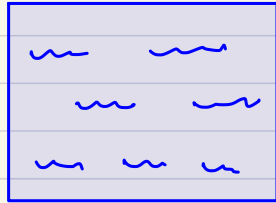


Q What is Audit [Financial Statements]?

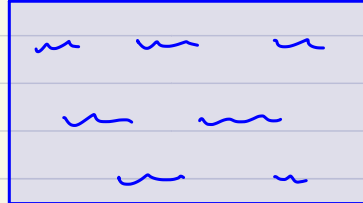
- Audit is an Independent examination ^(check)
- (Kiski?) • of financial information [F.S. T.B ledgers JE Invoice order]
 - (Kiski?) • of an Entity
 - whether profit oriented | not [NPO Sec 86C]
 - irrespective of size | legal form [Co./partnership/LLP/S.P.]
 - (kyu?) • with a view to express opinion there on.
- DD DD DD

Q How to examine fs.?

Eg Exam sheet check!



Ans sheet



Marking sheet

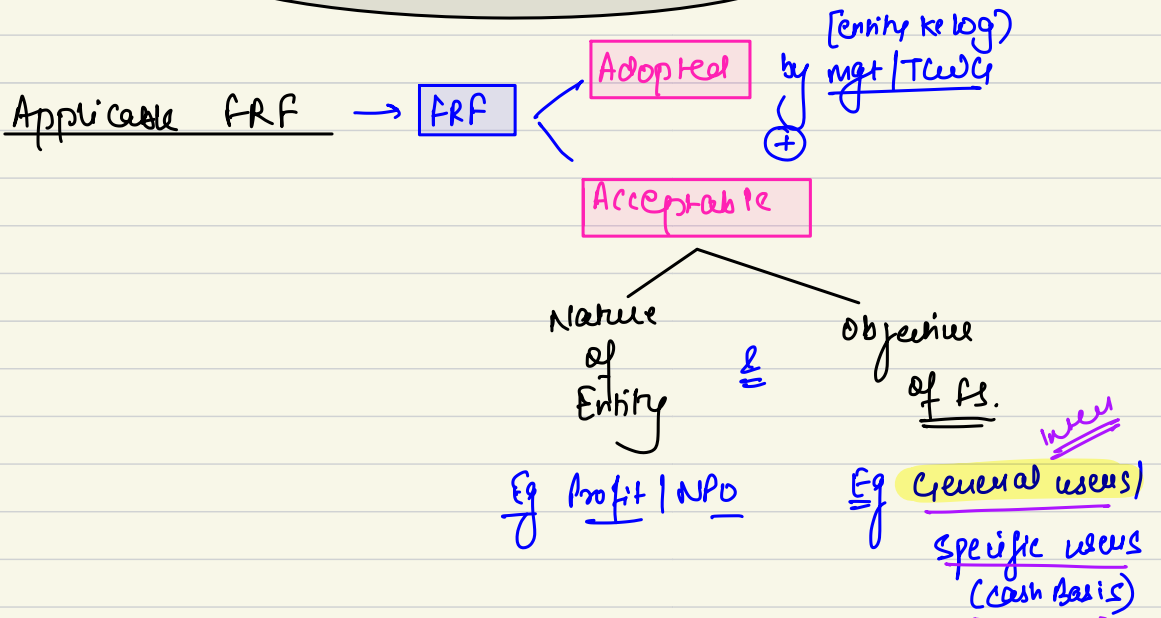
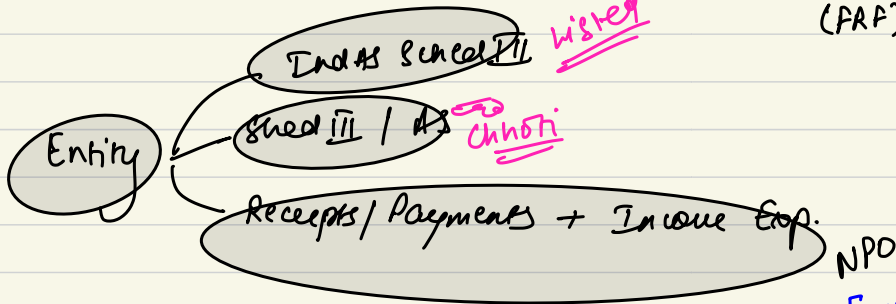
Audit

- A.S.
- P&L
- Cash flow
- Notes

fs.

- AIC STDS / INDIAS
- Sched. III

Applicable Financial Reporting Framework (FRF)



Audit

galti

misstatement

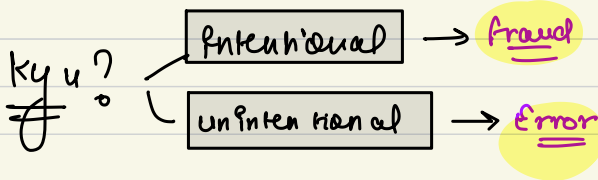
↓
Difference in

- A → Amt (Per IB.S. 3)
- C → Classification (Cap/Rev Exp. / current / Non current)
- P → Presentation (format)
- D → Dis disclosure (notes to A/c)

