joint auditors;
2. Decisions taken by all the joint auditors under audit planning in respect of common audit areas;
3. Matters which are brought to the notice of the joint auditors by any one of them and there is an agreement among the joint auditors on such matters;
4. Examining that the FS of the entity comply with the requirements of the relevant statutes;
5. Presentation and disclosure of the FS as required by the applicable FRF;
6. Ensuring that the audit report complies with the requirements of the relevant statutes, applicable SA and other relevant pronouncements issued by ICAI.

Other Responsibility:

In case a joint auditor comes across matters which are relevant to the areas of responsibility of other joint auditors and which deserve their attention, or which require disclosure or require discussion with, or application of judgment by other joint auditors, the said joint auditor shall communicate the same to all the other joint auditors in writing prior to the completion of the audit.

5. Audit Reporting

- Joint auditors are required to issue common audit report.
- However, where the joint auditors are in disagreement with regard to the opinion or any matters to be covered by the audit report, they shall express their opinion in a separate audit report.
- In such circumstances, the audit report(s) issued by the joint auditor(s) shall make a reference to each other's audit report(s).

A joint auditor is not bound by the views of majority of the joint auditors regarding the opinion on matters to be covered in the audit report and shall express opinion formed by the separate audit report in case of disagreement.

Reporting under Companies Act

Reporting under Companies Act	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
Sec 143(1)										
Sec 143(2)										
Sec 143(3)										
Sec 143(11)										
Sec 143(12)										
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Reporting Requirements under the Companies Act, 2013

Sec 143(1): Duty to Inquire on Certain Matters

Auditor shall inquire into following matters given as under: -

1. whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members
2. whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company
3. where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company
4. whether loans and advances made by the company have been shown as deposits
5. whether personal expenses have been charged to revenue account
6. where it is stated in the books and documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading.

However, the auditor is not required to report on the matters specified in sub-section (1) unless he has any special comments to make on any of the items referred to therein.

Sec 143(2): Report to the Members of the Company

Auditor shall make a report to the members of the company on the accounts examined by him and on every FS which are required by or under this Act to be laid before the company in general meeting and the report shall after taking into account the provisions of this Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of this Act or any rules made thereunder or under any order made under sub-section (11).

Further, auditor has to report whether to best of his information and knowledge, the said accounts, FS give a true and fair view of ***the state of the company's affairs as at the end of its financial year and profit or loss and cash flow for the year and such other matters as prescribed under Rule 11 of the Companies (Audit and Auditors) Rules, 2014.***

Sec. 143(3): Duty to Report

Auditor's report shall also state:

a. whether he has sought and obtained all the info. and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and if not, the details thereof and the effect of such info. on the FS;

b. whether, in his opinion, proper BOA as required by law have been kept by the company so far as appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him;

c. whether the report on the accounts of any branch office of the company audited under Sec 143(8) by a person other than the company's auditors has been sent to him and the manner in which he has dealt with it in preparing his report;

d. whether the company's balance sheet and profit and loss account dealt with in the report are in agreement with the books of account and returns;

e. whether, in his opinion, the FS comply with the AS;

f. the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;

g. whether any director is disqualified from being appointed as a director under Sec 164(2);

h. any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;

i. whether the company has adequate internal financial controls ***with reference to FS*** in place and the operating effectiveness of such controls;

IFCs Reporting shall not be applicable to a private company which is a:

1. One person company; or
2. Small company; or
3. Company having turnover less than Rs.50 crore as per latest audited FS and having aggregate borrowings from banks or financial institutions or any body corporate at any point of time during the financial year less than Rs.25 crore.

j. such other matters as are prescribed **in** Rule 11 of the Companies (Audit and Auditors) Rules, 2014 which are as under:

a. whether the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement;

b. whether the company has made provision, as required under any law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts;

c. whether there has been any delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the company.

d. (i) Whether mgmt has represented that, to the best of it's knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been advanced or loaned or invested by the company in any other person(s) or entity(ies), including foreign entities, with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, whether, directly or indirectly lend or invest in other persons or entities or provide any guarantee, security on behalf of the Ultimate Beneficiaries; (ii) Whether the mgmt has represented, that, to the best of its knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been received by the company from any person(s) or entity(ies), including foreign entities with the understanding, whether recorded in writing or otherwise, that the company shall, whether, directly or indirectly, lend or invest in other persons or entities or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries; and (iii) Based on such audit procedures that the auditor has considered reasonable and appropriate in the circumstances, nothing has come to their notice that has caused them to believe that the representations under sub-clause (1) and (2) contain any material misstatement.

e. Whether the dividend declared or paid during the year by the company is in compliance with section 123 of the Companies Act, 2013.

f. Whether the company has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention.

While reporting, where any of the matters required to be included in the audit report is answered in the negative or with a qualification, the report shall state the reasons therefor. Further, every auditor shall comply with the auditing standards as required under section 143(9).

Sec143(11): Reporting on any other matter specified by Central Gov.

CG may, in consultation with the NFRA, by general or special order, direct, in respect of such class or description of companies, as may be specified in the order, that the auditor's report shall also include a statement on such matters as may be specified therein.

Section 143(12): Reporting on Frauds

A. Reporting to the Central Government- As per **section 143(12)** of the Companies Act, 2013 read with **Rule 13** of the Companies (Audit and Auditors) Rules, 2014, if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of Rs _ crore or above, is being or has been committed in the company by its officers or employees, the auditor shall report the matter to the CG within such time and in such manner as prescribed.

B. Reporting to the Audit Committee or Board- In case of a fraud involving lesser than the specified amount [i.e. less than Rs __ crore], the auditor shall report the matter to the audit committee constituted under Sec 177 or to the Board in other cases within such time and in such manner as prescribed.

Besides, auditor has also to report matters pertaining to fraud at point (xi) of paragraph 3 of CARO,2020 which is discussed subsequently.

CARO

CARO	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
Applicability								4		
Clause 1 – PPE								2		
Clause 2 – Inventory					4					
Clause 3 – Loans & Advances										
Clause 4 – Sec 185 & 186										
Clause 5 - Deposits										
Clause 6 – Cost Records										4
Clause 7 – Statutory Dues			3							
Clause 8 – Undisclosed Income										
Clause 9 – Borrowings						4	4			
Clause 10 – IPO/FPO	4								4	
Clause 11 – Fraud Reporting										
Clause 12 – Nidhi Companies				3						
Clause 13 – RTP Compliance							2			
Clause 14 – Internal Audit										
Clause 15 – Non-cash Transaction										
Clause 16 – Banking Company										
Clause 17 – Cash Loss										
Clause 18 – Resignation										
Clause 19 – Ratio										
Clause 20 – CSR										
Clause 21 - Qualification										
Total	4	0	3	3	4	4	6	6	4	4

Reporting under Companies Auditor's Report Order, 2020 [CARO, 2020]

Applicability

It shall apply to every company including a foreign company except:

1. Banking Company
2. Insurance Company

3. Company licensed to operate under Sec 8 of the Companies Act;
4. One Person Company and a Small Company
5. Private limited company:
    a. not being a subsidiary or holding company of a public company,
    b. paid up capital and reserves and surplus not more than 1 crore rupees as on the balance sheet date
    c. does not have total borrowings exceeding 1 crore rupees from any bank or financial institution at any point of time during the financial year and
    d. does not have a total revenue as disclosed in Scheduled III to the Companies Act (including revenue from discontinuing operations) exceeding 10 crore rupees during the financial year as per the FS.

Non-Applicability

CARO shall not apply to the auditor's report on consolidated financial statements.

Paragraph 3: Clauses (i) to (xxi) [1-21]

(i) Property Plant and Equipment & Intangible Assets

1. whether the company is maintaining proper records showing full particulars, including quantitative details and situation of PPE;
2. whether the company is maintaining proper records showing full particulars of intangible assets;
3. whether these PPE have been physically verified by the mgmt at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the BOA;
4. whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the FS are held in the name of the company, if not, provide the details thereof in the format below:

Description of property	Gross carrying value	Held in name of	Whether promoter, director or their relative or employee	Period held –indicate range, where appropriate	Reason for not being held in name of company*
					*also indicate if in dispute

5. whether the company has revalued its PPE (including Right of Use assets) or intangible assets or both during the year and, if so, whether the

	revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of PPE or intangible assets; 6. whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 and rules made thereunder, if so, whether the company has appropriately disclosed the details in its FS;
(ii) Inventory	1. whether physical verification of inventory has been conducted at reasonable intervals by the mgmt and whether, in the opinion of the auditor, the coverage and procedure of such verification by the mgmt is appropriate; whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account; 2. whether during any point of time of the year, the company has been sanctioned working capital limits in excess of 5 crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details;
(iii) Loan, Investment, Guarantee, security Given	Whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, if so: 1. whether during the year the company has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity [not applicable to companies whose principal business is to give loans], if so, indicate: a. the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates; b. the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to parties other than subsidiaries, joint ventures and associates; 2. whether the investments made, guarantees provided, security given and the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided are not prejudicial to the company's interest;

	3. in respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular; 4. if the amount is overdue, state the total amount overdue for more than 90 days, and whether reasonable steps have been taken by the company for recovery of the principal and interest; 5. whether any loan or advance in the nature of loan granted which has fallen due during the year, has been renewed or extended or fresh loans granted to settle the overdues of existing loans given to the same parties, if so, specify the aggregate amount of such dues renewed or extended or settled by fresh loans and the percentage of the aggregate to the total loans or advances in the nature of loans granted during the year [not applicable to companies whose principal business is to give loans]; 6. whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in section 2(76) of the Companies Act, 2013;
(iv) Compliance of Sec. 185 & 186	In respect of loans, investments, guarantees, and security, whether provisions of Sec 185 and Sec 186 of the Companies Act have been complied with, if not, provide the details thereof;
(v) Deposits	1. in respect of deposits accepted by the company or amounts which are deemed to be deposits, whether the directives issued by the Reserve Bank of India and the provisions of Section 73 to 76 or any other relevant provisions of the Companies Act and the rules made thereunder, where applicable, have been complied with, if not, the nature of such contraventions be stated; 2. if an order has been passed by Company Law Board or NCLT or RBI or any court or any other tribunal, whether the same has been complied with or not;
(vi) Cost Records	whether maintenance of cost records has been specified by the Central Government under Sec 148(1) of the Companies Act and whether such accounts and records have been so made and maintained;
(vii) Statutory Dues	(a) whether the company is regular in depositing undisputed statutory dues including GST, provident fund, employees' state insurance, income tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the

<table>
<tr><td></td><td>financial year concerned for a period of more than 6 months from the date they became payable, shall be indicated;

(b) where statutory dues referred to in sub-clause (a) have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned (a mere representation to the concerned Department shall not be treated as a dispute);</td></tr>
<tr><td>(viii) Undisclosed Income – IT Assessment</td><td>(viii) whether any transactions not recorded in the BOA have been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961, if so, whether the previously unrecorded income has been properly recorded in the books of account during the year;</td></tr>
<tr><td>(ix) Borrowings</td><td>a. whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default to be reported as per the format below:
<table>
<tr><th>Nature of borrowing, including debt securities</th><th>Name of lender</th><th>Amount not paid on due date</th><th>Whether principal or interest</th><th>No. of days delay or unpaid</th><th>Remarks, if any</th></tr>
<tr><td></td><td>lender wise details to be provided in case of defaults to banks, financial institutions and Government.</td><td></td><td></td><td></td><td></td></tr>
</table>
b. whether the company is a declared wilful defaulter by any bank or financial institution or other lender;

c. whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported;

d. whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated;

e. whether the company has taken any funds from any entity or person on account of or to meet the obligations of its subsidiaries, associates or joint ventures, if so, details thereof with nature of such transactions and the amount in each case;

f. whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies, if so, give details thereof and also report if the company has defaulted in repayment of such loans raised;</td></tr>
</table>

(x) Raised Money: IPO/FPO	a. whether moneys raised by way of IPO or FPO (including debt instruments) during the year were applied for the purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported; b. whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so, whether the requirements of Sec 42 and Sec 62 of the Companies Act, 2013 have been complied with and the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved and nature of noncompliance;
(xi) Fraud Reporting	a. whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated; b. whether any report under Sec 143(12) of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government; c. whether the auditor has considered whistle-blower complaints, if any, received during the year by the company;
(xii) Nidhi Company	a. whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1:20 to meet out the liability; b. whether the Nidhi Company is maintaining 10% unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability; b. whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof;
(xiii) Related Party Transactions	whether all transactions with the related parties are in compliance with Sec 177 and Sec 188 of Companies Act where applicable and the details have been disclosed in the FS, etc., as required by the applicable AS;
(xiv) Internal Audit	a. whether the company has an internal audit system commensurate with the size and nature of its business; b. whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor;
(xv) Non-Cash Transactions	whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of Sec 192 of Companies Act have been complied with;

(xvi) Banking Companies	a. whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained; b. whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the RBI as per the Reserve Bank of India Act, 1934; c. whether the company is a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India, if so, whether it continues to fulfil the criteria of a CIC, and in case the company is an exempted or unregistered CIC, whether it continues to fulfil such criteria; b. whether the Group has more than one CIC as part of the Group, if yes, indicate the number of CICs which are part of the Group;
(xvii) Cash Losses	whether the company has incurred cash losses in the financial year and in the immediately preceding financial year, if so, state the amount of cash losses;
(xviii) Resignation of Stat. Auditor	whether there has been any resignation of the statutory auditors during the year, if so, whether the auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors;
(xix) Financial Ratios	On the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the FS, the auditor's knowledge of the Board of Directors and mgmt plans, whether the auditor is of the opinion that no material uncertainty exists as on the date of the audit report that company is capable of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date;
(xx) Corporate Social Responsibility (CSR)	a. whether, in respect of other than ongoing projects, the company has transferred unspent amount to a Fund specified in Schedule VII to the Companies Act within a period of six months of the expiry of the financial year in compliance with second proviso to Sec 135(5) of the said Act; b. whether any amount remaining unspent Sec 135(5) of the Companies Act, pursuant to any ongoing project, has been transferred to special account in compliance with the provision of Sec 135(6) of the said Act;
(xxi) Qualification	whether there have been any qualifications or adverse remarks by the respective auditors in the CARO reports of the companies included in the consolidated b, if yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks.

Paragraph 4. Reasons to be stated for Unfavourable or Qualified answers
1. Where, in the auditor's report, the answer to any of the questions referred to in paragraph 3 is unfavourable or qualified, the auditor's report shall also state the basis for such unfavourable or qualified answer, as the case may be. 2. Where the auditor is unable to express any opinion on any specified matter, his report shall indicate such fact together with the reasons as to why it is not possible for him to give his opinion on the same.

Chapter 9

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ICAI Weightage (CH 9+CH 10)	**12-18%**									

1. Audit of Firm

1.1 Appointment of Auditor

Appointed by the partners either on the basis of a decision taken by them or to comply with a condition in the partnership agreement.

Auditor may, particularly, ensure application of AS prescribed by the ICAI. In case the firm is required to get its accounts audited under the requirements of any statute, the auditor will have to qualify the report in case of non-compliance with the AS. Alternatively, only disclosure of non- compliance with the AS, would be sufficient without making it a subject matter of qualification.

1.2 Review of Partnership Agreement

Before starting the audit, he should examine the partnership agreement and note the provisions therein as regards the following matters:

1. **Firm Name and Style:** Name and style under which the business shall be conducted.
2. **Duration on Partnership:** Duration of partnership, if any, that has been agreed upon.
3. **Capital contribution by Partners:** Amount of capital that shall be contributed by each partner—whether it will be fixed or could be varied from year to year.
4. **Accounting Period & P/L share:** Period at the end of which the accounts will be closed and proportions in which profit shall be shared or losses to be contributed - including

whether losses shall be borne by all partners or whether any of the partners will not be required to do so.

5. **BOA and Profit determination:** Provisions for maintenance of BOA and matters that need to be considered for determining the profits available for division among the partners. Also, the period within which accounts can be reopened for correcting a manifest error.

6. **Borrowing Powers:** Borrowing capacity of the partnership (when it is not implied as in the case of non-trading firms).

7. **Interest on Capital, Loans and Drawings:** Rate at which interest will be allowed on the capitals and loans provided by partners and the rate at which it will be charged on their drawings and current accounts.

8. **Partners Salaries:** Whether any salaries are payable to the partners or withdrawals are permitted against shares of profits and, if so, to what extent?

9. **MD and duties:** Duties of the partners as regards the mgmt of business and the partners who shall act as managing partners.

10. **Banking Authority:** Who shall operate the bank account of the firm? How will the surplus funds of the partnership be invested?

11. **Rights, limitation and powers:** Limitations and restrictions that have been agreed upon. Rights and powers of partners and on their implied authority to pledge the firm's credit or to render the firm liable.

1.3 Matters to be considered in the Audit of Accounts of a Partnership

1. **Letter of Appointment:** Confirming that the letter of appointment, signed by a partner, duly authorised, clearly states the nature and scope of audit proposed by the partners, specially, the limitation, if any, under which the auditor shall have to function.

2. **Objects of Partnership:** Verifying that the business in which the partnership is engaged is authorised by the partnership agreement.

3. **Books of Account:** Examining whether books of account appear to be reasonable and are considered adequate in relation to the nature of the business of the partnership.

4. **Provision for Taxes:** Confirming that a provision for tax payable by the partnership has been made in the accounts before arriving at the amount of profit divisible among the partners.

5. **Division of Profits:** Verifying that the profits and losses have been divided among the partners in their agreed profit-sharing ratio.

6. **Partnership Documents:** Studying the minute book, if maintained, to review policy decisions taken by the partners, specially minutes relating to authorisation of extraordinary and capital expenditure, raising of loans, purchase of assets, entry into extraordinary contracts, and other non-routine matters."

7. **Mutual Interest:** Verifying generally that no partner's interest has been prejudicially affected due to any unauthorised activity or violation of any provision sin the partnership agreement.

1.4 Advantages of Audit of a Partnership Firm

Advantages of audit of accounts of a partnership could be stated as follows:

1. **Disputes Resolution:** Audited accounts provide a convenient and reliable means of settling accounts between the partners and possibility of occurrence of a dispute among them is mitigated. Based on this understanding, it is generally agreed and accepted by the partners that the audited accounts shall be final and binding, unless a clear and obvious error is brough to light within a specified period subsequent to accounts have been signed.
2. **Admission:** Audited statements of account can be helpful in the negotiations to admit a person as a partner, especially when they are available for a number of past years.
3. **Dissolution:** On the retirement or death of a partner, audited accounts, which have been accepted by the partners, constitute a reliable evidence for computing the amounts due to the retiring partner or to the representative of the deceased partner in respect of his share of capital, profits and goodwill.
4. **Reliable:** Audited statement of accounts are relied upon by the banks when advancing loans, as well as by prospective purchasers of the business, as evidence of the profitability and financial position of the firm.
5. **Control:** An audit is an effective safeguard against any undue advantage being taken by a working partner or partners especially in the case of those partners who are not actively associated with the working of the firm.

2. Audit of LLP

2.1 Basics of LLP

- Governing Act: Limited Liability Partnership Act, 2008.
- Minimum no. of partners to form LLP: 2
- Minimum Designated Partners: atleast 2 (who would be required to take DPIN)

Small limited liability partnership:

1. Contribution which does not exceed Rs 25 lakhs or such higher amount not exceeding Rs ___ crore, as may be prescribed
2. Turnover which as per Statement of Accounts and Solvency for immediately preceding FY, does not exceed Rs 40 lakh or such higher amount, not exceeding Rs 50 crore as may be prescribed

Books of Accounts

LLPs are required to maintain books of accounts which shall contain:

1. Particulars of all sums of money received and expended by the LLP and the matters in respect of which the receipt and expenditure takes place.
2. Record of the assets and liabilities of the LLP.
3. Statements of costs of goods purchased, inventories, work-in-progress, finished goods and costs of goods sold.
4. Any other particulars which the partners may decide.

