

Compliance with Statements on Auditing and Assurance Standards

(This Compliance checklist lists the various AAS and statements on auditing practices that are applicable for audits. It should be ensured that compliance with these statements are made. The remarks column must always be filled out. This list is updated till February 2005)

Sr. No.	Statement	Complied with (Y/N/NA)	Remarks / Checklist Reference
1.	Statement on Auditing Practices		
2.	Statement on Qualifications in Auditor's Report		
3.	Statement on The Companies (Auditor's Report) Order, 2003		
4.	Statement on the Payments to Auditors for Other Services		
5.	AAS 1 : Basic Principles Governing an Audit		
6.	AAS 2 : Objective and Scope of the Audit of Financial Statements		
7.	AAS 3 : Documentation		
8.	AAS 4 : Auditor's responsibility to consider Fraud and Error in an Audit of Financial Statements (Revised)		
9.	AAS 5 : Audit Evidence		
10.	AAS 6 : Risk Assessments and Internal Control (Revised)		
11.	AAS 7 : Relying upon the Work of an Internal Auditor		
12.	AAS 8 : Audit Planning		
13.	AAS 9 : Using the Work of an Expert		
14.	AAS 10 : Using the Work of Another Auditor (Revised)		
15.	AAS 11 : Representations by Management		
16.	AAS 12 : Responsibility of Joint Auditors		
17.	AAS 13 : Audit Materiality		
18.	AAS 14 : Analytical Procedures		
19.	AAS 15 : Audit Sampling		
20.	AAS 16 : Going Concern		
21.	AAS 17 : Quality Control for Audit Work		



Sr. No.	Statement	Complied with (Y/N/NA)	Remarks / Checklist Reference
22.	AAS 18 : Audit of Accounting Estimates		
23.	AAS 19 : Subsequent Events		
24.	AAS 20 : Knowledge of the Business		
25.	AAS 21 : Consideration of Laws and Regulations in Audit of Financial Statements		
26.	AAS 22 : Initial Engagements – Opening Balances		
27.	AAS 23 : Related Parties		
28.	AAS 24 : Audit Considerations Relating to Entities Using Service Organisations		
29.	AAS 25 : Comparatives		
30.	AAS 26 : Terms of Audit Engagements		
31.	AAS 27 : Communications of Audit Matters with those Charged with Governance		
32.	AAS 28 : Auditor's Report on Financial Statements		
33.	AAS 29 : Auditing in a Computer Information Systems Environment		
34.	AAS 30 : External Confirmations		
35.	AAS 31 : Engagement to compile Financial Information		
36.	AAS 32 : Engagements to perform Agreed upon Procedures regarding Financial Information		
37.	AAS 33 : Engagements to Review Financial Statements		
38.	AAS 34 : Audit Evidence – Additional Consideration to specific items		

Following pages contain checklists on selected AAS.



CHECKLIST : AAS 3 — DOCUMENTATION

	<i>Audit Procedure</i>	<i>Y/N</i>	<i>Remarks</i>
(1)	Whether audit working papers give an overall understanding of the: a) audit procedures performed and b) the extent of checking done?		
(2)	Do the audit working papers include a) Audit plan prepared; b) Nature, timing and extent of audit procedures followed; c) Evidence obtained and conclusions drawn therefrom?		
(3)	Has the auditor prepared/updated the permanent audit file for recurring audits?		
(4)	Whether Current Audit File (Working Papers File) include the following: a) Correspondence relating to acceptance of annual appointment; b) Copy of Draft Financial Statements and Signed Financial Statements; c) Copies of all draft and final reports issued to client; d) Comments received from client; e) Observation on accounts and points carried forward to next year; f) Important final journal entries; g) Audit completion report; h) Important matters in minutes of Board Meetings, Audit Committee and General Meetings; i) Audit planning; j) Time and Cost summary; k) Briefing to Staff notes; l) Copy of planning letter to Client; m) Points from previous year; n) Balance Sheet, Profit and Loss account and Cash Flow statement		



	Audit Procedure	Y/N	Remarks
	o) Audit systems testing working papers such as i) Lead Schedules ii) Audit Programmes iii) Conclusions iv) Checklists v) Queries raised and explanations received vi) Third party confirmations and certificates vii) Weaknesses identified and copy of Letter of Weaknesses to client viii) Trial Balance ix) Cross referencing between the back up schedules, lead schedules, and the accounts p) Analysis of transactions and balances (Notes on important points and decisions taken during scrutiny of accounts); q) Evidence that work performed by assistants has been reviewed; r) Copies of communication with the other auditors, experts and third parties; s) Letter of representations, confirmation obtained from client; t) Significant matters on which the auditor has made judgments and drawn conclusions		
5.	Does the Permanent audit file include: a) Legal, organisational and management structure of the entity; b) Memorandum/Articles of Association; c) Acts and regulations (in case of Statutory corporations); d) Nature and History of the Business; e) Profile of Ownership; f) Registered Office Details; g) Industry specifications with reference to size and economic factors affecting the industry;		



	Audit Procedure	Y/N	Remarks
	h) Purchase volumes, policies and major suppliers;		
	i) Sales volumes, policies and major buyers;		
	j) Inventory norms, levels and related ratios;		
	k) Personnel details – numbers, method of remuneration, union agreements, contracts, HR policy;		
	l) Study and evaluation of internal controls related to accounting systems;		
	m) Significant audit observations of the past;		
	n) Details of method of accounting including cost accounting, flow charts, specimens of accounting documents, code structure and list of accounting records;		
	o) EDP – system security, source code security, authorisation and backup policy;		
	p) Lease agreements photocopies/extracts of the same		
	q) Title deeds inspected annually by auditor		
	r) Royalty agreement;		
	s) Minutes of continuing importance of Directors' meeting, members' meeting;		
	t) Group structure – subsidiaries, associates, JVs, auditors names;		
	u) Names of bankers, Solicitors, Investment Analysts, Registrars, Credit Rating;		
	v) Important legal documents, agreements and minutes;		
	w) Audited financial statements of last 5 years;		
	x) Analysis of significant ratios, performance indicators and industry statistics;		
	y) Management letters issued by us;		
	z) Record of communication with retiring auditor;		
6.	Any other information of a permanent nature;		

