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CHAPTER 10 - AUDIT REPORT

SA 700 FORMING AN OPINION AND REPORTING ON THE FINANCIAL STATEMENTS

**EXPRESSION OF OPINION**

- *Unmodified opinion When FS prepared in accordance with applicable FRF.
- *Modified opinion
  - FS free from material misstatements, or
  - is unable to obtain sufficient & appropriate evidence to conclude FS free from material misstatement*

**SA 701 COMMUNICATING KEY AUDIT MATTERS (KAM) IN THE INDEPENDENT AUDITOR'S REPORT**

**KAM:** Matters that, in auditor's professional judgment, were of most significance in audit FS

**Communicating KAM is not**

- Substitute for disclosures in FS
- Substitute for expressing a modified opinion
- Substitute for reporting in under ST 570 when material uncertainty exists relating to events/conditions that may cast significant doubt on entity's ability to continue as a going concern; or
- Separate opinion on ind matters.

**Purpose of KAM**

- Enhances communicative value of the report - provides addn info to users of FS to assist them in understanding matters most significance in audit - assist users in understanding entity & areas of significant mgmt judgment in the audited FS
- KAM to be selected to from matters communicated to TCWG - in making determination auditor shall take into account the following:
  - Areas of higher assessed ROMM
  - Significant auditor judgments relating to areas that involved significant mgmt judgment
  - Effect on audit of significant events/transactions

**SA 705 MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR’S REPORT**

**Types of modified opinion**

- **Nature of matter**
  - Material not pervasive
  - Material and pervasive
- **FS materially misstated**
  - Qualified
  - Adverse
- **Unable to obtain SAAE**
  - Qualified
  - Disclaimer

**Disclosure**

In rare circumstances involving multiple uncertainties, auditor concludes, notwithstanding having obtained SAAE regarding each of uncertainties, not possible to form opinion on FS due to the potential interaction of uncertainties & their possible cumulative effect on FS.

**Form and content of auditor's report in case of modified opinion**

1. Use heading "Modified/Adverse/Disclaimer of opinion" and "Based for modified/Adverse/Disclaimer of opinion.

**SA 710 COMPARATIVE INFORMATION - CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL INFORMATION**

**Comparative financial statements**

- Comparative info where amounts & other disclosures for prior period are included for comparison with FS but, if audited, are referred to in the opinion.
- Auditor's Opinion refers to each period for which FS are presented

**Auditor’s Opinion on FS refers to currenperiod only.**

**Comparative info where amounts & other disclosures for prior period, included as integral part of FS & intended to be read in relation to amounts & other disclosures.

- Auditor’s Opinion in OM Para: “Auditor’s Opinion on FS refers to currenperiod only.”

**Prior period FS**

**AUDITED BY ANOTHER AUDITOR**

- Auditor shall state in OM Para:
  - FS of prior period audited by predecessor auditor
  - Type of opinion expressed by him
  - Date of that report.

**UNAUDITED**

- State in OM Para that corresponding FS are unaudited.

**UDIN**

- Financial documents/certificates attested by third person misrepresenting themselves as CA were misleading Authorities & Stakeholders. ICAI also received complaints of signs of CAs being forged by non CAs. To curb malpractices, ICAI implemented in phased manner as innovative concept of UDIN: All Certificates were made mandatory with effect from 1st February, 2019. CAs having full-time CPD can register on UDIN Portal & generate UDIN by registering certificates attested/ certified by them. Accordingly, auditor is required to mention UDIN w.r.t each audit report being signed by him.
ELIGIBILITY QUALIFICATIONS AND DISQUALIFICATIONS OF AN AUDITOR (SEC 141)

(1) Auditor to be CA only; firm where major partners are CA
(2) Firm appointed - CA Partners authorised to act & sign on behalf of firm
(3) Person not eligible to be auditor:
   a) Body corporate (Not LLP)
   b) Office/employee of co
   c) Partner/employee of officer/employee
   d) Person/relative/partner holds:
      - Any security/interest in co/subs/hold/asso/subs of holdco
      - Any security/interest in co/subs/hold/asso/subs of holdco
      - Indebted to co/subs/hold/asso/subs of hold > 5L
      - Person convicted of fraud & period of 10 yrs not elapsed
      - Person providing services u/s 144
   e) Person/firm having business relationship with co/subs/hold/asso/subs of holdco
      - Relative may hold security/interest upto 1L (Face value)
      - Relative has shares above 1L - Corrective action in 65 days
   f) Relative of director/KMP
   g) Appoint individual more than 1 term of 5 yrs & audit conducted by more than 1 auditor
   h) Person indebted to co/subs/hold/asso/subs of hold/face value > 5L
   i) Person providing services u/s 144
   j) Person not eligible to be auditor:
      - Person providing services u/s 144
      - Person convicted of fraud & period of 10 yrs not elapsed
      - Person providing services u/s 144
   k) Person in disqualified u/s 141(3) after appointment, vacate office & deemed casual vacancy
   - A/c and book keeping services
   - Internal Audit
   - Actuarial
   - Design & implementation of any financial info system
   - Investment advisory
   - Investment banking
   - Outsourced financial service
   - Mgt services
   - Others

(II) Not disqualified for re-appointment;
(i) If not disqualified for re-appointment;
(ii) If not disqualified in writing;
(iii) SR not been passed at that meeting appointing some other auditor providing expressly that he shall not be re-appointed.

APPOINTMENT OF AUDITOR (SEC 139)

First Auditor
- By BOD in 30 days from DOR
- Govt Co - Sec 139(7)
- Others - 139(6)

Subsequent Auditor
- By CAG in 60 days of DOR
- By Members in AGM
- Govt Co - Sec 139(5)
- Others - 139(1)

FILLING OF A CASUAL VACANCY (Sec 139(8))

Other Companies
- To be filled by BOD in 30 days
- In case of failure: Members in EGM in 30 days
- In case of resignation, appointment by BOD to be approved by Co. at AGM

Govt Companies
- To be filled by CAG in 30 days
- In case of failure: BOD shall fill in 30 days
- In case of failure: BOD shall fill in 30 days
- In case of failure: Members in EGM in 60 days

Manner of Rotation of auditors on expiry of their term (Rule 6)
- AC recommend to BOD, name of individual auditor/firm
  - Where co required to constitute AC, BOD consider recommendation, & in other cases, BOD itself
  - Consider matter of rotation & make recommendation for appointment by members in AGM.
  - In case of auditor, period for which individual/firm held office prior to commencement of Act
    taken into account for calculating period of 5/10 yrs
  - Incurred audit/audit firm be eligible if such auditor/firm associated with outgoing auditor/firm
    under same network of audit firms.

Explanation 1 - "Same Network" includes firms operating/functioning under same brand name, trades name or common control.

Explanation 2 - (a) break-in term for a continuous period of 5 yrs considered as fulfilling requirement of rotation
(b) if partner, in charge of firm & also certifies FS, retires from firm & joins another firm, other firm
    ineligible to be appointed for a period of 5 yrs.