Returns to be maintained and filed by an LLP

Every LLP is required to file to ROC:

1. Annual return in Form 11 with ROC within 60 days of closer of FY.
2. Statement of Account and Solvency: Form 8 within 30 days from the end of six months of the FY to which statement relates.

Appointment of Auditor

Auditor may be appointed by the Designated Partners (DP) of the LLP:

1. At any time for the first FY but before the end of First FY
2. At least 30 days prior to the end of each FY (other than the first FY)
3. To fill the casual vacancy in the office of auditor
4. To fill the casual vacancy caused by removal of auditor

Partners may appoint the auditors if the DPs have failed to appoint them.

2.2 Audit of LLP's: Auditor's Responsibility

1. **Engagement Letter:** Auditor should get definite instructions in writing as to the work to be performed by him.
2. **Minutes Book:** If partners maintain minute book he shall refer it for any resolution passed regarding the accounts.
3. **LLP Agreement:** Auditor should read LLP agreement & note the following provisions
   a. Nature of the business of the LLP.
   b. Amount of capital contributed by each partner.
   c. Interest – in respect of additional capital contributed.
   d. Duration of partnership.
   e. Drawings allowed to the partners.
   f. Salaries, commission etc. payable to partners.
   g. Borrowing powers of the LLP.
   h. Rights & duties of partners.

i. Method of settlement of accounts between partners at the time of admission, retirement, admission etc.

j. Any loans advanced by the partners.

k. Profit sharing ratio

4. **Reporting:** Auditor should mention

   a. Whether the records of the firm appear to be correct & reliable.

   b. Whether he was able to obtain all info & explanation necessary for his work.

   c. Whether any restriction was imposed upon him.

2.3 Advantages / Purpose / Need of Audit of LLP

1. **Detection of Errors**: Auditing accounts of a LLP helps in detecting errors & frauds & verification of FS.
2. **Disputes**: Disputes, if any between any partners in the matter of accounts can be settled with the help of audited accounts.
3. **Reliability**: Banks & financial institutions lend money to the firms only on the basis of audited accounts.
4. **Better Compliance and Management**: Periodical visits & suggestions by the auditor will be helpful in improving the mgmt. of the LLP.
5. **Reconstitution**: For settling accounts between partners at the time of admission, death, retirement, insolvency, insanity, etc. audited accounts are accepted by those concerned who have dealings with the LLP.

3. Audit of Educational Institutions

The special steps involved in their audit are the following:

1. Examine the Trust Deed or Regulations, in the case of school or college and note all the provisions affecting accounts. In the case of a university, refer to the Act of Legislature and the Regulation framed thereunder.
2. Read through the minutes of the meetings of the MC or Governing Body, noting resolutions affecting accounts to see that these have been duly complied with, specially the decisions as regards the operation of bank accounts and sanctioning of expenditure.

3.1 Fees from Students & Other Income

1. **Verification of no. of Students:** Check names entered in the Students Fee Register for each month or term, with the respective Class Registers, showing names of students on rolls and test amount of fees charged;
2. **Internal controls:** Verify that there operates a system of internal check which ensures that demands against the students are properly raised.

3. **Verification of Fee Receipts:** Check fees received by comparing the receipt counterfoils with the Cash Book entries and cross-checking them with the Fee Register to confirm the revenue has been duly accounted for.
4. **Monthly total and write-offs:** Total up the various columns of the Fees Register for each month or term to ascertain that fees paid in advance have been carried forward and that the arrears that are irrecoverable have been written off under the sanction of an appropriate authority.
5. **Admission Fees:** Check admission fees with admission slips signed by the head of the institution and confirm that the amount has been credited to a Capital fund, unless the Managing Committee has taken a decision to the contrary.
6. **Authorisation for concession:** See that free studentship and concessions have been granted by a person authorised to do so, having regard to the Rules prepared by the Managing Committee.
7. **Fines collection and authorisation:** Confirm that fines for late payment or absence, etc. have been either collected or remitted under proper authority.
8. **Recovery of hostel Dues:** Confirm that hostel dues were recovered before student's accounts were closed and their deposits of caution money refunded.

3.2 Other Receipts/Grants & Donations

1. **Rental Income:** Verify rental income from landed property with the rent rolls, etc.
2. **Investment Income:** Vouch income from endowments and legacies, as well as interest and dividends from investments; also examine the documents related to the investments held.
3. **Grant:** Verify any Government or local authority grant with the memo of grant. If any expense has been disallowed for purposes of grant, ascertain the reasons thereof.

3.3 Expenditure

1. **PF:** Verify that the Provident Fund money of the staff has been invested in appropriate securities.
2. **Donations:** Vouch donations, if any with the list published with the annual report. If some donations were meant for any specific purpose, see that the money was utilised for the purpose.
3. **Capital Expenditure:** Vouch, all capital expenditure in the usual way and verify the same with the sanction for the Committee as contained in the minute book.
4. **Establishment Expense:** Vouch, in the usual manner, all establishment expenses and enquire into any unduly heavy expenditure under any head. If there was any annual budget prepared, see that any excess under any head over the budgeted amount was duly sanctioned by the Managing Committee. If not, bring it to the Committee's notice in your report.

5. **Salaries:** See that increase in the salaries of the staff have been sanctioned and minuted by the Committee.

3.4 Assets & Liabilities

1. **Reporting of Outstanding Arrears:** Report any significant old arrears on account of fees, hostel rents etc. to the Managing Committee.
2. **Treatment of Student Deposits:** Confirm that caution money and other deposits collected from students are shown as liabilities in the balance sheet and not transferred to income, unless they are non-refundable.
3. **Endowment Fund Investments:** Check that investments representing endowment fund for prizes are separately maintained and any excess income is reinvested with the corpus.
4. **Inventory Verification:** Verify inventories of furniture, stationery, clothing, provisions, etc., against registers or previous year's records, and test check valuation
5. **Inspection and Bill Verification System:** Ascertain that incoming/outgoing goods like food, clothing, and provisions are inspected properly and bills are authorised before payment.

3.5 Compliances

1. Confirm that refund of taxes deducted from the income from investment (interest on securities etc.) has been claimed and recovered since the institutions are generally exempted from the payment of income-tax.
2. Verify the annual statements of account and, while doing so see that separate statements of account have been prepared as regards Poor Boys Fund, Games Fund, Hostel and Provident Fund of staff, etc.
3. Review the annual statement of accounts and see that separate accounts have been prepared for specific funds.

4. Audit of Hospital

The special points to be kept in mind as an auditor for developing an audit programme of healthcare service provider are:

1. **Register of Patients:** Vouch the Register of patients with copies of bills issued to them. Verify bills for a selected period with the patients' attendance record to see that the bills have been correctly prepared. Also see that bills have been issued to all patients from whom an amount was recoverable according to the rules of the hospital.
2. **Collection of Cash**: Check cash collections as entered in the Cash Book with the receipts, counterfoils and other evidence for example, copies of patients bills, counterfoils of dividend and other interest warrants, copies of rent bills, etc.

3. **Income from Investments, Rent etc**: See with reference to the property and Investment Register that all income that should have been received by way of rent on properties, dividends, and interest on securities have been collected.
4. **Legacies and Donations**: Ascertain that legacies and donations received for a specific purpose have been applied in the manner agreed upon.
5. **Reconciliation of Subscriptions**: Trace all collections of subscription and donations from the Cash Book to the respective Registers. Reconcile the total subscriptions due (as shown by the Subscription Register and the amount collected and that still outstanding).
6. **Authorisation and Sanctions**: Vouch all purchases and expenses and verify that the capital expenditure was incurred only with the prior sanction of the Trustees or the Managing Committee and that appointments and increments to staff have been duly authorised.
7. **Grants and TDS**: Verify that grants, if any, received from Government or local authority has been duly accounted for. Also, that refund in respect of taxes deducted at source has been claimed.
8. **Budgets**: Compare the totals of various items of expenditure and income with the amount budgeted for them and report to the Trustees or the Managing Committee, significant variations which have taken place.
9. **Internal Check**: Examine the internal check as regards the receipt and issue of stores; medicines, linen, apparatus, clothing, instruments, etc. so as to ensure that purchases have been properly recorded in the Inventory Register and that issues have been made only against proper authorisation.
10. **Depreciation**: See that depreciation has been written off against all the assets at the appropriate rates.
11. **Registers**: Inspect the bonds, share scrips, title deeds of properties and compare their particulars with those entered in the property and Investment Registers.
12. **Inventories**: Obtain inventories, especially of stocks and stores as at the end of the year and check a percentage of the items physically; also compare their total values with respective ledger balances.
13. **Management Representation and Certificate**: Get proper Management Representation and Certificate with respect to various aspects covered during the course of audit.

5. Audit of Club

1. **Entrance Fee:** Vouch the receipt on account of entrance fees with members applications, counterfoils issued to them, as well as on a reference to minutes of the Managing Committee.
2. **Subscriptions:** Vouch members' subscriptions with the counterfoils of receipt issued to them, trace receipts for a selected period to the Register of Members; also reconcile the amount of total subscriptions due with the amount collected and that outstanding.

3. **Arrears of Subscriptions:** Ensure that arrears of subscriptions for the previous year have been correctly brought over and arrears for the year under audit and subscriptions received in advance have been correctly adjusted.
4. **Arithmetical accuracy:** Check totals of various columns of the Register of members and tally them across.
5. **Irrecoverable Member Dues:** See the Register of Members to ascertain the Member's dues which are in arrear and enquire whether necessary steps have been taken for their recovery; the amount considered irrecoverable should be mentioned in the Audit Report.
6. **Pricing:** Verify the internal check as regards members being charged with the price of foodstuffs and drinks provided to them and their guests, as well as, with the fees chargeable for the special services rendered, such as billiards, tennis, etc.
7. **Member Accounts:** Trace debits for a selected period from subsidiary registers maintained in respect of supplies and services to members to confirm that the account of every member has been debited with amounts recoverable from him.
8. **Purchases:** Vouch purchase of sports items, furniture, crockery, etc. and trace their entries into the respective inventory registers.
9. **Margins earned:** Vouch purchases of foodstuffs, cigars, wines, etc., and test their sale price so as to confirm that the normal rates of gross profit have been earned on their sales. The inventory of unsold provisions and stores, at the end of year, should be verified physically and its valuation checked.
10. **Inventories:** Check the inventory of furniture, sports material and other assets physically with the respective inventory registers or inventories prepared at the end of the year.
11. **Investments:** Inspect the share scrips and bonds in respect of investments, check their current values for disclosure in final accounts; also ascertain that the arrangements for their safe custody are satisfactory.
12. **Management Powers:** Examine the financial powers of the secretary and, if these have been exceeded, report specific case for confirmation by the Managing Committee.

6. Audit of Cinema

6.1 Receipts from Sale of Tickets

1. Verify the **internal control mechanism** that:
   a. entrance to the cinema-hall during show is only through printed tickets;
   b. they are serially numbered and bound into books;
   c. number of tickets issued for each show and class, are different though the numbers of the same class for the show on the same day, each week, run serially;
   d. for advance booking a separate series of tickets is issued; and

e. inventory of tickets is kept in the custody of a responsible official.

2. Confirm that at the end of show, a statement of tickets sold is prepared and cash collected is agreed with it.
3. Verify that a record is kept of 'free passes' and these are issued under proper authority.
4. Reconcile the amount of Tax collected with the total number of tickets issued for each class and vouch and verify the tax returns filed each month.
5. Vouch entries in the Cash Book w.r.t cash collected on sale of tickets for different shows using the Daily Statements that have already been test-checked against the records of tickets issued for those shows.

6.2 Other Income

1. Verify the amount collected for advertisement slides and shorts with 'Register of Slides and Shorts Exhibited' kept at the cinema as well with the agreements, entered into with advertisers in this regard.
2. Arrangement for collection share in the restaurant income should be enquired into either a fixed sum or a fixed percentage of the taking may be receivable annually.
3. In case the restaurant is run by the Cinema, its accounts should be checked. Audit should cover sale and purchase of various items of foodstuffs, cold drink, etc.

6.3 Expenses

1. Vouch expenditure incurred on advertisement, repairs and maintenance. No part of such expenditure should be capitalized.
2. Confirm that depreciation on machinery and furniture has been charged at an appropriate rate.
3. Vouch payments on account of film hire with bills of distributors and refer to related agreements.
4. Examine unadjusted balance out of advance paid to the distributors against film hire contracts to see that they are good and recoverable. If any film in respect of which an advance was paid has already run, it should be enquired as to why the advance has not been adjusted. Mgmt. should be asked to make a provision in respect of advances that are considered irrecoverable.

7. Audit of Hire Purchase and Leasing Companies

7A. Hire Purchase

Hire-purchase agreement means an agreement under which goods are let on hire and under which the hirer has an option to purchase them in accordance with the terms of the agreement and includes an agreement under which-

1) possession of goods is delivered by the owner thereof to a person on condition that such person pays the agreed amount in periodical instalments,
2) property in the goods is to pass to such person on the payment of the last of such instalments, and
3) hirer has a right to terminate the agreement at any time before the property so passes.

7A.1 Audit Procedures for Hire Purchase

While checking the hire- purchase transaction, the auditor may examine the following:

1. Hire purchase agreement is in writing and is signed by all parties.
2. Hire purchase agreement specifies clearly:
   a. hire-purchase price of the goods to which the agreement relates;
   b. cash price of the goods, that is to say, the price at which the goods may be purchased by the hirer for cash;
   c. date on which the agreement shall be deemed to have commenced;
   d. number of instalments by which the hire- purchase price is to be paid, the amount of each of those instalments, and date of payment, or the mode of determining the date, upon which it is payable, and person to whom and place where it is payable;
   e. goods to which the agreement relates, in a manner sufficient to identify them.
3. Ensure that instalment payments are being received regularly as per the agreement.

7B. Leasing

In a lease agreement, a party (called *'lessee'*) acquires the right to use an asset for an agreed period of time in consideration of payment of rent to another party (called *'lessor'*).

7B.1 Audit Procedures for Leasing

In respect of leasing transaction entered into by the leasing company, the following procedures may be adopted by the auditor:

1. **Review object clause:** Review the object clause of leasing company to identify the type of goods like capital goods, consumer durables etc. in respect of which the company can undertake such activities. Further, ensure whether the company can undertake financing activities or not.
2. **Creditworthiness of lessee:** Check whether there exists a procedure to ascertain the credit analysis of lessee like lessee's ability to meet the commitment under lease, past credit record, capital strength, availability of collateral security, etc.
3. **Lease agreement examination:** Lease agreement should be examined and the following points may be noted:
   a) description of the lessor, the lessee, the equipment and the location where the equipment is to be installed. (Stipulation that the equipment shall not be removed from

the described location except for repairs. For the sake of identification, the lessor may also require plates or markings to be attached to the equipment).

b) tenure of lease, dates of payment, late charges, deposits or advances etc. should be noted.

c) whether equipment shall be returned to the lessor on termination of the agreement and the cost shall be borne by the lessee.

d) whether the agreement prohibits the lessee from subletting the equipment.

4. **Review of lease proposal form:** Examine the lease proposal form submitted by the lessee requesting the lessor to provide him the equipment on lease.
5. **Acceptance Letter:** Examine the acceptance letter obtained from the lessee indicating that the equipment has been received in order and is acceptable to the lessee.
6. **Retention of Invoices:** Ensure that the invoice is retained safely as the lease is a long-term contract.
7. **Borad Approval:** See the Board resolution authorising a particular director to execute the lease agreement has been passed by the lessee.
8. **Insurance:** See that the copies of the insurance policies have been obtained by the lessor for his records.

7C. Operating vs Finance Lease

Finance Lease:

An arrangement with the following attributes qualifies as a Finance Lease:

- lease arrangement transfers ownership of the asset to the lessee at the end of the lease term;
- lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- leased assets are of such a specialized nature that only the lessee can use them without major modifications

Operating Lease: An arrangement that does not transfer substantially all the risks and rewards incidental to ownership qualifies as an Operating Lease.

	Operating Lease	Finance Lease

Common examples	Lease of Projector, Computers, Laptops, Coffee Dispensers etc.	Lease of Plant and Machinery, Land, Office Building etc.
Accounting treatment	Ownership of the asset remains with the lessor for the entire period of lease.	Ownership transfer option at the end of the lease period is with the lessee. Title may or may not be eventually transferred.
Purchase Option	Operating lease is generally treated like a renting arrangement. That means, the lease payments are treated as operating expenses and the asset does not appear as an asset on lessee's balance sheet.	Finance lease is treated like loan arrangement. Hence, the asset ownership is considered of that of the lessee and thus appears on the balance sheet of the lessee.
Lease Term	Under operating lease, the lessee does not have any option to buy the asset during the lease period.	Finance lease allows the lessee to have a purchase option at less than the fair market value of the asset.
	Lease term generally extends to less than 75% of the projected useful life of the leased asset.	Lease term is generally more than or equal to estimated economic life of the asset under the lease arrangement.
Operating/ running expenses	Lessee pays only the monthly lease payments. No running or administration costs are to be borne for example: registration, repairs etc. since it gives only right to use the asset.	Lessee generally bears insurance, maintenance and taxes.
Tax benefit	Since operating lease is as good as renting, lease payment is considered as expense. No depreciation can be claimed by the lessee.	Lessee can claim both interest and depreciation expense as financial lease is treated like a loan.

8. Audit of Hotels

8.1 Internal Controls

Special considerations in a hotel audit can be summarised as follows:

1. **Risk:** Pilfering is one of the greatest problems in any hotel.
2. **Mgmt Responsibility:** It is the responsibility of mgmt to introduce controls which will minimise the leakage as far as possible.
3. **Mgmt Review:** Mgmt should prepare regular perhaps weekly, trading accounts for each sales point and a detailed scrutiny of the resulting profit % and any deviation from the anticipated form being investigated.
4. Auditor should:
    - **Obtain data:** obtain these regular trading accounts for the period under review, examine them and obtain explanations for any apparent deviations.
    - **KOT's:** verify a few restaurant bills by reference to K.O.T.s (Kitchen Order Tickets) or basic record. This would enable the auditor to ensure that controls regarding revenue cycle are in order.
    - **Taxes:** satisfy himself that all taxes collected from occupants on food and occupation have been paid over to the proper authorities.
5. **Impact of weak controls:** If the internal control in a hotel is weak or perhaps breaks down, then a very serious problem exists for the auditor. As a result of the transient nature of many of his clients' records, the auditor must rely to a very large extent on the gross margin shown by the accounts.
6. **Audit scope and Report:** As a result, the scope of his audit tests will necessarily be increased and, in the event of a material margin discrepancy being unexplained, he will have to consider qualifying his audit report.

8.2 Room Sales & Hall Bookings

1. **Posting of Room charges:** Charge for room sales is normally posted to guest bills by the receptionist/ front office or in the case of large hotels by the night auditor.
2. **Accuracy in Invoicing:** Source of these entries is invariably the guest register and audit tests should be carried out to ensure that the correct numbers of guests are charged for the correct period.
3. **Difference in Rates:** Any difference between the charged rates used on the guests' bills and standard room rate should be investigated to ensure that they have been properly authorised.
4. **Housekeeping Records:** In many hotels, the housekeeper prepares a daily report of the rooms which were occupied the previous night and the number of beds kept in each room.
5. **Retention of Records:** This report tends not to be permanently retained and the auditor should ensure that a sufficient number of reports are available for him to test with both the guest register and individual guest's bill.

