

Study Note-7

Subsequent auditor

- Appointed at 1st AGM
- Re-appointed at 6th AGM
- Almost 5 year tenure
- Process goes on.
- Recommended by Audit Committee to BOD,
- Approved by BOD to GM.
- Appointment by shareholders

Auditor will resign

- Consent
- Eligibility certificate

ROC filing

- ADT-1

Rotation of auditors

- 5+5- for Individual CA
- 5+5+5- for Partnership Firm
- Applicability :-
 - listed Co.
 - public Co. with PSC 10 or more
 - ptd Co. with PSC 50 cr. or more
 - Co. with borrowings / deposits > 50 cr. or more

Subsequent auditor → Appointed each year
in Govt Co. within 180 days from
1st April
→ Retires at next AGM.

First auditor → appointed by BOD in
30 days of COI
→ Else by EGM in next 90
days.
→ Retirement at first AGM

First Auditor of
Govt Co. → appointed by CAG in 60
days of COI
→ else by BOD in next 30
days
→ else by EGM in next 60 days

Cessation Vacancy → filled by BOD in next 20 days
→ Ratification by Shareholders
in next 3 months only in
case of Resignation
→ Holds office only upto
next AGM.

General Vacancy in Govt. Co. → Filled by CAG in 30 days
→ Else by BOD in next 30 days

Reappointment → always allowed
→ Subject to rotation.

Removal → ER + CG approval (ADT-2)

Resignation → Addressed to Co. + ADT-3 by auditor to ROC

Eligibility → Practicing CA
→ Either individual or firm or LLP.

Disqualifications → Body corporate officer than LLP
→ Officer or Employee
→ Partner or Employee of
→ Security holder but relative can hold securities upto ₹ 1 Lakh, any excess to be reduced in 60 days
→ Debtor of Co. more than ₹ 5 Lakh
→ Guarantor or security provider beyond ₹ 1 Lakh

- Business Relationship except A.P
- Relative director or k.d.p
- ceiling limit reached
- convicted for fraud and 10 years are not over from expiry of sentence.
- Person providing prohibited services

**

ceiling limit → do audits per practice

→ exception

a) OPC

b) small co.

c) dormant co.

d) Pvt Co with PSC < 100cr.

Prohibited services

- accounting / book keeping
- internal audit
- design and implementation of financial M/s
- actuarial service
- investment advisory
- investment banking
- outsourcing of financial services
- mgmt services
- others as may be prescribed.

- Remuneration of auditor
- Fixed by shareholders
 - Best for first auditor, By BOD.

- Fraud Reporting
- Inform BOD/Audit Committee in 2 days of knowledge
 - Wait for their reply for 45 days
 - Write to MCA in next 15 days, only if disatisfied. (ADT-4)
 - Only if matter is of more than ₹ 1 crore.

- Attendance at AGM
- Compulsorily Required
 - Alternatives:-
 - Take leave
 - Send another PCA as representative.

- Audit Committee
- Min 2 Directors
 - Majority of ID.
 - applicability :-
 - 1) Listed Co.
 - 2) Public Co. with PSC > ₹ 10 cr.
 - 3) Public Co. with T/O > ₹ 100 cr.
 - 4) Public Co. with O/S > ₹ 50 cr.

- Cost Audit → only on companies specified.
- Regulated Sector (6)
 - Unregulated Sector (33)
 - Regulated Sector
 - a) Total T/O \geq 50 cr.
 - b) Concerned T/O \geq 25 cr.
 - Unregulated Sector
 - a) Total T/O \geq 100 cr.
 - b) Concerned T/O \geq 35 cr.
 - Exemptions
 - a) operating in SEZ
 - b) F.Y. Export revenue
 - c) Electricity production for captive consumption
 - appointed in 180 days from 1st April
 - Report in 180 days from 31st March
 - only by Cost Accountant in practice.
 - Rotation does not apply.

- Secretarial Audit → only in companies specified
- Applicability :-
- 1) Listed co.
 - 2) Public co. with PSC \geq 50000.
 - 3) Public co. with TDO \geq 250000.
- Report MR-3
- only by PGs.

