

# SA-500 Page-1

## Types of Audit Evidence



Sufficient Quantity  
↓  
Depends on ROMM Level

If Risk ↑ Quantity ↑  
Risk ↓ Quantity ↓

Appropriate Quality

Reliability

Relevance

Some are

Some are

- More reliable
- Original
- Documentary
- External
- Directly obtained

- Less reliable
- Duplicate
- Oral
- Internal
- Evidence obtained through client

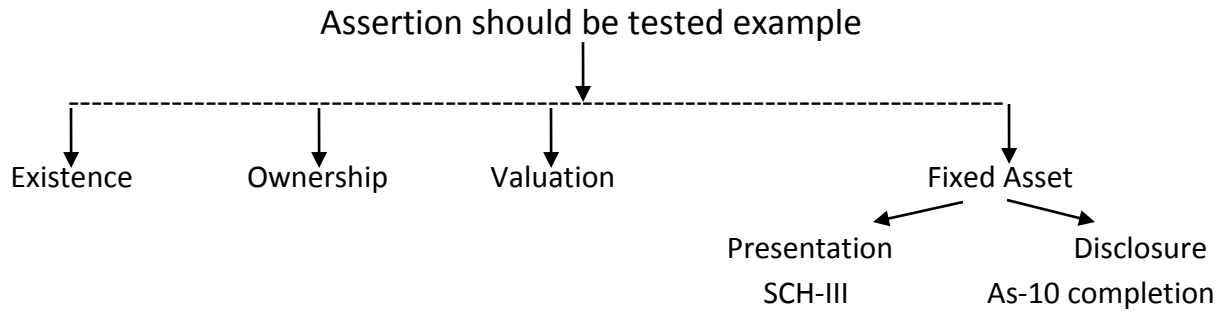
- Evidence Obtained from independent party

- Related Party

- If Internal control are strong

- If Internal control are weak

- Assertion should be tested
- Test of Control
- Substantive Procedures
- Purpose of Testing



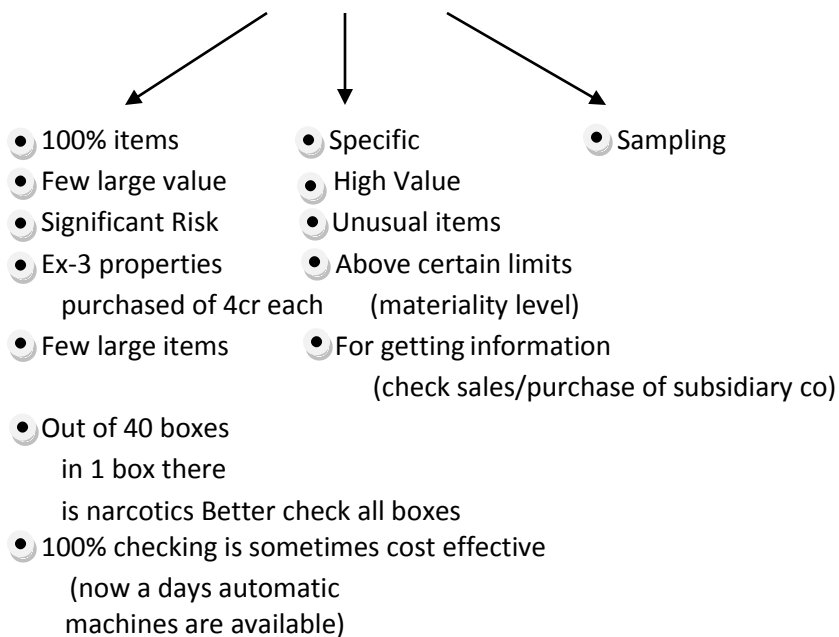
Purpose Of Testing → If an Audit fees that credits are underrated & should check purchases.

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### SOME OTHER RELEVANT POINTS

- Relying on management .Example An actuary used by the management to calculate the gratuity & other retirement benefits then an auditor should check his 1.competence , capability 2.check appropriateness for relevant assertion 3. Understand his work
- Auditor checks whether information produced by the entity is complete & accurate after that he carries out procedures .  
Suppose an auditor needs product wise sales but mgt has prepared only area wise the information should be detailed and precise