6. Auditor should ensure that:
   - proper valuation of occupancy-in-progress at the BS date is made and included in the accounts.
   - proper records are maintained for booking of halls and other premises for special parties and recovered on the basis of the tariff.

8.3 Inventories

1. **Risk:** Inventories in any hotel are both readily portable and saleable particularly the food and beverage inventories.
2. **Inventory movement:** All inventory movements and transfers should be properly documented to ensure effective control over each store area and sales point.
3. **Testing of records:** Auditor should carry out tests to ensure that all such documentation is accurately processed.
4. **Physical Security:** Areas where large quantities of inventory are held should be kept locked, the key being retained by the departmental manager.
5. **Access control:** key should be released only to trusted personnel and unauthorised persons should not be permitted in the store's areas except under constant supervision. In particular, any movement of goods in or out of the stores should be checked.
6. **Professional valuers:** Many hotels use specialised professional valuers to take and value the inventories on a continuous basis throughout the year.
7. **Valuation for BS:** Such valuations are used as the basis for the year-end inventory figure in the BS. Although the valuers are independent, the auditor satisfies himself that inventory amounts reported are reasonable.
8. **Physical verification:** Auditor should consider attending the physical inventory taking and carrying out certain pricing and calculation tests.

8.4 FA & Casual Labour & Travel Agents

Fixed Assets

- Accounting policies for fixed assets of individual hotels are likely to differ.
- Many hotels treat certain items like silverware and cutlery as inventory instead of fixed assets. This can create confusion between such inventory items and similar items that are recorded as fixed assets.
- To avoid this, clear definitions of what counts as inventory should be in place, and the auditor should test whether these definitions are properly followed.
- Auditor should see that costs of repairs and minor renovation and redecoration are treated as revenue expenditure, whereas costs of major alterations and additions to the hotel building and facilities capitalised.

Casual Labour

Hotel trade operates to very large extent on casual labour. Records maintained of such wage payments are frequently inadequate. Auditor should ensure that defalcation on this account does not take place by suggesting proper controls to the management.

Travel Agents & Shops

- For ledgers coming through travel agents or other booking agencies the bills are usually made on the travel agents or booking agencies.
- Auditor should ensure that money are recovered from the travel agents or booking agencies as per the terms of credit allowed.
- Commission, if any, paid to travel agents or booking agents should be checked by reference to the agreement on that behalf.

9. Audit of Trust & Societies

9.1 Legal Forms

There are three basic legal forms of charitable entities under Indian law:

- Trusts,
- Societies, and
- Section 8 companies

Legal framework governing the charitable institution will depend on the form of business organization the charitable institution takes.

- Public Trust will be governed by the Public Trust Act applicable in the relevant State. However, if no Public Trust Act exists in that state, then the applicable legislation will be the Indian Trusts Act, 1882.
- Society will be governed by the Societies Registration Act, 1860.
- Non-profit company under Section 8 of the Companies Act, 2013.
- Apart from the above legislations, the Income Tax Act 1961 will be applicable to charitable institutions.
- In case of foreign contributions to charitable institutions, Foreign Contribution (Regulation) Act, 2010 will be applicable.

9.2 Books of Accounts

Charitable and religious trusts should maintain regular books of account. Auditor is required to report whether the Trust has maintained proper books of accounts, including the following, namely:

- cash book

- ledger
- journal
- copies of bills (whether machine numbered or otherwise serially numbered, wherever such bills are issued by the trust, and copies or counterfoils of machine numbered or otherwise serially numbered receipts issued by the trust)
- original bills wherever issued to the person and receipts in respect of payments made by the person;
- any other book that may be required to be maintained in order to give a true and fair view of the state of the affairs of the person and explain the transactions effected;

9.3 Auditors Responsibility

9A. Audit Procedure for Trusts

Auditor has to ascertain:

1. **Maintenance of Accounts:** whether accounts are maintained regularly and in accordance with the provisions of the applicable Act and the rules;
2. **Proper Accounting & use of Donations:** whether receipts and disbursements are properly and correctly shown in the accounts and money received in the form of donations is being applied as per the objects of the trust and as per the specific direction by the donor, if any.
3. **Availability of Records:** whether all books, deeds, accounts, vouchers or other documents or records required by the auditor were produced before him;
4. Cash and Vouchers Verification: whether the cash balance and vouchers in the custody of the manager or trustee on the date of audit were in agreement with the accounts;
5. **Number of Trustees:** whether the maximum and minimum number of the trustees is maintained;
6. **Holding of meetings:** whether the meetings are held regularly as provided in such instrument
7. **Maintenance of minutes book:** whether the minute books of the proceedings of the meeting is maintained
8. **Investments as per Law:** whether any money of the public trust has been invested contrary to the provisions of applicable Act which have come to the notice of the Auditor.
9. **Trustee's Interest in Investments:** whether any of the trustees has any interest in the investment of the trust.
10. **Trustee as Debtor or Creditor:** whether any of the trustees is a debtor or creditor of the trust.

11. **Anonymous & Cash Donations:** whether anonymous donations received are properly accounted for and donations received in cash are not over and above the prescribed limit of accepting cash donations.

12. **Misuse of Funds:** whether any property or funds of the Trust were applied for any object or purpose other than the object or purpose of the Trust.

13. **Property Register:** whether a register of movable and immovable properties is maintained, the changes therein are communicated from time to time to the regional office, and the defects and inaccuracies mentioned in the previous audit report have been duly complied with and rectified.

14. **Outstanding Amounts:** the amounts of outstanding for more than one year and the amounts written off, if any;

15. **Cooperation with Auditor:** whether the manager or trustee or any other person required by the auditor to appear before him did so and furnished the necessary information required by him;

16. **Irregularities and misconduct:** all cases of misuse, loss, or failure to recover money or property of a public trust—whether due to misconduct, breach of trust, or mismanagement by trustees or others involved in its administration

17. **Compliance with Previous Audit Observations:** whether the irregularities pointed out by the auditors in the accounts of the previous year have been duly complied with by the trustees during the period of audit.

18. **Other Special Observations:** any special matter which the auditor may think fit or necessary to bring to the notice of the Deputy or Assistant Charity Commissioner.

9B. Audit Procedure for Societies

Auditor's considerations:

1. **Check the law under which the society is registered:** Auditor should ascertain governing legislation of society i.e. Societies Registration act, 1860 or any applicable state law under which it has been registered.

2. **Understand purpose of society:** Object of society needs to be ascertained from its memorandum of association/bye laws. Its activities may include charitable, social, cultural or educational activities.

3. Foreign donation: Ascertain whether society has obtained registration under Foreign Contribution (Regulation) Act, 2010 in case foreign contributions are received.

4. **Income tax registration**: Ascertain whether it is also registered under Income Tax Act which may make it eligible for tax exemption on its income.

5. **Understanding internal controls**: Obtain an understanding of internal control to design audit procedures with special reference to donations and various expenditures incurred in relation to achievements of objects of society.

6. **Accounting policy:** Evaluate appropriateness of accounting policies with special reference to donations and grants. Also evaluate accounting policies in relation to specific grants.
7. **Reimbursement of expense:** In case some expenses incurred by society are reimbursed by donors, ascertain how these are recognized in FS.
8. **Inquiry by Registrar:** Ascertain, if any inquiry has been held by Registrar under applicable law in the working or financial condition of society and its implications for auditor's opinion.
9. **Improper, wasteful spending or losses:** Ascertain all cases of irregular, illegal or improper expenditure or failure or omission to recover monies or other property belonging to society or of loss or waste of money or other property thereof.
10. Ascertain whether such expenditure or waste was caused in consequence of breach of trust or misapplication or any other misconduct on the part of governing body.

10. Audit of NGO

NGO can be registered as:

- Societies: The Societies Registration Act, 1860
- Trust: The India Trust Act, 1882
- Company: Section 8 of the Companies Act, 2013

When Registration of Trust is mandatory?

if an NGO is created as a trust and trust relates to immovable property worth more than Rs 100, the provision of Section 17(1) of the Registration Act, 1908 read with Section 123 of the Transfer of Property Act, 1882 must be complied with and the registration of trust becomes mandatory.

Accrual or Cash basis of accounting:

- Registered as company: Must maintain BOA on accrual basis as per Sec 128.
- Not registered as company: Either accrual or cash basis.

10.1 Sources and application of funds

1. Main sources of funds include grants and donations, fund raising programmes, advertisements, fees from the members, technical assistance fees / fee for services rendered, subscriptions, gifts, sale of produce or publications, etc.
   a. Donations and grants received in the nature of promoter's contribution are in the nature of capital receipts and shown as liabilities in the Balance Sheet of NGO. These may either be in the form of:
      - corpus contribution or
      - a contribution towards revolving fund.
   b. **Corpus Contribution:** Contribution made towards the capital or the corpus of an NGO is known as corpus contribution. The donors are generally required to specify whether

the donation/grant given by him shall form part of the corpus of the NGO. Such contributions are generally given with reference to the total funds required by an NGO.

c. **IT exemption:** Section 11(1)(d) of the Income Tax Act 1961 also states that income in the form of voluntary contributions made with a specific direction that they shall form part of the corpus of the trust or institution shall not be included in the computation of total income.

d. **Revolving Fund:** Objective of a contribution or grant towards a Revolving Fund is to rotate the amount by giving temporary loans from the fund to other NGO or beneficiaries for their projects and then recover the loan so as to give temporary loans again and so on.

e. **Interest on Revolving fund:** However, any interest earned from the beneficiary on such temporary loans from the revolving fund could be either added back to the fund or credited to the Income and Expenditure Account depending on restrictions laid down by the authority providing the contribution (for the revolving fund) or by the rules and regulations laid down by the concerned NGO in this regard.

f. **Donation towards Specific Assets:** Donations and grants received for acquisition of specific fixed assets are those grants whose primary condition is that an NGO accepting them should purchase, construct or otherwise acquire the assets for which the grant is given.

g. **Contribution in kind:** Many a times NGOs receive contributions in kind. These contributions include assets such as land, buildings, vehicles, office equipment, etc. and articles related to programmes / projects such as food, books, building materials, clothes, beds, and raw material for training purposes, e.g., Wool, reeds, cloth, etc.

2. Areas of **application of funds** for an NGO include Establishment Costs, Office and Administrative Expenses, Maintenance Expenses, Programme / Project Expenses, Charity, Donations and Contributions given, etc.

10.2 Appointment of Auditor

- Auditors of an NGO registered as Society or Trust are normally appointed by the Management of the Society or Trust.
- Auditors of NGO registered under Sec 8 of the Companies Act, 2013 are appointed by the members of the company.
- In the case of NGO/PDA's different statutes have specified certain audit reports. The Foreign Contribution (Regulation) Act 2010 has prescribed the format and requires that the same be furnished to the Ministry of Home Affairs within 60 days from the close of the financial year i.e. by May 30 each year.

10.3 Points to consider while Planning Audit

1. Knowledge of the NGO's work, its mission and vision, areas of operations and environment in which it operates.
2. Updating knowledge of relevant statutes especially with regard to recent amendments, circulars, judicial decisions viz. Foreign Contribution (Regulation) Act 2010, Societies Registration Act, 1860, Income Tax Act 1961 etc. and the Rules related to the statutes.
3. Reviewing legal form of the Organisation and its MOA, AOA, Rules and Regulations.
4. Reviewing the NGO's Organisation chart, Financial and Administrative Manuals, Project and Programme Guidelines, Funding Agencies Requirements and formats, budgetary policies if any.
5. Examination of minutes of the Board/Managing Committee/Governing Body/ Management and Committees thereof to ascertain the impact of any decisions on the financial records.
6. Study the accounting system, procedures, internal controls and internal checks existing for the NGO and verify their applicability.
7. Setting of materiality levels for audit purposes.
8. Nature and timing of reports or other communications.
9. Involvement of experts and their reports.
10. Review previous year's Audit Report.

10.4 Audit Programme of NGO

Audit programme should include in a sequential order all assets, liabilities, income and expenditure ensuring that no material item is omitted.

1. **Corpus Fund:** Vouch contributions/grants received towards corpus with special reference to letters from the donor(s). Check the interest income earned on the corpus fund with Investment Register and physical investments held.
2. **Reserves:** Vouch transfers from projects/programmes with donors letters and board resolutions of NGO. Also check transfer of gross value of asset sold from capital reserve to general reserve and adjustments during the year.
3. **Ear-marked Funds:** Check requirements of donors, institutions, board resolution of NGO, rules and regulations of the schemes of the ear-marked funds.
4. **Loans:** Vouch loans with loan agreements, counterfoil of receipt issued.
5. **Project/Agency Balances:** Vouch disbursements and expenditure as per agreements with donors for each of the balances.
6. **Fixed Assets:** Vouch all acquisitions/sale or disposal of assets including depreciation and the authorisations for the same. Also check donor's letters/ agreements for the grant. In the case of immovable property check title, etc.
7. **Investments:** Check Investment Register and the investments physically ensuring that investments are in the name of the NGO. Verify further investments and dis-investments

for approval by the appropriate authority and reference in the bank accounts for the principal amount and interest.

8. **Cash in Hand:** Physically verify the cash in hand and imprest balances, at the close of the year and whether it tallies with the books of account.
9. **Bank Balance:** Check the BRS and ascertain details for old O/s and unadjusted amounts.
10. **Inventory:** Verify inventory in hand and obtain certificate from the management for the quantities and valuation of the same.
11. **Programme and Project Expenses:** Verify agreement with donor/contributor(s) supporting the particular programme or project to ascertain the conditions for undertaking it. In the case of programmes/projects involving contracts, ensure that income tax is deducted, deposited and returns filed and verify the terms of the contract.
12. **Establishment Expenses:** Verify that PF, insurance premium, ESIC and their admin charges are deducted, contributed and deposited within the prescribed time. Also check other office and admin expenses such as postage, stationery, travelling, etc.

10.5 Receipt of Income

1. **Contributions and Grants for projects and programmes:** Check agreements with donors and grants letters to ensure that funds received have been accounted for. Check that all foreign contribution receipts are deposited in the foreign contribution bank account as notified under the Foreign Contribution (Regulation) Act, 2010
2. **Receipts from fund raising programmes:** Verify in detail the internal control system and ascertain who are the persons responsible for collection of funds and mode of receipt. Ensure that collections are counted and deposited in the bank daily.
3. **Membership Fees:** Check fees received with Membership Register. Ensure proper classification is made between entrance and annual fees and life membership fees. Reconcile fees received with fees to be received during the year.
4. **Subscriptions:** Check with subscription register and receipts issued. Reconcile the subscription amounts received with the printing and dispatch records of the related magazines, circulars, or periodicals. Check the receipts with subscription rate schedule.
5. **Interest and Dividends:** Check the interest and dividends received and receivable with investments held during the year.

11. Audit of Charitable Institutions

Points to be considered while audit of Charitable Institution:

General

- Studying the constitution under which the charitable institution has been set up.
- Verifying whether the institution is being managed in the manner contemplated by the law under which it has been set up.

- Examining the system of internal check, especially as regards accounting of amounts collected.
- Verifying in detail the income and confirming that the amounts received have been deposited in the bank regularly and promptly.
- Examine the Trust Deed or the Regulations as laid down.

Subscriptions and donations

- Ascertaining, if any, the changes made in amount of annual or life membership subscription during the year.
- Whether official receipts are issued:
  - confirming that adequate control is imposed over unused receipt books;
  - obtaining all receipt books covering the period under review;
  - test checking the counterfoils with the cash book; any cancelled receipts being specially looked into;
  - obtaining the printed list of subscriptions and donations and agreeing them with the total collections shown in the accounts;
  - examining the system of internal check regarding moneys received from box collections, flag days, etc. and checking the amount received from representatives, with the correspondence and the official receipts issued; paying special attention to the system of control exercised over collections and the steps taken to ensure that all collections made have been accounted for; and
  - verifying the total subscriptions and donations received with any figures published in reports, etc. issued by the charity.

Legacies: Verifying the amounts received by reference to correspondence with any figures and other available information.

Grants

- Vouch the amount received with relevant correspondence, receipts and minute books.
- Obtaining a **certificate** from a responsible official showing the amount of grants received.

Investments Income

- Vouching the amounts received with the dividend and interest counterfoils.
- Checking the calculations of interest received on securities bearing fixed rates of interest.
- Checking that the appropriate dividend has been received where any investment has been sold ex-dividend or purchased cum-dividend.
- Comparing the amounts of dividend received with schedule of investments making special enquiries into any investments held for which no dividend has been received.

Rent

- Examining the rent roll and inspecting tenancy agreements, noting in each case:
  - the amounts of the rent, and
  - the due dates.
- Vouching the rent on to the rent roll from the counterfoils of receipt books and checking the totals of the cash book.

Special function, etc. - Vouching gross receipts and outgoings in respect of any special functions, *e.g.* concerts, dramatic performance, etc., held in aid of the charity with such vouchers and cash statements as are necessary. In particular, verifying that the proceeds of all tickets issued have been accounted for, after making the allowance for returns.

Income Tax Refunds - Where income-tax has been deducted at source from the Investment income, it should be seen that a refund thereof has been obtained since charitable institutions are exempt from payment of Income-tax. This involves:

- vouching the Income-tax refund with the correspondence with the Income-tax Department; and
- checking the calculation of the repayment of claims.

Expenditure

- Vouching payment of grants, also verifying that the grants have been paid only for a charitable purpose or purposes falling within the purview of the objects for which the charitable institution has been set up and that no trustee, director or member of the Managing Committee has benefited there from either directly or indirectly.
- Verifying the schedules of securities held, as well as inventories of properties both movable and immovable by inspecting the securities and title deeds of property and by physical verification of the movable properties on a test- basis.
- Verifying the cash and bank payments.
- Ascertaining that any funds contributed for a special purpose have been utilised for the purpose.

12. Audit of Local Bodies

A **Municipality** can be defined as a unit of local self-government in an urban area. The term 'local self-government' is ordinarily understood as the administration of a locality – a village, a town, a city or any other area smaller than a state – by a body representing the local inhabitants, possessing fairly large autonomy, raising at least a part of its revenue through local taxation and spending its income on services which are regarded as local and, therefore, distinct from state and central services.

Municipal government in India covers 5 distinct types of urban local authorities:

- ✓ municipal corporations

- ✓ municipal councils
- ✓ notified area committees
- ✓ town area committees and
- ✓ cantonment committees

Municipal authorities are endowed with specific local functions covering

a. regulatory,
b. maintenance and
c. development activities

Expenditure incurred by the municipalities and corporations can be broadly classified under the following heads:

a. general administration and revenue collection,
b. public health,
c. public safety,
d. education,
e. public works, and
f. others such as interest payments, etc.

Property taxes and octroi are the major sources of revenue of the municipal authorities.

12.1 Types of Revenue Grants

Local bodies may receive different types of grants from the state administration as well. Broadly, the revenue grants are of three categories:

1. **General purpose grants:** These are primarily intended to substantially bridge the gap between the needs and resources of the local bodies.
2. **Specific purpose grants:** These grants which are tied to the provision of certain services or performance of certain tasks.
3. **Statutory and compensatory grants:** These grants, under various enactments, are given to local bodies as compensation on account of loss of any revenue on taking over a tax by state government from local government.

12.2 Financial Administration

Budgetary Administration:

- This serves twin considerations of *financial accountability* and *control of expenditure*.
- Main objective is to ensure that funds are raised and moneys are spent in accordance with the rules and regulations and within the limits sanctioned by the legislature or council.

