

Guidance Note on Audit of Liabilities

This Guidance Note contains recommended audit procedures in case of audit of liabilities. The following is an outline of the relevant areas discussed in the Guidance Note:

- *Internal Control Evaluation in Respect of Loans and Borrowings*: credit limits/borrowing powers and limits, authority, terms of borrowing, compliance with statutory requirements, variation in terms, security against loans, documentation, reporting of non compliance, balance confirmations, foreign exchange loans.
- *Internal Control Evaluation in Respect of Trade Creditors, Current Liabilities, Provisions, Trade Deposits*: in addition to those above, payment on duplicate invoices, schedule of creditors, adjustments to creditors, accounts to be authorised, cut off procedures.
- *Examination of Records of Loans and Borrowings*: validity and accuracy, agreement with the statements from creditors and loanees, loan agreements, change in the value of security, deferred payment credits.
- *Examination of Records of Trade Creditors and Other Current Liabilities*: cut off procedures, control accounts, documentary evidence, important aspects to be seen in the schedule of creditors etc., year end transactions, subsequent events.
- *Examination of Records of Provisions*: meaning of provision, objectives of audit of provisions, provision for taxes and duties, provision for gratuity, provision for bonus, provision for dividend, other provisions.
- *Examination of Records of Contingent Liabilities*: meaning, general procedures for verifying contingencies.
- *Direct Confirmation Procedures*: meaning, types – negative/ positive, suitability of each type, discrepancies in books of account vis a vis confirmations.
- *Examination of Disclosures*
- *Analytical Review Procedures*: comparison of various ratios
- *Special Considerations in Case of a Company*: compliance with the relevant sections of the Companies Act, 1956.
- *Management Representations*
- *Documentation*

The Guidance Note also contains illustrative letter of confirmation to be sent to creditors and management representation letter for liabilities and contingencies.

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