INDEX

S.No		
1.	Requirement of Audit -	1
2.	Requirement of Auditing a Company	2
3.	Resignation & Removal	7
4.	Qualification & Disqualification	9
5.	Power & Duties	12
6.	Liabilities & Punishment on Auditor	18
7	Audit Comitee	19
8	Cost Audit	20
9	Secretarial Audit	22
10	Caro 2016	23
11	Audit of Abridged financial Statement	27
12	A/c of liquidators/ Reports U/S 348 (ACT 2013)	28
13	Section 182 Co. Act. and the Auditor	29.
14	Audit of Consolidated F. Statement (CFS)	31
15	Branch Audit	32
16	Joint Audit	33
17	Audit of Shares	34
18	Audit of debentures	38
19	Audit of Divisible Profit & Dividend	40
20	Auditing inventories	42
21	Auditing Fixed Assets	42
22	Auditing Education institution	43
23	Audit of Hospital	45
24	Audit of Co-operative Societies	46
25	Bank Audit	48
26	Audit of Municipalties & Panchayats	53
27	Audit Report - A	58
28	Audit Certificate	56
29	Statutory Auditor vs. Internal Auditor	57
30	Evolution & Auditing	61
31	Definitions, Meaning & Features	62

Page No.
Date

24	Audit of co-operative Societies	46
25	Bank Audit	48-52
26	Audit of Municipalities & Panchayats (Local Bodies)	53
27	Audit Certificate	58-60
28	Statutory Auditor Vs. internal Auditor	
29	Evolution of Auditing.	
30	~~Defined~~ Definitions, Meaning & Features.	
31	Nature of Auding.	
32	Scope of Auditing	
33	Relationship & Distinction Between Accounting & Auditing	
34	Auditor	
35	Audit and investigation.	
36	Aspects to be Covered in Audit	
37	Objectives of Auditing	
38	Basic Principles Governing an Audit (SA 200)	
~~40~~ 39	Significance of Audit	
40	Advantages of Audit	
41	Inherent limitations of an Audit	
42	Auditor's Engagement	
43	Comparison Between External Audit and Internal Audit	
44	Concept of True and fair	
45	Concept of "Materiality" In Planning and Performing the Audit	
46	Disclosure of Accounting Policies (AS-1)	
47	Types of Audit	
48	Audit Engagement letter	
49	Audit Programme	

32	Nature of Auditing	64
33	Scope of Auditing	64
34	Relationship & Distinction Accounting &	65
35	Auditor	66
36	Audit & investigation	67
37	Aspects to be covered in Audit	67
38	Basic Principles Governing (SA 200)	69
48 39	Significance of Audit	71
41	Advantages of Audit	72
42	inherent limitations of an Audit	72
38	Objective of Auditing	69
43	Auditor's Engagement	73
44	Comparison Between External & Internal Audit	74
45	Concept of True & fair	75
46	Concept of "Materility"	76
47	Disclosure of A/c Policies (AS-1)	77
48	Types of Audit	96
49	Audit Engagement letter	77
50	Audit Programme	77
51	Audit working Papers	78
52	Audit Note Book	79
53	Audit Risk	80
54	Surprise checks	81
55	Audit Evidence	82
56	Internal control	84
57	Internal checks	86
58	" control Questionnaires	86
59	Difrence Between a checklist & Internal control	87
60	Distinction Between Internal Audit, control & Internal checks	87
61	Cut of Procedures	82
62	Examination in Depth/Auditing	88

63 Difference → Test checking & Statistical Sampling 88
64 Internal Audit — Industry Specific 89
65 Difference Internal & Operational 91
66 Vouching & verification 92

Ch-1 [REQUIREMENT OF AUDIT]

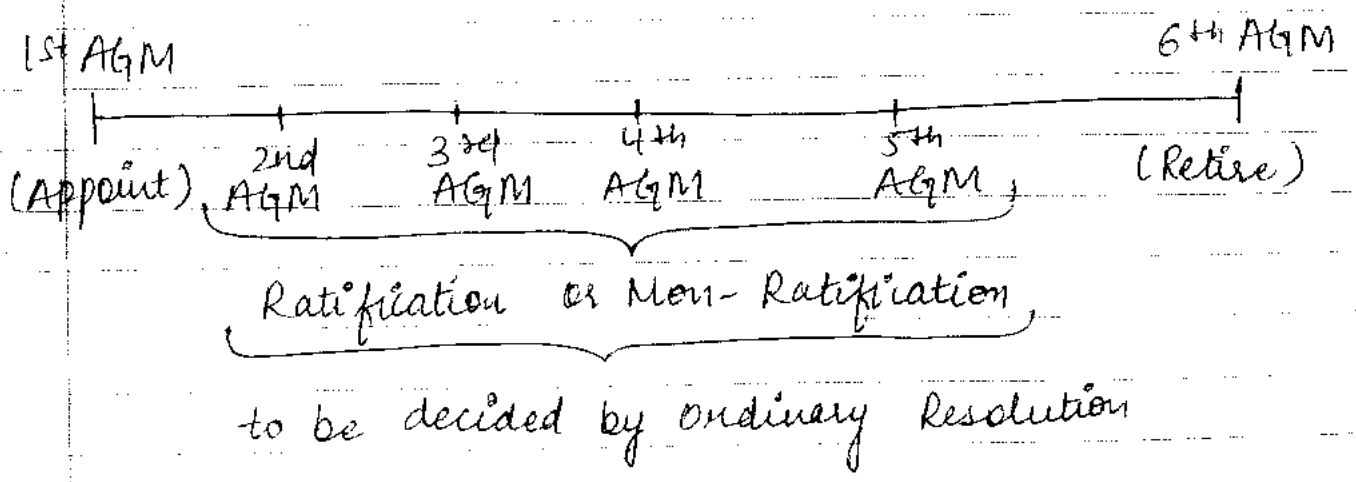
(1) Propertiorships, HUF are not governed by any separate law so audit is absolutely voluntarily.
(2) In case of partnership, it is governed by partnership Act 1932 but it is also silent regarding audit.
(3) In case of LLP, it is governed by LLP Act 2008, which says audit shall be compulsory only if capital contribution is ₹25 lakhs or more OR turnover is ₹40 lakhs.
(4) It means ~~on~~ every LLP is not covered under audit.
(5) In case of company, it is governed by companies act 2013 and as per section 139 audit is compulsory is every company.
(6) It does not matter whether the organisation is commercial or charitable, audit is compulsory if it is a company.
(7) It does not matter whether it is small or large whether it does ~~an~~ manufacturing, trading, serving whether it is a school, temple, business house, something else, if it is a company audit is compulsory.

Page No.
Date

Ch-2 (AUDIT REQUIREMENT IN A COMPANY) SEC 139

⇒ Annual Ratification → Post facto approval

1. Generally an auditor is appointed for 5 years.
2. However it doesnot mean that auditor has become permanent.
3. There are total 6 AGM in the life term of Auditor in any Company out of these 6 AGM, 1st AGM belongs to his appointment, 6th AGM belong to his Retirement. Between 1st & 6th AGM, these are 4 more AGMs. Company will ask to Shareholders whether to continue the auditor.
4. Continuation is called Ratification and Non-Continuation is called Non-Ratification.



(5) Non Ratification looks like removal but both of them are actually different. Non Ratification is an Honoary Exit which takes place at AGM. Where as, Removal is always defamatory, which takes place to ~~AGM~~. EGM.

⇒ Tenure of Auditor

1. Tenure of 1st Auditor is upto the conclusion of 1st AGM.
2. All other Subsequent auditors are appointed for 5 years tenure. In other words from the conclusion of any AGM till the conclusion of 6th AGM
3. If any auditor had to leave his offic either because of Resignation, Removal, Non-Ratification or any other this happening, New Auditor will come in his place only for the Remaining term of Original Auditor.
4. 5 yeas tenure is a maximum tenure which means company can also appoint an auditor for a lesser period like one or more year. 5 years period is just a facility and not a Boundation.

⇒ Retirement of Auditor

1. Retirement is an Event, is not a activity.
2. Retirement doesnot need any voting on any resolution, It just happens automatically upon conclusion of AGM [1st AGM for 1st Auditor, 6th AGM for Subsequent Auditor]
3. Retirement is also called Automatic retirement but it is dependent conclusion of AGM
4. If AGM or its conclusion get delayed tenure of Auditor will also get Extended and he will not Retire.

⇒ Rotation of Auditor

① Generally, Company wants to appoint the same auditor through out the life because it will be easy to maintain tuning with him.

② However, This is not possible because companies can appoint same auditor only for 5 years at one time.

③ If the Auditor is Individual CA, he will have leave the Company immediately after completing one term [5 Years]

④ If the auditor is partnership firm of CA, they can be Reappointed once again for 5 years.

⑤ It means Individual CA gets one term but partnership firm of CA get two term consecutively.

⑥ When auditor goes out of the company, he will have to be out Minimum 5 years.

⑦ It means for individual CA, Rule is 5+ and 5-, for partnership firm of CA, Rule is 5+, 5+ and 5-

⑧ The period in which he is outside the company is called Cooling off period.

⑨ However, This cooling off period doesnot apply on Companies other than as follows:-

(a) Listed Company.

(b) Public Company with paid share capital of ₹10 crore or More.

(c) Private Company with paid share capital of ₹20 crore or More.

(d) Any Company having Borrowing from Banks, financial Institution or public deposits of ₹ 50 crore or more.

(10) If a particular CA, become disqualified due to this rule, he will Remain disqualified but any other firm in which he joins will also become Disqualified.

(11) If more than one firms create a same network, working under the same Brand Name, disqualification of one Member firm will be Considered as Disqualification of whole Network.

⇒ Casual Vacancies of Auditors

(1) Casual vacancy means vacancy in the office of auditor before the sec Scheduled retirement date.

(2) This vacancy shall be filled by BOD by appointing another auditor within 30 Days.

(3) Auditor appointed in casual vacancy shall remain in office for the remaining tenure of the Original auditor.

(4) If Casual vacancy arises because of resignation BOD can fill the vacancy but must also be approved by shareholders in General Meeting with in Next 3 Months.

⇒ Appointment of Auditor in Govt. Company

(1) Government and Govt. Companies are two different things.

(2) Audit of govt. Co. is not done in a manner govt. audit is done.

(3) Generally Govt. audit is done by Comptroller and Auditor General [CAG] of India.

(4) However, CAG of India is 1in number but Number of units to be audited are so many.

(5) This problem is resolved by appointing various CA firms in the pannel of CAG of India.

(6) These CA firm will do audit on behalf of CAG of India.

(7) Auditor of Govt. Company shall be appointed by CAG of India within 60 Days from the incorporation of Company.

(8) If CAG of India doesnot appoint 1st auditors in 60 Days, BOD will do the appoint in Next 30 Days.

(9) If BOD fail to do the appointment, EGM will called to do appointment in Next 60 Days.

(10) 5 years of Normal appointment doesnot apply on govt Company.

(11) 1st Auditor and Every auditor will retire in Next AGM upon conclusion.

(12) Every year auditor shall be appointed within 180 Days from the commencement of financial year but it shall be done by CAG only.

(13) In Simple word, Auditor is being appointed at the begining of financial year so that he can comfortably start audit at the End of the year.

(14) Auditor appointed by CAG of India perform audit and submits the report to CAG of India only.

(15) When auditor appointed by CAG leaves office Early without signing the Report this is called Casual vacancy, which will be filled by CAG of India with in Next 30 Days.

(16) If CAG could not filled the vacancy, BOD will fill the vacancy in Next 30 Days.

Page No.
Date

Ch-3 (Removal & Resignation of Auditor in Company)

⇒ Removal of Auditor

1. Removal of auditor cannot be processed without any special Notice.
2. Minimum 1% Shareholders can give removal demand to the Company.
3. Company will have to call EGM with in 45 Days as per Section 100.
4. Before calling the EGM, BOD will give an application to CG within 30 Days of Board Meeting.
5. If the CG gives the approval, only then process will proceed further.
6. In the EGM, Special Resolution Shall be passed.
7. Auditor must be given an opportunity of being heard.
8. Auditor so removed can be ~~re~~ reappointed in the Same Company without any restrition.

⇒ Resignation of Auditor

1. Resignation must be in writing.
2. Resignation shall be in FORM NO. ADT-3
3. ADT-3 Should be filed by the auditor himself to the Company as well as ROC with in 30 Days of Resignation
4. If he is a govt., auditor, filing of ADT-3 shall also be done with CAG of India.

imp (5) Reasons of Resignation are compulsory to be given.
(6) If the auditor doesnot file ADT-3, Minimum fine shall be ₹ 50000 and Maximum fine shall be ₹ 500000.

