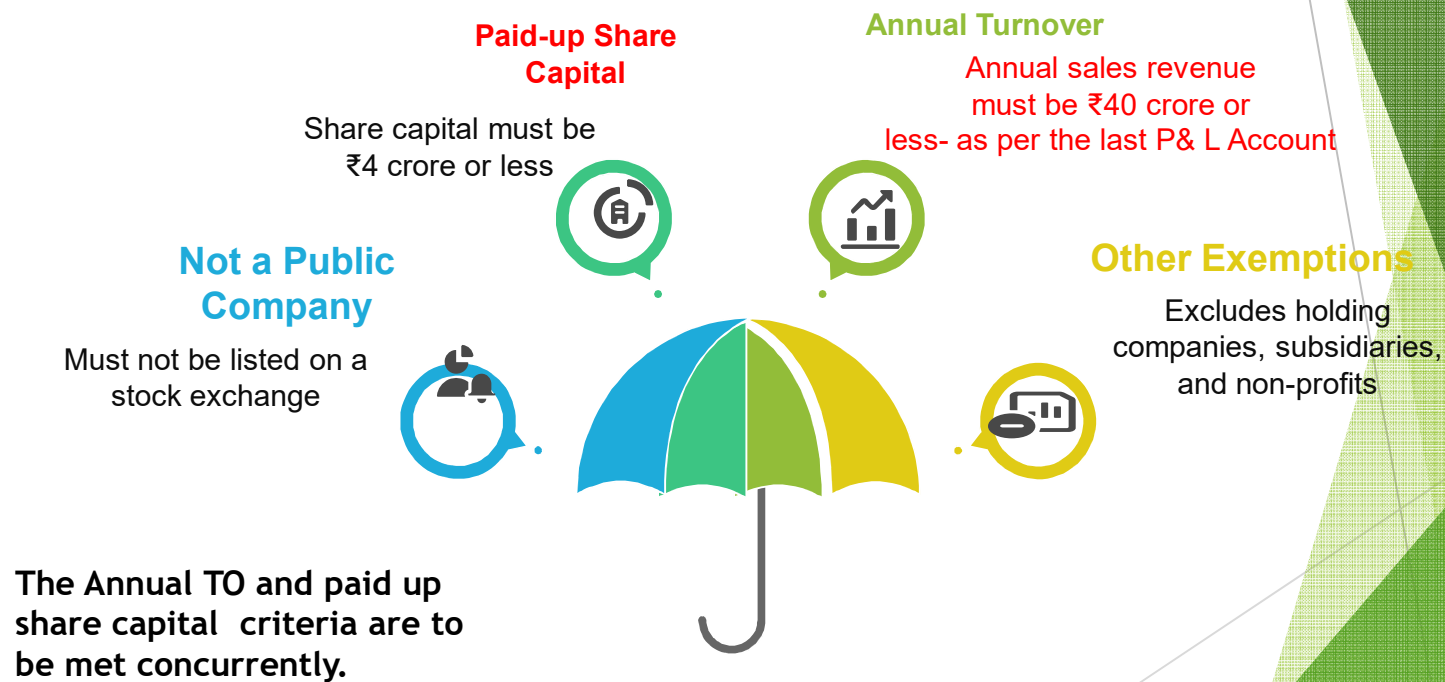


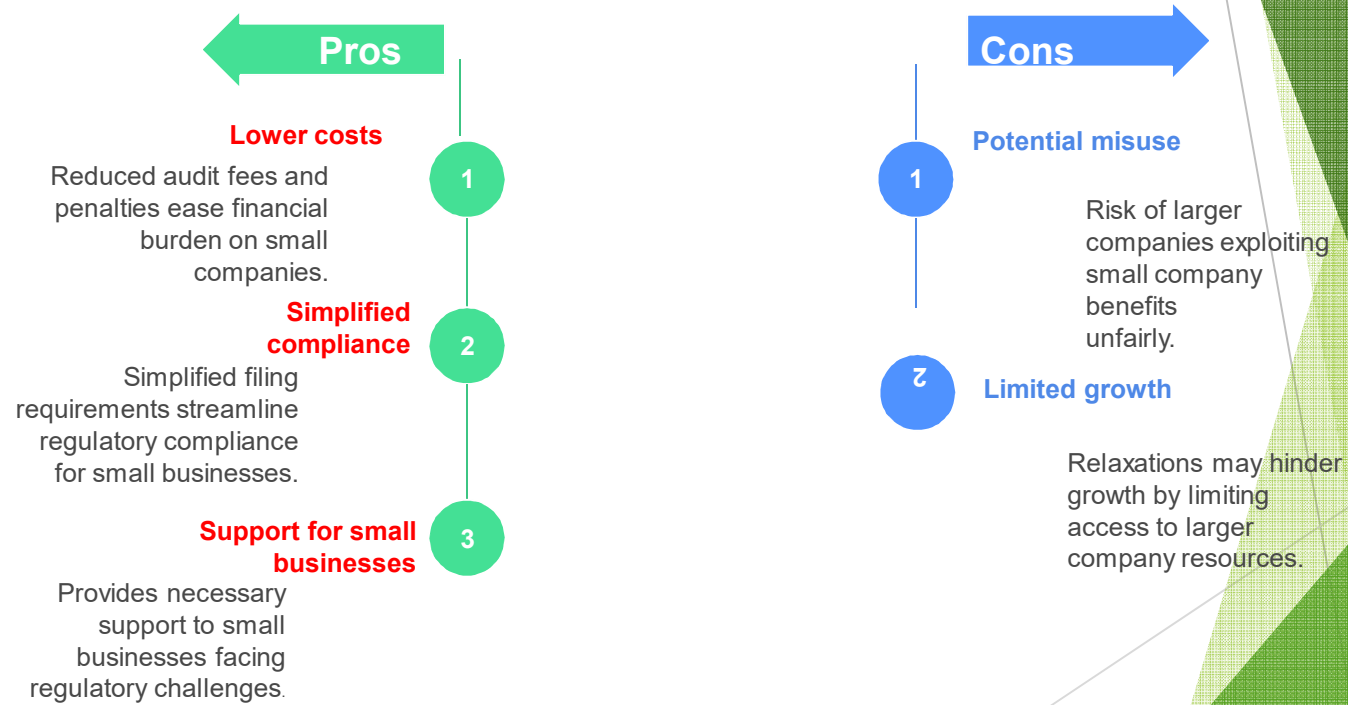
Company Audit- Small and Medium Companies

Compliance of Standards of Auditing and Documentation

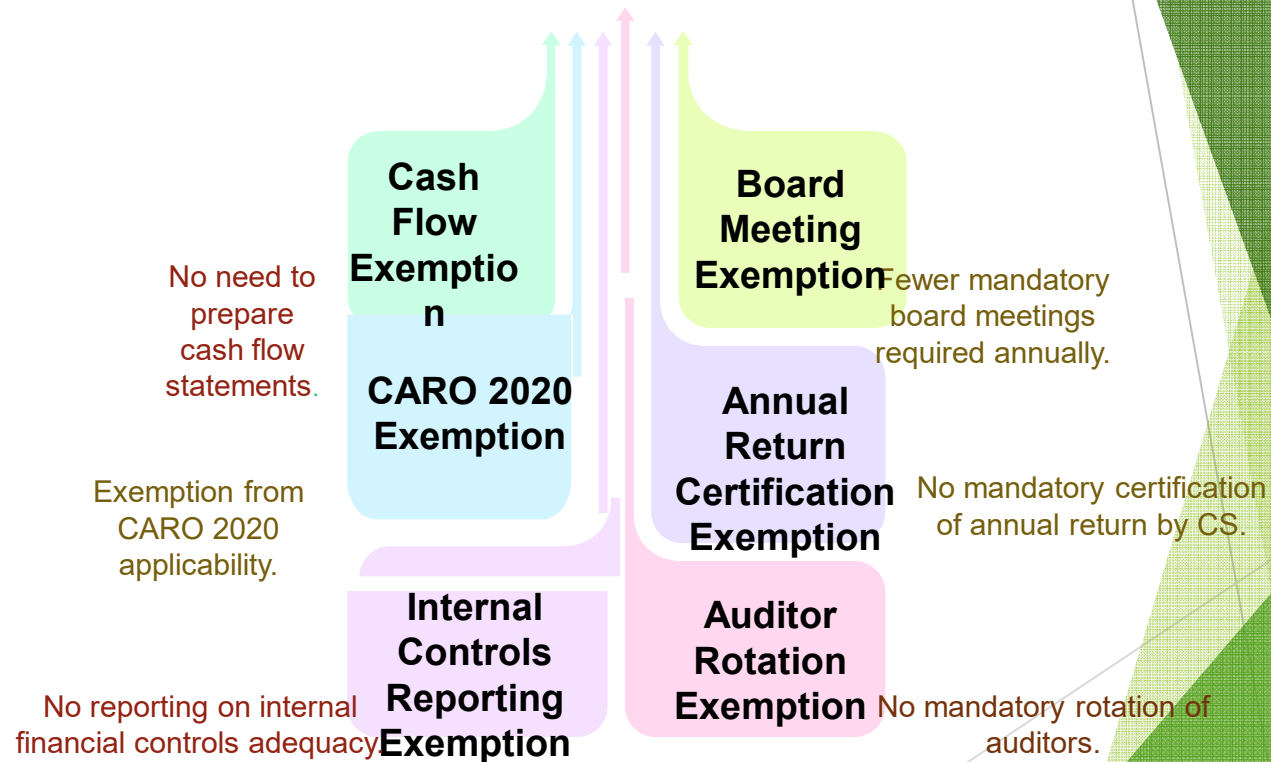
Characteristics of a Small Company as defined u/s 2(85) of the Companies Act 2013



