This Study Material has been prepared by the faculty of the Board of Studies. The objective of the Study Material is to provide teaching material to the students to enable them to obtain knowledge and skills in the subject. In case students need any clarifications or have any suggestions to make for further improvement of the material contained herein, they may write to the Director of Studies.

All care has been taken to provide interpretations and discussions in a manner useful for the students. However, the Study Material has not been specifically discussed by the Council of the Institute or any of its Committees and the views expressed herein may not be taken to necessarily represent the views of the Council or any of its Committees.

Permission of the Institute is essential for reproduction of any portion of this material.

© THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

All rights reserved. No part of this book may be reproduced, stored in retrieval system, or transmitted, in any form, or by any means, Electronic, Mechanical, photocopying, recording, or otherwise, without prior permission in writing from the publisher.

Revised Edition : January, 2017
Website : www.icai.org
Department/ Committee : Board of Studies
E-mail : bos@icai.in
ISBN No. :
Price : ₹
Published by : The Publication Department on behalf of The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi-110 002, India.
Typeset and designed at Board of Studies.
Printed by : Sahitya Bhawan Publications, Hospital Road, Agra 282 003
SYLLABUS

PAPER 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS

(One Paper- Three hours - 100 marks)

Level of Knowledge: Advanced knowledge

Objectives:
(a) To gain expert knowledge of current auditing practices and procedures and apply them in auditing engagements,
(b) To develop ability to solve cases relating to audit engagements.

Contents:
1. Auditing Standards, Statements and Guidance Notes
   Auditing and Assurance Standards (AASs); Statements and Guidance Notes on Auditing issued by the ICAI; Significant differences between Auditing and Assurance Standards and International Standards on Auditing.

2. Audit strategy, planning and programming
   Planning the flow of audit work; audit strategy, planning programme and importance of supervision: review of audit notes and working papers; drafting of reports; principal’s ultimate responsibility; extent of delegation; control over quality of audit work; reliance on the work of other auditor, internal auditor or an expert.

3. Risk Assessment and Internal Control
   Evaluation of internal control procedures; techniques including questionnaire, flowchart; internal audit and external audit, coordination between the two.

4. Audit under computerized information system (CIS) environment
   Special aspects of CIS Audit Environment, need for review of internal control especially procedure controls and facility controls. Approach to audit in CIS Environment, use of computers for internal and management audit purposes: audit tools, test packs, computerized audit programmes; Special Aspects in Audit of E-Commerce Transaction.

5. Special audit techniques
   (a) Selective verification; statistical sampling: Special audit procedures; physical verification of assets, direct confirmation of debtors and creditors
   (b) Analytical review procedures
   (c) Risk-based auditing.

6. Audit of limited companies
   Relevant provisions under the Companies Act, 2013 relating to Audit and Auditors and Rules made thereunder; Audit of branches; joint audits; Dividends and divisible profits-financial, legal, and policy considerations.
7. Rights, duties, and liabilities of auditors; third party liability.

8. Audit reports; Qualifications, notes on accounts, distinction between notes and qualifications, detailed observations by the statutory auditor to the management vis-a-vis obligations of reporting to the members.

9. Audit Committee and Corporate Governance

10. Provisions under the Companies Act, 2013 in respect of Accounts of Companies and Rules made thereunder. Audit of Consolidated Financial Statements, Audit Reports and Certificates for Special Purpose engagements; Certificates under the Payment of Bonus Act, import/export control authorities, etc.; Specific services to non-audit clients; Certificate on Corporate Governance.

11. Special features of audit of banks, insurance companies, co-operative societies and non-banking financial companies.


13. Cost audit

14. Special audit assignments like audit of bank borrowers, audit of stock and commodity exchange intermediaries and depositories; inspection of special entities like banks, financial institutions, mutual funds, stock brokers.

15. Special features in audit of public sector companies. Directions of Comptroller and Auditor General of India to statutory auditors; Concepts of propriety and efficiency audit.

