Applicable Financial Reporting Framework [AFRF]
A framework adopted in the Preparation and Presentation of FS. that is ~~appli~~ acceptable in view of the nature of the entity and the objective of the financial statement.
Perception → सोच किसी के लिए   Mind → जो Actual है

Independence here implies that the Judgement of a Person is not subordinate to the wishes or direction of another Person.
Independence increase auditor's ability to act objectively without creeping in of any biases.
[घुस से निकलना]

Historical Financial Information" means Information expressed in financial terms in relation to a Particular entity. Derived ~~Prim~~ Primarily from that entity Accounting system about economic event occuring in Past time Periods or about economic conditions or circumstances at Points in time in the Past.
Mistake = Misstatement
बड़ी Mistake = Material Misstatement

Scope of Audit of Financial statement
1. Coverage of all aspect of entity
Audit of financial statements should be organized adequately to cover all aspects of the entity. relevant to the financial statement being audited.
2. Reliability and sufficiency of financial Information.
Auditor should be Reasonably satisfied that Information Contained in underlying Accounting Records and other source data. is reliable and sufficient basis for Preparation of financial statement
3. Proper disclosure of financial Information
Auditor should also decide whether relevant information is Properly disclosed in the F.S
It is done by ensuring that FS. Properly summarize transaction and events recorded by considering the Judgements made by management in Preparation of FS.

In Scope of Audit NOT Include
1. Auditor is not expected to Perform duties which fall outside Domain (कार्य सीमा) of his Competence (योग्यता).
eg: i Physical Condition of certain asset like ~~that of~~ Sophisticated machinery cannot be determined by him.
ii Determine suitability and Life of Civil structure like Building.
2. An auditor is not an expert in authentication of documents.
3. An audit is not an official Investigation into alleged (आरोपी तरीके) wrong doing.

An audit is not an official Investigation. Investigation is a critical examination of the Account with special ~~Power~~ Purpose.
Auditor does not have any specific legal Power of search or recording statement of witness on oath (शपथ). → ~~Promise~~ [tell Truth]
जांच fraud (जिसका शक) suspected है तो check करना है fraud है या नहीं तो → Investigation

Auditor Appointed by owners.   In Company [Pvt. Company] → Shareholders
In Govt. Company → Comptroller and Auditor General of India.
In Partnership → By a Partners of Firm

Auditing Relationship with diverse subjects

* Auditing and Accounting
* Auditing and Law
* Auditing and Economics
* Auditing and Behavioural Science
* Auditing and statistics & Mathematics
* Auditing and Data Processing
* Auditing and FM
* Auditing and Production.

Reasonable Assurance VS Absolute Assurance

Absolute Assurance is a complete Assurance / guarantee.

Reasonable Assurance is not complete Assurance.

Audit – Detailed Testing Review – Limited Testing..

Audit + limited Review → Deal in historical financial Information.

Assurance → Deal in other that HFI

IFAC → IASA

IFAC → IAASB

IAASB ↓ International standard on Auditing [बनाती है]

- Standard on Audit → HFI → Give Reasonable Assurance
- standard on Review → HFI → Limited Relevel of Assurance
- standard on Assurance engagement → other than HFI
- Standard on Related Services → Agreed upon Procedures

Benefits of Audit – why Audit is Needed

1. An audit act as a moral check on employees from committing frauds for the fear of being discovered by Audit.
2. Audited accounts Provide High Quality Information. It gives confidence to users.
3. Safeguard the interest of shareholders
4. Helpfull to Govt. Authorities for determining tax Liabilities.
5. An audit may also detect fraud or error.
6. Audited FS Can be relied upon by lenders, bankers for making their credit decisions.