⇒ Auditor found guilty of fraud

(1) Punishment to be awarded to auditor shall be refered from Sec 147.
(2) If the auditor is found guilty of fraud and company removes him voluntarily, Normal procedure shall be followed.
(3) If company doesnot take any action against him, it can become a matter of tribunal.
(4) It can become matter of tribunal only if it is complained to tribunal.
(5) Following people can complain to tribunal:-
(a) Central govt
(b) Any person, whether he is any connection with the company or not.
(6) Tribunal will gave an opportunity of being heard to everyone before giving decision.
(7) If Tribunal Orders removal, he should be removed by company without passing any resolution in 15 Days.
(8) Auditor so removed will suffer following Difficulties:-
(a) He shall be punished under Section 147
(b) He shall be ~~push~~ punished u/s 447.
(c) He cannot become auditor and cannot continue as auditor in any company for next 5 years.

Ch-4 (Eligibility, Qualification and Disqualification of Company Auditor) Sec 141

⇒ Eligibility to become auditor

1. A person shall be practising CA or partnership firm of CA or LLP firm of CA.
2. The partnership firm which shall do audit should have majority Partners has practising CA and ~~Minio~~ Minority can be Non CA.
3. In case of LLP as well, all partners need not to be CA if it is sufficient if majority are CA.
4. Practising means the CA should have certificate of practice issued by ICAI, New Delhi
5. It also means that a CA doing job as an Employee Cannot sign audit report.

⇒ Disqualification of Company Auditor

Disqualification means a situation where a person is well Qualified to become auditor but he has done something wrong as per Sec 141, because of which he cannot be appointed as Auditor. Such Disqualification are not eternal in nature. They can disappear if the auditor wants.

E.g.:- A shareholder cannot become auditor so if he is ready to become auditor, He can become simply by leaving shares. This means disqualification

U/S 141 can be rectified and there are not prepectual.

⇒ List of Disqualification

(1) Body corporate other than LLP cannot do audit. [Body corporate means ~~only~~ any Organisation having separate legal Entity perpectual Sucession and common seal; For Eg. Co. or corporative Society.]

(2) Any officer or Employee of company cannot do audit of any company.

(3) Partner of officer or Employee of company.

(4) Any person holding any security, whether Share or Debenture of any amount in the company, holding Company, Subsidary company, Associate Company. However, relative can hold Security/Share upto ₹ 1 lakh. If the relative holds security of more than ₹ 1 lakh, audit can be previously accepted, provided that relative should dispose or sell Excess investment within 60 Days from the appointment.

(5) A person who is debtor of company, holding co., Subsidary Company or Associate company of value more than ₹ 5 lakhs.

(6) Any person whose has given any guarantee or security for a loan taken by some other person. loan may be given by company, holding company, subsidary company and associate company. Disqualification arises only if the value of Guarantee or Security Exceeds ₹ 100000.

(7) Any Person providing commercial services or enaged in commercial transactions which are specified in

Sec 144.

(8) Any Person whose relative in Director or key Managerial person in the company.

(9) Any person who was convicted for fraud for any period, he cannot be appointed for the period of conviction as well as for 10 years after completion of conviction.

(10) Person who has excepted maximum number of audit allowed at one time.

⇒ Maximum Number of Audit allowed

(1) Maximum No. of audits allowed is 20 companies at one point of time, for Each CA.

(2) However, Following companies will not be counted in the limit of 20 companies :-

(a) One person Company.

	cap.	turnover
(b) Small company	50L	2 crore.

(c) Any private company whose paid up share capital is maximum ₹ 100 crore.

Page No.
Date

Ch-5 [RIGHTS & DUTIES OF Co. AUDITORS] SEC 142 to 146

⇒ Section 142 (Remuneration of Company Auditor)

(1) Remuneration means professional charges paid by company to the auditor for his services.

(2) Remuneraton doesnot include reimbursement out of pocket Expenses.

(3) Remuneration also doesnot include payments made for other services provided by auditor such as suggesting the improvement measures.

(4) Remuneration is Generally fixed by General Meeting by shareholders but they can also authorised BOD to fix the remuneration.

(5) Remuneration of 1st Auditor is always fixed by BOD.

⇒ Section 144 (prohibited Services)

An auditor cannot perform following services in the Company in which ~~the~~ he is an auditor :-

(1) Accounting and Book keeping
(2) Internal audit.
(3) Design and implementation of financial information system.
(4) Actuarial Services.
(5) Investment advisory Services
(6) Investment Banking Services
(7) Outsourcing of financial services
(8) Mangement services.

(9) Any other services as may be prescribed.

Such services are prohibited in Both Direct and indirect manner. It means if a person is disqualified in this Section, his relatives and his entire partnership firm will be disqualified.

⇒ Section 145 (Signature on audit Report)

① Audit report shall be signed by auditor himself.
② His Employee cannot sign the audit report even if he is CA.
③ If it is a partnership firm of CA, any partner, being a CA can sign the audit report.
④ Sometimes, audit team goes to the audit place and verifies vouchers, such team can sign those vouchers or papers but cannot sign the audit report.

⇒ Section 146 (Auditors to attend General Meeting)

① Every notice of every General Meeting must be given to auditor as well.
② Auditor must attend every General Meeting as his compulsory duty.
③ If cannot attend he has two option :-
(a) Someothes practising CA can be send as his representative
(b) Auditor should take approval from Company regarding his absense.

⇒ Sec 143 (power and Duties of company auditor)

⇒ Power of company auditors

(1) He can access books of accounts and voucher of co. at all the times, whether kept at registered office or somewhere else.

(2) He can demand necessary information and explanation from any person belonging to the company.

(3) He can demand records susidary company as well.

⇒ Duties of company auditor

(1) Auditor will have to make inquries in the specified matters.

(2) Following are the 6 specified matters:-

(a) Whether a loans and advances given by company are secured or not.

(b) Whether transaction recorded in the Books of accounts are in the interest of Company or not.

(c) Whether investment made by company were sold at discount or not.

(d) Whether deposits accepted by Company are shown deposits or not.

(e) Whether personal expenses have been shown as Company expenses.

(f) Whether Share have been allotted for cash or for Consideration other than Cash and same has been received or not.

(3) Auditor will have to make a report to the members of Company.

(4) Auditor will have write in his report whether accounting & auditing standards have been followed or not.

(5) Auditor should express his opinion whether financial statements represent true and fair ~~view~~ view or not.

(6) Following are the compulsory content of audit report as per (SECTION 143) :-

(a) Whether auditor has obtained necessary information and explanation from the client ~~are~~ or not

(b) Whether Branches has given adequate returns to the head office or not.

(c) Whether Branch audit report has been given to the auditor or not.

(d) Whether financial statement are matching with Books of amounts or not.

(e) Whether accounting standards were followed or not.

(f) Whether there is any remark which is adverse regarding the functioning of the company.

(g) Whether any director is disqualified under Section 164 or not.

(h) Whether maintainence of accounts was done as per Section 128 or not.

(i) Whether company has good internal financial control or not.

(j) Any other matter as may be prescribed.

(7) Following are the compulsory content of audit report as per (RULE 11) of audit rules 2014, as amended from time to time :

(a) Whether Company has disclosed impact of pending litigation on the company.
(b) Whether the Company has made required provisions for probable losses or not.
(c) Whether there is any delay in the transfer of money to investor Education and protection fund.
(d) Whether Company has disclosed daily details of old currency of ₹ 500 and ₹ 1000 during the period 8th Nov 2016 to 30th Dec 2016.

(8) Auditor of specified companies will have to answer 16 more Question as specified by CG in company auditor report order 2016 [please Refer separate ch=CARO 2016)

(9) If the auditor Encounters any fraud in the company, there may be following two cases:-
(a) Value of fraud is less than ₹ 1 crore
(b) When the Value of fraud is ₹ 1 crore or more.

(10) When fraud value is less than ₹ 1 crore, following steps should be followed:-
(a) Auditor should inform to the BODs or audit committee within 2 Days of the Knowledge of fraud.
(b) Auditor should wait for the reply of BODs or audit Committee and should includes this in the audit report.

(11) If the value of fraud is ₹ 1 crore or more, following steps should be taken:-
(a) Inform to BODs or audit committee within 2 Days.
(b) Wait for their reply but for a maximum 45 Days only.
(c) If the given reply is satisfactory, the process ends here but if either the reply is not received or it

was dissatisfactory, auditor should inform about this to CG within 15 Days, by speed Post in the sealed cover.

(d) Also send an E-Mail to secretary of Ministry of corporative affairs regarding this.

Ch-6 [LIABILITIES AND PUNISHMENT] SEC 147

⇒ Penalty on Company

If provision of Section 139 to 146 are not followed, Company will pay fine minimum ₹ 25000 and Maximum ₹ 500000.

⇒ Penalty on Company officers

If provisions of Section 139 to 146 are not followed, Minimum fine of officer shall be ₹ 10000 and Maximum fine shall be ₹ 100000. There may be Imprisonment upto 1 year.

⇒ Penalty on auditor

(1) If the auditor is found guilty u/s 139, 143, 144 or 145, minimum fine shall be ₹ 25000 and Maximum shall be ₹ 500000.

(2) If the auditor comitted fraud, Minimum fine shall be ₹ 100000 and maximum ₹ 2500000. There may be imprisonment of Maximum 1 year.

(3) If he convicted, He will have to Refund Entire remuneration Received so far from the company in which he committed fraud.

(4) If and only if some person incurred damages because of wrong audit report, such damages will have to be paid to the aggrieved person by auditor.

Ch-7 (AUDIT COMMITTEE) SEC 177

(1) It is a group of directors, which should be Minimum 3 having majority of Independent Directors

(2) Audit committee performs following functions:-

(a) Appoint and Remuneration of auditor is decided by ~~Adi~~ audit committee.

(b) Examination of financial statement.

(c) Scrutiny of inter corporate investment and loans

(d) Valuation of assets of company.

(e) Evaluation of Internal financial control and risk management system.

(f) Evaluation of use of the funds raised from the public.

(g) Evaluation of Related party transaction

(3) Audit committee is required only in following companies:-

(a) Every listed companies

(b) Every public company with paid up share ~~capal~~ capital of ₹ 10 crore or more.

(c) Every public company with turnover of ₹ 100 crore or more.

(d) Every public company whose o/s loan, Borrowings, Debentures and deposits in aggregate is ₹ 50 crore or more.

(4) If the company doesnot have audit committee, such function shall be performed by BODs)

(5) Audit committee ~~doesnot have audit~~ has power to discuss any issues with auditors and management of company and can demand their comments.

Ch = 8 (Cost Audit) SEC 148

1. Cost audit is not compulsory in all companies.
2. It is undertaken only in those companies which are specified by central govt.
3. Cost audit is applicable on 39 Industries in total (Refer list of 39 Industry in the Book)
4. Out of this 39 Industries, only those companies which cross a particular limit of turnover need to do cost audit.
5. It means cost audit applicability arises only if BOTH Conditions are fulfilled.
   (a) Nature of Business of company should be present in the list of 39 Industries.
   (b) Turnover of the said company should be beyond specified limit.
6. Cost audit is done by practising cost Accountant only.
7. It can be individual cost Accountant, partnership firm of Cost Accountant or LLP of Cost Accountant.
8. Cost auditor is appointed within 180 Days from the commencement of financial year.
9. Cost Auditor should submit his report within 180 Days from the End of financial year.
10. A copy of cost audit report is submitted to central Govt. within 30 Days.
11. Whenever cost Auditor is appointed, intimation is given to central govt. within 30 Days in FORM CRA-2

(12) In case of casual vacancy, it shall be filled by BODs in Next 30 Days.

(13) People disqualified U/S 141 are also disqualified for cost audit.

(14) Rotation of auditor U/S 139 doesnot apply on cost auditor.

(15) It means the same cost Auditor can be reappointed any Number of times.

(16) Format of cost audit report shall be in FORM CRA-3.

(17) BODs will write their reply to the remarks given by Cost auditor, and will Submit the same in CRA-4 to Central govt. within 30 Days of the report.

(18) Cost audit is applicable only in following Companies :-

39

- 6 Industries → Regulated sector
  - Covered product turnover (T_1)
  - Other product turnover (T_2)
- 33 Industries → Unregulated sector
  - Covered product turnover (T_1)
  - Other product turnover (T_2)

Cost Audit :- (1) $T_1 + T_2 \geq 50$ crore
+
(2) $T_1 \geq 25$ crore

cost audit :- (1) $T_1 + T_2 \geq ₹100$ cr.
+
(2) $T_1 \geq ₹35$ crore

Ch-9 (SECRETARIAL AUDIT)

SEC 204

(1) Secretarial Audit means verification of ~~companies~~ compliance of company law as well as other laws applicable on the company.

(2) If Company law and other law are not followed, it may result into heavy punishment.

(3) So, In order to save the company, this audit has been made compulsory on bigger companies.

