

Guidance Note on Audit of Debtors, Loans and Advances

The Guidance Note deals with the audit procedures that might be adopted by the auditor in case of audit of debtors, loans and advances. A gist of the relevant areas covered by the Guidance Note is as follows:

- *Internal Control Evaluation in Respect of Debtors:* fixing of credit/ loan/ advance limits, procedure for recording, realising and correlating outstandings from parties, aging schedule, periodic balance confirmation, authority for material adjustments to parties' account, periodic reconciliation statements, form and adequacy of security, recognition and realisation of interest income.
- *Verification:* audit evidence regarding existence, completeness, valuation and disclosure.
- *Examination of Records:* audit procedures for examining records
- Indications of doubtful debts/ loans
- *Special considerations in case of loans and advances:* requirements of section 293, 295 and 370 of the Companies Act, 1956, reporting requirements under CARO, 2003 and section 227 of the Companies Act, 1956.
- *Direct Confirmation Procedures:* methods of obtaining confirmations, types of confirmations, timing of confirmations.
- *Analytical Review Procedures:* comparison of some important elements of debtors/loans and advances.
- Disclosure
- Management Representations
- Documentation

The Guidance Note also contains an illustrative confirmation letters to be sent to debtors and management representation letter for debtors, loans and advances.

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