1. Meaning and Nature of Auditing

financial Information या financial statement की Difference होता है।

1. An audit is *independent examination* of financial information of any entity
2. Whether profit oriented or not, and irrespective of its size or legal form → Company है / HUF है क्या है।
   S/M/L
3. When such an examination is conducted with a view to express an *opinion* thereon.
   Audit का Purpose ये होता है की → पे देना है

2. Purpose of Auditing

1. The purpose of external audit engagements is to enhance the *degree of confidence of intended users of financial statements*. Such engagements are also reasonable assurance engagements.
2. This is done by an independent auditor expressing their opinion on whether the financial statements present a true and fair view of the entity's affairs.
   Provide करनी है

3. Auditor's task that Financials should not mislead

Q The person conducting this task should take care to ensure that financial statements would not mislead anybody. This he can do by satisfying himself that:

Ans
1. Accounts have been drawn up with reference to *entries in the books of account*;
2. Entries in the books of account are adequately supported by *sufficient and appropriate evidence*;
3. None of the entries in the books of account has been omitted in the *process of compilation* and nothing which is not in the books of account has found place in the statements;
   by है व करनी
4. Information conveyed by the statements is *clear and unambiguous*; → understandable.
5. Financial statement amounts are *properly classified, described and disclosed* in conformity with accounting standards; and
   C d d IMP word
6. Statement of accounts present a *true and fair picture* of the operational results and of the assets and liabilities.

4. Objective of SA 200

As per SA-200 "Overall Objectives of the Independent Auditor", in conducting an audit of financial statements, the overall objectives of the auditor are:

a. To obtain *reasonable assurance* about whether the financial statements as a whole are free from material misstatement; and

b. To *report* on the financial statements, and communicate as required by the SAs, in accordance with the auditor's findings.

Summary:

1. Obtaining a *reasonable assurance* that financial statements as a whole are free from material misstatement due to fraud or error
2. Gaining a reasonable assurance leads to formation of opinion whether financial statements are *prepared, in all material respects*, in accordance with applicable financial reporting

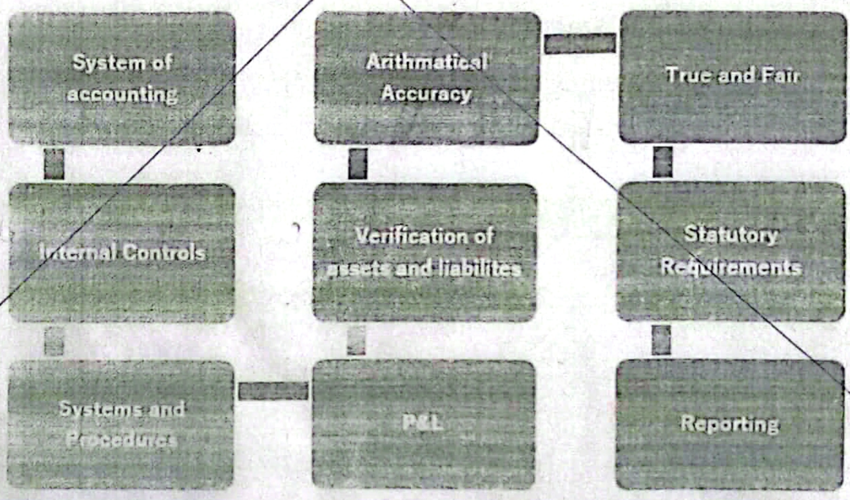
framework To report on the financial statements

3. To *report* on the financial statements
4. *Reporting of opinion* in accordance with audit findings
5. *Communication* of reporting
6. Reporting and communication in accordance with Standards on Auditing

5. Scope of Audit - What it includes & won't

Range/Boundary

1. Coverage of all aspects of entity relevant to the financial statements being audited.
2. Reliability and Sufficiency of financial information
3. Proper disclosure of financial information
4. Expression of an opinion on financial statements
5. No : Responsibility of preparation and presentation of financial statements
6. No : Duties outside scope of competence of auditor
7. No : Expertise in authentication of documents
8. No : Investigation



6. Inherent Limitation of Audit

As per SA 200, the auditor is *not expected to, and cannot, reduce audit risk to zero* and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error.

This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive *rather than conclusive*.

Conclusive होते तो Auditor Absolute Assurance होता

Audit evidence Persuasive होते है conclusive नही होते

These fundamental limitations arise due to the ollowing factors:

1. *The Nature of financial reporting*

2. *The Nature of Audit procedures*
3. *Audit is not investigation*
4. *Timeliness of financial reporting and decrease in relevance of information over time*
5. *Future events*

अपनी सोच

1 **The Nature of Financial Reporting:**

a. Preparation of financial statements involves making many *judgments by management*.

b. These judgments may involve *subjective decisions or a degree of uncertainty*. Therefore, auditor may not be able to obtain absolute assurance that financial statements are free from material misstatements due to frauds or errors.