(4) Bigger companies means following companies:-

(a) listed company.

(b) Public company with paid up share ~~cha~~ capital of ₹ 50 Crore or More.

(c) Public company with turnover of ₹ 250 Crore or more.

(5) This audit is done by practising CS only.

(6) It may be individual CS or partnership firm of CS or LLP of practising CS.

(7) It shall be the Duty of company to corporate with Secretarial auditor.

(8) Secretarial Audit is appointed by BODs and Shareholder have no roles in this.

Ch-10 (CARO - 2016)

[COMPANY AUDITOR REPORT ORDER]

1. Every auditor writes his report in his own way.
2. It can be point wise, paragraph wise, tabular landscape or portrait.
3. Auditor may consider some issue or important and some other issue to be unimportant and he may ignore such issues.
4. This may result in Disparity in the audit report issued by various auditors of Different companies.
5. Central govt. has issued a Compulsory Order to almost all auditors to answer certain question after completion of audit.
6. Such Order specific that every auditor will have to answer 16 Question which will be common for Every company so that comparative analysis can be done.
7. It doesnot matter whether auditor considered relevant or irrelevant he has to answer all the Question with reason.
8. If the remark is positive, no Explanation is needed, if there is any adverse remark, Explanation is needed.
9. CARO 2016 doesnot apply on following Companies:
   1. Banking Company.
   2. Insurance Company.
   3. Charitable Company or Section 8 Company.
   4. One person Company (OPC)
   5. Small Company

(6) Private company which is neither holding nor Subsidary of public company.
(7) Private company whose paid up share capital and reserve and surplus is maximum ₹ 1 crore.
(8) Private company whose maximum Borrowing ₹ 1 crore
(9) Private company whose total turnover is maximum ₹ 10 crore.

⇒ Matters to be Reported under CARO

(1) Fixed assets
Q1 Whether companies maintaining proper records or not?
Q2 Whether physical verification has been done by management or not?
Q3 Whether any material Discrepancy was found or not?

(2) Inventory
Q1 Whether physical verification has been done by management or not?
Q2 Whether any material Discrepancy was found or not?

(3) Loan given by company
Q1 Whether conditions of loan are in favour of Company or not?
Q2 Whether repayment schedule is regular or not?
Q3 If the amount is over due is for more than 90 Days, Reasonable steps for recovery have been taken or not?

(4) Loan to Director and Investment by company
Q1 Whether Sec 185 Regarding loan to directors and Sec 186 Regarding Investments have been followed or not?

(5) Deposits

Q1 Whether Sec 373 to 376 A have been followed or not?
Q2 Whether RBI Guidelines have been followed or not?

(6) Cost Records

Q1 Whether Sec 148 applies on the company or not?
Q2 Whether necessary Cost records were maintained or not?

(7) Statutory Dues

Q1 Whether Statutory dues are regularly paid or not?
Q2 Whether there is any default of more than 6 months are not?

(8) Repayment of loan

Q1 Whether company is regular in making payment of loans and Borrowing or not?

(9) Utilisation of IPO and FPO

Q1 Whether money Collected from IPO and FPO were used for the specified purpose or not?

(10) Fraud Reporting

Q1 Whether any fraud is committed by Company or not?
Q2 Whether any fraud is committed by company officer or not?

(11) Approval of Managerial Remuneration

Q1 Whether Managerial Remuneration has been paid as per Section 197 or not?
Q2 Whether all the required approvals for the remuneration were taken or not?

(12) Nidhi Company

Q1 Whether net owned fund to deposit ratio is 1:20 or not?

Q2 Whether nidhi company is maintaining 10% term Deposit or not?

(13) Related party transaction

Q1 Whether Section 177 of audit committee has been followed or not?

Q2 Whether Section 188 of Related party transaction has been followed or not?

(14) Private placement

Q1 Whether provision of Section 42 have been followed or not?

(15) Non-Cash transactions

Q1 Whether any non-cash transaction with Director was committed or not?

(16) Registration with RBI

Q1 If it was required, registration with RBI was done or not?

Page No.
Date

Ch-11 [AUDIT OF ABRIDGED FINANCIAL STATEMENTS]

1. Abridged financial statement means attached financial statements.
2. P&L A/c and Balance sheet are always put together so If there is a change in the P&L A/c., there has to be compulsory change in Balance sheet as well.
3. There are some events which occur after the B/S date but they are related to the Balance sheet period.
4. Such event have to be adjusted in the financial statements ~~will~~ be ~~attached~~ and revised financial statement after attached after original financial statement.
5. Auditor will have to sign the original Balance sheet as well as revised financial statement.
6. Auditor will also give ~~at~~ additional remark in the audit report.

Ch-12 [LIQUIDATORS REPORT AUDIT] [SEC 348]

1. Liquidator performs liquidation of the company.
2. He is suppose to write preliminary report as well as final report after completing the liquidation process.
3. Auditor of company will have to verify whether liquidation is done as per Companies Act 2013 and Insolvency Bankruptcy Code 2016 or not.
4. Auditor will verify Accounts maintained by liquidator and payments made by liquidator.
5. Auditor will also sign report submitted by liquidator.

CH-13 [AUDIT OF POLITICAL CONTRIBUTION] (SEC182)

1. Auditor will verify whether Sec 182 was followed or not.
2. Verify whether contribution is authorised by BOD(s) or not.
3. Verify mode of payment of political contribution
4. Verify whether contribution is made in cash or kind.

(5) Verify whether Income tax rules were followed or not.
(6) Verify whether contribution is done through arranging political support by managing rally, Giving space, Providing printing material, Giving vechicles or providing Employees to them.
(7) Verify whether political contribution is recorded in financial statements or not.
(8) Verify whether name of political party is disclosed or not.
(9) Verify whether political contribution has been paid or is an arrears.
(10) Verify whether political contribution is recorded separately or mixed with charitable contribution.

Ch=14 [AUDIT OF CONSOLIDATED FINANCIAL STATEMENT (CFS)]

(1) Consolidated financial statement means financial statement of holding company combined with information of subsidary company.

(2) Auditor will have to verify accounting treatment of consolidation as prescribed by various Accounting standards.

(3) Auditor will have to do following verification :-

(a) Verify ~~man~~ minority Interest
(b) Verify segmental reporting
(c) Verify Permanent adjustments
(d) Verify Current adjustments
(e) Verify the compliance of ~~int~~ Ind AS 27, 18 and 31.
(f) Verify Information regarding associate and Joint Venture
(g) Verify inter company Holding.
(h) Verify chain relationship
(i) Verify control of BODs
(j) Verify Calculation of Goodwill and capital Reserve
(k) Verify intra group interest.
(l) Verify realised and unrealised profit
(m) verify group intra debt
(n) Verify significant transaction.

Ch-15 [BRANCH AUDIT] [Related with Sec 139 and 143]

1. Branch means Branch as described by company.
2. Every Branch requires separate audit report
3. As per Sec 139 Company is free to appoint Separate Branch auditor otherwise the same company auditor will work as Branch auditor.
4. If the Branch is situated outside India, it can be audited by company auditor or By a person Qualified in that country.
5. Every Branch will prepare a separate audit report as per the requirements of Sec 143.
6. Branch audit report will be submitted to the company auditor in all cases.
7. Power and Duty of Branch auditor are same as company auditor
8. If the Branch audit report is found wrong, both the Branch auditor and company auditor will be guilty

Ch-16 [JOINT AUDIT] (Related to Sec 139 and 143)

① It is a culture in Big Companies to appoint separate audit firms, for separate components of financial statements.

② All Auditors are appointed U/S 139 only. and all auditors enjoy same powers and Duties as per Sec 143.

③ Following are the advantages of Joint auditor:-

(a) Low Work Load
(b) Timely Completion of work
(c) Sharing of Expertise
(d) Improved Quality of service
(e) Healty Competition.
(f) Quality of performance.

④ Following are the Disadvantages of Joint audit:-

(a) Superiority Complex of some auditor.
(b) Psychological problems
(c) Very costly for Small companies
(d) Lack of coordination
(e) Uncertainity about liability of work
(f) Difficulty in distribution of work.

⑤ As per SA 299, issued by ICAI new Delhi, Joint audit is done as per following Rules:-

(a) Generally, they should give Common report.
(b) If they disagree, they can give Separate Report.
(c) Every Joint auditor is responsible his work only.
(d) If one auditor comes to know ~~Every~~ anything which is of interest of another auditor, he should inform him.

(e) If some work remains undivided, performed by all them jointly, all of them are jointly ~~liable~~. liable

(f) Whenever, one joint auditor communicates something with another joint auditor, Response is compulsory.

Ch-17 [AUDIT OF SHARES]

⇒ Allotment of Securities [Sec 39]

1. Verify conditions of allotment.
2. Verify consideration of allotment.
3. Verify underwritting commission
4. Verify preliminary Expenses
5. Verify Contents of prospectus u/s 26
6. Verify Minimum subscription
7. Verify application money received.
8. Verify utilisation of Shareholders money.
9. Verify ROC filing regarding allotment.
10. verify compliance of SEBI Regulation.

⇒ Alteration of Share capital [Sec 61]

1. Verify approval of articles.
2. Verify ordinary Resolution in General Meeting.
3. Verify Board resolution.
4. Verify amended Memorandum and articles.
5. Verify Format of alteration
6. verify Share price before and after alteration.
7. Verify register of Members
8. Verify whether SEBI Guidelines were followed or not.

⇒ Issue of Bonus Shares [Sec 63]

1. Verify approval of articles.
2. Verify special resolution.
3. Verify Board resolution.
4. Verify whether the Bonus Shares are fully paid up or not.
5. Verify that Capital reserve and Revolution reserve is not used.
6. Verify that there should be no default in debentures deposits and Employees Dues
7. Verify accounting treatment of Bonus Shares.
8. Verify Register of Members.
9. Verify Compliance of SEBI Guidelines.

⇒ Buy Back of Shares

1. Verify whether Buy Back is allowed to this company or not.
2. Verify authorisation of articles.
3. Verify Board resolution
4. Verify Quantity of Buy Back because If it is beyond 10%, it ~~m.~~ needs SR. and if it is beyond 25%, it is not allowed.
5. Verify Source of money for Buy Back.
6. Verify offer letter given to the Shareholders, For Buy Back.
7. Verify Debt Equity Ratio before and after Buy-Back.
8. Verify whether post Buy Back debt Equity Ratio is upto 2 [2:1] or not.
9. Verify compliance of SEBI Regulations
10. Verify the Gap b/w two Buy Back which should

not be less than one year.

(11) Verify Whether Share Bought Back were destroyed or not within 7 Days.

(12) Verify Whether another shares were issued after Minium 6 months period or not.

(13) Verify Whether separate Buy Back register is maintained or not.

(14) Verify whether Buy Back Return was filed or not.

⇒ Splitting of Shares

(1) Verify whether this alteration is allowed as per articles or not.

(2) Verify Whether Board Resolution was passed or not.

(3) Verify Whether Ordinary resolution was passed or not.

(4) Verify Whether alteration has been noted ~~Mem~~ Memorandum and articles or not.

(5) Verify Register of Members to cheque Entry.

⇒ Shares transfer Audit

(1) Verify Whether Formalities have been fulfiled or not.

(2) Verify whether formalities were fulfiled by transferor or transfree or Both.

(3) Verify whether share being transferred are partly paid up or fully paid-up.

(4) Verify time limits whether followed or not.

(5) Verify whether register of Members was altered or not.

(6) Verify signature of tranferor and transfree.

(7) Verify Share transfer Entries in the Books of accounts.

(8) Verify whether new share certificate has been issued or not.

(9) Verify whether Share Serial No. was altered or not.
(10) Verify whether total shareholding was reconciled or not.
(11) Verify whether Share Certificate has been noted in the Compliance register or not.

⇒ Re-issue of forfeited Share

(1) Verify why forfeiture was done.
(2) Verify whether reissue is authorised by Board of Directors or not.
(3) Verify the amount received on 1st allotment and re-allotment.
(4) Verify whether amount ~~of~~ was transfd to capital reserve or not.
(5) Verify whether re-issue is fa fully paid-up or not

Ch-18 (AUDIT OF DEBENTURES)

(SEC-71)

⇒ Issue of Debentures

1. Verify whether debentures are convertable or non-convertable.
2. Verify whether issue is authorised by BODs or not.
3. In case of convertable debentures, verify whether special resolution has been passed or not.
4. Verify terms and conditions of Debentures.
5. Verify Debenture Redemption Reserve.
6. Verify Utilisation of Debenture fund.
7. Verify Debenture trustee.
8. Verify cash Book, Application Book, allotment Book.
9. Verify collateral security in favour of Debenture Holders.
10. Verify whether the accounting treatment was appropriate or not.