- Budget preparation is for determining the levels of taxation and rates and the ceilings on expenditure.
- Municipal budget formats and heads of accounts vary from state to state.
- There are variations between the corporation and municipalities.
- One important feature of the municipal budgets is that there is no strict separation between revenue and capital items; usually there is a 'head' called *extraordinary items* which cover most of the capital transactions.

There are, however, a number of special funds (e.g. roads) or in some cases separate budgets for specific municipal functions (e.g. education) or enterprise activities.

Expenditure Control:

- System of financial control existing in the state and central government level is conditioned by the fact that there is a clear demarcation between the legislature and executive.
- Integration of legislation and executive powers in the municipal council makes it difficult for its executive to function as its inquisitorial body as well.
- This leaves the system of external audit by state government as the only instrument of controlling municipal expenditure.

Accounting System:

Municipal accounting and budget format have been criticised as neither simple nor comprehensible, sometimes providing inadequate information and at other times excess info. Both these situations are not conducive to a proper system of management information.

12.3 Objective of Audit of Local Bodies

Objectives of audit are:

a) reporting on the fairness of the content and presentation of FS;

b) reporting upon the strengths and weaknesses of systems of financial control;

c) reporting on the adherence to legal and/or administrative requirements;

d) reporting upon whether value is being fully received on money spent; and

e) detection and prevention of error, fraud and misuse of resources.

12.4 Audit Programme for Local Bodies

1. **Appointment**: Local Fund Audit Wing of the State Govt. is generally in-charge of the audit of municipal accounts. Sometimes bigger municipal corporations e.g. Delhi, Mumbai etc. have power to appoint their own auditors for regular external audit. So, the auditor should ensure his appointment.
2. **Auditor's Concerns**: Auditor while auditing the local bodies should report on the

- fairness of the contents and presentation of financial statements,
- the strengths and weaknesses of system of financial control,
- the adherence to legal and/or administrative requirements;
- whether value is being fully received on money spent.

His objective should be to detect errors and fraud and misuse of resources.

3. **Rules & Regulations**: Auditor should ensure that the expenditure incurred conforms to the relevant provisions of the law and is in accordance with the financial rules and regulations framed by the competent authority.
4. **Authorisations**: He should ensure that all types of sanctions, either special or general, accorded by the competent authority.
5. **Provisioning**: He should ensure that there is a provision of funds and the expenditure is incurred from the provision and the same has been authorized by the competent authority.
6. **Performance**: Auditor should check that the different schemes, programmes and projects, where large financial expenditure has been incurred, are running economically and getting the expected results.

13. Audit of Co-Operative Society

The Co-operative Societies Act, 1912, a Central Act, contains the fundamental law regarding the formation and working of the co-operative societies in India and is applicable in many states with or without amendments.

Audit as per Section 17 of the Co-Operative Societies Act, 1912

1. Registrar shall audit, or get the accounts of every registered society audited by a person authorised by him through a general or special order in writing, at least once every year.
2. Audit under Section 17(1) shall include an examination of:
   - overdue debts, if any, and
   - valuation of the assets and liabilities of the society
3. The Registrar, the Collector, or any person authorised in writing by a general or special order of the Registrar shall have access at all times to all books, accounts, records, and securities of a society. Every officer of the society shall provide any info related to the society's transactions and operations as required by the person conducting the inspection.

Points to be considered in Audit of a Co-Operative Society:

A. Qualifications of Auditors

Apart from a CA as per CA Act, 1949, some State Co-operative Acts have permitted:

- persons holding a government diploma in co-operative accounts or in co-operation and accountancy and

- person who has served as an auditor in the co-operative department of a government to act as an auditor.

B. Appointment of the Auditor and Audit Fees

- **Appointed by** Registrar of Co-operative Societies and the auditor so appointed conducts the audit on behalf of the Registrar and submits his report to him as also to the society.
- **Audit fees:** are paid by the society on the basis of statutory scale of fees prescribed by the Registrar, according to the category of the society audited.

C. Books, Accounts and other records of Co-operative Societies

Under section 43(h) of the Central Act, a state government can frame rules prescribing the books and accounts to be kept by a co-operative society.

Statutory or mandatory provisions provide a directive, but they are not conclusive. Society is at liberty to maintain such additional records according to its convenience and which it thinks more useful for clarity and detailed explanation.

In case of large-scale co-operative organisation, different subsidiary books and registers shall be maintained and the daily summary totals will be transferred to main Cash Book. For example:

a. Daily cash sales summary register.

b. Register of collection from debtors if credit sales are allowed by bye-laws of society.

c. Register of recovery of loans from salaries and directly by receipts from members in case of credit society.

d. Loan disbursement register in case of credit society.

e. Any other columnar subsidiaries depending upon the nature and functions of society.

D. Restrictions on Share-holdings:

According to Section 5 of the Central Act, in case of a society where members have limited liability, no member of a society other than a registered society can hold such portion of the share capital of the society as would exceed:

- maximum of **20%** of the total number of shares or
- of the value of shareholding to **Rs.1000.**

Auditor of a co-operative society will be concerned with this provision so as to watch any breach relating to holding of shares. One should also watch whether any provision in the bye-laws of the society is not contrary to this statutory position. The State Acts may provide limits as to the shareholding, other than that provided in the Central Act.

Restrictions on Loans

Section 29 of the Central Act puts restriction on loan. It states that a registered society shall not make loan to any person other than a member.

However, with the special sanction of the Registrar, a registered society may make a loan to another registered society.

State Government may further put such restrictions as it thinks fit on the loaning powers of the society to its members or to other societies in the interest of the society concerned and its members.

Restrictions on Borrowings

Section 30 of the Central Act further puts restriction on borrowings. According to this section, a registered society shall accept loans and deposits from persons who are not members subject to the restrictions and limits of the bye-laws of the society. The auditor will have to examine the bye-laws in this respect.

Investment of funds

According to Section 32 of the Central Act, a society may invest its funds in any one or more of the following:

a. In Central or State Co-operative Bank.

b. In any of the securities specified in section 20 of the Indian Trusts Act, 1882.

c. In shares, securities, bonds or debentures of any other society with limited liability.

d. In any co-operative bank, other than a Central or State co-operative bank, as approved by the Registrar on specified terms and conditions.

e. In any other moneys permitted by the Central or State Government.

In the principal provision relating to the investments of funds of a co-operative society, the Central as well as State Acts does not mention anything about the investment of reserve fund outside the business specifically.

HJ Note: Any co-operative banks other than central and State co-operative bank are like Urban co-operative, district cooperative banks.

Appropriation of profits

According to Section 33 of the Central Act, a prescribed percentage of the profits should be transferred to Reserve Fund, before distribution as dividends or bonus to members.

Contributions to Charitable Purposes

According to Section 34, a registered society may, with the sanction of the Registrar, contribute an amount not exceeding 10% of the net profits remaining after the compulsory transfer to the reserve fund for any charitable purpose as defined in Section 2 of the Charitable Endowments Act, 1890.

Investment of Reserve Fund outside the business or utilisation as working capital

Some of the State Acts provide that a society may use the Reserve Fund:

a. in the business of a society, as working capital (subject to the rules made in this behalf).

b. may invest as per provisions of the Act.

c. may be used for some public purposes likely to promote the object of the society.

Auditor should ensure strict compliance with the State Act and Rules in this regard.

Contribution to Education Fund

Some of the State Acts provide that every society shall contribute annually towards the Education Fund of the State Federal Society, at the appropriate rate as per the class of the society. Contribution to Education Fund is a charge on profits and not an appropriation.

Appropriation of Profit & Accounting:

Apart from statutory provisions relating to Reserve Fund, auditor may have regard to the provisions in bye-laws and Rules and Regulations of the society regarding the appropriation of profits. Transfers to other reserves, dividends to members etc. are the other appropriations.

Appropriations of profits must be approved by the General Body of the society, which is the supreme authority in the co-operative management. Further, it may be noted that necessary accounting entries for the appropriation of profits must be passed after the date of approval by the General Body. Here there is a departure from corporate accounting practice, where entries are passed for proposed appropriations, subject to approval of Annual General Meeting.

According to certain State Acts, transfers to Dividend Equalization Reserve and Share Capital Redemption Fund are stated as charges against profits. According to the generally accepted principles of accountancy these items are not charges, but appropriation of profits. Auditor should point out such spots where statutory provisions of any law are in contradiction with the generally accepted accounting principles.

13.1 Special Features of Co-Operative Audit

1. **Examination of overdue debts:** Overdue debts for a period from 6 months to 5 years and more than 5 years will have to be classified and shall have to be reported by an auditor. Overdue debts effects working capital of society. Auditor will have to ascertain whether proper provisions for doubtful debts are made and whether the same is satisfactory.
2. **Overdue Interest:** Overdue interest should be excluded from interest outstanding and accrued due while calculating profit. In practice an overdue interest reserve is created and the credit of overdue interest credited to interest account is reduced. Overdue interest is interest accrued or accruing in accounts, the amount of which the principal is overdue.
3. **Certification of Bad Debts:** As per Maharashtra State Co-operative Rules, 1961 → bad debts can be written off only when they are certified as bad by the auditor. Where no such requirement exists, the managing committee of the society must authorise the write-off.

4. **Valuation of Assets and Liabilities:** there are no specific provisions or instructions under the Act and Rules, appropriate consideration should be given to the generally accepted accounting principles and applicable standards.
    - Auditor will have to ascertain existence, ownership and valuation of assets.
    - Fixed assets should be valued at cost less adequate provision for depreciation.
    - Incidental expenses incurred in the acquisition and the installation expenses of assets should be properly capitalised.
    - If the difference in the original cost of acquisition and the present market price is of far reaching significance, a note regarding the present market value may be appended; so as to have a proper disclosure in the light of present inflatory conditions.
    - Current assets be valued at cost or market price, whichever is lower.
    - Auditor should see that all the known liabilities are brought into the account, and the contingent liabilities are stated by way of a note.
5. **Adherence to Co-operative Principles:** Auditor will have to ascertain in general, how far the objects, for which the co-operative organisation is set up, have been achieved in the course of its working. The assessment is not necessarily in terms of profits, but in terms of extending of benefits to members who have formed the society. While auditing the expenses, the auditor should see that they are economically incurred and there is no wastage of funds. Middlemen commissions are, as far as possible, avoided and the purchases are made by the committee members directly from the wholesalers. The principles of propriety audit should be followed for the purpose.
6. **Observations of the Provisions of the Act and Rules:** Auditor is required to point out the infringement with the provisions of Co-operative Societies Act and Rules and bye-laws. Financial implications of such infringements should be properly assessed by the auditor and they should be reported. Some of the State Acts contain restrictions on payment of dividends, which should be noted by the auditor.
7. **Verification of Members' Register and examination of their pass books:** Examination of entries in members pass books regarding the loan given and its repayments, and confirmation of loan balances in person is very much important in a co-operative organisation to assure that the entries in the books of accounts are free from manipulation. Specifically in the rural and agricultural credit societies, members are not literate and as such this is a good safeguard on their part. This checking will be resorted to on a test basis, which is a matter of judgement of the auditor.
8. **Special report to the Registrar:**

    During the course of audit, if the auditor notices that there are some serious irregularities in the working of the society, he may report these special matters to the Registrar, drawing his specific attention to the points.

Registrar on receipt of such a special report may take necessary action against the society. In the following cases, for instance, a special report may become necessary:

a. Personal profiteering by members of managing committee in transactions of the society, which are ultimately detrimental to the interest of the society.

b. Detection of fraud relating to expenses, purchases, property and stores of society.

c. Specific examples of mis-management. Decisions of mgmt against co-operative principles.

d. In the case of urban co-operative banks, disproportionate advances to vested interest groups, such as relatives of mgmt, and deliberate negligence about the recovery thereof. Cases of reckless advancing, where the mgmt is negligent about taking adequate security and proper safeguards for judging the credit worthiness of the party.

9. **Audit classification of society:**

After a judgement of an overall performance of the society, the auditor has to award a class to the society. This judgement is to be based on the criteria specified by the Registrar.

It may be noted here that if the mgmt of the society is not satisfied about the award of audit class, it can make an appeal to the Registrar, and the Registrar may direct to review the audit classification. Auditor should be very careful, while making a decision about the class of society.

10. **Discussion of draft audit report with managing committee:** On conclusion of audit, auditor should ask Secretary of the society to convene managing committee meeting to discuss audit draft report. Audit report should never be finalised without discussion with the managing committee. Minor irregularities may be got settled and rectified. Matters of policy should be discussed in detail.

14. Audit, Inquiry and Inspection of Multi-State Co-Operative Societies

Multi-State Co-operative Societies Act, 2002, applies to co-operative societies whose objects are not confined to one State.

Act contains detailed provisions regarding registration, membership and management of such societies. Funds of a MSCS cannot be utilised for any political purpose.

Books of Accounts:

Every MSCS shall keep books of account with respect to-

a. all sum of money received and expended and matters in respect of which the receipt and expenditure take place;

b. all sale and purchase of goods;

c. assets and liabilities;

d. in the case of a MSCS engaged in production, processing and manufacturing, particulars relating to utilisation of materials or labour or other items of cost as may be specified in the bye-hours of such a society.

14.1 Audit of Multi-State Co-operative Society (MSCS)

1. Qualification of Auditors
2. Appointment of Auditors:
3. Power and duties of Auditors:
4. Content of Auditor's Report
5. Power of Central Government to direct special audit in certain cases

Qualification of Auditors:

Section 72 of MSCS Act, 2002 states that a person who is CA as per the meaning of Chartered Accountants Act, 1949 can only be appointed as auditor of MSCS.

However, following are not eligible for appointment:

a. A body corporate

b. An officer or employee of the MSCS

c. A person who is a member or who is in the employment, of an officer or employee of the MSCS

d. A person who is indebted to the MSCS or who has given any guarantee or provided any security in connection with the indebtedness of any third person to the MSCS for an amount exceeding Rs. 1,000.

Appointment of Auditors:

Section 70 of the MSCS Act, 2002 provides that the

First auditor(s): of a MSCS shall be appointed by the board within one month of the date of registration of such society and the auditor or auditors so appointed shall hold office until the conclusion of the first AGM.

Failure to appoint: If the board fails to exercise its powers under this sub-section, the MSCS in the general meeting may appoint the first auditor or auditors.

Subsequent auditor(s) are appointed by MSCS, at each annual general meeting. Auditor(s) so appointed shall hold office from the conclusion of that meeting until the conclusion of the next AGM.

Power and duties of Auditors:

Section 73 of the MSCS Act, 2002 discusses the powers and duties of auditors:

Every auditor of a MSCS shall have a right of access at all times to the books accounts and vouchers of the MSCS, whether kept at the HO of the MSCS or elsewhere, and shall be entitled to require from the officers or other employees of the MSCS such info and explanation as the auditor may think necessary for the performance of his duties as an auditor.

As per Section 73(2), the auditor shall make following inquiries:

a. Loans & Advances: Whether loans and advances made by the MSCS on the basis of security have been properly secured and whether the terms on which they have been made are not prejudicial to the interests of the MSCS or its members,

b. Books entries: Whether transactions of the MSCS which are represented merely by book entries are not prejudicial to the interests of the MSCS,

c. Expense Classification: Whether personal expenses have been charged to revenue account, and

d. Issued in cash: Where it is stated in the books and papers that any shares have been allotted for cash, whether cash has actually, been received in respect of such allotment, and if not, whether the position stated in the accounts and balance sheet is correct, regular and not misleading.

Content of Auditor's Report

As per **Sec 73(3) and Sec 73(4)** of the MSCS Act,2002, the auditor shall make a report to the members of MSCS.

Report shall state whether, in his opinion and to the best of his info and according to the explanation given to him, the said account give the info required by this act in the manner so required, and give a true and fair view:

1. In case of BS, of the state of the MSCS's affairs as at the end of FY; and
2. In case of profit and loss account, of the profit or loss for the FY
3. Auditor's report shall also state:
   a. Whether he has obtained all the info and explanation which to the best of his knowledge and belief were necessary for the purpose of his audit.
   b. Whether, in his opinion, proper books of account have been kept by the MSCS, so far as appears from his examination of these books and proper returns adequate for the purpose of his audit have been received from branches or offices of the MSCS not visited by him.
   c. Whether the report on the accounts of any branch office audited by a person other than the MSCS's auditor has been forwarded to him and how he has dealt with the same in preparing the auditor's report.
   d. Whether the MSCS's balance sheet and profit and loss account dealt with by the report are in agreement with the books of account and return.

Where any of the matters referred to in sub-section (3) or (4) is answered in the negative or with a qualification, the auditor's report shall state the reason for the answer.

Power of Central Government to direct Special Audit in certain cases:

Under Sec 77 of the MSCS Act, 2002, where Central Government is of the opinion:

a) that the affairs of any MSCS are not being managed in accordance with self-help and mutual deed and co-operative principles or prudent commercial practices or with sound business principles; or

b) that any MSCS is being managed in a manner likely to cause serious injury or damage to the interests of the trade industry or business to which it pertains; or

c) that the financial position of any MSCS is such as to endanger its solvency.

1. **Central Government's Order**: CG may at any time by order direct that a special audit of MSCS's accounts for such period or periods as may be specified in the order shall be conducted.

2. **Appointment of the Auditor**: CG may appoint either a CA or MSCS's auditor himself to conduct the special audit.

3. **Shareholding Restriction**: CG shall order for special audit only if that Government or the State Government either by itself or both hold 51% or more of the paid-up share capital in such MSCS.

4. **Special Auditor's Powers, Duties & Report**: Special auditor shall have the same powers and duties in relation to the special audit as an auditor of a MSCS has under section 73.

However, the special auditor shall instead of making his report to the members of the MSCS, make the report to CG.

Report of the special auditor shall, include all the matters required to be included in the auditor's report under section 73 and any other matter as directed by the Central Government.

5. **Action by the Central Government**: On receipts of the report of the special auditor, CG may take such action on the report as it considers necessary in accordance with the provision of the Act or any law for the time being in force. However, if the CG does not take any action on the report within four months from the date of its receipt, that Government shall send to the MSCS either a copy of, or relevant extract from, the report with its comments thereon and require the MSCS either to circulate that copy or those extracts to the members or to have such copy or extracts read before the MSCS at its next general meeting.

6. **Expenses pertaining to the Special Audit**: Expenses of, and incidental to, special audit under this section (including the remuneration of the special auditor) shall be determined by CG, which shall be final and paid by the MSCS and in default of such payment, shall be recoverable from MSCS as an arrear of land revenue.

14.2 Inquiry by Central Registrar under Section 78

When

Central Registrar may, on a request from:

- federal co-operative to which a MSCS is affiliated or a creditor or
- not less than 1/3rd of the members of the board or
- not less than 1/5th of the total number of members of a MSCS

How:

Hold an inquiry or direct some person authorized by him by order in writing in his behalf to hold an inquiry into the constitutions, working and financial condition of a MSCS.

Opportunity of being Heard

Before holding such inquiry 15 days notice must be given to the MSCS.

Powers given

Central Registrar or the person authorised by him shall have the following powers:

a) **Access:** he shall at all reasonable times have free access to: books, accounts, cash, securities and other properties belonging to or in the custody of MSCS.

b) **Summon:** may summon any person in possession or responsible for the custody of the such books, accounts, documents, securities, cash or belonging to or in the custody of MSCS

c) **Meeting:** he may, notwithstanding any bye-law specifying the period of notice for a general meeting of the MSCS, require the officers of the society to call a general meeting of the society by giving notice of not less than seven days at such time and place at the HQ of the society to consider such matters as may be directed to him, and

d) **Meeting:** where the officers of the society refuse or fail to call such a meeting, he shall have power to call it himself.

e) **Summon:** he may summon any person who is reasonably believed by him to have any knowledge of the affairs of the MSCS to appear before him at any place at the HQ of the society or any branch thereof and may examine such person on oath.