Regulatory relaxations and benefits of Small company definition



Streamlined Compliance for Small Companies



Audit documentation is required to be maintained by an Auditor as per Standards of Auditing of ICAI

▶ **All SAs are applicable to MSME companies.**

What is Auditing?

- ▶ Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria.
- ▶ *The documentation maintained by auditors is vital for supporting their findings and conclusions, as well as for facilitating reviews and inspections by regulatory bodies.*

AUDIT PROCESS

01
OPENING
BALANCE
CHECKING

02
IC EVALUATION &
COMMUNICATING
FINDINGS TO
TCWG

03
VOUCHING

04
LEDGER
ANALYSIS

05
VERIFICATION

AUDIT PROCESS

06
COMPARING FS
WITH BOOKS -
SIGNED TB

07
AS COMPLIANCE

08
SCHEDULE III
COMPLIANCE -
INFO FOR
NOTES

09
ANALYTICAL
REVIEW

10
CARO POINTS -
INFORMED
REPORTING

NEW CLASSIFICATION of STANDARDS OF AUDITING from 1/4/2018

SQCs
Standards on
Quality
Control
SQC 1 and
SA 220

SAs
STANDARDS ON AUDITING
-For Independent Audits

SREs
Standards
on Review
Engagement
SRE 2400 series

SAEs
Standards
on Assurance
Engagement
SAE 3400series

SRSs
Standards on
Related services
SRS 4400 series

**Engagement
Standards**

- For Audits and review of HFI,
- including assurance services

WHY

COMPLY WITH STANDARDS?

- To expediate audits effectively in accordance with GAAPs
- To utilize resources effectively
- To guide, direct and supervise assistants properly
- To ensure quality control
- To disprove charges of negligence
- To face & pass **PEER REVIEW**

WHY COMPLY WITH STANDARDS?

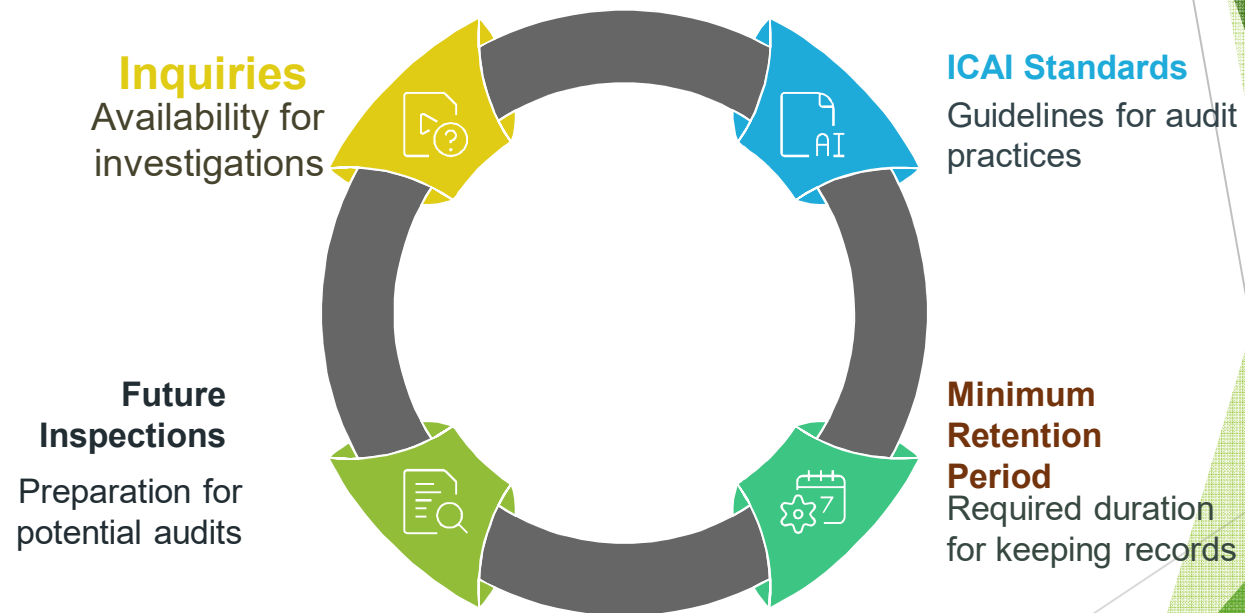
- ▶ The Companies Act 2013
- ▶ Section 143(9)
- ▶ **Every Auditor shall comply with AUDITING STANDARDS of ICAI**

Auditor – Can't just be a watchdog anymore

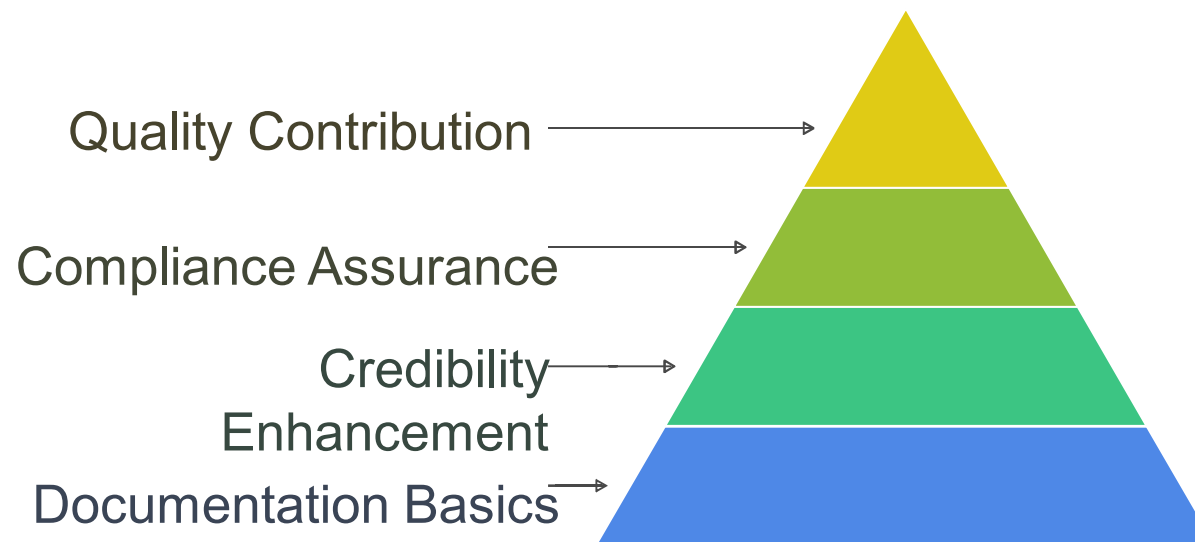


- ▶ Overall Objectives of the Independent Auditor and the conduct of an audit in accordance with SAs.
- ▶ **Professional Skepticism** - An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence

