Padhuka's

Practical Learning Series

ADVANCED AUDITING, ASSURANCE & PROFESSIONAL ETHICS

For CA Final New Syllabus 2023

...plicable for May 2024 and onwards Examination

1st Edition December 2023

Updated with Latest amendments including MCQs for Practice

Highlights of this Book:

- Complete coverage of **New Syllabus** of ICAI for CA Final
- Refreshing Format and Style of Presentation
- **Re–engineering** of Topics Arrangement to suit more effective learning
- All Recent **Disciplinary Cases**/ Ethics included
- **Past 60 Main Exams and RTPs** covered including **solutions to Latest Exams**
- Complete discussion on All the **Engagement Standards** including **Standards on Auditing**
- Use of **Tables and Flowcharts** for easy memory
- **Fast Track Referencer** for Quick Revision and **topic wise MCQs** for Practice
- Single Tool for effective learning, and Exam Preparation

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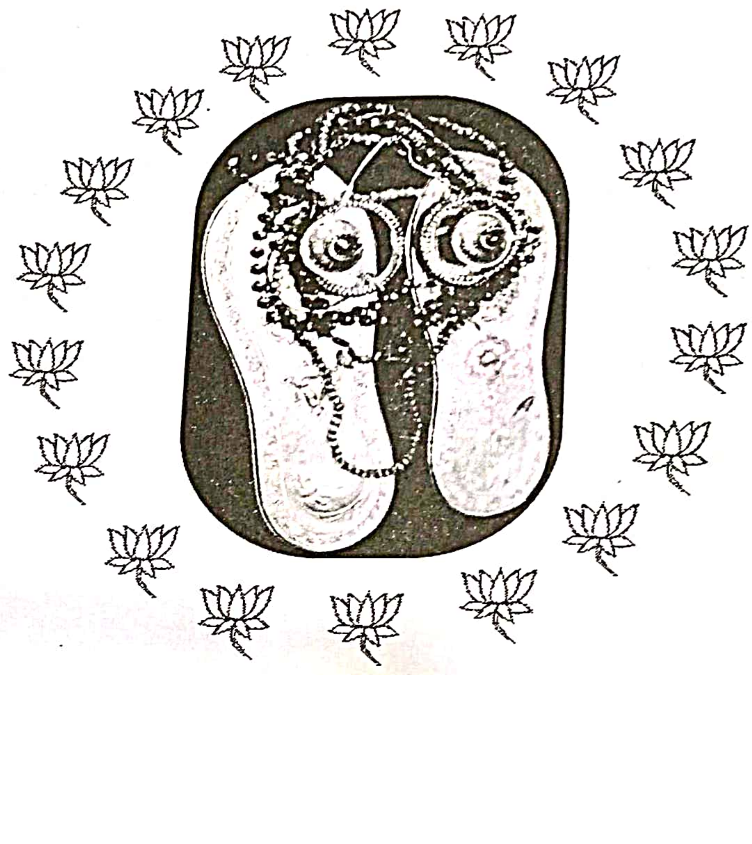
PRANAMS

TO

THE ACHARYAS OF KANCHI



PREFACE

This First Edition of **Padhuka's Practical Learning Series – Advanced Auditing, Assurance and Professional Ethics – For CA Final (New Syllabus)** comes to you with the following special features:

- Complete coverage of **New Syllabus** of ICAI for CA Final .
- Refreshing Format and Style of Presentation.
- **Re–engineering** of Topics Arrangement to suit more effective learning.
- All Recent **Disciplinary Cases**/ Ethics included.
- **Past 60 Main Exams and RTP** covered **including solutions to Latest Exams.**
- Complete discussion on **All the Engagement Standards** including **Standards on Auditing.**
- Use of **Tables and Flowcharts** for easy memory.
- **Fast Track Referencer** for Quick Revision and topic wise **MCQ's** for Practice.
- Single Tool for effective learning, and Exam Preparation

This Book has been crafted to help the students obtain a professional approach, with a specific exam orientation. Also, since the Student has to manage both practical training with exam preparation, care has been taken to present the information in a manner suitable to assimilate concepts and use them practically in the examination.

The Author would like to highlight to Students, the need to prepare properly for the Final Exams, particularly for **Advanced Auditing Paper**, in which **good marks can be scored** with properly directed preparation and presentation.

The Authors express their gratitude to **The Institute of Chartered Accountants of India** for granting permission to use questions from Previous Examinations and Revision Test Papers (RTP).

Many thanks to the Users of our Padhuka's Books for their positive feedback, which reflects the benefits they have reaped from this Book, and also their keen interest to reciprocate with constructive suggestions.

The Author also thank the efforts and co–operation of the various Service Providers in bringing out this Edition including the support of the Publishers, in quickly getting this Book in the current form.

Valuable Suggestions and Constructive Feedback from Users would be highly appreciated, gratefully acknowledged and suitably incorporated.

Chennai — With Best Wishes

December 2023 — **G Sekar**

ICAI Syllabus

PAPER 3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS (100 MARKS)

Objective:

- To gain the ability to analyze current auditing practices and procedures and apply them in auditing engagements.
- To develop the ability to solve cases relating to audit engagements.

Quality Control

- SQC 1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements
- SA 220 Quality Control for an Audit of Financial Statements

General Auditing Principles and Auditors Responsibilities

- SA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements SA 250 Consideration of Laws and Regulations in an Audit of Financial Statements
- SA 260 Communication with Those Charged with Governance SA 299 Joint Audit of Financial Statements
- SA 402 Audit Considerations Relating to an Entity Using a Service Organisation

(**Note:** Content of SA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing; SA 210 Agreeing the Terms of Audit Engagements and SA 230 Audit Documentation is covered in depth at Intermediate level. Thus, application part of above SAs may be discussed in the form of Case Study at Final level.)

Audit Planning, Strategy, and Execution

- SA 300 Planning an Audit of Financial Statements; (Content is covered in depth at Intermediate level, therefore, application part of SA 300 may be discussed in the form of Case Study at Final level.)
- SA 450 Evaluation of Misstatements identified During the Audit
- SA 520 Analytical Procedures
- SA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures
- SA 610 Using the Work of Internal Auditors
- SA 620 Using the Work of an Auditor's Expert

Materiality, Risk Assessment and Internal Control

Evaluation of Internal Control Procedures; Components of Internal Controls; Internal Control and Risk Assessment; Auditor's response to assessed risks; Risk-Based Audit- Audit Risk Analysis; Reporting on Internal Control Weaknesses, Framework on Reporting of Internal Controls

- SA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
- SA 330 The Auditor's Responses to Assessed Risks

(**Note:** Content of SA 315 Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment and SA 320 Materiality in Planning and Performing an Audit is covered in depth at Intermediate level. Thus, application part of above SAs may be discussed in the form of Case Study at Final level.)

Audit Evidence

(**Note:** Content of SA 500 Audit Evidence; SA 501 Audit Evidence - Specific Considerations for Selected Items; SA 505 External Confirmations; SA 510 Initial Audit Engagements – Opening Balances; SA 530 Audit Sampling & SA 550 Related Parties is covered in depth at Intermediate level. Thus, application part of above SAs may be discussed in the form of Case Study at Final level.)

Completion and Review

(**Note:** Content of SA 560 Subsequent Event; SA 570 Going Concern and SA 580 Written Representation is covered in depth at Intermediate level. Thus, application part of above SAs may be discussed in the form of Case Study at Final level.)

