Assertions (mgt ke ♡ ki baatein)
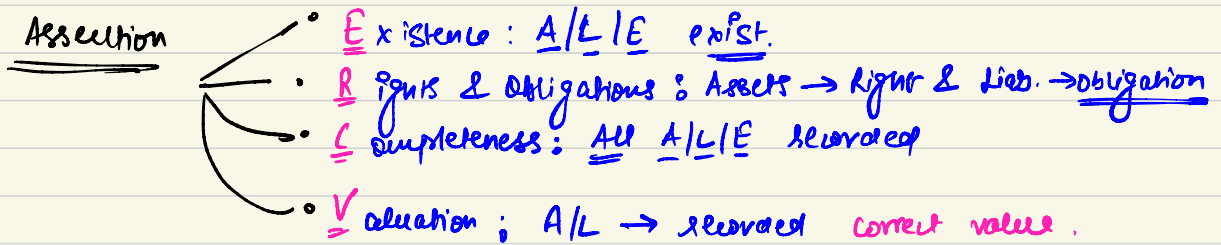
- Representations by mgt.
  (Explicit / Implied)
  <u>written</u> → written samajhni

- Embodied in [F.S.]
  - B.S. → A/c Balance
  - P&L → class of Trans^n
  - Notes → Disclosures

- used by Auditor

- to identify potential misstatements.
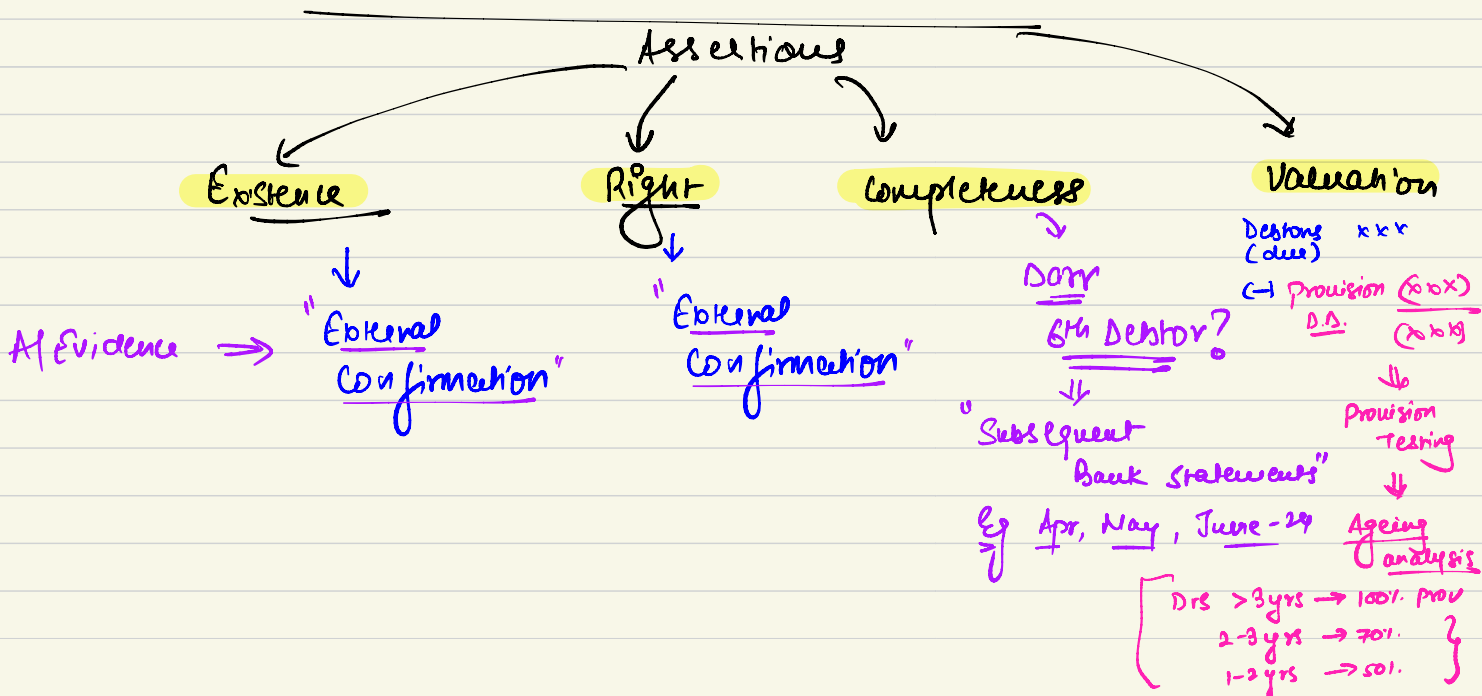
A/c Balances (B.S. items)

Assertion
- **E**xistence : A/L/IE exist.
- **R**ights & Obligations : Assets → Right & Liab. → Obligation
- **C**ompleteness : All A/L/IE recorded
- **V**aluation ; A/L → recorded correct value.

Why?

Relevant
Audit evidence

[jaisi assertion → waisa evidence]

eg Debtors Testing 31.3.24
₹100,000 ✓ [5 👥]

Assertions

Existence → A/Evidence ⟹ "External Confirmation"

Right → "External Confirmation"

Completeness → Dorr
6th Debtor? → "Subsequent Bank statements"
eg Apr, May, June-24

Valuation → Debtors ×××
(due)
(↳ Provision (xxx)
D.S.
(xxx)
↓
Provision Testing
↓
Ageing analysis

[Drs >3yrs → 100% Prov
2-3 yrs → 70%
1-2 yrs → 50%]

Class of Transⁿ (P&L Items)

Occurence : Transⁿ occured & pertain to entity.

Completeness: $\boxed{All}$ transⁿ have been recorded.