⇒ Interest on Debentures

1. Verify rate of Interest and amount of Interest.
2. Verify total amount payable and paid.
3. Verify interest due but not paid with reason.
4. Verify the accounting treatment.

⇒ Redemption of Debentures

1. Verify funds available DRR.

(2) Verify Sources of funds for Debentures.
(3) Verify Board resolution for approval of Redemption.
(4) Verify actual payment made and compare it with payable amount.
(5) Verify non-payment cases with reasons &
(6) Verify accounting treatment.

Ch-19 (AUDIT OF DIVISIBLE PROFITS) SEC 123 to 127

1. Verify whether profits is correctly calculated or not.
2. Verify appropriation made from profit.
3. verify source of Dividend.
4. Verify whether current year profit was used or past year profit was used.
5. If past year profit is used, verify whether following three conditions were fulfilled or not.

(a) Rate of Dividend should not exceed last 3 years average dividend.

(b) maximum withdrawal from the past profit will be 10% of paid up share capital and free Reserve.

(c) Minimum reserve Remaining should be 15% of paid up Share Capital.

6. Verify whether amount of Dividend payable was kept in a Separate Bank A/c within 5 Days or not.
7. Verify whether Dividend was paid within 30 Days of Declaration or not.
8. Verify all the default cases with reasons.
9. verify whether Dividend was paid in cash or through adjustment with some arrears.
10. Verify whether unpaid Dividend was transferred to separate A/c or not.
11. Verify whether such transfer took place within 7 Days or not

(12) Verify whether unpaid Dividend was kept safe for 7 years or not.

(13) Verify whether any claim arising in that period was settled or not.

(14) Verify whether unpaid Dividend was transferred to investor education and production fund or not after 7 years.

(15) Verify whether ROC filing Regarding IEPF and Dividend was done or not.

(16) Verify whether any interim dividend was paid during the year or not.

(17) Verify whether there is any default in Re-payment of deposit U/S 73 or 74 or 76 because if there is default Dividend is not allowed.

(18) Verify whether depreciation has been charged to profit and loss Account or not.

(19) Verify whether accumulated losses have been set off or not.

Ch-20 [AUDIT OF INVENTORIES]

(1) Inventory means tangible property held for sale in Ordinary course of Business or for use in the production process, including stores and spares.
(2) Inventories turnover is very Rapid.
(3) Inventory may be absolute or damaged.
(4) Inventory is Generally movable but sometimes immovable.
(5) Individual Inventory maynot be significant but aggregate is Always substantial.
(6) Valuation of Inventory requires Expert estimate and ~~opinion~~ opinion.
(7) These are the features due to which audit of Inventory is curcial.

Ch-21 [AUDIT OF FIXED ASSETS]

(1) As per Accounting standard 10 [Property, plant and Equipment], fixed assets are as follow:-
(a) Tangible items held for use in the business.
(b) Tangible items Kept for Rentals to Others.
(c) Tangible Items Kept for administration.
(2) Fixed assets are Expected to be used for morethan 1 year period.
(3) Amount Invested in Fixed assets is so high that audit becomes curcial.
(4) Single Duty of auditor is to verify compliance of accounting standards and existence of fixed Assets

Ch-22 [AUDIT OF EDUCATIONAL INSTITUTION]

1. verify constitutional document.
2. verify whether Educational Instituted is Educational Institute or Commercial training centre.
3. verify the law applicable on the Educational Institute.
4. verify whether Managing Committee is present or not.
5. verify whether Meeting of Managing Committee are taking place or not.
6. verify whether financial operations are timely recorded or not.
7. verify whether fees collection is regular or not.
8. verify whether collected fee is recorded or not.
9. verify whether fee collected is deposited in the Bank on the Same Day or not.
10. verify cash Book to verify Pattern of collection, whether it is coming with late fee or without late fee.
11. verify whether any scholarship or Discounting has been awarded to student or not.
12. verify whether late fee and fine have been timely recorded or not. So that it can be accounted as additional Revenue of the same period.
13. verify all the columns of fees register to verify allocation of funds.
14. verify Extra Curricular income and Expenses So that additional Income can be matched with additional Expenses.

(15) Verify compliance of state Govt. rule regarding Educational Institution.

(16) Verify Govt. Grant and its utilisation.

(17) Verify donation received and its utilisation

(18) Verify wages and salaries of teaching and non-teaching staff.

(19) Verify Expenses incurred on the School Equipment for the purpose of teaching and learning such as lab Equipments.

(20) Verify investment and Income of Investment

Ch-23 (AUDIT OF HOSPITAL)

1. Verify whether the hospital is registered or not.
2. verify constitutional document of the hospital.
3. verify cash collection system from OPD Department and admitted patients.
4. verify cash collection from Insurance companies for medi-claim patients.
5. verify Income from allid activities such as cafetaria, Parking, Counter of Insurance companies, Income from laboratory, auditorium given on rent etc.
6. verify sale of medicines to in patient and out Patient separately.
7. verify payment to Non-Medical and Medical Staff.
8. verify variable payment made to empanelled Doctors.
9. verify payment Received from laboratories for recommandation.
10. verify Purchase of Medicine on payment and received from cost from medical & company.
11. verify payment received from medical representative of pharmaceuticals Company.
12. verify payment received from other hospitals for treatement support.
13. verify payment made to security and housekeeping
14. verify Investment and Income from Investment
15. verify govt. grant and its utilisation
16. verify donation received and its utilisation
17. verify authority letter and instruction for Discount & Subsidy.

Ch-24 (COOPERATIVE SOCIETY)

1. Cooperative society are registered under cooperative societies Act 1912 or Multistate cooperative societies Act, 2002.
2. Verify whether society is registered in correct law or not.
3. Verify Articles of Association of the society.
4. Verify cashbook for all the capital and revenue items.
5. Verify opening and closing stock along with prepetual inventory.
6. Verify Investment in detail, Both immovable and movable properties
7. Verify Banking transactions of Both capital and Revenue Nature
8. Verify Members registers and their contributions.
9. Imp Verify that No Members holds more than 20% Shares.
10. However, A society can have 100% shares of another society.
11. Verify loans and advances given by society.
12. Verify Borrowing of society.
13. Imp Verify that there should a compulsory transfer from profits to the Reserve fund @ 25% atleast.
14. Imp Shareholders can Reduce this 25% to 10% but not less than that.

Ch-25 [BANK AUDIT]

⇒ Types of Bank

1. Commercial Bank
2. Regional Rural Bank
3. Cooperative Bank
4. Development Bank
5. Payment Bank
6. Small finance Bank

⇒ Cash in hand

1. Verify the nature of Internal Control.
2. Verify cash physically.
3. Verify whether the cash is genine or not.
4. Verify amount of foreign currency held by Bank.
5. Verify Different Denominations available with the Bank.
6. Verify whether the Balances Tallies with the Books or not.

⇒ Balances with RBI

1. Verify ledger Balances and reconile the same.
2. Obtain Bank confirmation certificate from the ~~Bran~~ Branch as well as from RBI.
3. Verify Balances with other Banks and Branches.
4. Verify Balances with foreign Branches.

⇒ Money at Call and at Short Notice

1. Verify who has authorised such transaction.
2. Verify whether the correct authority has done these transactions.
3. Verify that the time period of such transaction should not be more than 6 Days. [Day means working Day]
4. Verify Net Balances of such transactions.

⇒ Fixed and other Assets

1. Verify Accounting Method of Bank.
2. verify Ownership Document.
3. Verify Schedule of fixed assets
4. Verify sale of assets
5. Verify Revaluation of Assets
6. Verify compliance of Section 9 of Banking Regulation Act

⇒ Borrowings

1. Verify Borrowing in India and outside India
2. verify Duration of Borrowing
3. Verify rate of Interest
4. verify repayment plans
5. Verify Purpose of Borrowing.

⇒ Deposits

1. Verify Interest accured
2. Verify Amount of deposits not maintained by account holders.

(3) Verify window dressing if any, which means showing Manuiplated transactions.
(4) Verify gestation period of deposits
(5) Verify Fluctation in the total deposits

⇒ Reserve and surplus

(1) Verify addition deletion from the reserves.
(2) Verify reason of usage of reserve.
(3) Verify payment of Dividend.
(4) Verify compliance of RBI and FEMA.

⇒ Bills payable

(1) Verify total of Demand draft, payorder, travellors cheque, other Bills Issued by Bank.
(2) Verify Procedure of typing / printing and signing.
(3) Verify standard printed form to avoid duplicay.
(4) Verify Signatures with specimen signatures.
(5) Verify powercode of all the officers.
(6) Verify collection and payment of Instruments.
(7) Verify cancellation of Instruments.

⇒ Bills for collection

(1) Verify Intra bank and Inter Bank Bills.
(2) Verify opening and closing Balances.
(3) Verify collection procedure. to ensure timely collection
(4) Verify realisation of cash.
(5) Verify credit in the customers Accounts.

⇒ Contingent Liabilities

1. Verify collateral security behind Guarantee ~~to~~ given by Bank.
2. Verify Assets classification for customers.
3. Verify record keeping ~~for~~ of contingent liabilities.
4. Verify compliance of accounting standards.
5. Verify physical documents of such Guarantees.
6. Verify status of Pending cases running ~~of~~ ~~to~~ in court.
7. Verify letters issued by Bank.

⇒ Foreign Exchange Operations

1. Verify license issued by RBI.
2. Verify total limit Guaranted by RBI.
3. Verify classification of current and capital Account transactions.
4. Verify compliance of FEMA and RBI Guidelines.
5. Physically verify foreign currency, if any.

⇒ Audit Report

1. It should disclose true and fair view.
2. It should talk about unaudited items as well.
3. Report should contain matters of Sections 30 which are as follows:-

(a) Whether information Given by Bank was satisfactory or not.

(b) Whether the transactions of Bank are within powers or not.

(c) Whether returns received from Branches are adequated or not

(d) Whether financial statements are true and fair or not.
(e) Any other Matter important in the opinion of auditor.

(4) Auditor will have issue LFAR [long form Audit Report] along with executive summary.

MUNICIPALITIES

Ch-26 [AUDIT OF TRUST AND PANCHAYAT]

(1) The Main objectives of this audit are as follows:-
(a) Ensure fairness and correctness of financial statements
(b) Report on Internal control.
(c) Ensure value of Money to be realised.
(d) Detect Error and fraud.

(2) Verify that Expense should be done as per ~~rno~~ rules and regulations.
(3) Verify whether the Expense sanctionde or not.
(3) Verify whether appropriate provisions were made or not.
(4) Verify whether the Budgeted ~~of~~ Expense is economically or not.
(5) Verify Efficiency and Effectiveness in the operations.

CH:- 26(A) [AUDIT OF TRUST]

(1) Trust can be public trust or private trust, commercial trust or charitable trust.

(2) Auditor should verify consitution of trust, to understand rights and duties.

(3) Verify list of Members to finalise contribution.

(4) Verify Budget of Every Expense and compare the same with actual ledger.

(5) Verify internal Control of the trust regarding receipt ~~or~~ and payment.

(6) Verify collection and deposit of Income whether it is prompt or not.

(7) Verify Regular and ~~add~~ adhoc donation, in case of trust of charitable nature.

(8) Verify Income from Investment, whether operating or not.

(9) Verify Income and Expenditure relating to special functions organised by trust.

(10) Verify legacy received and its utilisation.

(11) Verify cash in hand, Inventories and fixed assets.

CH-28 [AUDIT CERTIFICATE]

1. Audit certificate is certificate issued by Auditor.
2. It is issued in addition to the audit report.
3. Certificate carries a declaration.
4. It should be ~~don~~ on the letter head.
5. It should indicate limitations if any.
6. Auditor should write accurate details.
7. It should be stated that it is General purpose or Specifi purpose Certificate.
8. language should be straight forward and complete in all respect.
9. All numerical data should be Expressed on number only.
10. It Should contain the Number of person for whom it is issued but If it is General purpose certificate it Should carry these words –
    'TO WHOMSOEVER ~~IT~~ IT MAY CONCERN'
11. If the auditor has taken some assumption, They Should be Estated in the certificate.

NOTE: Institute has given format of two certificates on page No. 446 and 447. Kindly Refer.

Ch = 29 (STATUTORY AUDITOR Vs INTERNAL AUDITOR)

Statutory Auditor	Internal Auditor
① He is appointed U/S 139	① He is appointed U/S 138.
② He is appointed by Shareholders	② He is appointed by BODs
③ He can be removed by Shareholders	③ He can be removed by BODs
④ His Remuneration is decided by Shareholders.	④ His remuneration is decided by BODs
⑤ He reports to the Shareholders	⑤ He reports to BODs
⑥ He didnot provide suggestion	⑥ He Provide suggestions to improve internal control.
⑦ ~~It~~ He does post audit	⑦ He does pre - Audit
⑧ His scope is wide enough to cover entire Balance Sheet	⑧ He Covers only the prescribed items.
⑨ He has be CA.	⑨ He can be CA or CMA or Person appointed by BOD. even if he is Employee.

