

Seminar Cum Webinar on "Article Training"

1. What is the basic of Auditing
2. How to vouch
3. Ledger scrutiny
4. Documentation.

Basic of Auditing

- Auditing is a part of the accounting world. It is **an examination of books of accounts; accounting and financial records that is undertaken independently to ascertain the accuracy of the Financial Statements of the Entity**
- **What is the purpose of auditing?**

The purpose of an audit is to form a view on whether the information presented in the financial report, taken as a whole, reflects the financial position of the organisation at a given date,
- **In order to form that opinion**, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.
- **Reasonable assurance** includes the understanding that there is a remote likelihood that material misstatements will not be prevented or detected on a timely basis. To achieve reasonable assurance, the auditor needs to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level

Audit procedure and process

What is audit procedure?

- Audit Procedures are steps performed by auditors to get all the information regarding the quality of the financials provided by the company, which enable them to form an opinion on financial statement whether they reflect the true and fair view of organisation financial position.

Reasonable assurance includes the understanding that there is a remote likelihood that material misstatements will not be prevented or detected on a timely basis.

To achieve reasonable assurance, the auditor needs to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level

- Steps in Audit process
 - Acceptance of the Engagement (Audit)
 - Planning
 - Fieldwork
 - Report

Ledger scrutiny

- Ledger scrutiny is part of audit procedures .
- Auditors use the general ledger **to see the detailed explanation of balances and income and expenses to check certain assertions**
- What are assertions
- Assertions are affirmations made by the Management regarding certain aspects of transactions / account balances / presentation and disclosures .
- In case the claim made by the management is not valid there is a risk of a misstatement, and this misstatement could be material
- The concept is primarily used in regard to the audit of a company's financial statements , where the auditors rely upon a variety of assertions ; however the auditors would need to test the validity of these assertions by conducting a number of and different types of substantive procedures

Assertions

Types of Assertions

- Transaction-Level Assertions
- Account Balance Assertions
- Presentation and Disclosure Assertions

Occurrence

The invoice mentions the name of the Company

All expenses that have been recorded have actually occurred and are related to the client

Amount accounted must be the same as per invoice (else document why is it different) are related to the client

Cut-off

If the services/ goods are received during the audit period

Assertions (Continued)

Completeness

All expenses that should have been recorded have actually been recorded

Classification

All expenses have been properly classified

Voucher for Newspapers and Magazines should not be accounted for as Repairs & Maintenance

Accuracy

All expenses transactions have been recorded correctly

Amount accounted must be the same as per invoice (else document why is it different)

Ledger scrutiny

- **Why is Ledger scrutiny done**
- Ledger scrutiny is part of audit procedures etc.
- Auditors use the general ledger to see **the detailed explanation of balances and income and expenses to check certain assertions such classification; cut-off; accuracy**

Examples of how to do Ledger Scrutiny

- **Reconciliation of Opening and Closing Balance:**

- **Journal Entries in the Account: (Occurrence)**

The necessity for a Journal Entry for particular transaction is also to be verified. e.g What is the necessity to pass a JE in an operating expenses related account Legal and Professional Expenses

- **Period of Transactions in the Ledger: (Cut-off)**

There are three basic time frame related periodicity of the transactions. The transactions as on

1. Opening balance on the first date of the accounting year; which is carried forward from the previous year balance (SA 510 Initial Audit Engagement Opening Balances) to be traced from the signed Financial Statements
2. Closing balance on the date of the accounting year to be traced to the Trial Balance
3. The transactions which are entered in to and nullified or squared up in the same accounting year.

Ledger scrutiny (continued)

• Amounts & Transactions (Accuracy)

e.g. The ledger account of Rent Account.

There would be monthly bills to be posted

The payment would be in line with a particular agreement

May be there could be provision for the last month (in this case it may be JE).

The opening provisions to be paid or reversed as the case may be.

The characteristics of the said account could be:

1. Number of entries (ideally 12 including a provision)
2. One amount as per Agreement (if there are more than agreements then the impact would differ)

Any deviation will be an audit query.