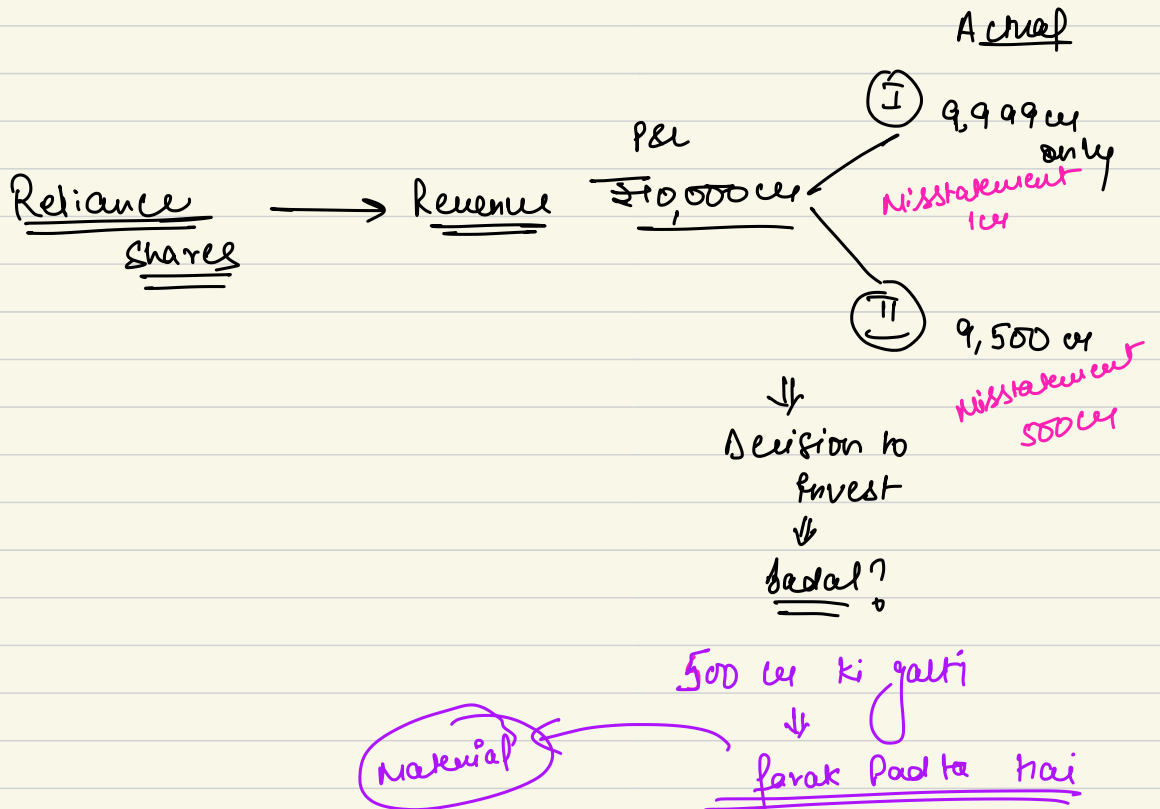
Reported in FS

≠

Required as per App. FRF



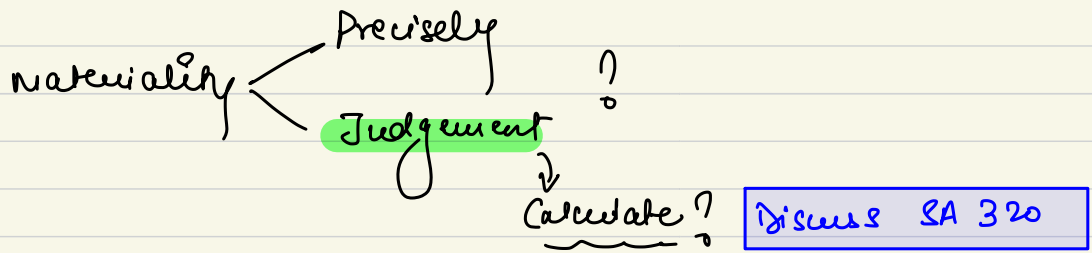
0 kiske liye Audit? Users → Shareholders, Govt, Creditors etc.



Q As Auditor, are you affected by all misstatements?

"Only" material misstatements

Influence economic decisions of users of fs.



Q Auditor can guarantee \rightarrow f.s. free from M.M.?

No, ~~Guarantee~~

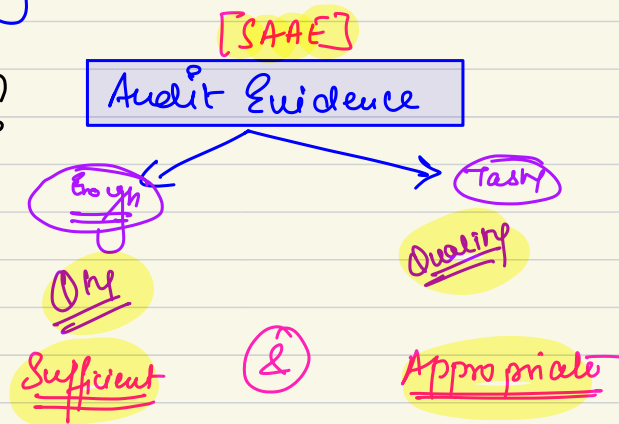
~~Absolute~~ Assurance \rightarrow fs. free from M.M.
100%

Reasonable (R.A) Assurance [comfort]

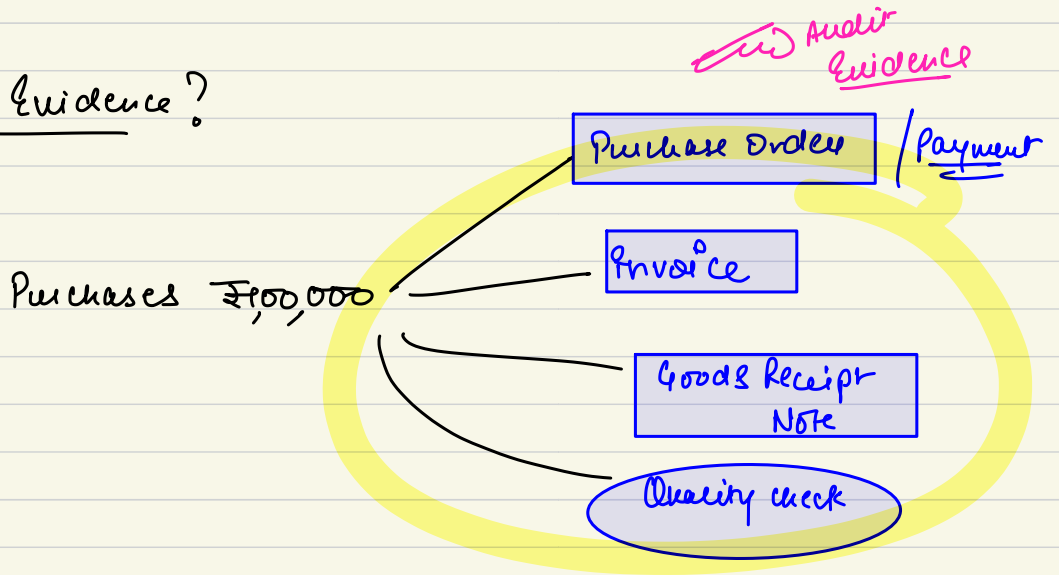
High but not an absolute assurance.

Q How can I get R.A.?

per Bhar jagya



Audit Evidence?



Info. used by auditor ↓

Arrive at conclusion ↓

on which auditor's opinion is based

AIcs
↓
AS.