Ch=27 [AUDIT REPORT - A DETAILED ANALYSIS]

(1) As Per SA-700, Audit report is the expression of willingness of the auditor regarding completion of audit and conclusion of audit.

Imp

(2) It contains following Basic Elements :-

(a) Title
(b) Addressee
(c) Opening Paragraph.
(d) Scope paragraph.
(e) Opinion paragraph.
(f) Date of the report.
(g) Place of Signature
(h) Auditor Signature

(3) Opening paragraph covers the period of financial statements, it should state that the responsibility of preparation is only of the Management and auditors can just express opinion. ~~and~~ Significance of this paragraph is that the auditor can save himself from the adverse consequences of any fraud in the financial statements.

(4) Scope paragraph prescribes that audit was done on Sample Basis, which did not cover 100% Vouchers, which covers various estimates, which states that audit was done as per auditing standards and results are reasonable and not a Guarantee. Significance of this paragraph

is that auditor describe his report as indicator and not a fall proof certificate.

(5) Opinion paragraph is the product of Audit report. It contains final statement issued by auditor that whether the financial statements are true and fair or not.

(6) Audit report has no format but the content should be present.

(7) Audit report is of 4 types:-
(a) Clean Chit report or unqualified Report.
(b) Qualified Report
(c) Adverse report.
(d) Disclaimer of opinion

(8) Un Qualified opinion Means when everything is verified and found correct. It is issued if there are no material Errors. It is issued Generally in small company

(9) Qualified Report means Everything is verified and found correct Except for few things. It means level of accuracy is beyond satisfration but below doubt. It is Generally issued in all companies because 100% accuracy should not be Expected.

(10) Adverse Report is also called Negative report because it prescribes that Everything is verified and found incorrect. Adverse report is rare in nature because the entire Amounts cannot be challenged to be wrong.

(11) Disclaimer of opinion is actually not a Report, it is a

Communication of inability that auditor couldnot complete audit due to non-corporation of client or a situation in which Books of accounts could not be produced such as seizure by income tax office.

(12) Some times auditor finds that true and fair view is partially present and he does not want to give qualified opinion, he can issue an Experimental report in which he will describe positive and negatives of the financial statements.

⇒ Events Occuring after the Balance Sheet Date.

(1) If the event is reported to the auditors they should also report in their report.

(2) Balance sheet is Generally not adjusted but audit report can be adjusted

(3) If the Matter immaterial, it can be ignored but otherwise Its financial impact should be noted in the report

⇒ Management representation letter [MRL]

Sometimes auditor has certain query tobe reported, for which sufficient reply is not being received. Auditor cannot write anything in the report without ~~any~~ getting confirmation for the client. So Auditor raises written request to the client and ~~at~~ client answers in writing. This written reply of client becomes Basis to write the audit report. This reply is called Management representation letter.

Ch - 30 (EVOLUTION OF AUDITING)

1. Audit can be traced Back to 3600 - 3200 Before Crised (B.C)
2. Initially ~~and~~ audit was mainly done for public Account only.
3. from historical records, It appears that Egyptians, Greeks and Romans used the concept of govt. audit
4. Accounts of City Corporation of London were audited in 12th Century.
5. Shakespeare has also used audit in his novels which means audit was enforce in 14th century as well.
6. Auditors were official appointed in England 1314
7. In 1494, ~~tac~~ lucas pacioli, who was french Mathematician, Introduced the concept of Double Entry.
8. In 18 century, Industrial revolution took place and size of business grew up to large Extend
9. In 1866, British parliament Established audit deptt.
10. In 1870, Institue of Accountants was Established in England.
11. This institute got Royal Charter in 1880 and it become Institue of Charted Accountant of England and wales.
12. In India history of Auditing can be found in times of Mourya, Gupta, Moughals.
13. 1st legislation regarding companies in India came in 1857, which made audit voluntary.

(14) Companies Act, 1913 made audit compulsory.
(15) Companies Act, 1956 Introduced the concept of Independent auditor.
(16) In 1965, Concept of Cost Audit was introduced.
(17) In 1984, Concept of Tax audit was introduced.
(18) Companies Act 2013, Introduced the Concept of Rotation of Auditor.
(19) CGST Act 2017, Introduced the concept of GST Audit.

Ch-31 [DEFINATION, MEANING AND FEATURES]

⇒ **Defination**

(1) Audit is derived from Latin word 'AUDIRE' which means to listen.
(2) As per institute of Chartered Account of India, New Delhi, Auditing is an systematic and independent Examination of data, statements, records, operations, performance Both financial and Non-financial of an Enterprise for a stated purpose.
(3) As Per Standard on Auditing 200 audit is Independent Examination of financial information of any Entity, Whether profit oriented or not, irrespective of size and legal status, with the view to express an opinion their ~~on~~ own.
(4) In simple words, Auditing refers to an Examination which is systematic and Independent, of Books of accounts of an Entity to Express an opinion there on whether financial statements are free from material

Misstatement or not

⇒ Meaning of Audit

① It is an intelligent examination.
② It is a critical Examination.
③ It is done by independent Qualified person.
④ It is done with the help of vouchers, Documents, information and explanation received from client.
⑤ Auditor satisfies himself that financial statements are authenticated or not.
⑥ Auditor reports on the following matters:-
(a) Balance Sheet is True and fair.
(b) Profit & loss A/c is true and fair
(c) Accounts has be made as per law.
(d) All the matters where he was not satisfied.

⇒ Features of Auditing

① It involves ~~Evaluation~~ Evaluation
② It involves verification
③ It is analytical, critical and investigative review of Internal control
④ It can be financial or Non-financial
⑤ It should be done as per standards.
⑥ It should be systemmatic and Scientific
⑦ It should be done by compteent independent person
⑧ It Ensures ~~stabet~~ reliability of information

Ch = 32 (NATURE OF AUDITING)

1. Auditor is a watch dog and not a blood Hound.
2. Auditor will observe all the error and fraud will report about them.
3. Auditor doesn't have a duty to make correction, its Duty ends after reporting.
4. He Collects evidence for every conclusion he derives from the verification.
5. Auditor Auditing should be done with a positive mental attitute so that we find facts not faults.

Ch = 33 (SCOPE OF AUDITING)

1. Scope means Coverage Areas.
2. Scope of auditing is defined by following things
   (a) letter of appointment of auditor
   (b) Prescribed standards by ICAI
   (c) Applicable law and regulations
   (d) Judgement pronounced by court.
3. As Per SA200A Scope of auditing can be altered as well depending upon circumstances
4. In changing Economic Environment, Scope of auditing is becoming wider day by day.

Ch-34 [ACCOUNTING AND AUDITING]

⇒ Relationship

Accounting	Auditing
① It deals with analysis.	① It deals with reviews.
② It records accounting records	② It verify the same Accounting records
③ Makes financial statements	③ Determines fairness of financial statements
④ Prepares financial statement on the Basis of Accounting Principles.	④ Prepares audit Report on the Basis of financial statements
⑤ Financial statements are given to Shareholders	⑤ Audit report is also given to Shareholder.
⑥ Accounting is first Auditing is last.	⑥ ~~Auditing~~ Auditing Starts where Accounting ends.

⇒ Differences

Accounting	Auditing
① It is the collection, classification and summarisation of data.	① It is the Examination of Data.
② It recording of ~~tracsaction~~ transaction when they takes place	② It is a post mortem
③ It is always Monetary	③ It is always qualitative opinion.

(4) It is the responsibility of Management.	(4) It is the responsibility of Auditor.
(5) It is just a compilation of records	(5) It is a compilation of opinion
(6) Accountant is always dependent on Management.	(6) Auditor is always independent.
(7) There are mandatory in nature Except for some people.	(7) It is voluntary in nature Except for some people.
(8) Accountant is liable but in a limited Manner	(8) Auditor has wide liability
(9) It is done as per Accounting standard	(9) It is done as per Standard on Auditing (SA)

Ch=35 (AUDITOR)

(1) Person doing audit is called Auditor.

(2) He should be professional Qualified.

(3) If Auditor wants to be sucessful, he should have following Qualities:-

(a) He should have knowledge of other subjects such as Accountancy, Economics and Mathematics.

(b) He should have integrity, objectivity and independence.

(c) He should have knowledge of law applicable on the client.

(d) He should have understanding of clients Business

(e) He should have technical knowledge means subject knowledge.

(f) In case of London and General Bank, Lord Justice lindley Said that "Auditor should be honest."

Ch-36 [AUDIT Vs INVESTIGATION]

Audit	Investigation
① It is General purpose Examination.	① It is Special purpose Examination.
② It has a wide Scope	② Scope is very narrow.
③ It is done to find out truth and fairness.	③ It is done to clarify suspicion.
④ It is done as per General principles	④ There are no principles for investigation.
⑤ It is uses persuasive evidence	⑤ It uses conclusive Evidence.
⑥ Audit is Sceptical	⑥ He is always having suspicion.
⑦ It is a routine Exercise	⑦ It is a special Exserise which is less frequent.

Ch-37 [ASPECTS TO BE COVERED IN AN AUDIT]

Auditing is a wide Examination in which various Activities are done. They may be same tacking or analytical report preparation. However all such activities can be categorised in following four Aspects to be covered in audit :-

(a) Accounting System And Internal Control

Auditor should develop an understanding of the accounting and internal control system of the

Client so that He can decide if they are reliable or not.

(b) Examination of records :- Auditor should check arithematical accuracy on the Books of Accounts as well as Genine Nature of transaction. authenticity of Documents and their recording keeping should also be verified.

(c) Compliance with standards regulations or rules

Financial statement should be prepared as per applicable accounting standards, Guidence Note, Laws and regulations. It is a duty of Auditor whether the same was prepared like this or not.

(d) Reporting :- Once the audit is over, Auditor desires his conclusions. Such conclusions with evidence should be reported in the audit report.

Ch- 38 (OBJECTIVES)

1. As per SA 2100 audit has two objectives which are primary and secondary.
2. Primary objectives is to express an opinion on the financial statements whether they are true and fair or not.
3. Auditor will have report whether the financial statements are free from material misstatements or not.
4. Secondary objective is detection of errors and fraud
5. It is called secondary because it is not compulsory in nature.
6. It is not the task of auditor to find fault, if they appear they will be reported otherwise it is alright.
7. It is because auditing is fact finding exercise not a fault finding exercise

Ch- 39 (Basic Principles Governing an Audit)

1. Integrity, Objectivity and Independence :- He should be straight forward, honest, sincere, free from any influence and should be impartial.

2. Confidentiality :- he should not disclose client information to anyone without the client ~~for~~ permission.

(3) Skills and competence :- Audit should be performed and audit report should be prepared by adequately trained, Experienced and Competent person.

(4) Work performed by others :- Auditor should carefully supervised work performed by other such as subordinate, other auditors and Experts.

(5) Documentation :- Proper papers should be maintained by auditor to evidence the audit work.

(6) Planning :- Auditor should obtain knowledge of client Business and should plan the audit accordingly so that it is completed on time.

(7) Audit Evidence :- Auditor should obtain sufficient and appropriate evidence so that he can substantiate his opinion given in the report.

(8) Accounting system and internal control :- Auditor should have proper understanding of the accounting system and level of control operated by the company so that audit risk can be calculated.

(9) Audit conclusion and reporting :- On the Basis Audit conclusions, he will prepare his report whether Qualified or unqualified.

~~(10)~~

Ch:40 (Significance Of Audit)

(1) from legal point of view

(a) Income tax return is not verified much by department if it is audited.

(b) It is Easy to borrow money from the Banks and financial institutions on the Basis of audited Accounts.

(c) Insurance claim can be settled comfortably if the accounts are audited.

(d) Sales tax, whether VAT or GST payments are considered correct if the accounts are audited.

(e) Audited Accounts become a Basis to calculate insolvency.

(2) From internal control point of view

(a) Error and frauds are located early.

(b) Auditing becomes a moral pressure on Employee and they become more alert.

(c) Auditor may give management consultancy on technical issues

(d) Audited Accounts maintain same policies through out the years.

(3) from External Affairs point of view

(a) Settlement of accounts with debtors and creditors become easy.

(b) Valuation of assets and goodwill can be done correctly

(c) future trend can be estimated easily.

Ch = 41 (Advantages of Audit)

(1) It is a tool to product the interest of different state holders because they will assured about financial statements

(2) It can create ~~Bais~~ Basis for good internal control

(3) It can help us intaking Bank loans and other financial assistance because creditors will be assured about financial position.

(4) Employees will remain ~~alter~~ Alert and vigilante

(5) Audited Accounts are considered reliable by Govt.