Accuracy : Transⁿ recorded at correct value. (23-24) } F.Y. }

Cut-off : Transⁿ recorded in correct Accounting period.
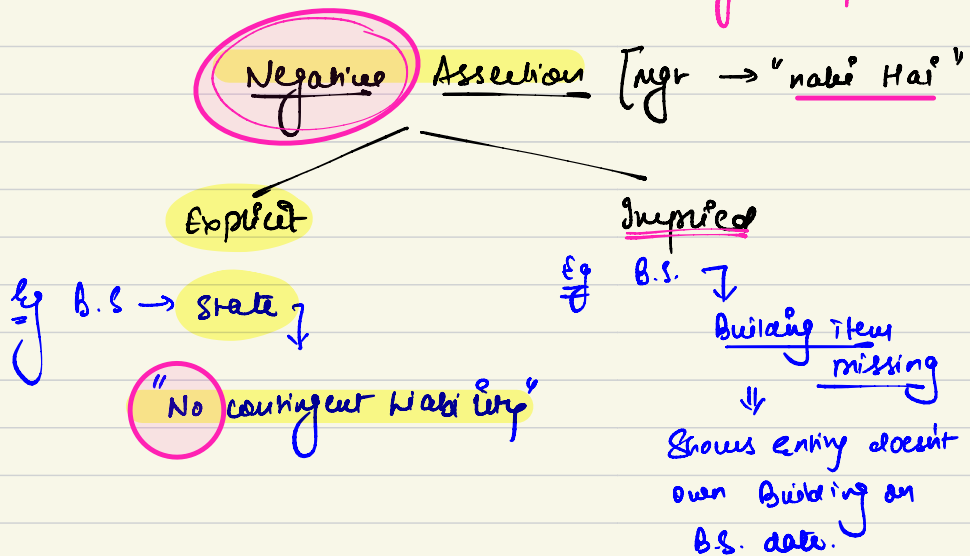
Classification : Transⁿ recorded in proper A/cs.

Eg wages for construction ← Employee Exp.
Building ← Building

Disclosure (Notes to A/cs)
: AS
: P&L   ⟹   Mix of 2 [Existence   cut off
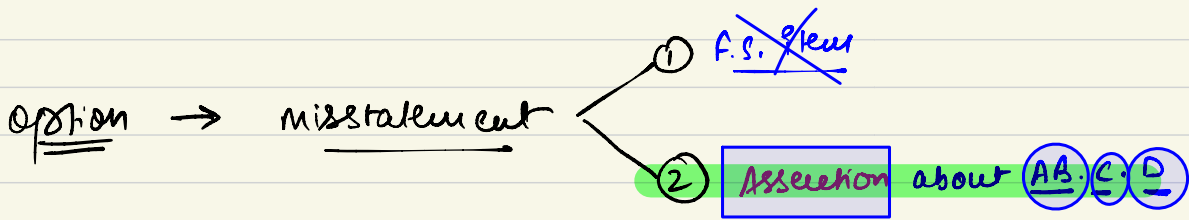   Eg Cont. liab   Eg fire godown
                                           after B.S. → Disclose]
                                           date
                                           AS-4

[*Spl. Point* Extra assertions

Eg Govt controlled entity → Extra Assertion ↓
                                              mgt
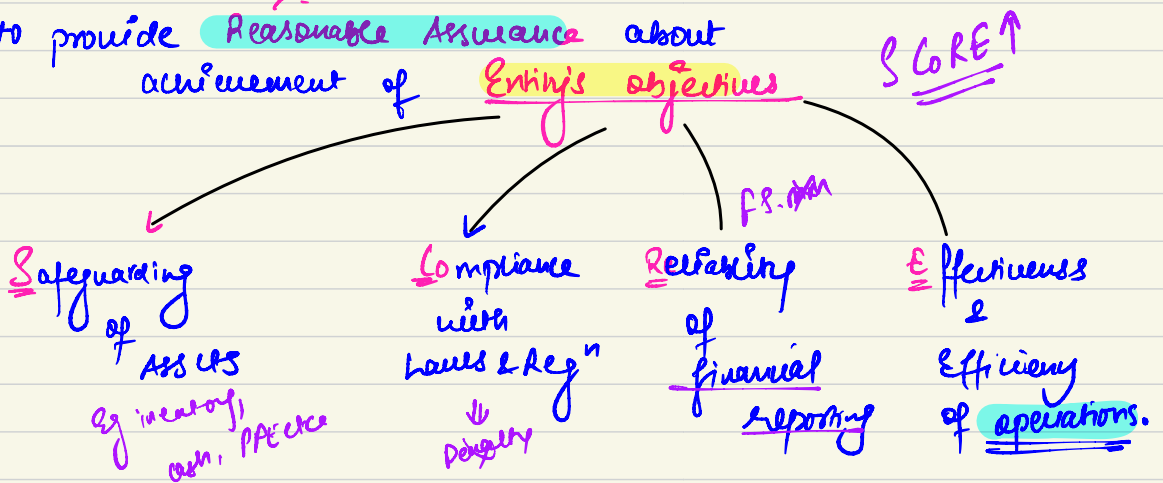   ↓
                                   Transⁿ compived iweth
                                   Govt legislation/ Authorised.)

Negative Assertion [Mgr → "nahi Hai"
                        /   \
                   Explicit   Implied
         Eg B.S → State ↓   Eg B.S ↓
                                        Building Item
                                             missing
         "No contingent liability"   ⇓
                                        Shows entity doesn't
                                        own Building on
                                        B.S. date.

Option → misstatement

① F.S. Item ~~item~~

② **Assertion** about (A.B.) (C.) (D.)

Internal control. [last]

- **Process** → D.I.M [Designed, Implemented & Maintained]   [main]

- By mgt, TCWG or other persons within entity
  "SIC → inherent limitations"

- to provide **Reasonable Assurance** about
  achievement of **Entity's objectives**   S C O R E ↑

Safeguarding
of
Assets
eg inventory,
cash, PPE etc

Compliance
with
Laws & Reg^n
↓
Penalty

Reporting
of
financial
reporting   f.s. item

Effectiveness
&
Efficiency
of **operations.**

* POV → Audit → I.C.s → P/D/C (Prevent, Detect, Correct)
                                              M. M.
                                              in fs.

"Understand"
Internal Control ⇒ Benefit ?

① "I R"   ② "ROMM"   ③ R.A.P.
Identify potential   factors affect   Design NTE
misstatement

                    RAP
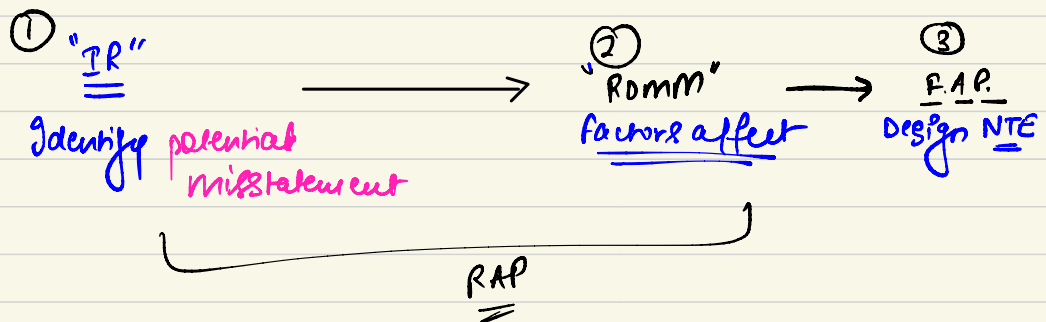
* Case Study *

Considering nature of business & operations of Reliance Ltd.