Audit
↓
Std. on Audit
Compulsory to F.S. Audit

SAs Raja



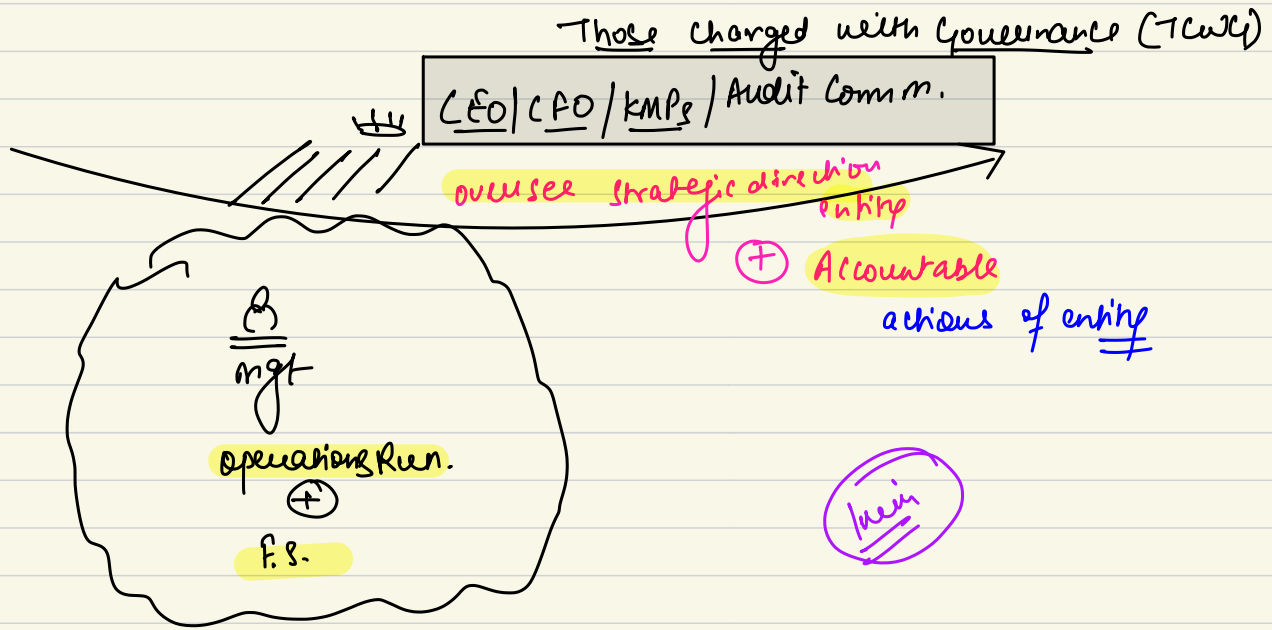
SA 200 Overall Objective of Independent Auditor
OOIA CASA
Conduct of Audit as per SA.

Overall Objective of Audit

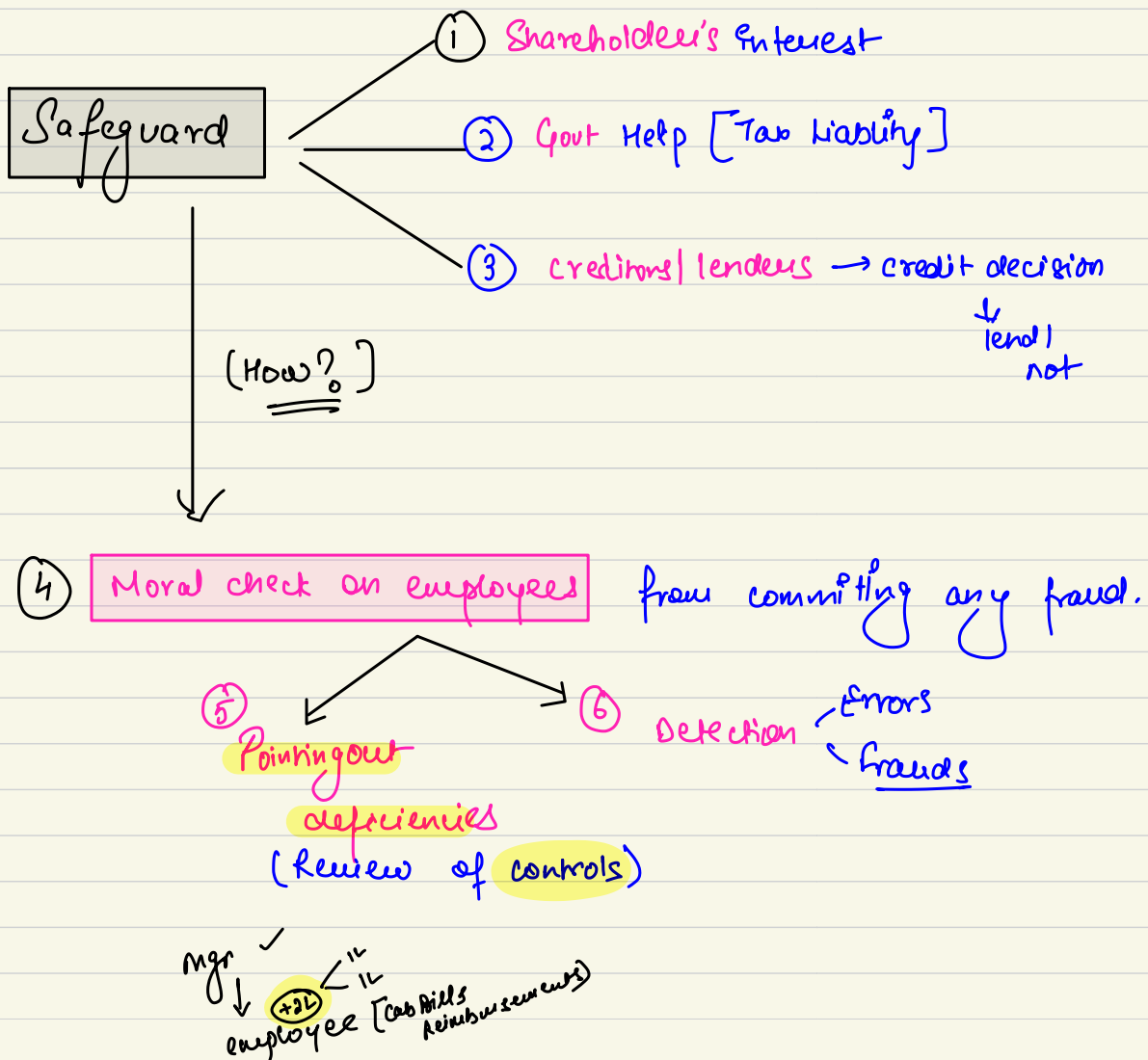
- (i) To obtain Reasonable Assurance
- whether AS. are free from material misstatements
 - enabling Auditor to express opinion
 - whether AS. are prepared in all material respects as per App. FRF

