

CA-IPCC Notes  
CA. Anurag Singal  
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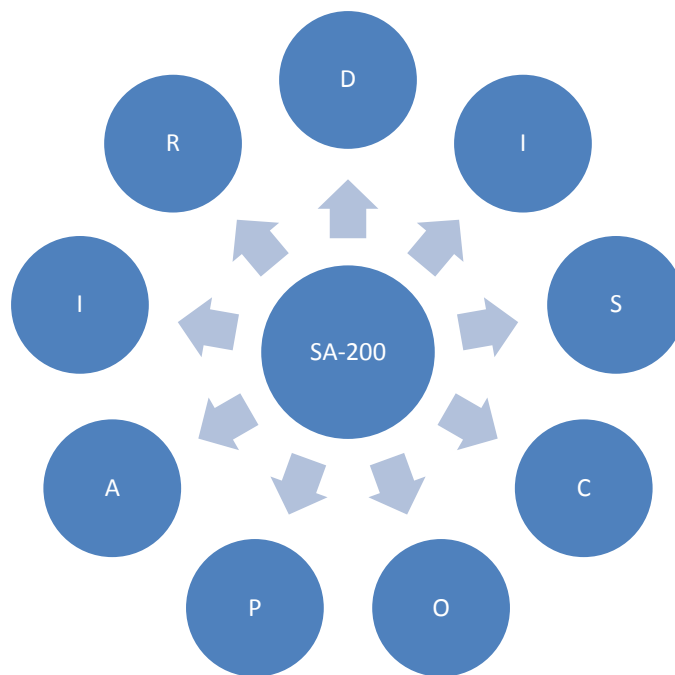
## **CA-IPCC Revision Notes**

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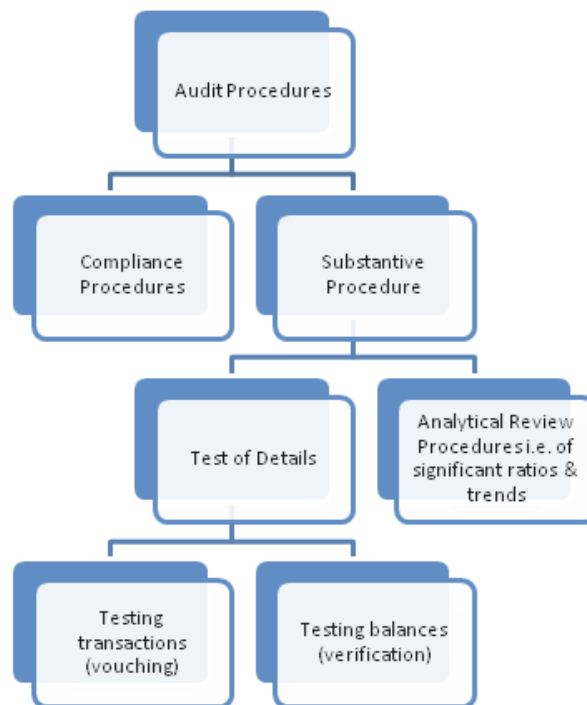
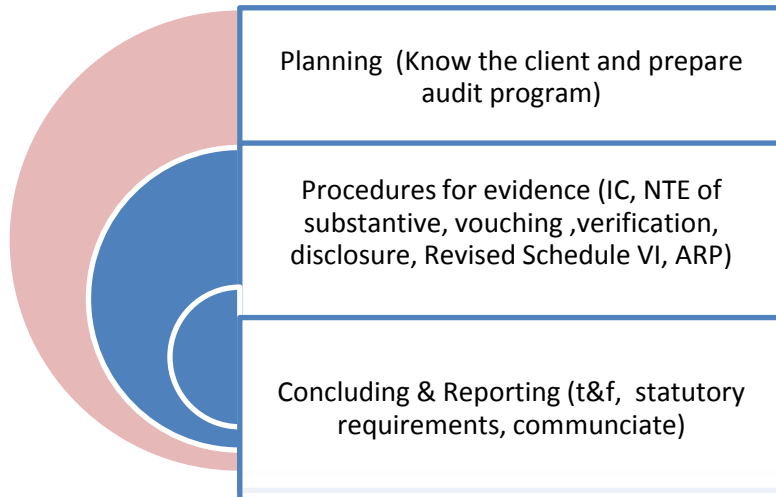
## Basic Principles Governing and Audit

