

# CHAPTER-1 :- Nature, Objective and scope of Audit

## 1. Meaning & Nature of Auditing

- Independent examination
- Financial information
- of entity (legal, size, profit or non-profit)
- to express an opinion

## 2. Interdisciplinary Nature of Auditing :- Relationship with diverse subjects :-



## 3. Objective of Audit: \*\*SA-200\*\*

Overall Objectives of Independent Auditor and conduct of audit in accordance with standards on auditing.

- Reasonable assurance whether FS free from material misstatement and prepared as per FRF
  - Fraud
  - Error
- Report on F.S. (use effect of misstatement on FS)
- Express opinion → true & fair, qualify
- Opinion reported / communicated as per SAs.

## 4. Scope of Audit: What it includes

\* purpose of auditor is to enhance degree of confidence of intended user of FS.

- employee
- government
- shareholder
- banker
- tax authority

(auditor use apna scope decide kaise jissey uska purpose meet ho)

\* to meet purpose → auditor must express his opinion in accordance with applicable FRF

(not governed) ← Partnership firm (Partnership Act, 1932) ← Partnership firm (Banking Regulation Act, 1949) ← Bank (Insurance Act, 1938) ← Insurance company (Companies Act, 2013) ← Company

- \* following points are included
  - ensure coverage of all aspects.
  - ensure financial information are reliable and sufficient (reasonable satisfied)
  - disclosure of relevant information
- \* information in underlying accounting records, and source data.
- \* evaluates selection and consistent application of accounting policies by management.

## Scope: what it does not include:

- \* preparation and presentation of financial statements.
- \* perform duties which falls outside domain of his competence
- \* authenticity of document (e.g. - building structure ko authenticate karana)
- \* Investigation
  - "scope of audit is general and broad whereas scope of investigation is specific and narrow"

## 5. Inherent limitation of Audit:

- Fundamental limitation
  - reasonable assurance and not absolute assurance
  - this fundamental limitation arises due to :-
  - \* Financial Reporting ka nature hi chahi hai
    - Management Preparation of FS requires judgements
    - Internal control may involve uncertainty & subjective decision
    - Example - 'claim settlement' of employee

\* Audit procedure ka nature aisa hai

- Sample testing to obtain sufficient evidence
- If management denied to show info, auditor can only give opinion but he cannot force.
- Related party transaction

\* Not in nature of investigation

\* FR ka timeliness and decrease in relevance of information overtime.

↓  
balance has to be struck between reliability of information and cost of obtaining it.  
Example :-

\* Future events

6. Engagement

an arrangement to do something

↓  
agreement between auditor and client to provide audit service

\*\* In India, companies are required to get annual accounts audited by external auditor.  
Others may get their account audited by internal auditor.

7. Benefits of Audit :

- ↑ degree of confidence of intended users.
- Safeguard interest of shareholders.
- Moral check on employees
- Government authority (Tax liability)
- Bankers → credit decision
- Detect fraud
- Internal Control

8. Audit Mandatory / Voluntary :

- Company → compulsory audit
- Non corporate → if required by tax law
- For avoiding government assistance
- advantage to an entity  $\leftarrow$  tax off

9. Who appoints an auditor?

"Business"

sometimes, government authorities as per FRF

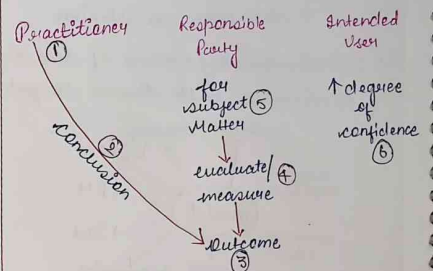
- Company → shareholder in AGM
- Government Company → Comptroller and Auditor General of India (CAG)

10. Whom to submit report?

- person who made appointment.

11. Assurance engagement :

Practitioner expresses a conclusion.



∴ audit is a type of assurance engagement.

12. Elements of assurance engagement :

- 3 party relationship
- subject matter
- Evaluation ka criteria [standards, laws, rules and regulations, guidance note]
- sufficient appropriation information
- written assurance report.

### 13. Meaning of Audit vs. Review :-

Review :- Limited assurance engagement  
 → lower level of assurance than audit.

Audit :- Reasonable assurance engagement → high level of assurance.

Reasonable assurance engagement (audit)

- reasonable assurance
- high level
- extensive procedures
- reasonable conclusions

Limited assurance engagement (review)

- limited assurance
- low level
- few procedures
- limited conclusions

### 14. Qualities of Auditor:

→ self explanatory

i.e., Integrity, discretion, tact, firmness, good temper, patience are some qualities of an auditor.

### 15. Engagement and Quality control standards:-

#### Engagement standards

