



Practical Learning Series

AUDITING & ETHICS

Including Relevant Standards on Auditing
For CA Inter New Syllabus 2023

Applicable for May 2024 Examination and onwards

Highlights of this Book

- Latest Syllabus Full Coverage in all topics
- Complete Coverage and Lucid Presentation of Standards on Auditing
- Revised Format and Structure for ease of use
- Questions for Revision at the end of Every Chapter for Exam Guidance
- Coverage of ICAI Guidance Notes on Audit Matters
- Fast Track Referencer for Quick Revision of all topics

Updated with Latest amendments
including MCQs for practice

Covering Topic wise MCQ's with Answers

CA G. Sekar

Commercial Law Publishers (India) Pvt. Ltd.

1st
EDITION
2023



Practical Learning Series

AUDITING & ETHICS

*Including Relevant Standards on Auditing
For CA Inter New Syllabus 2023*

Applicable for May 2024 Examination and onwards

Highlights of this Book

- Latest Syllabus Full Coverage in all topics
- Complete Coverage and Lucid Presentation of Standards on Auditing
- Revised Format and Structure for ease of use
- Questions for Revision at the end of Every Chapter for Exam Guidance
- Coverage of ICAI Guidance Notes on Audit Matters
- Fast Track Referencer for Quick Revision of all topics

**Updated with Latest amendments
including MCQs for practice**

Covering Topic wise MCQ's with Answers

CA G. Sekar



Commercial Law Publishers (India) Pvt. Ltd.

WITH THE BLESSING OF MATA VAISHNO DEVI

Published

By

COMMERCIAL LAW PUBLISHERS (INDIA) PVT. LTD.

HEAD OFFICE: 4239/1, SHAKAHAR BHAWAN,
ANSARI ROAD, DARYA GANJ, NEW DELHI- 110002

Phones: 43502007, 43502008, 43011562, 43452009

e-mail: commercialhouse@yahoo.co.in

naveen.commercialhouse@gmail.com

Website: commerciallawpublishers.com

PRICE : Rs. 1197/-

1st Edition, Aug., 2023

ISBN: 978-93-5603-526-3

© RESERVED WITH THE AUTHORS

PUBLISHING RIGHTS RESERVED WITH THE PUBLISHERS

Printed at

ANAND SONS

Despite every effort taken to avoid any error or omission, there may still be chances for such errors and omissions to have crept in inadvertently. This book is sold with the understanding that neither the authors/ editors nor the publishers shall be responsible for any damage or loss in whatever manner, consequent to any action taken on the basis of the contents of this book, caused to any person, whether a purchaser or not. No part of this book may either be copied or reproduced in any form or any manner whatsoever without the prior written permission of the authors/editors and publishers.

All Disputes subject to Delhi Jurisdiction.

Contact Address of Author CA G Sekar

C/o SHREE GURU KRIPA'S INSTITUTE OF MANAGEMENT

(An Institution providing Classes for CA Foundation,

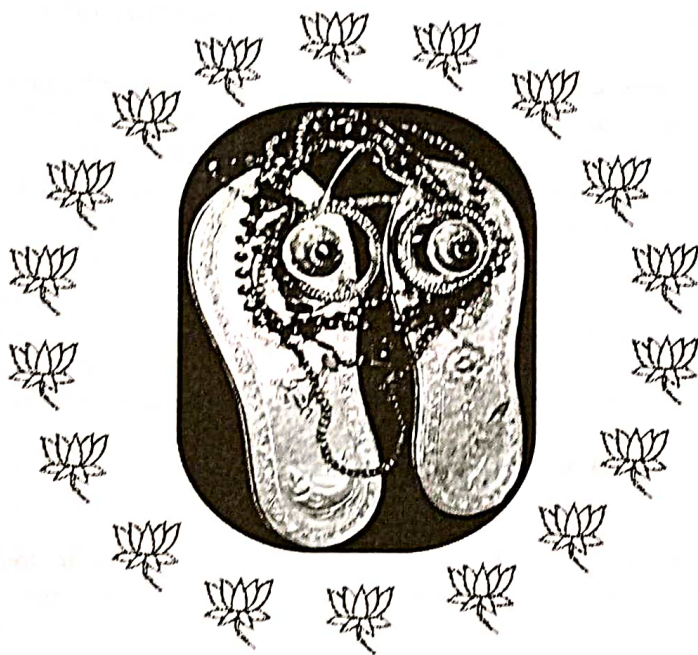
CA Intermediate & CA Final-All Subjects)

"Shri Guru Padhuka" 27, Akbarabad 2nd Street, Kodambakkam, Chennai-600024

Phone: 2483 7667; 2484 7667

Email: caclases@shrigurukripa.com, Website: www.shrigurukripa.com

PRANAMS
TO
THE ACHARYAS OF KANCHI



PREFACE

This First Edition of “Practical Learning Series – Auditing and Ethics” comes to your hands with the following unique feature for CA Intermediate level New Syllabus applicable from MAY 2024 exam onwards–

- **Complete Coverage of Syllabus:** This Book from your trusted Padhuka’s publications has been released in compliance with ICAI New syllabus exhaustively covers all relevant Concepts in Auditing and The Standards on Auditing issued by the ICAI (as applicable at the Inter Level), which is gaining more importance in the examinations are covered comprehensively and presented in a lucid fashion.
- **Companies Act 2013:** Provisions of Companies Act, 2013 with Rules (as applicable at the Inter Level) is covered exhaustively and presented in a simple manner.
- **Revised Format and Structure:** All principles/ procedures/ techniques/ concepts and ideas have been arranged neatly in easy-to-read form, and numbered into Topics / Sub-Topics so that the student can understand the subject easily.
- **Explanation and Improved Presentation:** The presentation in each Subject Area has been revisited and explained better, to help the student remember the ideas/ concepts/ points more easily.
- **Questions for Revision:** A detailed list of **Past Exam Questions** in each Topic / Point / Concept, with the **Para reference for Answers**, is appended at the end of every topic, so that the student can correlate the question and answer, more easily in the examinations.
- **True or False / Concept Questions:** A list of **True or False Questions**, with **Hint Answers** are appended at the end of the Chapters, to confirm concept knowledge, and also to keep in need with the recent examination requirements.
- **Chapter Overview:** Chapter Overview at the beginning of every Chapter will help the student to navigate through each Chapter-Topic- Sub-topic-Question in an organized and phased manner.
- **Guidance Notes:** Guidance Notes on Audit Matters issued by ICAI, as applicable for the Inter Syllabus have been incorporated in the relevant chapters.
- **Fast Track Referencer:** Fast Track Referencer has been incorporated for quick revision of the topics. The Standards on Auditing are presented in Flowcharts for easy remembrance of concepts. Also, Chapter wise **Multiple Choice Questions** are provided for Exam Practice.

Our sincere thanks to the **Institute of Chartered Accountants of India** for their permission to use questions from previous examinations and Revision Test Papers (RTP).

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

I also thank the efforts and co-operation of the various service providers in bringing out this **First edition** including the support of the Publishers, in quickly getting this Book in the current form.