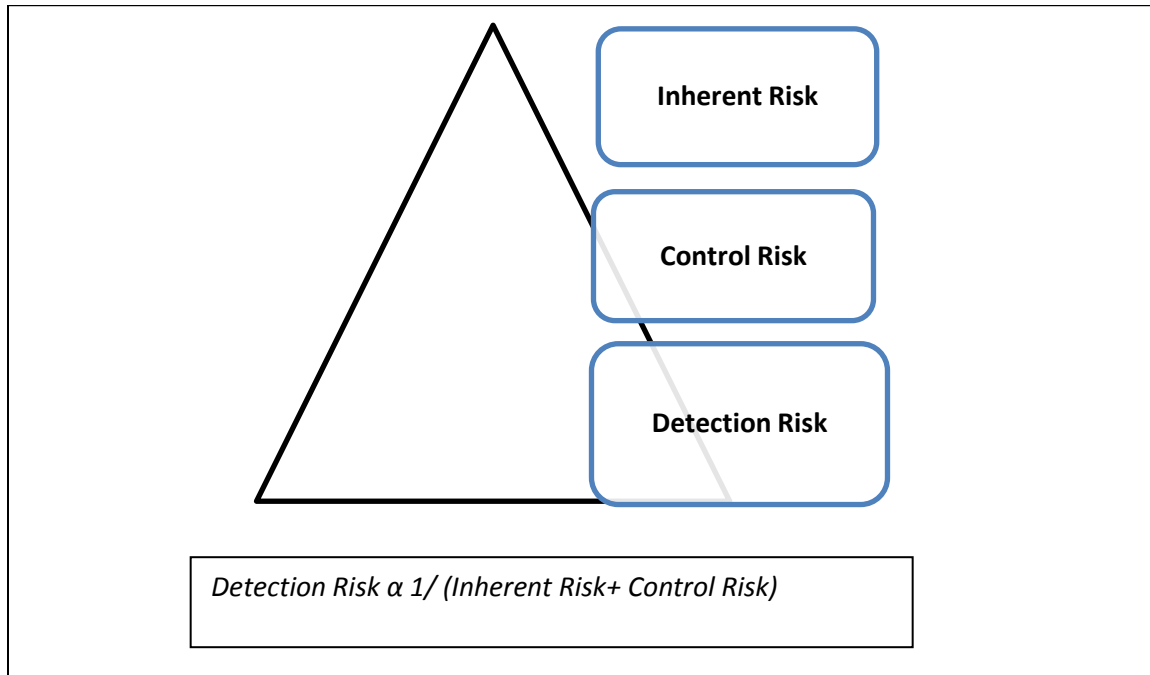
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SA 200 “Basic Principles Governing an Audit”, describes the basic principles which govern the auditor’s professional responsibilities and which should be complied with wherever an audit is carried.



1. Documentation
2. Integrity, Objectivity & Independence (IOI):
3. Skill & Competence
4. Confidentiality
5. Others performing the work
6. Planning
7. Audit evidence
8. Internal control and Accounting System
9. Reporting of Audit Conclusions





**Case Study: Mention any six points to be considered for good internal control for collection of tuition fees from students of college**

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Fee structure approved by college council

Challan: Roll No, Period

Cashier scroll and authorising officer/s scroll should be checked by an officer daily

All remittance should be banked each day

Periodic Arrears list . If concession, approval? If delay, penalty?

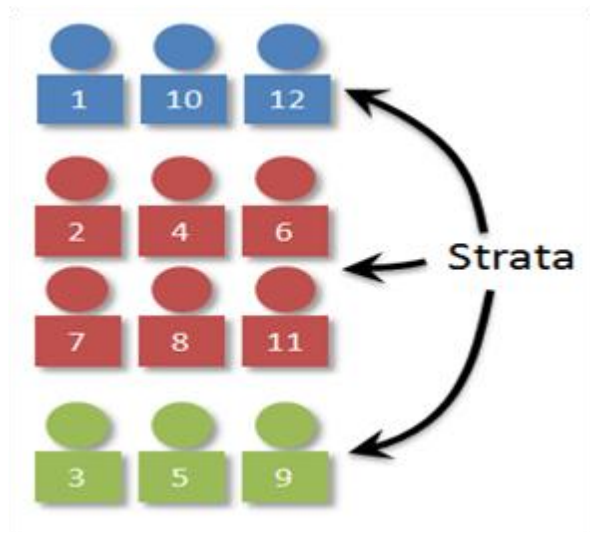
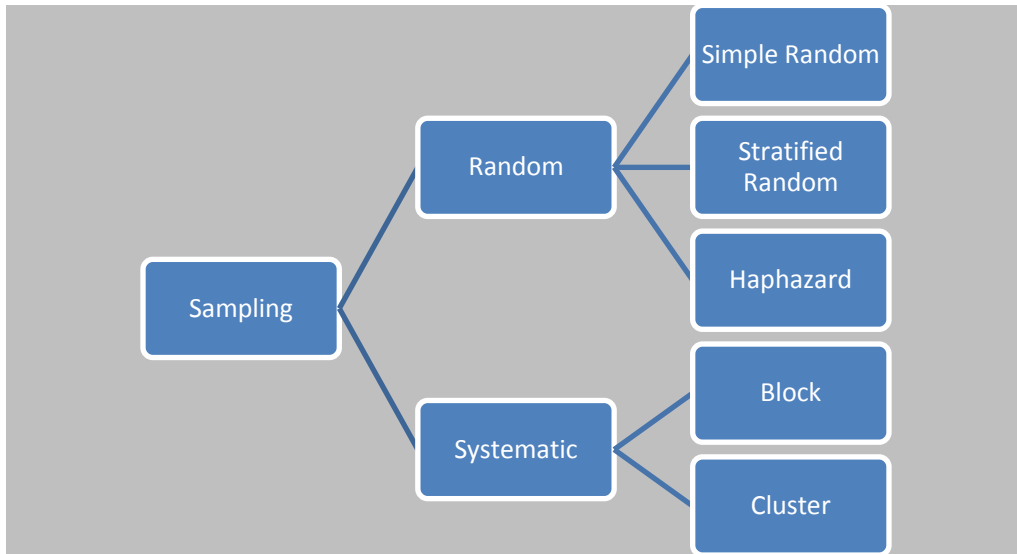
If readmitted after removal for non-payment of fees, permission?