- There are 40% chances that f.s. are materially misstated.

- To deal with this mgt, designed, implemented & maintained Internal Controls.

- These controls are "expected" to be 75% effective.

- Auditor expects to detect 80% of material misstatements. ✓

Calculate: i) Inherent Risk ✓ 40%
ii) Control Risk 25%
iii) Risk of material misstatement $\boxed{40\%} \times \boxed{25\%}$
$\Rightarrow 10\%$
iv) Detection Risk 20%
v) Audit Risk.

koya chances? $10\% \times 20\% \Rightarrow 2\%$

Ans i) Inherent Risk: "Susceptibility" of assertion about ABCD
(IR)
- to a material misstatement
- before considering related controls.

$$\boxed{IR = 40\%}$$

ii) Control Risk: Risk that a M.M. in assertion about ABCD
(CR)
- will not be P/D/C (prevented, detected or corrected)
- on timely basis by Internal controls.

$$CR = 25\%$$

(iii) <u>Risk of material misstatement</u> $\Rightarrow$ Risk that f.s. are
　　　　　　(RoMM) materially misstated
　　　　　　　　　　　　　　　　　　prior to audit.

$$RoMM \Rightarrow IR \times CR$$
$$= 40\% \times 25\% \quad\quad 25\% \checkmark$$
$$= 10\%$$

(iv) <u>Detection Risk</u> $\Rightarrow$ Risk that audit procedures
　　　　　　　　　　　　　will not be able to detect
　　　　　　　　　　　　　a mm.

$$\underline{D.R.} = 20\%$$

(v) Audit Risk　　　　$\Rightarrow$ Romm $\times$ Detection Risk　80% detect $\checkmark$

[F.S. meino $\times$ Detect
m.m. Hai　nahi
　　　　　kar paaye)　　　$\Rightarrow$ 10% $\times$ 20%

　　　　　$\downarrow$　　　　　　　$\Rightarrow$ 2% $\searrow$ zero?

Sahi　　 wrong opinion　　　　　　　No kyu?
opinion　when f.s. are m.m.　　　　"ILA"

Debtors $\bar{E}$　(Testing)
RoMM $\uparrow$ $\Rightarrow$ NTE of F.A.P　S.uast.
　　　　　　　　　ToCR
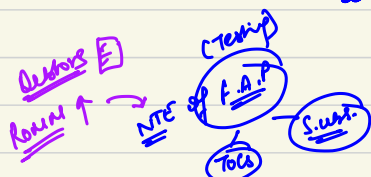
$$\downarrow \text{Audit Risk} = RoMM\uparrow \times D.R. \underline{\downarrow}$$
$$\downarrow$$
$$\underline{Testing} \uparrow$$

Audit calculated materiality $\not= 5,00,000$
　　　　　　　m.m?

Case I	Case II	Aggregate
Galti 1 $\not= 6,00,000$	Galti 1　2,00,000	
$>$	"　2　　1,50,000	
500,000	"　3　　75,000	
m.mm	"　4　　3,00,000	
Individually	6,75,000	
N.m	M.M $\checkmark$	

Types of Audit Procedures

* Quotations

Risk: Purchases High Rate ②

V_1 b

V_2 b

V_3 ✓✓

① Internal order
1 iPad + pencil

BB.virtuals
Pvt Ltd [Mumbai]

③ B.B.Sir authorise
Purchase order

Risk: Unauthorised purchases

👤
Sk
(Noida)

Goods Delivered

④ Qty check ✓
Quality check ✓

[Risk → Qty ↓
Quality ↓]

Internal Controls

Inherent Risks
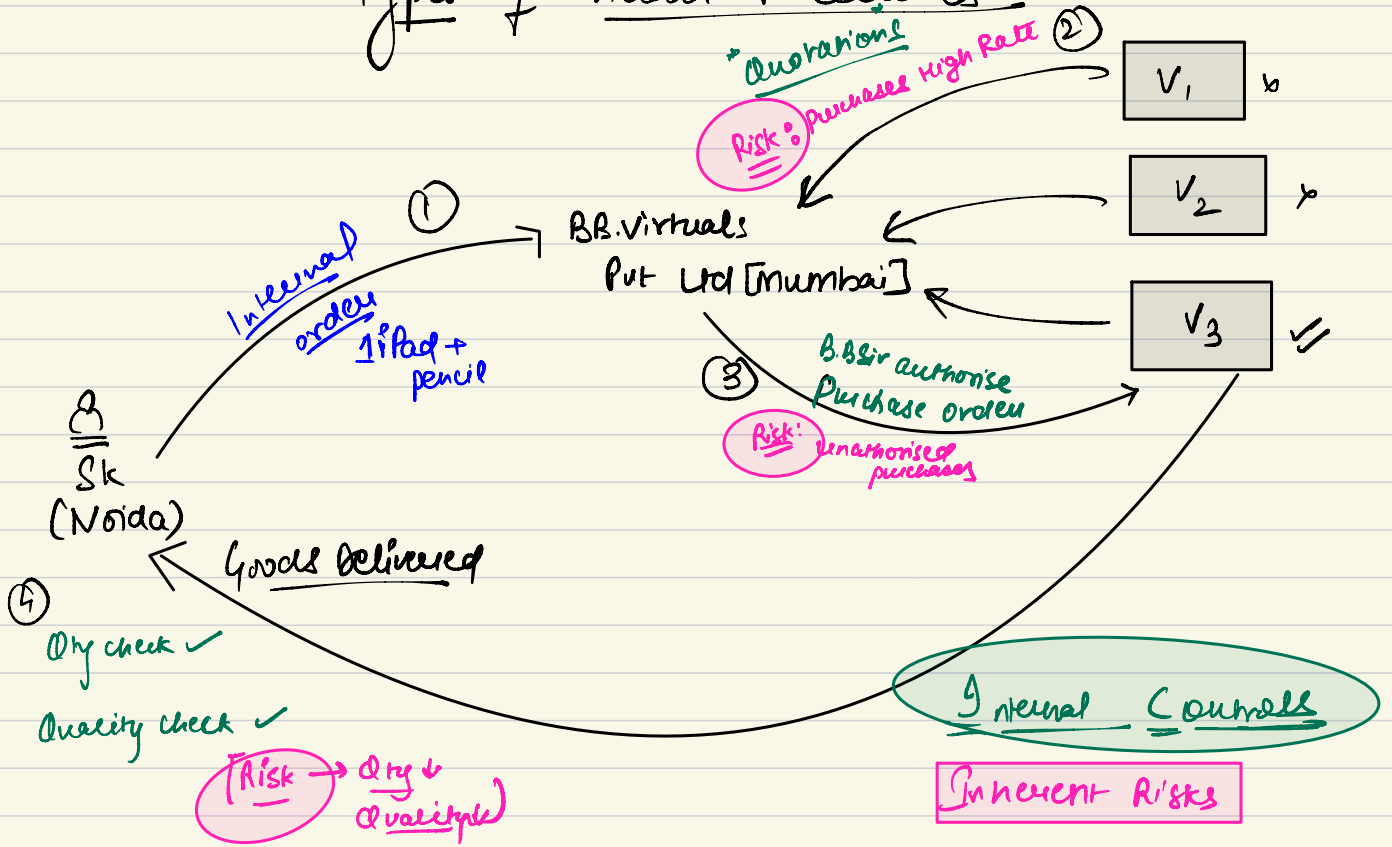
Auditor
Purchases Testing (₹5,00,000)