“Shri Guru Padhuka”

27, Akbarabad Second Street,
Kodambakkam, Chennai 600 024

Phone: 24 83 76 67 / 24 84 76 67

E-mail: cabooks@shrigurukripa.com

With Best Wishes,

G Sekar, FCA

July 2023

NEW SYLLABUS AS PER ICAI

ICAI Syllabus	Padhuka's Book
1. Nature Objective and Scope of Audit	1
2. Audit Strategy, Audit Planning and Audit Programme	3, SA 210,300
3. Risk Assessment and Internal Control & Digital Audit	4,5, SA 315
4. Audit Evidence , Auditing Sampling & Analytical Review Procedures	2, 3, SA 230, 500,501,505,520,530,550
5. Audit of Items of Financial Statements	6,7,8,9,13
6. Audit Documentation	SA 230
7. Completion and Review	SA 260,265,450, 560,570,580
8. Audit Report & Reporting Requirements (CARO,2020)	10, SA 299, 600 700,701,705,706, 710
9. Special Features of Audit of Different Type of Entities	14
10. Audit of Banks	13
11. Ethics and Terms of Audit Engagements	1
12. Standards on Auditing and Guidance Notes	15

Exclusions from the CA Inter Syllabus

Following Engagement and Quality Control Standards are Excluded from the Syllabus—

Sl. No	SA Number & Description	Page No.
1	SA 240 The Auditor's Responsibilities relating to Fraud, in an Audit of Financial Statements	15.28–15.36
2	SA 402 Audit Considerations relating to Entities using a Service Organisation	15.84–15.89
3	SA 540 Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures	15.117–15.124
4	SA 620 Using the work of an Auditor's Expert	15.158–15.163
5	SA 720 The Auditor's Responsibility in relation to Other Information in Documents containing Audited Financial Statements	15.220–15.237

* Contents of all the above Standards are provided just for knowledge purpose and not applicable for CA Inter Exams

SUBJECT INDEX

Chapter	Description	Page No.
	Fast Track Referencer (FTR)	FTR 1 to 48
1	Introduction to Auditing	1.1 – 1.32
2	Audit Evidence	2.1 – 2.12
3	A. Audit Planning and Materiality	3.1 – 3.16
	B. Accounting Concepts in Auditing	3.17 – 3.36
4	Internal Control, Internal Check and Internal Audit	4.1 – 4.34
5	Digital Audit – Audit in Automated Environment	5.1 – 5.16
6	Audit of Income	6.1 – 6.14
7	Audit of Expenditure	7.1 – 7.28
8	Audit of Assets	8.1 – 8.44
9	Audit of Liabilities	9.1 – 9.10
10	Company Audit – Work Aspects & Reporting	10.1 – 10.42
11	Company Audit – Audit of Share Capital	11.1 – 11.20
12	Government Audit	12.1 – 12.16
13	Audit of Banks	13.1 – 13.18
14	Special Audit – Co-operative Societies Audit & Others	14.1 – 14.40
15	Preface to ICAI's SQC, SA, SRE, SAE & SRS	15.1–15.5
	SA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with SAs	15.6–15.11
	SA 210 Agreeing the Terms of Audit Engagements	15.12–15.17
	SA 220 Quality Control for an Audit of Financial Statements	15.18–15.20
	SA 230 Audit Documentation	15.21–15.27
	SA 240 The Auditor's responsibilities relating to Fraud in an Audit of Financial Statements	15.28–15.36
	SA 250 Consideration of Laws & Regulations in an Audit of FS	15.37–15.40
	SA 260 Communication with those charged with Governance	15.41–15.52
	SA 265 Communicating Deficiencies in Internal Control to those charged with Governance and Management	15.53–15.55
	SA 299 Responsibility of Joint Auditors	15.56–15.60
	SA 300 Planning an Audit of Financial Statements	15.61–15.63
	SA 315 Identifying and Assessing the Risks of Material Mis-statement through understanding the Entity and its Environment	15.64–15.74

Chapter	Description	Page No.
SA 320	Materiality in Planning and Performing an Audit	15.75-15.78
SA 330	The Auditor's Responses to Assessed Risks	15.79-15.83
SA 402	Audit Considerations relating to Entities using a Service Organisation	15.84-15.89
SA 450	Evaluation of Mis-statements identified during the Audits	15.90-15.92
SA 500	Audit Evidence	15.93-15.97
SA 501	Audit Evidence - Specific Considerations for Selected Items	15.98-15.100
SA 505	External Confirmations	15.101-15.103
SA 510	Initial Audit Engagements - Opening Balances	15.104-15.106
SA 520	Analytical Procedures	15.107-15.109
SA 530	Audit Sampling	15.110-15.116
SA 540	Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures	15.117-15.124
SA 550	Related Parties	15.125-15.132
SA 560	Subsequent Events	15.133-15.137
SA 570	Going Concern	15.138-15.143
SA 580	Written Representations	15.144-15.149
SA 600	Using the work of Another Auditor	15.150-15.153
SA 610	Using the work of an Internal Auditor	15.154-15.157
SA 620	Using the work of an Auditor's Expert	15.158-15.163
SA 700	Forming an Opinion and Reporting on Financial Statements	15.164-15.184
SA 701	Key Audit Matter	15.185-15.194
SA 705	Modification to the Opinion in the Independent Auditor's Report	15.195-15.207
SA 706	Emphasis of Matter Paragraphs & Other Matter Paragraphs in the Independent Auditor's Report.	15.208-15.214
SA 710	Comparative Information - Corresponding Figures and Comparative Financial Statements	15.215-15.219
SA 720	The Auditor's Responsibility in relation to Other Information in Documents containing Audited Financial Statements	15.220-15.237
SQC 1	Quality Control for Firms	15.238-15.242
	General Clarifications on SA's issued by ICAI	15.243-15.246

Visit www.shrigurukripa.com for updates.

