

Scope of Audit

Inclusions:

1. All Aspects of Entity: Audit should cover all aspects of entity relevant to FS being audited.
2. Reliability and sufficiency of financial information
 - Auditor should ensure that info. contained in a/c records & other source data (like bills, vouchers, documents etc.) is reliable & sufficient for preparation of FS.
 - Auditor makes this judgment by study & assessment of a/c systems & internal controls and carrying out appropriate tests, enquiries and procedures.
3. Proper disclosure of financial information
Auditor should decide whether relevant info. is properly disclosed in FS. Also keep in mind applicable statutory requirements in this regard.

Summarise: Ensuring that FS properly summarize transactions & events recorded, considering judgments made by mgt in preparation of FS.

Mgt Judgments: Mgt is responsible for preparation & presentation of FS.

- Makes many judgments in preparing and presenting FS. For eg, choosing of appropriate a/c policies in relation to various a/c issues like choosing method of charging depreciation on fixed assets or appropriate method for valuation of inventories.
- Auditor evaluates selection & consistent application of a/c policies by mgt; whether such a selection is proper & whether chosen policy has been applied consistently on a period-to-period basis.

Historical Financial Info: Understand that FS are prepared on historical financial info. basis. For eg, when purchases & sales are reflected in FS, these are eg of historical financial info. Transactions which have occurred in past.

What is doesn't Include?

1. Responsibility of preparation and presentation of FS → Mgt (not of Auditor)
2. Audit is not Investigation (already covered in Inherent limitations topic)
3. Auditor is not expert in authentication of documents. Genuineness of documents cannot be authenticated by him because he is not an expert in this field.
4. Not expected to perform duties outside his domain of competence. For eg, physical condition of assets like sophisticated machinery. Also, not expected to determine suitability & life of civil structures like buildings. These require different skillsets which may be performed by qualified engineers.