MANNER OF SELECTION & APPOINTMENT OF AUDITORS (Rule 3)
- In case of co required to constitute AC, AC, & in cases where committee not required, BOD, take into consideration qualifications & experience of individual/firm proposed to be considered for appointment as auditor
  - AC/BOD call for other info from the proposed auditor
  - Where co required to constitute AC, committee recommend name of individual/firm to BOD for consideration & in other cases, BOD consider & recommend individual/firm to members in AGM.
  - If BOD disagrees with recommendation of AC, further recommend appointment of individual/firm to members in AGM. If BOD disagrees with AC, refer back recommendation to AC for reconsideration citing reasons for such disagreement.
  - If AC decides not to reconsider its recommendation, BOD record reasons for disagreement & send its own recommendation to members, & if BOD agrees with recommendations of AC, it shall place matter for consideration by members in AGM.
Before expiry of term (Sec 140(1)): 
- Board Resolution: Application to CG in Form ADT 2 in 30 days of BR
- Co hold GM in 60 days of receipt of approval of CG for passing SR
- Auditor given a reasonable opportunity of being heard.

*Direction by Tribunal - Auditor acted in Fraudulent Manner (Sec 146(4)): Tribunal sustenance application made by CG/any person concerned, satisfied auditor has acted in fraudulent manner, it may, by order, direct co to change its auditors.If application made by CG & Tribunal satisfied that any change auditor required, it shall within 15 days of such application, make an order that he shall not function as auditor & CG may appoint another auditor.

Auditor against whom final order passed under this section not be eligible to be appointed as auditor of any co for a period of 5 yrs from date of passing of the order & also liable for action u/s 447.

Punishment for non compliance - Sec 147

On Company
Sec 139 to 146 contravened, co punishable with fine not be less than 25,000 which may extend to 500,000 & every officer in default punishable with imprisonment which may extend to 1 yr or fine not less than 50,000, which may extend to 25L or it times remuneration, whichever is less.

On Auditors
"Sec 139, 143, 144, 145 contravened, fine not less than 25,000 may extend to 5L4 times remuneration, whichever is less. If provisions contravened knowingly, punishable with imprisonment which may extend to 1 yr & fine for not less than 50,000, which may extend to 25L or 8 times remuneration, whichever is less.

"Auditor convicted shall be liable to:
- refund remuneration received
- pay damages for loss arising out of incorrect misleading statements of particulars made in his audit report."

Remuneration of auditor fixed in GMin such manner as may be determined. BOD fix remuneration first auditor appointed by it.

Appointment of auditor other than retiring auditor - Sec 140(4)
- Special notice required for resolution at AGM appointing auditor a person other than retiring auditor/providing expressly that retiring auditor not be re-appointed
- On receipt of notice, Co send copy thereof to retiring auditor
- Where notice given & retiring auditor makes representation in writing to co & requests its notification to members, Co shall, unless representation is received by it, incorporate it to do so,
  a) in notice of resolution state fact of representation made; and
  b) send copy of representation to every member to whom notice is sent & if a copy of representation not sent as aforesaid, auditor may require that representation read out at the meeting.

If Tribunal satisfied on application of co or other person the rights confirmed being abused by auditor, then, copy of representation may not be sent & need not be read out at the meeting.

COs, engaged in production of goods/providing services, having overall turnover of Rs. 35 cr or more during preceding FY, required to include cost records. Including Foreign Cos but exclude co classified as MSME. Divide list of cos into (A) Regulated sectors and (B) Non-regulated sectors.

Maintenance of Cost Records (Rule 3):
- Every co required to maintain cost records in Form CRA-1. As per clause (v) to Paragraph 3 of the CARO, auditor has to report whether maintenance of cost records specified by CG & whether such accounts & records have been so made & maintained."

Applicability of Cost Audit (Rule 4):
- "Regulated Sectors" if overall annual turnover during immediately preceding FY is Rs. 50 cr or more & aggregate turnover of individual produce/service for which cost records are required to be maintained is Rs. 25 crore or more.
- "Non-Regulated Sectors" if overall annual turnover during immediately preceding FY is Rs. 100 cr or more & aggregate turnover of individual produce/service for which cost records required to be maintained is Rs. 35 cr or more."

Appointment of cost auditor (Rule 6):
- Co to appoint auditor within 180 days of commencement of every FY. Before such appointment, written consent of cost auditor to appointment & certificate shall be obtained. The certificate to be obtained from the cost auditor shall certify that the- 
  (a) individual/firm eligible for appointment
  (b) individual/firm satisfies criteria provided in sec 141
  (c) proposed appointment within limits laid down by/under authority of the Companies Act, 2013;

  (d) list of proceedings against auditor or any partner of firm pending before other professionals of conduct is true & correct - Every co inform auditor of his/its appointment & file notice of appointment with CG within 30 days of BM in which such appointment is made or within 180 days of his commencement of FY, whichever is earlier in Form CRA-2. The auditor appointed shall continue in such capacity till expiry of 180 days from closure of FY or till he submits cost audit report, for FY in which he has been appointed."

Submission of cost audit report:
- To BOD - submit audit report along with his reservations in Form CRA-3 within 180 days from closure of FY
- To CG- Co within 30 days from date of receipt of copy of audit report in Form CRA-4 in XBRL format. If, after considering report, CG of opinion any further info necessary, may call for such further info

Join Us on Telegram http://t.me/canotes_ipcc
**COST AUDIT - Sec 148**

### Applicability for Maintenance of Cost Records (Rule 3):
Cost, engaged in production of goods or providing services, having overall turnover of Rs. 35 cr or more during preceding FY, required to include cost records. Including Foreign Cos but exclude co classified as MSEME. Divide list of cos into (A) Regulated sectors and (B) Non-regulated sectors.

### Maintenance of Cost Records (Rule 5):
"Every co required to maintain cost records in Form CRA-1.
As per clause (vi) to Paragraph 3 of the CARO, auditor has to report whether maintenance of cost records specified by CG & whether such accounts & records have been so made & maintained."

### Applicability of Cost Audit (Rule 4):
- **"Regulated Sectors"** if overall annual turnover during immediately preceding FY is Rs. 50 cr or more & aggregate turnover of individual product/service for which cost records are required to be maintained is Rs. 25 cr or more.
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  1. individual/firm eligible for appointment
  2. individual/firm satisfies criteria provided in sec 141
  3. (c) proposed appointment within limits laid down by authority of the Companies Act, 2013 & (d) list of proceedings against auditor or any partner of firm pending w/r to professional matters of conduct is true & correct.
- Every co inform auditor of his/her appointment & file notice of appointment with CG within 30 days of BM in which such appointment is made or within 180 days of his commencement of FY, whichever is earlier in Form CRA-2
- The auditor appointed shall continue in such capacity till expiry of 180 days from closure of FY or till he submits cost audit report, for FY for which he has been appointed.

