

R C Jain & Associates LLP

Since 1986...


**Topic : Points To note while
Auditing**



No business or institution can effectively carry on its activities without the help of proper records and accounts, since transactions take place at different point of time with numerous persons and entities.

- The effects of all transaction have to be recorded and suitably analyzed to see the results as regards the business as a whole.
- Periodical statement of accounts are drawn up to measure the success or failure of the activities in achieving the objective of the organization.



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- This would be impossible without a systematic record of transaction.
 - Financial statement are often the basis of decision making by the management and for corrective action so as to even closing down the organization or a part of it.
 - All this would be possible only if the statement is reliable; decision based on wrong accounting statement may prove very harmful or even fatal to the business.

DEFINITION OF AUDIT

- Auditing is defined as a **systematic and independent examination** of data, statement, records, operation, and performance, (financial & or otherwise) or an enterprise for a stated purpose.
- In any auditing situation, the auditor **perceives and recognizes the proposition** before him for examination, **collects evidence, evaluates** the same and on this basis **formulates his judgment** which is communicated through his audit report.”



TYPES OF AUDIT

- Internal Audit
- Statutory Audit
- Tax Audit : u/s. 44 AB –
Audit of accounts :
- EDP Audit
- Operational Audit
- Management Audit
- Stock Audit
- Bank Concurrent audit
- Bank stock audit
- Bank revenue audit
- GST audit etc.
- Trust audit including PF audit
- Mystery Audit



AUDIT PROCEDURES

- Pre Audit Procedure
- Commencement of Audit
- Conduct of Audit
- Audit Discussion
- Audit Finalization
- Post audit work (IT Filing, billing, organizing of files etc)

Key steps in the audit inspection process



PRE AUDIT PROCEDURE

APPOINTMENT AS AUDITOR

- Proposal from client.
- Proposal acceptance letter from us.
- Appointment letter from client.
- Letter of Acceptance of appointment from us subject to NOC from previous auditor.
- Letter to previous auditor for No Objection Certificate.
- No Objection Certificate from previous auditor.

The Soft Copy link of above Letters is as follows :

[..\Audit Manual\General 2015\Letters\Appointment & Acceptance letter](#)

COMMENCEMENT OF AUDIT

- Do all **homework** before visit to client place. Such as the Name, Address Telephone No. of the Client .
- Determine what **kind of audit** you are going for.
- Study the industry to which the company / Firm / Proprietorship / any other Business organization belongs and its salient characteristics
- **Study the objective** of the Company or any other case nature of business of the company , firms / proprietorship / Trust / Association of Persons etc.
- Analyze which **regulations** are applicable to the company.
- Analyze which **Accounting Standards** are applicable to the Company.

COMMENCEMENT OF AUDIT (...)

- Prepare detailed **audit program** detailing the **resource requirement** and thus **time required**.
- Prepare the **list of requirements** for conduct of audit.
- **Letter or mail** to client for intimation of **commencement** of audit & list of requirements.
- **Follow up of requirements** through mails and phone and arrange for client's place for commencement of audit.
- Ask client to fill in Tax Audit Checklist, CARO checklist etc, in case it is applicable.
- After reaching at the office of the client before commencement of the Audit he should **meet the responsible staff** of the Company and prepare the list of the responsible officer of the company.

CONDUCT OF AUDIT

- Following points should be kept in mind while conducting audit:
 - Query sheet should be in proper pre-format excel sheet maintained by us and should be self explanatory.
 - Query should be mentioned in detail i.e. Voucher number, date, amount, query & remark, etc
 - Moreover in most of the cases, more than 50% of the queries remain continued from previous audits. So if first time proper description & accuracy is observed in writing the queries, same can just be copy pasted & the concerned audit staff need not waste much time in reviewing it again & again.
- Even if the matter that you have checked has **no queries**, such a **remark** should be **present** in the query sheet. This keeps a mark of the items checked & thus serves as a proof as well as avoids duplication.

CONDUCT OF AUDIT (Cont...)

- Pens to be used.
 - Statutory Audit – **Green Pen**
 - Internal Audit - **Red Pen**
 - For writing queries – **Blue / Black Pen**
 - Noting replies to queries – color other than blue or black which is otherwise used for writing queries.
- Ticking should be done at **the start of amount from left to right** in upward direction
- All the papers, including query sheet should be properly named & dated.
- All your queries should be first discussed with colleagues, seniors, or team heads before they are discussed with client. Avoid asking stupid queries to clients as that irritates them & brings down the impression of the whole team & whole organization.

CONDUCT OF AUDIT (Cont...)