Follow up:

Central Registrar shall, within a period of 3 months of the date of receipt of the report, communicate the report of inquiry to MSCS, the financial institutions, if any, to which the society is affiliated, and to the person or authority, if any at whose instance the inquiry is needed.

14.3 Inspection of Multi-State Co-operative societies under Section 79

When:

Central Registrar may, on a request from:

- federal co-operative to which a MSCS is affiliated or a creditor or
- not less than 1/3rd of the members of the board or
- not less than 1/5th of the total number of members of a MSCS

How:

By general or special order in writing in this behalf inspect or direct any person authorised by him by order in writing to make an inspection into the constitution, working and financial condition of a MSCS.

Opportunity of Being heard:

No inspection shall be made unless a notice of not less than 15 days has been given to MSCS.

Powers available:

Central Registrar or the person authorised by him shall have the following powers:

a) **Access:** He shall at all times have access to: all books, papers, accounts vouchers, securities, stock and other property of that society.

b) **Custody:** In the event of serious irregularities: may take the above records and property into custody

c) **Cash Verification:** He shall have the power to: verify cash balance of society

d) **Meeting:** Subject to the general or special order of the central registrar: call a meeting of society, if in his opinion such meeting is necessary.

e) Every officer or member of a MSCS shall furnish such info. related to working of the society as the central registrar or the person making such inspection may require.

Inspection Report:

Copy of the report shall be communicated to MSCS within a period of 3 months from the date of completion of such inspection.

15. Government Audit

Main idea is that no expenditure incurred unless

- voted upon by Parliament or State Legislatures &
- funds must be provided from out of Consolidated Fund of India or State

After expenditure incurred and accounts closed, Appropriation Accounts prepared are scrutinised by Public Accounts Committee (A committee of selected members of parliament, constituted by Parliament of India, for auditing revenue and expenditure of Govt of India).

U.N. Handbook on *Govt* Auditing and Developing Countries defines government auditing in a comprehensive manner which is as follows:

Government auditing is

- objective, systematic, professional and independent examination
- of financial, administrative and other operations
- of a public entity
- made subsequently to their execution

- for purpose of evaluating and verifying them,
- presenting a report with
- explanatory comments on audit findings together with conclusions & recommendations for future actions
- by responsible officials
- and in case of examination of FS, expressing opinion regarding fairness of presentation.

15.1 Objective of Government Audit

a. Accounting for Public Funds: Govt audit serves as a mechanism or process for public accounting of *govt* funds.

b. Appraisal of Government policies: Also provides public accounting of operational, management, programme and policy aspects of public administration & accountability of *officials.*

c. Base for Corrective actions: Audit observations based on factual data serve to highlight lapses of lower hierarchy, thus helping supervisory level officers to take corrective measures.

Administrative Accountability:

- Government audit is neither equipped nor intended to function as an investigating agency, to pursue every irregularity or misdemeanour to its logical end.
- The main objective of audit is a combination of ensuring accountability of administration to legislature and functioning as an aid to administration.
- In India, the function of Government Audit is discharged by the independent statutory authority of the **Comptroller and Auditor General** through the agency of the **Indian Audit and Accounts Department**.

15.2 Legal Framework and Comptroller & Auditor General

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

Appointment & Removal

C&AG shall be **appointed by the President of India** and shall not be **removed** from office except on the ground of proven mis-behaviour or incapacity.

As in the case of a Judge of the Supreme Court, he can be removed only when each House of Parliament decides to do so by a majority of not less than **2/3rd** of the members of the House present and voting.

Tenure

The Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 passed in pursuance of the provisions of the Constitution lays down a fixed tenure of the office prescribing that he shall be paid a salary which is equal to the salary of the Judge of the Supreme Court thereby further strengthening his independence.

Various Constitutional Provisions

1. **Article 149** states that the C&AG shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by or under any law made by the Parliament. The Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 defines these functions and powers in detail.
2. **Article 150** of the Constitution provides that the accounts of the Union and of the States shall be kept in such form as the President may on the advice of the C&AG prescribe.
3. **Article 151** requires that the reports of the C&AG relating to the accounts of the Union/State shall be submitted to the President/Governor who shall cause them to be laid before House of Parliament/State Legislature.

15.3 Comptroller and Auditor General's — Duties and Powers

Duties of the C&AG:

1. **Compile and submit Accounts of Union and States**

   C&AG shall be responsible for compiling the accounts of the Union and of each State from the initial and subsidiary accounts rendered to the audit and accounts offices under his control by treasuries, offices or departments responsible for the keeping of such account.

   The C&AG shall, from the accounts compiled by him or any other person responsible in that behalf, an account showing annual receipts and disbursements under the respective heads for the purpose of the Union, of each State and of each UTLA (including, appropriate account in case accounts complied by him) and shall submit those accounts to the President or the Governor of a State or Administrator of the UTLA.

2. **General Provisions Relating to Audit:**

   It shall be duty of C&AG:

   a. to audit and report on all expenditure from Consolidated Fund of India/each State/UTLA and ascertaining whether moneys legally disbursed and applied to authorised service/purpose.

   b. to audit and report all transaction of Union & States relating to Contingency Funds & Public Accounts

   c. to audit and report on all trading, manufacturing and P&L a/cs and BS and other subsidiary a/cs kept in any Union or State Department.

3. **Audit of Receipts and Expenditure**

   Where anybody/authority is substantially financed from CFI/any State/any UTLA, C&AG shall audit all receipts & expenditure of that body and report.

Meaning of Substantially financed:

- Where grant or loan from CFI/State/UTLA in a FY is: not less than Rs **25 lakhs** and
- amount of such grant or loan is not less than 75% of the total expenditure of that body.

4. **Audit of Grants or Loans**

   If grant/loan given from CFI/State/UTLA to any authority/body, not being foreign State or international org, C&AG shall scrutinise how sanctioning authority satisfies about fulfilment of conditions and have right to access books and a/cs of that authority/body.

5. **Audit of Receipts of Union or States** - Its duty of C&AG to audit all receipts payable into CFI/State/UTLA and satisfy that rules and procedures designed to secure effective assessment, collection and proper allocation of revenue and examine accounts for this purpose.

6. **Audit of Accounts of Stores and Inventory**- C&AG shall have authority to audit & report on a/cs of stores and inventory kept in any office or department of Union or State.

7. **Audit of Govt Cos. and Corporations**

   As per the Companies Act, 2013, he shall appoint auditor u/s 139(5) or 139(7) (i.e. appointment of 1st Auditor or Subsequent Auditor) and direct such auditor the manner in which a/cs of Govt Co. are to be audited and auditor shall submit a copy of Audit Report which shall include:

   ⇒ directions issued by C&AG,

   ⇒ action taken thereon and

   ⇒ its impact on A/cs and F.S. of Company

15.4 Powers of C&AG

C&AG Act gives following powers to C&AG for performance of his duties:

a. To inspect any office of a/cs under control of Union or SG including office responsible for creation of initial or subsidiary *Ales.*

b. To require that any accounts, books, papers and other documents which deal with or are otherwise relevant to transactions under audit, be sent to specified places.

c. To put such questions or make such observations, he consider necessary to person in charge of office and *call* for such info he may require for preparation of any a/c or report which is his duty to prepare.

d. In carrying out audit, C&AG has the power to dispense with any part of detailed audit of any a/cs or COTs and apply such limited checks as he may determine.

Inspect office of a/cs→ require a/cs, books, papers & other docs→ Question→ ltd checks

15.5 Expenditure Audit

Audit of Govt. expenditure is one of the major components of Govt. audit. The basic standards set for audit of expenditure are to ensure that there is provision of funds authorised by competent authority fixing the limits within which expenditure can be incurred. These standards are:

1. that the expenditure incurred conforms to the relevant provisions of the statutory enactment and in accordance with the Financial Rules and Regulations framed by the competent authority. Such an audit is called as the **audit against 'rules and orders'.**
2. that there is sanction, either special or general, accorded by competent authority authorising the expenditure. Such an audit is called as the **audit of sanctions.**
3. that there is a provision of funds out of which expenditure can be incurred and the same has been authorised by competent authority. Such an audit is called as **audit against provision of funds.**
4. that the expenditure is incurred with due regard to broad and general principles of financial propriety. Such an audit is also called as **propriety audit.**
5. that the various programmes, schemes and projects where large financial expenditure has been incurred are being run economically and are yielding results expected of them. Such an audit is termed as the **performance audit.**

15.5.1 Audit against Rules & Orders

1. Audit against rules and orders aims to ensure that the expenditure conforms to the relevant provisions of the Constitution and of the laws and rules made thereunder.
2. It also seeks to satisfy that the expenditure is in accordance with the financial rules, regulations and orders issued by a competent authority.
3. Audit of expenditure against regularity is of a quasi-judicial type of work performed by the audit authorities.
4. It involves interpretation of the Constitution, statutes, rules, regulations and orders. The final power of interpretation of these, however, does not vest with the C&AG.

It is the function of audit to carry out examination of the various rules, regulations and orders issued by the executive authorities to see that:

a. they are not inconsistent with any provisions of the Constitution or any laws made thereunder;
b. they are consistent with the essential requirements of audit and accounts as determined by the C&AG;
c. they do not come in conflict with the orders of, or rules made by, any higher authority; and
d. in case they have not been separately approved by competent authority, the issuing authority possesses the necessary rule-making power.

15.5.2 Audit of sanctions

Auditor has to ensure that each item of expenditure is covered by a sanction, either general or special, of the competent authority.

Audit of sanctions is directed both in respect of ensuring that:

- expenditure is properly covered by a sanction, and
- satisfy that the authority sanctioning it is competent by virtue of the powers vested in it by the provisions of the Constitution, law, rules or orders made thereunder, or by the rules of delegation of financial powers made by competent authority.

15.5.3 Audit against provision of funds

Audit against provision of funds aims at ascertaining that the expenditure incurred has been on the purpose for which the grant and appropriation had been provided and that the amount of such expenditure does not exceed the appropriation made.

15.5.4 Propriety audit

According to '**Propriety audit**', the auditors try to bring out cases of improper, avoidable, or ineffective expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations.

With the passage of time, it was felt that regularity audit alone was not sufficient to protect properly the public interest in the spending of money by the executive authorities. A transaction may satisfy all the requirements of regularity audit insofar as the various formalities regarding rules and regulations are concerned, but may still be highly wasteful.

Principles of Propriety Audit

Audit against propriety seeks to ensure that expenditure conforms to these principles which have been stated as follows:

a. Expenditure shouldn't be prima facie more than what occasion demands. Every public officer is expected to exercise same vigilance in respect of exp. incurred from public moneys as a person of ordinary prudence would exercise in respect of exp. of his own money.

b. No authority should exercise powers of sanctioning expenditure to pass an order which will be directly or indirectly accrue to its own advantage.

c. Public money should not be utilised for benefit of particular person or section of community unless:

   i) amount of expenditure involved is insignificant or

   ii) a claim for amount could be enforced in a Court of law or

   iii) expenditure is in pursuance of a recognised policy or custom and

iv) amount of allowances, e.g. travelling allowances, granted to meet expenditure of a particular type should be *so* regulated that allowances aren't sources of profit to recipients.

15.5.5 Performance audit

The scope of audit has been extended to cover efficiency, economy and effectiveness audit or performance audit, or **full scope audit.**

Efficiency audit looks into whether the various schemes/projects are executed and their operations conducted economically and whether they are yielding the results expected of them, *i.e.*, the relationship between goods and services produced and resources used to produce them; and examination aimed to find out the extent to which operations are carried out in an economical and efficient manner.

Economy audit looks into whether government have acquired the financial, human and physical resources in an economical manner, and whether the sanctioning and spending authorities have observed economy.

Effectiveness audit is an appraisal of the performance of programmes, schemes, projects with reference to the overall targeted objectives as well as efficiency of the means adopted for the attainment of the objectives.

Efficiency-cum-performance audit, wherever used, is an objective examination of the financial and operational performance of an organisation, programme, authority or function and is oriented towards identifying opportunities for greater economy, and effectiveness.

The procedure for conducting performance audit covers:

♦ identification of topic,

♦ preliminary study,

♦ planning,

♦ execution of audit, and

♦ reporting.

15.6 Audit of Receipts

Such an audit provides for checking;

1. whether all revenues or other debts due to govt been correctly assessed, realised and credited to government *alc* by designated authorities.
2. whether adequate regulations & procedures been framed by concerned department/agency to secure effective check on assessment, collection and proper allocation of cases.
3. whether such regulations and procedures actually being carried out.

4. whether adequate checks imposed to ensure prompt detection & investigation of irregularities, double refunds, fraudulent or forged refund vouchers or other loss of revenue.
5. review of systems and procedures to see that internal procedures adequately secure correct and regular *ale* of demands collection and refunds and suggest improvement.
6. Extent and quantum *of* audit required to be done under each category of audit determined by C&AG. These are neither negotiable nor questioned.

15.7 Audit of Stores and Inventories

Audit of a/cs of stores and inventories been developed *as* part of expenditure audit with reference to duties and responsibilities entrusted to C&AG.

Audit *is* conducted:

1. To ascertain whether Regulations governing purchase, receipt and issue, custody, sale and inventory taking *of* stores are well *devised* and properly carried out.
2. To bring to notice *of govt* any deficiencies in qty *of* stores held or any defects in IC.
3. To verify that purchases are properly sanctioned, made economical and as per Rules for purchase laid down by competent authority.
4. To ensure that prices paid are reasonable and in agreement with contract for supply of stores, and certificates *of* quality and qty furnished by inspecting and receiving units.
5. To check *a/c's* of receipts, issues *and* balances regarding accuracy, correctness and reasonableness of balances in inventories w.r.t specified norms for level of consumption of inventory holding.

15.8 Role of CAG in Audit of Govt Company

Role *of* C&AG is prescribed u/s 143(5)/(6)/(7) of the Companies Act, 2013.

1. Power to appoint Government Company Auditor:

Section 143(5) ➔ Govt Co. or any other Co. owned/controlled, by CG/SG(s)/partly by CG & one or more SGs, C&AG shall appoint auditor under Sec 139(5) or Sec 139(7) and direct such auditor, the manner in which a/cs to be audited and auditor shall submit a copy of Audit Report to C&AG which include:

- directions, if any, issued by C&AG,
- action token thereon and
- its impact on the accounts and FS of Co.

2. Power to conduct Supplementary Audit & comment thereupon

C&AG of India shall within 60 days from the date of receipt of audit report have a right to:

a. conduct supplementary audit u/s 143(6)(a), of FS of Co. by such person(s) as he may authorize in this behalf & for purposes of such audit, require info. or add. info. to be furnished to any person(s), so authorised, on such matters, by such person(s), & in such form, as C&AG may direct.

b. comment upon or supplement such audit report u/s 143(6)(b): Comments given by C&AG upon, or supplement to, Audit Report ➔ sent by Co. to every person entitled to copies of audited FS & also placed before AGM at same time & manner as Audit Report.

3. Test Audit u/s 143(7): C&AG may by order, cause test audit be conducted and provisions of Sec 19A of C&AG's (Duties, Powers and Conditions of Service) Act, 1971, shall apply to such test audit.

Chapter 10

Chapter 10	May’25	Jan’25	Sep’24	May’24	Nov’23	May’23	Nov’22	May’22	Dec’21	Jul’21
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2. Reserve Bank of India: Regulating Body										
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Chapter 10	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
18.3 On Take-out finance										
18.4 Partial Recoveries in NPAs										
18.5 Memorandum Account										
18.6. Income from Investment										
19. Expenses										
19.1 Audit of Interest Expense										
19.2 Audit of Operating Expenses										
19.3 Audit of Provisions and Contingencies			4							
19.4 Disclosure of the Prior Period Items										
Total	4	8	7	4	0	0	4	3	4	7
ICAI Suggested Weightage (CH 9+ CH 10)	12-18%									

1. Types of Banks

1. Commercial banks
2. Regional Rural Banks: set up in rural areas in different states of the country
3. Co-operative Banks: set up on the basis of Cooperative Principles and registered under the Cooperative Societies Act of the respective state or the Multistate Cooperative Societies Act
4. Payments Banks: Allowed to accept restricted deposits but they can't issue loans and credit cards.
5. Development Banks: set up to provide funds for infrastructural facilities.
6. Small Finance Banks: set up to makes banking available to unorganised and unserved sectors.

2. Reserve Bank of India: Regulating Body

<u>RBI is responsible for:</u>

- development and supervision of the constituents of the Indian financial system
- determining with CG, the monetary and credit policies
- regulating the activities of commercial and other banks

<u>Important functions of RBI:</u>

- issuance of currency
- regulation of currency issue
- acting as banker to the central and state governments;
- acting as banker to commercial and other types of banks

No bank can commence the business of banking or open new branches without obtaining license from RBI. The RBI also has the power to inspect any bank.

The Reserve Bank of India Act, 1934 gives wide powers to the RBI to give directions to banks which also have considerable effect on the functioning of banks.

Peculiarities involved in Banking:

- Huge volumes and complexity of transactions;
- Wide geographical spread of banks' network;
- Large range of products and services offered;
- Extensive use of technology;
- Strict vigilance by the banking regulator etc.

3. Types of Audit Report Issued

Statutory Central Auditors (SCAs) have to furnish the following reports in addition to their main audit report:

1. Report on adequacy and operating effectiveness of ICFR in case of banks which are registered as companies under the Companies Act in terms of Section 143(3)(i) of the Companies Act, 2013 → given as an Annexure to the main audit report as per the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the ICAI.
2. Long Form Audit Report. (LFAR)
3. Report on compliance with SLR requirements.
4. Report on whether the treasury operations of the bank have been conducted in accordance with the instructions issued by the RBI.
5. Report on whether the income recognition, asset classification and provisioning have been made as per the guidelines issued by the RBI.
6. Report on whether any serious irregularity was noticed in the working of the bank which requires immediate attention.
7. Report on status of the compliance by the bank with regard to the implementation of recommendations of the Ghosh Committee relating to frauds and malpractices and of the recommendations of Jilani Committee on internal control and inspection/credit system.
8. Report on instances of adverse credit-deposit ratio in the rural areas.

4. Bank Audit Approach

Drawing an Audit Plan based on:

- nature & level of operations,
- nature of adverse features,
- level of compliance based on previous reports and

- audit risks (based on the assessment of internal controls, including identified breaches or inadequacies.)

Control Environment at the Bank

A bank should have appropriate controls to mitigate risk including:

- Segregation of duties (e.g., front vs. back office).
- Accurate measurement & reporting of positions.
- Transaction verification & approval.
- Reconciliation of positions & results.
- Setting limits & reporting exceptions.
- Physical security & contingency planning.

(Refer ICAI SM – Table of common questions kept in mind while performing control activities)

Engagement Team Discussions:

- ET should gain better understanding of Bank and its environment including internal control to assess ROMM.
- Discussion should be documented for future reference.
- Discussion b/w ET and EP are done on the susceptibility of the bank branch's FS to material misstatement.
- Such discussions are ordinarily done at Planning Stage.

ET discussion ordinarily includes a discussion of the following matters:

1. Errors that may be more likely to occur;
2. Errors which have been identified in prior years;
3. Method by which fraud might be perpetrated by bank personnel or others within particular account balances and/or disclosures;
4. Audit responses to Engagement Risk, Pervasive Risks, and Specific Risks;
5. Need to maintain professional skepticism throughout the audit engagement;
6. Need to alert for info. or other conditions that indicates that a material misstatement may have occurred (e.g., the bank's application of accounting policies in the given facts and circumstances).