Ledger scrutiny (continued)

- **Transactions in the ledger having arithmetic calculation: (Accuracy)**
- Calculation is one of the basics in scrutinizing the said ledger.
- The examples could Depreciation, Interest
- Cross Verification for the gross amount:
- This step in the ledger scrutiny will help in verifying the arithmetic accuracy as well as gross correctness of a particular ledger account.
- The Interest on loan paid account will more likely than not be propionate to the Unsecured Loans Account.
- If the Loans are increased the interest on loans will also increased proportionately.

- **Any deviation will be an audit query.**

Ledger scrutiny (continued)

- Transactions in the Account to be closest to the nomenclature of the Head of the Account:
(Classification)

e.g. Repairs and maintenance Account should have repairs related amounts. Major repairs which would not increase the life of the asset still be a part of the repairs and maintenance account however, where the life of the asset increases due to repairs, the account head nearest to that particular Fixed Asset Account.

- Type of Transaction whether Capital or Revenue (Classification).

There could be specific account heads for Capital transactions and for Revenue transactions, these can be passed in to in the particular account with the nature of transaction as a basis

Any deviation will be an audit query.

SA 230 para 8 re-produced here

- **Form, Content and Extent of Audit Documentation**
- Para 8. The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand
 - (a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements; **(Ref: Para. A6-A7** state ‘sufficient and appropriate ; clarificatory Furthermore, the absence of a documentation requirement in any particular SA is not intended to suggest that there is no documentation that will be prepared as a result of complying with that SA.
 - (b) The results of the audit procedures performed, and the audit evidence obtained; and
 - (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgement
- The form, content and extent of the documentation would depend upon for e.g. size of the Entity, Risk of Material Misstatement **(Ref: Para. A2-A5, A16- A17)**

Documentation

- **Layman's language**

Work-paper should mention as a header

1. Name of the Entity
2. Period (from ... to) / Year Ended
3. Area
4. Prepared by (Name and Date) and Reviewed by (Name and Date) >> Ideally should tie-up with similar details in the Audit File

Documentation contd....

- The body could include
 - a. Purpose > Should be linked to the assertion, Risk of Material Misstatement[ROMM] (if it is for Test of Details)
 - b. Source of data Could be the SAP report and / the name of the person from whom we have obtained the data
 - c. A good practice would be mention how were the number of samples and the actual samples chosen
 - d. Reference to the account balances which are being checked and the balance as per the TB could be a good practice
 - e. Nature of work done should mention the Audit procedures to obtain audit evidence can include any of the below
 - a. Inquiry, (remember mere inquiry would not suffice)
 - b. inspection,
 - c. observation,
 - d. confirmation,
 - e. recalculation,
 - f. reperformance, and
 - g. analytical procedures
 - f. Observations : Could be in the nature of mis-statements or a “clean chit”
 - g. Conclusions : Ideally we could mention that “....did not observe any mis-statement”

Documentation

Particulars	How documented	What is not correct
Name of the Entity	SRK	The name is S R Khan Limited
Period	March 31, 2022	The period should have start date and an end date It could be mentioned as : Year Ending or Year Ended March 31, 2022
Prepared by	XYZ	XYZ has not signed of in the Audit File
Reviewed by	ABC	Sign off is disclosed as BAC
Purpose	To audit operating expenses of SRK	To check the balance disclosed as Operating Expenses for any mis-statements on account of the following assertions
Source	From the accounts related to the client All expenses that have been recorded actually occurred and are has obtained the list of accounts from XYZ (mention designation) / has referred to the Trial Balance for the list of accounts
Procedurehas got the samples from ABC	<ol style="list-style-type: none"> has obtained the list of accounts from XYZ (mention designation) / has referred to the Trial Balance for the list of accounts has checked the balances mentioned and fount them to be correct has arrived at the samples using has obtained the samples and their underlying documents has verified the invoices and their supporting documents
Observations :	Not significant; / not material	Could be in the nature of mis-statements or a “clean chit”
Conclusions :	None	Ideally we could mention that “..... did not observe any mis-statement”

THANK YOU

- Thank you very much
- **Western India Regional Council of
The Institute of Chartered Accountants of India**
- **CA. Murtuza Kachwala Chairman WIRC**
- **CA Ketan Saiya Chairman, WICASA**
- **Ms Manishi Agarwal , Vice Chairperson WICASA**
- **And all seniors and peers**