16. Internal audit, management and operational audit. Nature and purpose, organisation, audit programme, behavioural problems; Internal Audit Standards issued by the ICAI; Specific areas of management and operational audit involving review of internal control, purchasing operations, manufacturing operations, selling and distribution, personnel policies, systems and procedures. Aspects relating to concurrent audit.

17. Investigation and Due Diligence.

18. Concept of peer review


20. Professional Ethics

Note:

(i) The provisions of the Companies Act, 1956 which are still in force would form part of the syllabus till the time their corresponding or new provisions of the Companies Act, 2013 are enforced.

(ii) If new legislations are enacted in place of the existing legislations, the syllabus would include the corresponding provisions of such new legislations with effect from a date notified by the Institute.
A WORD ABOUT STUDY MATERIAL

Auditing is, perhaps, one of the most practical-oriented subjects in the C.A. curriculum. This paper aims to provide working knowledge of generally accepted auditing procedures and of techniques and skills needed to apply them in audit engagements. A good knowledge of the subject would provide a strong foundation to students while pursuing the Chartered Accountancy course. A good understanding of the theoretical concepts, particularly, in the context of auditing standards would make practical training an enriching and enjoyable experience. While studying this paper, students are advised to integrate the knowledge acquired in other subjects, specifically, accounting and corporate laws in a meaningful manner. Such learning would only help a student to become a better professional.

The study material deals with the conceptual theoretical framework in detail. Its main features are as under:

- The entire syllabus has been divided into twenty two chapters.
- In each chapter, the topic has been covered in a step by step approach. The text has been explained, where appropriate, through illustrations and practical problems. You should go through the chapter carefully ensuring that you understand the topic and then can tackle the exercises.

Handbook on Auditing Pronouncements comprises of Standards on Auditing and Guidance Notes.

The Practice Manual aims to provide guidance as to the manner of writing an answer in the examination. Main features of Practice Manual are as under:

- After completing the Chapters of Study Material, Students are expected to attempt the questions and then compare it with the actual answers.
- Compilation of questions appearing during last twenty examinations.
- Exercises have been given at the end of each topic for independent practice.

This study material has been revised in view of Companies Act, 2013, Reporting under CARO, 2016, Notification/Circulars issued by MCA, CBDT, SEBI, RBI, ICAI including Listing Order Disclosure Requirements, Consolidated Financial Statements, Internal Controls, ICDS, Tax Audit Form 3CD, New and Revised Standards on Auditing etc. This revised study material contains the ‘highlights of changes’ in the tabular form to aid the students to know what and where the updates are made in the module. It may also be noted that Chapter 8, 9 and 10 are majorly revised therefore relevant page numbers are not given in table. The changes have been inserted in the bold italics for convenience of the students.

It is important to note that till the time Statements, Engagement and Quality Control Standards,
Guidance Notes, Code of Ethics etc. bare documents get updated from Auditing and Assurance Standard Board, Ethical Standard Board of ICAI and other Competent Authority in pursuance of the Companies Act, 2013, students are required to understand the basic nature of the provision and quote the same along with the new corresponding provisions.

- Attention is invited to the Significant Additions/Modifications made in this edition of the study material which are given on the next page.
- Please note that the changes over the previous edition have been indicated in bold and italics in the chapters.
- New case studies and Examples have been added to explain the application of the existing concepts in and these have been indicated in grey background.
- Diagrammatic Presentation has been made in most of Chapters for quick revision of described concept.
- Feedback form is given at the end of this study material wherein students are encouraged to give their feedback/suggestions.