Reporting

- SA 700 Forming an Opinion and Reporting on Financial Statements
- SA 701 Communicating Key Audit Matters in the Independent Auditor's Report
- SA 705 Modifications to the Opinion in the Independent Auditor's Report
- SA 706 Emphasis of Matter Paragraphs & Other Matter Paragraphs in the Independent Auditor's Report
- SA 710 Comparative Information – Corresponding Figures and Comparative Financial Statements
- SA 720 The Auditor's Responsibility in Relation to Other Information

Specialized Areas

- Basic and Overview of SA 800 Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks
- Basic and Overview of SA 805 Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
- Basic and Overview of SA 810 Engagements to Report on Summary Financial Statements

Audit-related Services

- Basic and Overview of SRS 4400 Engagements to Perform Agreed-upon Procedures Regarding Financial Information
- Basic and Overview of SRS 4410 Compilation Engagements

Review of Financial Information

- Basic and Overview of SRE 2400 Engagements to Review Historical Financial Statements
- Basic and Overview of SRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity

Prospective Financial Information and Other Assurance Services

- Basic and Overview of SAE 3400 The Examination of Prospective Financial Information
- Basic and Overview of SAE 3402 Assurance Reports on Controls at a Service Organisation
- Basic and Overview of SAE 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus

Digital Auditing and Assurance: Auditing digitally and Digital auditing, Usage of Automated Tools such as CAAT, Data Analytics, Artificial Intelligence, etc., Remote Auditing

Group Audits: Audit of Consolidated Financial Statements - Responsibility of Parent Company, Auditor of the Consolidated Financial Statements; Audit Considerations - Permanent Consolidation, Current Period Consolidation; Reporting Audit of Group Financial Statements including the work of Component Auditors.
(SA 600 Using the Work of Another Auditor)

Special Features of Audit of Banks & Non-Banking Financial Companies

Overview of Audit of Public Sector Undertakings: Concept of Propriety Audit; Performance Audit; Comprehensive Audit

Internal Audit: Provisions of Internal Audit as per Companies Act, 2013; Scope of Internal Auditing; Relationship between Internal and External Auditor; Basics of Internal Audit Standards issued by the ICAI; Drafting of Internal Audit Report; Audit Trail, Internal Audit as a Management Function

Due Diligence, Investigation and Forensic Accounting: Due Diligence Review; Audit versus Investigation; Steps for Investigation; Types of Investigation; Procedure, Powers, etc. of Investigator; Types of Fraud, Indicators of Fraud, Follow-up thereof; Forensic Accounting- meaning, difference between Statutory Audit and Forensic Accounting, Forensic Accounting and Investigation Report, Introduction of Forensic Accounting and Investigation Standards

Emerging Areas: Sustainable Development Goals (SDG) & Environment, Social & Governance (ESG) Assurance

Professional Ethics and Liabilities of Auditors: Introduction of Code of Ethics as per IESBA and Code of Ethics with special reference to the relevant provisions of the CA Act, 1949 and the Regulations thereunder; Application of Fundamental Principles; Application of Threats, Evaluation of Threats; Addressing Threats and Safeguards; Conceptual Framework; Important Provisions of Chartered Accountants Act,1949 and Chartered Accountants Regulations 1988.

Q	Topic	Reference	M
5 (c)	CA Act & Professional Ethics	**Refer – Clause (11) of Part I of First Schedule** **See Page 9.50, Various Illustrations** **[RTP, N 08, N 06]** **Hint answer:** CA Sonu is guilty of Professional Misconduct. This is a **Non-Professional Journal**, as it may be circulated to general public and non-professionals also. Hence, **Special Permission** of the Council is required in this case.	4
6 (b)	Investigations under Companies Act, 2013	**See Page 7.8** **Para 7.2.1 & 7.2.3**	5
6 (c)	CA Act & Professional Ethics	**Refer – Clause (1) of Part II of Second Schedule** **See Page 9.80, Various Illustrations** **[RTP, N 08, N 06]** **Hint Answer:** CA R is not guilty of Professional Misconduct. Recovery of Fees on progressive basis is permissible.	4

FTR 1

AUDITING UNDER DIGITAL ENVIRONMENT

Topics	Points to remember
Digital Audit	Every organization must review their **technology-related controls** to identify gaps and risks for continuous improvement and to ensure regulatory compliance. **effectiveness of the IT systems** implemented in an organization.
Benefits	Enhanced Effectiveness & Efficiency, Better Audit Quality, Lower Costs, Better Analytics, Improved Risk Assessment
Auditing Digitally	**Auditing digitally** is using **advancements in technology** for conducting an effective and efficient audit. **Scope:** Improved Quality of Audits, Decreasing human dependency, Increases Transparency, Automation and Ease, Improved Efficiency, Better risk assessment.
Key Considerations for Auditors	Understand the flow of Transaction, Identification of Significant Systems, Identification of Manual and Automated Controls, Identification of the technologies used such as Block Chain, IoT, Robotics, Biometrics, Artificial intelligence, Drone, Assessing the complexity of the IT environment
Risk With IT	(a) **Unauthorized access to data** that may result in destruction of data or improper changes to data. (b) IT personnel gaining **access privileges.** (c) **Failure to make necessary update** IT applications. (d) **Data loss or data corruption** is a major risk which arises from use of IT. (e) **Risk of system downtime (offline/unavailable)** due to Hardware Failures, Faulty Configurations, Cyber Attacks or Power Outage. (f) **Risk of regulatory compliances** in IT increases.
Areas of IT Dependencies	An Auditor is required to– (a) Identify and document the extent of entity's IT dependencies consistently, (b) understand how IT is integrated into the entity's business model, (c) Identify potential risks arising from the use of IT, (d) Identify related IT General Controls and enables us to develop an effective and efficient audit approach. **Types of IT Dependencies:** Automated Controls, Reports, calculations, security, Interfaces
Cyber Risks	A Cyber-attack is an attempt to gain unauthorized access to a computing system or network with the intent to cause damage, steal, expose, alter, disable, or destroy data. **Cyber Risks:** Malware, Denial-of-Service (DoS) Attacks, Phishing, Spoofing, Identity-Based Attacks, Insider Threats, DNS Tunneling, IoT-Based Attacks. **Stages of Cyber Risks:** 1. **Assessing cyber risks**– Common Risks like Ransomware, Common criminals, Insiders committing malicious activities 2. **Impact of cyber risk**– Intellectual property theft, Data loss, reputational loss, Breach of Privacy, Business interruptions causing an operational challenge, Regulatory costs. 3. **Managing cyber risks**– Gain a holistic understanding of the cyber risks, Assess existing IT and cyber security program, Align cyber security and IT transformation, documented Compensating controls
Cyber Security Framework	(a) **Identify the Risk**– Entity should conduct a **periodic risk assessment,** should maintain and periodically reviews an **inventory of their information assets.** The entity should classify and prioritize protection of their information assets based on **sensitivity and business value.** (b) **Protect the risk**– Entity monitors whether there has been **unauthorized access to electronic assets, Formal training** should be conducted to mitigate Cyber Attack, implement **effective controls for data security** (c) **Detect the risk**– Review entity's processes to monitor and detect **security breaches or incidents,** firewall logs are being continuously monitored to detect any **repetitive attacks**