Doing
DD

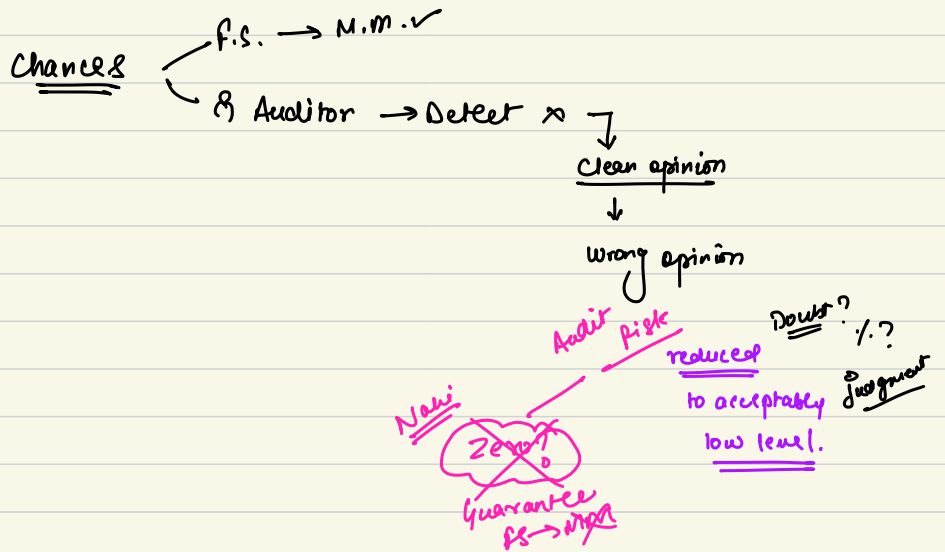
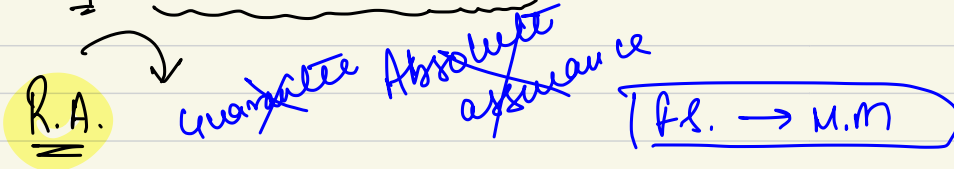
(ii) Report & Communicate as per SAs.



Benefits of Auditing

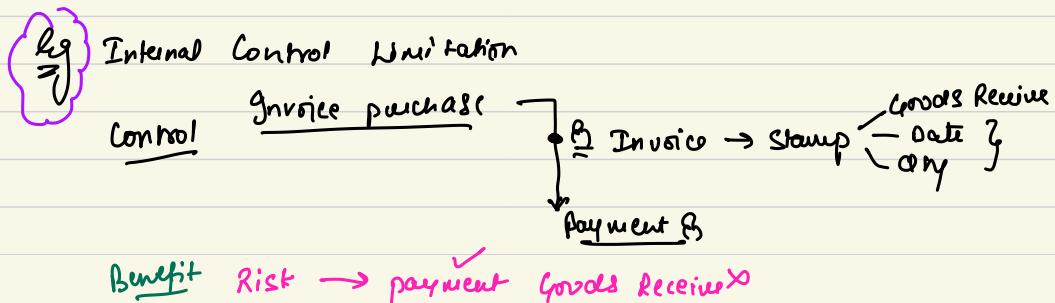
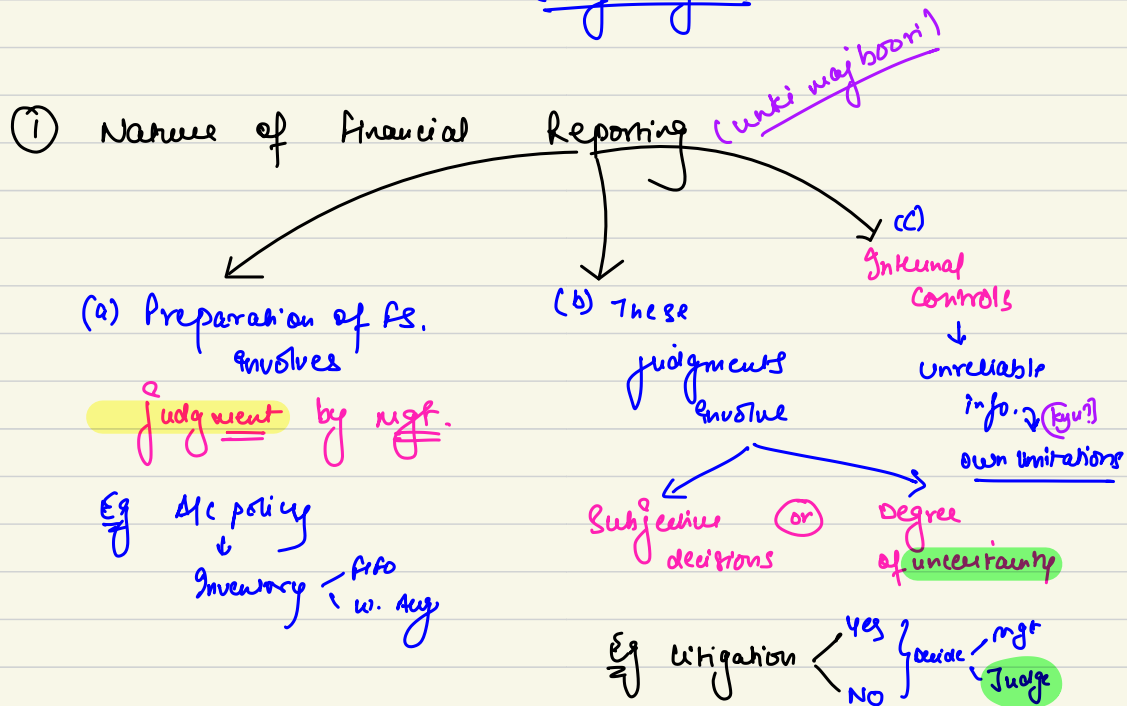