- Selecting items for testing

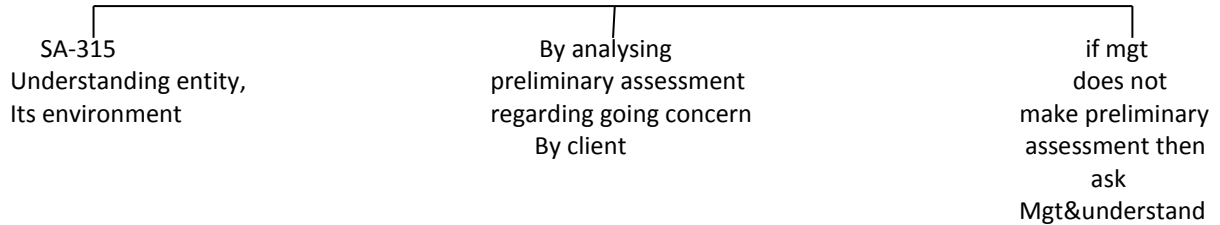


- Inconsistent evidence/doubts over reliability of evidence mgt says bad debts 10lacs Int Auditor 20lacs TCWG SAYS BAD DEBTS 15lacs.

## SA -570

Auditor should collect information whether there are events/conditions creating significant doubt over going concern

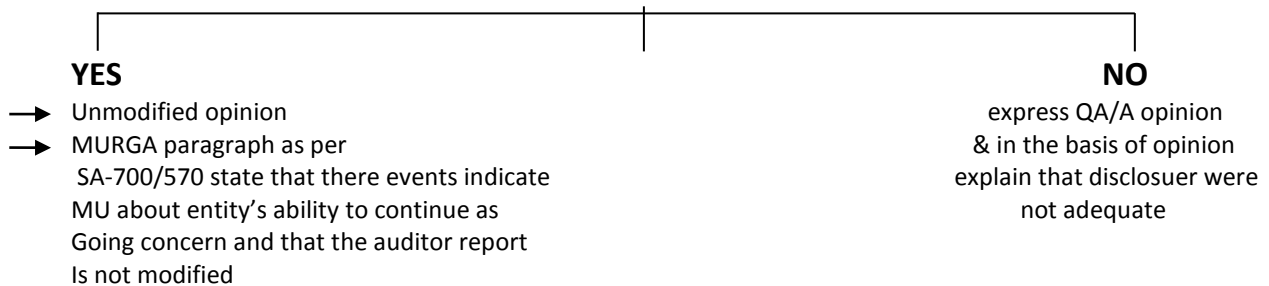
### RISK ASSESSMENT PROCEDURES



Example → Mgt feels that credit rating of CO is AAA so G.C assumption valid . CO included in NIFTY so G.C assumption is valid

- Auditor should remain alert. Example if a big order of customer gets cancelled
- Additional procedure to be performed only when significant doubt about going concern
- Mgt further plans are Analysed (new product, cost cutting, ipo, sales)
- Whether plans are realistic & will they improve the situation

If material uncertainty exists about going concern & disclosure is adequate in notes to financial statement



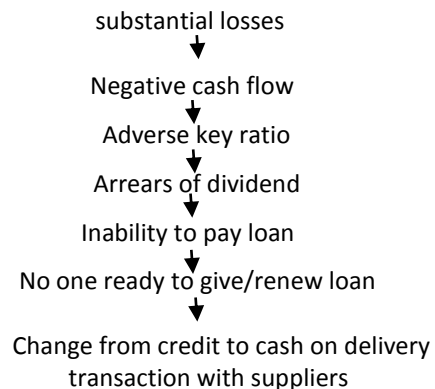
- If going concern is doubtful and management is not willing to extend his assessment then

↓  
Auditor may qualify or give disclaimer of opinion as appropriate

- If going concern assumption is appropriate & material uncertainty does not exist

↓  
Express unmodified opinion

Financial indicators  
(threat to g.concern)



operation – startup – mgt decides to close –powerplant – no RM (coal) –labour problem –emergence of a highly successful competitor

other- unimared catastrophes

pending lagal- change in law

- Non-compliance with laws

## SA-260 COMMUNICATION WITH TCWG

1. Just after appointment – Auditor states his responsibility
2. Just after starting work – planned scope, timing of the audit  
Significant risk identified by the auditor
3. During Audit – significant finding from the audit significant qualitative aspects of the entity's accounting policies estimates, disclosures in f. statement

- Significant difficulties encountered

4. Independence during the audit  
At the end of audit- Disagreement with management

Before signing the audit report (NEW ARRIVAL) circumstances that affect the form and concern of the audit report if any SA-701,705,706

Before inserting such parts like 701,705,706 share the draft report to TCWG

What factors decide whether the communication with TCWG should be in writing or oral