	(d) Respond to Risk– Entity should have a **response planning, Security Incident Response Plan** (e) **Recover from Risk–** Once the impact evaluated and communicated with the regulators the recovery plan needs to be implemented Necessary improvements – like patch upgrades, better controls, and improved technology in terms of firewall, anti-virus, tools etc needs to be implemented to safeguard the entity.
Internal Control check point	Controls around Vendor setup and modifications, Controls around electronic transfer of funds, Controls around patch management.
Remote Audit	(a) Remote audit or virtual audit is when the auditor uses the online or electronic means to conduct the audit. (b) **Mode of Conduct:** It could be partially or completely virtual, auditor engages using technology to obtain the audit evidence or to perform documentation review with the participation of the auditee. (c) **Key Considerations:** Feasibility and Planning, Confidentiality, Security and Data Protection, (c) Risk assessment. (d) **Benefits:** Auditor can get first-hand evidence directly from the IT system, Cost and time effective, Widens the selection of auditors from global network of experts (e) **Disadvantages:** Remote access to sensitive IT systems may not be allowed, Cultural challenges for the auditor. Lack of knowledge for local laws and regulations could impact audit.
Emerging Technologies in Audit	(a) The data analytics methods used in an audit are known as Computer Assisted Auditing Techniques or CAATs. (b) Audit analytics or Audit Data Analytics involves analyzing large sets of data to find actionable insights, trends, draw conclusions and for informed decision making (c) CAAT Tools are Audit Command Language (ACL), Alteryx, Power Business Intelligence (BI), and Case Ware. (d) Automated Tools – IoT, AI, Block Chain, Non-Fungible Token, Robotic Process Automation.
Next Generation Audit	(a) **Drone Technology** –Using Drone Technology in the remote locations for stock counts. Drones have great payload capacity for carrying sensors and cameras, thus they can photograph and physically examine the count of large quantities of fixed assets and inventory. (b) **Augmented reality** – The technology allows users to view the real-world environment with augmented (added) elements, generated by digital devices. (c) **Virtual reality–** VR goes a step forward and replaces the real world entirely with a simulated environment, created through digitally generated images, sounds, and even touch and smell. (d) **Metaverse** – the emerging **3-D digital space** that uses virtual reality, augmented reality, and other advanced internet technology to allow people to have lifelike personal and business experiences online. (e) **Potential usage** – Virtual Banking and Transactions, Digital Asset Management, Virtual Financial Education and Training, Virtual Meetings and Conferences Data Visualization and Analytics.

FTR 2 Audit of CFS

Issues	Points to remember
CFS – Meaning	Consolidated Financial Statements (CFS) are presented for a Group of entities under the control of a Parent. A 'Parent' is an entity that has one or more Subsidiaries. A Group comprises a Parent and its Subsidiaries.
CFS – Framework	(a) Sec. 129 of the Companies Act, (b) SEBI Regulations and Listing Agreement Stipulations, (c) RBI Circulars requires Banks to prepare CFS to facilitate Consolidated Financial supervision.
Responsibility of Parent Company	(a) Identifying **Components** & including their financial information in the CFS, (b) Identifying **Reportable Segments** for segmental reporting, wherever applicable, (c) Identifying **Related Parties** and **Related Party Transactions** for reporting, (d) Obtaining accurate and complete **Financial Information** from the components, (e) Making appropriate **Consolidation Adjustments**.

Issues	Points to remember
Responsibility of the Auditor of CFS	The Auditor's objectives in an audit of Consolidated Financial Statements are – (a) **AS Compliance:** To satisfy himself that the CFS have been prepared in accordance with the requirements of AS 21, AS 23 and AS 27, and (b) **Opinion:** To enable himself to express an opinion on the **true and fair view** presented by the CFS.
Special Features – CFS	1. AS compliance and recognition of "Other Financial Information". 2. Using the work of other Auditors.
Major Audit Considerations	**Recognition of Components** 1. Identifying the Components 2. Evaluation of Ownership Control 3. Exclusion of Components 4. Evaluation of changes in Ownership **Accounting Aspects** 1. Permanent Consolidation Adjustments 2. Current Period Consolidation Adjustments 3. Compliance with Accounting Standards 4. Impairment Loss on Goodwill 5. Negative Minority Interest 6. Difference in Reporting Dates 7. Notes on Accounts 8. Disclosure **General Audit Aspects** 1. Planning 2. Management Representation 3. Reporting Obligations
Recognition of Components	1. Identifying the Components 2. Evaluation of Ownership vs Control 3. Exclusion of Components 4. Evaluation of Changes in Ownership
Permanent Consolidation Adjustments	1. Adjustments that are made only on the first occasion of preparation & presentation of CFS. 2. Determination of excess or deficit of the cost to the Parent (of its investment in a Subsidiary) over the Parent's portion of Equity of the Subsidiary, 3. Determination of the amount of Equity attributable to Minorities, and 4. Determination of Goodwill or Capital Reserve arising on application of Equity Method. 5. **Auditor's Duties** – (a) Verify calculations, (b) Examine the determination of Pre–Acquisition Reserves, (c) Examine allocation of Pre–Acquisition Reserves, (d) verify changes on account of subsequent acquisition, (e) Examine Joint Venture agreements, and (f) Verify Goodwill/ Capital Reserves arising on acquisition of various Subsidiaries.
Current Period Consolidation Adjustments	1. Adjustments that are made in the accounting period for which the Consolidation of Financial Statements is done. 2. **Auditor's Duties:** (a) Verification of Memorandum Records, (b) Verification of inter group transactions, uniform accounting policies, disclosures made in the CFS, adjustments made to harmonise different accounting policies, and calculation of Minority Interest, and (c) Gain understanding of procedures adopted by the Management.
Auditor's Duties – Accounting Aspects	1. Check whether AS 21, 23 and 27 are complied with. 2. Examine whether Goodwill arising on consolidation is tested for impairment. 3. Check for Negative Minority Interest. 4. Review of Component's Results where the Financial Statements of one or more of the Components are drawn upto different reporting dates. 5. Examine whether Notes which are necessary for presenting a true and fair view of the CFS have been included. 6. Verify whether disclosures required by AS 21,23, and 27 have been made.
Auditor's Duties – General Audit Aspects of CFS	1. Auditor to plan his work to conduct the Audit in an effective, efficient and timely manner. 2. Management Representation. 3. Reporting Obligations when – (a) the Parent's Auditor is also the Auditor of its all its Subsidiaries / Components (b) the Parent's Auditor is not the Auditor of one or more of its Subsidiary(ies) / Components

FTR 3 AUDIT OF BANKS

Issues	Points to remember		
Features of Bank's Book Keeping System	1. Personal Ledgers from vouchers which are summarised daily in a Summary Sheet. 2. Totals of Summary Sheet are posted in a Control Account. 3. Daily Trial Balances are extracted from the General Ledger. 4. Entries are verified by independent persons. 5. Periodical Trial Balances are prepared. 6. Cash, and Non-Cash (Transfer) Transactions are recorded. 7. Vouchers which evidence only Debit or Credit to an account, and those which contain both Debit and Credit to different accounts (Composite Vouchers).		
Auditor's Report	1. True and Fair View of the Financial Position. 2. Information relating to number of Unaudited Branches. 3. Additional Matters u/s Sec.30 (3) of Banking Regulation Act. 4. LFAR, and Certificates.		
Bank Audit = Balance Sheet Audit	1. **Reasons:** (a) Effective Internal Controls, (b) Receipt Verification, (c) Payment Verification, (d) Balancing Books, (e) Financial Position, (f) Directors' Role, and (g) Internal Inspection Department and regular audits. 2. **Need:** (a) Adoption of very elaborate and formal control systems by organisations, (b) Growth in size of business, (c) Increase in number of transactions of homogeneous nature, and (d) Computerisation and use of EDP controls in financial data processing.		
Risks	1. Country Risk, Credit Risk, 2. Currency Risk, 3. Fiduciary Risk, 4. Interest Rate Risk, 5. Legal & Documentary Risk,	6. Liquidity Risk, 7. Modelling Risk, 8. Operational Risk, 9. Price Risk, 10. Regulatory Risk,	11. Replacement Risk, 12. Reputational Risk, 13. Settlement Risk, 14. Solvency Risk and 15. Transfer Risk.
IC Procedures – General	1. Work done by one person verified by another Higher Official. 2. Staff and Officers shall be transferred frequently and without prior notice. 3. Powers and duties of different Officers to be clearly defined. 4. Fidelity Insurance. 5. Arithmetical accuracy of Books verified everyday. 6. Documents Signature Book and the Telegraphic Code Book kept in proper custody. 7. Mail received to be opened by a Responsible Officer. 8. Surprise Inspection of Head Office and Branches.		
IC Procedures – Cash	1. Joint custody of two Responsible Officers. 2. Test-checked daily and counted in full occasionally. 3. Cashier should have no access to the Customers' Ledger Accounts. 4. Counterfoil of the Cash Receipt Vouchers should be signed by an Officer. 5. Payment Vouchers properly verified by the Responsible Officer. 6. Scroll vs Day-Book, verified by independent persons. 7. Payment made by Teller to be verified, and frequent rotation of Tellers, to avoid fraud.		
IC Procedures – Constituents' Ledgers	1. **Verification** of signature, date, balance in hand. 2. **Restriction:** No customer should be allowed to withdraw any amount against Cheques sent for clearing on the same day. 3. **Ledger** shall be verified with original documents by a Responsible Officer. 4. Verification of Interest debited / credited. 5. Person maintaining the Ledger should not have access to Voucher Summary Sheet.		
IC Procedures – Clearing	**Incoming Clearing** • Verified with the Clearing List. • Respective customers' a/c should be debited. • Unpaid Cheques should be separately listed.	**Outgoing Clearing** • List of Cheques sent for clearing. • Chqs returned unpaid to be checked.	