FTR 1

INTRODUCTION TO AUDITING

Issues	Points to remember	
	BASICS & ETHICAL ASPECTS	
Financial Statements	1. Profit and Loss Statement 2. Balance Sheet	3. Funds Flow and Cash Flow Statement 4. Significant Notes to Accounts
Users of Financial Statements	1. Management 2. Proprietor / Shareholders 3. Lenders - Banks & Financial Institutions 4. Suppliers	5. Customers 6. Government 7. Research Scholars
Auditing	Audit is an independent examination of financial information of any Entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon. [SA - 200]	
Types of Engagement	1. Audit Engagement (SAs) - Applies for Historical Financial Information. Auditor provides a high, but not absolute, level of assurance. (Positive Assurance) 2. Review Engagement (SREs) - Applies for Historical Financial Information. Auditor provides a moderate level of assurance. (Negative Assurance)	3. Assurance Engagements (SAEs) - Applicable for Assurance Engagements other than Audit and Review, e.g. Verification of Projections, Forecasts. 4. Related Services (SRSs) - Applicable for "agreed upon procedures", or other related services, e.g. Compilation of Financial Information.
Aspects of Assurance	1. Books 2. Evidence 3. Full inclusion	4. Clarity 5. Disclosure 6. Truth and fairness
Responsibility for Preparation of Financial Statement	1. Management is responsible for preparation of Financial Statements 2. Includes (a) Maintenance of records (b) internal controls (c) selection and application of accounting policies (d) safeguarding the assets 3. The Auditor is concerned only with evaluating the evidence in support of transactions 4. The Auditor's opinion is not to be taken as an assurance as to the future viability of an enterprise	
Independence of an Auditor	Independence implies that the judgement of a person is not sub-ordinate to the wishes or directions of another person who might have engaged him or to his own self-interest.	
Threats faced by Auditor	(a) Self-Interest Threats (b) Self-Review Threats (c) Advocacy Threats (d) Familiarity Threats (e) Intimidation Threats	
Advantages of Independent Auditor	1. Protection of Interest 2. Moral Check on Employees 3. Settlement of Tax Liability 4. Credit Negotiation 5. Trade Dispute Settlement 6. Control over inefficiency	7. Funds in trust 8. Settlement by Arbitration 9. Appraisal 10. Partnership cases 11. Assistance to Government
Need for Audit	To give assurance that the Financial Statement - (a) Have been prepared and presented correctly, (b) Reflect true and fair view.	
	ERRORS AND FRAUDS	
Meaning of Error and Fraud	1. Errors are mistakes made through ignorance or inadvertence. An error is generally taken to be innocent and not deliberate. 2. Fraud is defined as the successful practice of deception or artifice with the intention of cheating or injuring another.	
Categories of Errors	1. Self revealing and Non-self revealing 2. Intentional and Unintentional	3. Concealed and Unconcealed 4. Errors affecting & not affecting Trial Balance
Classification of Errors	1. Errors of Commission - (a) Posting Errors (b) Casting Error (c) Carry Forward Error, (d) Duplication Error 2. Errors of Omission - (a) Partial Omission (b) Total Omission 3. Errors of Principle - (a) Errors which do not affect profit (b) Errors which affect profit 4. Compensating Errors	

Issues	Points to remember
Forms of Frauds	<ol style="list-style-type: none"> 1. Manipulation of records 2. Misappropriation of Assets/Goods 3. Suppression of effects of transactions
Mgmt Fraud & Employee Fraud	<ol style="list-style-type: none"> 1. Management Fraud - Fraud involving one or more members of Management or those charged with governance 2. Employment Fraud - Fraud involving only employees of the entity
Examples of Fraud	<ol style="list-style-type: none"> 1. "Forceful" tallying of Trial Balance 2. Inclusion of forged vouchers by petty cashiers 3. Putting wrong totals in various columns 4. Over-stating goods issued 5. Suppression of receipts through Teeming & Lading 6. Window Dressing
Examples of Fraud by Ledger Keepers	<ol style="list-style-type: none"> 1. Purchase Ledger: (a) Double Credit (b) Omitting Debits (c) Wrong name 2. Sales Ledger: (a) Teeming and Lading (b) Unauthorised Credits (c) Write offs 3. Nominal Ledger: (a) Allocating and item of expense wrongly (b) Understating or overstating Current Assets and Current Liabilities (c) Booking of fictitious expenses
Defalcation of Cash	<ol style="list-style-type: none"> 1. Inflation of Cash Payments 2. Suppression of Cash receipts 3. Casting wrong totals in Cash Book
Window Dressing	<ol style="list-style-type: none"> 1. Meaning: "Window-Dressing" stands for mis-presentation of accounts with a view to present a better picture of the state of financial affairs than its actual. [Note: Sometimes this may be referred as Fraudulent Financial Reporting]. 2. Methods: Window-Dressing can be done in various ways. Some illustrations are – <ol style="list-style-type: none"> (a) Selecting inappropriate accounting principles, e.g. methods of depreciation, (b) Capitalising revenue expenses or vice-versa, (c) Grouping items in a different manner, e.g. Sundry Creditors shown as Unsecured Loans than Current Liabilities, to boost the Current Ratio, (d) Treating certain items differently on the basis of legal interpretations, etc.
Auditor is not an Insurer	<ol style="list-style-type: none"> 1. If a fraud has been detected after the completion Audit, it does not mean that the Auditor did not perform his duty properly. 2. If the Auditor with the help of his working papers proves that he has followed adequate procedures necessary for the conduct of an audit, he cannot be held responsible for non-detection frauds & errors. 3. If the same cannot be proved, he is found negligent and would be held responsible.
PRINCIPLES AND SCOPE OF AUDIT	
Basic Principles Governing an Audit	<ol style="list-style-type: none"> 1. Integrity, Objectivity and Independence 2. Confidentiality 3. Skills & Competence 4. Work Performed by Others 5. Documentation 6. Planning 7. Audit Evidence 8. Accounting System & Internal Control 9. Audit Conclusion & Reporting
Principal Aspects in an Audit	<ol style="list-style-type: none"> 1. Examination of Accounting & Internal Control Systems 2. Review of the System & Procedures 3. Checking of Arithmetical Accuracy 4. Vouching 5. Accounting Principles 6. Comparison of Books with financials 7. Asset and Liabilities Verification 8. True and Fair view 9. Statutory Compliance 10. Reporting
Phases of an Audit	<ol style="list-style-type: none"> 1. Review of Internal Control 2. Enquiries and tests 3. Audit Processes 4. Financial Statements Review
Meaning of Principles and techniques of Audit	<p>Principles: It refers to the fundamental considerations that sustain the function of auditing and direct its activities.</p> <p>Techniques: It refers to the methods and means adopted by the Auditor for collection and evaluation of audit evidence in different auditing situations.</p>
Qualities of an Auditor	<p>Knowledge based qualities: The Auditor should have sufficient knowledge of</p> <ol style="list-style-type: none"> 1. General principles of law 2. Specific Statutes and provisions applicable 3. Taxation Laws 4. Knowledge of Client's business 5. General Economic Trends. 6. Accountancy, its principles, techniques, Accounting Standards, <p>Personal Qualities:</p> <ol style="list-style-type: none"> 1. Tact 2. Caution 3. Firmness 4. Good Temper 5. Integrity, Objectivity & Independence 6. Discretion 7. Judgment 8. Patience