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- To BOD - submit audit report along with his reservations in Form CRA-3 within 180 days from closure of FY
- To CG - Co within 30 days from date of receipt of copy of audit report in Form CRA-4 in XBRL format. If, after considering report, CG gives any further info necessary, may call for such further info

**DUTIES OF AUDITOR - Sec 143**

### 1. Duty to inquire on certain matters:
- (a) whether sales & advances made by co on basis of security properly secured & whether terms are prejudicial;
- (b) transactions of co represented merely by book entries prejudicial to interests of co;
- (c) where co not being an investment/banking co so much of assets of co as consist of shares, debentures & other securities sold at a price less than that at which they were purchased by the co;
- (d) loans & advances made by the co shown as deposits;
- (e) personal expenses charged to revenue account;
- (f) if it is stated in books & documents of the co any shares allotted for cash, whether cash has actually been received in respect of such allotment, & if no cash has actually been so received, position as stated in books & BS is correct, regular & not misleading."

### 2. Duty to report - Sec 143(2) & (3). The auditor's report shall state:
- (a) sought & obtained all info & exp necessary for purpose of audit & if not, details & effect of such info on the FS;
- (b) proper books of account as required by law kept by co
- (c) report on accounts of any branch office of co audited by other person sent to him under proviso to that sub-section & manner in which he has dealt with it in preparing his report;
- (d) BS & PLA/ are in agreement with books of account and returns;
- (e) FS comply with accounting standards;
- (f) observations on auditors on financial transactions or matters which have any adverse effect on the functioning of the co;
- (g) any director disqualified from being appointed as director under sub-section (2) of the section 164;
- (h) any qualification, reservation/ adverse remark relating to maintenance of accounts & other matters connected therewith;
- (i) co has adequate IFC with reference to FS in place & operating effectiveness of such controls;
- (j) Other matters as prescribed*

### 3. Co disclosed impact of pending litigations in its FS;
- (a) Co made provision, as required under any law/AC standards, for material foreseeable losses, if any, on long term contracts including derivative contracts;
- (b) Any delay in transferring amts to IEPF
- (a) Mgt represented that no funds advanced/loaned/invested by co to/in any other person/identity, Intermediary shall lend/invest in other persons/entities or provide any guarantee, security/like on behalf of Ultimate Beneficiaries;
- (b) Mgt represented that no funds received by co from any person co shall lend/invest in other persons or entities or provide any guarantee, security/like on behalf of Ultimate Beneficiaries
- (c) Based on audit procedures nothing has come to notice that has caused auditor to believe that representations under above sub-clause contain any material misstatement.

### 4. Dividend declared/paid in compliance with section 123*

### Removal of Cost Auditor:
"Auditor removed before expiry of term, through a BR after giving reasonable opportunity of being heard & recording reasons for removal in writing. Form CRA-2 to be filed with CG for intimating appointment of another cost auditor enclose relevant BR to effect. Above provisions not prejudice right of auditor to resign."

### Cost Audit not to apply in certain cases:
- (i) revenue from exports, in foreign exchange, exceeds 75% of its total revenue; or
- (ii) which is operating from a SEZ;
- (iii) engaged in generation of electricity for captive consumption"

### 5. Duty to sign audit report
### 6. Duty to comply with auditing standards
### 7. Duty to report frauds - Ref Ch 5
### 8. Duty to report on matters to CG
### 9. Duties and Powers of the company’s auditor with reference to the audit of branch and the branch auditor

**Who can be cost auditor**
Cost Accountant appointed by BOD; no person appointed u/s 139 shall be appointed for conducting audit of cost records; Auditor conducting cost audit comply with CostAB.
### CHAPTER 12: AUDIT OF ITEMS OF FINANCIAL STATEMENTS

#### Special considerations in case of WIP
- Auditor - examine production/costing records; hold discussions with personnel concerned, and obtain expert opinion, where necessary.
- If physical verification impracticable, auditor may give emphasis on ascertaining whether the system, from which the WIP is ascertained, is reliable.

#### Verification of goods on consignment
- Vouch Proforma invoice sent with goods to ascertain the quantity & value of goods sent.
- Freight evidence given by transporter like Challan, Bill, Receipt for freight charged.
- Insurance charge to be verified from cover note & premium paid receipt.
- Account sale sent by consignee, referring to sale price of the goods sold, expenses incurred by firm & stock remained unsold.
- Obtain confirmation from consignee for goods held on consignment.
- Unsold goods taken in to stock, valued properly inclusive of expenses incurred by consignee.
- SE relating to such transaction be verified from the books of the Company.

#### Audit Procedures on Patent
- Obtain list of patents & verify ownership by inspection of certificate.
- Examine agreement if it has been so as to find out the total cost.
- In case of outright purchase, purchase consideration, fees & registration charges in cluded in cost. When they are developed within org, all costs incurred on their development including legal & registration expenses for registration of patent should constitute cost.
- Check that the patent rights are alive and legally enforceable.
- Check that renewal fees paid on due dates & being charged to revenue.
- Ascertain rate at which value of each patent is being written off is adequate.
- Ascertain only the actual cost incurred in the process has been capitalised.

#### Audit of Reserves & Surplus
- Not intended to meet any liability, contingency/diminution in value or assets.
- Can't be created unless there is a profit except a few like revaluation reserves.
- Made to provide for depreciation, renewal or a known liability or a disputed claim.

#### Audit Procedures
- Compare opening balance of reserves & surplus to the PY audited FS.
- For addition/utilisation in CY, in case of:
  a) PL balance: Trace movement to Surplus/Deficit as per SPL. For adjustment related to PL, verify relevant resolution regarding declaration of dividend.
  b) Share Premium: Confirm co issued any shares during year at premium. Ensure any withdrawal from securities premium account is in compliance of Sec. 52.
- Other Equity: Understand underlying reason for transaction.

#### Audit of Trade Receivables
- Carry out examination of relevant records.
- Check agreement of balances shown in TR schedule with those in ledger accounts.
- In case of significant TR, auditor examine correspondence/other documentary evidence to satisfy himself about their validity & accuracy.
- Ensure proper authorisation in respect of bad debts written off/offences discounts or unusual allowances made.
- Examine contingent liability is properly disclosed.
- Direct confirmation procedure and analytical procedure.

#### Audit of Inventories
- Examination of records: Examine stock records w.r.t relevant basic documents like GRN, inspection reports, material issue notes etc. If entity not maintain detailed stock records, suitably extent of application of other audit procedures.

#### Attendance at stock-taking:
- Auditor attend stock taking, if inventory value is material in his opinion.
- Extent of participation in inventory taking depends upon the IC system prevailing, results of inventory records and analytical review procedures.
- Test check few high value items by himself for their existence & quantity.
- Physical conditions of stock are looked into by auditor.
- Reviews stores records & notes down discrepancies for reconciling them.
- Cut off procedure to ensure that entity accounts for stock for which liability had been booked and excludes stock which had been sold.