Issues	Points to remember	
IC Procedures – Bills for Collection	1. Bills to be serially numbered. 2. Customers' Accounts shall be credited. 3. Bills sent for Collection to another Branch of same Bank ignored during consolidation of B/S.	
Bills Disc/Purc	1. Verification, 2. Margin, 3. Dishonour, 4. Report to HO, and 5. Apportionment of Disc. Income.	
Loans and Advances	1. Proper authorization, 2. Execution of necessary documents, 3. Adequate Margin, Joint Custody, 4. Registration in name of the Bank, 5. Goods pledged to be inspected,	6. Surprise checks, 7. Verify Market Value of goods, 8. Drawing Power, 9. Periodical review of operations, and 10. Attention of Management for irregularities.
Inter Branch Accounts	Adjusted only on the basis of advices received from the Branches. Prompt action shall be taken by HO in respect of entries not responded by any Branch.	
TT & DD	1. Reliable Private Code, 2. Verification of Signatures, 3. Confirmation, 4. Information to HO.	
Credit Card operations	1. Credit worthiness, 2. Control over Storage and Issue of Credit Cards, 3. Merchants' Report, 4. Reimbursements to Merchants,	5. Follow up Customers payments, 6. Defaulting Customers, and 7. Periodical Review.
Features of CIS Systems	1. Controls, 2. Structure, 3. Start and End Processes, 4. Single Point Update,	5. Online Checking, 6. Back–Ups, 7. Report Generation, and 8. Systems Audit.
Concurrent Audit	1. Concurrent Audit / verification of a transaction / activity of an organisation concurrently, i.e. at the same time the transaction / activity takes place. 2. Each Bank is at liberty to decide whether Concurrent Audit should be done by Bank's own staff or External Auditors. 3. Appointment may be initially for 1 year and can be extended upto 3 years. 4. Remuneration fixed by the Bank Management. 5. Compulsory Concurrent Audit Branches / Divisions of a Bank are – • Departments / Divisions of the HO which deals in Treasury Functions like Investments, Funds Management including Inter Bank Borrowings, Bill Re–discount, Foreign Exchange Business. • Branch Offices, dealing in Treasury Functions, Bill Re–discount, Foreign Exchange businesses, Dealing Rooms. 6. Selection of Branches/ Divisions/ Depts should ensure that Concurrent Audit covers – • Branches whose total credit and other risk exposures aggregate to not less than 50% of the total credit and other risk exposures of the Bank, and • Branches whose aggregate deposits cover not less than 50% of the aggregate deposits.	
Cash	1. Verification of daily cash transactions, 2. Proper accounting in books, and	3. Proper recording of Currency Chest Transactions.
Investments	1. Physical verification of Securities, 2. Delegated Powers of the Branch,	3. Purchase/Sale Transaction Rate, 4. Compliance with Statute.
Deposits	1. New & Matured Deposits, 2. Large Deposits – Interest,	3. Opening of New Account, and 4. Unusual operations in new accounts.
Advances	1. Sanction, 2. Adequate Securities, 3. Proper Documentation, 4. Regular Supervision & follow–up, 5. Utilization of Loans,	6. Guarantees & LC's, 7. Overdue Bills, 8. Claims to DIGGC and ECGC, 9. Compliance with Guidelines, 10. Exceeding of delegated powers.
Foreign Exchange Transactions	1. Letters of Credit, 2. Guidelines / Rules, 3. Dealing Room Operations, 4. Inward / Outward Remittances,	5. Extension / Cancellation of Forward Contracts, 6. Balances in Nostro A/c, 7. Overbought / Oversold position maintained in different currencies, and 8. Reconciliation of Nostro & Vostro A/c entries.

Issues	Points to remember	
House Keeping	1. Maintaining and balancing accounts, 2. Entries outstanding, 3. Timely adjustment of large value entries, 4. Percentage check of calculations, 5. Income Account Review,	6. Transactions of Staff Accounts, 7. Day-Book Review, 8. Income and Expenditure heads, 9. Chqs Returned / Bills Returned Register, and 10. Inward and Outward Remittances.
Concurrent Audit Report	1. Contents – (a) Major Irregularities, (b) Minor Irregularities, and (c) Pending Matters. 2. Period – (a) Daily / Monthly, (b) Quarterly and (c) Flash Reports.	
Audit Committee	1. **Constitution** – (a) Executive Director, (b) Nominees of the Central Government, (c) Nominees of RBI, (d) Chartered Accountant Director, & (e) one of the Non–Official Directors. 2. **Functions** – provide direction, review the Internal Inspection and review the system of appointment and remuneration of Concurrent Auditors.	
Legal Requirements	1. SLR Requirements, 2. Restriction on Shareholding (30%), 3. Ceiling on overall exposure to Capital Market (5% on Advances and 20% of Net Worth), 4. Investments in Bonds of Corporates,	5. Cross Holding Norms (10% of Capital Funds), 6. Investment in Unlisted Non–SLR Securities, 7. Depreciation etc. and 7. Special Purpose Certificates
Internal Control in relation to Investments	1. Objectives, 2. Expertise, 3. Separation of Functions, 4. Deal Slips, 5. Recording – Vouchers, Same Day, PMS Vouchers and T+1, 6. Sale of Securities not in hand,	7. Ready Forward (RF) Deals, 8. No Buy–Back, 9. Brokers, 10. PDO Reconciliation, 11. Reporting, 12. Review and Audit, and 13. Third Party Transactions.
Bank Receipts	BR is an acknowledgement from the Selling Bank to the Buying Bank, that the former has received payment for certain securities, which it will deliver within a certain time. BRs are non–transferable.	
STRIPS	1. STRIPS = Distinct, separate securities that are created from the Cash Flows of a Government Security. STRIPS shall consist of – (a) Coupon Strips, and (b) Principal STRIPS. 2. Stripping results in Coupon STRIPS for all outstanding coupon pymts and one Principal STRIPS for the redemption payment. Each STRIPS = ZCB since it has only one Cash Flow at maturity. 3. Stripping / Reconstitution shall be for minimum of ₹ 1 Crore and in multiples thereof.	
Portfolio Mgmt Services (PMS)	1. RBI Approval 2. Risks,	3. Tenure, 4. Funds Use,
	5. Records, 6. Own Investments vs PMS,	7. Separation of Functions, 8. Investments and Audit.
Investment Classification	Investments to be classified into – (1) Held–To–Maturity (HTM), (2) Held–For–Trading (HFT) and (3) Available–For–Sale (AFS) categories.	
Held–To–Maturity (HTM)	1. **Purpose:** To hold till maturity. **Valuation:** At Cost. 2. **Ceiling Limit:** HTM Investments should not exceed 25% of the Total Invt of the Bank. But, (i) Recapitalisation Bonds, (ii) Investment in Subsidiaries and Joint Ventures and, (iii) Investments in Debentures / Bonds are excluded in calculating the above ceiling.	
Held–For–Trading (HFT)	1. **Purpose:** For trading, i.e. sale within 90 days of acquisition. 2. **Valuation:** Marked–to–market basis at monthly or more frequent intervals. 3. **Gains:** Gains realised on sale of Investments in HFT, can be transferred to the IFR, by passing through the P & L A/c.	
Available–For–Sale (AFS)	1. **Purpose:** Investments other than HTM and HFT. 2. **Valuation:** "Marked–to–market" at quarterly intervals. 3. **Gains:** Gains realized on sale of investments in HFT and AFS securities, can be transferred to the IFR, by passing through the P & L Account.	
Shifting Investments from one category to another	1. **Reaching 25% Limit:** If the Bank has already marked–to–market, more than 75% of its SLR portfolio, reclassification to bring HTM to 25% limit is possible. 2. **HFT to AFS:** If HFT securities are not sold within 90 days, it is shifted to AFS, with the approval of BOD and Asset–Liability Committee (ALCO) / Investment Committee. 3. **AFS to HFT:** Shifting possible only with approval of BOD and ALCO. 4. **From / To HTM:** Shifting possible only at the beginning of the accounting year, and not during the year. BOD approval is necessary. 25% Ceiling Limit should be complied with.	