### **Audit Sampling**

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SA 530, Audit Sampling

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**Approaches to Audit in CIS/EDP Environment**

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*Theme:*

*The logic of the computing System is checked by the auditor as he simply can't ignore it*

*After checking the logic, he is convinced that*

*a) Once a correct input is made, there would be no processing error and output= reliable.*

*b) System generated transactions such as interest calculation in SBI are correct*

#### **Why are Computer Aided Audit Techniques (CAAT) required in EDP audit?**

Computers systems provide less visible evidence than those systems using manual procedures

**Absence of input documents:** Data may be entered directly into the computer systems without supporting documents. In on-line transaction systems, written evidence of individual data entry authorization, e.g., credit limit approval may not be available.

*In a manual system, you can check signature of the General Manager on the sales invoice for credit approval.*

*In the computer system, there is a pre-inputted credit limit for Mr Agarwal and till the same is breached, no manual intervention is required and system automatically approves*

#### **Lack of visible transaction trail:**

In a manual system, for a Sales transaction of Rs 150,000 made on 3<sup>rd</sup> August'12, one can examine a host of base documents such as Invoice, Sales Day Book, Party Ledger, Credit Approval Note, and Sales Reports etc. But in an EDP environment, the transaction trail may be existing in the computer system itself.

#### **Lack of visible output**

In EDP systems, processing output may not be printed or only a summary data may be printed

Auditor has to check data stored in computer itself

There will be no printouts of millions of customer ledger accounts of SBI customers. The auditor would have to check in the system itself

**Ease of Access to data and computer programmes**

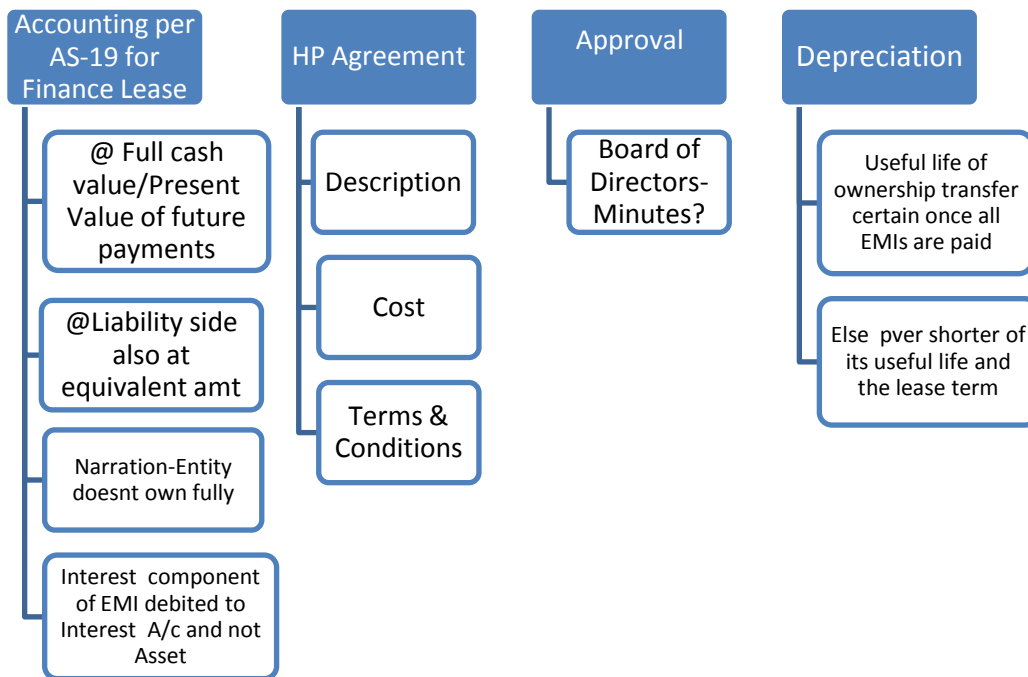
Data and computer programmes may be tampered with by malicious people at remote locations