Audit Documentation Retention Overview



Audit Documentation Hierarchy



Audit Documentation Objectives

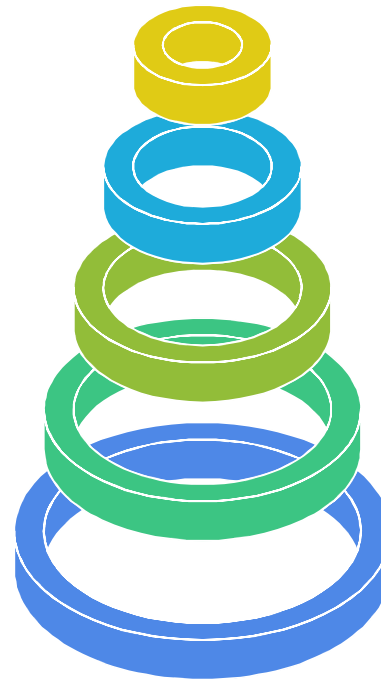
Auditor's Report 
Basis for final audit communication

Supervision & Review 
Facilitate oversight of audit processes

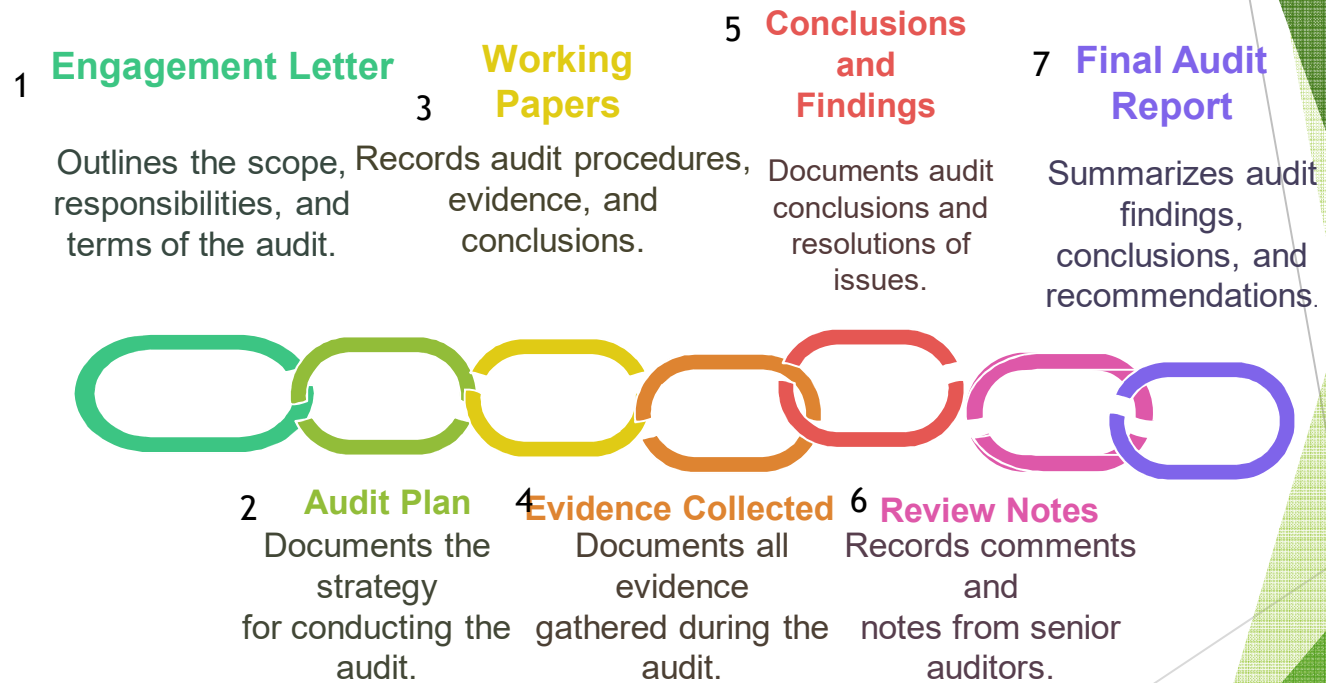
Audit Planning 
Aid in audit strategy and execution

Auditor's Conclusions 
Support for auditor's findings

Audit Evidence 
Proof of audit work performed



Essential Audit Documentation



Classification of SAs (Grouped by Theme)

General Principles

- **SA 200 – 265**
- Focus on planning, engagement terms, documentation, ethics, and communication.

Risk Assessment

- **SA 300 – 330, 402**
- Focus on understanding the entity, identifying risks, setting materiality, and planning responses.

Audit Process

- **SA 500 – 580**
- How to gather, evaluate, and document audit evidence, especially in informal MSME settings.

Work of Others

- **SA 600 – 620**
- Not commonly used in MSMEs, but relevant if experts or other auditors are involved.

Conclusions & Reporting

- **SA 700 – 720**
- How to form the opinion, modify the report, or add emphasis if needed.

SA 200 - Overall Objectives of the Independent Auditor **Purpose:**

Reasonable assurance and reporting
on financial statements

Professional skepticism includes being alert to :

- Audit evidence that contradicts other audit evidence obtained.
- Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence.
- Conditions that may indicate possible fraud.
- Circumstances that suggest the need for audit procedures in addition to those required by the SAs.

SA 210 - Agreeing on Terms of Audit Engagement with the management

► **Obtain an Audit Engagement Letter covering :**

- the objective and scope of the audit of FS.
- the responsibilities of the **auditor**
- the responsibilities of **management**
- identification of the applicable financial reporting framework .
- reference to the expected form and content of any reports to be issued by the auditor

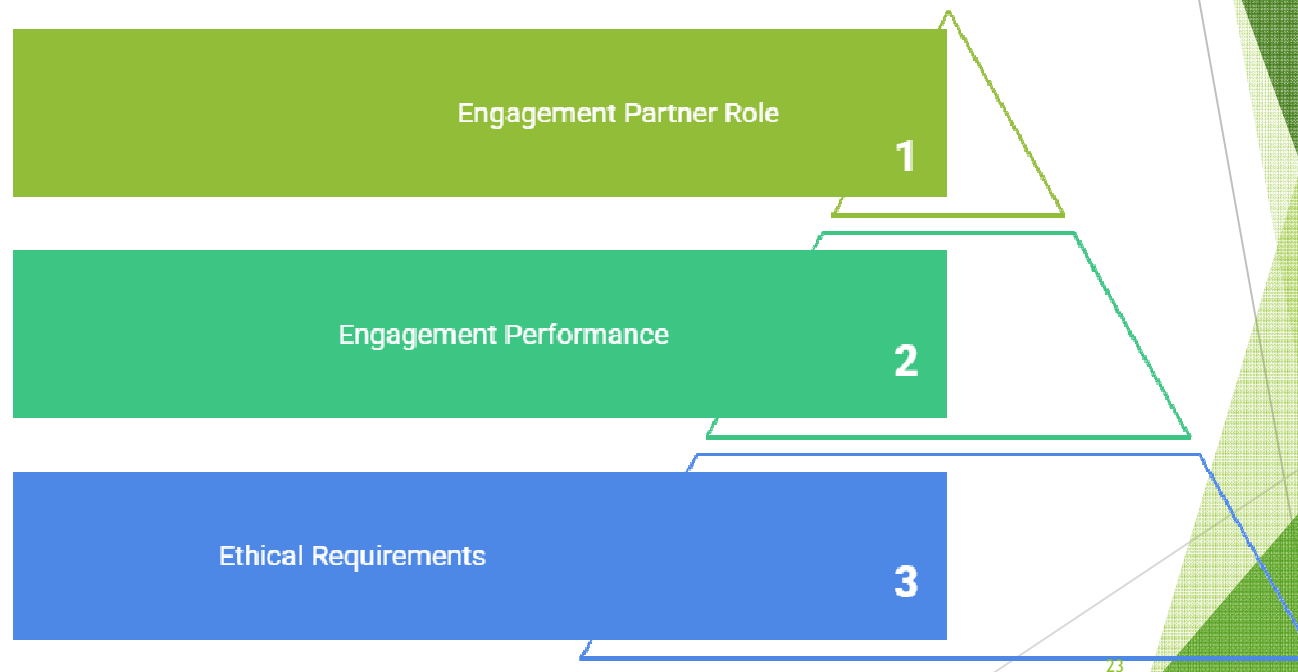


SA 220 - Quality Control for an Audit

Purpose:

Ensure audit quality at engagement level.