In case you need any further clarification/guidance, please send your queries at karuna.bhansali@icai.in and Rajeev.sachdeva@icai.in.
# Significant Additions in the Revised Edition

<table>
<thead>
<tr>
<th>Chapter No.</th>
<th>Chapter Name</th>
<th>Section / Sub-Section wherein Additions / updation have been done</th>
<th>Page Number</th>
</tr>
</thead>
</table>
| 1           | Auditing Standards, Statements and Guidance Notes – An Overview | 1.5 Quality Control and Engagement Standards  
1.6.2 Guidance Note on Audit Reports and Certificates for Special Purposes  
1.6.15 Guidance Note on Audit of Consolidated Financial Statements (CFS)  
1.6.16 Guidance Note on CARO 2016  
1.6.17 Guidance Notes on Audit of Internal Financial Controls over Financial Reporting  
1.6.18 Guidance Note on Reporting on Fraud under section 143(12) of the Companies Act, 2013  
1.8.5 Ind AS (Indian Accounting Standards)                                                                 | 1.6  
1.9  
1.15  
1.16  
1.16  
1.16  
1.21 |
| 3           | Risk Assessment and Internal Control              | 3.2 Internal Control System - Nature, Scope, Objectives and Structure  
3.3 Components of Internal Controls  
3.4 Review of the System of Internal Controls                                                                 | 3.2  
3.7  
3.13 |
| 6           | The Company Audit                                 | Insertion of Example on Section 144  
Insertion of Example on Auditor Rotation  
Clarification on Auditor’s Rotation Provision  
6.6.1 Removal of Auditor before Expiry of Term  
6.6.2 Appointment of Auditor other than retiring Auditor                                                                 | 6.7  
6.13  
6.14  
6.19  
6.20 |
<table>
<thead>
<tr>
<th>Section</th>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.9</td>
<td>Duties of Auditors</td>
<td>6.29</td>
</tr>
<tr>
<td>6.14</td>
<td>Cost Audit</td>
<td>6.43</td>
</tr>
<tr>
<td>6.16.1</td>
<td>Financial Statements</td>
<td>6.47</td>
</tr>
<tr>
<td>6.16.2</td>
<td>Consolidated Financial Statement</td>
<td>6.48</td>
</tr>
<tr>
<td>6.16.5</td>
<td>Form of the Balance Sheet</td>
<td>6.51</td>
</tr>
<tr>
<td>Appendix</td>
<td>General Instructions for preparation of Balance Sheet</td>
<td>6.71</td>
</tr>
<tr>
<td>7</td>
<td>Liabilities of Auditor</td>
<td>7.20</td>
</tr>
<tr>
<td>8</td>
<td>Audit Report</td>
<td>Almost Complete Chapter</td>
</tr>
<tr>
<td>9</td>
<td>Audit Committee and Corporate Governance</td>
<td>Almost Complete Chapter</td>
</tr>
<tr>
<td>10</td>
<td>Audit of Consolidated Financial Statements</td>
<td>Almost Complete Chapter</td>
</tr>
<tr>
<td>11</td>
<td>Audit of Banks</td>
<td></td>
</tr>
<tr>
<td>11.1</td>
<td>Introduction</td>
<td>11.1</td>
</tr>
<tr>
<td>11.3</td>
<td>Form and Content of Financial Statements</td>
<td>11.2</td>
</tr>
<tr>
<td>11.4</td>
<td>Audit of Accounts</td>
<td>11.4</td>
</tr>
<tr>
<td>Announcement on Demonetisation</td>
<td>11.10</td>
<td></td>
</tr>
<tr>
<td>11.5.11</td>
<td>Compliance with CRR and SLR requirements</td>
<td>11.16</td>
</tr>
<tr>
<td>11.6</td>
<td>Verification of Assets and Balances</td>
<td>11.21</td>
</tr>
<tr>
<td>14</td>
<td>Audit of Non-Banking Financial Companies</td>
<td></td>
</tr>
<tr>
<td>14.5.2</td>
<td>Compliance with CARO 2016:</td>
<td>11.1</td>
</tr>
<tr>
<td>15</td>
<td>Audit under Fiscal Laws</td>
<td></td>
</tr>
<tr>
<td>15.3.2</td>
<td>Income Computation and Disclosure Standards (ICDS)</td>
<td>15.11</td>
</tr>
<tr>
<td>15.3.4</td>
<td>Clause 13 (d), (e), (f) of Form 3CD</td>
<td>15.26</td>
</tr>
<tr>
<td>16</td>
<td>Cost Audit</td>
<td></td>
</tr>
<tr>
<td>16.6</td>
<td>Cost Audit under the Companies Act</td>
<td>16.10</td>
</tr>
<tr>
<td>17</td>
<td>Special Audit Assignments</td>
<td></td>
</tr>
<tr>
<td>17.9.2</td>
<td>Audit Report</td>
<td>17.23</td>
</tr>
<tr>
<td>18</td>
<td>Audit of Public Sector Undertakings</td>
<td>18.9.3 Propriety elements under CARO,2016</td>
</tr>
<tr>
<td>19</td>
<td>Internal Audit, Management and Operational Audit</td>
<td>19.6 Relationship between Internal and External Auditors</td>
</tr>
<tr>
<td>20</td>
<td>Investigation and Due Diligence</td>
<td>Reporting of Fraud under section 143(12)</td>
</tr>
<tr>
<td>22</td>
<td>Professional Ethics</td>
<td>22.4.5 MEMBER IN PRACTICE PROHIBITED FROM USING A DESIGNATION OTHER THAN CHARTERED ACCOUNTANT</td>
</tr>
<tr>
<td></td>
<td></td>
<td>22.8 Schedules to the Act:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(i) The First Schedule-Part 1: Insertion of Proviso in Clause 6</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(ii) Website Guidelines in Clause 6</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(iii) Regulation 192. Restriction on fees</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(iv) Insertion in General Resolution in Clause 11</td>
</tr>
</tbody>
</table>