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**CHECKLIST : AAS 4 — AUDITOR'S RESPONSIBILITY FRAUD AND ERROR**

	<i>Audit Procedure</i>	<i>Y/N</i>	<i>Remarks</i>
1.	Have you assessed risks (AAS 6) of material misstatement in the financial statements?		
2.	Have you evaluated the design of internal checks and control mechanisms placed by the management and recorded the weaknesses in them?		
3.	Are there loopholes in the control environment where senior level of management can or does override control procedures?		
4.	Are there events or conditions which have increased the risks of fraud or error such as a) Management is dominated by one person; b) Significant and prolonged understaffing of accounting department; c) Frequent changes of legal counsel or auditors? d) Doubts regarding the integrity or competence of management; e) Unusual transactions; f) Problems in obtaining sufficient appropriate audit evidence; g) Management's characteristics and influence over the industry conditions and operating characteristics; h) Evidence obtained (including the auditor's knowledge from previous audits) that brings into question the reliability of management representations; i) There is excessive interest by management in maintaining or increasing the entity's stock price; j) Significant portion of management's compensation is represented by bonuses, stock options or other incentives, the value of which is contingent upon the entity achieving unduly aggressive targets; k) Management commits to analysts, creditors and other third parties to achieving what appear to be unduly aggressive or clearly unrealistic forecasts; l) Management has interest in pursuing inappropriate means to minimize reported earnings for tax-motivated reasons; m) Failure to correct known material weaknesses in internal control on a timely basis;		



	Audit Procedure	Y/N	Remarks
	n) Significant disregard for regulatory authorities; o) Declining margins; p) Increased competition; q) High turnover of management, counsel or board members. r) Weakness or ineffective corporate governance structure; s) Overly complex organizational structure involving numerous or unusual legal entities, managerial lines of authority or contractual arrangements without apparent business purpose; t) Unusually rapid growth or profitability especially compared with that of other companies in the same industry; u) Significant, unusual or highly complex transactions (especially those close to year-end) that pose difficult questions concerning substance over form; v) Unusually high dependence on debt, a marginal ability to meet debt repayment requirements, or debt covenants that are difficult to maintain.		
5.	Are there any unusual pressures/transactions within the entity such as a) Inadequate working capital due to declining profits; b) Earnings are being deteriorated; c) Entity heavily dependent on one or few products?		
6.	Have you noticed circumstances such as those here under that could result in fraud or error: a) Unrealistic time deadlines for audit completion imposed by management. b) Reluctance by management to engage in frank communication with appropriate third parties, such as regulators and bankers. c) Limitation in audit scope imposed by management. d) Identification of important matters not previously disclosed by management. e) Significant difficult-to-audit figures in the accounts. f) Aggressive application of accounting principles.		



	Audit Procedure	Y/N	Remarks
	g) Conflicting or unsatisfactory evidence provided by management or employees. h) Unusual documentary evidence such as handwritten alterations to documentation, or handwritten documentation which is ordinarily electronically printed. i) Information provided unwillingly or after unreasonable delay. j) Seriously incomplete or inadequate accounting records. k) Unsupported transactions. l) Unusual transactions, by virtue of their nature, volume or complexity, particularly if such transactions occurred close to the year-end. m) Transactions not recorded in accordance with management's general or specific authorization. n) Significant unreconciled differences between control accounts and subsidiary records or between physical count and the related account balance which were not appropriately investigated and corrected on a timely basis. o) Inadequate control over computer processing (for example, too many processing errors; delays in processing results and reports). p) Significant differences from expectations disclosed by analytical procedures. q) Fewer confirmation responses than expected or significant differences revealed by confirmation responses. r) Evidence of an unduly lavish lifestyle by officers or employees. s) Unreconciled suspense accounts. t) Long outstanding account receivable balances.		
7.	Has the auditor leading the team discussed with other members of the audit team, the susceptibility of the entity to material misstatements in the financial statements resulting from fraud or error?		



	Audit Procedure	Y/N	Remarks
8.	When planning the audit, have you made inquiries of management: a) to obtain an understanding of: i) management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; and ii) the accounting and internal control systems management has put in place to address such risk; b) to obtain knowledge of management's understanding regarding the accounting and internal control systems in place to prevent and detect error; c) to determine whether management is aware of any known fraud that has affected the entity or suspected fraud that the entity is investigating; and d) to determine whether management has discovered any material errors. e) how management communicates to employees its view on responsible business practices and ethical behaviour, such as through ethics policies or codes of conduct. f) the work of the entity's internal audit function and whether internal audit has identified fraud or any serious weaknesses in the system of internal control;		
9.	On encountering circumstances mentioned in point 6 above and such similar circumstances that may indicate that there is a material misstatement in the financial statements resulting from fraud or error, have you modified the nature, extent and timing of audit procedures to determine whether the financial statements are materially misstated? <i>[Append a list of areas identified, audit procedures carried out, and findings]</i>		
10.	In case of higher risk of fraud have you : a) increased sensitivity in the selection of the nature and extent of documentation to be examined in support of material transactions		



	Audit Procedure	Y/N	Remarks
	b) increased recognition of the need to corroborate management explanations or representations concerning material matters; and c) increased the extent of supervision and review of work carried out by skilled assistants.		
11.	Are there any instances of misapplication of accounting policies such as in Revenue recognition, inventory quantities, non-standard journal entries etc.? <i>[Append a list]</i>		
12.	Have you detected any frauds arising out of: a) Manipulation/falsification/alteration of record or documents; b) Misappropriation of assets; c) Suppression or omission of the effects of transaction from records or documents; d) Misapplication of accounting policies?		
13.	Have you communicated your audit findings in a timely manner to the management about fraud or error including observation of red flags?		
14.	Has there been a proper disclosure of such fraud or error in the financial statement/auditors report as appropriate?		