2 **The Nature of Audit Procedures:**

There are practical and legal limitations on the auditor's ability to obtain audit evidence. For example:

a. The auditor carries out his work by obtaining audit evidence through performance of audit procedures. However, there are *practical and legal limitations* on ability of auditor to obtain audit evidence. For example, an auditor *does not test all transactions and balances.* He forms his opinion only by testing samples. It is an example of practical limitation on auditor's ability to obtain audit evidence.

Practical Limitation example →

b. *Management may not provide complete information* as requested by auditor. There is *no way by which auditor can force management* to provide complete information as may be requested by auditor. In case he is not provided with required information, *he can only report.* It is an example of legal limitation on auditor's ability to obtain audit evidence. → Report कर सकता है only

Legal Limitation →

c. The *management may consist of dishonest ~~and unscrupulous~~ people* and may be, itself, involved in fraud. It may be engaged in concealing fraud by designing sophisticated and carefully organized schemes which may be hard to detect by the auditor.

खुद

d. An auditor is *not an expert in authentication of documents*. Therefore, he may be led to accept invalid audit evidence on the basis of unauthentic documents.

3 **Audit is not investigation**

Audit is not an official investigation. Hence, auditor cannot obtain absolute assurance that financial statements are free from material misstatements due to frauds or errors.

4 **Timeliness of Financial Reporting and the Balance between Benefit and Cost:**

The relevance of information decreases over time and auditor cannot verify each and every matter. Therefore, a balance has to be struck between reliability of information and cost of obtaining it.

बना कर रखना पडता है।

5 **Future events**

गलत | उल्टा।

Future events or conditions may affect an entity adversely. Adverse events may seriously affect

बंद

ability of an entity to continue its business. The *business may cease to exist in future due to change in market conditions*, emergence of new business models or products or due to onset of some adverse events. Therefore, it is in view of above factors, that an auditor cannot provide a guarantee that financial statements are free from material misstatements due to frauds or errors.

7. Advantages of Audit of Financial Statement

1. It *protects the financial interests of people not involved* in managing the entity, like partners, shareholders, bankers, and the public.
2. It *deters employees* from committing theft or fraud.
3. Audited financial statements are useful for *calculating taxes, securing loans,* and determining the value of a business in a sale.
4. They can also *resolve disputes* related to wages, bonuses, or property damage.
5. Audits find and suggest solutions for wastage and losses, especially those caused by inadequate *internal controls.*
6. Audits check if records are maintained properly and help clients *correct any deficiencies.*
7. Audits *review organizational controls,* highlighting weaknesses or shortcomings.
8. Audited accounts simplify *settling financial matters when a partner joins or leaves.* The government may require audited statements before granting assistance or licenses for specific businesses

8. Audit Mandatory or Voluntary ?

Audit is not legally obligatory for all types of business organisations or institutions. On this basis audits may be of two broad categories i.e., audit required under law and voluntary audits.

Non-Corporate May Compulsory Audit in Income Tax

1. **Audit required under law:** The organisations which require audit under law are the following: e.g., companies governed by the Companies Act; banking companies; other statutory bodies required by their regulators or by specific Act.
2. Voluntary category are the audits of the accounts of (1) proprietary entities, (2) partnership firms, Hindu undivided families, etc. In respect of such accounts, there is no basic legal requirement of audit. Many of such enterprises as a matter of internal rules require audit.

9. What is Engagement

Engagement means an arrangement to do something. In the context of auditing, it means a formal agreement between auditor and client under which auditor agrees to provide auditing services. It takes the shape of engagement letter.

External audit engagements:

1. External audit engagements aim to boost the confidence of financial statement users.
2. These engagements provide reasonable assurance → ये ही मिलेगी Audit में तो
3. In India, companies must have their annual accounts audited by an external auditor.

4. Non-corporate entities can also opt for external audits due to their associated benefits.

To whom audit report is submitted by an auditor ?