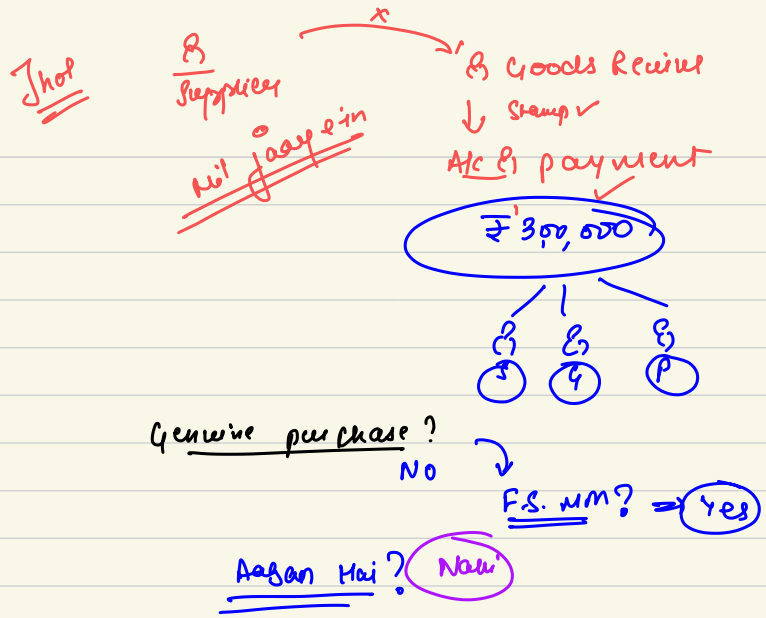
Q Can Audit Risk be zero?



kyu? Audit Risk → ~~Zero~~ ⇒ M.M. reh jayegi

Ans (ICA) Inherent limitation of Audit (mafbooriyan)





(2) Nature of Audit Procedures (Humani majboori)

① Practical & Legal limitation ②

Can't test all transactions/balances

↓
 only test samples

mgt may not provide complete info.

↓
 Auditor can't force mgt to provide complete info.

↓
 we can only report

③ mgt [Gandi] — Dishonest & unscrupulous people

↓
 maybe involved in fraud + (chhupa)

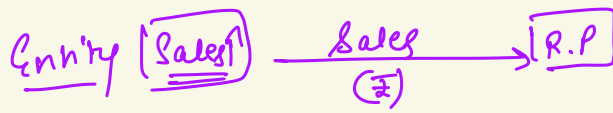
conceal fraud by designing sophisticated & carefully organised schemes.

Duwin

Purchase invoice
 ₹ 10,000,000

eg ① Fabricated docs → in reality fake docs.

② Entity can enter fake sales transⁿ with related parties.



Actual Inventory ~~was~~
Book entry

Fraud \rightarrow Pakad ko?

3) Audit is Not an Investigation

(mgt \rightarrow आरोप / allegation?)
Nahi

• Not an investigation \hookrightarrow alleged wrongdoing

• Auditor doesn't have legal powers

Search ~~not~~ Do/force OR examining person
on oath.

Difference

Investigation

Critical examination
 with special
purpose.

Audit

objective

R.A. \rightarrow opinion
Reasonable Assurance
 \downarrow
A.S.

eg Suspected fraud \rightarrow fraud exists?

2 view

4) Timeliness of financial reporting \approx Balance between Benefit & Cost

Time

Relevance of information

i.e. Value tends to diminish (\downarrow) over time.

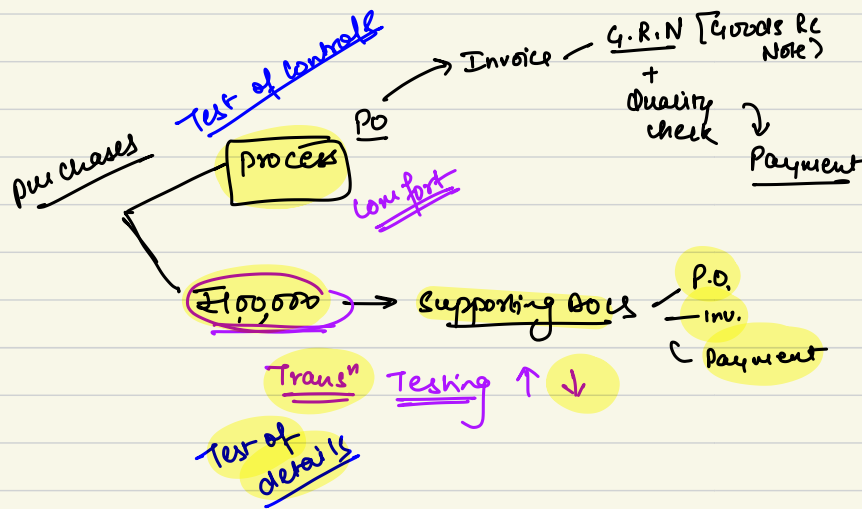
Balance

between

Reliability \oplus Cost

eg Auditor tested purchases sales process of an entity in last 2 years. But this year due to low fees & shortage of team, he skipped testing process.

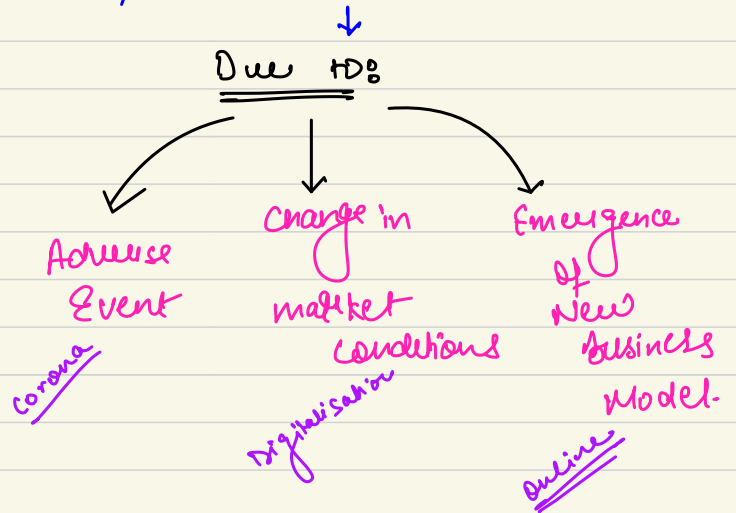
Dikkat → process change → Relevant? (No)
 → Reliy? (No)



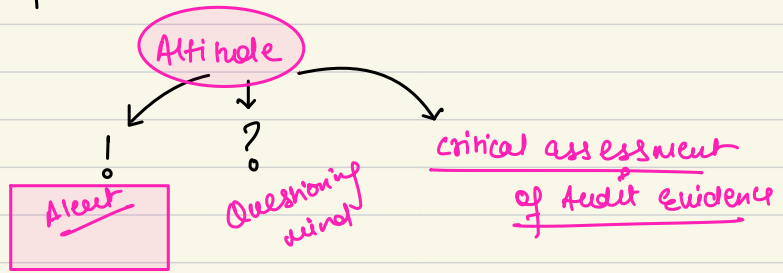
(5) Future Events [AS → G.C. Assumption → operations (not foreseeable future)]

Future events / condⁿ may affect Entity adversely

Affect ability to continue Business



Professional Skepticism [Shak]