"Understanding"

purchase process

(Expectation) T&T effective

Actual Testing

40% IR — Risk ← → 25% CR — Controls (Proves)

↓
Identify & Assess

ROMM 10%

Risk Assessment Procedure (RAP)

①

Test of Controls (Proves)

Eg 1) Quotations
2) P.O. Authorised
3) Delivery
  • Goods Receipt Note (GRN)
  • Quality check

②
Further Audit Procedure

Substantive Audit Pro. (₹)

• Test of Details (docs.)
  → Invoice
  → Bank St.
  → P.O.   [Repeats]
  → G.R.N   (Repeat)

• Analytical Procedure
  [Eg. compare

  CY   vs   PY.
  purchases
  ↓
  Variance
  analyse

Summary [Audit Procedures]

Types of Audit Procedures

RAP
[Risk Assessment Procedure]

FAP
[Further Audit Procedure]

[Testing ✓]

Understand [Entity & Environment)

to

Identify '& Assess
Romm

ToCs
(process)

Substantive
Audit Pro.

(≠)

○ TODs

○ Analytical
Procedure
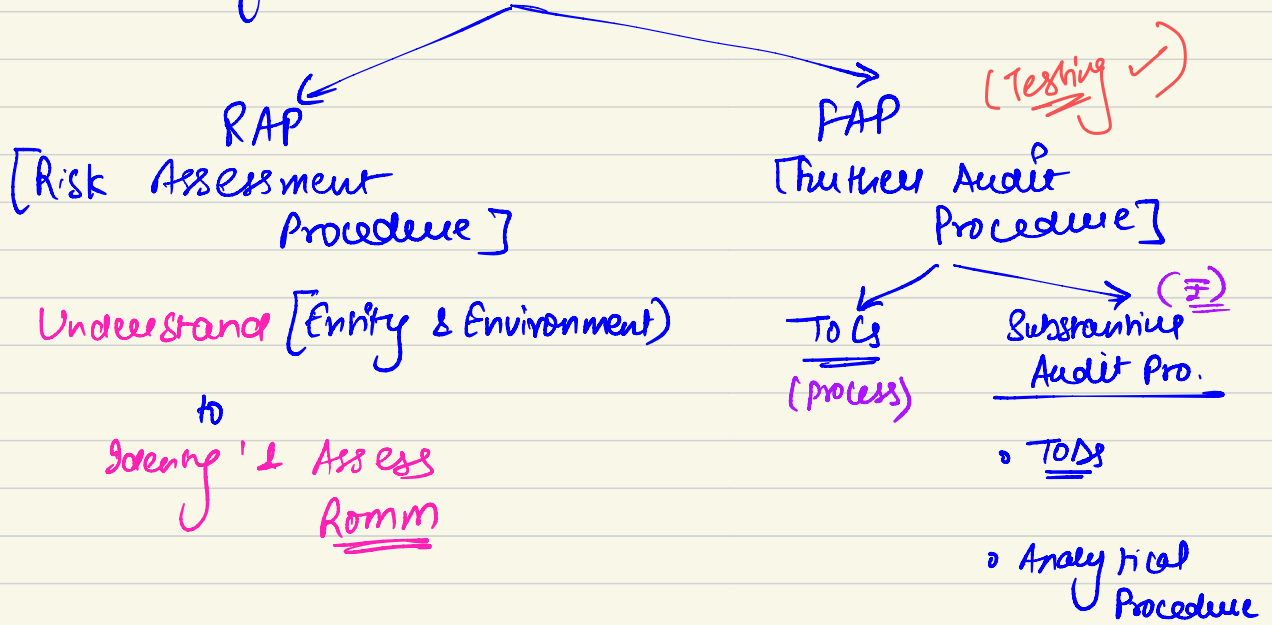
What's not included?

Audit Risk → wrong opinion → F.S. → m.m

```
        ✗           ✗
```

Opinion   Auditor
F.S. have   Business Risk
m.m.   ⇒ Auditor → Loss from
  ↓   litigation
(Actual) when they don't   Adverse publicity
  ↓   (news paper buri
Risk is insignificant   khabar)

