DegreeLive

B.Com Honours

Semester VI

Calicut University

AUDITING AND ASSURANCE

Course Code: COM6CJ304 • Module 2 Notes

Module II: Audit Plan, Process, Documentation, & Internal Control

Covers SA 300 (Audit Planning & Program), SA 230 (Audit Documentation, Permanent vs Current files), Internal Control & Internal Check, and SA 320 (Audit Materiality benchmarks).

Unit 6: Audit Planning & Audit Program (SA 300)

SA 300 (Planning an Audit): Establishing overall audit strategy & detailed audit program specifying nature, timing, & extent of audit procedures.

Unit 7: Audit Documentation & Working Papers (SA 230)

SA 230: Written record of audit procedures performed, evidence obtained, & conclusions reached. Custody: Working papers are sole property of auditor; retention period minimum 7 years.

Unit 8: Internal Control, Internal Check, & Internal Audit

Internal Control: Overall system of financial & operational controls established by management.
Internal Check: Continuous arrangement of duties where work of one person is independently checked by another.

Unit 9: Form, Content, & Extent of Working Files

Permanent Audit File (PAF): Holds ongoing structural info (MOA, AOA, long-term contracts, lease deeds).
Current Audit File (CAF): Holds current year financial data (Trial Balance, BRS, lead schedules, audit queries).

Unit 10: Audit Materiality & Benchmarks (SA 320)

SA 320 (Materiality): Misstatement is material if it influences economic decisions of users. Benchmarks: 5% of Profit Before Tax (PBT) or 1% of Total Revenue / Assets.

Practical Solved Problem 1 (SA 320 Materiality & Performance Materiality Benchmark): Firm PBT = ₹10,00,000, Total Revenue = ₹2,00,00,000. Calculate Overall Materiality at 5% of PBT and Performance Materiality set at 75% of Overall Materiality.

Overall Materiality = PBT * 5%; Performance Materiality = Overall Materiality * 75%

Step-by-step Solution:

1. Profit Before Tax (PBT) Base = ₹10,00,000.
2. Overall Materiality = $10,00,000 \times 5\% = \mathbf{₹50,000}$.
3. Performance Materiality = $50,00,000 \times 75\% = \mathbf{₹37,500}$.
4. Audit Implication: Any uncorrected misstatement above ₹37,500 is flagged for detailed audit testing.

Practical Case Framework 2 (Permanent vs Current Audit File Documentation Matrix): Compare file category, document types stored, retention utility, and update frequency.

Audit Files Classification Table:

Audit File Category	Key Stored Documents	Update Frequency & Utility
Permanent Audit File (PAF)	MOA, AOA, Incorporation certificate, Title deeds	Multi-year utility; updated for structural changes
Current Audit File (CAF)	Bank Rec (BRS), Trial Balance, Vouchers, Audit Report	Annual file; specific to single financial year audit