Audit Quality Assurance Pyramid



Quality Control for Audit Work-SA 220

- ▶ This SA deals with the specific responsibilities of the auditor regarding quality control procedures for a specific audit of financial statements.
- ▶ This SA is to be read in conjunction with relevant ethical requirements.

Quality Control in Auditing

SQC 1

Firm-level quality control system

SA 220

Engagement-level quality control

Under SQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that :

The firm and its personnel comply with professional standards and regulatory and legal requirements

and

The reports issued by the firm are appropriate in the given circumstance

AS 230 - Audit Documentation Purpose

Purpose: Create audit trail and support audit opinion

SA 230 - Audit Documentation

Characteristic

Description

Purpose

Create audit trail
and support opinion

Focus Areas

Timely, complete
documentation;
significant matters

Storage and Access

Proper storage
and easy access

Audit Documentation

- ▶ **The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor to understand :**
- ✓ **The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements;**
- ✓ **The results of the audit procedures performed, and the audit evidence obtained;**
- ✓ **Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.**

29

SA 240 - Auditor's Responsibilities Relating to Fraud

Purpose- Identify and respond to fraud risk

SA 240 Framework

Fraud Risk Assessment

Evaluating potential fraud risks to inform audit strategies.

Communication and Documentation

Ensuring clear communication and thorough documentation of fraud-related activities.



Response to Identified Risks

Implementing measures to address and mitigate fraud risks.

The auditor's responsibilities relating to Laws and Regulations in an Audit of Financial Statements -SA 250

Ensure compliance with laws impacting financial reporting.

Foundations of Compliance

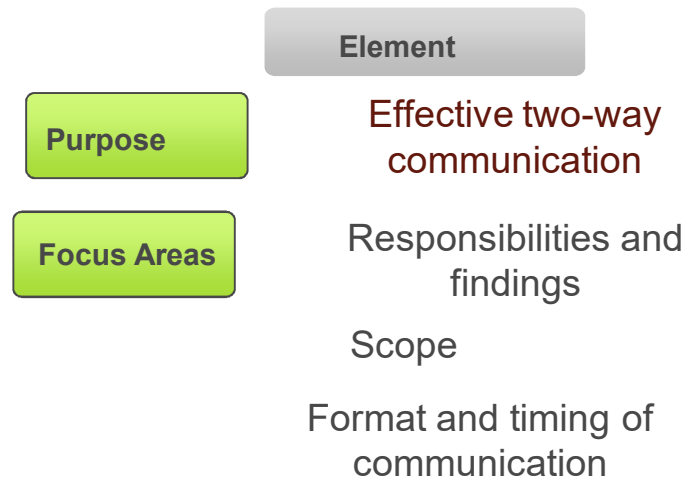


SA 260 - Communication with Those Charged with Governance

Purpose:

Effective two-way communication

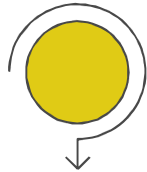
SA 260 -Communication Elements



SA 265 - Communicating Internal Control Deficiencies to Those Charged with Governance and Management

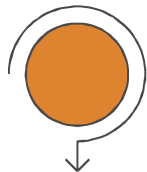
- **Purpose:** Communicate significant internal control deficiencies.

Focus areas



Purpose

Communicate significant control deficiencies.



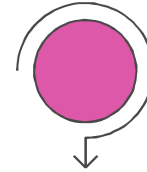
Evaluation

Evaluation of internal controls.



Communication

Written communication skills are important.




Documentation

Deficiency documentation for future reference.

SA 299 - Joint Audit of Financial Statements

Purpose: Define roles in joint audits.

SA 299 - Joint Audit of Financial Statements

Characteristic	Description
Purpose	Define roles in audits
 Focus Areas	Work allocation
	Mutual review
	Coordinated reporting

SA 300 - Planning an Audit

Purpose:

Efficient and effective audit execution

This SA deals with the auditor's responsibility to plan an audit of financial statements in recurring audits and also in initial audit engagements.

- Overall Audit Strategy**
- Detailed Audit Plan**

Audit planning

3 **Changes during audit**

Adapting the plan to address new findings.

2 **Audit plan**

Detailed outline of audit procedures and timing.

1 **Audit strategy**

Establishes the audit's scope and approach.

SA 315 - Risk Identification and Assessment

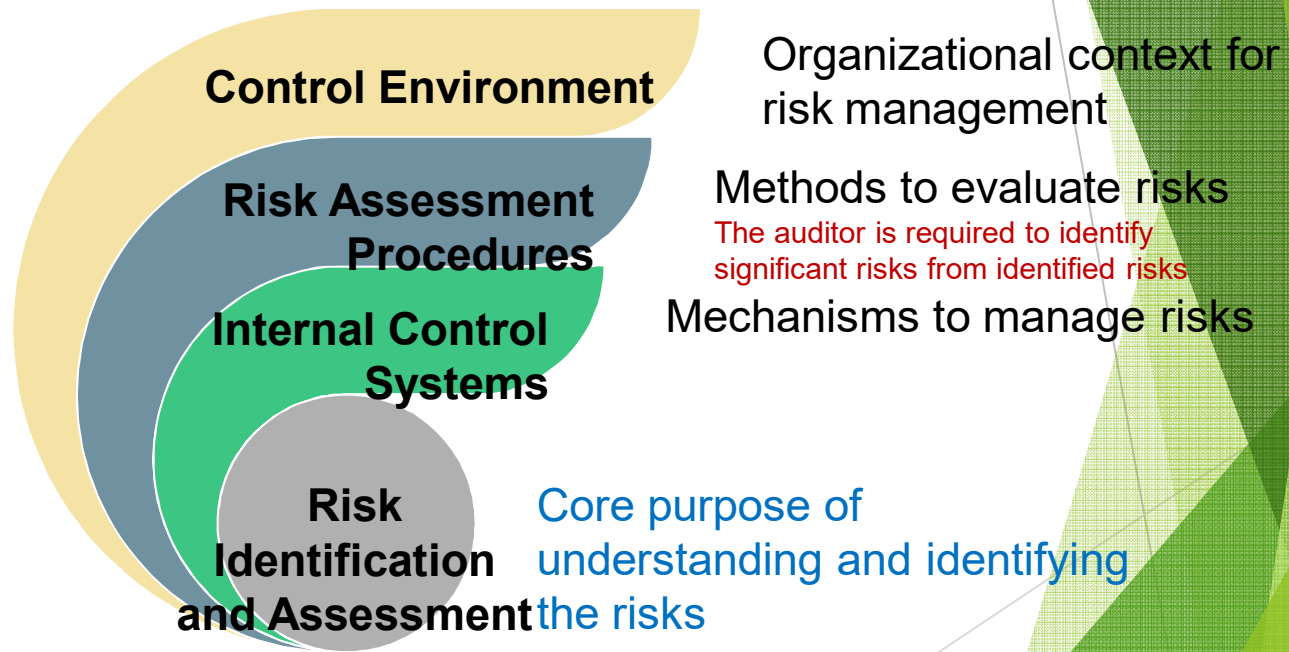
Purpose: Understand entity and identify risks-

Requires deep understanding of complex business processes

Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment

- Deals with the auditor's responsibility to identify and assess the risks of **material misstatement** in the financial statements, through understanding the entity and its environment, including internal controls

Risk Identification and Assessment Framework



45

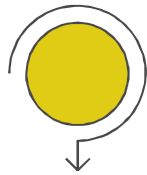
Following are to be considered to identify a risk as significant:

- Risk of fraud
 - Relates to recent significant economic, accounting or other developments like regulatory environment changes etc
- Complexity of transactions
- Significant transactions with related parties
- There is a degree of subjectivity in the measurement of financial information related to the risk
- Significant transactions outside the normal course of business or unusual transactions- **Transaction analysis**

SA 320 - Materiality in Planning and Performance

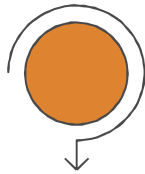
Purpose: Apply materiality concept in audit.

