

Welcome to the Presentation on :

Audit Of Financial Statements

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Introduction

▶ What is Audit?

- ▶ Audit Is A Independent Examination Of “Financial Information” Of Any Entity, Whether Profit Oriented Or Not Irrespective Of Its Size, Legal Form, When Such A Examination Conducted With A View To Express An Opinion Thereon.

▶ Meaning of Financial statement

- ▶ Financial Statements Are **Written Records That Convey The Business Activities And The Financial Performance Of A Company**

i.e. **Balance Sheet ,Profit & Loss Account and Cashflow Statement**

Eligibility For Appointment of Auditor

- ▶ A statutory auditor of a company is a person appointed to verify the correctness of the accounting records of the company.
- ▶ As per the Provisions of Companies Act, 2013 and Code of Ethics , only a **Practising Chartered Accountant** (CA) is eligible to be appointed as the statutory auditor in a company.
- ▶ <https://www.youtube.com/shorts/3rSoqv7KyAA>

- Points to be covered while Auditing Financial Statements.

1. Knowledge of Entity business
2. Compliance with applicable laws and Regulations
3. Opening Balance
4. Control Sheets
5. Verify Ledgers(Scrutiny)

1. Knowledge of Entity business:

- ▶ Nature of Business Operations
- ▶ Ownership and Governance Structure
- ▶ Accounting Policies
- ▶ Risk Associated with the industry

2. Compliance with applicable laws and Regulation:

- ▶ Companies – Companies Act ,2013
- ▶ Partnership Firm – Partnership Act, 1932
- ▶ LLP – Limited Liability Partnership Act, 2008
- ▶ Banking Companies – RBI Act ,1949
- ▶ Trust – Maharashtra Public Trust Rules,1951

3. Opening Balance Verification

- ▶ Extract Trial Balance with Opening Balances
- ▶ Compare With Previous Year Trial Balance
- ▶ Difference, if any, to be checked
- ▶ Taking a Practical Example:

4. Control Sheets

- ▶ a) Bank
- b) Statutory Dues
 - i) TDS & TCS
 - ii) Provident Fund
 - iii) Profession Tax
- c) Rent
- d) Loan
- e) Deposit

A. Documents required to Prepare Bank Control Sheet.

1. Bank Statement of each bank account.
2. Bank Confirmation
3. Reconciliation Statement:

The following items must **not** occur in Reconciliation:

- i) Contra Entry
- ii) Digital Payment Transaction
- iii) Stale Cheque
- iv) Stat Dues Payment

B. Statutory Dues

i) Tax Deducted at Source:

- ▶ Definition: A person (deductor) who is liable to make payment of specified nature to any other person (deductee) shall **deduct tax** at source and remit the same into the account of the Central Government before due date.

- ▶ Who shall deduct TDS and When?
 - a. Mandatory for Companies, LLP, Firms .
 - b. Individual, HUF having turnover > 1 Crore in the immediately preceding Financial Year.

TDS is to be deducted and paid according to the below rates :

TDS Rates and Provisions:

Section	Rates	Limits
194 - TDS On Dividend	10%	Above Rs.5000
194A – TDS On Interest	10%	Above Rs 40,000 for Banks, Post Office and Co-op. Society. Rs.5,000 in other cases
194C- TDS on Contract	1% & 2%	(Individuals and HUFs), @2% (Others) (If Single payment >Rs 30,000 or Aggregate >Rs 1,00,000 in a FY)
194I- TDS on Rent	10%	If Rent >Rs 2,40,000 in a F.Y.
194J-TDS on Professional Fees	10%	If Payment > Rs. 30,000 in an F.Y.
194Q-TDS on Purchase of Goods	0.10%	If Purchase of Goods > Rs 50 lakhs in an F.Y.
194N-TDS on Cash Withdraw	2%	If Cash Withdrawals > Rs 1 Crore in an F.Y.

Interest on Late Payment of TDS (Section 201(1A))

Scenario	Interest Rate
TDS not deposited to the government after deduction (fully or partly)	1.5 % per month (From the date of on tax deduction to the date of deposit)
TDS not deducted (fully/partly)	1% per month (From the date on which tax is deductible to the date on which tax is actually deducted.

Tax Collected at Sources

- ▶ Tax collection at source (TCS) is an extra amount **collected** as tax by a seller of specified goods from the buyer at the time of sale over and above the sale amount and is remitted to the government account.