Advantages of such a discussion:

1. Specific emphasis should be provided to the susceptibility of the bank's FS to material misstatement due to fraud, that enables the ET to consider an appropriate response to fraud risks, including those related to engagement risk, pervasive risks, and specific risks.
2. It further enables the audit engagement partner to:
    - delegate the work to the experienced ET members, and

- determine the procedures to be followed when fraud is identified.

3. Further, audit EP may review the need to involve specialists to address the issues relating to fraud.

5. Income Recognition Policy

Policy of income recognition should be objective and based on record of recovery rather than on any subjective considerations. Income from nonperforming assets (NPA) is not recognized on accrual basis but is booked as income only when it is actually received.

6. Statutory Provisions Relating to FS and Audit of Banks

Form and Content of FS:

- Banking Regulations Act, 1949 → Sec 29(1) and Sec 29(2) → Form and content of FS of a banking company and their authentication.
- Applicable to nationalised banks, State Bank of India, and Regional Rural Banks.
- Format of FS: As per Schedule III
  - ✓ Sch III - Form A: Balance Sheet
  - ✓ Sch III - Form B: Profit and Loss Account

Audit of Accounts:

Banking Regulations Act, 1949 → Section 30(1) → requires FS of a Banking Company → audited by a person duly qualified under any law for the time being in force to be an auditor of companies.

Eligibility, Qualifications and Disqualifications of Auditor:

As Applicable to a Company Auditor

Appointment of Auditor:

- Banking Company: Shareholders (AGM) + RBI Approval
- Nationalised Bank: Bank Concerned (acting thorough BOD) + RBI Approval
- RRB: Bank concerned + CG Approval

Remuneration of Auditor:

- Banking Company: Section 142 of the Companies Act, 2013 (i.e., by the company in general meeting or in such manner as the company in general meeting may determine).
- Nationalised banks and SBI: RBI in consultation with CG.

Powers of Auditor:

Auditor of a banking company, nationalised bank, SBI, or RRB = Same powers as those of a company's auditor.

7. Auditor's Report

In the case of a nationalised bank → Report to CG & state the following:

a. whether, in his opinion, FS present a true and fair view of the affairs of the bank and in case he had called for any explanation or information, whether it has been given and whether it is satisfactory;

b. whether or not the transactions of the bank, which have come to his notice, have been made within the powers of that bank;

c. whether or not the returns received from the offices and branches of the bank have been found adequate for the purpose of his audit; and

d. any other matter which he considers should be brought to the notice of the CG.

Report of auditors of SBI is also to be made to the CG and is almost identical to report in the case of a nationalised bank.

8. Format of Audit Report

Auditors, central as well as branch, should also ensure that the audit report issued by them complies with the requirements of SA.

Auditor should ensure that not only info. relating to number of unaudited branches is given but quantification of advances, deposits, interest income and interest expense for such unaudited branches has also been disclosed in the audit report.

Such disclosure in the audit report is not only in accordance with the best international trends but also provides useful information to users of FS.

It may be noted that, in addition to the aforesaid, the auditor of a banking company is also required to state in his report the matters covered by Section 143 of the Companies Act, 2013.

Non-Applicability of CARO: However, it is pertinent to mention that the reporting requirements relating to the Companies (Auditor's Report) Order, 2020 is not applicable to a banking company, as defined in clause (c) of Section 5 of the Banking Regulation Act, 1949.

9. Long Form Audit Report

- Terms of appointment of auditors of public sector banks, private sector banks and foreign banks (as well as their branches), require the auditors to also furnish a long form audit report (LFAR).
- The matters which the banks require their auditors to deal with in the long form audit report have been specified by the Reserve Bank of India.
- Statutory Central Auditors are required to submit the LFAR to the banks latest by 30th June every year.

- To ensure timely submission of LFAR, proper planning for completion of the LFAR is required.
- While the format of LFAR does not require an executive summary to be given, members may consider providing the same to bring out the key observations from the whole document.

10. Reporting to RBI

1. RBI issued a Circular relating to implementation of recommendations of Committee on "Legal Aspects of Bank Frauds" applicable to all scheduled commercial banks (excluding Regional Rural Banks).

   Regarding liability of accounting and auditing profession, the said circular provided as under:

   "If an accounting professional, whether in the course of internal or external audit or in the process of institutional audit finds:

   - anything susceptible to be fraud or
   - fraudulent activity or
   - act of excess power or
   - smell any foul play in any transaction,

   he should refer the matter to the regulator. Any deliberate failure on the part of the auditor should render himself liable for action".

   As per the above requirement, the member shall be required to report the kind of matters stated in the circular to RBI.

2. Auditor should also consider the provisions of SA 250, "Consideration of Laws and Regulations in an Audit of FS". The said Standard explains that the duty of confidentiality is over-ridden by statute, law or courts.

3. SA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of FS" states that an auditor conducting an audit in accordance with SAs is responsible for obtaining reasonable assurance that the FS taken as a whole are free from material misstatement, whether caused by fraud or error.

4. It must be noted that auditor is not expected to look into each and every transaction but to evaluate the system as a whole. Therefore, if the auditor while performing his normal duties comes across any instance, he should report the matter to the RBI in addition to Chairman/Managing Director/Chief Executive of the concerned bank.

11. Conducting an Audit

Refer ICAI SM – Pg. 10.15 to Pg. 10.21

12. Types of Advances

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

Types of Advances: Funded Loans & Non-Funded Loans

1. Funded loans are those loans where there is an actual transfer of funds from the bank to the borrower. Examples of funded loans are:
    - Term loans,
    - Cash credits,
    - Overdrafts,
    - Demand Loans,
    - Bills Discounted and Purchased, Participation on Risk Sharing basis,
    - Interest-bearing Staff Loans.
2. Non-funded facilities are those which do not involve actual transfer of funds. Examples of non-funded loans are:
    - Letters of credit,
    - Bank guarantees, etc.

13. Legal requirements of Disclosure in the Balance Sheet

A.

1) Bills purchased and discounted
2) Cash credits, Overdrafts and loans repayable on demand
3) Term Loans

B.

1) Secured by tangible assets
2) Covered by Bank/Government guarantees
3) Unsecured

13. Classification of Advances

Sector Wise:

- RBI issues common guidelines for lending to Priority Sector which banks are required to follow.
- These guidelines cover rate of interest; service charges, receipt, sanction, rejection, disbursement Register; issue of Loan Application Acknowledgement.

- RBI also issues targets for banks for lending to Priority Sector.

Security Wise:

Banks ask Security or Collateral while lending to assure that the Borrower will return the money to bank in prescribed time else the Banks have legal authority to sell the collateral to recover its money.

1. **Primary security** refers to the security offered by the borrower for bank finance or the one against which credit has been extended by the bank. This security is the principal security for an advance.
2. **Collateral security** is an additional security. Security can be in any form i.e. tangible or intangible asset, movable or immovable asset.

Examples of most common types of securities accepted by banks are the following:

- Immovable Property
- Gold Ornaments and Bullion
- Stock Exchange Securities and Other Instruments
- Life Insurance Policies
- Goods/Stocks/Debtors/Trade Receivables
- Personal Security of Guarantor
- Third Party Guarantees
- Plantations (For Agricultural Advances)
- Banker's General Lien

14. Mode of Creation of Security

Mortgage

Mortgage are of several kinds but the most important are the Registered Mortgage and the Equitable Mortgage. (Immovable Properties)

- Registered Mortgage and
- Equitable Mortgage

Registered Mortgage can be affected by a registered instrument called the 'Mortgage Deed' signed by the mortgagor. It registers the property to the mortgagee as a security.

Equitable mortgage is effected by a mere delivery of title deeds or other documents of title with intent to create security thereof.

Pledge

- It involves bailment or delivery of goods by the borrower to the lending bank with the intention of creating a charge on those goods (thereon) as security for the advance.

- Legal ownership of the goods remains with the pledger while the lending banker gets certain defined interests in the goods. The pledge of goods constitutes a specific (or fixed) charge.

Hypothecation

It is the creation of an equitable charge (i.e., a charge created not by an express enactment but by equity and reason), which is created in favour of the lending bank by execution of hypothecation agreement in respect of the moveable securities belonging to the borrower.

- Neither ownership nor possession is transferred to the bank. However, the borrower holds the physical possession of the goods as an agent/trustee of the bank.
- Borrower periodically submits statements regarding quantity and value of hypothecated assets (stocks, debtors, etc.) to the lending banker on the basis of which the drawing power of the borrower is fixed.

Assignment

It represents a transfer of an existing or future debt, right or property belonging to a person in favour of another person.

- Only actionable claims (i.e., claim to any debt other than a debt secured by a mortgage of immovable property or by hypothecation or pledge of moveable property) such as book debts and life insurance policies are accepted by banks as security by way of assignment.
- An assignment gives the assignee absolute right over the moneys/debts assigned to him.

Set-off

It is a statutory right of a creditor to adjust, wholly or partly, the debit balance in the debtor's account against any credit balance lying in another account of the debtor.

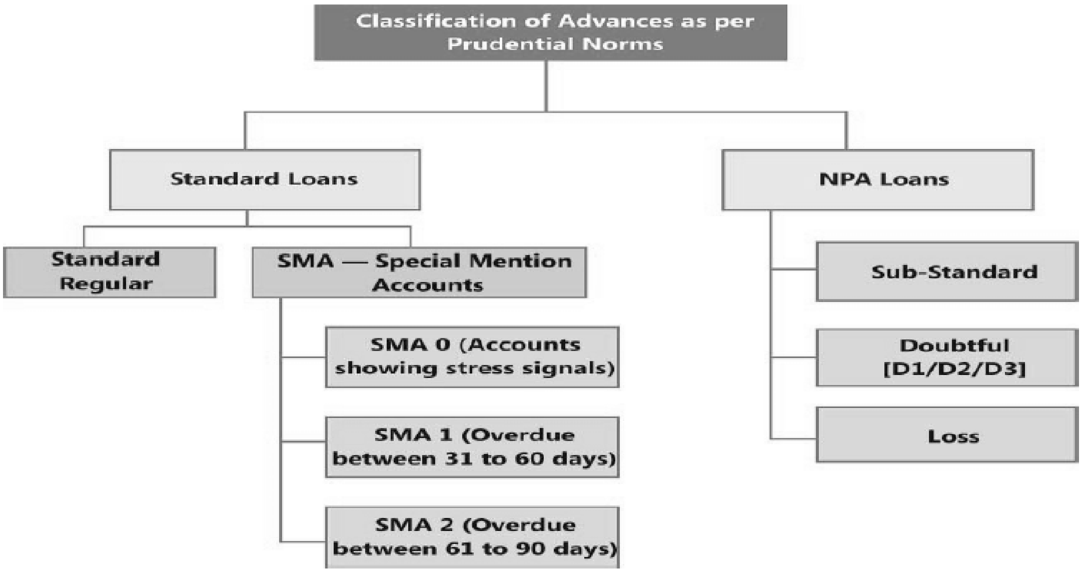
- Right of set-off enables a bank to combine two accounts (a deposit account and a loan account) of the same person provided both the accounts are in the same name and same right.
- For purpose of set-off, all branches of a bank are treated as one single entity.
- Right of set-off can be exercised for time-barred debts also.

Lien

It is creation of a legal charge with consent of the owner, which gives lender a legal right to seize and dispose / liquidate the asset under lien.

15. Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances

Classification of Advances as per RBI Prudential Norms



Non-performing Assets: An asset becomes NPA when it ceases to generate income for the Bank.

A non-performing asset (NPA) is a loan or an advance where:

- interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan;
- account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/ CC);
- bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.

In short:

- Interest/Principle > 90 Days
- OOO
- Bills > 90 Days

Out of Order: An account should be treated as 'out of order' if:

- O/s balance remains *continuously* in excess of sanctioned limit/drawing power or
- O/s balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits *continuously* for 90 days as on the date of Balance Sheet or
- credits are there but are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

In short:

- O/s > Sanctioned/drawing power
- O/s < Sanctioned/drawing power BUT No Credits for 90 days as on date of BS
- Interest Debits > Credits

Overdue: Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

Categories of Non-Performing Assets:	Provision Required
Substandard Assets: Would be one, which has remained NPA for a period less than or equal to 12 months.	15%
Doubtful Assets: Would be one, which has remained in the substandard category for a period of 12 months. **Sub-categories:** Doubtful up to 1 Year (D1) Doubtful 1 to 3 Years (D2) Doubtful more than 3 Years (D3)	(Secured + Unsecured) 25% + 100% 45% + 100% 100% + 100%
Loss Assets: Would be one, where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.	100%

Important Note

- **Classification as NPA** should be based on the record of recovery. Availability of security or net worth of borrower/guarantor is not to be taken into account for purpose of treating an advance as NPA or otherwise.
- Asset classification would be borrower-wise and not facility-wise. All facilities including investments in securities would be termed as NPA.

15.1 Accounts regularized near the Balance Sheet Date

1. Asset classification of borrower accounts where a solitary or a few credits are recorded before the balance sheet date should be handled with care and without scope for subjectivity.
2. Where the account indicates inherent weakness on the basis of available data → deemed as NPA.
3. Check for sample transactions immediately before and after the closing of the FY to get a knowledge of the objective behind the transactions, if they have any relation to each

other or if any/some transactions are being reversed during the first few days after closing which might show an arrangement to prevent the Borrower account(s) from slipping into NPA category.

15.2 Government Guaranteed Advances

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

15.3 Advances under Consortium

1. **Consortium** advances mean advancing loans to a borrower by two or more Banks jointly by forming a Consortium.
2. Joint appraisal, control and monitoring will facilitate for exchange of valuable information among the Banks. Usually, a Bank with a higher share will lead the consortium.
3. Classification of Consortium advances should be based on recovery record of each individual member banks and other aspects that affect recoverability of the advances.
4. Where the remittances by the borrower under consortium lending arrangements are pooled with one bank and/or where the bank receiving remittances is not parting with the share of other member banks, the account should be treated as not serviced in the books of the other member banks and therefore, an NPA.
5. To ensure proper asset classification in their respective books, each Participating Bank in the consortium:
   - arrange to get their share of recovery transferred from the lead bank or
   - get an express consent from the lead bank for the transfer of their share of recovery

Drawing Power Allocation in case of Consortium Cash Credit Account

- Lead Bank would be responsible for computing the drawing power (DP) of the borrower and allocate the same to member banks.
- In certain special circumstances, at the request of the Borrower, the Lead Bank may allot a higher or lower share of drawing power to the member bank, as against their share of advances.

15.4 Accounts where there is erosion in the value of security / frauds committed by borrowers

Erosion means the gradual destruction or diminution of something not prudent to follow stages of asset classification. It should be straight-away classified as doubtful or loss asset as appropriate as follows:

1. Erosion in the value of security can be reckoned/considered as significant when the realisable value of the security is less than 50 per cent of the value assessed by the bank or accepted by RBI at the time of last inspection, as the case may be. Such NPAs may be straight-away classified under doubtful category and provisioning should be made as applicable to doubtful assets.
2. If the realisable value of the security, as assessed by the bank/ approved valuers/ RBI is less than 10 per cent of the outstanding in the borrowers accounts, the existence of security should be ignored and the asset should be straight-away classified as loss asset. It may be either written off or fully provided for by the bank.

In short:

- Realisable value < 50% of assessed value = Doubtful Category
- Realisable value < 10% of O/s = Loss Asset

15.5 Advances Against Term Deposits, NSCs, KVPs/ IVPs, etc.

Advances against Term Deposits, NSCs eligible for surrender, KVP/IVP and life policies need not be treated as NPAs, provided adequate margin is available in the accounts. (This is exception to Note below NPA provision table above)

15.6 Agricultural Advances

Agricultural Advances are given for two types:

1. Agricultural Advances for "long duration" crops
2. Agricultural Advances for "short duration" crops.

- ✓ Long duration crops would be crops where Crop season longer than one year and
- ✓ Crops which are not "long duration" crops would be termed as 'Short Duration Crops.

Crop season means the period up to harvesting of the crops raised, as determined by the State Level Bankers' Committee in each State.

Following NPA norms would apply to agricultural advances (including Crop Term Loans):

1. A loan granted for long duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for one crop season.
2. A loan granted for short duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for two crop seasons.

15.7 Agricultural Advances Affected by Natural Calamities

RBI Master Circular provides detailed guidelines on asset classification and income recognition for loans affected by natural calamities. Banks can grant relief measures like converting short-term loans into term loans, rescheduling repayments, or sanctioning fresh loans, as per RBI guidelines. In such cases, NPA classification will follow the revised repayment terms.

15.8 Advances to Staff

1. Interest-bearing staff advances as a banker should be included as part of advances portfolio of the bank.
2. In the case of housing loan or similar advances granted to staff members where interest is payable after recovery of principal, interest need not be considered as overdue from the first quarter onwards.
3. Such loans/advances should be classified as NPA only when there is a default in repayment of installment of principal or payment of interest on the respective due dates.
4. Staff advances by a bank as an employer and not as a banker are required to be included under the sub-head 'Others' under the schedule of Other Assets.

*As a Banker: Bank acting like a lender, like loan given to any regular customer.

16. Computation of Drawing Power

Meaning:

Drawing Power (DP) is an important concept for Cash Credit (CC) facility availed from banks and financial institutions. It is the limit up to which a firm or company can withdraw from the working capital limit sanctioned.

Different from Sanctioned Limit:

Sanctioned limit is the total exposure that a bank can take on a particular client whereas DP refers to the amount calculated based on primary security less margin as on a particular date.

Considerations:

- All a/c should be kept within both the DP and the sanctioned limit at all times.
- Accounts which exceed the sanctioned limit or drawing power or are against unapproved securities or are otherwise irregular should be brought to the notice of the Mgmt/HO regularly.

Bank Duties:

- Banks should ensure that drawings in the working capital account are covered by the adequacy of the current assets.
- DP is required to be arrived at based on current stock statement.
- However, for large borrowers, stock statements relied upon by the banks for determining DP should not be older than three months.

- O/s in the account based on drawing power calculated from stock statements older than three months is deemed as irregular.

Auditor's Concern:

- Stock statements, quarterly returns and other statements submitted by the borrower to the bank should be scrutinized in detail.
- Audited Annual Report submitted by the borrower should be scrutinized properly.
- Monthly stock statement of the month for which the audited accounts are prepared and submitted should be compared and the reasons for deviations, if any, should be ascertained.

Computation of DP:

- DP is calculated as per the extant guidelines formulated by BOD of the respective bank and agreed upon by the concerned statutory auditors.
- Special consideration should be given to proper reporting of sundry creditors for the purposes of calculating drawing power.

Stock Audit:

- Stock audit should be carried out by the bank for all accounts having funded exposure of more than 5 crores.
- Auditors can also advise for stock audit in other cases if the situation warrants the same.
- Branches should obtain the stock audit reports from lead bank in the cases where the Bank is not leader of the consortium of working capital.
- Report submitted by the stock auditors should be reviewed during the audit and special focus should be given to the comments made by stock auditors on valuation of security and calculation of DP.

Drawing Power Computation Format

	Particulars		
A	Stocks		
	Value of Stock	a	
	Less: Damaged Stock	b	
	Stock at realisable value		
	Less: Unpaid Stock	c	
	- Sundry Creditors		
	- Acceptance/LC etc		
	Paid for Stock		

	(Margin)	d	**A** = (a-b-c-d)
B	Debtors		
	Total Debtors	a	
	Less: Ineligible Debtors	b	
	Eligible Debtors		
	Less: Margin	c	**B** = (a-b-c)
	Total DP		**A + B**

*Make sure its restricted to Sanctioned limit.

17. Audit of Advances

1. Substantive Procedures
2. Key objective: Areas to be covered
3. How to get SAAE?
4. Evaluation of internal control over advances

Advances generally constitute the major part of the assets of the bank. There are large number of borrowers to whom variety of advances are granted. The audit of advances requires the major attention from the auditors.