#### Analytical Procedures: Auditor may apply following analytical review procedures:
- Reconciliation of quantities of op stocks, purchases, production, sales & T stocks.
- Comparison of CY stock quantities & amounts with those of PY.
- Comparison of relationship of CY stock quantities & amounts with CY sales & purchases, with corresponding figures for PY.
- Comparison of composition of CY stock with corresponding figures for PY.
- Comparison of CY GP ratio with GP ratio for PY.
- Comparison of actual stock, purchase & sales with corresponding budgeted figures.
- Comparison of yield with corresponding figure for the PY.
**Audit Procedures on Goodwill**

- Ensure that goodwill recognized in books is in compliance of AS 26.
- Examine vendors’ agreement to ascertain the amount of goodwill.
- Ensure business is acquired at a price in excess of value of net assets taken over, such excess amount is the goodwill.
- Only amount paid to vendors not represented by tangible/intangible assets, value of which can be measured reliably has been debited to goodwill account.
- Ensure goodwill not recognised in books by revaluation of assets/writing back amount of goodwill earlier written off.
- Ensure that amount not yet written off properly disclosed as per Schedule III
- Ensure amortisation of goodwill over a reasonable period.

**Audit Procedure on Trade Mark and Copyright**

- Obtain signed schedule & confirm all of them are shown in BS.
- Examine agreement in case of assignment of Copyrights/transfer of trade mark
- Ensure trademarks & copyrights have been duly registered under respective laws.
- Verify existence of copyright by reference to contract bw author & entity
- See value determined properly & costs incurred for purpose of obtaining trademarks & copyrights have been capitalised.
- Ascertain legal life of trademarks & copyrights not expired.
- Ensure amort for both IA property amortised

**Audit of Other Income**

- **4. Interest on Fixed Deposits**
  - Obtain list of FDs along with applicable interest & number of days
  - Verify arithmetical accuracy of interest calculation
  - For deposits o/s at year end, obtain confirmation from bank/financial institution
  - Obtain confirmation of interest income from bank & verify that interest income as per bank reconcile to calculation shared by entity.
  - Obtain copy of Form 26AS & reconcile interest reflected to calculation

- 2. Dividend
  Dividend Verify dividend is recognised in SFL only when entity’s right to receive payment of dividend established.

- 3. Gain (Loss) on sale of investment in Mutual Funds
  - Verify that Gain/(loss) on sale of investment in MF recognised as other income other than transfer of tithe & determined as difference bw redemption price & carrying value
  - Obtain MF statement & trace gain/loss

**Audit of Intangible Fixed Assets**

- Examine related records & perform physical verification.
- Consider appropriateness of all policies
- Examine business capitalised as per component approach
- Opening balance to be reconciled with PY audited FS
- Capital WIP verified & it underlying contractor bills, work orders etc
- Acquisition of new PPE & improvements to existing ones should be verified w.r.t supporting documents such as orders, invoices, receiving reports and title deeds etc. Due care to be taken when purchase from a related party.*

**Audit of Trade Payables and Other current liabilities**

- Check adequacy of fall-off procedure adopted by the entity
- Examine correspondence & other relevant documentary evidence
- In case of any unusual payments around year-end, examine them thoroughly
- Review subsequent transactions to identify confirm material liabilities o/s
- Confirmation procedures and analytical procedures*

**Audit of loans and advances and other current assets**

- Examine entity is empowered to make loans
- Examine loan document & other evidence to examine terms & conditions
- Ascertain parties complied with terms & conditions of loans & advances-In case of defaults, Consider these are indicative of unwillingness or inability of parties concerned to make payment.
- Pay particular attention to loans & advances given to parties in whom directors/persons who are substantial owners of the entity are interested.*

**Audit of Purchases**

- Identify control points over purchases.
- Tests identified controls to determine how strong & reliable they are. If controls are assessed as strong, auditor reduce amount of substantive testing.
- Selects random sample of transactions & examines related documents.
- Performing substantive audit procedures like vouching & analytical procedure*

**Analytical Procedures:**

- **Complaint Analysis:** Examine consumption of RM & compare it with PY & ask for reasons for any significant variations noticed.
- **Stock Composition Analysis:** Collect reports for composition of stock & compare it with PY & ask for reasons for any significant variations noticed.
- **Ratios:** Compare creditors & stock turnover ratios of CY with PY
- **Quantitative Reconciliation:** Review quantitative reconciliation of int stocks with opening stock, purchases and consumption.*

**Classification of assets**

- **Asset classified as current when it satisfies any of the following criteria:**
  a) expected to be realized/Intended for sale/consumption in o/s normal operating cycle
  b) held primarily for the purpose of being traded.
  c) expected to be realized within twelve months after the reporting date; or
  d) cash/cash equivalent unless restricted from being exchanged/unused to settle a liability for at least 12 months after reporting date. Other assets shall be classified as non-current.*

**Audit of provisions and contingent liabilities**

- Obtain a list of all provisions and compare them with balances in the ledger.
- Inspect underlying arrangements
- Obtain underlying working & basis & verify whether same is complete and accurate.
- Review minutes of meetings of the Board of Directors or other similar bodies.
- Review list of pending law suits & obtain opinion of lawyer dealing with cases.
- Review of records relating to contingent liabilities maintained by the company.
- Review of terms and condition of grants and subsidy available.*

**Audit of employee benefit expense**

- Obtain understanding of process of recording employee attendance.
- Obtain list of employees along with a monthly movement.
- In case of new employees, select few cases & obtain appointment letter & verify salary for first month & subsequent months was processed as per agreed terms
- In case of employees resigned, select few cases & obtain their full & final computation & verify all their dues have been paid.
- Obtain monthly salary registers. Compile monthly payroll reasonability by calculating average salary per employee per month & compare with PY & preceding month.
- Verify provison made for all employee benefits & obligations.
- In case PY, ESI applicable, determine reasonable amount by applying the rate to basic wages & comparing to amount recorded in books & analyse reasons for variance, if any.*

**Audit of depreciation and amortisation**

- Understand & evaluate adequacy & effectiveness of IC regarding accounting, maintenance & safeguarding of FA & proper distinction made bw capital & revenue expense
- Check the amt of depreciation accurately calculated
- Ensure complies with requirements of AS 10
- Ensure provisions of Section 123(1) complied with by the company.
- Perform analytical procedures to obtain audit evidence as to overall reasonableness of depreciation & amortisation expense.*

**Purpose of depreciation**

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<thead>
<tr>
<th>a)</th>
<th>b)</th>
<th>c)</th>
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<tr>
<td>Provide funds for replacement of assets</td>
<td>Determine true cost of goods</td>
<td>To determine the profit or loss for the year</td>
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<td>d)</td>
<td></td>
<td>To show a true &amp; fair value of entity’s assets in the balance sheet</td>
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**Audit of Other expense**

- **1. Rent expense**
  - Obtain month wise schedule of rent payment along with rent agreements.
  - Examine rent expense recorded for all 12 months & rent paid is as per agreement.
  - Examine agreement contains any escalation clause, if yes, verify rent increased/adjusted during period only as per escalation clause.
  - Verify payment particulars to premises used for running business operations of the entity.

- **2. Power and fuel expense**
  - Obtain month wise expense schedule of power & fuel along with power bills.
  - Examine whether expenses have been recorded for all 12 months.
  - Compile month wise summary of power units consumed & applicable rate & check arithmetical accuracy of the bill raised on monthly basis.
  - Analyse monthly power units consumed by linking it to units of FG produced & investigate reasons for variance in monthly trends.