Romm ─┬─ ① Accurately [Precisely measure] ✗
      │
(Eg 10%) └─ ② Prof. judgment ─┬─ Knowledge ✓
                              ├─ Training ✓
                              └─ Experience ✓

```
   ①                    ②
  RAP      →           FAP
  Romm              • TOCs → Evidence → controls
 (IR×CR)                              inefficient
                                         ↓
                                        CR↑
                                         ↓
                                       Romm ↑
```
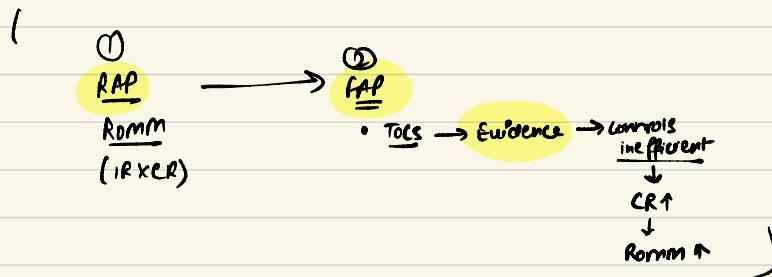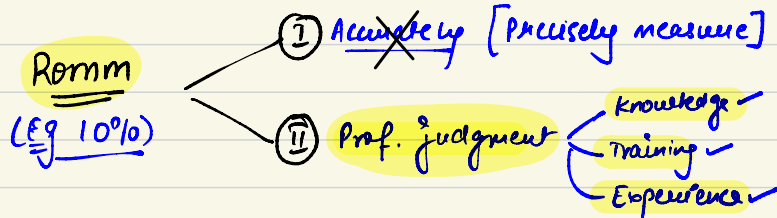
Risk Assessment Procedure
Audit Procedures
• "Understand" — Entity
             — Environmen, related ICs
                    ⇓
• To Identify & assess "Romm"
                              ↗ IR CR

Specific Activities → Purpose of §IA Romm?

i) Identify Risks through understanding E/E/ICs.

IR { ii) Assess Risk & evaluate pervasive to FS & affect many
            Eg A/c system ─ Assertion   assertions.
               kharaab ─ Many assertions

CR { (iii) Relate   Identified risk to   *what can go wrong* at assertion level.   ~kya galat?~   ~purchases~
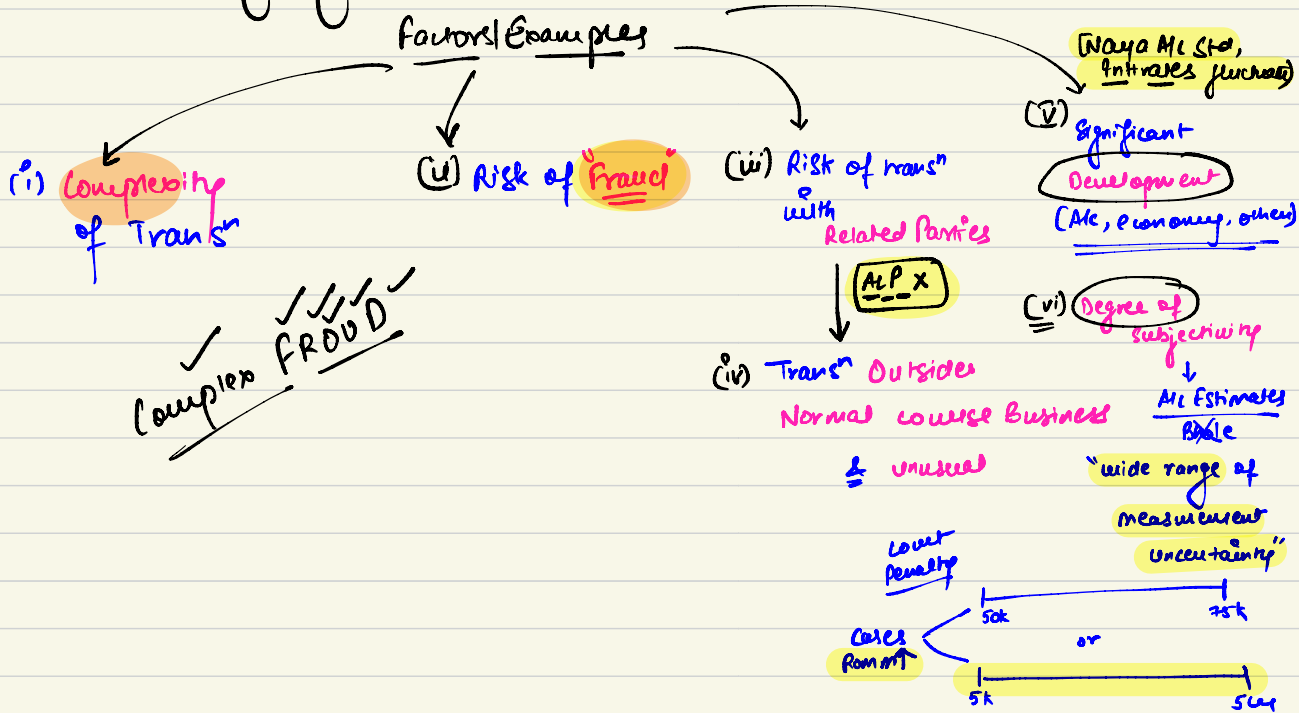considering   relevant controls

(iv) Consider —— • Likelihood of misstatement(s)   _(chance? to)_
&
• "magnitude" that would lead to M.M.
_(₹)_

Galti hone ke chances

Romm → "Greater" for "Non-Routine" Transactions   _kabhi kabhi_

Greater
① Management Intervention to specify a/c treatment.   + "Bizness" +
② Manual Intervention in data collection/processing.
   Automation   Romm↑
   (Bolle)
③ "Complex" calculation / a/c principles.
   leases / B.C. / R/R
④ Nature of non- routine transⁿ → difficult to implement controls for Risks.
   proper ↓   CR↑ Romm↑
   PIDK MM = Romm↑

5⭐

Significant Risk [RoMM Ultra High]

Factors/Examples

(i) Complexity of Trans^n

Complex FROUD ✓✓✓✓

(ii) Risk of Fraud

(iii) Risk of Trans^n with Related Parties

ALP X

(iv) Trans^n Outside Normal course Business & unusual

[Naya Acc Std, Intrates fluctrate]

(v) Significant Development (Acc, economy, others)

(vi) Degree of Subjectivity
↓
Acc Estimates Risale

"wide range of measurement uncertainty"