© The Institute of Chartered Accountants of India
As Benjamin Franklin said, “By failing to prepare, you are preparing to fail.” Preparation is first and very important step towards success. For doing preparation of CA. Final Paper 3 - Advanced Auditing and Professional Ethics Examination, one has to be very careful as preparation consists of Study as well as Revision.

When you are starting for studies you must have all relevant material for subject and strategy to study. Study includes all relevant and reference material whereas strategy tells us how to effectively use the same. In absence of any of both it will be difficult to get through.

Refer the diagram given above it is important to note that Latest Study Material and Practice Manual which is further divided in into twenty two chapters in our study material covering in detail, principles of Auditing, Standards on Auditing issued by the ICAI, reporting on internal control as a part of Risk Assessment and Internal Control,
specific audit issues classified by organizations like Company Audit, Audit of Banks, Audit of General Insurance Business, Audit of Co-Operative Societies, NBFCs and Audit of Public Sector Undertakings, special audit issues like audit under Fiscal Laws, role of auditor as per Listing Order and Disclosure Requirements, Audit of Consolidated Financial Statements, Investigation and Due Diligence and Salient features of Sarbanes Oxley Act, 2002. In addition to above, Peer Review is considered as an important step towards maintenance and improvement of audit quality. Similarly, Professional Ethics are regarded as a foundation to the audit function, which is essentially developed on the foundation of ethical norms, which has so far brought name and fame to the profession. All students of Final course should read these chapters with sincerity and imbibe the norms explained. These Chapters are comprehensively covered in our Latest Study Material incorporating all relevant changes.

Students may also note that relevant notified Sections of the Companies Act, 2013 and other legislative amendments i.e. Rules, significant notifications and circulars issued by SEBI, RBI, NBFC, MCA etc up to 31st October, 2016 are applicable for May, 2017 and up to 30th April, 2017 are applicable for November, 2017 & onward Examination.

Students must go through the Study Material along with other reference materials. It is important to note that auditing is largely a practical and application discipline. Students should learn the Auditing concepts and techniques as also their intricacies purely for purposes of applying them in practice in their audit work.