Audit Materiality



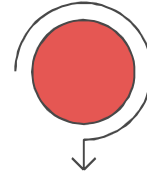
Purpose

Apply materiality in audit.



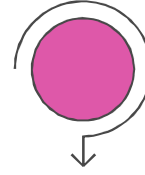
Planning thresholds

Setting the acceptable error amount.



Reassessment

Reviewing materiality during the audit.



Risk-based audit

Tailoring audit based on assessed risks.

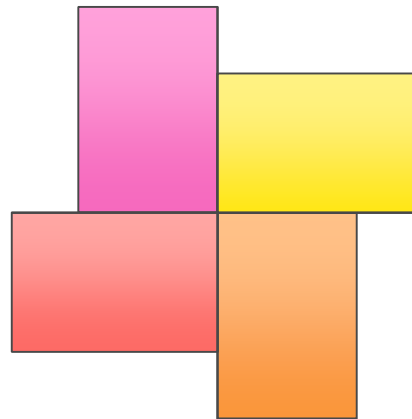
SA 330 - Auditor's Response to Assessed Risks

Purpose: Design responses to assessed risks.

Audit response design

4 **Audit documentation**
Focus on recording audit evidence.

3 **Control testing**
Focus on evaluating internal controls.



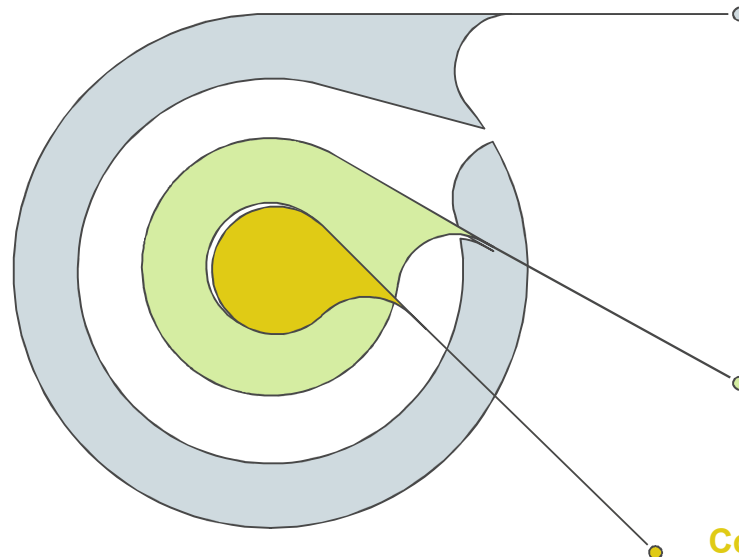
1 **Purpose**
Design responses to assessed risks.

2 **Substantive procedures**
Focus on detailed audit tests.

SA 402 - Use of Service Organisation

Purpose: Evaluate impact of outsourced services.

Focus SA 402 Evaluation



Purpose

Evaluating impact of outsourced services

Understanding Service Providers

Knowing their operations

Using SOC Reports

Leveraging reports for insights

Control Evaluation

Assessing and managing risks

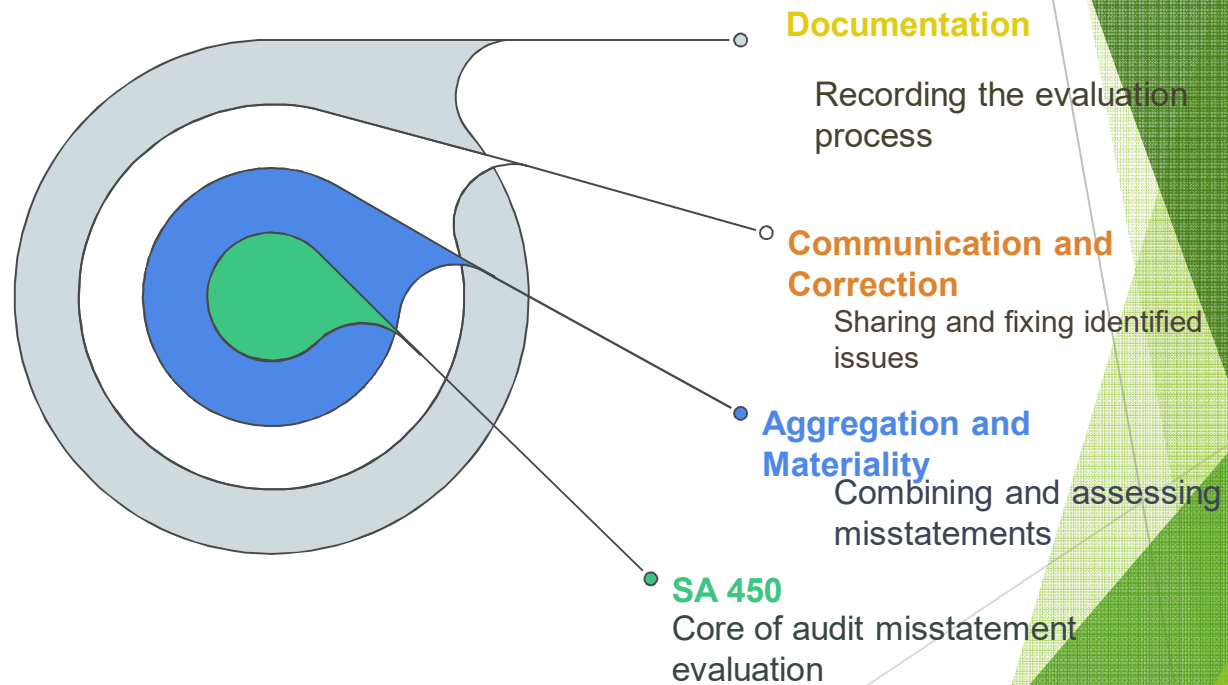
52

SA 450 - Evaluation of Misstatements

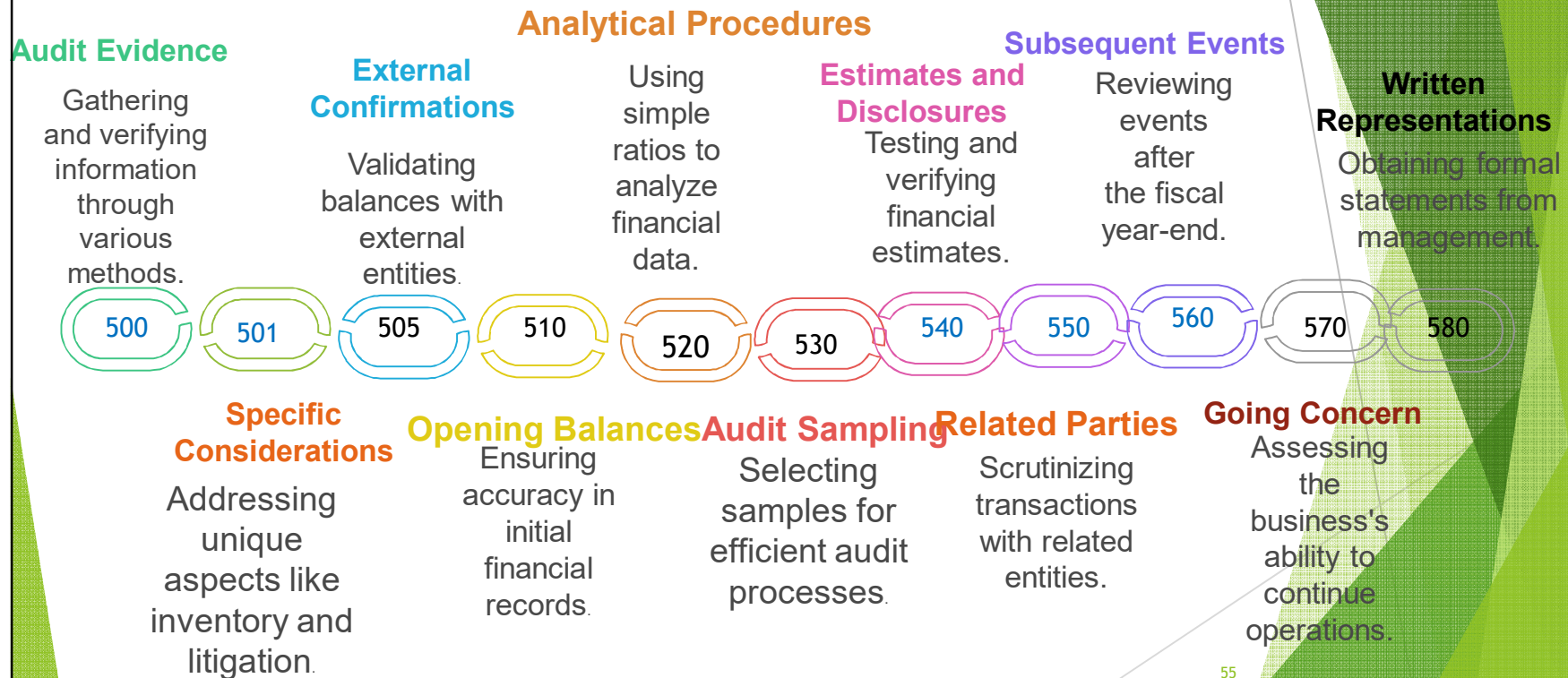
Purpose:

Assess and communicate audit
misstatements.