Issues	Points to remember	
	7. Auditing – Standards, Procedures, Techniques & Principles.	9. Clear headedness & Commonsense 10. Reliability and Trust.
Relationship of Auditing with other disciplines	<ol style="list-style-type: none"> Accounting: Auditing process reviews the Financial Statements, which are the result of the overall accounting process. The Auditor should have knowledge of Accounting Standards and Generally Accepted Accounting Principles for reviewing the Financial Statements. Behavioural Science: The Auditor should have the knack of getting along with people, and obtain relevant information to meet his audit needs. Business Functions: Auditing deals with the financial results of operational affairs of an enterprise. Economics: the Auditor also takes into account, the general economic environment affecting the business, during the course of his work. EDP Systems: Clients carry out their financial accounting activities with the help of computers. To keep pace with technological developments, Computer-Aided Audit Techniques are adopted. Financial Management: The Auditor should have a good knowledge of financial techniques such as Working Capital Management, Funds Flow, Ratio Analysis, Capital Budgeting, etc. Language: The knowledge of language is essential as the Auditor is required to communicate in day to day work Law: Auditing involves examination of transactions from the viewpoint of whether or not they are in tune with the legal provisions. Logic: All audit processes and techniques focus on audit evidence evaluation and verifying assertions, which are bound by the rules of logic. Mathematics: The Auditor arrives at meaningful conclusions through analytical reviews or ratio analysis, for which the knowledge of mathematics is essential. Statistics: Test check and sample check procedures are considered generally accepted auditing procedures. Knowledge of probability and statistical theory will help in arriving at meaningful audit conclusions. 	
TYPES OF AUDIT		
Types of Audit	<ol style="list-style-type: none"> Financial Audit Management Audit Cost Audit Statutory / Mandatory Audit Voluntary / Independent Audit Internal Audit 	<ol style="list-style-type: none"> Interim Audit Concurrent Audit Continuous Audit Annual Audit Balance Sheet Audit
Interim Audit	An audit that is taken up between two annual audits is called an Interim Audit. Assets and Liabilities are verified for Interim Balance Sheet purposes	
Interim Audit-Advantages	<ol style="list-style-type: none"> Immediate detection of errors and frauds Acts as deterrent 	<ol style="list-style-type: none"> Upto date accounts Quick completion of Final Audit Interim Dividend
Interim Audit-Disadvantages	<ol style="list-style-type: none"> Loose ends Tampering 	<ol style="list-style-type: none"> Uneconomic Missing Links
Continuous Audit	When the accounts of the client are checked continuously throughout the whole year or at intervals (fixed or otherwise) during the course of the financial period, it is known as Continuous Audit	
Continuous Audit – Advantages	<ol style="list-style-type: none"> Early detection of errors and frauds Acts as deterrent upto date accounts Early final Audit 	<ol style="list-style-type: none"> Knowledge of the Client's affairs Detailed Coverage Staff Planning Interim Reporting
Continuous Audit – Disadvantages	<ol style="list-style-type: none"> Loose ends Tampering Uneconomic Interruption of Work 	<ol style="list-style-type: none"> Missing Links Boredom Time Consuming No Guarantee of Fraud Detection
Precautions to Overcome above Disadvantages	<ol style="list-style-type: none"> Stage wise Completion Documentation Surprise element in visit 	<ol style="list-style-type: none"> Checking of Nominal accounts Special Auditing Marks
Concurrent Audit	It implies verification of transactions of a year on a continuous basis, at various points of time during the same year. Assets and Liabilities are verified only at the time of finalization at year end	

Issues	Points to remember	
Concurrent Audit – Advantages	1. Leads to Short time interval between transaction and its examination 2. Detections of deviations 3. Substantive checking on key areas 4. Minimises time lag between occurrence of errors, their detection and corrective actions	
Annual Audit – Advantages	1. Commences after accounts completion 2. Smooth Audit	3. Cost effective 4. Continuity of work
Annual Audit – Disadvantages	1. Delay in Final Accounts presentation 2. Belated analysis	3. Detailed checking not possible 4. Poor Planning
Balance Sheet Audit	Involves complete verification of all items contained in the Balance Sheet and Profit & Loss Accounts. The Auditor performs analytical reviews and investigates: (a) material deviations from budgeted amounts (b) items of unusual and non-recurring nature There is a reliable system of Internal Check and Internal Audit.	
Need for Balance Sheet Audit	1. Development and Consolidation of Industries 2. Adoption of Formal Control Systems 3. Increase in number of Homogenous transactions	4. Growth in size of Business 5. Computerised data processing
Balance Sheet Audit – Approach	1. Evaluation of Internal Control Systems 2. Identification of Sample Test areas 3. Performing Compliance and Substantive procedures 4. Verification of Financial Statements	5. Compliance with various laws 6. Overall Tests and analytical reviews 7. Obtaining Audit assurance and expression of Opinion on Financial Statements
Financial Audit	Mandatory to all enterprises governed by the Statute.	
Cost Audit	Applicable only to those Companies specified under Law. Primarily covers the cost aspects of the enterprise.	
Management Audit	Review of the decisions and actions of Management to analyse performance. Covers all aspects like organisational objectives, policies, procedures, structure, controls and systems.	
Statutory Audit	Audit is prescribed by law, i.e. Governing Statute or by the regulations governing the enterprise.	
Voluntary Audit	Audit is purely optional and at the discretion of the governing body.	
Internal Audit	Appointed by Management of the enterprise to ensure (a) adherence to Management policies, (b) safeguard of assets, and (c) completeness & accuracy of accounting records.	
Accounting vs Auditing	1. Recording of transactions vs Verification of transactions 2. Management job vs Auditor's job 3. Output – Financial Statement vs Audit reports	
Investigation vs Auditing	1. Approach – Suspicious vs Non suspicious 2. Appointer – Any person vs Shareholders 3. Nature – Voluntary vs Mandatory	4. Conducted by – Any person vs CA 5. Evidence – Conclusive vs Persuasive 6. Aspects – Financial & Non-financial vs Financial only

FTR 2

AUDIT EVIDENCE

Issues	Points to remember	
Need for Audit Evidence	Judgement formation: Performance of compliance & substantive procedures and obtaining audit evidence. Express opinion on the truth and fairness of the Financial Statements. Nature of Evidence to be obtained: Sufficient and appropriate evidence enabling the Auditor to form an opinion on the Financial Statements.	
Auditor's Judgement – Factors	(a) Risk of Mis-statement, (b) Materiality, (c) Previous Experience, (d) Results of work, (e) Information, and (f) Analytical Reviews.	
Audit Evidence – Types	Source: Internal and External. Nature: Documentary, Oral and Visual. Impact: Confirmatory, Persuasive and Conclusive.	
Internal & External Evidence	Particulars	Internal Evidence
	Meaning	Created, used and retained within the client's organization.
		External Evidence
		Originates outside the Client's organization.