For the purpose of its full coverage syllabus of this paper may be segregated into following seven parts for preparation:

<table>
<thead>
<tr>
<th>Part</th>
<th>Engagements and Quality Control Standards on Auditing (SA/SRS/SRE/SAE) and Guidance Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part II</td>
<td>Audit strategy, planning and programming, Risk Assessment and Internal Control, Audit under computerized information system (CIS) environment, Special audit techniques</td>
</tr>
<tr>
<td>Part III</td>
<td>Audit of limited companies, Rights, duties, and liabilities of auditors; third party liability, Audit Committee and Corporate Governance</td>
</tr>
<tr>
<td>Part IV</td>
<td>Audit Reports, Audit of Consolidated Financial Statements, Certificate on Corporate Governance</td>
</tr>
<tr>
<td>Part V</td>
<td>Special features of audit of banks, insurance companies, co-operative societies and non-banking financial companies, Audit under Fiscal Laws, viz, Direct and Indirect Tax Laws, Cost audit, Special audit assignments like audit of bank borrowers, audit of stock and commodity exchange intermediaries and depositories; inspection of special entities like banks,</td>
</tr>
</tbody>
</table>

© The Institute of Chartered Accountants of India
financial institutions, mutual funds, stock brokers.

<table>
<thead>
<tr>
<th>Part VI</th>
<th>Special features in audit of public sector companies, Internal Audit, Management and Operational Audit, Investigation and Due Diligence, Concept of Peer Review.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part VII</td>
<td>Professional Ethics</td>
</tr>
</tbody>
</table>

In first part you may prepare Engagements and Quality Control Standards on Auditing (SA/SRS/SRE/SAE) and Guidance Notes for which list of applicable standards are published by ICAI from time to time. For doing preparation for Part First, read the bare standard along with its application and other explanatory material. After reading this you are advised to draw a flow chart or some diagrammatic presentation for your better understanding and revision purpose. You are also expected to focus on the application aspects of each of the Auditing Standards and guidance notes. As it is important to have the basic understanding, the objective is to the gain the ability to practice the same in the working scenario.

In part two, you may prepare audit strategy, planning and programming, risk assessment and internal control evaluation, audit under computerized information system (CIS) environment, special audit techniques like selective verification; statistical sampling; special audit procedures; physical verification of assets, direct confirmation of debtors and creditors, analytical review procedures, risk-based auditing etc. While doing preparation for this part, you may interlink it with Auditing Standards, specially the series of SA 300 – 499 i.e. Risk Assessment and Response to Assessed Risks and series of SA 500 – 599 Audit Evidence.

For the preparation of Audit Strategy, Planning and Programming, you should practice developing an “Engagement Approach Document”. The Approach document should primarily outline the activity based scoping of an engagement and planning of the procedures for each of the activity. An Approach Document should treat each engagement as a project which would highlight the resource requirements in each activity area and scheduling as well. Similarly for the Risk Assessment and Internal Control Evaluation you should gain understanding of the Risk Management Framework, relevance of control procedures, control assessment questionnaires and the complementary role that the internal and external audit plays. Further you should apply the accounting knowledge; and business intelligence framework along with the ratio analysis and trend reviews for any un-reasonable gaps in inputs provided / made available.

In part three, you may incorporate audit of limited companies, rights, duties and liabilities of auditors, third party liability and Audit Committee and corporate governance. For better understanding, you must have good knowledge of the Companies Act which is pre-requisite. Not only knowledge but updation of knowledge is also required on time to time basis.
In part four, you may include Audit Reports, Reporting under CARO, 2016 and Audit of Consolidated Financial Statements. While doing study of Audit Reports, you may interlink this with series of SA 700-799 i.e. Audit Conclusion and Reporting and sections 143 of the Companies Act, 2013. You are also required to practice the drafting of qualifications. You may also scan through the Annual Financial Statements of Companies to analyse the notes and qualifications, if any, incorporated by the Auditors in their Audit Report.

In part five, you may include miscellaneous audits like audit of banks, insurance companies, co-operative societies, NBFCs, audit under fiscal laws, cost audit and special audit assignments. For the preparation of part five, deep knowledge of statutory requirements is a pre-requisite for validation to adherence of the business with applicable laws. For this you should follow a check-list approach ensuring completeness of compliance validations. Further, you should update yourself with latest notification, circulars etc. You may also interlink the above part with guidance notes already covered in part one.

In part six, you should prepare special features in audit of public sector companies, internal audit, management and operational audit, investigation and due diligence and concept of peer review. For the preparation of this part, you are again required to have sound knowledge of statutory requirements.