- **3. Legal and professional expenses**
  - Obtain a month wise and consultant wise summary.
  - In case of monthly retainer ship agreements, verify whether expenditure for all 12 months recorded correctly.
  - For non-recurring expenses, select sample & vouch for assertions.
  - Special focus given while vouching for legal expenses same may highlight dispute for which entity not made any provision.

- **4. Travel, repair and maintenance, printing and stationery, miscellaneous expenses**
  - Select sample & vouch for occurrence, completeness, measurement & disclosure
  - Wherever possible, auditor prepare summary of expenditure on monthly basis & then analytically compare trends.
  - In addition, auditor perform analytical procedures
  - Analyse expense per unit produced & compare same with PY’s & ask for reasons from Management if any significant variations are found.*
CHAPTER 13 - AUDIT OF DIFFERENT TYPES OF ENTITY

Government Audit

Function of govt audit performed by CAG

- Compile & submit accounts
- Audit records & expense of entity substantially financed from consolidated fund
- Audit grants & loans
- Audit receipts/expense of consolidated fund
- Audit accounts of govt & corporations
- Submissions of accounts

Duties of CAG

- Ensure Audit
- Audit reports
- Effectiveness Audit

Audit of Partnership firms

Advantages

- Audited accounts reliably mean of settling accounts between partners
- Audited accounts accepted by IT Dept as basis for computing assessable income
- Relied upon by banks when advancing loans.
- Helpful in negotiations to admit a partner.
- Effective safeguard against undue advantage being taken by working partner.*

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Audit against provision of funds

- Ensure whether expense: a) made for purpose to which grant has been provided.
b) Does not exceed the appropriation made.*

Propriety Audit

- Auditor examine cases of improper expense even though expense incurred as per existing rules & regulations.
- Auditor examine public financial morality by looking into the wisdom, faithfulness & economy of transactions.
- No hard & fast rules laid down regarding standards of financial propriety - Auditor examine that:
  a) Authorities made expense with same degree of vigilance, as a person of ordinary prudence would exercise in respect of his own money.
b) Expense not prima facie more than occasion demands.
c) No authority exercises its power of sanctioning expenditure which will accrue to its own advantage.
d) Public money not utilised for benefit of a particular person /section of community.*

Audit of local bodies

Financial and administrative budgetary procedures

- "Budget preparation determining levels of taxation, rates & ceilings on expense. Objectives of local bodies budgetary procedure are:
  - Financial Accountability.
  - Control of expenditure, &
  - Ensure funds raised & money spent in accordance with rules & regulations.*

Objectives of audit of local bodies

- Reporting on fairness of content & presentation of FS
- Reporting upon strengths & weaknesses of systems
- Reporting on adherence to legal & admin requirement
- Reporting upon value being fully received on expense
- Detection of error, fraud & misuse of resources.*

Audit consideration for audit of partnership firm

- Confirming that letter of appointment clearly states nature & scope of audit.
- Studying minute book.
- Verifying that business is authorised by the deed*

Audit of NGO

- Grants & donations, fund raising programmes, advertisements, subscriptions, gifts etc.
- Donations received in nature of capital receipts shown as liabilities
- In the form of corpus contribution or contribution towards revoking fund.*

Audit of LLP

Applicability of audit (Rule 24)

LLP, whose t/o doesn’t exceed, in any FY, 40L or whose contribution doesn’t exceed 25L, isn’t required to get accounts audited.

Appointment of auditor

- Appointed for each FY
- If designated partners failed to appoint
- Partners may appoint auditor

Tenure of auditor

- Hold such office till the period —
  a) New auditors are appointed, or
  b) They are re-appointed.*

Audit of Charitable Institute

- Examine donations received shown in cash book w.r.t. copies of receipts issued.
- Check periodic internal report w.r.t. donations received during that period
- Donation may also be received in kind, ensure their proper recognition in books of account.
- If any grant received for some particular purpose, examine same has been utilised for designated use only.
- Compare other expenses like stationary telephone etc. with those of previous year*

Audit of educational institution

- Check admission fee atдельный to a separate account. Refundable money shown as liabilities.
- Check demands for fee raised against all students.
- Ascertain fees demanded from student are as per rates specified according to their course.
- Check authorization for fee concessions.
- Ensure that in case of late payment of fee, fine properly imposed, collected & accounted for.
- Donations of two types - specific/general use. Check recording of such amount in separate accounts.
- Verify grant from govt or any local authority with reference to sanction letter.*

Auditor

- Act as a competent authority.
- Sanctioning powers.
- Relied upon by banks when advancing loans.
- Helpful in negotiations to admit a partner.
- Effective safeguard against undue advantage being taken by working partner.*

Audit of various items under govt audit

Expenditure Audit

Audit of rules & orders

- To ensure expenditure is in accordance with:
  a) relevant provisions of Constitution & laws & rules
  b) Rules, regulations issued by CAG,
  c) Orders of, or rules made by, any higher authority.*

Audit against provision of funds

- Ensure whether expense: a) made for purpose to which grant has been provided.
b) Does not exceed the appropriation made.*

Audit of sanctions

- To ensure the expenditure is Covered by a sanction and Sanctioned by appropriate authority
- Thus auditor should consider following:
  a) knowledge of sanctioning powers of various authorities
  b) Examine all sanctions adequately noted
  c) For petty expense, signature of competent authority on a bill can be regarded as a sanction*

Performance Audit

- Ensure programmes achieved desired objectives at lowest cost & given intended benefits.
- Performance audit includes efficiency, economy & effectiveness audit.

Efficiency Audit

- Examine various schemes/projects executed, & operations carried out in efficient manner, & yielding expected results.

Economy Audit

- Examine govt acquired financial, human & physical resources in economical manner, & sanctioning & spending authority have observed economy.

Effectiveness Audit

- Examine programmes & projects performing well & Overall targeted objectives achieved.*

Audit of different types of entity

- Audit of various types of institutions & entities.
- Ensure funds raised & money spent in accordance with rules & regulations.*

Audit of Charitable Institutions

- Examine donations received shown in cash book w.r.t. copies of receipts issued.
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Join Us on Telegram http://t.me/canotes_ipcc
Audit of Club
- Entrance Fee: Vouch receipt with member's applications, counterparts issued to them
- Subscriptions: Vouch members' subscriptions with supporting issued
- Amounts of Subscriptions: Aims of subscriptions for FY correctly brought over & amounts for CY correctly adjusted
- Irrecoverable Member Dues: See Register of Members to ascertain Member's dues in arrear & enquire necessary steps taken for their recovery
- Pricing: Verify internal check regards members charged for foodstuffs & drinks provided and fees chargeable for special services rendered, such as billiards, tennis, etc.
- Member Accounts: Trace debits from subsidiary registers to members to confirm that account of every member has been debited with amounts recoverable from him.*

Audit of leasing companies
- Ensure provisions of laws & regulations complied with
- Examine compliance with AS 19
- Study MOA & AOA of Co.
- Check BRR authorizing lease agreement
- Examine lease proposal form submitted by lessee
- Study lease agreements
- Copies of insurance policies should also be examined.
- Examine invoices for purchases of assets given on lease & check whether leasing company property title over assents
- Examine lease-rentals properly accounted for.
- Ensure transaction in regard to 'Sale and Lease back' properly identified & disclosed in accounts.
- Ascertain adequacy of provisions for debts against lessees*

Restrictions on shareholding (Sec 5)
Where liability of member limited, no member of society other than registered society hold portion of share capital of society as would exceed a maximum of 20% of total no of shares or of the value of shareholding to 1,000/-.