Issues	Points to remember
	5. **Manner:** Transfer to be done at least of – (a) Acquisition Cost, (b) Book Value, or (c) Market Value on the date of transfer. Depreciation to be fully provided for, at the time of transfer.
Investment Fluctuation Reserve (IFR)	1. IFR of a **minimum 5%** of the Investment Portfolio (HFT & AFS Category only) within a period of 5 years; higher percentage with approval of Board of Directors **(upto 10% of Portfolio).** 2. Maximum amount of gains realized on sale of investments in HFT and AFS securities, should be transferred to the IFR. 3. Balance in IFR can be included in **Tier 2 Capital** in computation of Capital Adequacy Ratio. 4. Transfer to Investment Fluctuation Reserve is an appropriation, i.e. "below the line".
Repo and Reverse Repo	1. A Repo Agreement is the sale of a security with a commitment to re–purchase the same security at a specified price on a specified date. A Reverse Repo is a purchase of security with a commitment to sell at a pre–determined price and date. 2. Interest for the period of Repo = Difference between Sale Price and Purchase Price.
Non Performing Investments	1. Non–Performing Investment (NPI), is one where interest / instalment (including maturity proceeds) is due and remains unpaid for more than 90 days, and includes certain items. 2. Special Issues: (a) Restructuring, (b) State Govt Guarantee, (c) Central Govt Guarantee.
Recognising Income from Investments	1. Income on NPI, 2. Government Guarantee, 3. Dividends, 4. Fixed Interest Rate bearing Instruments, 5. Units of MFs, and 6. Broken Period Interest
Verification of Investments	1. Evaluation of Controls, 2. PMS Account, 3. Confirmations, 4. Vouching, 5. Examination of Documents, 6. Physical Verification, 7. Income Recognition, 8. Valuation, 9. Disclosure.
Types of Advances	1. Cash Credit, 2. Working Capital Demand Loan, 3. Term Loan, 4. Foreign Currency Loans, 5. Overdraft, 6. Bills Purchasing/ Discounting and 7. Export Credit.
Restrictions on Advances	1. Directions by RBI, 2. Specified Parties, 3. Officers & Relatives, 4. Restrictions on Loans and Advances.
NPA – Meaning	1. Credit Facility (Advance) that ceases to generate Income for a Bank. 2. Banks can classify an account as an NPA only if the interest charged during any quarter is not serviced fully within 90 days from the end of the quarter.
Exceptions to General Rule for NPA	1. Borrower wise Vs. Facility wise 2. Net Worth of the Borrower 3. Availability of Security 4. Regularisation before B/S date 5. Take–out Finance 6. Consortium Advances 7. Temporary Deficiencies 8. Advances to "On–Lending" Arrangement 9. Advances with Moratorium 10. Staff Loans 11. Agricultural Advances affected by Natural Calamities 12. Adv. guaranteed by Central/ State Govt. & EXIM Bank 13. Export Project Finance 14. Advances against Term Deposits, NSC, KVP, LIC, etc
Interest from Advances	1. **Income Recognition Norms:** General rule – Accrual basis, • **Other Aspects:** Income from NPAs, Commission / Other Income, First time NPAs, Source of Credits, Take–out Finance, Central Government and Guaranteed Advances. 2. **Exceptions:** • Advances Secured against Certain Instruments • Appropriation of Recoveries in NPAs • Re–negotiated / Re–scheduled Loans
Asset Classifn & Provisioning	1. **Classification of Advances:** (a) Standard, (b) Sub–Standard, (c) Doubtful, (d) Loss Assets. 2. **Provisioning:** Refer Page 8.29 for details
Corporate Debt Restructuring (CDR)	Non–statutory, voluntary system based on Debtor–Creditor arrangement or Inter–Creditor Arrangement. Audit Procedures are – 1. Review the credit appraisal. 2. Review the operations in the account. 3. Examine disclosure of details of CDR in its Notes on Accounts. 4. Examine latest position of the Borrower Account.

Issues	Points to remember		
	5. See present classification of the Borrower Account. 6. Rehabilitation program approved by the CDR Cell.		
Sacrifice on NPAs if CDR is undertaken	1. Check appropriate credit risk premium for the specific borrower category for all restructured A/cs. 2. Ascertain appropriate rate of discount. 3. Check the computation of PV interest and the Sacrifice Amount. 4. See if entire amount has been written off or provided for, in case sacrifice is +ve. 5. Verify provision of adequate security coverage of loan, in case of restructuring of principal amts.		
Audit Procedure for Verification of Advances	**General Procedures** 1. Internal Controls 2. Subsidiary & Control Accounts 3. Ledger Scrutiny 4. Documentation 5. Security 6. General	**Specific Advances** 1. Priority Sector Advances 2. Advances covered DICGC / ECGC Guarantees 3. Seasonal Advances 4. Consumer Advances 5. Consortium Advances 6. Inter–Bank Participation Scheme	
Audit of Secured Advances	1. Treated as full secured only to the extent of value of the security. 2. Adv. covered by Bank / Govt Guarantee to be included in Unsecured Adv. to the extent of o/s. 3. First apply Primary Security, and Collateral Security is taken only for residual balance. 4. Advances which are not fully covered by security to be properly disclosed. 5. Shortfall in the value of Primary Security in one credit facility is set off properly. 6. Common Collateral Security for multiple advances to a Borrower. 7. Advances covered by ECGC / DICGC Guarantees. 8. Treatment of amount received from DICGC / ECGC. 9. Account fully secured by the securities the margin in which is lower than that stipulated rate. 10. Documentary bills under delivery–against–payment terms. 11. Documentary bills under delivery–against–acceptance terms remaining unaccepted. 12. Accepted bills are classified as 'Unsecured' unless collaterally secured.		
Adv. secured by Securities	1. Ensure that Advances made against approved securities only. 2. Ensure that the Bank has not made any Loan / Advances against its own Shares.		
Audit of Advances against Goods	1. Sanction 2. Stock Statements 3. Inspection 4. Stock Audit Reports	5. Hypothecation / Pledge 6. Insurance 7. Documents of Title 8. Third Party Certificates	
Audit of Adv. against LIC Policies	1. Policy 2. Assignment 3. Premium	4. Age 5. Surrender Value 6. Unpaid Premia	
Audit of Adv. against Imm. Property	1. Legal Opinion 2. Mortgage 3. Other Documents of Title	4. Insurance 5. Valuation Reports	
Advances against Other Assets	1. Bank's Own Deposit Certificates 2. Hire Purchase Documents 3. Plantations / Standing Crops	4. Packing Credit to Exporters 5. Third Party Guarantees	
Advances to DOTCOM Companies	1. Internal Controls 2. Sanction 3. Execution of Documents 4. Loan Documents	5. Borrower Evaluation 6. Security 7. Mortgaged Security 8. Account Scrutiny	9. Account Analysis 10. Statements 11. Provisioning
Documentary Bills Purchased Account	1. Whether all the conditions contained therein are being followed properly. 2. Physically verify all the Bills in the possession of the Bank. 3. Review the covering letters under which the Bills have been sent for collection. 4. Verify as to whether the advance is re–classified as Unsecured. 5. Verify as to whether in respect of bills remaining uncollected after the due dates. 6. Verify as to whether any party is misusing the facility by submitting bills. 7. Examine computation of discount on the Bills.		
Cash in Hand	1. Visit the Branch at the close of business on the last working day of the year. 2. Verify the Cash kept in different departments / locations simultaneously.		