Issues	Points to remember		
	Examples	Duplicate copy of sales invoice.	Bank Statements
	Use for accounting	May not always constitute a direct accounting source.	Prepared in the ordinary course of business & forms part of its records.
	Auditor's Role	Provided to the Auditor by the sources internal to organization.	Obtained directly by the Auditor.
	Reliability	Not as reliable as External evidence	More reliable than internal evidence
Mode of obtaining evidence	Factors: (1) Extent of effort required, (2) Reliability, (3) Source, (4) Ease of obtaining, (5) Nature of evidence, (6) Objectivity, (7) Cost of effectiveness, and (8) Suspicion cases.		
Audit Procedures to obtain Audit evidence	<ol style="list-style-type: none"> Risk Assessment Procedures: These are performed to obtain an understanding of the Entity including its Internal Control and to identify and assess the risk of material mis-statement. Further Audit Procedures, viz. (a) Compliance Procedures, and (b) Substantive Procedures. 		
Compliance Tests	<ul style="list-style-type: none"> Designed to obtain reasonable assurance that internal controls are in effect and to assess its efficiency. It helps in determining nature, extent and timing of substantive procedures to be carried out. Assertions: Existence, Effectiveness, and Continuity. 		
Substantive Tests	<p>Designed to obtain evidence as to the completeness, accuracy and validity of the data produced by the accounting system.</p> <p>Types – (a) Tests of details of transaction and balances, and (b) Analysis of significant ratios and trends.</p> <p>Assertions: (a) Existence of Asset/ Liability, (b) Asset is a right and liability is an obligation, (c) Occurrence of a transaction, (d) Completeness of transactions, (e) valuation of asset/liability, (f) Measurement of a transaction, and (g) Presentation and disclosure of transactions in accordance with acceptable accounting policies and legal requirements.</p>		
Judgement formation steps	<ol style="list-style-type: none"> Identify assertions to be examined. Evaluate the assertions as to their materiality and relative importance. Collect the necessary information or evidence about the assertions. Analyse and evaluate the evidence. Formulate the judgement on the Financial Statements. 		
Test Checking	<ol style="list-style-type: none"> Accepted auditing procedure wherein only a part of its transactions is checked to form an opinion. Advantages – Saving in time, serves the audit objective, Volume of work is reduced and Time available for other audits. Disadvantages – Carelessness, some errors and frauds may go undetected, all items and transactions are not checked, an element of doubt and risk is present in the Auditor's opinion. 		
Routine Checking	<ol style="list-style-type: none"> Detailed checking of all transactional aspects. Advantages – Checking of postings, Arithmetical accuracy, Trial Balance tallying is facilitated, Easy detection of errors and frauds, Delegation of audit work to junior staff. Disadvantages – Highly mechanical and monotonous, high level intricacies and complexities may not be revealed, compensating Errors and Errors of Principle will not come to light. 		
Auditing in Depth	<p>Examination of a few selected transactions from the beginning to the end through the entire flow of the transaction.</p> <p>Aspects of verification –</p> <ul style="list-style-type: none"> At each stage, relevant records and authorities are examined, it is also judged whether the person who has exercised the authority in relation to the transactions is fit to do so in terms of the prescribed procedure. While auditing in depth, the Auditor reviews all the accounting and operational aspects of the transaction from the origin to the end. This enables him to have an overall view and evaluate the procedures through selected transactions. 		
Test Checking features	(a) Scientific, (b) Estimation Process, (c) Coverage of material items, (d) Full Coverage over a time period, (e) Surprise Element, (f) Flexibility, and (g) Judgment Based.		
Extent of checking	Factors: (a) Size of the organization, (b) State and efficacy of the internal control, (c) Adequacy and reliability of books and records, (d) Tolerable error range, and (e) Degree of the desired confidence.		

Issues	Points to remember	
Test check – circumstances	<ol style="list-style-type: none"> 1. Number of transactions is large. 2. Time available is less. 3. Transactions are identical and homogeneous. 4. Satisfactory internal control system. 	
Test Check – advantages	<ol style="list-style-type: none"> 1. Serves the audit objective in obtaining reasonable audit assurance. 2. Enables the Auditor to use his expertise effectively. 3. Adopts the principle of exception in control. 4. Assessment of risk in a scientific manner. 5. Saving in time. 6. Volume of work is reduced. 	
Limitations	<ol style="list-style-type: none"> 1. Opportunity for the Auditor to be naive and biased. 2. Test checking lacks authenticity. 3. Higher risk – material error may not be discovered. 4. Arbitrariness of the auditor makes it unscientific. 5. Not possible when there is difference in activity levels. 6. Absence of surprise element. 	
Precautions	<ol style="list-style-type: none"> 1. Transactions should be classified. 2. Proper study of the system. 3. Study and evaluation of efficacy of the internal control system. 4. Clarity of plan. 5. Scientific sample selection. 6. Test check should not be done in areas requiring detailed check. 7. Sample size should be pre determined. 8. Decide the criteria to judge what constitutes a material error. 	
Theory of probability	<ol style="list-style-type: none"> 1. Concerned with the determination of a measure of the probability of certain events happening or not-happening. 2. Justification for test checks lies on theory of probability, which states that a sample selected from a series of items will tend to show the same characteristics present in the full series of items. 3. Usefulness – (a) Determination of the proportion of transaction verification, (b) Identification of the Sample Size, and (c) Assessment of the measure of risk taken by the Auditor for not examining the entire population. 	
Advantages of Statistical Sampling	<ol style="list-style-type: none"> 1. Sample Size Control 2. Objectivity 3. Risk Assessment 	<ol style="list-style-type: none"> 4. Better Analysis 5. Economy

FTR 3

AUDIT PLANNING & MATERIALITY

Issues	Points to remember	
	AUDIT PROCEDURES AND TECHNIQUES	
Audit Process	<ol style="list-style-type: none"> 1. Preliminary discussions with the client and determination of scope. 2. Formulation of Audit Plan. 3. Examination and evaluation internal control. 4. Ascertaining the arithmetical accuracy of the books of accounts. 5. Vouching of documentary evidence. 6. Verification of Statutory compliance. 7. Verification of the existence, ownership, title and value of assets and determination of the extent and nature of liabilities. 8. Overall tests and analytical reviews. 9. Ensuring adequate disclosure of financial information so as to convey the "true and fair view" of the financial position and financial performance. 	
Audit Technique	Methods employed for carrying out the Audit procedure.–	
	<ol style="list-style-type: none"> 1. Posting Checking 2. Casting Checking 3. Physical Examination & Count 	<ol style="list-style-type: none"> 6. Year-end scrutiny 7. Re-Computation 8. Tracing in Subsequent Period

Issues	Points to remember
	4. Confirmation 5. Inquiry 9. Bank Reconciliation 10. Analytical Review Procedure & Ratio Analysis
Audit Procedure - selection	1. Collecting audit evidence by employing different techniques, 2. See to that the audit evidence obtained from different sources do not contradict each other, 3. Identify procedures and techniques keeping in mind, the possibility of fraud and error, 4. Knowledge of accounting aspects helps to sequence the procedures in the most rational and natural manner, 5. Matter of professional experience and judgment.
Voucher	Documentary evidence used in support of entries made in the books of account of a business.
Vouching	Examination of all documentary evidence which is available to support the genuineness of transactions entered in Client's records. Vouching is essential because - (a) To obtain basic evidence as to the completeness, accuracy and validity of data produced by the accounting system. (b) Obtain reasonable assurance on the assertions for the transactions recorded in the books. (c) To know the genuineness of the transactions recorded in the client's books. (d) To know the regularity of transactions. (e) Substantial accuracy of the accounts and Financial Statements can be known. (f) Basis for verification of assets and liabilities.
Verification	Examination whether assets and liabilities are properly stated in the Balance Sheet. It may also apply to Items of P&L A/c, for checking of the account balances and their presentation.
Confirmation	Response to an inquiry to corroborate information in records.
Surprise checks	There must be flexibility and a sense of surprise in the manner certain checks are carried out e.g. Cash Verification, Investments Verification, etc. Significance: 1. Improve the effectiveness of the audit. 2. Ascertain efficacy of internal control. 3. Detection of errors and frauds. 4. Moral check on the client's staff. 5. Suitable for diversified activities. 6. To ensure that books of primary entry are kept up-to-date. 7. To ensure EDP system is operating satisfactorily.
AUDIT PROGRAMME	
Meaning	1. Detailed plan of work, prepared by the Auditor, for carrying out an audit. 2. Factors to be considered - (a) scope and limitation of the assignment, (b) evidence reasonably available, (c) apply only necessary steps and procedures, (d) consider all possibilities of error, and (e) co-ordinate the procedures to be applied.
Advantages	1. Instructions help the assistants and staff in knowing how much is to be checked and in what manner. 2. Serves as a ready Checklist 3. Work can be planned and phased properly. 4. Helps in selection of Team Members. 5. Better supervision and control of work. 6. Progress of work at any time can be readily known. 7. Basis for drawing the future audit Programme. 8. Helps in delegating responsibility. 9. Provides a sound basis for the expression of Auditor's opinion. 10. Record of the work done - particularly for defending a suit against the auditor.
Disadvantages	(a) Mechanical work, (b) Rigidity, (c) False sense of security, (d) Lack of Initiative, and (e) Lack of Suitability.
Overcome Disadvantages	1. Audit Programme should commensurate with factors like nature of the entity's business, scale of operations etc. 2. Review and evaluate internal controls and revise the audit programme. 3. Obtain information about new business lines.