Substantive Procedures

- Auditor should examine all large advances while other advances may be examined on a sampling basis.
- Accounts identified to be problem accounts should be examined in detail unless the amount involved is insignificant.
- Advances which are sanctioned during the year or which are adversely commented by RBI inspection team, concurrent auditors, bank's internal inspection, etc. should generally be included in the auditor's review.

Note: What constitutes a 'large advance' would need to be determined in the context of volume of operations of the branch.

Auditor is primarily concerned with obtaining evidence about the following:

1. Completeness: There are no unrecorded advances.
2. Existence: Advances included in the BS represent amount that are O/s as at the BS date.
3. Rights: Advances represent amount due to the bank.
4. Existence & Rights: Amounts due to the bank are appropriately supported by loan documents and other documents as applicable to the nature of advances.

5. Valuation: The stated basis of valuation of advances is appropriate and properly applied and the recoverability of advances is recognised in their valuation.
6. Valuation: Appropriate provisions towards advances have been made as per the RBI norms, AS and generally accepted accounting practices.
7. Presentation: Advances are disclosed, classified and described in accordance with recognised accounting policies and practices and relevant statutory and regulatory requirements.

<u>How to get SAAE about Advances?</u>

Auditor can obtain SAAE about advances by:

- Obtaining understanding and evaluation of internal controls relating to advances
- Verifying the accuracy and validity of the recorded amounts;
- Inspecting loan documentation to support the amounts;
- Reviewing the operation of the accounts;
- Examining the existence, enforceability and valuation of the security;
- Checking compliance with RBI norms including appropriate classification and provisioning; and
- Carrying out appropriate analytical procedures.

<u>Evaluation of Internal Controls over Advances:</u>

Auditor should examine the efficacy of various internal controls over advances to determine the NTE of his substantive procedures.

In general, the internal controls over advances should include, inter alia, the following:

1. Check Credit worthiness: Bank should make an advance only after satisfying itself as to the credit worthiness of the borrower and after obtaining sanction from the appropriate authorities of the bank.
2. Documentation: All the necessary documents (e.g., agreements, demand promissory notes, letters of hypothecation, etc.) should be executed by the parties before advances are made.
3. Compliance with the terms of sanction and end use of funds should be ensured.
4. Securities:
   - ✓ Margin: Sufficient margin as specified in the sanction letter should be kept against securities taken so as to cover for any decline in the value thereof. The availability of sufficient margin needs to be ensured at regular intervals.
   - ✓ Ownership: If the securities taken are in the nature of shares, debentures, etc., the ownership of the same should be transferred in the name of the bank and the effective control of such securities be retained as a part of documentation.

- ✓ Registration: All securities requiring registration should be registered in the name of the bank or otherwise accompanied by documents sufficient to give title to the bank.
- ✓ Goods: In the case of goods in the possession of the bank, contents of the packages should be test checked at the time of receipt. The godowns should be frequently inspected by responsible officers of the branch concerned, in addition to the inspectors of the bank.

5. Drawing Power:
   - ✓ DP Register should be updated every month to record the value of securities hypothecated. These entries should be checked by an officer.
   - ✓ Accounts should be kept within both the DP and the sanctioned limit.
   - ✓ All the accounts which exceed the sanctioned limit or DP or are otherwise irregular should be brought to the notice of the controlling authority regularly.
6. Operation of each advance account should be reviewed at least once a year and at more frequent intervals in the case of large advances.

18. Audit of Revenue Items - Profit and Loss Account

Details of items which are included in Income: Refer ICAI SM (Pg. 10.40-10.41)

Auditor's Concern: In carrying out audit of income, the auditor is primarily concerned with obtaining reasonable assurance that the recorded income arose from transactions, which took place during the relevant period and pertained to the bank, there is no unrecorded income and the income is recorded at appropriate amount.

RBI's Directions: RBI has advised that in respect of any income which exceeds:

- ✓ 1% of total income of the bank if the income is reckoned on a gross basis or
- ✓ 1% of the net profit before taxes if the income is reckoned net of costs

should be considered on accrual basis as per AS 9.

Materiality: If any item of income is not considered to be material as per the above norms, it may be recognised when received and the auditors need not qualify their report in that situation.

Revenue Certainty: Banks recognise income (such as interest, fees and commission) on accrual basis, i.e., as it is earned. It is an essential condition for accrual of income that it should not be unreasonable to expect its ultimate collection. In modern day banking, the entries for interest income on advances are automatically generated through a batch process in the CBS system.

Revenue Uncertainty: In view of the significant uncertainty regarding ultimate collection of income arising in respect of non-performing assets, the guidelines require that banks should not recognize income on non-performing assets until it is actually realised. When a credit facility is classified as non-performing for the first time, interest accrued and credited to the income account in the corresponding previous year which has not been realized should be reversed or provided for. This will apply to Government guaranteed accounts also.

Advances against Securities: Interest on advances against Term Deposits, National Savings Certificates (NSCs), Indira Vikas Patras (IVPs), Kisan Vikas Patras (KVPs) and Life policies may be taken to income account on the due date, provided adequate margin is available in the accounts.

Bills Purchased:

- In the case of bills purchased O/s at the end of the year the discount received thereon should be properly apportioned between the two years. (Unexpired discount/ rebate pertaining to next year, should be recorded as "Other Liabilities").
- Interest (discount) component paid by Bank/Branch on rediscount of bills from other financial institutions, is not to be netted off from the discount earned on bills discounted.

Bills for Collection:

When auditing bills for collection, the auditor should check how the bank credits the customer's account. Usually, the customer is credited only after the bank has actually collected the money from the buyer (called the drawee), either directly or through agents. This is because the bank's role is just to collect money on behalf of the customer. The bank earns its commission only after the payment is received.

Renegotiations: Fees and commissions earned by the banks as a result of re-negotiations or rescheduling of O/s debts should be recognised on an accrual basis over new loan period. Test check the interest earned by the banks for the sample selected. Test check the fees and commissions earned by the bank from services like bills for collection, letters of credit, and bank guarantees.

18.1 Reversal of Income

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

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

c. Further, in case of banks which have wrongly recognised income it should reverse the interest if it was recognised as income during the current year or make a provision for an equivalent amount if it was recognized as income in the previous year(s).

d. Furthermore, the auditor should enquire if there are any large debits in the Interest Income account that have not been explained. It should be enquired whether there are any communications from borrowers pointing out differences in interest charge and whether appropriate action has been taken in this regard.

18.2 Income on leased Assets

The component of finance income (as defined in AS 19 – Leases) on the leased asset which was accrued and credited to the income account before the asset became non-performing and remaining unrealised, should be reversed or provided for in the current accounting period.

18.3 On Take-out finance

A takeout loan is a method of financing whereby a loan that is procured later is used to replace the initial loan.

More specifically, a takeout loan, or takeout financing, is long-term financing that the lender promises to provide at a particular date or when particular criteria for completion of a project are met. Takeout loans are commonly used in property development.

In the case of take-out finance, if based on record of recovery, the account is classified by the lending bank as NPA, it should not recognize income unless realised from the borrower/taking-over institution (if the arrangement so provides).

18.4 Partial Recoveries in NPAs

- In absence of a clear agreement between the bank and the borrower for the purpose of appropriation of recoveries in NPAs (i.e., towards principal or interest due), banks are required to adopt an accounting policy and exercise the right of appropriation of recoveries in a uniform and consistent manner.
- Appropriate policy to be followed is to recognise income as per AS 9 when there is certainty of realisation and accordingly amount reversed/ derecognised or not recognised in the past should be accounted.
- Interest partly/fully realised in NPAs can be taken to income. However, it should be ensured that credits towards interest in relevant accounts are not out of fresh/additional credit facilities sanctioned to the concerned borrowers.

18.5 Memorandum Account

On an account turning NPA, banks should reverse the interest already charged and not collected by debiting Profit and Loss account and stop further application of interest.

However, banks may continue to record such accrued interest in a Memorandum account in their books for control purposes.

For the purpose of computing Gross Advances, interest recorded in the Memorandum account should not be taken into account.

18.6. Income from Investment

Interest Income on Investments:

This includes all income derived from:

- Government securities,
- bonds and
- debentures of corporates and
- other investments by way of interest and dividend

Except

Income earned by way of dividends, etc, from subsidiaries and JV abroad/in India.

- Broken period interest paid on securities purchased and amortisation of premium on SLR investments is net off from the interest income on investments.

Profit on Sale of Investments: Investments are dealt in the course of banking activity and hence the net profit or loss on sale of investments is taken to P&L.

Profit/Loss on Revaluation of Investments: In terms of guidelines issued by the RBI, investments are to be valued at periodical intervals and depreciation or appreciation in valuation should be recognised and taken to P&L.

19. Expenses

Expenditure is to be shown under three broad heads:

1. Interest expense
2. Operating expense
3. Provisions and contingencies

What's included under these heads: Refer table in ICAI module (Pg.10.45-10.46)

19.1 Audit of Interest Expense

1. Interest Reasonableness Check: Auditor assess overall reasonableness of interest expense by analysing ratios of interest paid on different types of deposits and borrowings to their average balances during the year.
2. CBS System Auto-Posting: In modern day banking, the entries for interest expense are automatically generated through a batch process in the CBS System.
3. Compare Avg. Interest Rate – Current Year: Auditor should obtain details of various types of deposits O/s at the end of each quarter. From such information, the auditor may work out a weighted average interest rate and then compare this rate with the actual average rate of interest paid on the relevant deposits as per the annual accounts and enquire into the difference, if material.

4. Compare Avg. Interest Rate – With Past Years: Auditor should also compare the average rate of interest paid on the relevant deposits with the corresponding figures for the previous years and analyse any material differences.
5. Collect Monthly/Quarterly Interest Data: Auditor should obtain general ledger break-up for the interest expense incurred on deposits (savings and term deposits) and borrowing each month/quarter.
6. Analyse Monthly/Quarterly Interest Trends: Auditor should analyse month on month (or quarter on quarter) cost analysis and document the reasons for the variances as per the benchmark stated.
7. Cross-Check Cost Analysis with Ledger: He should examine whether the interest expense considered in the cost analysis agrees with the general ledger. The auditor should understand the process of computation of the average balance and re-compute the same on sample basis.

Auditor should, on a test check basis, verify the calculation of interest and ensure that:

a. Completeness: Interest has been provided on all deposits upto the date of the balance sheet;
b. Compliance: Interest rates on deposits are in accordance with the bank's internal regulations/RBI directives/agreements with the respective deposit holder;
c. Compliance: Interest on savings accounts are in accordance with the rules framed by the bank/RBI in this behalf.
d. Compliance: Interest on inter–branch balances has been provided at the rates prescribed by the head office/RBI.

Auditor should:

- Check for Changes in Deposit Interest Rates: Ascertain whether there are any changes in interest rate on saving accounts and term deposits during the period.
- Review Interest Rate Card & Analyse Interest Cost: obtain the interest rate card for various types of deposits and analyse the interest cost for the period accordingly.
- Accrual on Borrowings: examine the completeness that interest has been accrued on the entire borrowing portfolio and the same should agree with the general ledgers.
- Re-computation: Re-compute the interest accrual i.e., by referring to the parameters like frequency of payment of interest amount, rate of interest, period elapsed till the date of balance sheet, etc. from the term sheet, agreements, etc.
- Tally Re-computation: ensure that the recomputed amount is tallying with the amount as per books of accounts without any significant difference.

19.2 Audit of Operating Expenses

For audit of Operating expenses, the auditor should:

1. Evaluate Internal Control System: study and evaluate the system of internal control relating to expenses, including authorisation procedures in order to determine the NTE of his other audit procedures.
2. Trend Analysis: examine whether there are any unusual trends in respect of major items of expenses.
3. SAP: Perform substantive analytical procedures in respect of these expenses. Assess reasonableness of expense and compare with corresponding figure of previous years.
4. Vouching & Verification: verify expenses w.r.t supporting documents and check the calculations wherever required.

19.3 Audit of Provisions and Contingencies

For audit of Provisions and contingencies the auditor should:

1. Compliance with regulatory Requirement: ensure that provisioning requirement contained under various regulatory requirements have been fulfilled.
2. Understand Provisioning Process: obtain an understanding as to how the bank computes provision on standard assets and non-performing assets. This primarily includes how bank classifies loans and receivables into Standards, Sub-Standard, doubtful and loss category.
3. Breakup of Loans: obtain the detailed break up of standard loans, non-performing loans and agree the outstanding balances with the general ledger.
4. Tax provision: obtain the tax provision computation from the bank's mgmt and verify the nature of items debited and credited to profit and loss account to ascertain that the same are appropriately considered in the tax provision computation
5. Other provisions: examine other provisions for expenses in light of the situation and assess if they are adequate by discussing and obtaining explanation from mgmt.

19.4 Disclosure of the Prior Period Items

Form B of Schedule III does not specifically provide for disclosure of impact of prior period item, such disclosure wherever warranted may be given.

Chapter 11

Overall Summary

Topics	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
Ethics and Independence	0	9	8	3	0	0	0	0	0	2
SA 210	4	4	3	0	0	0	4	0	4	0
SQC 1	0	0	0	0	3	0	0	0	0	0
SA 220	5	0	0	4	3	0	0	0	0	0
Total	9	13	11	7	6	0	4	0	4	2
ICAI Weightage	8% to 10%									

Ethics and Independence

Ethics and Independence	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Meaning of Ethics – A State of Mind										
2. Need for Professional Ethics										
3. Principles Based Approach Vs Rules Based Approach to Ethics										
4. Fundamental Principles of Professional Ethics		4	6	3						
5. Independence of Auditors										
6. Threats to Independence		3	2							2
7. Safeguards to Independence		2								
Total	0	9	8	3	0	0	0	0	0	2

1. Meaning of Ethics – A State of Mind

The term "Ethics" means moral principles which govern a person's behaviour or his conducting of an activity.

2. Need for Professional Ethics

Like other professions, auditing requires strong ethical standards due to the high trust placed in Chartered Accountants by society, businesses, and financial institutions. Ethics in auditing ensure public confidence in assurance services and uphold the profession's reputation.

Professional ethics are based on morality, requiring accountants to prioritize public interest over personal gain. The ICAI has codified ethical guidelines that all Chartered Accountants, whether in practice or service, must follow. Any violation of these ethics can lead to disciplinary actions, including fines, suspension, or removal from membership.

3. Principles Based Approach Vs Rules Based Approach to Ethics

Ethical guidance may follow principles-based approach or rules-based approach.

Principles-based approach to ethics requires:

1. Compliance with spirit of ethics.
2. Accountants to exercise professional judgment in every situation based upon their professional knowledge, skill and expertise.
3. Accountants should use professional judgment to evaluate every situation to arrive at conclusions.

Rules-based approach to ethics:

1. Strictly follows clearly established rules.
2. May lead to a narrow outlook and
3. Spirit of ethics may be overlooked while strictly adhering to rules.

Rules- based approach is somewhat rigid as it may not be possible to deal with every practical situation relying upon rules.

4. Fundamental Principles of Professional Ethics (POPCI)

The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to FS audit engagements. Relevant ethical requirements ordinarily comprise the Code of Ethics issued by the ICAI.

The Code establishes the following as the fundamental principles of professional ethics relevant to the auditor when conducting an audit of FS and provides a conceptual framework for applying those principles;

1. Integrity;
2. Objectivity;
3. Professional competence and due care;
4. Confidentiality; and
5. Professional behaviour

Integrity: A professional accountant shall comply with the principle of integrity, which require that they should be straightforward and honest in all professional and business dealings. Integrity involves fair dealing and truthfulness. An accountant should not be linked to reports, returns, communications, or other information if they believe it contains a:

- materially false or misleading statement,
- includes negligent statements or info. or
- omits or hides required details in a way that could mislead others.

Objectivity: The principle of objectivity requires an auditor not to compromise professional judgment because of:

1. Bias,
2. Conflict of interest or
3. Undue influence of others.

It requires that a professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity.

Professional competence and due care:

A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and act diligently and in accordance with applicable technical and professional standards.

Diligence includes responsibility to act carefully, thoroughly and on a timely basis in accordance with requirements of an assignment.

Confidentiality:

- Principle of confidentiality requires a professional accountant to respect the confidentiality of info. obtained through professional or business relationships.
- Confidentiality serves the public interest because it facilitates the free flow of info. from the professional accountant's client or employing organisation to the accountant with the understanding that the info. will not be disclosed to a third party.
- However, such confidential information may be disclosed, for example, when it is required by law, when it is permitted by law and is authorised by the client or employer or there is a professional duty or right to disclose when not prohibited by law.

Professional behaviour: It requires an accountant to:

- comply with relevant laws and regulations and
- avoid any conduct that the accountant knows or should know might discredit the profession.

A professional accountant shall not knowingly engage in any employment, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

Example

A CA has conducted audit of accounts of an entity for a particular year. ICAI has issued a letter to him relating to certain matters concerning audit. He didn't even bother to reply to the letter despite reminders. Failure to reply to professional body smacks of lack of courtesy and professional responsibility. In the given case, Chartered accountant has not followed principle of Professional behaviour.

5. Independence of Auditors

Independence" implies that the judgment of a person is not subordinate to the wishes or direction of another person who might have engaged him or to his own self-interest.

There are two interlinked perspectives of independence of auditors:

1. **Independence of mind** – the state of mind that permits the provision of an opinion without being affected by influences allowing an individual to act with integrity, and exercise objectivity and professional skepticism; and
2. **Independence in appearance** – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would reasonably conclude an auditor's integrity, objectivity or professional skepticism had been compromised." Independence of the auditor has not only to exist in fact, but also appear to so exist to all reasonable persons.

Note: Independence of the auditor has not only to exist in fact, but also appear to so exist to all reasonable persons.

6. Threats to Independence

Self Interest Threats:

This occur when an auditing firm, its partner or associate could benefit from a financial interest in an audit client. Examples include:

1. Direct financial interest or materially significant indirect financial interest in a client. E.g., equity ownership.
2. Loan or guarantee to or from the concerned client.
3. Undue dependence on a client's fees and, hence, concerns about losing the engagement. E.g., large proportion of revenue from one client.
4. Close business relationship with an audit client. E.g., joint venture with client.
5. Potential employment with the client. E.g., Auditor or auditor's spouse enters into employment negotiation with client.
6. Contingent fees for the audit engagement. E.g., contingent fees are arrangement where fee is dependent of outcome of a certain event or fixed fees is not charged and computed on percentage basis.

Self-Review Threats:

This occurs:

1. During the review of any judgement or conclusion reached in a previous audit or non-audit engagement.
2. When a member of the audit team previously was an employee of the client (especially a director or senior officer) in a position to exert significant influence over the subject matter of the audit engagement. For example, assisting an audit client in matters such as

preparing accounting records or FS. This may create a self-review threat when the firm subsequently audits the FS.

Advocacy Threats:

This occur when the auditor promotes, or seems to promote, a client's opinion to a point where people may believe that objectivity is getting compromised. E.g., when an auditor deals with shares or securities of the audited company, or becomes the client's advocate in litigation and third-party disputes.

Familiarity threats:

These threats are self-evident, and occur when auditors become too sympathetic to the client's interests. This can occur in many ways:

1. Close relative of an audit team member is working in a senior position in the client company.
2. Former partner of the audit firm being a director or senior employee of the client.
3. Long association between specific auditors and their specific client counterparts.
4. Acceptance of significant gifts or hospitality from the client company, its directors or employees.

Intimidation threats:

This occurs when auditors are deterred from acting objectively with an adequate degree of professional skepticism. Two examples of intimidation threats are:

1. When an auditor is told he will be replaced based on a disagreement over application of an accounting principle and
2. Pressure to reduce the scope of the audit in order to reduce fees.