Issues	Points to remember
	3. Review effectiveness of internal controls. 4. Examine Global Insurance Policy. 5. Obtain Certificate indicating denomination-wise cash balance. 6. See if physical Cash Balance tallies with the balance shown in Cash Book. 7. Inspect Foreign Currency Notes held and translation at Balance Sheet Date. 8. See if Currency Chest balance is not mixed up with the Cash Balances of the Branch.
Balance with RBI	1. Verify Ledger Bal. in each a/c with – (a) Certificates from RBI and (b) Reconciliation Stmnt. 2. Examine (a) Cash Transactions remaining unresponded, (b) Revenue items requiring Adjustments, and (c) Old Outstanding balances remaining unresponded.
Balance with Other banks	1. Reconciliation Statements 2. Year-end large transactions in inter–Bank a/cs 3. Balances in Deposit Accounts 4. Balances with Banks outside India
Money at Call and Short Notice	1. Proper system of authorisation for lending money at call and short notice. 2. For Call Loans, examine – (a) Certificates, and (b) Call Loan Receipts. 3. Subsequent repayments received from Borrowing Banks. 4. Call Loans made by the Bank are not netted off against Call Loans received by it. 5. Money–market lendings for more than 6 days are not classified under this head. 6. See if – (a) Interest has been properly accrued and accounted for and (b) Brokerage on such deposit & call loans do not violate RBI guidelines.
SLR Requirements	1. RBI Circulars 2. Audited Branches (12 selected dates) 3. Unaudited Branches 4. Consolidation 5. Cash / Gold etc 6. Inclusion / Exclusion from Liabilities 7. Provisions for Expenses
Fixed Assets	1. Accounting 2. Documents of Title 3. Vouching 4. Transfers 5. Subsidiary Records 6. Revaluation 7. Self–Constructed Assets 8. Compliance with Statute 9. Movable Assets 10. Software 11. Classification 12. Sale of Assets 13. Depreciation
Inter–Office Adjustments	1. Classification 2. Controls 3. Closing Balance 4. Ageing Analysis 5. Reconciliation 6. Drafts 7. Cash in Transit 8. Write–Offs 9. Interest
Other Assets	1. Interest Accrued, 2. Advance Tax/ TDS, 3. Stationery and Stamps and 4. Other Asset items.
Other Asset items	1. Interest–Free Staff Advances 2. Security Deposits 3. Suspense Account 4. Prepaid Expenses 5. Debit Balances on Government Account
Capital of Bank	1. Opening Balance of Capital – Audited Balance Sheet of the Previous Year. 2. Increase in Authorised Capital during the year – Special Resolution of Shareholders, MOA etc. 3. Increase in Subscribed / Paid–up Capital – Prospectus, Other Offer Document, Reports of Registrars to the Issue, Bank Statement, etc. 4. Fresh Contributions from Government (in case of Nationalised Banks) – Correspondence / Government Notification or Order, Bank Statement, etc.
Capital Adequacy Ratio (CAR)	1. **Meaning:** Adequacy or sufficiency of capital resources of a Bank in relation to the risk associated with its operations. **Minimum CAR** = 9% 2. **Computation:** [Capital Funds ÷ Risk–Weighted Assets & Off Balance Sheet items] × 100 3. **Classification:** Capital Funds classified into Tier I, Tier II and Tier III. 4. **Restrictions:** Banks cannot raise Capital by issue of – (a) Preference Shares, (b) Innovative Capital Instruments under Tier I Capital, (c) Hybrid Debt Instruments under Tier II Capital. 5. **Tier I Components for –** • **Indian Banks:** (Paid–Up Capital + Statutory Reserves + Other disclosed Free Reserves incl. Securities Premium & Capital Reserves arising out of surplus on sale of assets) **Less** (Equity Investments in Subsidiaries + DTA under AS-22 + Intangible Assets + Current and Brought Forward Losses) • **Foreign Banks:** Interest Free Funds provided by HO for CAR purposes+ Statutory Reserves + Surplus non–repatriable + Capital Reserve non–repatriable + Interest Free Funds from abroad, for purchase of property **Less** Dr. balance in HO Account, if any.

Issues	Points to remember
	6. **Tier II Components:** Undisclosed Reserves + Cumulative Perpetual Preference Shares + Revaluation Reserves + Hybrid Debt – Capital Instruments + General Provisions & Loss Reserves + Subordinated Debt + Investment Fluctuation Reserve.
Risk Adjusted Assets	1. **Meaning:** Value of all Assets shown in B/S and assets not shown in B/S (i.e. Off B/S Items) should be adjusted on the basis of degree of risk associated with such items. 2. **For B/Sheet Items:** RBI has stipulated different Risk Weights (in %) to different classes / categories of asset. **Risk Adjusted Value** = Nominal Value of the Asset Category × Risk Weight stipulated. 3. **For Off B/Sheet Items:** Credit Risk Exposure = Nominal Value × Credit Conversion Factor stipulated by the RBI. **Risk Adjusted Value** = Credit Risk Exposure × Risk Weights attributable to the relevant counter–party.
Reserves and Surplus	1. Opening Balances of various Reserves. 2. Additions to / deductions from Reserves. 3. Fact of appropriation of any sum from the Reserve Fund. 4. Appropriation from Securities Premium A/c. 5. Compliance with Foreign Laws in respect of Overseas Branches. 6. Dividends paid by the Bank
Audit Procedures for Verification of Deposits	1. **Current Accounts:** • Balances of individual accounts. • Whether balances of Subsidiary Ledgers and related Control Accounts tally. • Procedure for obtaining confirmation of balances. • Debit Balances in Current Accounts are not netted out on the Liabilities Side. • Inoperative A/cs – (a) proper authority for revival, and (b) significant reduction in balances. 2. **Savings Bank Deposits:** • Balances in individual accounts. • Whether balances of Subsidiary Ledgers and related Control Accounts tally. • Calculations of interest. • Inoperative SB Accounts (as given in Current Accounts above). 3. **Term Deposits:** • Covers Term Deposit Receipts (TDRs) and Cash Certificates. • Internal control over negotiation of rates of interest. • Test–check of Registers with counterfoils of TDR issued & discharged TDR returned to Bank. • Reconciliation of Subsidiary Ledger & General Ledger. • Provision for interest accrued on Term Deposits. 4. **Deposits Designated in Foreign Currencies:** • Compliance with RBI & HO instructions for acceptance & reporting of Foreign Currency Dep. • Foreign Currency Deposits (e.g. FCNR Deposits), have been converted into Indian Rupees at the rate notified by the Head Office. • Increase or decrease on account of the rate notified, has been taken to P & L Account. • Interest on deposits has been paid on the basis of 360 days in a year. • Conversion of FCNR(B) Deposits into NRE Deposits or vice–versa before maturity – compliance with procedures relating to pre mature withdrawal. 5. **Others:** 1. Interest Accrued But Not Due, 2. Overall Reconciliation and 3. Window–Dressing.
Borrowings of Bank	1. Disclosure 2. Interest 3. Vouching 4. Re–discount 5. Call and Short Notice 6. Branch Reports
Contingent Liabilities	**General Procedures** 1. Parties, 2. Adequacy of Controls, 3. Identification, 4. Recording, 5. Year–end amounts, 6. Import LC's, Trade Credit, 7. Other Parties and 8. Management Representation. **Specific Contingent Liabilities** 1. Claims against the Bank not acknowledged as debts, 2. Liability on Partly Paid Investments, 3. Liability on Outstanding Forward, Exchange Contracts, 4. Guarantees given on behalf of Constituents, 5. Acceptances, Endorsements and other Obligations, 6. Other Items for which the Bank is contingently liable, 7. Bills for Collection.
Acceptances, Endorsements	1. Adequacy of the internal control over LC Forms. 2. Balance of LC from the Register maintained by the Bank.

