

Intermediate Course

Study Material

(Modules 1 to 2)

PAPER 6

AUDITING AND ASSURANCE

Module - 2



BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

This Study Material has been prepared by the faculty of the Board of Studies. The objective of the Study Material is to provide teaching material to the students to enable them to obtain knowledge in the subject. In case students need any clarification or have any suggestion for further improvement of the material contained herein, they may write to the Director of Studies.

All care has been taken to provide interpretations and discussions in a manner useful for the students. However, the Study Material has not been specifically discussed by the Council of the Institute or any of its Committees and the views expressed herein may not be taken to necessarily represent the views of the Council or any of its Committees.

Permission of the Institute is essential for reproduction of any portion of this material.

© *The Institute of Chartered Accountants of India*

All rights reserved. No part of this book may be reproduced, stored in a retrieval system, or transmitted, in any form, or by any means, electronic, mechanical, photocopying, recording, or otherwise, without prior permission, in writing, from the publisher.

Edition	:	July, 2019
Website	:	www.icai.org
E-mail	:	bosnoida@icai.in
Committee/Department	:	Board of Studies
ISBN No.	:	
Price	:	₹
Published by The ICAI Marg,	:	The Publication Department on behalf of Institute of Chartered Accountants of India, Bhawan, Post Box No. 7100, Indraprastha New Delhi 110 002, India.
Printed by	:	

CONTENTS

MODULE – 1

- Chapter 1 : Nature, Objective and Scope of Audit
- Chapter 2 : Audit Strategy, Audit Planning and Audit Programme
- Chapter 3 : Audit Documentation and Audit Evidence
- Chapter 4 : Risk Assessment and Internal Control
- Chapter 5 : Fraud and Responsibilities of the Auditor in this Regard
- Chapter 6 : Audit in an Automated Environment
- Chapter 7 : Audit Sampling
- Chapter 8 : Analytical Procedures

MODULE – 2

- Chapter 9 : Audit of Items of Financial Statements
- Chapter 10 : The Company Audit
- Chapter 11 : Audit Report
- Chapter 12 : Audit of Banks
- Chapter 13 : Audit of Different Types of Entities

MODULE – 2: DETAILED CONTENTS

CHAPTER – 9: AUDIT OF ITEMS OF FINANCIAL STATEMENTS

Learning Outcomes	9.1
Chapter Overview.....	9.1
Contents:	
Introduction.....	9.2
1. Income Statement Captions Comprising Revenue and Expense Balances	9.3
2 Balance Sheet Captions Comprising Assets, Liabilities and Equity Balances	9.4
3 Balance Sheet Captions	9.6
3.1 Share Capital.....	9.6
3.2 Reserve and Surplus	9.12
3.3 Borrowings	9.15
3.4 Trade Receivables.....	9.20
3.5 Cash and Cash Equivalents	9.27
3.6 Inventories.....	9.31
3.7 Tangible Assets Comprising Land, Buildings, Plant & Equipment, Furniture & Fixtures, Vehicles, Office Equipment, Computers etc. [referred to as "Property, Plant and Equipment" ("PPE")	9.36
3.8 Intangible Assets Comprising Goodwill, Brand/ Trademarks, Computer Software etc.....	9.41
3.9 Trade Payables and Other Current Liabilities	9.47
3.10 Loans and Advances, and Other Current Assets.....	9.54
3.11 Provisions and Contingent Liabilities.....	9.57
4 Statement of Profit and Loss Captions	9.61

4.1	Sale of Products and Services	9.61
4.2	Other Income Comprising Interest Income, Dividend Income, Gain/ Loss on Sale of Investments etc.	9.65
4.3	Purchases.....	9.67
4.4	Employee Benefits Expense	9.72
4.5	Depreciation and Amortisation	9.75
4.6	Other Expenses like Power and Fuel, Rent, Repair to Building, Plant and Machinery, Insurance, Travelling, Legal and Professional, Miscellaneous Expenses	9.78
Summary		9.80
Test Your Knowledge		9.81