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Note: **“Error”** refers to an unintentional misstatement in the financial statements, including the omission of an amount or a disclosure, such as:

- A mistake in gathering or processing data from which financial statements are prepared.
- An incorrect accounting estimate arising from oversight or misinterpretation of facts.
- A mistake in the application of accounting principles relating to measurement, recognition, classification, presentation, or disclosure.

“Fraud” refers to an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.


CHECKLIST : AAS 5 — AUDIT EVIDENCE

	<i>Audit Procedure</i>	<i>Y/N</i>	<i>Remarks</i>
1.	Have you prepared an audit plan and a programme in accordance with the AAS 8?		
2.	Have you prepared a set of assertions required to be made for various classes of transactions or account balances?		
3.	Have you decided the procedures to be carried out to validate those assertions?		
4.	Have you identified audit evidences required to support those each of the assertions? <i>[You may choose to prepare a chart showing describing the assertions required to be made for each class of transactions or account balances and audit evidence/s that should be sufficient and appropriate to support those assertions]</i>		
5.	Have you carried out tests to check the reliability of each type of audit evidence as per the AAS? <i>[Refer Note 2]</i>		
6.	Have you ensured that in each case the audit evidence is sufficient in terms of the quantum of evidence? Are there cases where there is a lack of sufficiency in audit evidence? Append a list.		
7.	Is the audit evidence obtained for each assertion? Have you considered in each case the relevance and reliability? <i>[In case of no evidence available/obtained for any assertion of material nature, have you considered not expressing an unqualified opinion]</i>		
8.	Is the audit evidence consistent with other evidences pertaining to the same matter? <i>[In case of inconsistency, where the evidences are conflicting document how they have been resolved]</i>		
9.	In case of analytical procedures used to obtain the evidence is it possible through substantive procedures to get corroborative assurance on a test basis? Append a note where such evidence is not available or cannot be relied upon?		
10.	Are all the audit conclusions/assertions fully supported by audit evidence?		



	Audit Procedure	Y/N	Remarks
11.	On an overall basis for various classes of transactions or account balances do the analytical procedures offer the same conclusion as other substantive tests carried out by sampling?		

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1. Reliability assessment:

- External evidence (e.g. confirmation received from a third party) is usually more reliable than internal evidence.
- Internal evidence is more reliable when related internal control is satisfactory.
- Evidence in the form of documents and written representations is usually more reliable than oral representations.
- Evidence obtained by the auditor himself is more reliable than that obtained through the entity.

2. List of Audit Procedures and related assurance that can be reasonably accepted for certain assertions in respect of account balances or class of transactions:

From **substantive procedures**:

Existence	that an asset or a liability exists at a given date.
Rights and Obligations	that an asset is a right of the entity and a liability is an obligation of the entity at a given date.
Occurrence	that a transaction or event took place which pertains to the entity during the relevant period.
Completeness	that there are no unrecorded assets, liabilities or transactions.
Valuation	that an asset or liability is recorded at an appropriate carrying value.
Measurement	that a transaction is recorded in the proper amount and revenue or expense is allocated to the proper period.
Presentation and Disclosure	an item is disclosed, classified, and described in accordance with recognised accounting policies and practices and relevant statutory requirements, if any.

From **compliance procedures**:

Existence	that the internal control exists.
Effectiveness	that the internal control is operating effectively.
Continuity	that the internal control has so operated throughout the period of intended reliance.



CHECKLIST : AAS 6 — STUDY AND EVALUATION OF THE ACCOUNTING SYSTEM AND RELATED INTERNAL CONTROL IN CONNECTION WITH AN AUDIT

	<i>Audit Procedure</i>	<i>Y/N</i>	<i>Remarks</i>
	Study and Evaluation of Accounting System		
1.	Have you gained complete understanding of accounting system? Attach reference to the Note on the system which may contain the following: a) major classes of transactions in the entity's operations; b) how such transactions are initiated; c) significant accounting records, supporting documents and specific accounts in the financial statements; and d) the accounting and financial reporting process, from the initiation of significant transactions and other events to their inclusion in the financial statements.		
2.	Have you assessed the adequacy of accounting system as a basis for preparing the financial statements? [Consider recording accuracy, promptness, processing validity, classification, authorisation, reporting, degree of estimation involved, complexity of transactions, completeness, application of accounting policies and standards, statutory considerations, and such other heads to evaluate the system. Assess possibility of omissions, incorrect entries etc.]		
3.	Can you conclude that the financial system is adequate?		
	Study of overall control environment		
4.	Have you considered the control environment in light of the following and documented the same in terms of following broad heads (append Note):		
	a) attitude, awareness and actions of directors and management regarding the internal control system and its importance in the entity		
	b) entity's organisational structure		
	c) segregation of duties		
	d) methods of assigning authority and responsibility		
	e) function of the board of directors and its committees (defined, operational etc.)		



	Audit Procedure	Y/N	Remarks
	f) management's philosophy and operating style		
	g) the internal audit function (refer checklist on)		
	h) policies and procedures relating to accounting		
5.	Have you considered the control procedures in light of the following and documented the same in terms of the these broad heads (append Note): a) Reporting and reviewing reconciliations. b) Checking the arithmetical accuracy of the records. c) Controlling applications and environment of computer information environment systems, for example, by establishing controls over: (i) changes to computer programmes (ii) access to data files. d) Maintaining and reviewing control accounts and related subsidiary ledgers. e) Approving and controlling of documents. f) Comparing internal data with external sources of information. g) Comparing the results of physical verification of cash, fixed assets, investments and inventory with corresponding accounting records. h) Restricting direct access to assets, records and information. i) Comparing and analysing the financial results with corresponding budgeted figures.		
	Assessment of control risk		
6.	Have you identified material balances and class of transaction for which you would carry out preliminary control risk assessment?		
7.	Have you documented controls that prevent, detect, or correct material misstatement for the material balances/ class of transactions identified above? [Use of various audit techniques such as questionnaires, narrative descriptions, checklists, flow charts to assess control is recommended]		