Basic Elements of audit report

- Table
- Address
- Opening paragraph
- Scope paragraph
- Opinion paragraph
- Date
- Place
- Signature of Auditor

Types of audit Report

1. Unqualified.
 2. Qualified or Modified.
- Qualified
 - Disclaimer of opinion
 - Adverse opinion

CARD - 2016 : Applies on all companies except

- a) Banking co.
- b) Insurance co.
- c) Petroleum & co.
- d) OPC
- e) small co.
- f) Specified Pvt co.

- should not be subsidiary of Public co.
- should not be holding of Public co.
- PSC + RFS \leq 1 lac.
- Borrowings \leq 1 lac.
- Revenue \leq 50 lac.

Branch audit

- can be done by co. auditor or auditor separately appointed.
- foreign branch can be audited by a person qualified there.

Study Note 6

Evolution → Traces 3600-3200 B.C.

Nature of → Auditor is a watchdog
Auditing not a blood hound.

Aspects to be → accounting and internal
corrected in control system

- an audit → Examination of Books & records.
- Compliance with law & regulations
- Reporting

Objectives of → Primary : Determine whether
auditing its present true and fair
view or not.

- Secondary : Revision &
Detection of errors and fraud.

Basic Principles → Integrity ~~and~~ objectivity
Governing an and independence
audit

- Confidentiality
- Skills and competence

- Work performed by others
- Documentation
- Planning
- Audit evidence
- Accounting system and IC
- Audit conclusions and reporting

Inherent Limitations of Audit

- No guarantee of complete detection
- Professional skepticism
- Materiality.

Fundamental accounting assumptions

- Going concern
- Consistency
- Accrual

Factors determining accounting policies

- Prudence
- Substance over Form
- Materiality

Types of Audit : 1. Organisational structure

- Voluntary / Pvt audit
- statutory audit
- Govt audit

2. Objective

- independent financial audit
- Internal audit
- Cost audit
- Mgmt audit
- Tax audit
- Secretarial audit
- Forensic audit
- Information security audit
- Social audit
- Environmental audit
- Performance audit
- Property audit
- Operational audit

3. Timing

- Continuous Audit
- Annual audit
- Interim audit
- Balance sheet audit

4. Scope

- complete audit
- Partial audit
- Detailed audit

Gort audit → Transaction Audit

- Expenditure
- Receipt
- Efficiency cum Performance audit
- Expenditure audit
 - a) Audit against rules & orders
 - b) Audit of Transactions
 - c) Audit against provision of funds
 - d) Audit of financial property.

Audit Risk

- Inherent Risk
- Control Risk
- Detection Risk

Method to obtain audit evidence

- Inspection
- Observation
- Inquiry & confirmation
- Computation
- Analytical Review

Procedures to find audit evidence

- Compliance Procedures
- Substantive Procedures

Internal Control = Internal check + Internal audit

Cut off Procedures = Adopted to allocate revenue and costs to proper a/c period.

Examination in Depth

- Also called Auditing in Depth and Walk through test
- Verification through Audit trail

Types of IC

- Preventive
- Detective
- Corrective

Techniques to Evaluate IC

- Narrative Record
- Checklist
- Flow chart
- IC Questionnaire

Types of vouchers → Original and collateral vouchers

→ Internal and External vouchers

→ Missing vouchers

Teeming and Lading/Lapping

→ Receipt from one shown in another.

List of sources from where
Practice is to be done

1. B17 Questions MCQ
2. MYP June-Dec 2020 Set 1 & 2
3. " Dec 2019 "
4. " June 2019 "
5. " Dec 2018 "
6. " June 2018 "
7. " Dec 2017 "
8. " June 2017 "
9. Suggested Answers to Part Paper Dec 19
10. " June 19
11. " June 18
12. " June 18
13. " Dec 17
14. " June 17
15. Online MGA Portal
16. Work Book
17. RTP June 18
18. RTP Dec 18
19. Study Material AF

List of Videos of Main course
Needed to be watched
alongwith capsule

1. Ch- 6
2. Ch- 19
3. Ch- 18
4. Ch- 17
5. Ch- 25
6. Ch- 66