Registered society may, with sanction of Registrar, contribute an amount not exceeding 10% of net profits remaining after compulsory transfer to reserve fund for any charitable purpose

Appointment of Auditor
By Registrar

Qualification of Auditor
CA + persons holding govt diploma in co-operative accountant/co-operation & accountancy & also person served as an auditor in co-operative department of govt

Examination of overdue debts
Overdue debts for period of 6 months to 5 years and more than 5 years to be classified & reported by an auditor. Auditor to ascertain proper provision for doubtful debts made

Audit Questionnaires
"Auditor to answer 2 sets of questionnaires called as audit memos.
- First set of general nature & applicable to all types of societies.
- Second set is specific for particular type Generally audit report as per convention divided into two parts stated as part I & part II:
  Part II points out observations on natural revenue, which are finished products of routine vouch & post audit such as missing vouchers, loan bonds, inadequacies of documents etc.*

AIDS OF CO-OPERATIVE SOCIETIES

Audit of Hospitals
- Register of Patients: Vouch Register of patients with bills issued to them.
- Collection of Cash: Check cash collections as entered in Cash Book with receipts, counterparts & other evidence
- Legacies and Donations: Ascertain legacies & donations received for specific purpose applied in manner agreed
- Authorisation & Sanctions: Verify capital expense incurred only with prior sanction of authorised person
- Grants & TDS: Verify that grants duly accounted for. Refund in respect of TDS claimed.
- Budget: Compare totals of various items of expense & income with amount budgeted for them*

Audit of hire purchase companies
- Examine HP agreement in writing & signed by all parties.
- Hire purchase agreement specifies clearly
  a) Hire purchase price of goods to which agreement relates;
  b) Cash price of goods
  c) Date on which agreement deemed to have commenced;
  d) No of instalments & date
  e) Goods to which agreement relates
  - Ensure instalment payments received regularly*

Audit of Cinema Hall
* Study minutes of meetings of governing body/committee to gain knowledge of any imp decision
- Check tickets to be issued are serially numbered & kept in proper custody.
- Perform compliance procedures to check there is strict IC on entry to cinema hall
- Check IC w.r.t. issuance of free passes.
- Check internally generated daily report with no of tickets sold for each category
- Reconcile total entertainment tax collected with total no of tickets sold for each category.
- Study agreement entered into for advertisement
- Ascertain whether income w.r.t slides exhibited properly recognised & collected
- Study agreement entered into by cinema hall with restaurant run in the premises.
- Check collection share in restaurant income.*

Audit of Hotel
* Study daily occupancy report prepared by mgt
- Ensure properness of billing. Also verify appropriate rates charged according to category of rooms
- Check bills raised to all parties listed in guest register. In case it is not so, obtain Reconciliation.
- If receipts in foreign currency, ensure compliance with FEMA.
- Examine few bills issued to customers to ensure their correctness.
- In case, hotel provides banquet hall for various functions, study tariff structure.
- Ensure correctness of billing for letting out banquet hall.
- In case spaces let out to shopkeepers/travel agencies, check agreement entered into with them.
- Normally rooms pay commission to various travel agents. Inspect agreement entered into
- Ensure appropriateness of accounting of commission in correct account & period.
- Ensure room addition expenses/major additions to hotel/buildings properly capitalised.
- However, redecoration & daily maintenance charged to revenue.*

Aproportion of profit (Sec 32)
"Prescribed % of profittransferred to Reserve Fund before distribution as dividend/bonus to members"

Investment of funds (Sec 32)
- "Society may invest its funds in any one or more of following:
  a. In Central or State Co-operative Bank
  b. In any of securities specified in section 20 of Indian Trusts Act, 1882
  c. In shares, securities, bonds or debentures of any other society with limited liability.
  d. In any co-operative bank, other than Central/State co-operative bank, as approved by Registrar.
  e. In any other moneys permitted by Central or State Government."

Adherence to co-operative principles
* "Auditor ascertain in general, how far objectives for which organisation is set up, achieved. Considered from viewpoint of social benefits may be looked into how far sales could be affected at lower prices. While auditing expenses, auditor see that they are economically incurred & there is no wastage of funds."

Special report to registrar
* "Auditor notices some irregularities in working of society, report these to the Registrar. In following cases, a special report may become necessary:
  - Personal profiteering by members detrimental to interest of society.
  - Detection of fraud
  - Specific examples of mis-management
  - In case of urban co-operative banks, disproportionate advances to vested interest groups, & deliberate negligence about recovery thereof"
### Content of Auditor’s report (Sec 73(3) & (4))

*In his opinion & to best of his info & according to explanation given, said account give info required & give a true & fair view:

a. In case of BS, of state of society’s affairs as at end of its FY, &

b. In case of PL, of PL for its FY. The report shall also state:

- He obtained all info & explanation necessary for audit
- Proper books of account kept by the society so far as appears from examination of books & proper returns received from branches or offices not visited by him
- Report on accounts of any branch audited by person other than him forwarded to him & how he dealt with same
- Society’s BS & PL Ac in agreement with books of account & return
- Where any matters answered in negative, the auditor’s report shall state reason*

### Books of accounts

*Every MISC keep books of account & reports to:

a. all sum of money received & expended & matters in respect of which receipt & expenditure take place;

b. all sale & purchase of goods;

c. the assets & liabilities;

d. in case of MISC engaged in production, processing & manufacturing, particulars relating to utilization of materials or labour or other items of cost*  

### Appointment of Auditor (Sec 70)

- First auditor: by BOD within 1 month of date of registration & hold office until conclusion of first AGM
- If BOD fails, society in GM may appoint first auditor
- Subsequent auditor appointed by society, at each AGM. Hold office from conclusion of that meeting until conclusion of next AGM*

### Qualification of auditor (Sec 72)

- Only persons not eligible for appointment as auditors:

  a. Any who is or has been the employee of a body corporate
  b. Any person who has been the employee of a society
  c. Any person who is a member of a society
  d. Any person related to any person mentioned above

### Inquiries by auditor (Sec 73(20))

*a. Loans & advances made on basis of security properly secured & terms not prejudicial to interests of society
b. Transactions represented merely by book entries not prejudicial to interests of the society
c. Personal expenses charged to revenue account, and
d. It is stated in books & papers of the society any shares allotted for cash, cash has actually been received & if no cash received, position as stated in account is correct*