Lower Penalty

Cases RoMM {

50k ——————— 75k

or

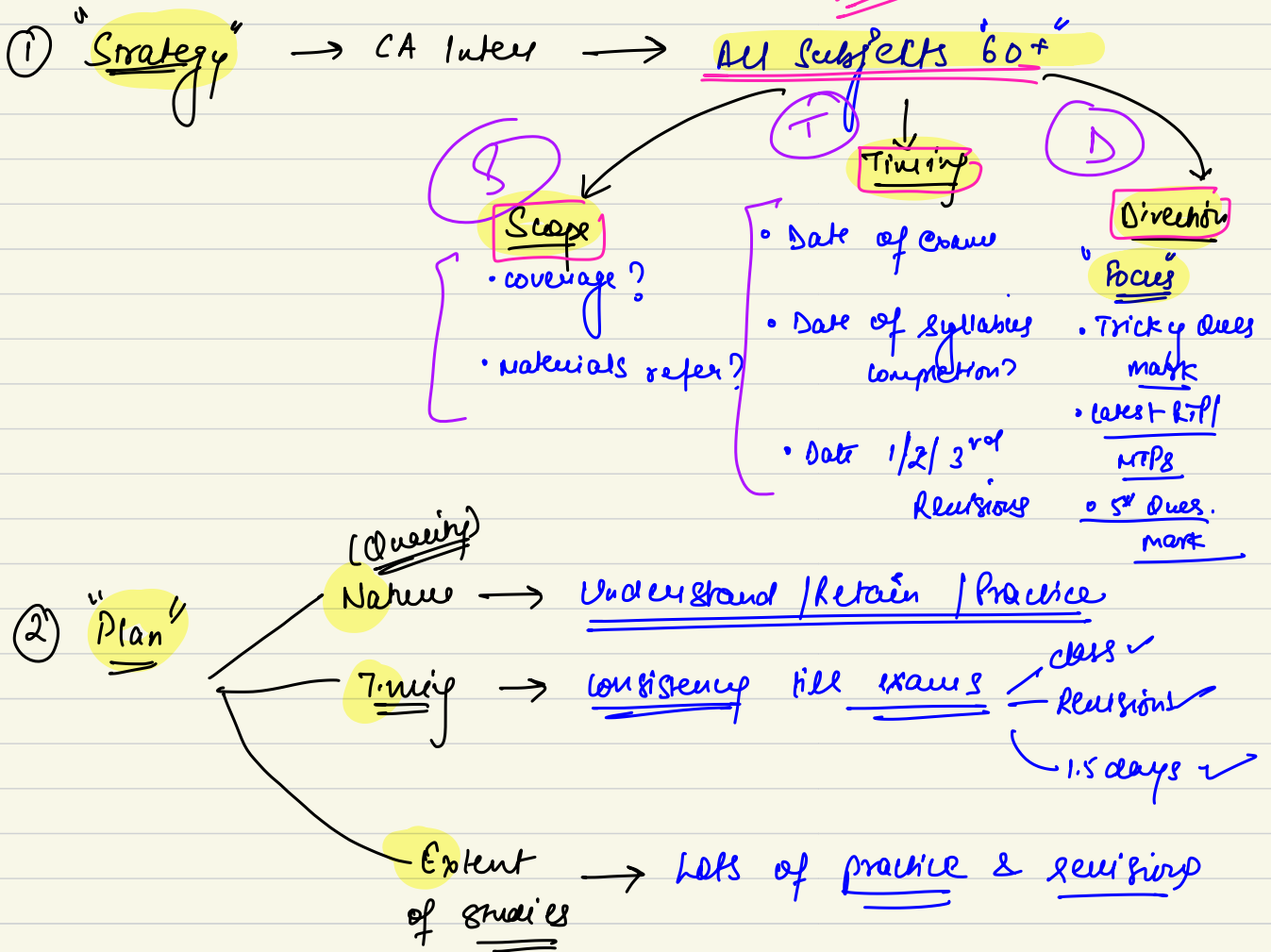5k ————————— 5Lkh

---

Test Sunday 5pm

- SQC-1 / SA 220
- Assertions
- Ch-4 (Topics cover) }

30m ↘ 12/15m (comfort)   60+

ICAI   prepone

Audit Planning
- Strategy
- Plan

Eg Studies [Sharma Ji ka Ladka)

① "Strategy" → CA Inter → All Subjects "60+" *Decide*

(S)
Scope
· coverage ?

· materials refer ?

(T) **Timing**
· Date of Comm
· Date of Syllabus completion?
· Date 1/2/3rd Revisions

(D) **Direction** "Focus"
· Tricky Ques mark
· Latest RTP/ MTPS
· 5* Ques. mark

② "Plan"
(Quality)
- Nature → Understand /Retain /Practice
- Timing → consistency till exams — class ✓ — Revisions ✓ — 1.5 days ✓
- Extent of studies → Lots of practice & revisions

Now let's link → with Audit

① Audit Strategy : Sets "STD" ⎰ Scope ✓
                                ⎱ Timing ✓ of Audit.
                                  Direction ✓

② Audit Plan : <mark>Nature, Timing & Extent</mark> of
                                        <mark>Audit Procedures.</mark>

   ⎡ • NTE of <mark>RAP</mark>
   ⎣ • NTE of <mark>FAP</mark>
              ⊕ • NTE of other procedures as
                                        per SAs ⎤

Q Who's Involved in Audit Planning?

                        ~~Sambre~~   Tajurba
                                                tortaja ✓
   E.P. + other key members [Experience + Insights]
                                              ↓
                        Effective & efficient audit.
                        opinion ✓   Time ✓ ✓
                                           cost ✓ ✓

Q Can we discuss "Elements of planning" with mgt?
   "Yes", to facilitate engg. [Don't overshare]
                                        ↓ why??
                        Can compromise effectiveness
                                        of audit.
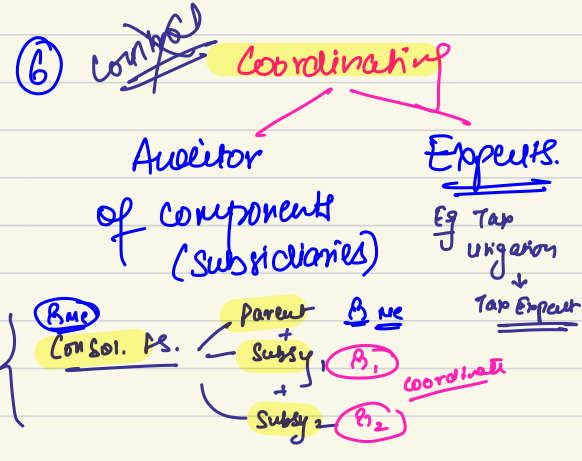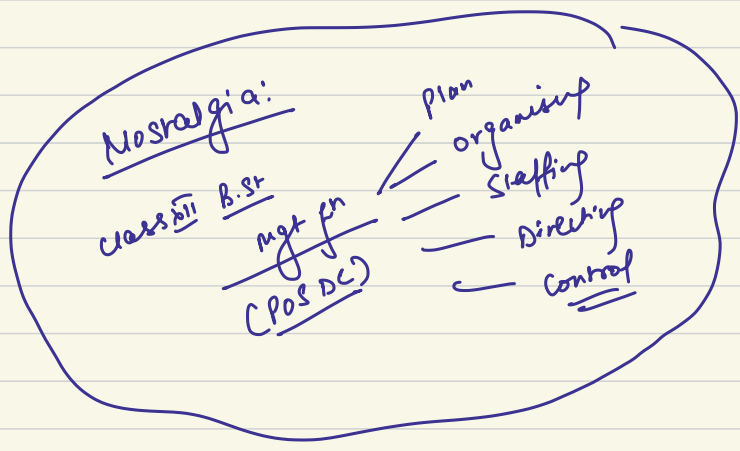
⎰ Expl^n
⎱   ① <mark>Test of controls</mark> → purchases → docs ready ✓✓
      (or)
           ② Samples → mgt (perde) → Lot of
                                     Time mgt ✗✗
                                     (Advance)
                                     Testing time ✓