SA 450 Audit Misstatements Evaluation



Audit Process (SA 500-580)



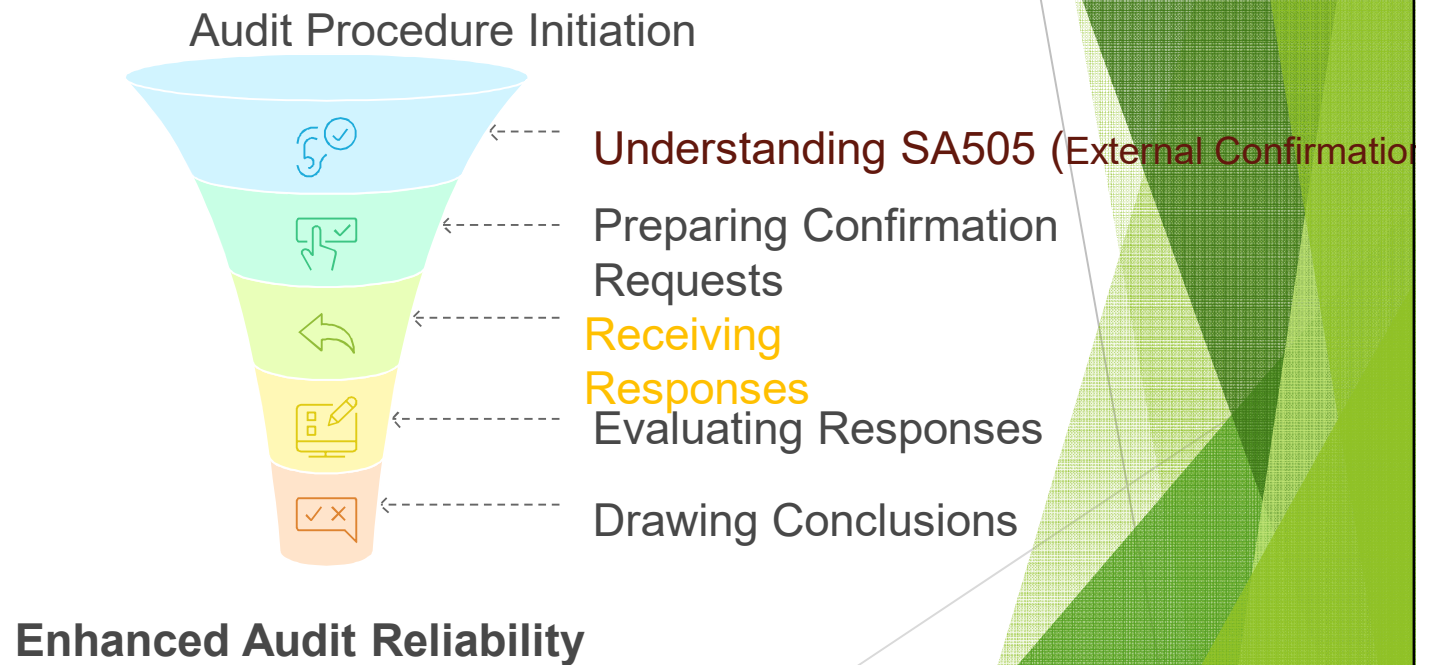
**Documentation required to be maintained by
an Auditor w.r.t External confirmations**

SA 505

When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including :

- Selecting the appropriate confirming party and determining the information to be confirmed or requested;
- Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor

Enhancing Audit Reliability through Documentation



58

Initial Audit Engagements – Opening Balances- SA 510

- ▶ In an initial audit engagement, the auditor should make sure that :
 - ❑ Opening Balances do not contain misstatements that materially affect the current period's financial statements
 - ❑ Appropriate Accounting Policies reflected in the opening balances have been consistently applied in the current period's financial statements or changes if any thereto are properly accounted for and adequately presented and disclosed.

Analytical Procedures- SA 520

- ▶ **Analytical Procedures** means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.
- ▶ **Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amounts**

Audit Sampling- SA 530

- ▶ **Audit Sampling is the application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.**
- ▶ **When designing an audit sample, the auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level.**
- ▶ **The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection.**

Going Concern-SA 570

- ▶ The auditor should obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of **Going Concern** basis of accounting in the preparation of the financial Statements.
- ▶ Also assess, whether a **material uncertainty exists** related to conditions that may cast significant doubt on the entity's ability to continue as a **Going Concern**.

Written Representations SA 580

- ▶ The auditor should obtain Written Representations from the management that they believe that they have fulfilled their responsibility for the preparation of the financial statements and that information provided is complete
- ▶ Written Representations is to **support other audit evidence** relevant to the financial statements or specific assertions in the financial statements by means of written representations, if determined necessary by the auditor or required by other SAs

SA 600 to SA 620 - Work of Others

Characteristic	Other Auditors	Internal Auditors	Expert
Standard	SA 600	SA 610	SA 620

Work of Others (SA 600. 610, 620)

SA 600

Group audits are rare for MSMEs unless they are part of a larger group.

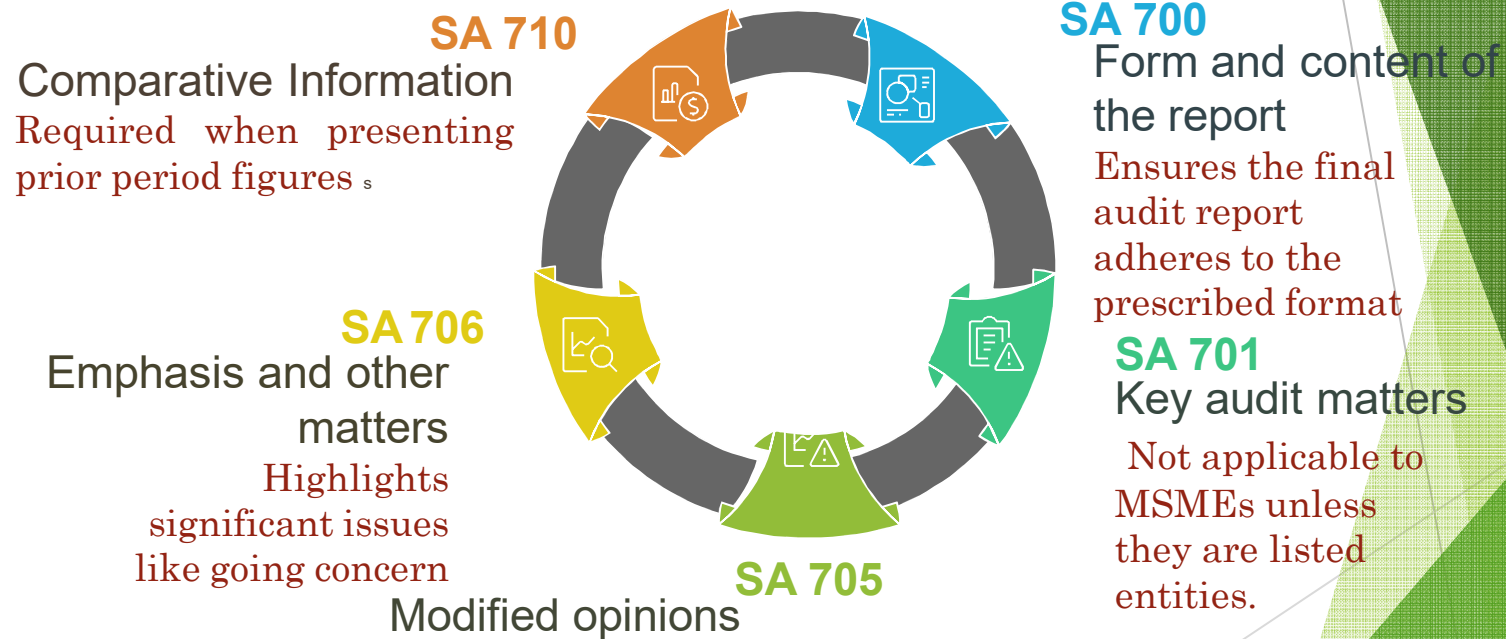
SA 610

Using internal auditors is rarely applicable to MSMEs, as they usually do not have internal audit functions.