## Multi State Co-operative Society (MSCS)

### Powers of CG to direct special audit (Sec 77)

<table>
<thead>
<tr>
<th>Affairs Not Managed in Accordance With, Prudent Commercial Practices</th>
<th>Financial Position Its such as would endanger its Insolvency</th>
<th>Managed as it would Cause Injury to Interest of Trade or Industry Business</th>
</tr>
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<tbody>
<tr>
<td>&quot;1. CG at any time by order direct that a special audit of the society’s accounts for such period as may be specified</td>
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<tr>
<td>2. CG order for special audit only if Govt hold 51% or more of paid-up share capital in such society</td>
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<td>3. Special auditor same powers &amp; duties as an auditor has under section 73. Special auditor make report to CG.</td>
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<tr>
<td>4. On receipts of report CG take such action as it considers necessary. If CG does not take any action within 4 months, govt send to the society copy of, or relevant extract from, these part with its comments therein &amp; require the society to either circulate that copy to members or to have such copy or extracts read before the society at its next GM*</td>
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### Basis

<table>
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<tr>
<th>Inquiry by central registrar (Sec 78)</th>
<th>Inspection of society (Sec 79)</th>
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<tbody>
<tr>
<td>When</td>
<td>On any quest from: federal co-operative to which society is affiliated or a creditor or not less than 1/3 of members or not less than 1/5 of total no of members</td>
</tr>
<tr>
<td>How</td>
<td>Hold inquiry/inspection into constitutions, working &amp; financial condition of the society</td>
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</table>

**Opportunity of being heard**

Before holding such inquiry/inspection 15 days notice must be given to the society

**Powers given**

*a. Access to books, accounts, documents, securities, cash & all other properties & summon any person in possession/responsible for custody of any such thing |

b. Require officers to call GM by giving notice of not less than 7 days & place at head quarters to consider such matters as may be directed, and where officers refuse to call such a meeting, he have power to call it himself. |
c. Summon any person reasonably believed to have any knowledge of affairs of the society to appear before him*  

**Others**

*a. Access to all books, accounts, papers, vouchers, securities, stock & other property of society & in event of serious irregularities discovered take them into custody & have power to verify cash balance & to call a meeting where such GM is, in his opinion necessary. |
b. Every officer or member shall furnish such info with regard to working as the central registrar or the person making such inspection may require.*  

**Follow up**: Central Registrar with in a period of 3 months communicate report of inquiry to the society

**Inspection Report**: Copy of report of inspection communicated to the society within 3 months from date of completion of such inspection.
**CHAPTER 14 - BANK AUDIT**

**Types of Banks**

- Commercial Banks: Most widespread banking institutions, that provide no of products & services. Two of its main functions are - accepting deposits and granting advances.
- Regional Rural Bank: Banks set up in rural areas to cater to basic banking & financial needs of rural communities.
- Co-operative Bank: Function like Commercial Banks but set up on basis of Cooperative Principles & registered under Cooperative Societies Act of the respective state or MSCS Act.
- Payments Bank: New type of banks. Allowed to accept restricted deposits but cannot issue loans & credit cards.
- Development Bank: Conceptualized to provide funds for infrastructural facilities.
- Small finance Bank: Set up to make available basic financial & banking facilities to unserved & unorganized sectors.

**Types of report to be issued**

- a) Report on adequacy & operating effectiveness of ICFR.
- b) LFR.
- c) Report on compliance with SLR.
- d) Report on treasury operation of bank.
- e) Report on whether income recognition, asset classification & provisioning made as per guidelines issued by RBI.
- f) Report on whether any serious irregularity noticed in working.

**Regulatory Authority - RBI**

- "RBI is responsible for -
  - Development & supervision of constituents of Indian financial system
  - Determining monetary & credit policies keeping in view the need of the hour.
  - Regulating activities of banks"

**Types of banks on basis of level of computerisation**

- 1. Non-automated
- 2. Partially computerised
- 3. Fully computerised

**Engagement team (ET) discussion**

- "ET hold discussions to gain better understanding of bank & its environment, including IC & also to assess potential for material misstatements of FS. The discussion provides:
  - Opportunity for more experienced members to share their insights
  - Opportunity for members to exchange info about bank's business risks
  - An understanding amongst members about effect of results of RAP on other aspects of audit"

**ET discussion ordinarily includes a discussion of following matters:**

- Errors that may be more likely to occur;
- Errors which have been identified in prior years;
- Method by which fraud might be perpetrated;
- Audit responses to Engagement Risk, Pervasive Risks & Specific Risks;
- Need to maintain professional skepticism throughout audit engagement;
- Need to alert for info/conditions in which a material misstatement may have occurred

**Long Form Audit Report (LFR)**

- *Besides audit report as per statutory requirements, terms of appointment include reports to also furnish LFR. Matters in the LFR specified by RBI/LFR to be submitted before 30th June every year. Format of LFR doesn't require executive summary to be given, members may consider providing same to bring out key observations.*

**Understanding Risk Mgt Process**

- a) Oversight & involvement in control process by TCWG
- b) Identification, measurement & monitoring of risks
- c) Control Activities
- d) Monitoring Activities
- e) Reliable information system

**Prudential norms on income recognition, asset classification & provisioning**

- a) Mortage
- b) Lien
- c) Pledge
- d) Hypothecation
- e) Assignment

**Approach to Reporting**

- a) Out of order - An account treated as 'out of order' if it's balance remains continuously below the sanctioned limit/drawing power. In cases there are no credits for 90 days or on B/S date, these accounts should be treated as 'out of order'.
- b) Transactions within powers of

**Prudential norms on income recognition, asset classification & provisioning**

- "Auditor of banking co - appointed at AOM of nationalised bank - appointed by BOD. In either case approval of RBI is required.
- Auditors of SBI appointed CAG in consultation with CG
- Auditors of subsidiaries of SBI to be appointed by SBI
- Auditors of RBI to be appointed in consultation with the approval of CG"

**Content of Audit report**

- *In case of nationalised bank, auditor required to make report to CG to state following:
  a) whether BS is full & fair BS containing all necessary particulars & properly drawn & in case he called for any info whether given & satisfactory
  b) Transactions within powers of
  c) Returns received from branches found adequate
  d) Other matter which he considers should be brought to notice of CG"

**Accounts where there is erosion in value of security**

- *Not follow stages of asset classification. straight line classification as doubled./loss asset:
  i) Realisable value of security is less than 50% of value assessed by bank at time of first inspection - classified under doubtful category
  ii) Realisable value of security, as assessed by bank less than 10% of in borrowal accounts - classified as loss asset. It may be either written off or fully provided for by the bank.*

**Agriculture advances**

- For short duration crops
  - Instalment remains overdue for 1 crop season
  - Instalment remains overdue for 2 crop seasons
- Audit of Advances

- "Auditor primarily concerned with obtaining evidence following about (a) Amts included in BS are at date of BS (b) Advances represent amount due to bank, (c) Amts due to bank are appropriately supported by Loan documents (d) There are no unrecorded advances (e) Stated basis of valuation of advances is appropriate & properly applied (f) Advances disclosed, classified & described in accordance with accounting policies (g) Appropriateness provisions towards advances have been made as per the RBI norms"

**Accounts regularized near about BS Date:**

- Should be handled with care & without scope for sub judicaty. Where account indicates inherent weakness - deemed as a NPA.