Types of Goods or Transaction	Rates
Purchase of Motor vehicle exceeding Rs. 10 Lakhs	1%
Scrap	1%
Liquor of alcoholic nature (For Human Consumption)	1%

Other Points related to Stat Dues :

- ▶ CARO Reporting
 - ✓ any statutory dues pending for a period more than 6 months as on the balance sheet date.
 - ✓ Disputed statutory dues- Amount & Forum
- ▶ Interest on Short payment of TDS/TCS
- ▶ State wise Checking of Professional Tax

ii). Provident Fund

► What is a Provident Fund?

Definition: Employee Provident Fund (EPF) is one of the popular savings schemes launched under the supervision of the Government of India.

Applicability: i) Employer having Employees > 20 in a F.Y.

ii) Mandatory for Employee with Salary* <15000, else voluntary

► Rate : i) Contribution of Employee = 12% (8.33% EPS + 3.67% EPF)

ii) Contribution of Employer = 13% (0.05% Admin Charges+ 0.05% EDLIS)

*Salary= (Basic +Dearness Allowance)

iii). Professional Tax

- ▶ What is a Professional Tax?

Definition: Professional tax is a tax that a state government levies on any individual who earns income through any profession, trade or employment

Applicability: Employees having Salary* >10,000

- ▶ Rate: i) If $10,000 > \text{Salary} > 7,500$, Rs 175 (Except for female employees)
ii) Salary >10,000, Rs. 200 (300 in February month)

*Salary= Gross Earnings

C) Rent Control Sheets

- ✓ Rent Agreement
- ✓ Security Deposit/ Advance Rent
payment Receipt

D. Documents Required to Prepare Loan Control Sheet

- ✓ LOAN AGREEMENT
- ✓ **BANK CONFIRMATION / STATEMENT AS ON THE END DATE OF AUDIT PERIOD**
- ✓ REPAYMENT SCHEDULE
- ✓ LOAN REPAYED FULL AMOUNT TO OBTAIN NOC FROM BANK
- ✓ ANY PROPERTY MORTGAGE AGAINST LOAN TO OBTAIN AGREEMENT
- ✓ CHARGE FOR LOAN TAKEN IF ANY.

E) Deposit Control Sheet

E. Documents required to Prepare Deposit Control Sheet

- ✓ FD Interest Certificates & Interest Statements from Bank
- ✓ Electricity/ Water Bills



Maharashtra State Electricity Distribution Company Ltd.

Website: www.mahadiscom.in
 GSTIN of MSEDCL 27AAECM2933K1ZB
 BILL NO. (GGN): 000000828896799

Electricity Supply Payment Month: JUN-2020

HSN code 27160000

Payment Date: **16-JUN-20**
 Amount due: **17,190.00**
 Due date: 06-JUL-20
 Filled after these dates: **17,410.00**

Billing Unit: 4795 ; KHARGHAR S / DN
 Rate Indication: 090 / LT-I (B) Residential 1Ph
 Pole No: 00000000

Supply Date: 20-Oct-15
 Approved load: 3 KW
 Security Deposit Deposit (Rs.): 3,000.00
 Current Reading Date: 10-JUN-20
 Previous Reading Date: 06-MAR-20

Scan this QR Code with BHIM App for UPI Payment



If payment is made by QR code, the prompt payment waiver or delay charge applicable as per the payment date will be included in the next payment.

PC / Cycle + Route / DTC : 1 / 05-5010-1000 / 4795458

Meter No. : 06504935262

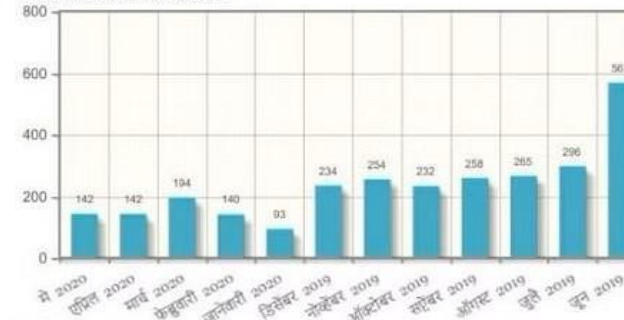
Reading group: I1

Ongoing reading	Previous readings	Multiplier factor	Unit	Sama. Unit	Total
11590	9843	01	1747	0	1747

NORMAL

Bill Period: 3.2 Month (s) / Old Units upto 31-03-2020 = 454

Previous power consumption



* Central Grievance Redressal Center 24 * 7

MSEDCL Call Center:
18002333435
18001023435 1912 Rules and Procedures for Resolving Customer Grievances MSEDCL
 Website: - www.mahadiscom.in> ConsumerPortal> CGRF .