SA 620

Using an expert's work may apply if valuation experts are used, for example, for land or building valuations.

Conclusions & Reporting (SA 700- 720)



Communicating Key Audit Matters in Audit report-SA 701

- ▶ **Key Audit Matters** - Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.
- ▶ **KAMs often relate to areas with a higher assessed risk of material misstatement**
- ▶ **Key Audit Matters are selected from matters communicated with those charged with governance.**

Modifications to the Opinion in the Independent AR- SA 705

- ❑ **Clean Report**
- ❑ **Qualified Opinion**
- ❑ **Disclaimer**
- ❑ **Adverse**

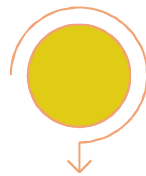
Emphasis of Matter Paragraph in the Independent Auditor's Report.SA 706

- **EoM Paragraph** – A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

SA 720 - Other Information in Reports

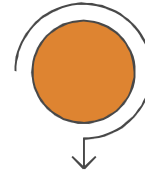
Purpose: Evaluate consistency of
unaudited information.

Report Information



Purpose

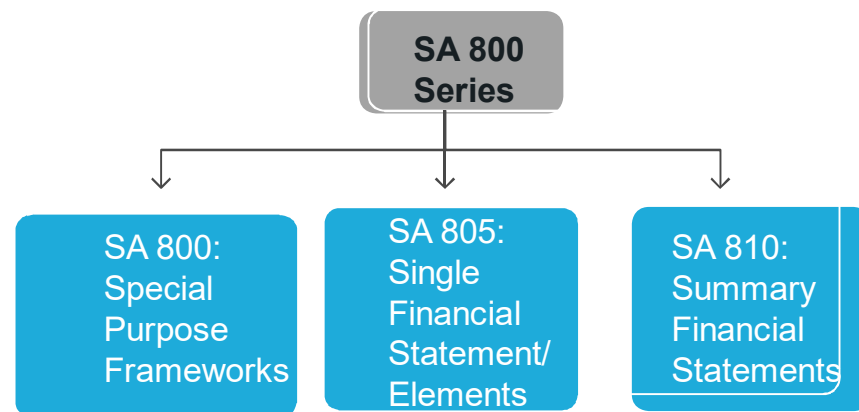
Evaluate consistency of unaudited information.



Focus Areas

Reading and assessing other info, reporting inconsistencies, and documentation.

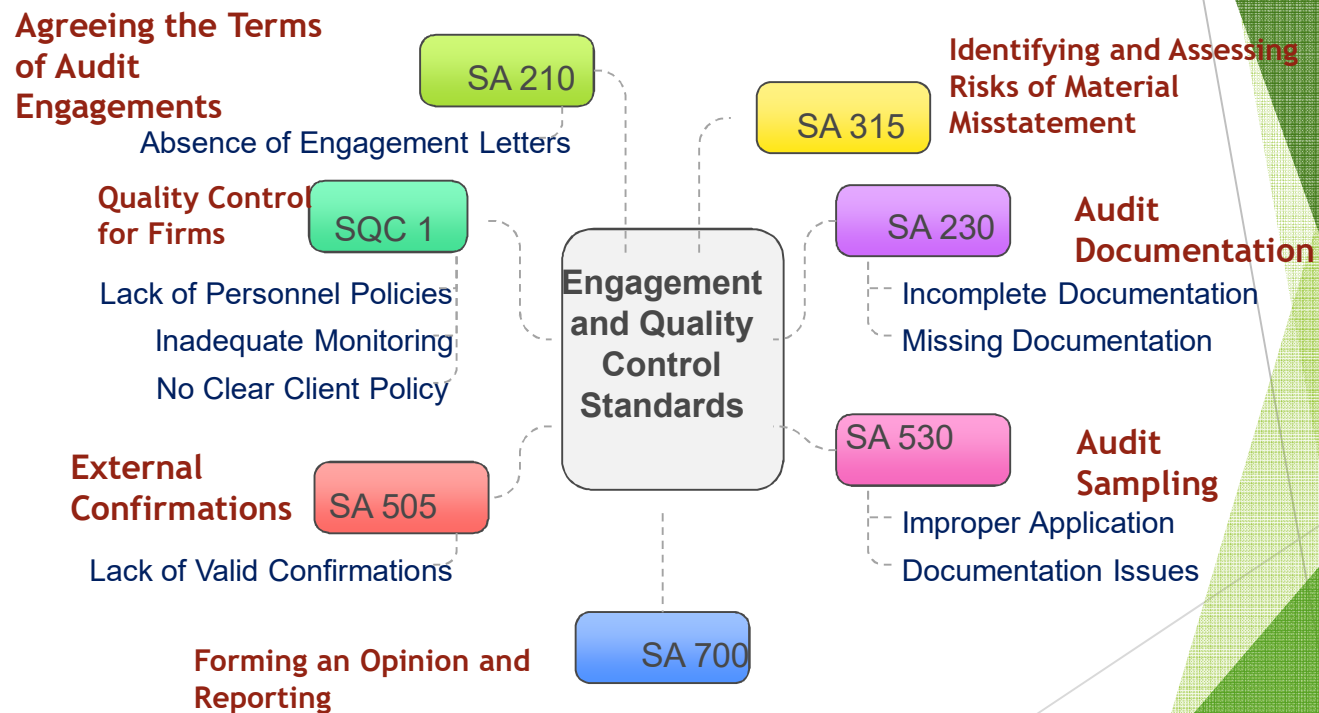
SA 800 Series Flowchart



Examples of Practical Application in MSMEs

<u>SA</u>	<u>Practical Consideration in MSMEs</u>
SA 210	Even small clients need a signed engagement letter.
SA 230	Documentation can be concise but must be complete.
SA 240	Fraud risks in cash-based MSMEs must be assessed.
SA 315	Risk assessment can be based on discussions and observations.
SA 500	Use physical verification, external confirmation, and inquiries.
SA 550	For small clients, the auditor should consider the risk of fraud in the revenue cycle.