(6) Audited accounts are helpful during corporate restructuring

(7) It deducts wastages and losses so that we can take corrective action.

(8) Audited Accounts are helpful during settlements of accounts at ~~th~~ time of Entry or Exit of partners.

Ch = 42 (Inherent limitation of audit)

(1) Inherent limitation means ~~ish~~ a difficulty which cannot be resolved.

(2) There are certain issues which are so inculcated in the process it self that they are part of the process.

(3) Following are the three inherent limitation:-

(a) Audit doesnot guarantee absolute assurance because audit was done on sample Basis. when auditor does audit, he verifies only selected no. of vouchers because of the constraint of time &

resources.

(b) Evidence available with the auditor is always presumsive which means it takes us to a particular direction of thinking but it doesnot gives us conclusions. Auditor cannot have a procedure of ~~dect~~ detective, whatever comes to him, he writes in the report.

(c) Limitation of Internal control becomes limitation of audit as well. It means when management is so wrong, audit cannot ~~write~~ right. If the senior management is its fraudulant, nothing can happen to make it right.

Ch. 43 (Auditors Engagement)

(1) Whenever the auditor is appointed, it has bee decided what will be his scope.

(2) It is because auditor may not be given complete sets of Accounts to verify, in case of Joint audit.

(3) Moreover, there is always a probability of Dispute regarding powers and duties of auditor and his Entitlement of facilities.

(4) So, In order to resolve such issues, all the terms and conditions are put on a piece of Paper which will work like an agreement.

(5) Such document is called of letter of Engagement

(6) Following are the contents of such letters:-

(a) tenure of audit.

(b) Objective of audit.

(c) Scope of audit.

(d) Responsibilities of Management.

(e) inhereant limitation of audit
(f) Need of ~~in~~ some interal auditor
(g) Requirement of Management representation letter
(h) Liabilities of auditor.
(i) Details regarding audit fees and Billing
(j) ~~Forcement~~ boom and frequency of audit report

Ch = 44 [Comparsion b/w External audit and internal audit]

External Audit	Internal Audit
① They are appointed by owners of organisation who are Shareholders	① Internal auditor is appointed by Mangement i.e. BOD.
② Scope of work is determined by law	② Scope of work is determined by Management.
③ Major objectives is to Express opinion on the financial position	③ Major objectives is Evaluation of Internal control
④ External Audit has full freedom because it is reported to the shareholder's directly.	④ Internal audit has no freedom because they report to Management.

Ch = 45 [Concept of true and fare]

(1) Auditor is required to Express his opinion whether the financial statements are true and ~~fare~~ fair or not.

(2) Meaning of true and ~~fare~~ fair not defined anywhere in the law or audit.

(3) As per Sec. 129 of Companies Act 2013, Financial statements will be called true and ~~fare~~ fair, if they are made as per Schedule III of companies Act 2013.

(4) Auditor must write all his remarks in which he finds that financial statements are not true.

(5) Auditor should see the following matters to find out true and fair view:-

(a) There should be undervaluation and overvaluation
(b) There should be no material omission
(c) Every charge on asset should be disclosed.
(d) P & L Should disclosed all the necessary matters as per Schedule III
(e) Balance sheet should disclosed all the necessary matter as per Schedule III
(f) All unusual Matters should be reported separately.

Ch = 46 [Concept of Materiality in planning and performance of Audit]

(1) Materiality means relative importance of something for someone.

(2) Such importance is called relative because it changes with person to person, time to time and situation to situation.

(3) As per standard on Auditing (SA 320) auditor uses materiality concept to avoid audit risk.

(4) When Materiality is high, Investigation will also be high and then risk of non-~~deduction~~ detection will be very low.

(5) It means there is inverse relation b/w materiality and audit risk.

(6) Materiality can be determined by following factors:-

(a) It depends on individual or organisation to decide about materiality.

(b) It depends on the aggregate of all small transactions which together become very large.

(c) It depends on requirement of law whether verification is compulsory or not.

(d) It depends on the overall impact on the organisation, whether high or low.

(e) It ~~det~~ depends whether the matter is qualitative or Quantitative.

(f) It depends on the significance it has on companies Business.

Ch. 47 [AS-1 Disclosure of Accounting Policies] → Read Yourself

Ch-49 [Audit engagement letter]

(1) It is the starting point for the audit.
(2) It is used whenever there is a dispute b/w client and auditor.
(3) It can put end to the dispute because whatever is specified in the engagement letter will become final and ~~a bin~~ abiding.
(4) Auditing and assurance Standard Board of ICAI, New Delhi has issued a format of engagement letter to show an Example.

Ch-50 [Audit program]

(1) Audit program is a written plan in detail which specify work to be done, who will do it, time table to do it and suggested procedure to do it.

(2) AS per SA 300, it should specify detailed procedures to be followed by audit team.
(3) Audit program is documented for all future purpose such as reference or showing Evidence.
(4) Audit program can be of two types:-
(a) General program common for all audit such as How to verify fixed assets or cash. or something which is present Every where.
(b) Special audit program which applies on a particular Organisation only such as audit program for Sugar mill cannot be used in Electricity plant.

⇒ Advantages of Audit program

(a) It can work as a check list
(b) Allocation of work can be done Easily.
(c) Progress of audit work can be calculated.
(d) It will be a guidence, a tool for audit assistance
(e) It will Maintain uniformity in work.
(f) It will be useful for next financial year.
(g) It will be Evidence in future litigation.
(h) It is useful in fixing responsibility to people

⇒ Disadvantages of Audit program

(a) It Makes audit Monotonous & Mechanical.
(b) It is unnecessary for small organisation.
(c) Audit team Members will defend themselves when something is Missing in the Audit program.
(d) Audit programs make audit rigid which should be flexible.

Ch = 51 [Audit working papers]

(1) Any document prepared, received, Maintained by auditor with him for future is called working paper.

(2) As per SA 230, working papers are compulsory because they serve following three purposes:-

(a) They help in planning and performance of audit.
(b) They help in supervision and review of audit.
(c) They serve as evidence of audit work performe
(d) There is no prescribed format of audit working papers

because it depends on nature of audit ~~or~~ and auditor

(e) As per ~~ISCA~~ ICAI Standard on Quality control [SQC]1, working papers should ~~pe~~ be preserved for 7 years from the Date of audit report.

(f) Working papers are the personal property of the auditor and ~~workin~~ no one can claim copy of it.

(g) Working papers are of two types:-
(a) Permanent Audit file
(b) Current Audit file

(h) Permanent file means those papers which are not required in Everyday audit. For E.g. Copy of Memorandum and Articles, Last year financial statements and policy manual of Company.

(i) Current file means those papers which are required most often because we need them during audit. such as audit program, Everyday Queries and Engagement letter.

Ch: 52 (Audit Note Book)

(1) Audit NoteBook is nothing but a notebook in which audit writes all the observations he made during the day.

(2) It may look like a rough Notebook but it is of permanent nature and Importance in audit

(3) Separate Notebook is made for Every audit.

(4) It can save the auditor because entries in the Notebook will work as evidence.

(5) Following are the contents of audit Notebook:-
(a) Name of the client
(b) Structure of the Organisation

(c) Important provision of Memorandum and articles
(d) communications with previous auditor
(e) Management instructions
(f) Management representation
(g) Accounting policies of client.
(h) Applicables laws
(i) Key Managerial person with contact details
(j) Errors and fraud discovered
(k) Queries to be resolved.
(l) any other special point as per his opinion.

Ch-53 [Audit risk]

(1) Audit risk is the risk of Material Misstatement in the financial statements which may or maynot be discovered during audit.

(2) Audit risk should be zero but it is always greater than zero

(3) Audit risk creates risk of inappropriate audit opinion.

(4) Audit risk can be of three types :-

(a) Inherent Risk which means probability of Misstatement in the financial statement which can never be removed because we never verify 100% vouchers

(b) Control Risk If the internal control of company is very weak, Auditor cannot make it right overnight. whatever may be the level of audit, weakness will always remain in internal control.

(c) Detection risk :- Auditor works on the Basis of Evidence so if he doesnot get evidence

of a particular issue, he cannot report about it. So various Error remain undetected due to this Difficulty.

Ch = 54 (Surprise Check)

(1) Surprise check means surprise verification.
(2) It is neither prescribed nor prohibited anywhere in the ~~cute~~ law.
(3) As per ICAI New Delhi, following are the guidelines regarding surprise ~~chequ~~ check:-
(a) It should be a part of each audit.
(b) It should be applied on cash, investments, Stores, stock and statutory records.
(c) Frequency can be decided by the auditor but it should be done atleast once.
(d) Results of surprise check should be communicated to Managment
(e) Auditor should verify whether some action was taken by Management or not
(f) Results of the surprise check should be included in the audit report.

Ch=61 [Cut Off Procedure]

(1) All the vouchers are not generally verified in the audit.
(2) We have to separate vouchers to be verified from all the vouchers
(3) This separation can be done either in haphazard Manner or in Systematic Manner.
(4) We will have to decide some pattern to separate such vouchers which can be on the Basis of amount, Month or ledger Account.
(5) All the points at which separation is done are called cutoff points and the procedure of separating such vouchers is called cutoff procedure. For e.g. All Vouchers above ₹ 5 Lakhs are being verified so this system is called cutoff procedure and ₹500000 is cut off point.

Ch=55 [Audit Evidence]

(1) Any thing that proves something is called Evidence.
(2) Evidence can be a person, a paper or a point.
(3) Evidence is needed before audit report because we cannot write anything without having Evidence.
(4) Audit Evidence should be sufficient and appropriate in nature.
(5) Audit Evidence is needed because of following reasons:—
(a) To find out whether assets or liability exist or not.
(b) To find out whether the transaction actually took place or not.
(c) To find out whether the valuation of assets or liabilities is correct or not.
(d) To find out whether presentation of financial statement is appropriate or not.

6. Audit evidence should be reliable and following are the Principle regarding reliability :-

(a) External evidence is more reliable than internal evidence.

(b) Documentary evidence is more reliable than oral Evidence.

(c) Evidence obtained by auditor himself is more reliable than given by someone ~~as~~ else

7. Audit Evidence can be obtained by following Methods :-

(a) Enquiry which means interogation to Know the answers.

(b) confirmation which means interogation when we Know the answer but still want to confirm.

(c) Inspection which means to observe someone or something in public.

(d) Observation which means witnessing something or someone without letting him know.

(e) Analytical Review means Analysis of the data given by client.

(f) computation which means doing the calculations again to check arithematical accuracy.

8. All these techniques can be used at two places :-

(a) To find out whether rules & regulation are present or not [compliance procedures]

(b) To find out whether rules & regulation are being followed or not [substantive procedures]

Ch = 56 [Internal Control]

(1) Internal control means all the procedures adopted by Management to ensure ~~whether~~ that errors should not be committed at all and if committed, it should detected and prevented early.

(2) Internal control is the responsibility of Management because audit takes place few days only. but Internal control is needed every day.

(3) Internal control should be efficient for which following components are compulsory :-

(a) Proper Division of Responsibility.
(b) Proper authorisation system to allow transactions.
(c) Proper implementation of Management policy.
(d) Proper safeguard of assets
(e) Proper internal check should be there.
(f) Proper internal audit should be there.

(4) Internal control can be of three types :-

(a) Preventive control in which we attempt to avoid errors.
(b) Detective control in which we attempt to find out Errors.
(c) Corrective control in which we attempt to rectifications

(5) Internal control has following advantages :-

(a) It increases efficiency and Effectiveness.
(b) It prevents Errors & Fraud.
(c) It provides safeguard to company Resources.
(d) It provides Employees satisfaction.

(6) Following are the Disadvantages or limitations of Internal control:-

(a) If the Management is ineffective, internal control is ineffective.

(b) It is not suitable for small organisation

(c) It cannot find out unusual transaction.

(d) It is very costly.

(e) Top Management may misuse their power to ~~interfair~~ interfere with internal control

(f) Two or more persons may be collusion.

(g) Internal control may obsolete with time.

(h) Whatever may be the level of internal control, human Error is always there.

(i) Follow up with internal control is time taking.

(7) Internal control should be Evaluated so that it can be improved. It can be done by following techniques:-

(a) Narrative Records which means detailed description to be studied by Evaluator.

(b) Check list which means a list of items to be verified is made and all the items are checked one by one.

(c) Flow chart which means a diagram to understand the flow of all activities as a snapshot.

(d) Questionnaire which means a series of Questions are given to Management to answer so that internal control ~~con~~ can be Evaluated by reading the answers.

Ch. 57 [Internal Check]

(1) When a particular transaction is so design that work performed by one person is automatically checked by another, it is called internal check.

(2) In simple words, when a transactions has various steps, all such steps should be exercised by different people.

