Classes on Auditing
for CA Final and CA PCC/ PE II
(November 2008 examination, Registration in full swing)

By:
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Venue:

1. **New Delhi:** starting from Ist week of August, 2008, Contact at 9899954015
2. **Chennai, Ernakulam (Cochin), Bangalore:** Contact Mr. C K Balaji at 09840954207 or visit at www.sreeramcoachingpoint.com

AAS 16, 17 & 18

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- Refer ‘Professional Approach to Advanced Auditing’ for CA Final;
- Authored by CA Kamal Garg, published by Bharat Law House Private Limited;
- **Features of the Book:**

1. Code of Ethics Ready Reckoner;
2. Reporting Requirements Ready Reckoner;
3. Due Diligence Ready Reckoner;
4. All AAS in Question Answer Form;
5. Past Year Question Papers with hints;
6. Sample Question Papers

Quality Control for Audit Work (AAS 17)

- **‘Auditor’** = the person with final responsibility for the audit;
- **‘Audit firm’** = a partnership firm or sole practitioner providing audit service;
- **‘Personnel’** = all partners and professional staff engaged in the audit practiced of the firm;
- **‘Assistants’** = personnel involved in an individual audit other than auditor.

Factors to be considered for incorporating quality control in the audit work

- ***Professional Requirements*** - Adherence to basic principles such as independence, integrity, objectivity, confidentiality, etc.
- ***Skills and competence*** - Audit personnel should have required degree of skill and competence.
- ***Assignment*** - Audit work should be assigned only to competent personnel.
- ***Delegation*** - There is to be sufficient direction, supervision and review of work at all levels.
- ***Consultation*** – Whenever necessary, consultancy within and outside the firm with experts.
- ***Acceptance and Retention of clients*** - Evaluation of prospective client and review of existing client should be done on an ongoing basis.
- ***Monitoring*** - Continued adequacy and operational effectiveness of quality control policies and procedures should be monitored.

Other Points

- Quality control policies and procedures should be implemented at ***both the level of audit firm and on individual audits*** (Para 2 of AAS-17)
- The firm's quality control policies & procedures should be effectively communicated to its personnel

Audit of Accounting Estimate (AAS-18)

- ***Not applicable*** to the examination of prospective financial information, i.e., ***profit forecasts or financial forecasts*** (b'coz AAS 35 is applicable);
- **Accounting estimate** means an **approximation of the amount** of an item in the absence of a precise means of measurement, e.g. Prov. For D/d

Nature of Accounting Estimate

- The determination of accounting estimate **may be simple or complex**;
- Accounting estimates may be determined **routinely or non-routinely**;
- Accounting estimates are made by using a **formula based on experience**, and review such formulas on a regular basis;
- The **uncertainty associated** with an item, or the **lack of objective data** may **make it incapable of reasonable estimation**

Audit Procedures

- Evaluation of Data and Consideration of Assumptions;
- Testing of Calculations;
- Comparison of Previous Estimates with Actual Results;
- Use of his own Independent Estimate;
- Review of Subsequent Events;
- Assessment of the reasonableness of the estimate based on his knowledge of the business

Going Concern (AAS – 16)

- One of the **fundamental accounting assumption** as per AS 1;
- Assumed that business will continue in foreseeable future

Factors Indicating Appropriateness of Going Concern Assumption

1. Financial Indications;
2. Operating Indications;
3. Other Indications

Financial Indications

- Negative net worth or negative working capital;
- Excessive reliance on short term borrowings to finance long term assets;
- Adverse key financial ratios;
- Substantial operating losses or negative cash flows from operations;
- Inability to pay creditors on due dates/ loans etc;
- Entering into a scheme of arrangement with creditors for reduction of liability.

Operating and Other Indications

Operating Indications:

- Loss of key management without replacement;
- Loss of major market, franchise, licence or principal supplier;
- Labour difficulties or shortages of important supplies.

Other Indications:

- Non-compliance with statutory requirements;
- Pending legal proceedings;
- Changes in legislation or government policy.

Audit Procedures

- Analyse and discuss cash flow, profit and other relevant forecasts with the management;
- Review the events after the Balance Sheet date;
- Review the terms of debentures and loan agreements to determine breach of terms, if any;
- Review the minutes of meetings of shareholders, BOD or other committees;
- Review the status of matter under litigations and claims;
- Assess the sources of any financial support arrangements available to the entity;
- Consider the entity's position concerning unfilled customer orders;
- Consider and discuss with the management of its future plans of action