

Guidance Note on Audit of Investments

This Guidance Note deals with the procedures that might be adopted by the auditor for auditing investments. The Guidance Note also throws light on the exceptional features of investments which have an impact on the audit procedures. The important aspects of audit of investments covered by the Guidance Note are highlighted as follows:

- *Internal Control Evaluation*: control over acquisition, accretion and disposal of investments, safeguarding of investments, controls in respect of title of investments, information controls.
- *Verification of Transactions*: authority to invest, legal requirements, supporting documents, terms of sale or purchase (ex or cum dividend/interest), rights issues, bonus issues.
- *Physical Verification*: responsibility of auditor, use of depository/custodial services by the client, scripless trading, timing of physical examination, investments held by others, investments not held in the name of the client vis a vis legal requirements, procedure in finance/chit fund/nidhi companies etc., immovable properties held as investments.
- *Examination of Valuation or Disclosures*: valuation and disclosure of investments vis a vis, compliance with Accounting Standard (AS) 13 and statutory requirements, method of valuation.
- *Analytical Procedures*: comparison of various ratios.
- Management Representations
- Documentation by the auditor.

The Guidance Note, for the benefit of the members, also give a gist of legal requirements, including disclosure norms, relating to investments under certain prominent statutes, illustrative letter of confirmation for investments held by banks, and management representation letter for investments.

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