Last but not the least; in the seventh part you may prepare Professional Ethics. Generally it has been observed that there is one question i.e. case studies based question of 16 marks in the examination paper. For better preparation of this part you are advised to read the 22 Chapter of the Study Material in detail which elaborates this topic along with examples. Further, you may write down all the clauses in notes form for the revision purpose.

While answering the case studies based question, answer should be split in to two parts, first one is Facts of the case and second one is the relevant concept and finally give your own conclusion. In this way the case study and application oriented theory questions can be answered.

Diagram showing Steps for Answering of Case Study

As in all other subjects of CA course, to excel in Audit proper preparation and planning is very much required to avoid failure. Further Audit is a paper which requires a
practical approach towards actual Audit work. You should in the first instance focus on studying Auditing concepts, procedures and techniques from the study material. The knowledge being so derived may be related by the students to the practical work in the field of Auditing which they do as part of their Articles training.

Part three, five and six are based on statutory requirements. Therefore, you must be cautious about the amendments and updates happened at least six months before the exam and also go through the other amendments. Further, you should also take a keen interest in updating yourself on contemporary developments in the field of auditing by regularly referring to articles on Auditing in CA Journal, Students' monthly Journal and other relevant professional journals, publications and books. It is also advisable to mention applicable Engagement Quality Control Standards or Accounting Standards or Sections in audit paper wherever required. Answers should be crisp, precise and to the point to secure good marks.

Audit is a subject that requires a lot of quick and logical application of mind to answer practical problems. Hence, give a reading to ICAI audit study material and Practice Manual to understand the depth and figure out the efforts and time required for preparation. In addition to study material suggested answers of past examination, Revisionary Test Papers, Standard books should also be read.

Your study and preparation should be in such manner that you are able to revise the same in one day time span. Finally don't forget to revise as already shown in diagram Study and Revision both are essential for Preparation for Examination.

“Give me six hours to chop down a tree and I will spend the first four sharpening the axe.” —Abraham Lincoln

Happy Reading and Best Wishes!
## CONTENTS

**MODULE – 1**
- Chapter 1 – Auditing Standards, Statements and Guidance Notes – An Overview
- Chapter 2 – Audit Strategy, Planning and Programming
- Chapter 3 – Risk Assessment and Internal Control
- Chapter 4 – Audit under Computerised Information System (CIS) Environment
- Chapter 5 – Special Audit Techniques
- Chapter 6 – The Company Audit
- Chapter 7 – Liabilities of Auditors
- Chapter 8 – Audit Report
- Chapter 9 – Audit Committee and Corporate Governance
- Chapter 10 – Audit of Consolidated Financial Statements

**MODULE – 2**
- Chapter 11 – Audit of Banks
- Chapter 12 – Audit of General Insurance Companies
- Chapter 13 – Audit of Co-Operative Societies
- Chapter 14 – Audit of Non Banking Financial Companies
- Chapter 15 – Audit under Fiscal Laws
- Chapter 16 – Cost Audit

**MODULE – 3**
- Chapter 17 – Special Audit Assignments
- Chapter 18 – Audit of Public Sector Undertakings
- Chapter 19 – Internal Audit, Management and Operational Audit
- Chapter 20 – Investigation and Due Diligence
- Chapter 21 – Peer Review
- Chapter 22 – Professional Ethics

© The Institute of Chartered Accountants of India
# Detailed Contents: Module – 1

## Chapter 1: Auditing Standards, Statements and Guidance Notes - An Overview

1.1 Introduction ............................................................................................................. 1.1  
1.2 Historical Retrospect .......................................................................................... 1.1  
1.3 Auditing and Assurance Standards Board – Scope and Functions ...................... 1.2  
1.4 Framework of Standards and Guidance Notes on Related Services .................... 1.5  
1.5 Quality Control and Engagement Standards ...................................................... 1.6  
1.6 Guidance Notes .................................................................................................... 1.8  
1.7 Guidance Note(s) on Related Services ............................................................... 1.17  
1.8 Authority Attached to the Documents issued by the Institute ........................... 1.17