There is a chance of unauthorized access to data and programmes

**Key Dimensions:**

Input/Processing/Output/Access to data or program

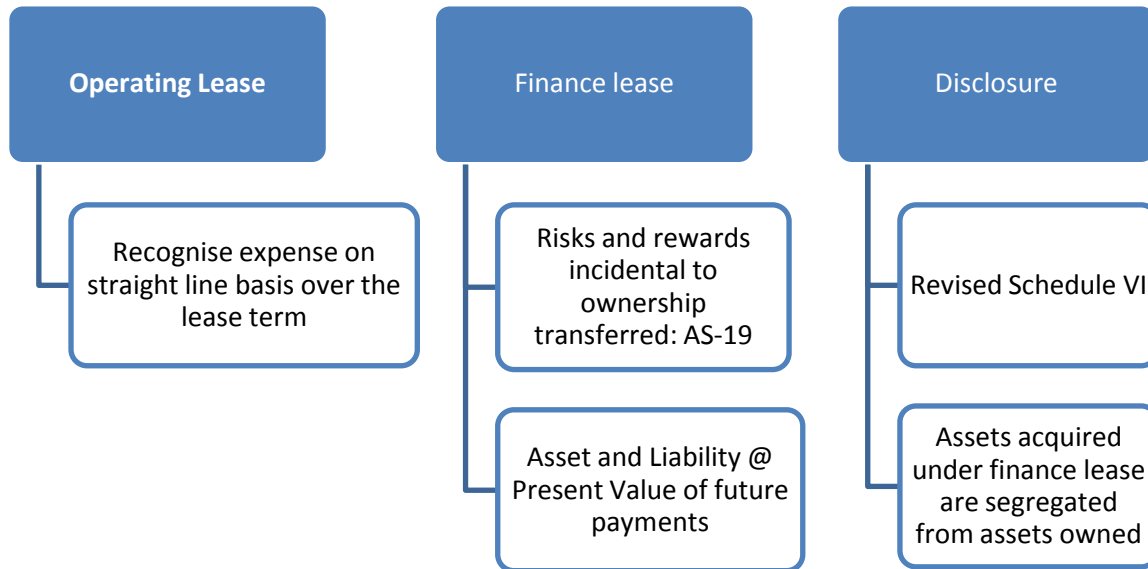
**Assets acquired on Hire Purchase Basis**



**Assets Acquired on Lease**

Terms & conditions of the lease deed

Tenant's agreements if leasehold property sublet



## Sales

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## Qualifications of an Auditor

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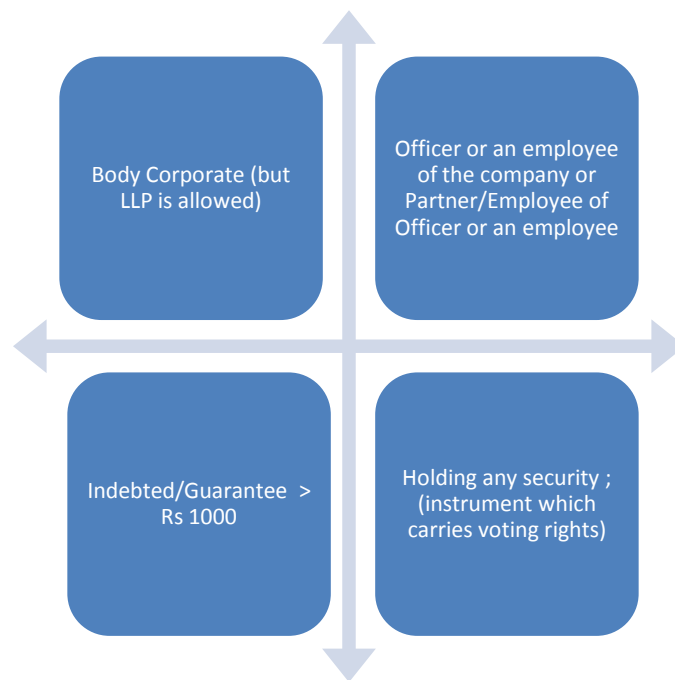
= Chartered Accountant within the meaning of the Chartered Accountants Act, 1949

If firm is appointed such as E&Y/KPMG, all partners practicing in India are qualified for appointment

## Disqualifications of an Auditor u/s 226(3)

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Disqualified if disqualified for Holding/Subsidiary/Fellow Subsidiary

Relevant date for reckoning disqualification is the date of appointment viz the date of resolution passed by the company to effect such appointment

### Cases

**NM & Co., Chartered Accountants were appointed as the auditors of a public limited company in their Annual General Meeting. Various co-operative and term lending institutions held 51% of the paid-up share capital of the company**

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51% held by various co-operative and term lending institutions