CHAPTER – 10: THE COMPANY AUDIT

Learning Outcomes	10.1
Chapter Overview.....	10.1
Introduction.....	10.2
Contents:	
1. Eligibility, Qualifications and Disqualifications of An Auditor.....	10.2
2. Appointment of Auditor.....	10.9
2.1 Appointment of First Auditor.....	10.10
2.2 Appointment of Subsequent Auditor/Reappointment of Auditor.....	10.12
2.3 Filling of a Casual Vacancy.....	10.13
3. Rotation of Auditors.....	10.15
3.1 Applicability of Section 139(2) Rotation of Auditors.....	10.15
3.2 Manner of Rotation of Auditors by the Companies on Expiry of their Term	10.18
4. Provisions Relating to Audit Committee.....	10.21
4.1 Applicability of Section 177 i.e. Constitution of Audit Committee	10.21

4.2	Manner and Procedure of Selection and Appointment of Auditors.....	10.22
5.	Auditor's Remuneration.....	10.23
6.	Removal of Auditors	10.23
6.1	Removal of Auditor Before Expiry of Term.....	10.23
6.2	Appointment of Auditor other than Retiring Auditor	10.24
7.	Ceiling on Number of Audits.....	10.25
8.	Power/Rights of Auditors.....	10.29
9.	Duties of Auditors.....	10.32
10.	Reporting under Companies (Auditor's Report) Order, 2016 [CARO, 2016].....	10.37
11.	Disclosure in the Auditor's Report.....	10.43
12.	Joint Audit.....	10.44
13.	Audit of Branch Office Accounts.....	10.47
14.	Cost Audit	10.49
15.	Punishment for Non-Compliance	10.53
	Test Your Knowledge	10.55

CHAPTER – 11: AUDIT REPORT

	Learning Outcomes	11.1
	Chapter Overview.....	11.2
	Contents:	
	Introduction.....	11.2
1.	Forming an Opinion on the Financial Statements-Objective of the Auditor.....	11.3
1.1	Objectives of the Auditor as per SA 700.....	11.3
1.2	To form Opinion - Auditor to obtain Reasonable Assurance.....	11.3
1.3	Evaluations by the Auditor.....	11.3
1.4	Specific Evaluations by the Auditor	11.4

2.	Form of Opinion	11.5
3.	Auditor's Report	11.6
3.1	Auditor's Report for Audits Conducted in Accordance with Standards on Auditing	11.6
4.	Auditor's Report Prescribed by Law or Regulation	11.14
5.	Modifications to the Opinion in the Independent Auditor's Report.....	11.22
5.1	Circumstances when a Modification to the Auditor's Opinion is Required	11.23
5.2	Objective of the Auditor - To Express Clearly an Appropriately modified Opinion	11.23
5.3	Types of Modified Opinions	11.23
5.4	Which type of opinion is appropriate?.....	11.25
5.5	Basis for Opinion	11.25
6.	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	11.26
6.1	Objective of the Auditor as per SA 706.....	11.26
6.2	Emphasis of Matter Paragraphs in the Auditor's Report.....	11.26
6.3	Other Matter Paragraphs in the Auditor's Report.....	11.27
7.	Communicating Key Audit Matters in the Independent Auditor's Report.....	11.27
7.1	Purpose of Communicating Key Audit Matters.....	11.28
7.2	Objectives of the Auditor regarding Key Audit Matters.....	11.28
7.3	Determining Key Audit Matters.....	11.28
7.4	Communicating Key Audit Matters	11.28
7.5	Communicating Key Audit Matter- not a substitute for disclosure in the Financial Statements etc.	11.29
8.	Standard on Auditing (SA) 710, "Comparative Information- Corresponding Figures and Comparative Financial Statements"	11.29
8.1	The Nature of the Comparative Information	11.29
8.2	Audit Procedures Regarding Comparative Information	11.30

8.3	Audit Reporting Regarding Corresponding Figures	11.30
8.4	Comparative Financial Statements	11.31
Summary		11.32
Test Your Knowledge		11.33