## Chapter 2: Audit Strategy, Planning and Programming

2.1 Commencing an Audit ........................................................................................... 2.1  
2.2 Overall Audit Strategy ......................................................................................... 2.4  
2.3 Audit Programme .................................................................................................. 2.8

## Chapter 3: Risk Assessment and Internal Control

3.1 Introduction ............................................................................................................ 3.1  
3.2 Internal Control System - Nature, Scope, Objective and Structure ....................... 3.2  
3.3 Components of Internal Control .......................................................................... 3.7  
3.4 Review of the System of Internal Controls ........................................................... 3.13  
3.5 Methods of Recording ......................................................................................... 3.15  
3.6 Internal Control and Risk Assessment .................................................................. 3.26  
3.7 Internal control in Small Business Enterprises ..................................................... 3.34  
3.8 Reporting to clients on Internal Control Weaknesses ......................................... 3.34  
Annexure - The Sarbanes – Oxley Act of 2002 ......................................................... 3.37
CHAPTER 4: AUDIT UNDER COMPUTERISED INFORMATION SYSTEM (CIS) ENVIRONMENT

4.1 Introduction ..................................................................................................... 4.1
4.2 Scope of Audit in a CIS Environment ............................................................... 4.2
4.3 Impact of changes on Business Processes (for shifting from manual to electronic medium) ................................................................................... 4.3
4.4 Audit Approach in a CIS environment ............................................................... 4.5
4.5 Effect of Computers on Internal Controls .......................................................... 4.7
4.6 Effects of Computers on Auditing ..................................................................... 4.9
4.7 Internal controls in a CIS environment ............................................................. 4.10
4.8 Consideration of Control Attributes by the Auditors ....................................... 4.11
4.9 Internal control requirement under CIS Environment ....................................... 4.12
4.10 Auditing in a CIS Environment ....................................................................... 4.13
4.11 Review of Checks and Controls in a CIS Environment .................................... 4.16
4.12 Computer assisted audit techniques (CAATs) ............................................... 4.22

CHAPTER 5: SPECIAL AUDIT TECHNIQUES

5.1 Introduction ..................................................................................................... 5.1
5.2 Statistical Sampling in Auditing .................................................................... 5.11
5.3 Risk-Based Audit ........................................................................................... 5.23

CHAPTER 6: THE COMPANY AUDIT

6.1 Eligibility, Qualifications and Disqualifications of an Auditor ....................... 6.1
6.2 Appointment of auditor .................................................................................. 6.8
6.3 Rotation of Auditor ........................................................................................ 6.12
6.4 Provisions relating to Audit Committee ......................................................... 6.17
6.5 Auditor's Remuneration .................................................................................. 6.19
6.6 Removal of Auditors ...................................................................................... 6.19
6.7 Ceiling on number of audits ......................................................................... 6.20
6.8 Powers/Rights of Auditors .......................................................................... 6.23
6.9 Duties of Auditors ........................................................................................................ 6.27
6.10 Audit Report .............................................................................................................. 6.38
6.11 Disclosure in the Auditor Report ............................................................................. 6.38
6.12 Joint Audit ............................................................................................................... 6.39
6.13 Audit of Branch Office Accounts ............................................................................ 6.41
6.14 Cost Audit ............................................................................................................... 6.43
6.15 Punishment for non-compliance .......................................................................... 6.46
6.16 Financial Accounts Preparation and Presentation ............................................. 6.46
6.17 Significance of True and Fair ............................................................................. 6.51
6.18 Divisible Profits, Dividends and Reserves ....................................................... 6.54
6.19 Depreciation ......................................................................................................... 6.69
Appendix- Schedule III to the Companies Act, 2013 ........................................ 6.71