Benefits of Audit Planning [MTP May '24]

① **Attention**
↓
Important areas

Audit → material

② **Identify &** ~~~
Resolve **potential** staff ↓
problems ↳ Recruit
on timely basis.
⌣ Class Rl Salu

③ **Organise & manage** audit engg.

④ **Selection of competent & Capable** ET members. — SQC1 CCTR

Nostalgia:

Class 511 B.St

mgt fn ⟋ Plan
organising
Staffing
Directing
Control
(POS DC)

---

⑤ **Directing** | **supervise** | — SQC1 (EP)
Review of work

⑥ ~~control~~ **Coordinating**
⟋ ⟍
Auditor of components (subsidiaries)   Experts.
Eg Tax litigation
↓
Tax Expert

{ (B me) Consol. FS. — Parent B me
+
Subsy₁ (B₁) coordinate
+
Subsy₂ (B₂)

Planning is a "Continuous" Process.

Planning not a "Discrete phase" ~~reporate~~

> **BUT**

it is a **Continual & Iterative process**
- that <u>Begins</u> at <mark>completion of previous Audit</mark>

ⓔ

- continues till <mark>completion of current Audit.</mark>

pehle

<mark>Prior</mark> to <mark><u>I/A</u></mark> of <mark>Romm,</mark> planning considers:

(Example)

SA520

1) <u>Analytical Procedures</u> to be applied as | R.A.P. |

(iii) understand

3-4 lines skip | (FY 2020) | 19-20 | (20-21) increase | (ii) Romm ← ↑✗ | (iii) focus
Travel. | 1000 | 2050 | 100% ↑

corona lockdown

2) Obtaining understanding of <mark>Legal & Regulatory framework.</mark>

SA250
∵ ca final
1990

<mark>applicable</mark> to Entity.

penalty → Prov | cont liab
FS

SA320
3) Determination of (materiality.) → Risk of "material" misstatement
common sense?
Yes

SA620 final
4) Involvement of (Experts.)

5) (Other) R.A.P.

Elements of Planning :)

I. Preliminary Engg. Activities (Pehle) "PEA"

II. Planning Activities
- Audit Strategy
- Audit Plan.

→ Detail → Break

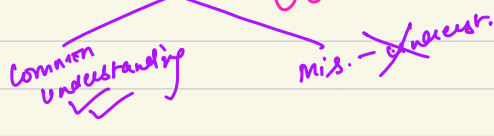- Procedures for Acceptance / Continuance of client Relationships / Engg. → SEC I
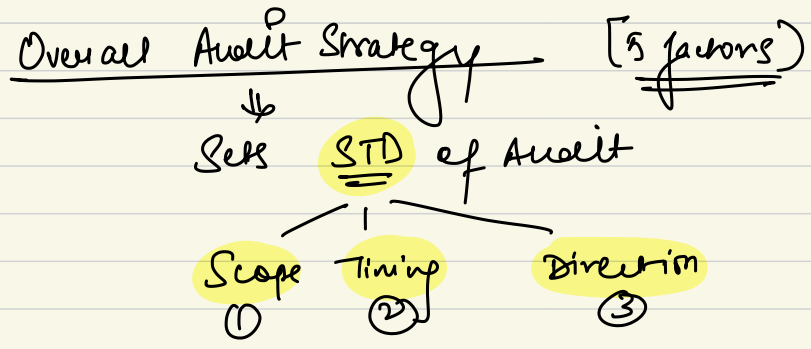
- Evaluating compliance with Ethical Requirements, Including Independence. — SA 220
  [Qualities → COI Prof]
  ②

  - Communicate
  - Threats ⟨ CoR / Breach
  - Safeguard ⟨ x / ↓ (withdraw)

- Understanding Terms of Engg.] SA 210
  - Common Understanding
  - mis. → anacust.

Overall Audit Strategy   [5 factors]

⇓

Sets **STD** of Audit

|
Scope ①   Timing ②   Direction ③

(a) **Characteristics of engg** that define its **Scope**. [MTP May-24]

Eg..
- Applicable **FRF**. [Since II disc ↑ → scope ↑]

Reporting
- **Industry specific Reporting** requirements.
  (Telecom → TRAI → Report "users" → scope ↑)

↑ • Nature of **Business Segments.** (ITC) ⎰ FMCG
                                              ⎱ Hotel ↑ scope ↑
   ⇓ Specialised knowledge   ⎱ stationery