	Audit Procedure	Y/N	Remarks
8.	Having identified the existence of controls as above for significant classes of transactions/material balances, have you obtained audit evidence of effectiveness and continuous operation of those internal control through test of controls? [Obtain audit evidence and document the effectiveness of controls for selected class of transactions/material balances. Mention the procedures applied to assess the control such as inquiry, observation, inspection, confirmation, test runs, computation, analysis, etc.]		
9.	Have you noticed significant deviations from prescribed controls? [If yes, have you obtained reasons, evaluated the explanation in light of the facts available, and covered periods where events caused such deviations]		
10.	Does the audit evidence pertain not only to a specific point of time but for other periods of time as well?		
11.	In case of a computerised environment have you considered the points in the checklist on audit under computerised environment?		
	Conclusion		
	Based on the tests of controls carried out is the Control Risk Lowest, Lower, Medium, High, Highest		
12.	Have you evaluated inherent risk based on the study of the accounting system and controls in terms susceptibility of an account balance to be misstated individually or when aggregated with misstatement in other balances or classes?		
13.	What test have you carried out to measure the inherent risk at financial statement level?		
14.	What test have you carried out to measure the inherent risk at individual account balances/class of transactions level?		
	Conclusion		
	Based on the tests of controls and the assessment done in points 12-14 is the inherent Risk - Lowest, Lower, Medium, High, Highest. [The AAS requires the auditor state reasons when he assesses inherent risk as low. Hence ensure that the documentation show the basis of conclusion]		



	Audit Procedure	Y/N	Remarks
15.	Have you considered the assessment of control and inherent risks to design the nature, extent and timing of substantive procedures? [Document the substantive tests carried out and their correlation between the inherent and control risk assessment and designing of substantive tests. A more detailed and extensive substantive tests are required in case of detection of high control + inherent risks to reduce detection risk and thus minimise audit risk. This should be done for material account balances and class of transactions]		
16.	In case where detection risk regarding a financial statement assertion for a material account balance or class of transactions cannot be reduced to acceptable levels, have you considered expressing a disclaimer or qualified audit opinion?		
17.	In case of low control environment, as in smaller enterprises have you considered the reliance on substantive procedures for expressing opinion on financial statements?		
18.	In case of discovering material weaknesses in designing or operation of accounting or internal control systems, have you conveyed the same to the management in writing or documented oral communication and included the same in the current working papers file? [It is important to indicate in the communication that only weaknesses which have come to the auditor's attention as a result of the audit have been reported and that the examination has not been designed to determine the adequacy of internal control for management purposes.]		

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The following table can be used to document the assessment control risk:

Area / Material balances / Class of transactions	Controls	Tests to evaluate controls	Periods covered	Deviations	Reasons/ extent / Frequency of deviation	Control risk assessment	Audit Evidence
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Compliance Procedure: – These are the test designed to obtain reasonable assurance that those internal controls on which audit reliance is to be placed are in effect. This procedure includes tests requiring inspection of documents supporting transactions to gain evidence that controls are operating effectively.

Substantive Procedure:– These are designed to obtain evidence as to the completeness, accuracy and validity of the data produced by the accounting system.

*“**Audit risk**” means the risk that the auditor gives an inappropriate audit opinion when the financial statements are materially misstated. Audit risk has three components: inherent risk, control risk and detection risk.*

*“**Inherent risk**” is the susceptibility of an account balance or class of transactions to misstatement that could be material, either individually or when aggregated with misstatements in other balances or classes, assuming that there were no related internal controls.*

*“**Control risk**” is the risk that a misstatement that could occur in an account balance or class of transactions and that could be material, either individually or when aggregated with misstatements in other balances or classes, will not be prevented or detected and corrected on a timely basis by the accounting and internal control systems.*

*“**Detection risk**” is the risk that an auditor’s substantive procedures will not detect a misstatement that exists in an account balance or class of transactions that could be material, either individually or when aggregated with misstatements in other balances or classes.*

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CHECKLIST : AAS 7 — RELYING UPON THE WORK OF AN INTERNAL AUDITOR

	<i>Audit Procedure</i>	<i>Y/N</i>	<i>Remarks</i>
1.	Is there any internal audit system existence in operation?		
2.	Is internal audit undertaken by: a) Outside Agency or b) By an internal audit department?		
3.	Have you reviewed the scope of the internal audit function? a) Are there any constraints or restrictions on internal auditors by management? b) Has the internal auditor covered the entire scope drawn for internal audit?		
4.	Is the internal audit work properly planned, supervised, reviewed and documented?		
5.	Is the internal auditor technically competent?		
6.	What is their qualifications, experience and organisation chart, in case of internal audit department?		
7.	What is the internal audit report frequency? a) Is it adequate?		
8.	Whether copy of internal audit report/s or their summary taken on the audit working file?		
9.	Considering the above can you conclude that the internal audit work can be relied upon?		
10.	Have you verified that internal audit was actually carried out by covering areas audited by the internal auditor?		
11.	Are there any unusual matters disclosed by internal auditors and have those matters being properly resolved?		
12.	Whether the internal audit system is commensurate with the size and nature of business?		

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CHECKLIST: AAS 8 – AUDIT PLANNING

	<i>Audit Procedure</i>	<i>Y/N</i>	<i>Remarks</i>
1.	Have you made an overall audit plan that covers the scope including an audit programme inclusive of nature, timing and extent of audit? [The scope will normally include: a) terms of the engagement, b) the requirements of relevant legislation and c) the pronouncements of the ICAI The terms cannot restrict the later 2 points. The audit plan should cover the areas to be covered, time budget for each area/procedures, allocation of work to staff and details on co-ordination of audit]		
2.	Does the Audit Plan cover points such as: a) Knowledge of client's accounting systems, policies, procedures and internal control procedure; b) The degree of reliance he wants to place on accounting system and internal control; c) The identification of significant audit areas; d) The setting of materiality levels; e) Condition requiring special attention such as possibility of error or fraud or the involvement of parties in whom directors, or persons who are substantial owner of the entity are interested; f) Complexity of business; g) Nature and timing of reports and extent of the audit procedure to be performed; h) Co-ordinating the work to be performed; i) Nature and extent of audit evidence envisaged to be obtained; j) Involvement of experts; k) Points from previous years; l) Conditions requiring special attention; m) Internal managements reports; n) Pronouncements of the ICAI affecting the audit;		



	Audit Procedure	Y/N	Remarks
	o) Current business developments; p) Significant changes in technology, events affecting the client's business;		
3.	Has the above plan been adequately documented?		
4.	Has the auditor prepared a written audit programme stating the procedures that are needed to implement the audit plan? [The audit programme should contain audit objective for each area to be covered, nature of audit procedures, timing and extent of audit procedures, sufficient details to guide the assistants for proper execution of work, co-ordination among staff etc.]		