CHAPTER 7: LIABILITIES OF AUDITORS
7.1 Nature of Auditor’s Liability .................................................................................. 7.1
7.2 Professional Negligence ....................................................................................... 7.3
7.3 Cases Concerning the Civil Liability of Auditors for Negligence .................. 7.12
7.4 Civil Liabilities under the Companies Act ........................................................... 7.14
7.5 Criminal Liability under the Companies Act ..................................................... 7.19
7.6 Cases Concerning the Misconduct of Auditors under the Chartered Accountants Act ................................................................. 7.22
7.7 Liabilities under Income Tax Act, 1961 .............................................................. 7.25

CHAPTER 8: AUDIT REPORT
8.1 Auditor’s opinion .................................................................................................... 8.1
8.2 The Auditor’s Report on Financial Statements ............................................... 8.1
8.3 Reporting Under CARO, 2016 ............................................................................ 8.27
8.4 Distinction between Audit Report and Certificate ........................................... 8.32
8.5 Audit Reports and Certificates for Special Purposes ........................................ 8.34
8.6 Reporting Requirements in case of Comparative Information .......................... 8.37
Appendix 1: Comprehensive Format on the Audit Report ........................................................ 8.41
Appendix 2: Comprehensive Case Studies on CARO 2016 ................................................... 8.49
Appendix 3: Key Aspects discussed in Guidance Note on Reporting of Fraud under section 143(12) of the Companies Act 2013 ........................................................ 8.58
Appendix 4: Key Aspects Discussed in Guidance Note on Reporting Under Section 143(3) (F) and (H) of the Companies Act, 2013 ......................................................... 8.60
Appendix 5: Key Aspects discussed in Guidance Note on Internal Financial Control over Financial Reporting ............................................................................................. 8.63

CHAPTER 9: AUDIT COMMITTEE AND CORPORATE GOVERNANCE

9.1 Introduction ..................................................................................................... 9.1
9.2 Corporate Governance ..................................................................................... 9.1
9.3 The Legal Framework ...................................................................................... 9.1
9.4 Audit Committee under LODR Regulations ....................................................... 9.3
9.5 Audit Committee under Section 177 of the Companies Act, 2013 ...................... 9.6
9.6 Functions of the Audit Committee ..................................................................... 9.6
9.7 Review of Information by Audit Committee ....................................................... 9.8
9.8 Role of Auditor in Audit Committee and Certification of Compliance of Conditions of Corporate Governance .......................................................... 9.8
9.9 Remuneration of Directors [Part C of Schedule V] ........................................... 9.11
9.10 Obligations of Director and Senior Management [Regulations 17(2) to 17(4), 25(5) to 26(5)] ................................................................. 9.13
9.11 Code of Conduct [Regulations 17(5), 26(3), 46(2) and Part D of Schedule V] .... 9.15
9.12 Vigil Mechanism [Regulations 22 and 46 and Part C of Schedule V] ............... 9.15
9.13 Subsidiary of Listed Entity [Regulations 16(c), 24 and 46 and Part C of Schedule V] ................................................................. 9.15
9.14 Statement of Deviation(s) or Variation(s) [Regulation 32 and Part C of Schedule II] ..................................................................................... 9.17
9.15 Disclosures - Management Discussion and Analysis [Schedule V] .................. 9.17
9.16 Information to Shareholders [Regulation 36] ................................................... 9.18
9.17 Stakeholders Relationship Committee [Regulation 20 and Part D of Schedule II] ..................................................................................... 9.18
9.18 Transfer or Transmission or Transposition of Securities [Regulation 40] ........ 9.19
CHAPTER 10: AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS

10.1 Introduction ........................................................................................................... 10.1
10.2 Definitions ............................................................................................................... 10.3
10.3 Responsibility of Parent ....................................................................................... 10.4
10.4 Responsibility of the Auditor of the Consolidated Financial Statements .......... 10.5
10.5 Audit Considerations ............................................................................................ 10.6
10.6 Auditing the Consolidation .................................................................................. 10.8
10.7 Special Considerations ......................................................................................... 10.11
10.8 Management Representations ............................................................................. 10.17
10.9 Reporting ............................................................................................................... 10.17

Appendix: Corporate Governance – Schedule II to the SEBI (LODR) Regulations, 2015 .... 9.26