SUPER SUMMARY NOTES

Advance Auditing and Professional Ethics

is now back
CA FINAL

RELEVANT FROM NOVEMBER 19 ONWARDS

FEATURES:

➤ Super Crux of massive syllabus
➤ Covering all Amendments upto 30/05/2019
➤ Authors Note for cross linkages and dept conceptual clarity
➤ Simplified in Handwritten format
➤ Easy to understand including diagrammatic presentation
➤ Including reference to Past Exam Questions

CA KHUSHBOO SANGHAVI

Gour's e-Learning
I] **Applicability** *(PEQ May'07) (RTP Nov'17/ Nov'15)*

It is applicable to all the companies including a foreign company, except –

- B – Banking company
- I – Insurance Company
- P – Private limited company, if
  1) **PUSC + Reserve ≤ 1crore (on B/S date)**
  2) **Total Borrowing ≤ 1crore (any time of the year)** *(PEQ Nov'14)*
  3) **Total Turnover/Reserve ≤ 10crores** *(PEQ Nov'14)*
- S – Section 8 companies
- O – One Person Company and Small Companies

II] **Reporting clauses under para 3**

(i) **FIXED ASSETS** *(PEQ May'18/ Nov'13) (RTP Nov'15/16)*

Following matters shall be including in the auditor's report:–

a) **Proper Records**
   - Whether the company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.

b) **Physical Verification**
   - Whether these fixed assets have been physically verified by the management at regular intervals. where annual verification is not possible than all assets must be verified at least one in every 3 years
   - Whether any material discrepancies were noticed on such verification and if so whether the same have been properly dealt.

c) **Tittle Deed** *(PEQ May'17) (RTP May'17)*
   - Whether the tittle deeds of immovable properties are held in the name of the company.
   - If not provide the details thereof The auditor should carry out detailed examination in the cases where:
     - Immovable property is transferred under conversion
     - Immovable property have been mortgaged with banks/ FI
     - the TITLE DEED
     - or amalgamation
     - were lost check other related documents & FIR
details, if any.

(ii) **INVENTORY** *(RTP May'11/16)*

Following matters shall be including in the report:

a) **Physical Verification**
   - Whether physical verification of inventory has been conducted at regular intervals by the

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management. All material items must be verified at least once in a year.

**Material Discrepancies**

<table>
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<th>YES</th>
<th>NO</th>
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Whether they have been properly dealt within BOA

### (iii) Loans Given by the Company

Whether the company has granted any loans, secured or unsecured to companies, firms, LLP’s or other parties covered in the register maintained under section 189 of the companies Act, 2013 If so,

- **a) Terms and Conditions**
  Whether the terms and conditions of the grant of such loan are not prejudicial to the company’s interest.

- **b) Steps for Recovery**
  - Whether the schedule of repayment of principal and payment of Interest has been stipulated and
  - Whether reasonable steps have been taken by the company for recovery of the principal and Interest.

- **c) Regular Recovery**
  - Whether the schedule of repayment of principal and payment of Interest has been stipulated and
  - Whether the repayment or receipts are regular.

### (iv) Loans to Directors and Investment by Company

In respect of loans, investments, guarantees and security whether provision of section 185 and 186 of the companies Act, 2013 have been complied with, if so provide the details thereof.

### (v) Deposits

In case, the company has accepted deposits, whether the following has been complied with:

- Directives issued by the RBI
- The provisions of section 73 to 76 or any other relevant provisions of the companies Act, 2013 and the rules framed there-under, and
- If an order has been passed by CLB or NCLT or RBI or any other court or Tribunal.

However, if any of the above is not complied, the nature of the contraventions should be stated.
(vi) **COST RECORDS** *(PEQ May'17) (RTP Nov'18)*

If the central government has specified maintenance of cost records under section 148 of the companies Act, 2013, whether such accounts and records have been maintained.