Issues	Points to remember
	<ol style="list-style-type: none"> Encourage audit assistants to keep an open mind and make suggestions. The audit programme should be flexible. Programme should only be the minimum requirement – additional tests and surprise checks can be undertaken.
	MATERIALITY
Materiality	<ol style="list-style-type: none"> Meaning – Information is material if its mis-statement could influence the economic decisions of users taken on the basis of the financial information. It is the fundamental to the process of recognition, aggregation, classification and presentation of financial information. Factors to determine materiality – facts and circumstances of each case, not possible to lay down hard and fast rules, auditor's judgement, amount and nature of misstatements. Indicators – value or amount of transaction, percentage analysis, impact on overall profit and loss, comparison of previous year's figures, estimation errors in determinable amounts, minor deviations from statutory requirements, substantial effect of all small inaccuracies, cumulative effect of small and insignificant items.

Note: Refer Accounting Concepts in Chapter 3B.

FTR 4

INTERNAL CONTROL, INTERNAL CHECKS & INTERNAL AUDIT

Issues	Points to remember
Internal control	<ul style="list-style-type: none"> Process designed, implemented and maintained by – (a) those charged with governance, (b) Management, and (c) other personnel, to provide reasonable assurance about the achievement of an entity's objectives with regard to – (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, (c) safeguarding of assets, and (d) compliance with applicable laws and regulations.
Objectives of Internal control	<ol style="list-style-type: none"> Providing the flow of work Breaking the chain of work in a manner so that no single person can handle a transaction from the beginning to the end. Segregation of accounting and custodial functions. Securing proper documentation at each stage. Specifying authority to enter into the various transactions Recording the transactions Safeguarding of assets
Good internal control system	<ol style="list-style-type: none"> Proper organization structure with segregation of duties. Proper authorization and procedures. No single person is authorized to carry out all the operations involved in a transaction. Competent and honest person should alone be employed. Establishment of an Internal Audit department with supervisory functions.
Auditor's Role	<p>Auditor's role with regard to internal control –</p> <ol style="list-style-type: none"> Duty of establishing Internal Controls is primarily that of Management. Examination and evaluation of the Internal Control System is an indispensable part of the overall audit programme. Auditor needs reasonable assurance that the accounting system is adequate. Internal Control normally contributes to such assurance Auditor should gain an understanding of the accounting system and related Internal Controls. Decide upon appropriate audit procedure to be applied in different areas. Review of the Internal Control System of the client deciding upon a plan of selective checking.
Tools for review of internal control	<ol style="list-style-type: none"> Narrative Record: Complete and exhaustive description of the system as found in operation by the auditor. Checklist: Series of instructions and / or questions which a member of the auditing staff must follow and / or answer. Instructions are usually "Yes", "No" or "Not Applicable." Internal Control Questionnaire: Set of questions designed to provide a thorough view of the state of Internal Control in an organisation. Flowchart: Graphic presentation of each part of the Company's system of Internal Control.
Limitations of Internal Control	<ol style="list-style-type: none"> Provides only reasonable assurance. Break down in internal control can occur due to human error. Controls can be circumvented by the collusion of two or more people or inappropriate management override of internal control.

Issues	Points to remember
	<ol style="list-style-type: none"> 4. Management' judgements on the nature of controls and risk assumptions. 5. Segregation of work is not possible in smaller entities.
INTERNAL CONTROLS IN OPERATIONAL AREAS	
Sales and Debtors	<ol style="list-style-type: none"> 1. All documents should be serially numbered. 2. Decisions on granting credit should be decided by a responsible official. 3. There should be division of work. Despatch, sales and invoicing functions should be segregated. 4. DC should be verified with customer's purchase order by an authorized person before despatch. 5. Acknowledgement for goods dispatched should be obtained. 6. Invoices prepared for all deliveries should be sent to customers. 7. Goods despatched but not invoiced should be dealt properly. 8. Suitable control arrangements to deal with stock transfer. 9. Prices should be as per the standard price list. 10. Proper recording of returned goods. 11. Credit notes should be authorised and verified with related invoices. 12. Debtors ledger balances should be listed regularly and balanced with the control account. 13. Ageing schedule should be prepared to follow up old balances. 14. Defined procedure for sending periodical reminders to customers.
Purchases and Creditors	<ol style="list-style-type: none"> 1. Definition of re-order level for various items of materials. 2. Prepare a Purchase Requisition at the Re-order Level and forward the same to the Purchase Department. 3. Tenders should be invited on an objective basis before placing order. 4. Decision on purchase should be confirmed by formal Purchase Order. 5. Gate pass should be prepared as evidence of inward movement of materials. 6. Inspection and Receipt Department should be adequately staffed. 7. Goods Received Notes should be pre-numbered and serially controlled. 8. Division of Work – Duties relating to purchase must be segregated. 9. Invoices should be recorded promptly in an Invoice Register. 10. Defined procedure for raising and recording debit notes. 11. GRN unmatched with invoices should be duly followed up. 12. Balances in Creditors Ledger should be listed periodically and reconciled with the Control Account.
Cash and Bank balance	<ol style="list-style-type: none"> 1. Rules regarding the size of cash floats to meet expenses should be laid down. 2. Petty cash / reimbursement funds should be handled only by authorised persons. 3. Restrictions should be imposed on access to cash registers and offices. 4. Cash balances be checked by independent officials at reasonable intervals. 5. Special insurance arrangements should be based on the nature of the business. 6. Arrangements should to be made for the control of funds to be held in trust for employees.
Cash and Bank receipts	<ol style="list-style-type: none"> 1. Authority for receiving cash should be clearly defined 2. Cash Sales and receipts of cash and cash equivalents are to be evidenced through valid receipts. 3. Receipts of Cheques by post / mail should be by a responsible person, independent of the Cashier. 4. All cheques received should be immediately recorded in the "Cheque Received Register. 5. Suitable persons should be appointed for different stages with clearly defined responsibilities. 6. The duties and responsibilities of the Receiving Cashier should be separate. 7. Moneys received should be paid into the Bank promptly. 8. Bank Reconciliation Statement should be prepared periodically.
Cash and Bank payments	<ol style="list-style-type: none"> 1. Disbursing Cashier should not be entrusted the job of writing up books of account. 2. Cheque payment – <ol style="list-style-type: none"> (a) Passing payments – authorization, payment made within discount period, duplication of payment, stamping of documents. (b) Preparation of cheques – safe custody, controlling supply and issue of cheques, use of printed signatures, preparation based on approved invoices, issue of blank/ bearer cheques, crossed cheques, preparation of bank payment voucher. (c) Signatory of cheques (d) Despatch – Arrangements should be made for prompt despatch of signed cheques. 3. Cash Payment – limits should be set, cash records should be balanced daily, payment vouchers to be serially numbered, payments to be authorized, control of payments under each head, avoid duplication, specific rules for cash advances to employees.