*Specify provisions of Section 224A criteria for special resolution for appointment of auditor where 25% of shares held by government etc*

If we assume that the organisations were covered u/s 224A criteria

Special resolution = necessary

Appointment of NM & Co. = null and void

*Specify provisions of Section 619 and 619B criteria*

Section 619 and 619B not applicable as co-operative and term lending institutions are not covered within the definition of corporation/institution owned by the Central/State Government

**Ram and Hanuman Associates, Chartered Accountants in practice have been appointed as Statutory Auditor of Krishna Ltd. for the accounting year 2009-2010. Mr. Hanuman holds 100 equity shares of Shiva Ltd., a subsidiary company of Krishna Ltd.**

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*u/s 226(3) provisions for disqualifications of auditors*

A person holding any security = disqualified

Disqualified if disqualified for holding/subsidiary

Firm= disqualified even when one partner is disqualified u/s 226(3) (e)

The firm, M/s Ram and Hanuman Associates would be disqualified to be appointed as statutory auditor of Krishna Ltd., which is the holding company of Shiva Ltd., even when one partner is disqualified under this clause

### **Powers of auditors' u/s 227**

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- Right of access at all times to books, accounts and vouchers etc. (Maintained at Head office as well as Branch office)
- Right to require information and explanation from officers
- Right to receive notice of and attend any General Meeting
- Right to be heard at any General Meeting
- Rights at branch office (discussed separately)
- Right on lien on the books of accounts (discussed separately)

### **Duties of auditors**

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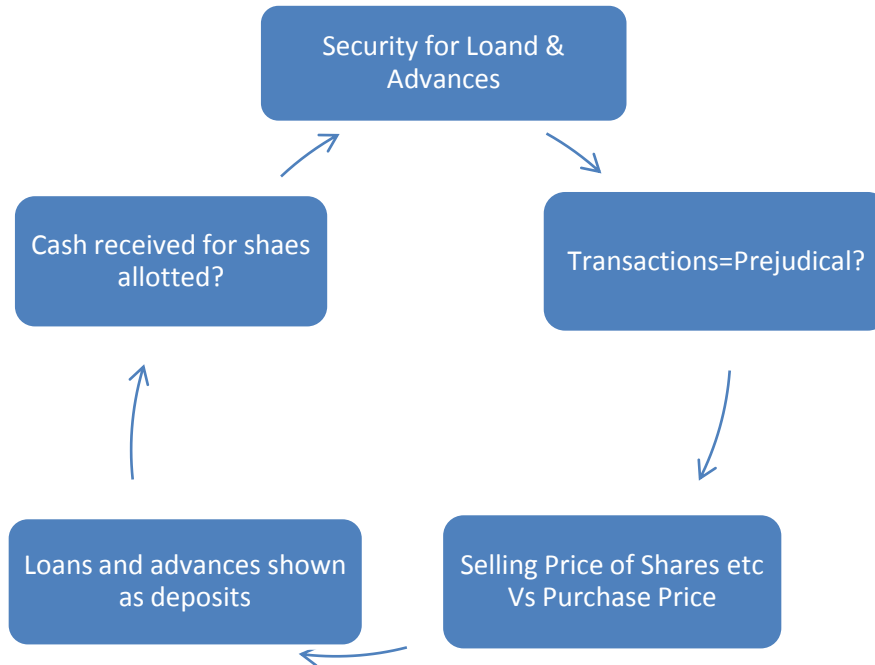
Auditor has to report on the accounts examined by him and on every Balance Sheet and P&L Account and annexure

#### General matters as of whether?

- a) Obtained Information/Explanations which to the best of his knowledge and belief were necessary for his audit
- b) Company has maintained proper books of account as required by law
- c) Company's Balance Sheet and P&L are in agreement with the books of account and returns
- d) He had received the Audit Report of Branch Office audited under section 228 by a person other than the company's auditor and how he has dealt with it in preparing the auditor's report
- e) Balance sheet and P&L comply with the accounting standards mentioned u/s 211(3C)
- f) Observations or comments of the auditors which have any adverse effect on the functioning of the company outlined in thick type or in italics
- g) Any director is disqualified from being appointed as director u/s 274(1)(g)

- h) Cess payable under section 441A has been paid? Section 441A provides for levy and collection of cess on turnover or gross receipt of companies!