Issues	Points to remember
etc.	3. Guarantees of the customers, copies of the LC issued.
Audit Programme for Income Items	1. Loans and Advances 2. Processing Fees 3. Penal Interest 4. Inspection Charges 5. Incidental Charges 6. Demand Bills Purchased 7. Inland Bills Discounted 8. Bank Guarantee 9. Letter of Credit 10. Deposits
Expenditure Verification	1. Assess the overall reasonableness of the figure of Interest Expense. 2. Compare the average rate of interest paid on the relevant deposits. 3. Check the calculation of Salaries & Allowances etc 4. Vouch the Operating Expenses incurred for a few months, on random sample basis 5. Perform analytical review by comparing the ratio of various items of Operating Exp to Total Income.
Foreign Exchange Transactions	1. Translation 2. Classification 3. Inter–Branch Transactions 4. Profit / Loss 5. Guarantees 6. Reconciliation 7. Deposits 8. Country Risk 9. Deals Verification
NOSTRO Accounts	1. In order to be able to put through forex transactions, Banks maintain stocks of Foreign Currencies in the form of Bank A/cs (usually Current Accounts) with their Overseas Branches / Correspondents. 2. A Foreign Currency Account maintained by Indian Banks at their Overseas Centre is designated by it as NOSTRO Account. **Example:** A Bank in India maintaining a US Dollar account with its New York Office/ Branch/ Correspondent, is designated by the Indian Office as NOSTRO Account.
VOSTRO Accounts	A Foreign Bank in another country maintains stocks of Indian Rupees with their Indian Branch / Office / Correspondent. Such Indian Rupee A/cs are designated as VOSTRO Account. It is as good as any other account in the local currency. **Example:** A Bank in Germany maintaining a VOSTRO Account in / Rupee Terms with an Indian Bank.
LORO A/c	It is a record of an account held by a second bank on behalf of a third party. It is an account wherein a bank remits funds in FOREX to another bank for credit to an account of third party.
Provision for Taxation	1. Necessary adjustments in Financial Statements as required by the Memorandum of Changes. 2. Net Interest on inter–Branch transactions is reversed. 3. Items that are accounted for at HO are properly taken into account. 4. Bad Debts and Provision for Bad and Doubtful Debts. 5. Sec.43D of the Income Tax Act is complied with. 6. DTAA's are considered wherever applicable. 7. Deduction of HO Expenditure for Non–Resident Banks. 8. Compliance with Interest Tax Act, 1974 in respect of computation of Interest Tax liability.
Audit of Consolidation of Branch Returns	1. Interest on inter–Branch balances 2. Notes on Accounts in Branch Returns 3. Special attention to large advance accounts 4. Memoranda of Changes 5. Unaudited returns 6. Non–receipt of return from any Branch 7. Overseas Branches
Fraud Reporting	1. Nature of Reporting 2. Classification of Frauds 3. Other Reporting Requirements 4. Fraud Reporting Compliance 5. Frauds by Unscrupulous Borrowers

FTR 4 AUDIT OF NBFC's

Issues	Points to remember
Definition [Sec.45–I(f) of RBI Act]	**a Non–Banking Financial Company means:** (i) A **Financial Institution** which is a Company, (ii) A **Non–Banking Institution** which is a company, with principal business of receiving of deposits, under any scheme or arrangement or in any other manner, or lending in any manner, (iii) Such other Non–Banking institution or class of such institutions, as the Reserve Bank with the previous approval of the Central Government may specify by notification.
Registration with RBI	A Non–Banking Financial Company is allowed to commence or carry on the business of a Non–Banking Financial Institution only after obtaining a certificate of registration issued by the Reserve Bank of India. It shall have a minimum Net owned fund of ₹ 2 Crores.

Issues	Points to remember	
Types of NBFCs	1. NBFCs – (a) Equipment Leasing Company, (b) Hire Purchase Finance Company, (c) Investment Company, (d) Infrastructure Finance Company, (e) Infrastructure Debt Fund (IDF) NBFC, (f) Core Investment Company, (g) Loan Company, (h) NBFC – MFI	
Core Investment Company (CIC)	1. CIC means a NBFC carrying on the business of acquisition of Shares and Securities which satisfies the conditions as prescribed. 2. **CICs with Asset Size ≥ 100 Crores** and raises or holds Public Funds, will be regarded as Systemically Important Core Investment Companies.	
Micro Finance Institution	An NBFC – MFI is a **non deposit taking NBFC** (other than a Company licensed u/s 8 of Companies Act, 2013), that fulfils the prescribed conditions.	
Auditor's Report in case of NBFCs	1. All NBFCs: (a) Registration Certificate, and (b) NOF Requirements. 2. NBFCs accepting/holding Public Deposits – (a) Limit on Public Deposits, Credit Rating, Limit on Public Deposits, Default, Prudential Norms, Capital Adequacy, Liquidity and Return on Investments, Opening & Closing of Branches. 3. NBFCs not accepting public deposits – Resolution, Public Deposits, Prudential Norms, Classification 4. Investment Company – Resolution, Public Deposits, Identification of Group Company, Minimum Investment and Restriction on trading. 5. Report to RBI: In case of Qualified/ Unfavourable Statement/ Non Compliance with provisions of NBFC (RBI) Directions.	
General Audit Procedures for NBFCs	1. Ascertaining the Company's Principal Business. 2. Internal Control System 3. Compliance with RBI Act provisions. 4. Compliance with NBFC Public Deposit Directions as to – (a) Type/ Nature of NBFC, (b) Advertisement, (c) Deposit Register and Interest, (d) Returns, and (e) Resolutions. 5. NBFC Prudential Norms/ Directions	
HPFC or Leasing Company	1. Internal Controls, 2. Asset Verification, 3. Asset Acquisition, 4. Valuation/ Installation Reports, 5. Physical verification,	6. Endorsement in RC 7. HP Installments, 8. Overdue Installments, 9. Accounting, 10. Insurance and Repossession.
Investment Company	1. Physical Verification, 2. Ceiling on Loan / Investment, 3. Advance against Own Shares, 4. Income Recognition – Cash Basis and Bond / Debenture Income, 5. Contract Notes, 6. Investment Classification,	7. Valuation, 8. Subsidiary / Group Companies, 9. Unquoted Bonds, 10. AS – 13, 11. Securities Lending Scheme – Tenure / Fees / Collateral Security, Receiving Back, Confirmations. 12. Prudential Norms of RBI
Loan Company	1. Controls, 2. Terms of Sanction, 3. Security, 4. Realisability, 5. Confirmation of Balances, 6. Bill Discounting,	7. Ceiling on Loans / Investments, 8. Loan against Own Shares, 9. NBFCs providing funds in ICD Market, 10. Level of NPA, 11. Prudential Norms, 12. Income Recognition and NPA Provisioning.
Classification of Frauds by NBFCs	1. Misappropriation and Breach of Trust. 2. Fraudulent Encashment through Forged Instruments, Manipulation of Books of Account or through Fictitious Accounts and Conversion of Property. 3. Unauthorized Credit Facilities extended for reward or for illegal gratification. 4. Negligence and Cash Shortages. 5. Cheating and Forgery. 6. Irregularities in Foreign Exchange Transactions. 7. Any other type of fraud not coming under the specific heads as above.	