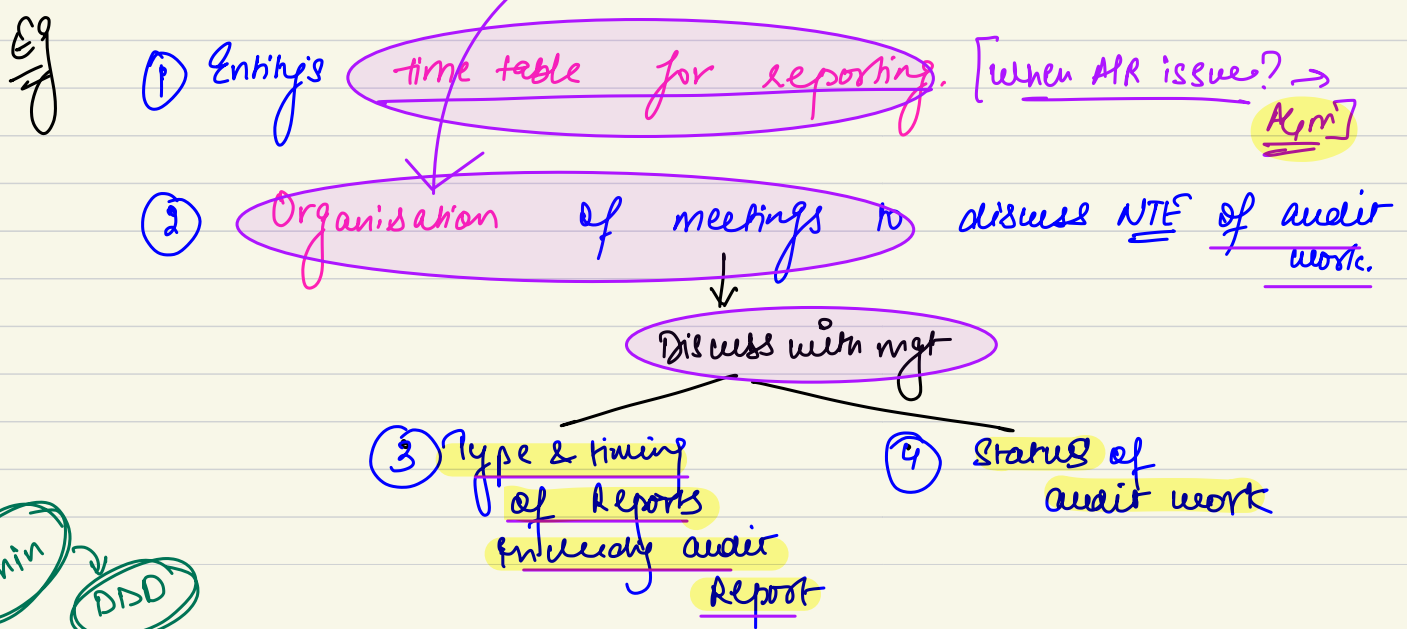↓ • Expected use of **evidence of previous audits.** [ADD]
                                              ↳ Scope ↓ [Eg Rent Agreement
                                                          valid 5 years]

(1 min)

---

which Report ⎰ Audit Report
              ⎱ Other Report

(b)

Reporting objectives of engg to plan **Timing** of audit   (kab?)

& nature of **communication** required.

Eg
① Entity's **time table for reporting.** [When AR issue? →
                                                          A,m]

② **Organisation of meetings** to discuss NTE of audit
                                                    work.
                                          ↓
                               Discuss with mgt
                              ╱   ╲
                  ③ Type & timing   ④ Status of
                    of Reports   audit work
                   intermediary audit
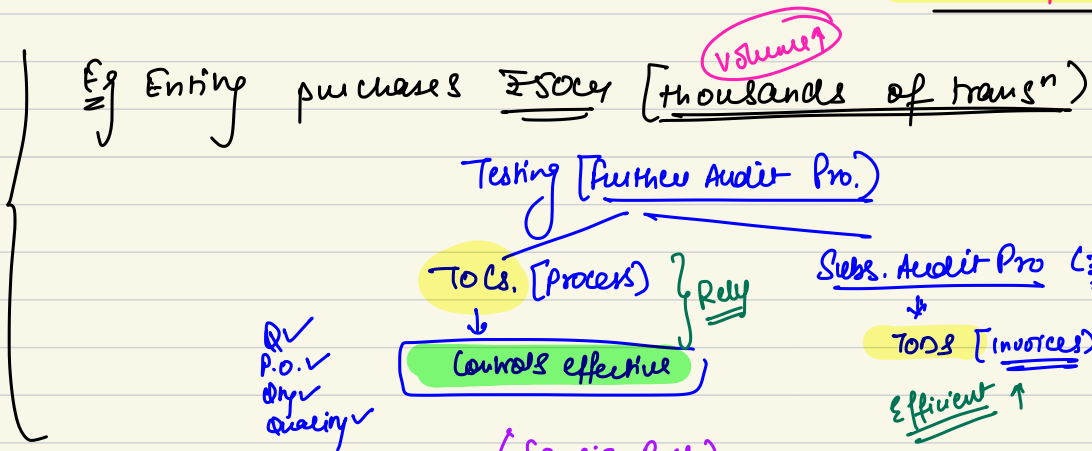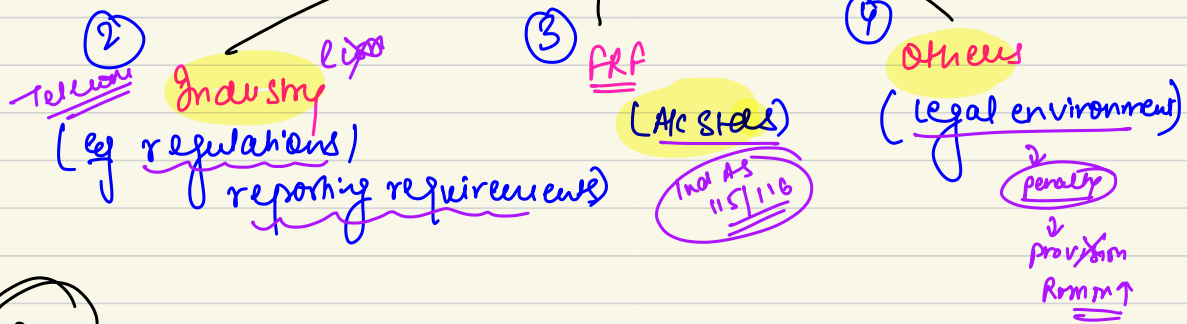   Report

(1 min) → DDD

(5) Nature & timing of communication among ET members.

(C) factors → Auditor's P.J. → significant in "Directing"
ET's efforts. [ROMM↑]
→ feel of sig. Risk

(1) Volume of trans^n → more efficient to rely on internal controls.

Eg Enting purchases ₹50cr [Volume↑] [thousands of trans^n]

Testing [Further Audit Pro.]

TOCs. [Process] } Rely

R✓
P.O.✓
Qty✓
Quality✓

Controls effective

Subs. Audit Pro (₹50cr)
↓
TODs [invoices] ↓ ↑
Efficient ↑

(Eg sig Risk)

Significant changes / Developments ⟨DDA⟩

(2) Industry (eg regulations) reporting requirements)
Tel·com↑ · ₹700

(3) FRF
(AC Stds)
[Ind AS 115/116]

(4) Others (legal environment)
↓
penalty
↓
Provision
Romm↑

Min Rn
∴ :)