Alert to: Eg Bank Balance ₹100,000

4m

Bank Statement ₹100,000 vs Bank Confirmation ₹100

- Audit evidence contradicts other audit evidence
- Brings into Question Reliability of A/Evidence
- "Possibility of Fraud"
- Need for Additional Audit Procedures

1m
DD

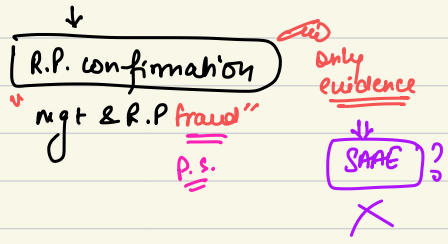
Reduces Risk of

- Overlooking Unusual circumstances [Bank Conf not statement]
- Overgeneralising when drawing conclusions [Conclude Bank Statement \oplus Confirmation]
- Inappropriate assumptions deciding Nature, Timing & Extent of Audit Procedures. [fraud feed \rightarrow \uparrow Procedures]

Fayed a?
3m

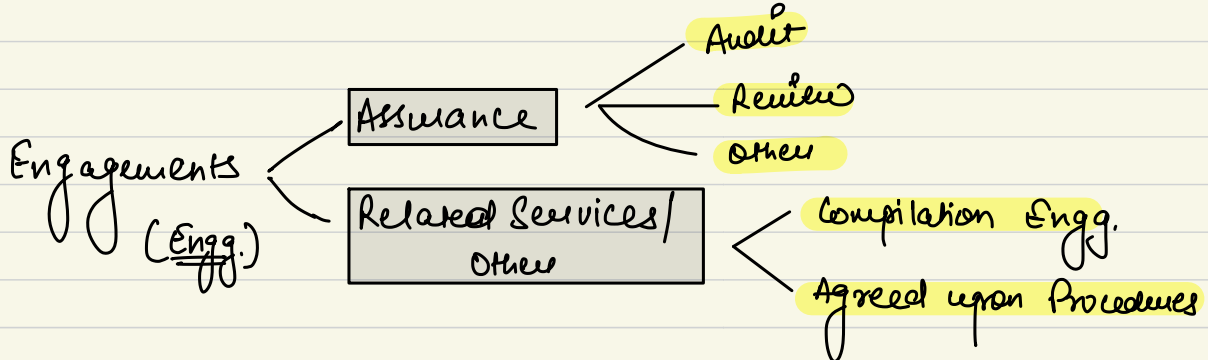
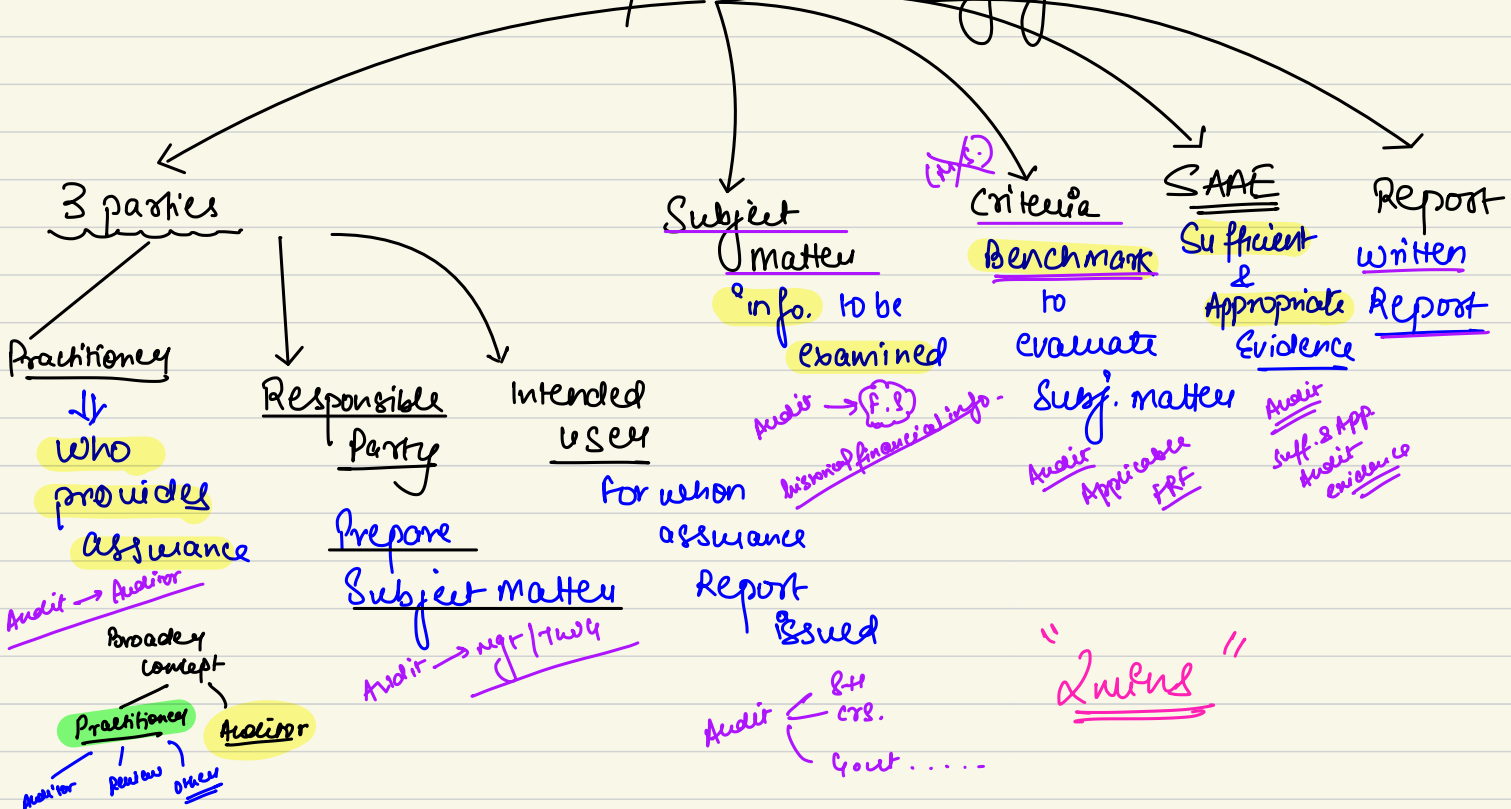
1m