(3) It will reduce chances of Errors and fraud because all the steps are distributed.

(4) Internal check has following objectives:—
(a) One person is reponsible for one function.
(b) Activity is done by one gets confirmed by another
(c) To facilitate breakingdown routine procedure so that work is never ~~distrub~~ disturbed
(d) To reduce possibility of Errors and fraud.

Ch. 58 [Internal Control Questionnaire]

(1) Questionnaire means a series of questions to verify internal control.

(2) Before starting the audit, auditors raises various Questions before the Management. which are complied together and put in Questionnaire.

(3) Questionnaire will carry different Question on different topics such as cash Balance and Bank Balance, fixed assets, closing stock etc.

(4) Study Material has given the sample Questionnaire for cash Balance and Bank Balance. [Refer pg. 359]

Ch = 59 [Difference between check list and Internal Control Questionnaire]

Check List	Questionnaire
① It is Generally used at the start of audit	① It can be used at any point of time.
② It is Generally given to audit team Members to cover all areas.	② It is Generally given to Management
③ It contains items to be check	③ It contains Questions to be answer
④ It works as guideline for audit team Members	④ It works as information collection Method.

Ch = 60 [Distinction B/W Internal Audit, Internal control and Internal check]

[Internal control = Internal check + Internal audit]

Internal audit	Internal control	Internal check
① Evaluator is separately appointed	① It is performed by Management	① work performed by one is automatically checked by another
② Report is submitted to Management.	② No requirement of reporting	② Only errors are reported.
③ It requires separate ~~Exp~~ Expense	③ It requires not separate Expense	③ It requires no separate Expense
④ objectives is to find out errors and fraud.	④ objective is to prevent Errors and fraud	④ Objective is decentralised Everything

Ch = 62 [Examination in Depth / Auditing in Depth : "Walk through test"]

1. Audit is done on sampling Basis but ~~and~~ some items are verified in detail
2. They are so important that we ask the client to repeat all steps before auditor so that we can find out Errors.
3. When we review each and Every step of Series of transactions, it is called audit trail, Examination in depth, auditing in depth, Walk through test.

Ch = 63 [Difference b/w Test checking and statistical Sampling]

Test Checking	Statistical Sampling.
1. Transaction are selected in haphazard manner	1. Transactions are selected on systematic Basis.
2. No specific technique is used.	2. Statistical technique is used
3. It is subjective in nature	3. It is objective in nature
4. It involves more risk	4. It involves less risk

Ch = 64 [Internal Audit – Industry specific]

(1) Internal audit is the verification of financial, Accounting and other operations as per the requirements of Management.

(2) As per institute of internal auditors Florita, internal audit covers following 5 areas of operations :-

(a) Whether financial and operating information is reliable or not.

(b) whether law, policies, plans, procedures, and regulations are being followed or not.

(c) whether assets are safe guarding or not.

(d) Whether the resources are being with efficiency and economy or not

(e) Whether organisation is achieving its goals or not.

(3) Following are the features of internal audit :-

(a) It is apparisal activity.

(b) It can be conducted by employees as well.

(c) It is done to review internal controls

(d) It is a service to organisation not a part of it.

(e) It provides report to Management.

(f) It is continously done to promote Effective control

(4) Internal audit is important Managemnt tool because of following reasons.

(a) It is compulsory as CARO, 2016

(b) It ~~Ensuran~~ ensures of compliance of accounting standards

(c) It ensures Management reporting.

(d) It brings Efficiency in operation.

(e) It can suggest improvement.
(f) It ~~may~~ makes internal control more Effective.
(g) It provides reliable and accurate Data
(h) It can add value to Management.

(5) Internal audit has following Advantages:-

(A) To the Mangement in specific
(a) It provides review of Internal control.
(b) It safeguard assets.
(c) It provides information to Management.
(d) It ~~ensurance~~ ensures that Management policy are implemented.

(B) To the statutory auditor in specific
(a) His work is reduce to considerable Extent.
(b) His work is completed on time.
(c) He obtains corrected financial statements
(d) He has less audit risk
(e) He can relay on the financial statement.

(C) To the Organisation as a whole and other stakeholder in General
(a) It produces efficient accounting system.
(b) It is critical review of Business performance
(c) It provides Direction to Bring more effective control.
(d) It safeguard assets
(e) It provides suggestion to improves performance.
(f) It reduces errors and fraud.
(g) It increases Efficiency and Effectiveness of the Employees.
(h) It maintains regular check on utilesation of resources.

Ch = 65 [Difference b/w Internal Audit and operational Audit]

Internal Audit	Operational Audit
① Objective is check compliance	① Objective is to make improvement.
② Focus on financial Accounting	② Focus on Business performance.
③ It does audit	③ It does improvements.
④ It check transactions	④ It checks processes
⑤ It has no relation with risk management	⑤ It has relation with risk Management.
⑥ It is cost centric	⑥ It is profit centric
⑦ It is prescribed u/s 138 of Companies Act, 2013	⑦ It is not prescribed any where.

Ch = 66 [Vouching and Verification]

(1) Vouching means Matching the transaction with the voucher.

(2) Vouching is done to verify following items:-

(a) Whether its relates to the current financial year or not.

(b) Whether ~~is~~ voucher is in name of Company or not.

(c) Whether voucher is matching with description or not.

(d) Whether amount involved in the transaction is Matching or not.

(e) Whether the voucher Number is Entered correctly or not.

(f) Whether Voucher is authentic or not.

(3) Vouchers can be of following types:-

(a) Original voucher which means Original document which is also called primary voucher

(b) Collateral voucher which means supported document of the Original document such as photocopy

(c) Internal voucher which means document Generated by client internally.

(d) External voucher which means documents Generated by outsiders such as debtor and creditor.

(e) Missing voucher which means any voucher which is not available even after demand placed by auditor. voucher gets missing because of various reasons which may be intentional ~~or~~ and unintentional.

(4) Verification means going beyond vouching and verifying the physical Existence of assets and liabilities.

(5) ~~No~~

(5) Verification is done for following objectives :-
(a) To find out Existence of assets.
(b) To find out Ownership of Assets.
(c) To find out Correct Valuation
(d) To verify Arithmetical accuracy.
(e) To detect Errors and fraud
(f) To findout level of Internal control
(g) To know whether Balance sheet is true and fair or not

(6) Following are the three techniques of verification :—
(a) Inspection
(b) Observation
(c) Confirmation

(7) Following are the advantages of verification :—
(a) It avoids Manupulation of accounts
(b) Its safeguards the assets
(c) It ensures proper recording and Valuation of assets
(d) It ensures true and fair of the financial position

V. Imp ⇒ Teaming and leading

(1) This type fraud is in fashion these day.
(2) It is a Method of Missappropriation of cash by concealing shortage of cash and covering it from the collection of some other Customer.
(3) It can be Caught by implementing internal check and internal audit.
(4) It is not fraud but if praticed regularly, it may take shape of fraud.
(5) Teeming and lading can be verified by using following procedure :—

(a) Check whether cash memo are ~~consequ~~ consecutively Number.
(b) Reconcile cash amount with cash Book.
(c) Reconcile Cash Book with rough cash Book.
(d) Ensure that cash is deposited regularly.
(e) Examine Debtor ledger and Creditor ledger
(f) take confirmation ~~of~~ from creditor and Debtor.

⇒ Procedure to do verification

1. Examine the documentary Evidence.
2. Verify the opening Balance of fixed assets.
3. Verify acquisition of Assets.
4. Verify the Valuation of self constructed assets.
5. Verify writting off of any assets
6. Physically verify the assets.
7. Carry out surprise cheque.
8. Verify charged on the assets.

⇒ Examples of Vouching and verification

Institute has provided sample answers on vouching and verification of various items. They carry all the steps to do vouching and verification for a given item. They are as follows – Page

(1) Cash sale (402)
(2) Sale of assets (Pg. 402)
(3) transactions with directors (Pg. 402)
(4) Payment for assets [Pg. 402].

[Ch = 48 Types of Audit]

(1) Voluntary Audit or private Audit

(a) When the audit is not compulsory on an organisation like proprietorship and partnership it is voluntary audit.

(b) It is called private audit because it doesnot attract any rules and regulations and client can create his own rules and regulations.

(c) Powers and duties of auditor are prescribed by client only.

(2) Statutory Audit

(a) Whenever audit is made compulsory by law, whether company law or any other law, it is called statutory audit.

(b) His scope power and duties are prescribed by law itself.

(c) Such auditor remains independent because he cannot be instructed by the client.

(3) Government Audit

(a) Govt. requires to ~~an~~ undergo audit because they use public funds and they have to account for them.

(b) Govt. audit is conducted by Comptroller and Auditor General of India.

(c) Govt. audit is of two types:-

(i) transaction audit in which expenditure and receipts are audited.

(ii) Efficiency and performance audit in which productivity is verified.

(d) Expenditure audit is of 4 types:—

(i) Audit against rules and orders in which it is verified whether Expense was incurred as per rules or not.

(ii) Audit of ~~Sect~~ Sanction in which it is verified whether particular Expense was approved by authorities or not.

(iii) Audit against provision of funds in which it is verified whether Expense is done as per Budget or not.

(iv) Audit of financial propriety [वित्तीय औचित्य] in which it is verified whether Expense was actually required or not, amount is reasonable or not, Qualities present or not and It was ethical or not.

(4) Internal Audit

(a) It is a part of internal control in which Management appoints a person to verify the Books of accounts before they are audited by statutory auditor.

(b) Internal Audit is ~~is~~ an ~~at~~ independent appraisal function which detects Errors and fraud so Early that they can be corrected before statutory Audit.

(c) It is Based on principle of "Prevention is better than Cure".

(5) Forensic Audit

(a) Forensic audit involves forensic techniques of audit.

(b) It is specially used in investigation and propriety audits.

(c) It is also useful in finding out frauds and scandals way before their impact on Business

(6) Social Audit

(a) Social audit is the audit of society whether there is any impact on the Society or not.

(b) Impact can be created by Govt. schemes, charitable organisations and CSR ~~are~~ adopted by companies

(c) Social ~~Audit~~ Audit is nowhere compulsory. but it still pratied to calculate utilisation of funds.

(d) Social audit is Generally done at internationalt level as well because ~~a~~ united nation wants to calculate statistics.

(7) Environmental Audit

(a) As per united states Environment protection agency, Environment audit is review of Environmental position whether it is protected or not.

(b) As per confederation of British industry, Environment audit is Examination of interaction of Business and its surroundings

(c) Following are the steps of Environmental audit :-

(i) Pre audit activities → 1. Selection of the schedule
2. Selection of the audit team.
3. Contact with the client
4. Plan the audit.

(ii) Site Activities → 1. Understand internal control.
2. Assessment of internal control.
3. Gather audit Evidence.
4. Evaluation of conclusions
5. Make a note of Matters to be reported.

(iii) Post audit activities → 1. Prepare a draft report.
2. Prepare final report.
3. Prepare and implementation plan.

ISO14001 :- It is an International Quality standard ~~it~~ is for Environment Management system[EMS]. Any organisation which maintains Environmental Impact and does the improvement, can be awarded such standard. It can be for a place or a premises, whether public or private.

(8) Efficiency-cum-Performance audit

(1) Generally this audit doesnot take place in private sector Organisations.
(2) all the Govt. departments and Govt. companies carryout this audit.
(3) It is not at all compulsory by Law.
(4) The Basic objective of this audit is to Bring Efficiency, Effectiveness and Economy in operations.
(5) Efficiency means whether relationship b/w Input and output is optimum or not.
(6) Effectiveness Means whether the schemes implemented are achieving their objectives or not.
(7) Economy means whether savings in cost was done or not.

(9) Operational audit

(1) It is not a compulsory Audit
(b) It means Examination of control structure. ~~It means~~
(3) It means whether the Entity is operating as per pre-determined principles or not.
(4) Every Organisation Establishes various standards which must be implemented in full spirit.
(5) Operational audit finds out areas of improvements so that performance Gap can be filled up.

(10) Continous Audit

(1) As per institute of Internal audit, USA, continous audit is a risk assessment ~~continous a~~ System on a frequent Basis

(2) All the Errors and fraud will be Detected and Prevented ~~an~~ then and there.

(3) In simple words, It is 100% Verification carried out by Internal auditor.

(4) It is conducted through out ~~the~~ the year either on regular Basis or Irregular intervals.

(5) Following are advantages of continous audit :-

(a) Error and fraud are detected Early.

(b) Rectification of Error can take place quickly.

(c) Evidence to client can be Given.

(d) Accounts can be finalised on time.

(e) It works as a Moral check on Employees.

(f) It helps External Auditor a lot.

(6) Following are the disadvantages of continous audit :-

(a) It is very costly.

(b) It results in interference of Daily work.