(vii) **STATUTORY DUES** *(PEQ May'16/08/04/Nov'11/14) (RTP May'12/ Nov'15/ May'14)*

a) Statutory dues for more than 6 months.

Whether the company is regular in depositing undisputed statutory dues with the appropriate authorities including:

- Provident Fund
- Income Tax
- GST
- Customs Duty
- Any other Statutory dues.

Author’s Note: Also refer audit procedure under SA-250, provision of sec 43B of Income Tax Act, 1961. Quote above SA-250 & Sec 43 in the answers for appropriately linking the concepts

b) Dispute for Tax and Duty

In case if the dues have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned.

(viii) **REPAYMENT OF LOANS** *(PEQ May'11/13) (RTP May'14/15)*

Following matters shall be reported:

- Whether the company has defaulted in repayment of loans or borrowings to a financial institution, government or dues of debenture holders. If yes, the period and amount of default to be reported.

- In case of default to banks, financial institutions and government, lender wise details to be provided.

(ix) **UTILIZATION OF IPO AND FURTHER PUBLIC OFFER** *(PEQ Nov'18/ May'18) (RTP May'16)*

Following matters shall be reported:

- Whether money raised by way of IPO or further public offer and term loans were applied for the purpose for which those were applied for the purpose for which those were raised.

- If not, the details together with delay or default and subsequent rectification, if any must be reported.
REPORTING OF FRAUD (PEQ Nov'18) (RTP Nov'18)
Whether any fraud by the company or on the company by its officers or employees has been
noticed or reported during the year, if yes the nature and the amount shall be indicated.
Author's Note: - Also refer SA-240 & Sec 143 (12) for cross linkages.

APPROVAL OF MANAGEMENT REMUNERATION (PEQ Nov'16)
- Whether managerial remuneration has been paid or provided in accordance with the
  requisite approvals mandated by the provisions of section 197 read with schedule V to
  the companies Act, 2013.
- If not, state the amount involved and steps taken by the company for securing
  refunds of the same.

NIDHI COMPANY
- Whether the Nidhi company has complied with the Net owned funds to Deposits
  in the ratio of 1:20 to meet out the liability and
- Whether the nidhi company IS maintaining 10% unencumbered term deposits as
  specified in the Nidhi Rules, 2014 to meet out the liability.

RELATED PARTY TRANSACTIONS
- Whether all the transaction with the related parties are in compliance with
  section 177 and 188 of the companies Act, 2013 where applicable and
- The details have been disclosed in the FS, as required by the applicable
  accounting standards.

PRIVATE PLACEMENT OR PREFEREMENT ISSUE
- Whether the company has made any preferential allotment or private placement of
  share or fully or partly convertible debentures during the year under review.
- and if so as to whether the requirement of section 42 of the companies Act, 2013
  have been complied with and
- the amount raised have been used for the purposes for which the funds were raised,
  if not provide the details of non-compliance.

NON CASH TRANSACTION (RTP May'17)
Whether the company has entered into any non-cash transactions with directors or persons
connected with him and If so whether provisional of section 192 of companies Act, 2013
have been complied with.
Whether the company is required to be registered under section 45-IA of the RBI Act, 1934 and if so whether the registration has been obtained.

**MEMORY TECHNIQUE FOR CARO**

FILL D Cost Records Duly & Repayment Records Publicly, Fill Rum Glass with NaRiyal PaNi, RBI

1. F → Fixed Assets
2. I → Inventory
3. L → Loan to Related Party
4. L → Loans / Guarantees / Securities / Investments
5. D → Deposits
6. Cost Records → Cost Records as per section 148
7. Duly → Statutory Dues
8. Repayment Records → Repayment of Loans
9. Publicly → Public Offer – IPO
10. Fill → Reporting of Fraud
11. Rum Glass with → Remuneration
12. Nidhi Company
13. Related Party Transaction
14. Private Placement or Preferential Allotment
15. Non-Cash Transactions
16. RBI → Register under RBI Act, 1934