1. If there is any legal requirement demanding written communication EX-143(12) material fraud reporting
2. If it is related to new item EX- MGT has launched ESOP Scheme for the first time
3. The amount of continuous dialogue with TCWG. If communication is happening after a long gap of time then it's better to communicate in writing
4. If the matter is satisfactorily resolved then written communication is performed
5. If there are significant changes in the TCWG then written communication is performed

ENTITY	MGT	TCWG
GOVT	Directors app by govt	The concerned ministry
Company	CEO, CFO they may not be directors	BOD
Cooperative society	Chairman secretary	Governing body which includes chairman cs
Firm	Partner	Partner

If TCWG includes committees auditor may communicate to committees (sub-group) if the auditor is not satisfied with response of sub group he may communicate to governing body also

## CARO 2016-143(11)

- Order is issued by central government on the audition of the company, which they have to follow while doing the audit and preparing audit report.
- This order specially provides that it shall not apply to the auditors report on CONSOLIDATED FINANCIAL STATEMENTS.
- This order applies to Branch Audit report.
- this order also exempts **FOREIGN BANKS** as foreign banks are covered under sec 5 (c) of Banking Regulation Act.
- **Cooperative Banks** are not governed by CARO as it is not a company.
- Exemption is not available to NBFC.
- 60% Eq. shares of a pvt co. were held by a public co. till 14th Feb. On 15th Feb 35% Eq. shares were sold by public Co. in the open market. Will pvt Co. get exemption?  
Ans -> Pvt. Co. will get exemption as on balance sheet date it is not subsidiary of public Co.
- Pvt. Limited Co (both unlimited or limited) will get exemption from CARO if all other condition are satisfied.
- If Pvt. Co. is subsidiary of a public foreign company will such pvt co. get exemption  
Ans -> No refer Companies Amendment Act
- While calculating paid up shares capital & refer Eq share cap for cash (ignore securitive premium)
  - Eq. shares issued for other than cash
  - bonus shares
  - pref shares

Less call in arrears add share

Ignore calls in Advance 7 Debenture

- Secure premium (+)
- Capital reserve (+)
- p/L Cr (+)
- less p/l (dr) (-)
- Borrowing from Banks & financial institute
  - The NBFC is also included
  - Any borrowing (short term long term secured unsecured)
  - outstanding dues in respect of credit card
  - Non fund based facilities (L/C/guarantee to the extent such facilities have devolved & converted into fund based).
  - CC limit is not imp outstanding AMT to be considered .

- Revenue disclosed in schedule III is considered while talking about pvt Co. exemption.

## **CARO**

### Revenue Turnover of goods, service

- Sales return (-)
- GST (-)
- VAT (-)
- Int on Investments (+)
- profit on sale of investment (+)
- Scrap sales (+)

## **Reporting Points**

Fixed Assets - If some assets are moving like cranes in construction contracts then its fine if separate record are kept for movements.

if fixed are located in the residential premises of the staff the fixed asset register should indicated the name & designation of the officers

Details of assets acquired on financial lease should be given.

Even if assets are retired from active use/fully depreciated, its records must be maintained.

F/A Register can be in electronic form provided once F/A reg is finalized it cannot be altered without authorisation & proper audit trail.

It should be retrieval in legible form & can be read easily.

Auditor should check that method of verification used by mgt was reasonable. At least once in 3 years if verification was not possible annually & it should be reported title deeds is immoveable properties.

Title deeds of immoveable propertied

TDRS & Plant & machinery embedded in are not considered as immoveable property

TDR-Transferable Development Right

the auditor should carry out detailed exam of immoveable property acquired as a result of amalgamation of Co's or conversin of a firm/LLp intoCo.



If title deeds as lost check whether certified copies of documents are available with the Co.

2nd Reporting Inventory includes materials maintenance supplies stores, spares consumable, loose tools awaiting use in production process, packing materials. inventory do not include machinery, spares covered by As-10 which can be used only in connection with an item of fixed asset and the use of which is expected to be irregular.

All items of inventory to be verified by mgt at least once a year Co. can frame its policy by ABC classification A- most frequently verified item then 'B' and 'C'.

Whether reasonable steps have been taken by the Co. for recovery of principal & interest not necessary that steps to be taken must be necessarily legal steps.

Key to Remember

Terms & Conditions of loan (whether prejudicial in of the co) -> concession loan to allowed in some case -> regular recovery -> if repayment schedule not specified in the agreement -> Reasonable steps for recovery.

## **STATUORY DUES**

Only amount covered by any statute will come here. Amount covered by agreements will not be reported here. Example - > Any amount payable to an electricity company (Electricity Bill) would not constitute statutory dues despite the fact that such a company has been established under a statute.

Even the amount due to a foreign authority is considered as statutory dues.