(c) Audit works becomes Monotonous

(d) This audit works as per Management so may not reveal all the fraud.

(11) Information System Audit (IS audit)

(1) It is Basically an audit of Data Base, Management Information system and ERP (Enterprise Resource planning Package)

(2) The Basic Objective is to Evaluate system Efficiency,

Effectiveness, Data integrity and Confidentiality

(3) As per Ron Weber, Following are 7 Reasons to do such audit :-

(a) If we lose data, It has high consequences
(b) In Correct decision Making can take place if we have Wrong data.
(c) Computer resource may be abused.
(d) Hard Ware, Software and work force are very costly.
(e) Computer Error can Lead to high losses.
(f) Data Confidentiality is needed.
(g) Use of computer should be control.

(12) Final Audit

(1) Final audit is nothing but statutory Audit. U/S 139.
(2) It is done by Practising CA
(3) It is also done on sample Basis.
(4) It is compulsory for all companies.
(5) It is also called postmortam because it is done after completion of Everything.

(13) Interim Audit

(1) law doesnot have any concept of Interim audit.
(2) Companies can undertake such audit for their own wish.
(3) It will be useful for following reasons:-
(i) Early detection and ~~&~~ rectification of Errors and frauds.
(ii) Publishing of interim results in some cases.
(iii) Timely completion of ~~issue~~ records and final audit.
(iv) Moral checks on Employees.

(14) Balance sheet Audit

(1) Balance sheet audit is actually a part of Statutory audit

(2) It is Generally not separately but when the company performs valuation of assets and liabilities, such audit is necessary.

(3) companies can appoint joint auditors to audit P&L A/c and Balance sheet separately. so that burden of work will be comedown and independent focus can be Maintained.

(4) Following are the advantages of B/S audit:-

(a) It is done after the preparation of financial statement, so it doesnot interfere in Daily Routine.

(b) It performs verification as well as physical verification to find out the truth.

(c) It is done sample Basis so its saves time.

(d) It is done after finalisation of accounts so amounts cannot be altered.

(15) Complete, Partial and Detailed [in Depth] Audit

(1) complete and partial audit are classified on the Basis on Quantity of vouchers being checked.

(2) If it is 100% checking, It is complete audit. otherwise It is partial audit.

(3) If we look at intensity of verification, we can have a detailed verification or a Moderate verification

(4) Detailed Audit means each and every step of a particular transaction is being verified to findout the truth.

(5) Generally, a Detailed audit is not performed except it is requirement of law, client or situation Demand so.

Page No.
Date

Page No.
Date

81
82
83
84
85
86
87
88
89
90

91
92
93
94
95
96
97
98
99
100

Page No.
Date

81 / 7(a)	June 2019	1	7	Basic principles governing an audit
82 / 7(b)	"	"	5	Social audit
83 / 8(a)	"	"	10	Qualification & Disqualification U/S 141
84 / 8(b)	"	"	2	Un Qualified Opinion
85 / 9(a)	"	"	7	Diff b/w. Audit Report & Audit certificate
86 / 9(b)	"	"	5	Remuneration of Cost auditor
87 / 10(a)	"	"	4	Advantages & Disadvantage of Joint audit
88 / 10(b)	"	"	4	Auditor duty on Redemption of Deb.
89 / 10(c)	"	"	4	Features of Inventories
90 / 10(d)	"	"	4	Types of Banking Institution
91 / 7(a)	June 2019	2	5	5 areas of internal audit.
92 / 7(b)	"	"	7	Diff b/w Audit & Investigation
93 / 8(a)	"	"	7	Rotation of auditor U/S 139
94 / 8(b)	"	"	5	Prohibited services U/S 144.
95 / 9(a)	"	"	5	Cost audit Report
96 / 9(b)	"	"	7	Main Contents of an audit certificate
97 / 10(a)	"	"	4	Benefits of Joint audit
98 / 10(b)	"	"	4	Audit of Municipalities & Panchayats
99 / 10(c)	"	"	4	Audit of Re-issue of forfeited shares
100 / 10(d)	"	"	4	Audit of fixed assets.

Page No. _____
Date

54/8(b)	"	"	5	Prohibited services u/s 144.	25
55/9(a)	"	"	5	Rotation of cost auditor	26
56/9(b)	"	"	7	Features of Qualified ~~audit~~ report.	27
57/10(a)	"	"	4	~~A~~ Joint audit & advantages	28
58/10(b)	"	"	4	Features of Inventory.	29
59/10(c)	"	"	4	Types of Banking Institution.	30
60/10(d)	"	"	4	Audit of Re-Issue of Forfeited shares	
					31
61/7(a)	Dec18	1	7	Compare External & Internal audit	32
62/7(b)	"	"	5	Government audit.	33
63/8(a)	"	"	8	Punishment U/S 147	34
64/8(b)	"	"	4	appointment and tenure of first auditor U/S 139	35
65/9(a)	"	"	5	Remuneration of cost auditor	36
66/9(b)	"	"	7	Purpose to issue an audit certificate	37
67/10(a)	"	"	4	Joint audit & its advantages	38
68/10(b)	"	"	4	Features of Inventory.	39
69/10(c)	"	"	4	Audit of Municipalities & Panchayats	40
70/10(d)	"	"	4	Interest on Debentures & its audit.	
					41
71/7(a)	Dec18	2	7	Surprise check	42
72/7(b)	"	"	5	Essential of good Internal control.	43
73/8(a)	"	"	8	Qualification & disqualification of co. auditor U/S 141	44
74/8(b)	"	"	4	Functions of audit committee U/S 177	45
75/9(a)	"	"	4	Procedure of ~~appointment~~ appointment of cost auditor U/S 148	46
76/9(b)	"	"	8	Features of Qualified report.	47
77/10(a)	"	"	4	Branch audit	48
78/10(b)	"	"	4	Information system audit	49
79/10(c)	"	"	4	Audit of Bills payable of Bank	50
80/10(d)	"	"	4	Diff b/w Qualified Report & Adverse Report.	
					51
					52
					53

Page No.
Date

25/9(a)	"	1	4	Remuneration of cost auditor
26/9(b)	"	1	8	Features of Qualified Report.
27/10(a)	"	"	4	Advantages of Joint audit
28/10(b)	"	"	4	Audit of Redemption of Debentures
29/10(c)	"	"	4	Bank audit of Bills payable
30/10(d)	"	"	4	First auditor. U/S 139
31/7(a)	DEC17	2	5	Private audit or Voluntary audit.
32/7(b)	"	2	7	Objectives of Internal control.
33/8(a)	"	2	9	Disqualification of auditor U/S 141
34/8(b)	"	2	3	Auditor to attend GM U/S 146
35/9(a)	"	"	5	Rotation of cost auditor
36/9(b)	"	"	7	Statutory auditor v/s Internal auditor
37/10(a)	"	"	4	Interim audit.
38/10(b)	"	"	4	Utilisation / EPF
39/10(c)	"	"	4	Internal audit as Management tool.
40/10(d)	"	"	4	cut off procedures.
41/7(a)	June-18	1	7	Meaning & content of Engagement letter.
42/7(b)	"	"	5.	5 areas of Internal audit.
43/8(a)	"	"	6	Funtions & Power of audit Committee U/S 177
44/8(b)	"	"	6.	Rotation of auditors
45/9(a)	"	"	8	Audit of Bonus shares.
46/9(b)	"	"	4	Adverse Report.
47/10(a)	"	"	4	Auditor report on revised accounts
48/10(b)	"	"	4	Auditor's duty on redemption on debe.
49/10(c)	"	"	4	Audit of Bills payable of Bank.
50/10(d)	"	"	4	First auditor.
51/7(a)	June18 ~~Dec18~~	2	5	advantages of continuous audit
52/7(b)	"	"	7	How to determin Materiality
53/8(a)	"	"	7	Qualification, Disqualification U/S 141

Page No.
Date

list of MTP Questions

S.No.	Attempt	Set 1/2	Marks	Question
1/7(a)	June 2017	1	5	Advantages of continous audit
2/7(b)	"	"	7	How to determine materality
3/8(a)	"	1	9	Disqualification U/S 141.
4/8(b)	"	"	3	Signature on audit Report U/S 145
5/9(a)	"	"	5	Rotation of cost auditor.
6/9(b)	"	"	7	Audit of Inventory.
7/10(a)	"	"	4	Information System audit
8/10(b)	"	"	4	Utilisation of Investor Education & Protection fund (IEPF)
9/10(c)	"	"	4	Internal audit as Management tool.
10/10(d)	"	"	4	Surprise check.
11/7(a)	"	2	9	Diff. b/w Accounting & Auditing
12/7(b)	"	2	3	Advantages of audit for sole proprietor.
13/8(a)	"	2	6	Prohibited services U/S 144.
14/8(b)	"	2	6	Rotation of auditor U/S 139
15/9(a)	"	2	8	Audit of Bonus shares
16/9(b)	"	2	4	Adverse Report
17/10(a)	"	"	4	Audit report on revised Accounts
18/10(b)	"	"	4	Audit of Redemption of Debenture
19/10(c)	"	"	4	Bank audit for Bills payable
20/10(d)	"	"	4	First audit U/S 139
21/7(a)	Dec 17	Set 1	8	Advantages of Statutory audit.
22/7(b)	"	"	4	Check List V/S Internal control Questionnaire
23/8(a)	"	1	8	Qualification, disqualification of co. auditor U/S 141
24/8(b)	"	1	4	Functions of an Audit committee U/S 177

Page No.
Date

Ques 5 Objective

Z = Maximisation of profit

~~Profit = selling price - cost~~

	T	L	R
S.P/unit	2	1.5	4
less: cost (fertilisers)	$\frac{1\times100kg}{2000}$	$\frac{1\times100}{3000}$	$\frac{1\times50}{1000}$ kg
	= 0.05	0.033	0.05
labour cost	$\frac{40\times50}{2000kg}$	$\frac{40\times60}{3000kg}$	$\frac{40\times50}{1000}$
	= 0.1	= 0.08	0.2
	1.85	1.389	3.75

$$Z = 1.85T + 1.39L + 3.75R$$

Constraint

Page No.

① land used ≤ 100 acre

land used in tomato + lettuce + Radishes ≤ 100 acre

T kg's acre = ?

2000 kg = 1 acre

1 kg = 1/2000 acre

$T\,kg = \frac{1}{2000} \times T\,acre$

$T\,kg = \frac{T}{2000}$ acre

$L\,kg = \frac{L}{3000}$ acre

$R\,kg = \frac{1}{1000}$ acre

$$\frac{T}{2000} + \frac{L}{3000} + \frac{R}{1000} \le 100.$$

② labour used ≤ 400 man Days

labour use in

$T + L + R \le 400$

2000 kg = 5 Days

$1\,kg = \frac{5}{2000}$

$T\,kg = \frac{5}{2000} \times T$

$\frac{5T}{2000}$ Days

$L = \frac{6L}{3000}$

$R = \frac{5L}{1000}$

$$\frac{5T}{2000} + \frac{6L}{3000} + \frac{5L}{1000} \le 400$$

$T, L, R > 0$

Ques 6 Objective

Z = Maximisation of profit

Profit = SP - cost

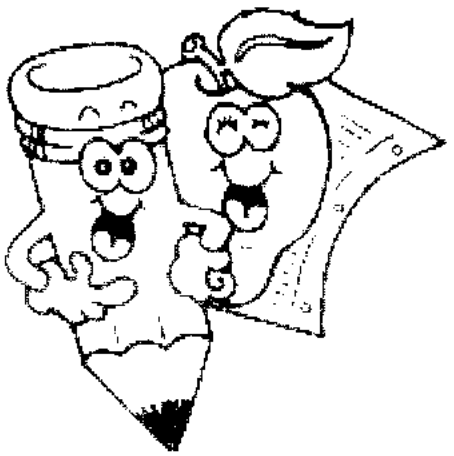
	R	M	P
S.P/-	5	4	5
less cost (manure)	$\frac{12.50\times100}{100}$	$\frac{12.50\times100}{100}$	$\frac{12.50\times80}{80}$
	+ 0.125	0.125	0.156
labour cost	$\frac{40\times6}{1500}$	$\frac{40\times5}{1800}$	$\frac{40\times6}{1200}$
	= 0.16	= 0.11	0.2
	4.715	3.765	4.64

$$Z = 4.715R + 3.765M + 4.64P$$

Constraint

land use ≤ 125 acre

$$\frac{R}{1500} + \frac{M}{1800} + \frac{P}{1200} \le 125$$



3 LESSON TO BE LEARN FROM A PENCIL

- Pain always sharpens you !
- Everything you do leaves a mark !
- What's inside you is useful, not what's outside !

To keep the body in good health is a duty... otherwise we shall not be able to keep our mind strong and clear.

Education is the most powerful weapon which you can use to change the world.