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Note: AAS 8 states that planning may be continuous. It also states that the audit plan and audit programme may be altered and the reasons for significant changes should be documented.


CHECKLIST : AAS 13 — AUDIT MATERIALITY

	<i>Audit Procedure</i>	<i>Y/N</i>	<i>Remarks</i>
1.	During audit planning, have you considered the materiality for various areas, account balances and classes of transactions to decide a) what items to examine, b) audit procedures to be carried out, – selection of samples or using analytical procedures?		
2.	Have you considered the following points while establishing materiality in point (1) above: a) quantitative factors that will affect a particular account balance or class of transactions individually or cumulatively; b) qualitative factors such as proper and adequate disclosure of accounting policies, legal and regulatory requirements, application of appropriate accounting principles or adequate disclosure of other items		
3.	While conducting audit have you considered materiality of the data and its relationship with audit risk? [Prepare a note on establishing levels of materiality for various account balances and classes of transactions as per the audit programme.]		
4.	Have you ensured that the audit plan for each area has adequate coverage where acceptable materiality level is low and/or you have extended the tests of control?		
5.	Have you considered revising materiality levels set prior to period end or before the audit on noticing evidence / reasons to do the same?		
6.	Has the audit uncovered misstatements that need not be adjusted due to them not being material? Append a note of such misstatements.		
7.	In carrying out analytical procedures have you ascertained materiality when finding point to misstatement?		
8.	In cases where the uncorrected misstatement reached materiality level, have you informed the management to adjust the financial information?		
9.	If the management is not willing to adjust the financial statements then have you considered qualifying your report?		

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Note: Characteristics of materiality:

- *implies Information whose misstatement could influence economic decisions of the users of the financial statements;*
- *is related inversely with audit risk;*
- *depends on the size and nature of an item, judged in a particular circumstance (quantitative type) such as incorrect account balance;*
- *depends on nature of misstatement (qualitative type) such as inadequate or improper disclosure that will mislead the reader;*
- *recognises that the some matters, either individually or in the aggregate, are relatively important for true and fair presentation of financial information;*
- *is to be considered at overall financial level and also at account balances level and for class of transactions;*
- *can also considered from a legal or regulatory perspective;*
- *differs depending on the matter being audited;*
- *can be used to determine the nature, timing and extent of audit procedures;*
- *can be used to evaluate the effect of misstatement;*
- *helps the auditor to decide what items to examine, how to examine (say to carry out only sampling / analytical procedures);*
- *enables the auditor to select audit procedure or a combination of them;*


CHECKLIST : AAS 14 — ANALYTICAL PROCEDURES

	<i>Audit Procedure</i>	<i>Y/N</i>	<i>Remarks</i>
1.	Have you compared the entity's financial information: a) With comparable information for prior periods; b) Anticipated results of the entity such as budgets/ forecasts; c) Predictive estimates prepared by the auditor; d) Similar industry information.		
2.	Have you applied analytical procedures and considered their results in planning the nature, timing and extent of audit procedures?		
3.	In planning the audit have you considered the following relationships: a) Elements of financial information that are directly related/proportionate to certain other elements (such as certain expenses to gross margins); b) Elements of financial information to non-financial parameters (such as payroll costs to number of employees)		
4.	Where the data is prepared/generated by the entity have you satisfied yourself reasonably that such data is reliable? [You can perform test of controls over preparation / generation of data to ascertain its reliability]		
5.	Have you used analytical procedures as substantive procedure? If yes, in each case have you considered: a) Reliability of information; b) Relevance of information; c) Source of information; d) Changes required to be made to make the information comparable.		
6.	In case where the analytical procedures are used as substantive procedure then have you ensured that the conclusions are consistent with actual evidence from other procedures such as tests of controls?		
7.	Have you ensured that in cases of material items other procedures are performed over and above analytical procedures to obtain a reasonable assurance?		



	Audit Procedure	Y/N	Remarks
8.	Have you found that there were significant fluctuations of the predicted amount? If yes, have you obtained adequate explanations or carried out other procedures to satisfy you of absence of material misstatement? [Append a list of such fluctuations, management responses, procedures carried out, evidence obtained and conclusions]		
9.	Have you applied analytical procedures and considered their results to have an overall review of financial statement in final stage of the audit?		

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- Note:
1. The application of analytical procedures presupposes that relationships among data exists and continue in the absence of known conditions to the contrary. The presence of these relationships provides audit evidence as to the completeness, accuracy and validity of the data produced by the accounting system.
 2. Reliance on the results of analytical procedures will depend upon the auditor's assessment of the risk that such procedures will or will not identify misstatements that may exist in spite of the analytical procedures not showing such indication.