7. Safeguards to Independence

CA's have a responsibility to remain independent by taking into account the context in which they practice, the threats to independence and the safeguards available to address the threats.

Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to comply with the fundamental principles to an acceptable level.

To address the issue, the following guiding principles are to be applied:

1. For the public to have confidence in the quality of audit, it is essential that auditors should always be and appears to be independent of the entities that they are auditing.
2. Before taking on any work, an auditor must conscientiously consider whether it involves threats to his independence.

3. When such threats exist, the auditor should either desist from the task or eliminate the threat or at the very least, put in place safeguards which reduce the threats to an acceptable level.
4. All such safeguard measures need to be recorded in a form that can serve as evidence of compliance with due process.
5. If the auditor is unable to fully implement credible and adequate safeguards, then he must not accept the work.

SA 210

SA 210	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Objective of SA 210										
2. Preconditions of Audit	4								4	
3. What happens if Preconditions for Audit are not Present?										
4. Limitation on Scope prior to Audit Engagement Acceptance										
5. Terms of Engagement Letter		2	3							
6. Acceptance of Change in Terms of Audit Engagement							4			
7. Unable to Agree on New Terms										
8. Terms of Engagement in Recurring Audits		2								
Total	4	4	3	0	0	0	4	0	4	0

SA 210 - Agreeing the Terms of Audit Engagements

SA 210 deals with the auditor's responsibilities in agreeing the terms of the audit engagement with mgmt and, where appropriate, TCWG. This includes establishing that certain preconditions for an audit, responsibility for which rests with mgmt and, where appropriate TCWG are present.

1. Objective of SA 210

Objective of the auditor is to accept or continue an audit engg only when the basis upon which it is to be performed has been agreed, through:

✓ Establishing whether the preconditions for an audit are present.

✓ Confirming that there is a common understanding between the auditor and mgmt and, where appropriate, TCWG of the terms of the audit engg.

2. Preconditions of Audit

In order to establish whether the preconditions for an audit are present, the auditor shall:

1. Determine whether the FRF is acceptable

2. Obtain the agreement of mgmt that it acknowledges and understands its responsibility:
   - For the preparation of the FS in accordance with the applicable FRF including where relevant their fair representation;
   - For such internal control as mgmt considers necessary to enable the preparation of FS that are free from MM, whether due to fraud or error;
3. To provide the auditor with:
   - Access to all info. relevant to the preparation of the FS
   - Additional info. that auditor may request from mgmt for the purpose of the audit; and
   - Unrestricted access to persons within the entity for purpose of audit evidence.

3. What happens if Preconditions for Audit are not Present?

Auditor shall discuss the matter with mgmt, unless required by law or regulation to do so, the auditor shall not accept the proposed audit engg.

a. If the auditor has determined that the FRF to be applied in the preparation of the FS is unacceptable or

b. If the agreement of mgmt is not obtained on matters relating to understanding of responsibility of mgmt on preparation of FS, internal controls for preparation of FS, providing access to all information to auditor and unrestricted access to persons within the entity.

4. Limitation on Scope prior to Audit Engagement Acceptance

If mgmt or TCWG impose a limitation on the scope of the auditor's work in the terms of a proposed audit engg. such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the FS, the auditor shall not accept such a limited engg as an audit engg, unless required by law or regulation to do so.

5. Terms of Engagement Letter

The auditor shall agree the terms of the audit engg with mgmt or TCWG, as appropriate. The agreed terms of the audit engg shall be recorded in an audit engg letter or other suitable form of written agreement.

Audit engg letter is sent by the auditor to his client. It is in the interest of both the auditor and the client to issue an engg letter so that the possibility of misunderstanding is reduced to a great extent.

Key areas that should be included in Audit engg letter are:

1. Objective and scope of the audit of the FS
2. Responsibilities of the auditor
3. Responsibilities of mgmt

4. Identification of the applicable FRF for the preparation of the FS and
5. Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.

If law or regulation prescribes in sufficient detail the terms of the audit engg, the auditor need not record them in a written agreement, except for the fact that such law or regulation applies and that mgmt acknowledges and understands its responsibilities.

6. Acceptance of Change in Terms of Audit Engagement

An auditor shall not agree to a change in the terms of the audit engg where there is no reasonable justification for doing so.

A request from the entity for the auditor to change the engg may result from:

1. Change in circumstances affecting the need for the service
2. Misunderstanding as to the nature of an audit or related service originally requested or
3. Restriction on the scope of the engg, whether imposed by mgmt or caused by circumstances.

The auditor considers the justification given for the request, particularly the implications of a restriction on the scope of the audit engagement.

A Change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of the service originally requested may be considered a reasonable basis for requesting a change in the audit engg.

In contrast, a change may not be considered reasonable if it appears that the change relates to info. that is incorrect, incomplete or otherwise unsatisfactory.

An example might be where the auditor is unable to obtain SAAE regarding receivables and the entity asks for the audit engg to be changed to a review engg to avoid a qualified opinion or a disclaimer of opinion.

Q. What should auditor consider before agreeing to change the audit engg to the engg providing lower level of assurance?

An auditor who, before the completion of the engagement, is requested to change the audit engg to an engg that conveys a lower level of assurance, the auditor shall determine whether there is reasonable justification for doing so.

Before agreeing to change an audit engg to a review or a related service, an auditor who was engaged to perform an audit in accordance with SAs may also need to assess any legal or contractual implications of the change.

If the auditor concludes that there is reasonable justification to change the audit engg to a review or a related service, the audit work performed to the date of change may be relevant to the changed engg.

However, the work required to be performed and the report to be issued would be those appropriate to the revised engg.

In order to avoid confusing the reader, the report on the related service would not include reference to:

a. the original engg; or
b. Any procedures that may have been performed in the original engg, except where the engg is changed to an engg to undertake AUP and thus reference to the procedures performed is a normal part of the report.

If the terms of the audit engg are changed, the auditor and mgmt shall agree on and record the new terms of in an engg letter or other suitable form of written agreement.

7. Unable to Agree on New Terms

If the auditor is unable to agree to a change of the terms of the audit engg and is not permitted by mgmt to continue the original audit engg, the auditor shall:

- Withdraw from the audit engg where possible under applicable law or regulation **and**
- Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as TCWG, owners or regulators.

8. Terms of Engagement in Recurring Audits

Recurring audit is an audit which is performed by an auditor over years.

On recurring audits, the auditor shall assess whether circumstances require the terms of the audit engg to be revised and whether there is a need to remind the entity of the existing terms of the audit engg.

Auditor may decide not to send a new audit engg letter each period. However, the following factors may make it appropriate to revise terms of audit engg or to remind the entity of existing terms:

1. Any indication that entity misunderstands the objective and scope of audit.
2. Any revised or special terms of the audit engg.
3. A recent change of senior mgmt.
4. A significant change in ownership.
5. A significant change in nature or size of the entity's business.
6. A change in legal or regulatory requirements.
7. A change in the FRF adopted in the preparation of the FS.
8. A change in other reporting requirements.

SQC 1

SQC 1	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Objective of SQC 1					3					
2. Elements of System of Quality Control										
2.1 Leadership responsibilities for quality within the firm										
2.2 Ethical Requirements										
2.3 Acceptance and continuance of client relationships and specific engagement										
2.4 Human Resources										
2.5 Engagement Performance										
2.6 Monitoring										
Total	0	0	0	0	3	0	0	0	0	0

SQC 1-Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements

1. Objective of SQC 1

SQC 1 requires that the firm should establish and maintain a system of quality control to provide it with reasonable assurance that:

- Firm and its personnel comply with professional standards and
- Reports issued by the firm or engagement partners are appropriate in the circumstances.

2. Elements of System of Quality Control (HEMALE)

(A) Leadership responsibilities for quality within the firm

(B) Ethical requirements

(C) Acceptance and continuance of client relationships and specific engagements

(D) Human resources

(E) Engagement performance

(F) Monitoring

2.1 Leadership responsibilities for quality within the firm

1. SQC 1 requires firms to establish policies and procedures designed to promote an internal culture based on the recognition/focus that quality is essential in performing engagements.

2. Such Policies and procedures should require the firm's chief executive officer or the firm's managing partners to assume ultimate responsibility for the firm's system of quality control.
3. The example set by firm's leadership encourages an internal culture that promotes high quality audit work.
4. Further, Persons assigned with operational responsibilities by CEO or MP should have sufficient and appropriate experience, ability and the necessary authority to assume that responsibility.

2.2 Ethical Requirements

The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements contained in the Code of ethics issued by ICAI.

The Code establishes the fundamental principles of professional ethics which include integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and (including experts contracted by the firm and network firm personnel) maintain independence where required by the Code.

Such policies and procedures should enable the firm to:

a. Communicate its independence requirements to its personnel
b. Identify and evaluate circumstances and relationships that create threats to independence
c. Take appropriate action to:
    - eliminate those threats or
    - reduce them to an acceptable level by applying safeguards, or,
    - if considered appropriate, to withdraw from the engagement.

Other Points:

1. There should exist a mechanism by which EP shall provide the firm with relevant information about client engagement.
2. Personnel of firm promptly notify firm of circumstances and relationships that create a threat to independence.
3. All breaches of independence should be promptly notified to firm for appropriate action.
4. At least annually, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent in terms of the requirements of the Code.

2.3 Acceptance and continuance of client relationships and specific engagement (ICC-BCCI-RIN)

A firm before accepting an engagement should acquire vital information about the client. Such an info. should help firm to decide about:

a. Integrity of principal owners, key mgmt and TCWG of the entity;

b. Competence (including capabilities, time and resources) to perform engagement

c. Compliance with ethical requirements

Firm should obtain such info as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.

Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it should document how the issues were resolved.

With regard to the integrity, matters that the firm considers:

1. Identity and Business reputation of the client's principal owners, key mgmt, related parties and those charged with its governance.
2. Nature of the client's operations, including its business practices.
3. Information concerning the attitude of the Client's principal owners, KMP's and TCWG towards such matters as aggressive interpretation of AS and internal control environment.
4. Whether the client is aggressively Concerned with maintaining the firm's fees as low as possible.
5. Indications of an inappropriate limitation in the scope of work.
6. Indications that the client might be involved in money laundering or other criminal activities.
7. Reasons for the proposed appointment of the firm and non-reappointment of the previous firm.

Conflict of Interest between Firm and Client

If there is any conflict of interest between the firm and client, it should be properly resolved before accepting the engagement.

Where the firm obtains information that would have caused it to decline an engagement if that information had been obtainable earlier, policies and procedures on the continuance of the engagement and the client relationship should include consideration of:

1. Professional and legal responsibility to report to the person(s) who made the appointment or in some cases to regulatory authorities.
2. Possibility of withdrawing from engg. or from both engg. and client relationship.

2.4 Human Resources

The firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with Professional Standards and rules & regulations. and to enable the firm or EP to issue reports that are appropriate in the circumstances. Address relevant HR issues including recruitment, capabilities, compensation, career development, compensation, performance evaluation, promotions.

2.5. Engagement Performance

The firm should establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements, and that the firm or the engagement partner issues reports that are appropriate in the circumstances.

Through its policies and procedures, the firm seeks to establish consistency in the quality of engagement performance. Matters addressed through these policies and procedures include the following:

1. How engagement teams are briefed on the engagement to obtain an understanding of the objectives of their work.
2. Processes for complying with applicable engagement standards.
3. Processes of engagement supervision, staff training and coaching.
4. Methods of reviewing the work performed, the significant judgments made and the form of report being issued.
5. Appropriate documentation of the work performed and of the timing and extent of the review.
6. Processes to keep all policies and procedures current.

Note: The above Para is note covered appropriately in ICAI module but in exams ICAI can ask question.

Consistency in Performance (ICAI Module):

- Briefing of engagement team of their objectives,
- Processes for complying with engagement standards,
- Processes of engagement supervision and training,
- Methods of reviewing performance of work,
- Appropriate documentation of work performed.

Consultation should take place in difficult or contentious matters pertaining to an engagement. Firm may take advisory services provided by other firms.

Engagement Quality Control Review:

1. Engagement quality control review is mandatory for all audits of FS of listed entities. In respect of other engagements, firm should devise criteria to determine cases requiring performance of engagement quality control review.
2. Significant judgments made in an engagement should be reviewed by an EQCR for taking an objective view before the report is issued.
3. The extent of the review depends on the complexity of the engagement and the risk that the report might not be appropriate in the circumstances.
4. The review does not reduce the responsibilities of the engagement partner.

Difference of Opinion:

1. There might be difference of opinion within engagement team, with those consulted and between EP and EQCR. The report should only be issued after resolution of such differences.
2. In case, recommendations of EQCR are not accepted by EP and matter is not resolved to reviewer's satisfaction, the matter should be resolved by following established procedures of firm like by consulting with another practitioner or firm, or a professional or regulatory body.

Assembly, Retention and Ownership of Audit Documentation:

The firm should establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized.

1. The assembly of engagement files should be completed in not more than 60 days after date of auditor's report in case of audit engagements and in other cases within the limits appropriate to engagements.
2. Engagement documentation has to be retained for a period of time sufficient to permit those performing monitoring procedures to evaluate the firm's compliance with its system of quality control, or for a longer period if required by law or regulation.
3. In specific audit case, the retention period ordinarily is no shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report.
4. Unless otherwise specified by law or regulation, engagement documentation is the property of the firm. The firm may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the firm or its personnel.

Note: "If later" means "whichever is later between the two dates"

Example for understanding: If the firm provides documentation, the client might challenge specific audit decisions or try to influence future audits, which could affect independence.

2.6 Monitoring

Firm should ensure that policies and procedures relating to the system of quality control are:

- Relevant,
- Adequate,
- Operating effectively and
- Complied with in practice.

Such policies and procedures should include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements.

SA 220

SA 220	May'25	Jan'25	Sep'24	May'24	Nov'23	May'23	Nov'22	May'22	Dec'21	Jul'21
1. Objective of SA 220										
2. Elements of System of Quality Control										
2.1 Leadership responsibilities for quality on audits	5			4						
2.2 Relevant ethical requirements					3					
2.3 Acceptance and Continuance of Client Relationships and audit Engagements										
2.4 Assignment of engagement teams										
2.5 Engagement Performance										
2.6 Monitoring										
2.7 Audit Quality*										
Total	5	0	0	4	3	0	0	0	0	0

SA 220 - Quality Control for an Audit of FS

1. Objective of SA 220

The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that:

a. The audit complies with PSLR requirements and
b. The auditor's report issued is appropriate in the circumstances.

2. Elements of System of Quality Control

A. Leadership responsibilities for quality on audits

B. Relevant ethical requirements

C. Acceptance and continuance of client relationships and audit engagements

D. Assignment of engagement teams

E. Engagement performance

F. Monitoring

2.1 Leadership responsibilities for quality on audits

Leadership responsibility of an engagement partner is to take responsibility for the overall quality on each audit engagement.

Actions of the EP and appropriate messages to the other members of the ET, in taking responsibility for the overall quality on each audit engagement, emphasise:

1. The importance to audit quality of:
   - Performing work that complies with PSLR
   - Complying with the firm's quality control policies and procedures as applicable;
   - Issuing auditor's reports that are appropriate in the circumstances;
   - The engagement team's ability to raise concerns without fear of reprisals.
2. The fact that quality is essential in performing audit engagements.

2.2 Relevant ethical requirements

Responsibility of Engagement Partner are as follows:

1. Identifying a threat to independence regarding the audit engagement that safeguards may not be able to eliminate or reduce to an acceptable level.
2. Reporting by engagement partner to the relevant persons within the firm to determine appropriate action, which may include eliminating the activity or interest that creates the threat, or withdrawing from the audit engagement, where withdrawal is legally permitted.

The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall:

1. Obtain relevant information from the firm to identify and evaluate circumstances and relationships that create threats to independence
2. If matters come to the EP's attention that indicate that members of the ET have not complied with relevant ethical requirements. EP in consultation with others in the firm, shall determine the appropriate action.
3. Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is permitted by L&R.

Flow: Obtain info. → Matter comes to Notice → Take Appropriate Action

2.3 Acceptance and Continuance of Client Relationships and audit Engagements

Responsibility of an EP in this regard in an audit engagement is on lines of SQC 1.

"ICC + significant matters arisen during current or previous audit engagement and their implications.

2.4 Assignment of engagement teams

It should be ensured by EP that the ET and any auditor 's experts who are not part of the ET, collectively have the appropriate competence and capabilities to perform the engagement in accordance with PSLR.

2.5 Engagement Performance

1. EP has the responsibility for direction, supervision and performance of audit engagement in accordance with PSLR.
2. Engagement Partner is responsible for auditor's report being appropriate in circumstances.
3. Further, review of audit documentation before issue of audit report is his responsibility. It has to be ensured that SAAE has been obtained to support the conclusions reached and for issuance of auditor's report.
4. EP is also responsible for ensuring undertaking appropriate consultation on difficult or contentious matters by ET not only within the team but also with others at appropriate level within or outside the firm.
5. For audits of FS of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement partner shall:
   - Determine that an EQCR has been appointed.
   - Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the EQCR.
   - Not date the auditor's report until the completion of the engagement quality control review.
   - If any diff. of opinion between ET, with those consulted, or between EP and EQCR the engagement team shall follow the firm's policies and procedures for dealing with and resolving differences of opinion.

2.6 Monitoring

An effective system of quality control includes a monitoring process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively.

The EP shall consider the results as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the audit engagement.

Engagement Partner should document:

1. Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.
2. Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions.
3. Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements.
4. The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement.

2.7 Audit Quality

The purpose of an independent audit is to provide confidence to users of audited FS. Therefore, high audit quality is essential to maintain confidence in the independent assurance provided by the auditors. It is the responsibility of auditor to maintain high audit quality.

SQC 1 and SA 220 both deal with quality control. Whereas SQC 1 deals with all engagements including audits, reviews and other assurance and related service engagements, SA 220 applies to audit engagements only.

Further, SQC 1 applies to entire firm. However, SA 220 applies to a particular audit engagement.

Applicable Limits

Topic	Limit
Fraud Reporting to CG	Amount >= 1 Crore
Fraud Reporting to BOD	Amount < 1 Core
CARO (Private Company Exemption)	Paid up capital + Reserve < 1 Crore Total Borrowings < 1 Crore Total Revenue < 10 Crore
CARO(Inventory): Working Capital Limit	> 5 Crore
Small Limited Liability Partnership	Contribution < 25 Lakhs Turnover <40 Lakhs or such higher amount as prescribed, not exceeding 4 Crore.
IFC Non applicability to Private Company	Turnover < 50 Crore Borrowings < 25 Crore

Relevant Companies Act Sections

CARO Sections	
Preferential Allotment or Private Placement	Section 42 & Section 62
Loans, investments, guarantees, and security	Section 185 & Section 186
Non-Cash Transactions	Section 192
Audit Committee and RPT	Section 177 & Section 188
Cost Records	Section 148(1)
Deposits	Section 73 to Section 76
CSR	Section 135(5) & Section 135(6)
Reporting	
Section 143: Powers and duties of auditors	

IFC Related Section	
Director Responsibility Statement	Section 134 (5)(e)
Auditor's Report on IFC	Section 143(3)(i)
Audit Committee	Section 177(4)(vii)
Independent Directors - IFC	Section 149(8)

Audit of Items of FS	
Application of securities premium account	Sections 52
Prohibition on Issue of Shares at Discount	Section 53
Issue of Sweat Equity Shares	Section 54
Issue and Redemption of Preference Shares	Sections 55
Reduction of Share Capital	Section 66
Power of Company to Purchase its Own Securities	Section 68