R.P. sales → R.P. Debtors Balance



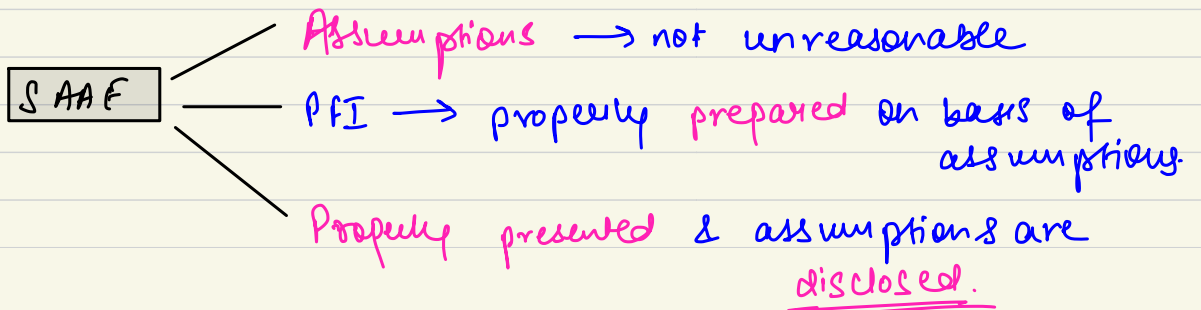
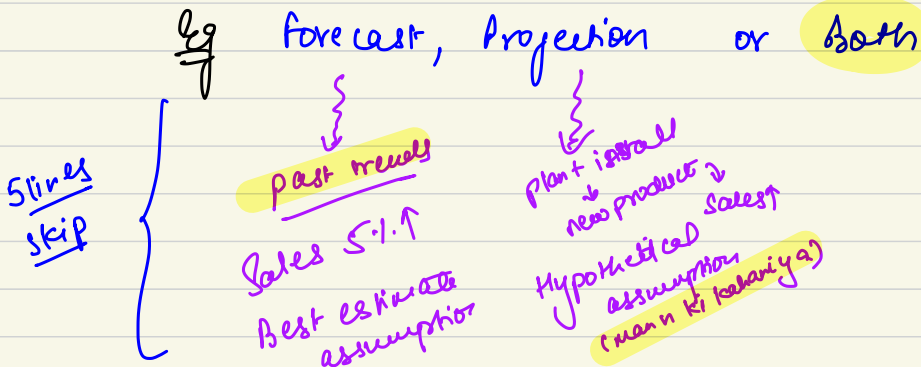
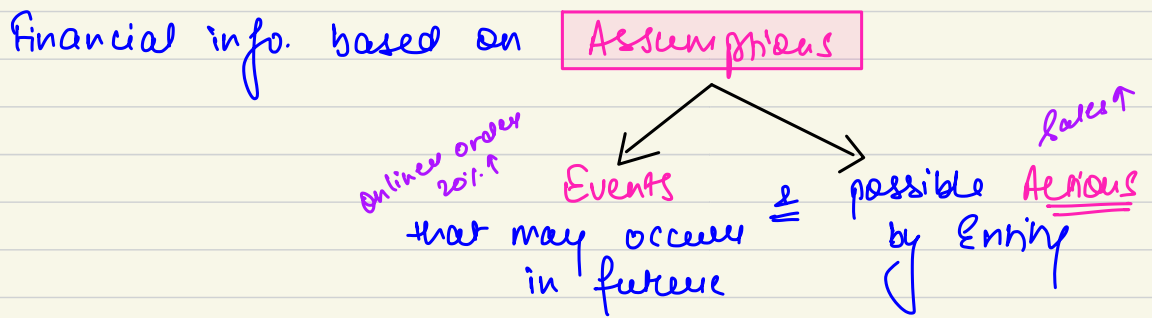
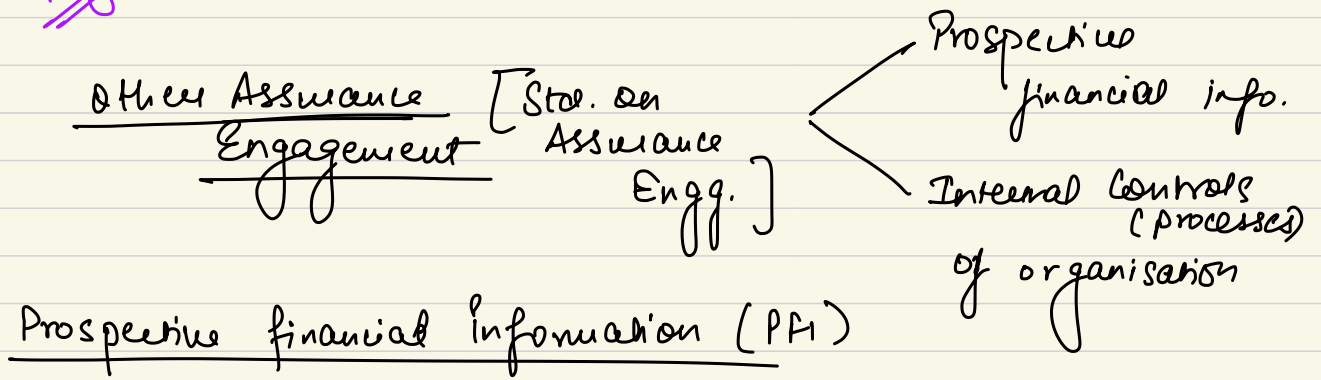
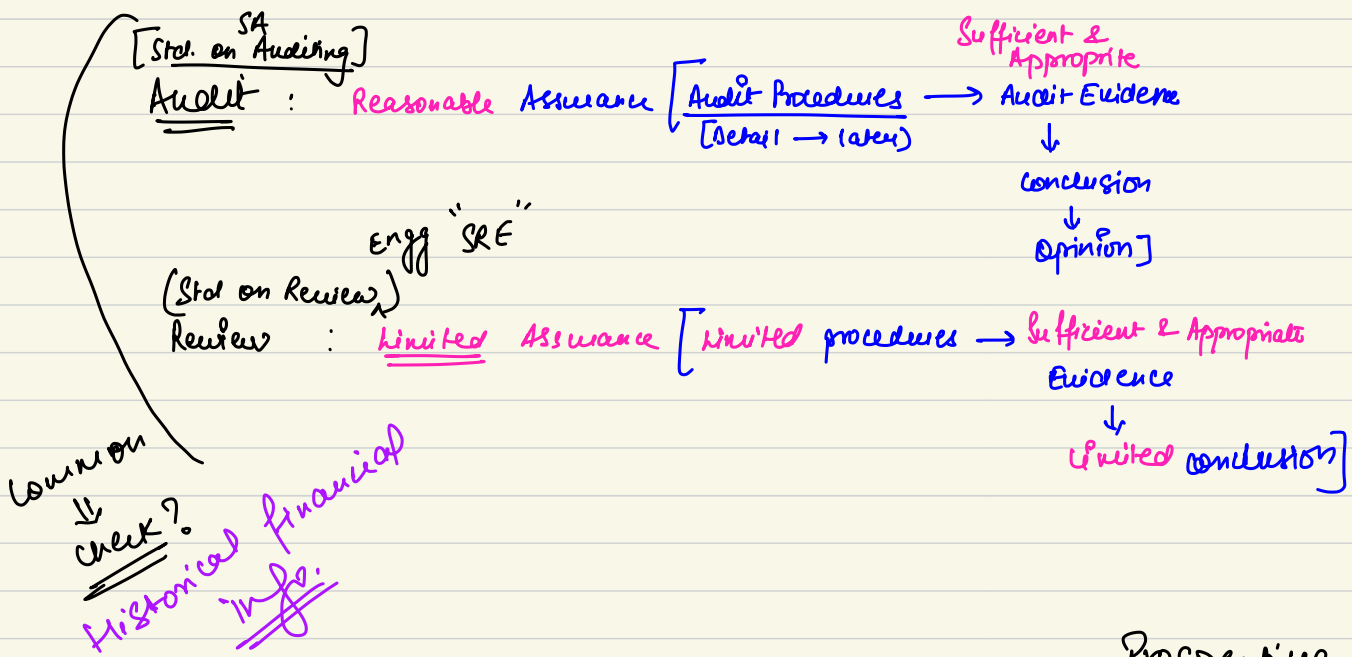
①000 ①6