CHECKLIST : AAS 16 — GOING CONCERN

	<i>Audit Procedure</i>	<i>Y/N</i>	<i>Remarks</i>
A.	INDICATORS OF RISK AFFECTING GOING CONCERN		
1.	Do the entity's accumulated losses exceed its capital and free reserves?		
2.	Do fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment, or there is excessive reliance on short-term borrowings to finance long-term assets?		
3.	Has the entity made any arrangements to dispose of a part of its trading assets?		
4.	Has the entity made any reference to the Board of Industrial and Financial Reconstruction under the provisions of the Sick Industrial Companies (Special Provisions) Act? a) Has the Board made any interim or final orders in connection with this reference? b) If any orders have been made, these will need to be reviewed at this stage itself.		
5.	Has the entity: a) reported recurring operating losses in the past? b) regularly faced working capital deficiencies in the past? c) regularly reported negative cash flows in the past?		
6.	Has our analytical review highlighted any adverse key financial ratios?		
7.	Has the entity defaulted in meeting its obligations (such as to creditors on due dates) on time or have any factors been identified that indicate that such defaults would occur? These obligations include, but are not restricted to: a) Loan repayments b) Interest on borrowed funds c) Payrolls d) Statutory payments		



	Audit Procedure	Y/N	Remarks
8.	Have regular suppliers changed credit terms, which are not in favour of the entity and are not in accordance with normal business practices in similar industries or there has been a scheme of arrangement with creditors to reduce liability?		
9.	Has there been any loss of key management or operating personnel, work stoppages, franchise, license, or principal supplier or other labour difficulties?		
10.	Are there any long-term commitments, which are, prima facie, uneconomical?		
11.	Are there any legal (including tax) proceedings, which, if decided adversely, would result in substantial liabilities for the entity?		
12.	Is there any legislation that affects the entity's ability to operate?		
13.	Has there been loss of any key franchise, license or patent, or loss of a principal contractor or supplier?		
14.	Are any of the entity's product or service activities faced with possible obsolescence and do such products or activities constitute a significant proportion of its total activities?		
15.	Has there been any uninsured catastrophe (e.g., drought, earthquake or flood)?		
16.	Are arrears or discontinuance of dividends?		
17.	Are there any other factors identified that could affect the continuity of the entity's operations?		
B.	MITIGATING FACTORS AND MANAGEMENT'S PLANS OF ACTION (To be completed in case contrary information is identified in A above to assess mitigating factors and management's plans as under)		
1.	Has the entity identified alternative sources of funds for maintaining adequate cash flows? Specifically: a) Does the management propose to sell its assets to remain solvent and whether: – such assets are readily marketable? – there are any restrictions on the sale of such assets (debt covenants or other encumbrances)?		



	Audit Procedure	Y/N	Remarks
	– there are any direct or indirect effects of such sale? – such disposals will not significantly affect operations ? b) Does the management have plans to delay or reduce expenditure and are such plans feasible? c) Can the management delay replacement of assets or lease assets rather than purchasing them? d) Does the management plan to borrow money or restructure its debt? In this connection: – Are alternative / additional sources of debt available to the entity and have institutions indicated a willingness to restructure the debt? – What are the possible effects on management's borrowing plans of existing restrictions on additional borrowing or sufficiency of available collateral? – Could such plans directly or indirectly affect the operations of the entity? e) Has the management made plans to obtain fresh equity investments and can this be raised with reasonable ease?		
2.	Can the entity segregate the operations contributing to the negative cash flows?		
3.	Have any forecasts, projections, budgets or other prospective data, particularly data relating to cash flows, been prepared or could reasonably be developed?		
4.	Is qualified staff easily available to fill a vacated key position?		
5.	Is there a likelihood of suitably substituting for a lost principal customer or supplier?		
6.	Is there a possibility of replacing assets seized or destroyed?		
7.	Does the entity have the capability of operating at reduced levels or redeploying resources?		



	Audit Procedure	Y/N	Remarks
C.	DISCLOSURE		
1.	a) Does our evaluation in A and B above lead us to conclude that there is substantial doubt about the entity's ability to continue as a going concern in the foreseeable future? b) If yes, have the accounts of the entity been prepared on the "break up" basis? c) If the accounts have not prepared on the "break up" basis: i) Has a suitable disclosure been made in the financial statements together with management's plans with regard to these matters? ii) Has a suitable explanatory paragraph, drawing attention to the disclosure in the financial statements, been included in our report? iii) If adequate disclosure has not been made in the financial statements, does our report indicate full details regarding this matter?		
2.	a) Does our evaluation in A and B above indicate that there is substantial doubt about the entity's ability to continue as a going concern but such doubt is alleviated primarily on consideration of the management's plans? b) If yes: (a) Have we considered the need for suitable disclosures in the financial statements? (b) Have we considered the need for suitable disclosures in our report?		

CONCLUSION

A "going concern" qualification is considered necessary/not considered necessary.

Checked by:

Date :

Reviewed by:

Date :



CHECKLIST : AAS 17 — AUDIT PRACTICES QUALITY CONTROL FOR AUDIT WORK

	<i>Audit Procedure</i>	<i>Y/N</i>	<i>Remarks</i>
1.	Has the audit firm implemented quality control policies designed to ensure that audits are conducted in accordance with AASs?		
2.	Has the audit firm incorporated the following procedures for quality control : a) The firm personnel have adhered to principles of integrity, objectivity, confidentiality; b) The firm has been staffed by the personnel who has technical standard / training and professional competence; c) The audit work is assigned to personnel who have the proficiency required in circumstances?		
3.	Has the audit firm monitored the adequacy and operational effectiveness of quality control policies and procedures?		
4.	Has the personnel carrying out supervisory responsibilities performed the following functions: a) Monitored the progress of audit; b) Assistants understood the audit directions; c) Work is being carried out in accordance with overall audit plan and audit programme; d) Resolved any differences of professional judgment between personnel and considered the level of consultation that is appropriate? [Ensure that the above is well documented]		
5.	Is work performed by each assistant reviewed by another senior personnel? and while reviewing the work has he adhered to following a) Work has been performed in accordance with the audit programme; b) All significant audit matters have been resolved;		



	<i>Audit Procedure</i>	<i>Y/N</i>	<i>Remarks</i>
	c) The objectives of the audit procedures been achieved; d) Conclusions expressed are consistent with results of work performed and supported the audit opinion?		
6.	Has the following been revised on a timely basis : a) Overall audit plan and audit programme; b) Assessments of inherent and control risks including the results of tests of control; c) Documentation of audit evidence obtained from substantive procedures and conclusions drawn therefrom?		