There is no need to report on regularity of custom dues as it is not a regular payment.

Statutory dues includes municipal taxes, Tax deducted at source, fee payable to licensing authority in respect of becomes being carried on.

Example -> When goods have been imported & kept in a bonded warehouse and even till the end of financial year under audit, the payment of import duty is to be made when goods are from warehouse. But interest on such amount has to be paid regular and even the rent fix to be reported.

Non Payment of advance income tax would be considered as a default in payment of statutory due. But where the Co. did not had taxable income on the due dates on which advance tax is required to be paid if such a co. has an income after the last date on which advance tax was required to be paid and consequently the co. incurs interest it should not be considered an default.

A quest may arise when statutory due becomes payable last date by which payment can be made without striking penalty/interest but if a date has been extended by the authorities then the last date is extended.

**Repayment of dues to bank, financial institution, Deb here the term borrowings -> mean principal Act only.**

- If the word is dues - > both principal + interest
- Auditor should confirm from bank
- If any loan is rescheduled/restricted it should be stated in the report.

Money revised by ipo/term (GDR/ADR are not covered here)

It may happen that the co. might have acquired improved revision of assets as against the asset for which the loan had been sanctioned, in such cases it should not be considered that loan has not been applied for the specified purpose.

Communication with those charged with governance: If the auditor expects to include an Emphasis of matter or other matter paragraph in the auditor's report, the **auditor shall communicate with those charged with governance** regarding the expectation and the proposed wording of this paragraph.

Such communication enables those charged with governance to be made aware of the nature of any specific matters that the auditor intends highlight in the auditor's report and provides them with an opportunity to obtain further.

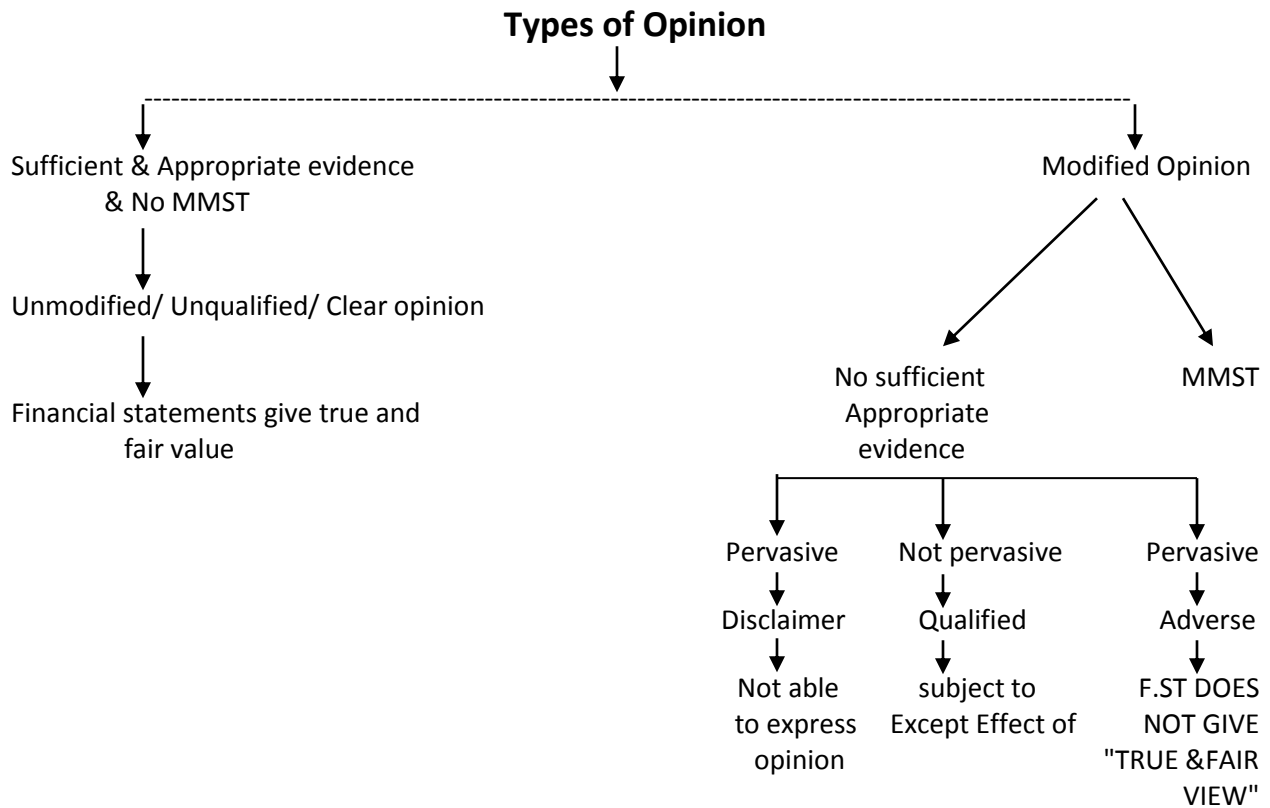
Clarification from the auditor where necessary where the inclusion of an other matter paragraph or a particular matter in the auditor's report recurs on each successive engagement the auditor may determine that it is unnecessary to repeat the communication on each engagement.