FTR 5

AUDIT OF PUBLIC SECTOR UNDERTAKINGS

Issues	Points to remember	
C & AG	1. Appointed by President of India. 2. Removal by House of Parliament; majority of not less than 2/3 of the members. 3. Powers and Duties – As prescribed under the C & AG Act,1971 4. Accounts maintenance – as prescribed by President based on C & AG's advice. 5. Submission of Report to President/ Governor, and placed in Parliament/ Legislature.	
Govt. Audit Expenditure – Audit Principles	1. Audit against **Rules and Orders** – Expenditure conforms with relevant provisions of the constitution and financial rules issued by a Competent Authority, 2. Audit of **Sanction** – (a) Item of expenditure is properly covered by a sanction, either general or special, and (b) authority sanctioning is competent. 3. Audit against **Provisions of Funds** – (a) Expenditure incurred is for the purpose to which grant and appropriation has been provided, and (b) amount does not exceed the appropriation made. 4. Audit of **Propriety** – Focus on – (a) Prudence, (b) Proper Sanction, (c) General Benefit, (d) No Special Incentives. 5. Audit of **Performance** – Analysis of – (a) Efficiency of Operations, (b) Economical use of resources, and (c) Effectiveness of projects.	
Audit of Govt. Receipts	1. Assessment, 2. Procedure for Collection, 3. Implementation, 4. Monitor over irregularities and frauds, 5. Review and suggestions.	
Types of Public Enterprises	**Nature** 1. Departmental Enterprises 2. Statutory Bodies 3. Government Companies	**Audit Undertaken by** 1. C&AG 2. Depends on Governing Statues 3. Statutory Auditors appointed by C&AG
Audit of Government Companies	1. Appointment by C & AG of India 2. Powers of C & AG – (a) Directions for audit, (b) Conduct Supplementary Audit or Test Audit, (c) review Audit Report.	
Audit of Government Companies Duties	1. The C & AG can issue directions to the Statutory Auditors appointed by C&AG u/s 139(5) or 139(7) on the **manner** of conduct of audit. 2. The Auditor to submit a copy of the Audit Report to C&AG including (a) **Directions** issued by C&AG, (b) **Actions** taken and (c)Its **impact** on the A/cs and FS of the Company. 3. C&AG is having right to Conduct a **Supplementary Audit** within 60 days from the receipt of Audit report. C&AG can Comment upon or Supplement the Audit Report. 4. Comments / supplement shall be forwarded and placed in AGM similar to Audit Report. 5. The C&AG, may order for Test Audit for Companies covered u/s 139(5) or 139(7).	
Reporting by BOD	1. Response to Auditor's comments – full information and explanation to be given by BOD u/s 134 2. Response to C & AG's comments – No provisions under Companies Act. However BOD to give full explanation regarding the negative remark commented.	
Annual Reports on Govt Cos. [Sec.394, 395]	Where CG or 1 or more SG (s) is/are Member(s) of a Govt. Co., an Annual Report on the working & affairs of that Co. shall be – (a) prepared within 3 months of the AGM in which the comments given by C&AG & Audit Report u/s 143(6) considered. (b) laid before both Houses of Parliament / State Legislature.	
Public Enterprises Audit	1. Objectives – (a) Accountability, (b) Assistance and (c) Improvement. 2. Scope – Financial Accounts, Compliance with Procedure, Rules & Orders, Efficiency, Economy, Effectiveness, Propriety, and Examination of Management decisions.	
Comprehensive Audit of PSU's	1. **Criteria** – Achievement of Goals, Use of Public Funds, Plans and Performances, Cost Efficiency, Guidelines, Independent, Standards and Propriety. 2. **Areas** – Investment Decisions, Organisation, Systems, Organisational effectiveness, Capacity utilization, Utilisation of factor inputs, Costs and Prices, Functional Aspects.	
Committee on Public Undertakings	Set up by Rules of Lok Sabha, to perform the following functions – (a) Study C &AG's Audit Reports, (b) examine working of PSUs, (c) review workings of Govt. Companies, (d) follow up action on the C & AG's report, (e) conduct functional studies.	

Issues	Points to remember
Current developments	1. Traditional polices, red tapism, etc sought to be removed. Performance expected to improve. 2. Balance between social and commercial objectives. 3. New planning systems like Management By Objectives, Zero Based Budgeting are adopted. 4. Performance Indicators – unlike traditional indicators, number of grievance complaints handled and settled, Labour Turnover etc. are used. 5. New forms of reporting on fund utilization, resource management systems, performance appraisal, etc. 6. Audit by in–depth basis once in five years.
Propriety Audit	1. **Features:** (a) Emphasis on substance of transactions, and not only on documents, vouchers and evidence, (b) scrutiny of executive actions and decisions, (c) verification of vigilance exercised by Officers in respect of expenditure incurred from public money, and (d) ensures high standard of public financial morality. 2. **Principles:** (a) Prudence, (b) Proper Sanction, (c) General Benefit, (d) No Special Incentives. 3. **Propriety u/s 143(1) Inquiry** – (a) Terms of security on Secured Loans not prejudicial to the interests of the Company or its members. (b) Transactions of the Company which are represented merely by book entries are not prejudicial to the interests of the Company, (c) Investment of Companies other than Investment Company or a Banking Company, have been sold at a price less than the purchase price, (d) Personal Expenses have been charged to Revenue Account. 4. **Problems of Propriety Audit** – (a) Time–based Concept, (b) Lack of Auditing Propositions, (c) Subjectivity, (d) Generalised Norms, and (e) Mechanical Application. 5. **Problems can be overcome by:** (a) C&AG Norms, (b) Enterprise–wise propriety aspects, (c) Qualitative cum Quantitative factors, (d) Situational Factors, & (e) Objective judgement.
Meaning & Objectives of Performance Audit	1. **Meaning:** Objective and systematic examination of evidence, for the purpose of providing an independent assessment of the performance of a Govt organization, program, activity, or function. 2. **Objective:** To evaluate **economy, efficiency, and effectiveness** of Policy, Programme, Management and Organisation. 3. Performance Audit in PSUs is conducted by the C & AG.
Types of Performance Audit	• **Economy & Efficiency Audit:** Auditor's duties include – determining whether the Entity is acquiring, protecting, and using its resources (e.g. personnel, property, etc.) economically and efficiently, the causes of inefficiencies or uneconomical practices, and whether the Entity has complied with laws and regulations on matters of economy and efficiency. • **Program Audit:** Auditor's duties include determining the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved, the effectiveness of organizations, programs, activities, or functions, and whether the Entity has complied with significant laws and regulations applicable to the program.
Management's Responsibility	1. **Accountability** to the Legislature/ Executive Officer. 2. **Prudence:** Observe care and due diligence in sanctioning of any expenditure. 3. **Monitoring** of the Management's Actions by the C & AG, CVC, etc. 4. **Efficiency:** Maximization of output at minimum expenditure.
Steps in Performance Audit	**Step 1: Audit Planning** 1. Determine Objective, Scope and Methodology of Audit. 2. **Auditor's duties:** Consider needs of the users, obtain understanding of the Program, consider legal and regulatory requirements, consider Management controls, Identify criteria needed to evaluate matters subject to audit, Identify significant findings and recommendations, identify potential sources of data for audit evidence, consider use of other Auditors. **Step 2: Determine Significance and User Needs** 1. Significance of a matter refers to its relative importance to the audit objectives and potential users of the Audit Report. Both qualitative and quantitative factors are important in determining "Significance". 2. Awareness can help Auditors judge whether possible findings could be significant to other users. **Step 3: Understanding the Programme** 1. Auditors' understanding may come from – (i) previous knowledge about the program, and (ii) knowledge they gain from inquiries & observations made in planning the audit. 2. **Aspects covered:** Laws and Regulations, Purpose and Goals, Efforts, Program Operations, Outputs and Outcomes.