- Checking of Opening Balances
- Vouching to be done and each voucher should be authorized by the authorized persons and the date of voucher should be within the F.Y and it should be in the name of the company only.
- After vouching the **verification** to be done in case of
 - Fixed Assets Purchases along with the legal Title of the assets.
 - Investment to be verified with the Demat list if the investments are in demat otherwise physically verify.
 - Cash Balances
 - Deposit with Bank in FDR

CONDUCT OF AUDIT (Cont...)

After verification of the transaction the **confirmation** to be received from

- Debtors
- Creditors
- Loans Liability
- Loans & Advances
- Bank Balances
- Cash Balances
- Scrutinizing financial statements.



- After Solving the queries and other audit procedures, final copy of Trial Balance should be taken & kept in the working paper file.
- A proper Audit report should be prepared as per the type of audit.

AUDIT DISCUSSION

- The query sheet should **be either mailed to the client or a copy of it should be provided to them with proper records** of the date/time of providing the queries to the client. Also take an acknowledgement of the delivery thereof.
- Along with providing the queries to the client, proper arrangement should be done with them to sit down for **discussion** of the queries.
- All the replies of the queries during the above discussion should be properly incorporated in the query sheet either in writing on the existing prints, or typed in the soft copy & then fresh prints taken.
- The query sheet **should then be signed by the client& such signed copy should then be properly filed in the Audit working paper file.**

AUDIT FINALISATION

- Final copy of Trial Balance should be taken.
- Audit report should be made.
- Necessary certificates should be taken from client before signing the Auditors Report. (such as Management representation letters for statutory audit as well as tax audit, cash & stock certificate, certificate for any fact stated in our report or financial statement based on the point of the client etc). ..\Audit Manual\General 2015\Letters\representation letters & certificates
- The Final Report should be sent to the Signing Partner / Auditor for signature to review. If any suggestions, changes or findings are found by the Signing Partner / Auditor for Signature, the same have to be incorporated in the Report.



AUDIT FINALISATION

- **Signature of client should be taken first and only thereafter signature of the partners to be taken.** In cases or urgency wherein the sets are sent for signatures to partners first, an explanation to that extent duly signed by the owner team heads be sent along. This explanation should form a part of the final working papers in the permanent file as well.
- **No filing, Income Tax or ROC, should be done before all the signatures are in place.** In case if only one director has signed or for that matter any pending signature should be documented appropriately giving explanation to that effect and duly signed by the owner team heads. This explanation should form a part of the final working papers in the permanent file as well and the team head should ensure that the missing signatures are in place at the earliest.
- Copies of Audit reports should be made, as per requirement and sent to concerned signing partner / auditor for signature
- After signatures, proper folders should be prepared & sent to clients & a copy thereof to be kept with us.

POST AUDIT WORK

- Documents like Audit report Sheet, audit program, query sheets & all other documents as exchanged, obtained etc during the audit from time to time should be duly filed.
- Proper Audit working paper file should be maintained, where in important working papers like
 - Bank statements, Bank Reconciliation statements, Balance confirmations(loans, debtors, creditors, cash, stock, tax audit certificate etc), additions/deletion to Fixed assets, Important contract notes / agreements, Fresh Investments, audit programmes, query sheets, etc. as mentioned from time to time in this document

POST AUDIT WORK (CONT...)

- File should be complete in all respect and this can be confirmed by taking a print of 'Checklist for filing' which can be ticked with all that is obtained / generated etc & duly filed. If any document as mentioned in the checklist is not applicable to the concerned client or audit, such a remark should also be invariably be put on the checklist.
- Working file to be maintained separate from Permanent file.
- In many cases financial statements were not found in the permanent files, which is not acceptable. Kindly understand the risk which we are running and act responsibly. The same degree of responsibility needs to be seeded in the assistants as well. It is in the interest of one and all

General Issues to be kept in Mind During Audit :

- **Dress code**
- **Use of Phone**
- **Affix date and the title** - of the document (in case it is absent) on every paper that **you receive** from the client, on every paper that **you make** during the course of the audit & on every paper that **you give to the client** along with your **initials** also.
- **In case of any physical verification**-date, time, initials etc are to be affixed even if there are no queries. These details are a proof of the physical verification having been done.

DATABASE

- The soft copy of this word file is kept at
“P:\Knowledge Portal\HOI\Audit\PPT.”
- There is an Audit General File which contains the procedure of audit in general, formats of the various documents connected with audit, etc. This file is kept at
“6th Floor, in R. C. Sir’s Cabin, in the cabinet captioned GENERAL.”
- Soft copies of all the documents available in the above file are kept at the following path:
“P:\Knowledge Portal\HOI\Audit”

R C JAIN AND ASSOCIATES LLP

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Open House Discussions

*Thank
you*