# SA 705,706

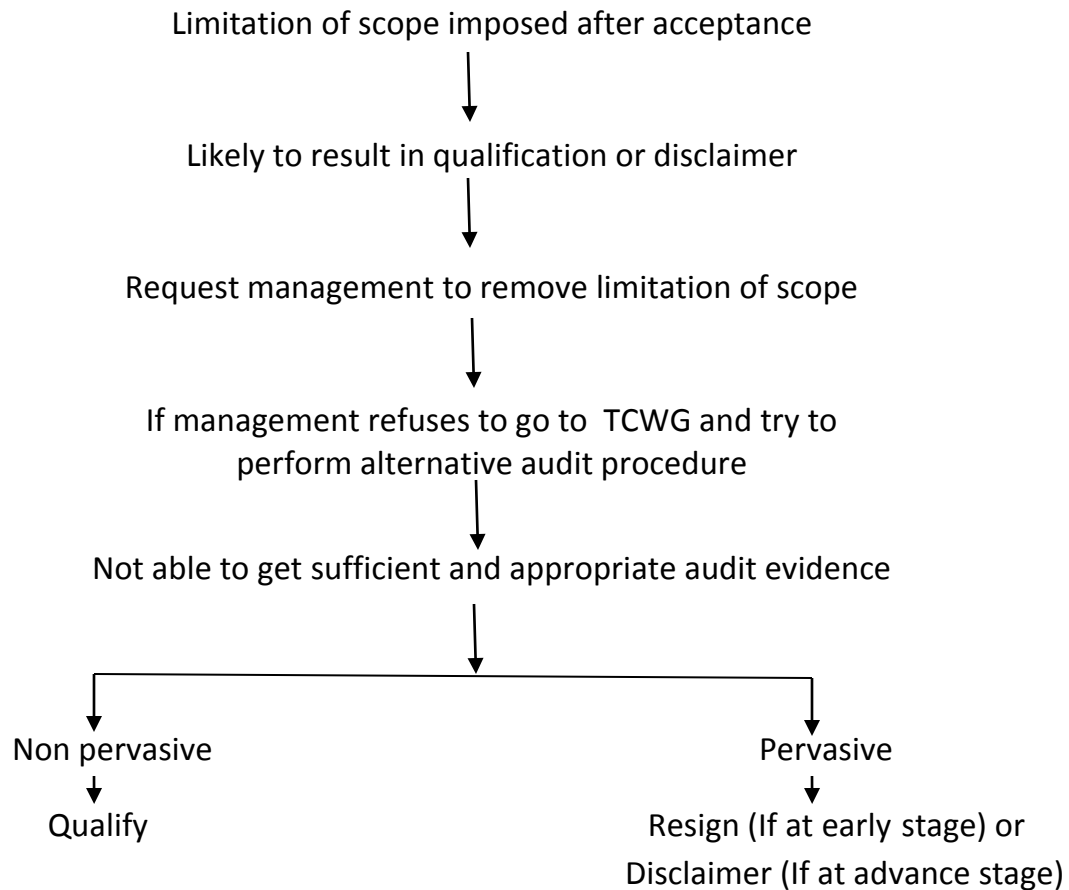
## Disclaimer of Opinion

The auditor shall disclaim an opinion when the auditor is **unable to obtain sufficient appropriate audit evidence** on which to base the opinion, and the auditor **concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.**

The auditor **shall disclaim an opinion when in extremely rare circumstances involving multiple uncertainties**, the auditor concludes that, **notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties**. It is not possible to form an opinion on the financial statements due to the **potential interaction of the uncertainties and their possible cumulative effect on the financial statements.**



## SA-700



### **Cases in which other matters paragraph is inserted in audit report**

- Audit was not conducted in previous financial year.
- Someone else did audit in previous financial year.
- Audit of branches, subsidiaries, etc, is done by someone else.
- Reporting on more than one set of financial statements.
- Restriction on distribution or use of the auditor's report.