On specific Issues as to whether? Also termed as Audit Enquiry u/s 227(1A)



On all matters as specified in CARO u/s 227(4A)

### **Companies (Auditor's Report) Order, 2003 (CARO, 2003)**

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All companies including a foreign company as defined u/s 591

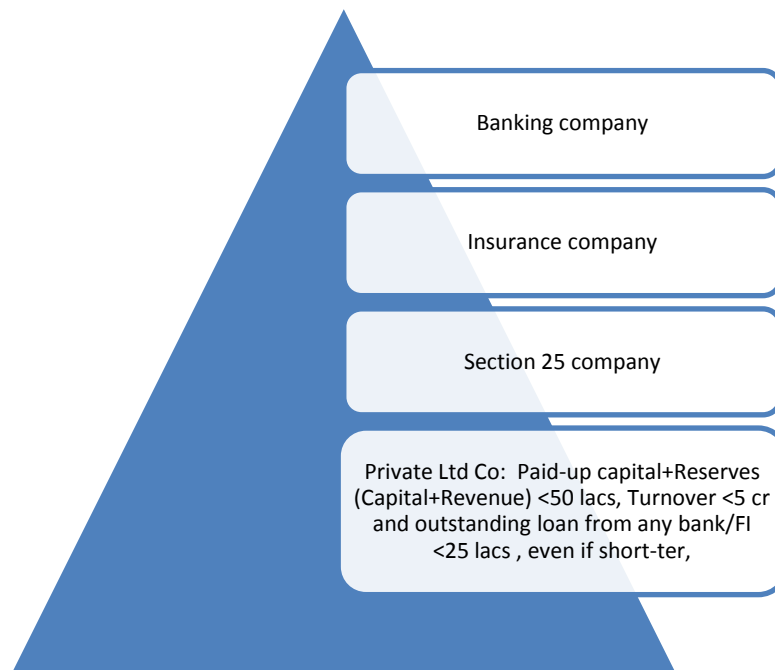
Banking companies, insurance companies and Section 25 companies = Exempt

Private companies fulfilling certain conditions= Exempt

Manufacturing company /Finance company / Investment company

### **Exemption**

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#### Turnover excludes

- Sales tax collected or excise duty collected if they are credited separately to sales tax account or excise duty account;
- Trade discounts
- Sales return even if the returns are from the sales made in the earlier years.
- Income received by way of rent or dividend/interest

#### Turnover Includes

- Commission allowed to third parties;

CARO = applicable to a private limited company if, at any point of time, during the financial year covered by the audit report:

- Paid-up capital and reserves exceed the limit of rupees fifty lakh;
- Loan outstanding exceeding rupees twenty five lakh,
- Turnover exceeds rupees five crore.

#### **Matters to be Included under CARO, 2003**

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The CARO, 2003 has also specified the matters to be included in the auditor's report of various companies. The auditor's report on the account of a company to which this Order applies shall include a statement on the matters, as specified in paragraphs 4 and of CARO, 2003.

Every audit report u/s 227 shall contain the matters specified in paragraphs 4 and 5.

#### **1. Inventory**

- a) Did management conduct physical verification at reasonable intervals?
- b) Is procedure = reasonable w.r.t. size of the company and the nature of its business?
- c) If not, what are the inadequacies?
- d) Are Inventory Records= adequate?
- e) Any material discrepancies on physical verification? Adjustment in books?

## **2. Fixed assets**

- a) Did management conduct physical verification at reasonable intervals?
- b) Is procedure = reasonable w.r.t. size of the company and the nature of its business?
- c) If not, what are the inadequacies?
- d) Are Fixed Assets Records= adequate?
- e) Any material discrepancies on physical verification? Adjustment in books?
- f) If substantial part of fixed assets disposed off during the year, whether Going Concern impacted.

## **3. Cost records**

- a) Records prescribed by the Central Government u/s 209(1) (d)?
- b) If so, whether such accounts and records made and maintained.

## **4. Chit fund companies**

- a) Provisions of any special statute applicable to chit fund complied with?
- b) If not, what was the default?

## **5. Deposits from public**

- a) If company accepted deposits from public, whether RBI guidelines and 58A/58AA complied with.
- b) If not, what was the default?
- c) If order passed by Company Law Board, complied?

## **6. Internal control**

- a) Is Internal Control for the purchase of inventory/fixed assets and sale of goods Any repeated occurrence of major weakness in internal control.

## **7. Statutory dues**

- a) Is the company regular in depositing undisputed statutory dues including PF, Investor Education and Protection Fund, ESIC, Income tax, Sales-tax, Wealth-tax, Custom Duty, Excise Duty, Cess etc with the appropriate authorities.

b) If not, how much outstanding for > 6 months for due date

c) If dues ≠ deposited but dispute filed at which forum?

### 8. Frauds

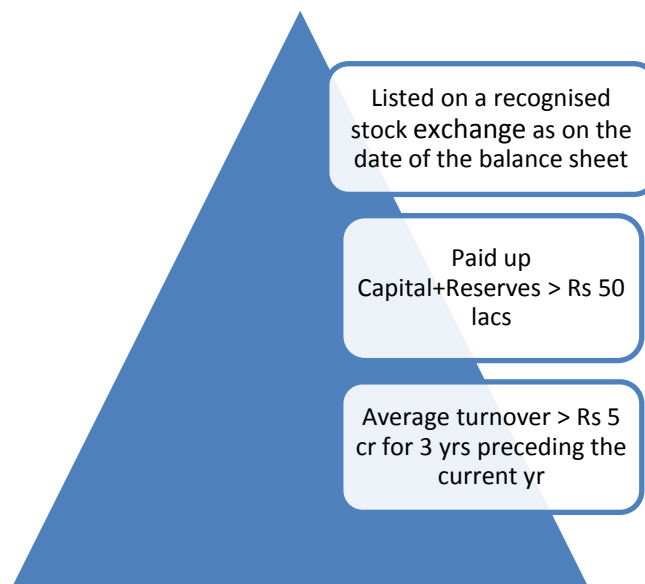
a) Any fraud on or by the company noticed or reported during the year?

b) If yes, nature and the amount?