Issues	Points to remember		
BRS	<ol style="list-style-type: none"> 1. Receipt of Bank Statement 2. Frequency of Reconciliation 3. Authorisation 		<ol style="list-style-type: none"> 4. Special attention to be given for long outstanding unpresented cheques.
Wages and salary	<ol style="list-style-type: none"> 1. Master records to be maintained by the Personnel Department. 2. ID cards should be issued to all employees. 3. Maintenance of time records with the help of mechanical devices. 4. Overtime work should be authorized by a competent official. 5. Payroll preparation by staff not connected with the payroll department. 6. Payroll should be checked and authorized by a competent official. 7. Issue of a single cheque for the exact amount of wages and salaries. 8. Supervisor should be present at the time of payment. 9. Obtain acknowledgement from the employees. 10. Surprise check should be conducted at time of payment. 11. Proper records should be maintained for unclaimed wages and salaries. 12. Deductions on account of EPF, ESI etc should be remitted before due date. 13. Recovery of advances should be made regularly. 14. Payment to managerial personnel should be systematically kept. 15. Calculations in respect of bonus payment should be maintained. 16. Distinction between salaries and wages and reimbursements. 		
Stores including WIP	<ol style="list-style-type: none"> 1. Adequate protection against loss and misuse. 2. Classification of stock based on their importance and value. 3. Documentation of movement of stock items. 4. Responsibility should be fixed on independent persons to receive the goods, record their receipt and issues etc 5. Responsible person should be appointed for safeguarding the stocks, 6. Lay down stock levels such as Maximum and Minimum Stock Levels, Reorder Level and Danger Level. 7. Independent persons should be assigned responsibility for recording sales and purchase. 8. Stock records should be reconciled with the financial accounts at regular intervals. 9. Intra-Firm movement should be authorized by a responsible official. 10. Returnable Containers should be properly dealt with. 11. Sufficient controls should be exercised on stocks held on behalf of others. 12. Periodic verification of stock. 13. Cut off procedures 14. Proper valuation of stock. 15. Periodic review of slow and non-moving items. 16. Proper control and accounting for scrap and waste. 		
After Sales Services	<ol style="list-style-type: none"> 1. Clear Distinction for (a) Services under warranty, (b) Services under AMC need to be made adequately documented. 2. Cards given to Customers for After Sales Services need to be updated. 3. Proper mechanism to handle customer complaints need to be in place. 4. Charges collected on account of various services rendered including replacement of spares need to be accounted under appropriate head of Account. 5. Periodical reconciliation to be made for spare parts issued & Invoices raised. 		
Sale of Tickets in Recreational Facilities	<ol style="list-style-type: none"> 1. Preprinted Tickets to be used 2. Strict control over sale of Tickets 3. Day end reconciliation for cash collected – Tickets sold to be made 4. Cash collected to be banked on daily basis 5. Surprise Checks to be done by Internal Audit Dept, to ensure correct functioning 		
Fixed assets	<ol style="list-style-type: none"> 1. Authorisation for Capital Expenditure 2. Accounting for Assets 3. Ownership Rights 	<ol style="list-style-type: none"> 4. Asset Registers 5. Physical Verification 6. Asset Transfers 	<ol style="list-style-type: none"> 7. Sale, Scrapping of Assets 8. Safeguarding 9. Depreciation
Investments	<ol style="list-style-type: none"> 1. Purchase and sale of investment should be authorized by responsible persons. 2. Detailed investment register should be maintained. 3. Accretions to the investment should be accounted properly. 4. Property documents, share certificates, etc should under proper authority. 		

Issues	Points to remember	
Meaning	<p align="center">INTERNAL CHECK</p> <p>Checks on day to day transactions which operate continuously as part of the routine system, whereby the work of one person is proved independently or is complementary to the work of another, the object being the prevention or early detection of errors or fraud. Considerations –</p> <ol style="list-style-type: none"> 1. No single person should have an independent control over any important aspect of the business. 2. Duties of staff members should be changed from time to time. 3. Frauds successfully concealed by employees are often unearthed when they are on leave. 4. Persons having physical custody of assets should not be permitted to have access to the books of account. 5. There should be an accounting control in respect of each class of assets. 6. Mechanical devices may be employed to prevent loss or misappropriation of cash. 7. Stock taking activities should be suspended during the financial year end. 8. Delegation of power among different officers. 9. Periodical verification and testing of different sections. 10. Periodic review of accounting procedure. 	
Meaning	<p align="center">INTERNAL AUDIT</p> <p>An independent appraisal function, established within an organisation to examine and evaluate its activities as a service to the organization. Internal Audit has two aspects – Operational Audit and Management Audit.</p>	
Basic Principles	<ol style="list-style-type: none"> 1. Independent status in the organization. 2. Objectives should be made very clear and unambiguous. 3. Scope must be specified in a comprehensive manner. 4. Review of operations as a part of internal control system. 5. Size and qualification of staff should be commensurate with the business. 6. Programme of internal audit should be time bound. 7. Sufficient scope for follow up action on various points raised in Internal Audit Report. 8. Internal audit report should be made available to the statutory auditor. 	
Independence of internal audit	<ol style="list-style-type: none"> 1. Purpose – Examination and evaluation of the organization's activities. 2. Status – Independent Status in the organization. 3. Appointment – by the management. 4. Scope of work – fixed by the management. 5. Orientation – voluntary and management oriented. 6. Degree of independence – less when compared to statutory auditors. 	
Effectiveness of internal audit department [Factors]	<ol style="list-style-type: none"> 1. Organisational status of Internal Audit department. 2. Degree of independence of the Internal Auditor. 3. Nature and depth of coverage of Internal Auditor's assignment. 4. Consistency of the Internal Audit objectives with the top management. 5. Technical training and proficiency of Internal Audit Personnel. 6. Proper planning, supervision, review and documentation of internal audit work. 7. Effectiveness of the Reports. 8. Follow up and remedial actions. 	
Good Internal Audit Report	<p>Features:</p> <ol style="list-style-type: none"> 1. Objective & Unbiased 2. Clarity – Simple & Straight forward 3. Accurate 4. Conciseness 5. Constructiveness – Destructive criticism to be avoided 6. Readers interest to be captured & retained 	<ol style="list-style-type: none"> 7. Timeliness – TO be submitted promptly 8. Findings and conclusions 9. Recommendations for improvement 10. Auditee's views on recommendations 11. Summary at the end 12. Supporting information 13. Draft Report 14. Writing & issuing the Final Report 15. Review of Follow-up action