Power consumption

June 2020	1747
June 2019	567

Important:

1. Register for e-bill instead of printed bill and get a go-green discount of Rs. 10 per bill. To register: - <https://consumerinfo.mahadiscom.in/gogreen.php> (GGN number on top left of your printed bill) Available in the corner.)
2. Pay electricity bill through digital medium and get 0.25% (up to Rs.500 / -) discount (excluding taxes and duties)
3. If your mobile number and email address are incorrect, please visit -<https://consumerinfo.mahadiscom.in/>.
4. Next month's readings will generally be on 10-07-2020.

Special message:

* Dear Customer, Your registered mobile number is 74 ***** 23. Use to change your mobile number / registration number, too new website / mobile app, or **99 303 99 303** Send a message to the following number **MREG 029476776293**
 * to accept any type of computing pavatica number of computerized payment karatana rakkameca, too. Handwritten receipts should not be accepted. Use the option of online payment facility to avoid inconvenience.

On-site billing unit:	4795	Customer ID:	029476776293	PC:	I1	Rate:	090
Deadline	06-JUL-20			17,190.00			

If paid by this date	25-JUN-20	17,050.00
If paid after these dates	06-JUL-20	17,410.00

Bank location copy	DTC No. :	4795458					
On-site billing unit:	4795	Customer ID:	029476776293	PC:	I1	Rate:	090

Deadline	06-JUL-20	17,190.00
If paid by this date	25-JUN-20	17,050.00
If paid after these dates	06-JUL-20	17,410.00

Property, Plant and Equipment



Debtors and Creditors Scrutiny Points

Debtors

- ▶ Obtain List of Debtors
- ▶ External Confirmation / subsequent clearance
- ▶ Ageing
- ▶ Negative balances
- ▶ Existence
- ▶ Completeness
- ▶ Cut off Procedure
- ▶ Vouch copy of Sales Invoices

Creditors

- ▶ Obtain List of Creditors
- ▶ External Confirmation / subsequent clearance
- ▶ Ageing
- ▶ Negative balances
- ▶ Existence
- ▶ Completeness
- ▶ Cut off Procedure
- ▶ Vouch Purchase Invoices.

Sales

Invoice , Debit Note & Credit Note

Whether GST charged correctly (Rate) , TCS Collected if any

Verify the GST Return, If any difference analyse the Reason

Tax Audit Applicability threshold limit checking

Other Income comprising interest income, Gain/ Loss on sale of investments, etc.

Interest income :

- Obtain FD Interest Certificate
- Obtain Copy of 26 AS

Gain/(loss) on sale of investment :

- Investment in Real Estate - Verify Sale Agreement and Stamp Duty
- Investment in Shares-Obtain Profit & Loss Statement & Capital Gain Statement

Purchases

- ▶ Vouching Original Invoice.
- ▶ Purchase invoice should be in the name of entity
- ▶ Input Tax Credit Ledger
- ▶ Purchases related to operating activities.
- ▶ TDS u/s 194Q applicable if Purchase exceed Rs.50,00,000/-
- ▶ Third party Confirmation

Inventory

- ▶ Physical Verification – Quantities and Condition
- ▶ Compliance of AS-2
- ▶ Third Party Confirmation
- ▶ Obtain Confirmation from Service Auditor
- ▶ Material Discrepancies > 10% - CARO report 2020.

Other Expenses like Power and Fuel, Rent, Repair to Building, Plant and Machinery, Insurance, Travelling, Legal and Professional, Miscellaneous Expenses

- ▶ Whether the expenditure pertained to current period under audit.
- ▶ Whether the expenditure qualified as a revenue and not capital expenditure.
- ▶ Whether the expenditure had a valid supporting documents like travel tickets, insurance policy, third party invoice .
- ▶ Whether the expenditure has been classified under the correct expense head.
- ▶ Whether the expenditure was authorized as per the delegation of authority.
- ▶ Whether the expenditure was in relation to the entity's business and not a personal expenditure.
- ▶ Whether TDS Deducted if amount exceed specified limit.

Cash and Cash Equivalents:

- ▶ Physical Cash Verification to be done
- ▶ Cash should never be Negative at the end of the day.
- ▶ Payments above Rs.10,000 to a single party on a single day is to be checked as it disallowed u/s 40A(3) of Income Tax Act,1961
- ▶ Also, Receipts above Rs.2,00,000 from a single party on a single day is not permissible u/s 269ST of Income Tax Act,1961



Thank you !