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Date :

Reviewed by:

Date :



CHECKLIST : AAS 20 — KNOWLEDGE OF BUSINESS

	<i>Audit Procedure</i>	<i>Y/N</i>	<i>Remarks</i>
1.	Do you have documented sufficiently the knowledge of the business of the client to enable you to correctly identify the events and transactions taking place in its business? (refer Note also)		
2.	Have you obtained the following information? a) Knowledge of the industry; b) Nature of ownership; c) Management and operations of the entity? d) Legislation and Regulations applicable to the entity.		
3.	While gathering knowledge of business, have you a) Discussed with the internal audit personnel; b) Discussed with the other auditors, legal and other advisors who have provided service within an entity; c) Discussed with knowledgeable people outside the entity; i.e., industry economist, customers etc; d) Visited entity premises and plant; e) Obtained documents produced by entity? f) Gone through prior year's working papers available with you? g) Reviewed the internal audit reports? h) Gone through the documents produced by the entity such as minutes of the meetings etc ?		
4.	Have you used the information gathered about business to a) Assess risks and identify problems; b) Plan and perform audit effectively and efficiently; c) Evaluate audit evidence? d) Provide better service to the client?		
5.	Have you ensured that information about knowledge of business is adequately obtained / shared by/ with the audit staff assigned with the audit tasks?		
6.	Have you documented the information obtained above and also updated the permanent audit file with the most current information available about the client's business?		

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Date :

**NOTE:**

Important conditions affecting the client's business

General economic factors affecting the client such as interest rates, currency fluctuations, government policies, etc..

Industry – business specific factors:

- *The market and competition*
- *Cyclical or seasonal activity.*
- *Changes in product technology*
- *Business risk (for example, high technology, high fashion, ease of entry for competition)*
- *Declining or expanding operations*
- *Adverse conditions (for example, declining demand, excess capacity, serious price competition)*
- *Key ratios and operating statistics*
- *Specific accounting practices and problems*
- *Environmental requirements and problems*
- *Legislation and Regulatory framework*
- *Energy supply and cost*
- *Specific or unique practices (for example, relating to labour contracts, financing methods, accounting methods)*

Entity specific Information such as :

- *Management and ownership, structure of the organisation*
- *Structure of entity (corporate and non-corporate) – private, public, government (including any recent or planned changes)*
- *Beneficial owners and related parties (local, foreign, business reputation and experience)*
- *Capital structure (including any recent or planned changes)*
- *Organizational structure*
- *Management objectives, philosophy, strategic plans*
- *Business restructuring – Acquisitions, mergers or disposals of business activities (planned or recently executed)*
- *Sources and methods of financing (current, historical)*
- *Board of Directors – composition, committee etc.*
- *Operational Management details including those relating to accounting function, MIS, internal audit function etc.*



CHECKLIST : AAS 21 — CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

	Audit Procedure	Y/N	Remarks
1.	Have you obtained a list of laws with which the entity has to comply with either generally or specifically in relation to the industry it belongs to? <i>[Obtain a signed copy from the Company Secretary / VP Legal / COO]</i> Also identify the CRITICAL laws whose non-compliance may have a severe adverse impact on the operations/going concern of the entity. <i>[NBFC, Pharma, Chemicals, etc]</i>		
2.	Have you obtained sufficient understanding of these laws to be able to consider them for making assertion and evaluating the impact of each of them on the entity?		
3.	Have you obtained in writing/through inquiry the policies and procedures put in place by the entity for prevention and detection of non-compliance with legal and regulatory framework applicable? Do they include procedures for: a. Monitoring legal requirements of various laws; b. Instituting and operating appropriate system of internal controls; c. Communicating to the employees of the laws applicable to the tasks they are responsible for; d. Identifying cases of non-compliance by employees of laws and code of conduct adopted by the entity; e. Effective running of a legal cell and/or having legal advisors to monitor compliance.		
4.	Have you broadly verified the effective operation / functioning of the procedures set by the entity through inquiry/substantive testing/observation/evidence etc.? In doing so have you: a. Discussed with persons such as VP Legal, Secretary, and other responsible persons; b. Discussed with the internal auditors, legal and other advisors who have provided service within an entity; c. Obtained information available pertaining to the industry; d. Obtained registration and other submissions made by the entity to the authorities; e. Inspecting correspondence with licensing authorities; f. Reviewed the internal audit scope and reports? g. Gone through the documents produced by the entity such as minutes of the meetings etc.?		
5.	How would you rate the risk of material misstatement in case of non-compliance of the regulations based on the audit evidence obtained in steps above? <i>[High/Medium/Low]</i>		



	Audit Procedure	Y/N	Remarks
6.	Have you come across any ' indications ' mentioned in the Note below? Name them here or append a note?		
7.	Based on the information collected and examining the points in the Note have you come across material instances of non-compliance with applicable laws?		
8.	If yes, have you quantified their impact / probable impact in terms of fines, penalties, litigation costs, damages, discontinuation of operations, expropriation of assets, etc.?		
9.	Do such financial impact require disclosure?		
10.	Whether such instance/s affects the true and fair view assertion?		
11.	Have you kept a record of all supporting/audit evidence to that will form a conclusion on file?		
12.	Have you communicated the non-compliance - to the senior management or – obtained evidence of their knowledge of it?		
13.	Have you obtained a written representation from the management with regard to the disclosure to the auditor of the actual and possible non-compliances? <i>[In case of suspected non-compliance and lack management representation/support, consider the possibility of communicating the same to the management]</i>		
14.	In case the auditor is precluded from obtaining evidence of non-compliance or his scope is limited have you considered making a qualification / disclaimer opinion?		

Checked by:

Date :

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Date :

NOTE:

Indications that non-compliance may have occurred

- Investigation by government departments or payment of fines, additional taxes or penalties.
- Payments for unspecified services or loans to consultants, related parties, employees or government employees.
- Sales commission or agent's fees that appear excessive in relation to those ordinarily paid by the entity or in its industry or to the services actually received.
- Purchases at prices significantly above or below market price.
- Unusual payments in cash and other unusual transactions.
- Unusual transactions with companies registered in tax havens.
- Payments for goods or services made other than to the country from which the goods or services originated.
- Payments without proper exchange control documentation.
- Existence of an accounting system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence.
- Unauthorised transactions or improperly recorded transactions.
- Media comment.