Issues	Points to remember
Internal Audit under Companies Act, 2013 [Sec.138]	<p>Companies required to appoint Internal Auditor:</p> <ol style="list-style-type: none"> Every Listed Company Every Unlisted Public Company, during the preceding financial year having – <ol style="list-style-type: none"> Paid Up Share Capital of ₹ 50 Crores or more, or Turnover of ₹ 200 Crores or more, or O/s Loans or Borrowings from Banks or Public Financial Institutions exceeding ₹ 100 Crores or more at any point of time during the preceding financial year, or O/s Deposits of ₹ 25 Crores or more at any point of time during the preceding financial year. Every Private Company having – <ol style="list-style-type: none"> Turnover of ₹ 200 Crores or more during the preceding financial year, or O/s Loans or Borrowings from Banks or Public Financial Institutions exceeding ₹ 100 Crores or more at any point of time during the preceding financial year.
Internal Auditor – Appointment aspects	<ol style="list-style-type: none"> Internal Auditor may be an Individual or a Firm. Internal Auditor, can be a CA or a Cost Accountant, or other Professional as decided by the BOD. The term Chartered Accountant shall mean a CA, whether engaged in practice or not. The Internal Auditor may or may not be an Employee of the Company.

FTR 5

DIGITAL AUDIT – AUDIT IN AUTOMATED ENVIRONMENT

Issues	Points to remember			
Automated Environment	<ol style="list-style-type: none"> Meaning: Business Environment where the processes, operations, accounting and sometimes even decisions are carried out by using Computer Systems / IT Systems. Areas of Automation: (a) Entries posting, (b) Computations, (c) Policies, Procedures and Controls, (d) Reports, (e) User Access and Security. 			
Relevance of Automation	<ol style="list-style-type: none"> Extent of Usage of Systems & Application Software in Business (e.g. use of ERPs) Degree of Complexity of Transactions and Business Processes, (e.g. Network) Hi-tech nature of business (e.g. Telecom, e-Commerce). High Volume of Transactions (e.g. Telecom, Banking, Railways Ticketing). Company Policy (in relation to Compliance). Legal Requirements – Companies Act 2013, Internal Financial Controls, IT Act 2008. Requirements of Indian and International Standards – ISO, PCI-DSS, SA 315, etc. 			
Computer based vs Conventional Auditing	<table border="0"> <tr> <td> <ol style="list-style-type: none"> Input Documents, Design, Effect on organisation structure, </td> <td> <ol style="list-style-type: none"> Complexity, Reliability, and Audit Trail. </td> </tr> </table>	<ol style="list-style-type: none"> Input Documents, Design, Effect on organisation structure, 	<ol style="list-style-type: none"> Complexity, Reliability, and Audit Trail. 	
<ol style="list-style-type: none"> Input Documents, Design, Effect on organisation structure, 	<ol style="list-style-type: none"> Complexity, Reliability, and Audit Trail. 			
Features of Automated Environment	<table border="0"> <tr> <td> <ol style="list-style-type: none"> Faster Operations Reliability Accuracy in Data Processing and Computation Large Volumes Better Security and Controls </td> <td> <ol style="list-style-type: none"> Single Point Input System-generated transaction Integration Updated </td> </tr> </table>	<ol style="list-style-type: none"> Faster Operations Reliability Accuracy in Data Processing and Computation Large Volumes Better Security and Controls 	<ol style="list-style-type: none"> Single Point Input System-generated transaction Integration Updated 	
<ol style="list-style-type: none"> Faster Operations Reliability Accuracy in Data Processing and Computation Large Volumes Better Security and Controls 	<ol style="list-style-type: none"> Single Point Input System-generated transaction Integration Updated 			
Benefits to Auditors	<ol style="list-style-type: none"> Increase in the effectiveness and efficiency of auditing procedures, Scientific Random Sampling, Better application of Analytical Review Procedures, Speed in Processing 			
Problems with Automated Environment – for Audit	<table border="0"> <tr> <td> <ol style="list-style-type: none"> Line-Staff Conflict, Manipulation, Coding & Processing, Processing Speed, No Input Documents, </td> <td> <ol style="list-style-type: none"> Lack of Visual Record, Lack of Processing Trail, Lack of Audit Trail, Communication aspects, Skills & Competence, </td> <td> <ol style="list-style-type: none"> Modified Procedures, Concentration of Duties, System Generated Transactions, Impact of Poor Systems, Data Security. </td> </tr> </table>	<ol style="list-style-type: none"> Line-Staff Conflict, Manipulation, Coding & Processing, Processing Speed, No Input Documents, 	<ol style="list-style-type: none"> Lack of Visual Record, Lack of Processing Trail, Lack of Audit Trail, Communication aspects, Skills & Competence, 	<ol style="list-style-type: none"> Modified Procedures, Concentration of Duties, System Generated Transactions, Impact of Poor Systems, Data Security.
<ol style="list-style-type: none"> Line-Staff Conflict, Manipulation, Coding & Processing, Processing Speed, No Input Documents, 	<ol style="list-style-type: none"> Lack of Visual Record, Lack of Processing Trail, Lack of Audit Trail, Communication aspects, Skills & Competence, 	<ol style="list-style-type: none"> Modified Procedures, Concentration of Duties, System Generated Transactions, Impact of Poor Systems, Data Security. 		
CONTROLS AND RISKS IN AUTOMATED ENVIRONMENT				
Effect of Computers on Internal Controls	<table border="0"> <tr> <td> <ol style="list-style-type: none"> No specific separation of duties PCs allow Users to change programs No Delegation of Authority & Responsibility No Competence & trustworthiness No Evaluation of Authorisation Procedures </td> <td> <ol style="list-style-type: none"> No Adequate Documentation No Physical Control over Assets Risk of Loss of Records Management Supervision is not adequate Irregularities or Unauthorised Modifications </td> </tr> </table>	<ol style="list-style-type: none"> No specific separation of duties PCs allow Users to change programs No Delegation of Authority & Responsibility No Competence & trustworthiness No Evaluation of Authorisation Procedures 	<ol style="list-style-type: none"> No Adequate Documentation No Physical Control over Assets Risk of Loss of Records Management Supervision is not adequate Irregularities or Unauthorised Modifications 	
<ol style="list-style-type: none"> No specific separation of duties PCs allow Users to change programs No Delegation of Authority & Responsibility No Competence & trustworthiness No Evaluation of Authorisation Procedures 	<ol style="list-style-type: none"> No Adequate Documentation No Physical Control over Assets Risk of Loss of Records Management Supervision is not adequate Irregularities or Unauthorised Modifications 			