Common Non-Compliance Issues in Audit Reviews as observed by QRB



Checklist on Standards on Auditing



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

Published in June 2023 by
the Auditing and Assurance
standards board.
381 pages

Statutory Register Maintenance Process

1

Identify Statutory Requirements

Determine the legal obligations for register maintenance

2

Prepare Registers

Create the necessary registers as per the law

3

Update Registers

Regularly update the registers with current information

4

Store Registers

Keep the registers at the registered office or notified location

5

Ensure Compliance

Verify that all registers meet legal standards

6

Avoid Penalties

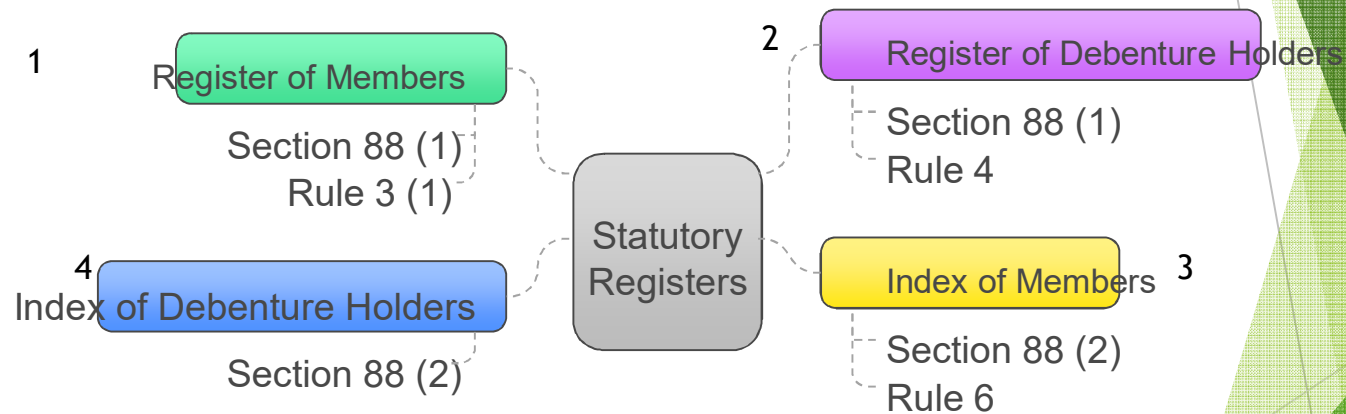
Prevent penalties by maintaining accurate and updated registers

Statutory Registers to maintained and updated

Of a company- The list is exhaustive

Statutory Registers Maintenance and Updates

As per Companies Act 2013 and Companies (Management and Administration) Rules 2014



Company Registers- Contd.

Beneficial Owner Register

Section 88(3) covers the register and index of beneficial owners.

5

Foreign member Register MGT-3

Section 88(4) and Rule 7 of Companies (Management and Administration) Rules, detail the foreign register of members.

6

Duplicate Share Certificate

Rule 6 Companies (Share Capital and Debentures) Rules, 2014 covers the register of renewed and duplicate share certificates.

7

Sweat Equity Shares

Section 54 and Rule 8 (14) & Companies (Share Capital and Debentures) Rules, 2014 cover the register of sweat equity shares.

8

Company Registers- Contd.

**Employee
Stock
Options**
Form SH-6

Register of
Employee
Stock
Options as
per
Section 62
and Rule
12.

9

**Shares
Bought
Back**
SH10

Register of
Shares or
Securities
Bought
Back as per
Section
68 and Rule
17. (Share
Capital and
Debentures)
Rules, 2014

10

**Registers of
Directors
and
KMPs**

Register of
Directors
and Key
Management
Personnel as
per
Section
170(1) and
Rule 17.
(Appointment
and
Qualification
of Directors)
Rules, 2014

11

**Register of
Deposits**

Register of
Deposits
as per
Section 73
and Rule 14.
Companies
(Acceptance
of Deposits)
Rules, 2014

12

80

Company Registers Contd.

Register of Charges

This register is related to Section 85 and Rule 7 of the Companies (Registration of Charges) Rules, 2014. It uses Form CH-7.

13

Register of Loans

This register is related to Section 186 and Rule 12 of the Companies (Meeting of Board and its Powers) Rules, 2014. It uses Form MBP-2

14

Register of Investments

This register is related to Section 187 and Rule 14 of the Companies (Meeting of Board and its Powers) Rules, 2014. It uses Form MBP-3

15

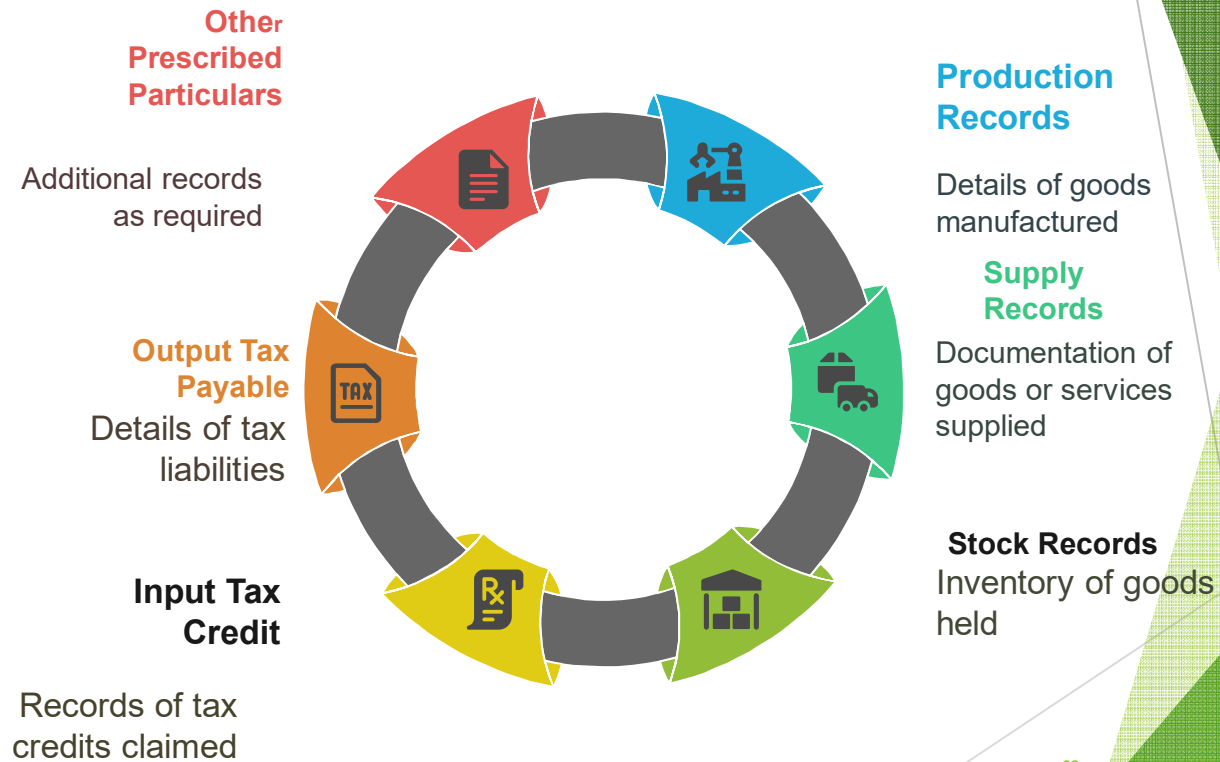
Register of Contracts

This register is related to Section 189 and Rule 16 of the Companies (Meeting of Board and its Powers) Rules, 2014. It uses Form MBP-4.

16

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GST Record Keeping Overview



Chartered Accountants as Growth Partners for MSMEs

- ▶ Driving Sustainable Growth through Strategic Financial Support

Revised Classification applicable w.e.f 1st April 2025



New MSME Classification Criteria as per Union Budget 2025

ENTERPRISE CATEGORY	CURRENT INVESTMENT LIMIT	REVISED INVESTMENT LIMIT	CURRENT TURNOVER LIMIT	REVISED TURNOVER LIMIT
MICRO ENTERPRISE	₹1 crore	₹2.5 crore	₹5 crore	₹10 crore
SMALL ENTERPRISE	₹10 crore	₹25 crore	₹50 crore	₹100 crore
MEDIUM ENTERPRISE	₹50 crore	₹125 crore	₹250 crore	₹500 crore

Startup & Entity Structuring

CAs Help With:

- ▶ - Choosing the right business structure
- ▶ - Registrations (GST, MSME Udyam, IEC, etc.)
- ▶ - Legal documentation and licensing

Value: Strong foundation and legal clarity

Conclusion

- ▶ CAs = Catalysts of Growth for MSMEs
- ▶ - Blend of financial, strategic, and legal expertise
- ▶ - Help MSMEs become competitive and future-ready

Key Takeaways for MSME Audits



Scalability

Same standards,
simplified application.



Professional judgment

Critical in setting
materiality and
procedures.



Substantive procedures

Preferred when internal
controls are weak.



Documentation

Must show compliance
with SAs, even in short
form.



Reporting

Same SA 700 format;
modify only if needed.

Thank You

► Let's Build and Growth Together

CA BINA SARAH IPE FCA, DISA(ICAI)
cabinaipe@gmail.com