CHECKLIST : AAS 23 — RELATED PARTIES

	<i>Audit Procedure</i>	<i>Y/N</i>	<i>Remarks</i>
1.	Is audit evidence regarding the identification and disclosure of related parties (as defined in AS 18) been obtained from the management in writing and duly authenticated? Append list.		
2.	Have you reviewed information provided by the management and identified the transactions with related parties? Append list.		
3.	Is the disclosure of related parties adequate and in accordance with AS 18?		
4.	Have you carried out detailed audit procedures to verify the completeness of information supplied by management, such as: a) detailed tests of transactions and balances; b) review of minutes of the Board and shareholder meetings ; c) review of large/unusual/year end transactions; d) review of Income Tax Returns and information supplied to other regulatory agencies; e) review of loan receivables and payables and confirmations from banks. Is there any guarantor relationship? f) review of purchase or sale of investments; g) review of shareholder records to determine the name of principal shareholders from the share register; h) enquiries as to the affiliation of directors and key management personnel, officers with other entities.		
5.	Have you come across unusual transactions that indicate the existence of previously unidentified related parties for example— a) abnormal terms of trade, such as unusual prices, interest rates, guarantees, and repayment terms. b) those that lack an apparent logical business reason for their occurrence;		



	Audit Procedure	Y/N	Remarks
	c) those in which substance differs from form; d) those that are processed in unusual manner; e) those that are of high-volume or significant amounts with certain customers or suppliers as compared with others; f) rendition of services without receipt of provision of management services at no charge.		
6.	Has the written representation from management been obtained regarding the completeness of information?		
7.	Where sufficient audit evidence is not obtained, has a qualified or disclaimer opinion in the audit report been given?		

Checked by:

Date :

Reviewed by:

Date :

Definitions

Related Party – Parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Related Party Transactions – A transfer of resources or obligations between related parties, regardless of whether or not a price is charged.

Key Management Personnel – Those persons who have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprises.



CHECKLIST : AAS 29 — AUDITING IN A COMPUTER INFORMATION SYSTEMS ENVIRONMENT

	<i>Audit Procedure</i>	<i>Y/N</i>	<i>Remarks</i>
	Study and Evaluation of Accounting System		
1.	Have you gained complete understanding of accounting system and related internal controls in accordance with AAS 6? If no, ensure completion of the checklist on AAS 6 by carrying out the procedures mentioned therein.		
2.	Have you obtained adequate understanding of CIS and documented it in relation to: - Hardware, operating systems and application Software/s in use, including changes therein since last audit; - Determination of the organisational structure of the client's CIS activities and the extent of concentration or distribution of computer processing throughout the entity, particularly, as they may affect segregation of duties; - Information security policies and procedures; - Internal documentation by the enterprise of the access, alteration and procedures for assigning rights to personnel; - Describe the client's procedures for acquiring, developing, implementing, and maintaining systems; - Significance of processing in terms of materiality of assertions in the financial statements; - Complexity of the processing system in terms of - volume of transactions processed so that users would find it hard or impossible to identify and correct errors in processing; - system generated entries / transactions / complicated computations automatically that cannot be validated independently; - transactions exchanged electronically with other organisations [as in electronic data interchange (EDI) systems] without manual review for propriety or reasonableness; - availability of computer generated reports that that might be useful in performing substantive tests (particularly analytical procedures);		



	Audit Procedure	Y/N	Remarks
	v) determination of the availability of source documents, computer files, and other evidential matter that may be required by the auditor may exist for only a short period or only in machine-readable form; vi) potential for use of computer-assisted audit techniques that may permit increased efficiency in audit procedures.		
3.	Have you examined CIS in evaluation of inherent and control risks? Consider the following in conjunction with checklist on AAS 6 and to prepare a note on: a) Lack of transaction trails and related possibilities of risk of inability to detect the programme logic errors; b) Uniform processing of transactions and related risk of transactions getting processed incorrectly; c) Lack of segregation of functions in cases where a person may have access to data, rights to alter entries and is in a position to perform incompatible functions; d) Potential for errors and irregularities dues to details inherent in design, functioning and modification of CIS; e) Potential for unauthorized access to data without leaving any evidence of alteration; f) Potential of initiation or execution of transactions automatically without implicit authorisation; g) Dependence of other controls over computer processing such as manual controls relying on the completeness and accuracy of information generated through CIS; h) Potential for increased management supervision through enhanced analytical tools; i) Potential for the use of computer-assisted audit techniques. [risks and the controls identified as a result of the nature of computer information systems have a potential impact on the auditor's assessment of risk, and the nature, timing and extent of audit procedures]		
4.	Have you considered the control environment and documented the same in terms of the following broad heads (append Note): a) Importance and critical nature of CIS in the enterprise;		



	Audit Procedure	Y/N	Remarks
	b) Access restriction methods to restrict logical access to data and application systems; c) Authentication techniques; d) Data classification for the purpose of access authorisation; e) Process controls and features built within the CIS to ensure completeness and correctness of data; f) Provision for detection and correction of errors; g) Data protection mechanism in case of power failures, calamities and emergencies etc; h) Procedures to ensure that the data transmitted is correct and complete; i) Documentation and rights to alter programmes; j) Custody of source codes and data files; k) Access controls to masters; l) Segregation of duties; m) Policies and procedures relating to changes to be made to processing and output; n) Significant changes/ events in CIS processing environment since last audit;		
5.	Have you come across the following: a) System failures b) Significant errors in processing results c) Significant processing delays or loss of data d) Difficulty experienced by users in obtaining changes made to application systems e) Lack of user training or support f) Difficulty in implementing system modifications or converting to new systems g) Limitations of systems that result in additional manual procedures h) Changes made to systems without user approval		
6.	In your view, do any of the above or similar conditions affect reliability of processing environment?		
7.	Have you identified risks and adequately documented the audit plan, nature and extent of audit procedures performed to evaluate the CIS environment?		

Checked by:
Date :

Reviewed by:
Date :