Elements of Assurance Engagement



Assurance Engg. [Term broader than Audit]

- Engg.** in which practitioner expresses conclusion what?
- ky?** to enhance degree of confidence why?
- kiska?** of intended user (not Responsible Party) whom?
- kaise?** about Evaluation of subject matter against criteria.
 ↓
"Outcome"
Report



Q Can Auditor ^{ICAI gain} express opinion → Results of PFI achieved?

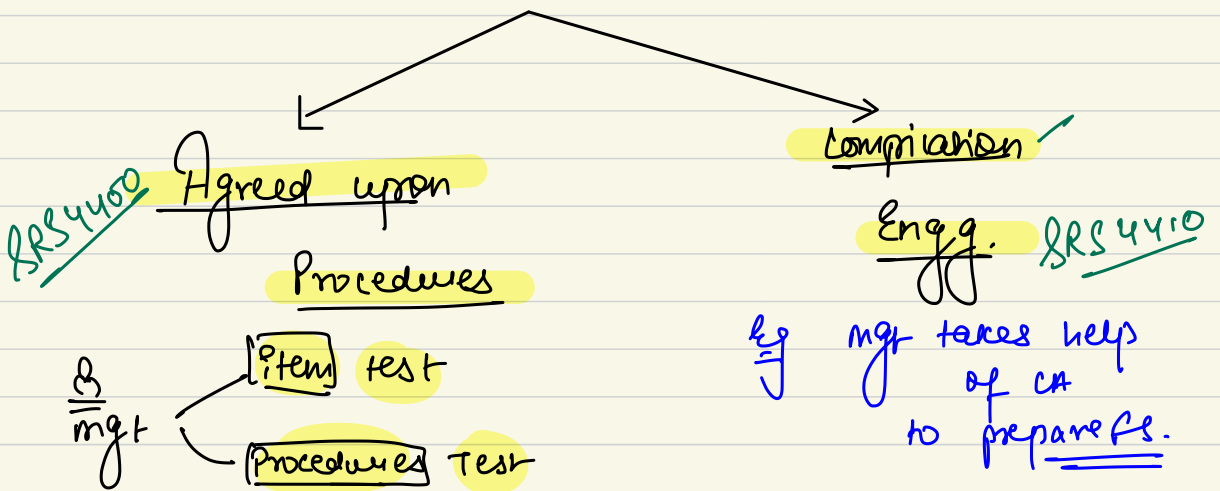
No → Report → assuring → Nothing has come to his attention to suggest

Assurance level of assurance.

Assumptions not reasonable.

~~Assumptions~~ hain
 Myjhe ass. → galat nahin hain

• Related Services [Std. on Related Services "SRS"]



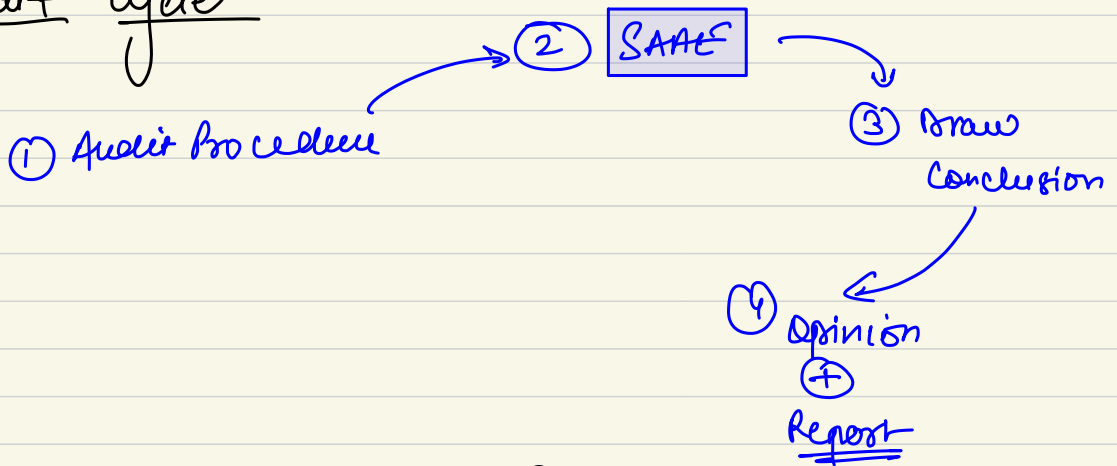
eg mgt of Co. has asked CA to check Debtors as item by taking "External Confirmation" as kaise? from debtors

Report → Procedures

Why are standards needed?

- ① Audit → Benchmarks at par with Global Practices
 - ② Prof. Accountant → knowledge + skill
- } Quality (③ Audit, ④ FR)
 } Uniformity (⑤)

Audit cycle



Alternate Audit Procedures

Debtors ₹ 5,00,000

Mr. Bablu ₹ 1,00,000

Procedure → External Confirmation

f.s.
1,00,000

Bablu Books of A/c

~~Bablu Reply~~

~~Give up?~~

- Reasonable document
- Include in Report
- SAs comply ✓

Alternate Audit Procedures

31.3.24

Ors

- Sales order
- Sales Invoice
- Delivery / E-way bill
- Bank Statement [Receipts → Apr. (May) June]