### 9. Internal Audit

a) Is Internal audit system = reasonable w.r.t. size of the company and the nature of its business?

a) Applicable for



### 10. Loans to/from Related Party u/s 301 of Companies Act

11. Loan to /from Related Party u/s 301 of Companies Act?

a) Who? Amount?

b) Rate of Interest = prima facie prejudicial to the interest of the company?

c) Repayment of principal amount and interest = regular?

d) If Outstanding > Rs 1 lac, whether reasonable step taken by the company for recovery / payment of principal and interest.

### 12. Loans against Securities (pledge of shares, debentures)

a) Adequate documents and records maintained?

b) If not, deficiencies=?

**13. End use of issue proceeds**

- a) Short term funds ≠ Long term investment
- b) Long term funds ≠ Short term investment
- c) If yes, the nature and amount?

**14. Dealing in Securities (Company)**

- a) Adequate documents and records maintained?
- b) Timely entries made therein?
- c) Whether company holds shares, debentures etc in its own name except to the extent of the exemption, if any, granted u/s 49

**15. Guarantee Given for loans**

- a) Did company give any guarantee for loans taken by others? Terms and conditions = prejudicial?

**16. Repayment of dues**

- a) Any default in repayment of dues to financial institution or bank or debenture holders?
- b) If yes, the period and amount of default to be reported.

**17. Application of IPO funds**

- a) Whether the management has disclosed on the end use of money raised by public issues and the same has been verified?

**18. End use of borrowings**

- a) Whether term loans were applied for the purpose for which the loans were the loans were obtained.

**19. Securities for debenture issued?**

- a) Whether securities have been created in respect of debentures issued?

**20. Preferential allotments to Related Party**

- a) Any preferential allotment of shares to Section 301 parties?
- b) Price = prejudicial to the interest of the company?

**21. Loss making company**

- a) If company registration ≥ 5 years
- b) Accumulated losses at the end of FY > 50% of net worth.
- c) Any cash losses in such/preceding financial year?

## 22. Transaction covered u/s Section 301

- a) Relevant transactions (Value >Rs 5 lacs) = entered in register u/s 301?
- b) Price = reasonable w.r.t. market prices at the relevant time?

## 23. NIDHI/ mutual benefit fund/ societies-special aspects

- a) Whether net owned funds/ deposit liability > 1:20 as on the date of balance sheet.
- b) Whether the company has complied with the prudential norms on income recognition and provisioning against sub-standard / default / loss assets.
- c) Whether the company has adequate procedures for appraisal of credit proposals / requests, assessment of credit needs and repayment capacity of the borrowers.
- d) Whether the repayment schedule of various loans granted by the nidhi is based on the repayment capacity of the borrower and would be conducive to recovery of the loan amount.

If auditor response to any clause = unfavourable or qualified, give reason also?

If auditor response to any clause = disclaimer of opinion (unable to express any opinion) give reason also?

## Cases

**Comment - X Ltd., to whom Companies (Auditor's Report) Order, 2003 is applicable, has issued 9% Debenture of ` 5 crores, redeemable after 5 years and used the proceeds of issue for payment of Sundry Creditors and other Current Liabilities of ` 2.80 crores.**

As per CARO 2003, auditor must report whether funds raised on short-term basis have been used by the company for long-term investment and long-term funds have been used to finance short-term assets.

Check object of issue of debentures and end use of ` 5 crores.

Check Board's resolution authorizing the utilization of the fund for payment of current liabilities

Refer Cash Flow Statement and obtain requisite information/explanations from management

If satisfied that long-term funds used for payment of short-term liabilities, state in audit report

**Other liabilities in Balance Sheet of AAS Limited include ` 7.8 lakhs being the amount of excise duty payable since 1.5.2008 remaining unpaid till 31.3.09. However, the same had been paid by the company on 15.4.2009 upon getting clarification from its advocates that the liability is actually payable by it.**

According to CARO 2003, if any undisputed statutory due like excise duty, income tax etc, is not remitted within due date and is outstanding for more than six months, the extent of the arrears of outstanding