**Advances under Consortium:**

- Based on record of recovery of respective individual member.

**Audit of expenses**

- "Obtain analysis of deposits o/s at end of each quarter. Work out weighted avg int rate. Compare this rate with actual average rate of interest paid as per annual accounts & enquire into diff, if material.
- Compare avg rate of int paid with corresponding figures for PY's & analyse any material diff
- On test check basis, verify calculation of int & satisfy himself that
- a) Int provided on all deposits up to BS date; b) Int rates in accordance with bank's internal regulations
- In case of FDs examine Int rate in accordance with Rate mentioned in FD/Receipt Certificate.
- In Int Savings Account checked on test basis regularly
- In inter-branch balances provided at rates prescribed by HO
- Int on overdue/matured term deposits estimated & provided for"

**Computation of drawing power (DP)**

- "DP limit to which a firm or co can withdraw from working capital limit sanctioned.
- Sanctioned limit is total exposure that bank can take on particular client. On the other hand, DP refers to amount calculated based on primary security less margin as a particular criterion.
- All accounts kept within DP & sanctioned limit. Accounts exceed sanctioned limit/DP brought to notice of Mgt
- DP to be arrived based on current stock statement. Stock statements not be older than 3 months.
- Stock statements, quarterly returns & other statements submitted by borrower to bank be scrutinized properly.
- Audited Annual Report submitted by borrower should be scrutinized properly.
- Ensured DP calculated as per guidelines formulated by BOD. Special consideration should be given to proper reporting of sundry creditors.
- Stock audit carried out by bank for all accounts having funded exposure of more than 5 crores."

**Auditor can obtain SAAE about advances by**

- "Examining validity of recorded assets
- Examining loan documents
- Reviewing operation of accounts
- Examining existence, enforceability & valuation of security
- Checking compliance with RBI norms"

**Audit of revenue items**

- "When credit facility classified as NPA for 1st time, interest accrued & credited in IP not realized should be reversed.
- Interest on advances against Term Deposits, NSCs, KVPs taken to income account on due date provided adequate margin is available
- In case of bills purchased O/s at close of year discount received should be properly apportioned between the 2 years
- In case of bills for collection, auditor examine procedure forcrediting party on whose behalf bill collected"

**Evaluation of IC over advances**

- Make advance only after satisfying as to credit-worthiness of borrower
- All necessary documents executed by parties before advances are made
- Compliance with terms of sanction & end use of funds should be ensured.
- "Sufficient margin kept against securities taken
- Securities requiring registration registered in name of bank
- DP Register updated every month to record value of securities hypothecated"
CHAPTER 15 - CARO 2020

APPLICABILITY

Every co including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013 except:

a) Banking co
b) Insurance co
c) Sec. 8 co
d) OPC & small co

(i) Private co, not being subsidiary/holding co of a public co, having a paid up capital & reserves & surplus not more than Rs. 1 crore as on BS date & which does not have total borrowings exceeding Rs. 1 crore from any bank/FI at any point of time during FY & which doesn’t have a total revenue exceeding Rs. 10 crore during FY

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<th>Description</th>
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<tr>
<td>(ix)(f)</td>
<td>Whether company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934;</td>
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<tr>
<td>(x)(a)</td>
<td>Whether moneys raised by way of IPO/FPO (including debt instruments) during the year were applied for purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported;</td>
</tr>
<tr>
<td>(x)(b)</td>
<td>Whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year &amp; if so, whether requirements of section 42 &amp; 62 of the Companies Act, 2013 complied with and the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved and nature of noncompliance;</td>
</tr>
<tr>
<td>(x)(c)</td>
<td>Whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated;</td>
</tr>
<tr>
<td>(x)(d)</td>
<td>Whether any report under sub-section (12) of section 143 has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government;</td>
</tr>
<tr>
<td>(x)(e)</td>
<td>Whether the auditor has considered whistle-blower complaints, if any, received during the year by the company;</td>
</tr>
<tr>
<td>(x)(f)</td>
<td>Whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act, 1934 have been complied with;</td>
</tr>
<tr>
<td>(x)(g)</td>
<td>Whether the company has an internal audit system commensurate with the size and nature of its business;</td>
</tr>
<tr>
<td>(x)(h)</td>
<td>Whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof;</td>
</tr>
<tr>
<td>(x)(i)</td>
<td>Whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act, 2013 to meet out the liability;</td>
</tr>
<tr>
<td>(x)(j)</td>
<td>Whether the company has an internal audit system commensurate with the size and nature of its business;</td>
</tr>
<tr>
<td>(x)(k)</td>
<td>Whether the auditor has considered whistle-blower complaints, if any, as may be applicable, be reported;</td>
</tr>
<tr>
<td>(x)(l)</td>
<td>Whether the company is maintaining ten per cent. unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;</td>
</tr>
<tr>
<td>(x)(m)</td>
<td>Whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 (2 of 1934) and if so, whether the registration has been obtained;</td>
</tr>
<tr>
<td>(x)(n)</td>
<td>Whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934;</td>
</tr>
<tr>
<td>(x)(o)</td>
<td>Whether the company is a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India, if so, whether it continues to fulfil the criteria of a CIC, in case the company is an exempted or unregistered CIC, whether it continues to fulfil such criteria;</td>
</tr>
<tr>
<td>(x)(p)</td>
<td>Whether the Group has more than one CIC as part of the Group, if yes, indicate the number of CICs which are part of the Group;</td>
</tr>
<tr>
<td>(x)(q)</td>
<td>Whether the company has incurred cash losses in the financial year and in the immediately preceding financial year, if so, state the amount of cash losses;</td>
</tr>
<tr>
<td>(x)(r)</td>
<td>Whether there has been any resignation of the statutory auditors during the year, if so, whether the auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors;</td>
</tr>
<tr>
<td>(x)(s)</td>
<td>On the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the financial statements, the auditor’s knowledge of the Board of Directors and management plans, whether the auditor is of the opinion that no material uncertainty exists as on the date of the audit report that company is capable of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date;</td>
</tr>
<tr>
<td>(x)(t)</td>
<td>Whether, in respect of other than ongoing projects, the co transferred unspent amount to a Fund specified in Schedule VII within a period of 6 months of the expiry of FY in compliance with 2nd proviso to Sec 135(5)</td>
</tr>
<tr>
<td>(x)(u)</td>
<td>Whether any amount remaining unspent under subsection (5) of section 135 of the Companies Act, pursuant to any ongoing project, has been transferred to special account in compliance with the provision of sub- section (6) of section 135 of the said Act;</td>
</tr>
<tr>
<td>(x)(v)</td>
<td>Whether there have been any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included in the consolidated financial statements, if yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks.</td>
</tr>
</tbody>
</table>