CHAPTER – 12: AUDIT OF BANKS

Learning Outcomes	12.1
Chapter Overview.....	12.1
Contents:	
Introduction.....	12.2
1. Understanding of Accounting System in Banks	12.5
2. Bank Audit Approach.....	12.6
3. Income Recognition Policy.....	12.7
4. Form and Content of Financial Statements.....	12.7
5. Audit of Accounts	12.8
6. Eligibility, Qualifications and Disqualifications of Auditor.....	12.8
7. Appointment of Auditor.....	12.8
8. Remuneration of Auditor	12.9
9. Powers of Auditor	12.9
10. Auditor's Report	12.9
10.1 Format of Report	12.9
10.2 Long Form Audit Report.....	12.10
10.3 Reporting to RBI	12.10
10.4 Duty to report on Frauds under the Companies Act, 2013.....	12.11
11. Conducting an Audit.....	12.11
12. Advances	12.17
12.1 What do Advances Comprise	12.17
12.2 Legal Requirements of Disclosure in the Balance Sheet	12.17

12.3	Classification of Advances.....	12.18
12.4	Nature of Security	12.19
12.5	Mode of Creation of Security.....	12.19
12.6	Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances.....	12.20
12.7	Accounts where there is Erosion in the Value of Security / Frauds Committed by Borrowers	12.23
12.8	Advances Against Term Deposits, NSCs, KVPs/ IVPs, etc.....	12.24
12.9	Agricultural Advances Affected by Natural Calamities	12.24
12.10	Advances to Staff.....	12.24
12.11	Agricultural Advances.....	12.24
13.	Computation of Drawing Power.....	12.25
14.	Audit of Advances.....	12.26
15.	Audit of Revenue Items	12.29
15.1	Income.....	12.30
15.2	Expenses.....	12.35
15.3	Disclosure of the Prior Period Items	12.38
Summary	12.39	
Test Your Knowledge	12.40	

CHAPTER – 13: AUDIT OF DIFFERENT TYPES OF ENTITIES

Learning Outcome.....	13.1
Chapter Overview.....	13.2

Contents:

1.	Government Audit.....	13. 2
1.1	Background	13.2
1.2	Legal Framework and Comptroller & Auditor General	13.4
1.3	Comptroller and Auditor General’s –Duties and Powers.....	13.5
1.4	Expenditure Audit.....	13.8

1.5	Audit of Receipts	13.12
1.6	Audit of Stores and Inventories.....	13.13
1.7	Audit of Commercial Accounts.....	13.14
1.8	Reporting Procedures.....	13.17
2.	Audit of Local Bodies	13.18
2.1	Background	13.18
2.2	Financial Administration.....	13.19
2.3	Objective of Audit of Local Bodies	13.20
2.4	Audit Programme for local Bodies.....	13.21
3.	Audit of Non-Governmental Organisations (NGO's).....	13.21
3.1	Background	13.21
3.2	Sources and Applications of Funds	13.23
3.3	Provisions Relating to Audit.....	13.23
4.	Audit of Sole Trader.....	13.27
5.	Audit of Firm	13.28
5.1	Basic of Limited Liability Partnership (LLP) Audit	13.31
6.	Audit of Charitable Institution.....	13.34
7.	Audit of Educational Institutions (School, College or University).....	13.37
8.	Audit of Hospital	13.39
9.	Audit of Club.....	13.41
10.	Audit of Cinema.....	13.42
11.	Audit of Hire Purchase and Leasing Companies.....	13.43
12.	Audit of Hotels.....	13.48
13.	Audit of Co-Operative Societies	13.51
13.1	Background	13.51
13.2	Audit as per Section 17 of the Co-Operative Societies Act, 1912	13.51
13.3	Special Features of Co-Operative Audit.....	13.55

13.4	Rights and Duties of Co-Operative Auditors	13.58
13.5	Form of Audit Report	13.59
13.6	Audit, Inquiry and Inspection of Multi-State Co-Operative Societies	13.60
14.	Audit Report in respect of different entities	13.67
Summary		13.67
Test your Knowledge		13.68