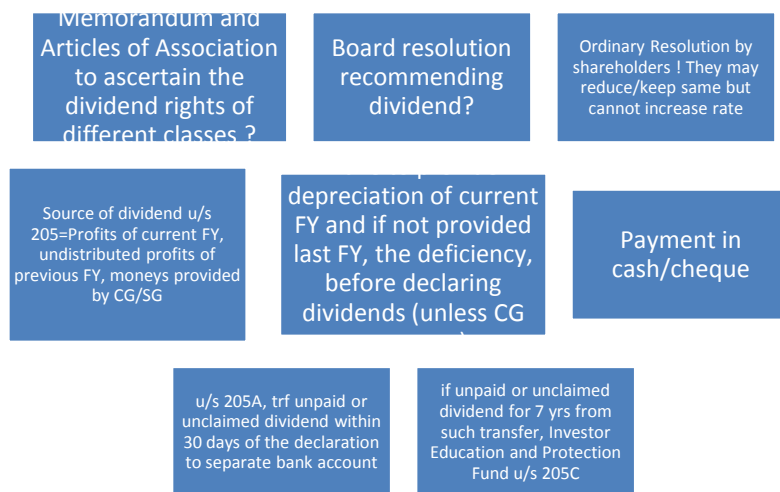


statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable

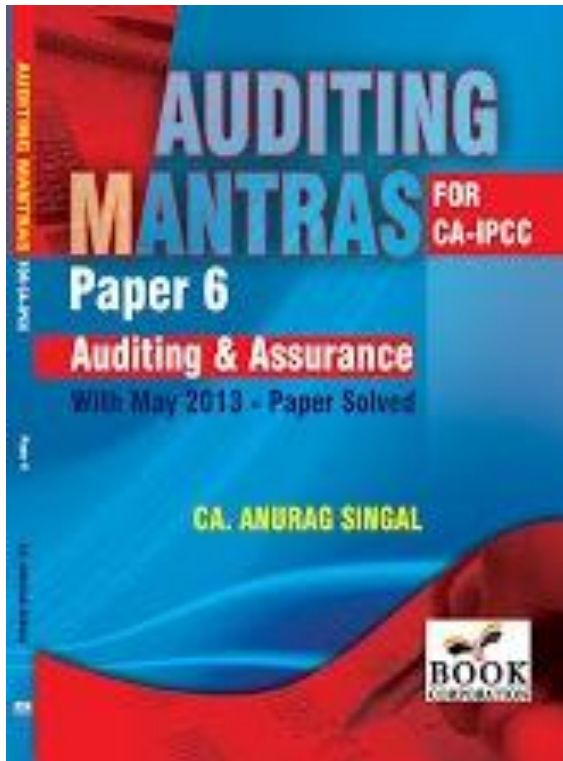
Here, the statutory liability has crystallized and is outstanding for > 6 months. It is not a disputed liability. It is an undisputed liability about which the company had some doubts.

Hence auditor must disclose

### Verification of Dividends



<b>Companies (Transfer of Profits to Reserves) Rules, 1975.</b>	
<b>Rate of Dividend</b>	<b>Minimum Amt to be transfer to Reserves</b>
Not exceeding 10%	Nil
>10%-12.5%	2.5% of Current Profits
>12.5%-15%	5% of Current Profits
>15% to 20%	7.5% of Current Profits
>20%	10% of Current Profits



*"I wouldn't have had to write my CA Audit paper thrice to clear my IPCC. I wish something like this had come before"*- was a spontaneous reply from the first student to whom Auditing Mantras for IPCC was shown for review. I wish this sentiment resonates amongst the larger student community.

This book has been an outcome of my experiences as a student and a faculty for CA-IPCC Audit. The book shows the basic concepts of auditing in a lucid & diagrammatic manner. It is a **Smart Learning Solution**, striking the fine balance between detail and brevity as the CA-IPCC student has to cover a wide array of seven subjects in a short span of time. The student will find it useful to understand the concepts in the initial phase, as well as perform multiple revisions

**This book is an exhaustive coverage of ICAI's Study Material as the Practice Manual and also**

**contains the chapter-wise Questions Bank for the past 15 years. It also has the key contents of all the Standards on Auditing applicable to IPCC**

See the sample of the entire book at <http://auditingmantras.blogspot.in/p/samples.html>

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### **About the Author**

CA. Anurag Singal is a graduate from St Xavier's College, Kolkata. He secured All India Rank 22 and 25 in CA Final and CA PE-II respectively, having secured All India Highest in Mathematics in CA PE-I. He received the "CA Professional Achiever-Manufacturing Sector" at 6th ICAI Awards 2012. His E-learning lectures on Auditing for CA IPCC and SFM and AMA for CA-Final are hosted on the Board of Studies Knowledge Portal of ICAI <http://studentslms.icai.org/>. He is a CA GMCS faculty and has mentored hundreds of students. His articles have been published in the CA Journal, ICAI Journal, CA-EIRC Newsletter, Bombay Chartered Accountant Society and Taxmann



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