1. The report is given to the person who appoints the auditor.
2. In companies, this is the shareholders, and in firms, it's the partners. → होते हैं owners

10. Meaning of Assurance Engagement

1. Assurance engagement involves a practitioner providing a conclusion. → जो गलती करता है
2. The conclusion aims to increase the confidence of users (other than responsible party) in the evaluation or measurement of a subject matter against criteria.
3. The practitioner offers an opinion on specific information.
4. This helps information users make confident decisions with reduced risk of inaccuracies.

Elements of an Assurance Engagement:

1. Three Party relationship : An assurance engagement involves abovesaid three parties.
   a. A *practitioner* is a person who provides the assurance. The term practitioner is broader than auditor. Audit is related to historical information whereas practitioner may provide assurance not necessarily related to historical financial information. बड़ी

   TASS written

   b. A *responsible party* is the party responsible for preparation of subject matter
   c. *Intended users* are the persons for whom an assurance report is prepared. These persons may use the report in making decisions.
2. An appropriate subject matter → It Refers to the information to be examined by the Practitioner.
3. Suitable Criteria → Refers to Benchmarks used to evaluate the subject matter.
4. Sufficient appropriate evidence
   Quantity + Quality
5. Written assurance report in appropriate form → written Report Providing Conclusion that Conveys the assurance about subject matter.

11. Audit Vs. Review

1. Audit is a reasonable assurance engagement.
2. It offers reasonable assurance.
3. Review is a limited assurance engagement.
4. It provides less assurance compared to an audit.
5. Reviews involve fewer procedures and gather sufficient evidence for limited conclusions.
6. Both audit and review pertain to financial statements based on historical financial data.
   Follow / Use

12. Reasonable Assurance vs Limited Assurance

High Assurance — Moderate Assurance

	Reasonable assurance engagement	Limited assurance engagement
1	Reasonable assurance engagement provides *high level of assurance.*	Limited assurance engagement provides *lower level of assurance* than reasonable assurance engagement.
2	It performs *elaborate and extensive procedures* to obtain sufficient ppropriate evidence.	It performs *fewer procedures as compared to* reasonable assurance engagement.
3	It draws *reasonable conclusions* on the basis of sufficient appropriate evidence.	It involves obtaining sufficient appropriate evidence to draw *limited conclusions.*
4	Example of reasonable assurance engagement is an *audit* engagement.	Example of limited assurance engagement is *review* engagement.

13. Prospective vs Historical financial Information

A assurance Related to PFI Not Related to HFI.

"*Prospective financial information*" means financial information based on assumptions about events that may occur in the future and possible actions by an entity. It can be in the form of a forecast or projection or combination of both.

Prospective financial information relates to future events. While evidence may be available to support the assumptions on which the prospective financial information is based, such evidence is itself generally future- oriented. The auditor is, therefore, not in a position to express an opinion as to whether the results shown in the prospective financial information will be achieved.

Hence, such type of assurance engagement provides only a "moderate" level of assurance.

"*Historical financial information*" means information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

14. Engagement and Quality control standards : An Overview

SA	•Apply in audit of historical financial information
SREs	•Apply in review of historical financial information
SAEs	•Apply in assurance engagements dealing with subject matters other than historical financial information
SRSs	•Apply to engagements : Agreed upon procedures and other related services like compilation of financial statements

1 Standards on Auditing: $\boxed{SA}$

1. Standards on Auditing apply to independent audits of financial statements.
2. They specifically pertain to historical information.

3. These standards set high-quality benchmarks for auditors.
4. Auditors must follow these standards during financial statement audits.
5. Standards cover various auditing topics, including objectives, documentation, planning, risk assessment, sampling, evidence, and reporting.
6. They encompass all key aspects of financial statement audits.

Some examples of Standards on Auditing are:

1. SA 230 Audit Documentation
2. SA 500 Audit Evidence

2 Standards on Review engagements: SRE

1. Standards on review engagements apply to the review of financial statements.
2. A review is a limited assurance engagement and offers less assurance than an audit.
3. Reviews involve fewer procedures than audits. → कम
4. Despite being a limited assurance engagement, reviews still require obtaining sufficient appropriate evidence.
5. An example of a review is when an auditor reviews interim financial information for an entity. IMP

Examples of Standards on Review engagements are:

1. SRE 2400 (Revised) Engagements to Review Historical Financial Statements
2. SRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity

3 Standards on Assurance Engagements: $\boxed{SAE}$

1. Apply to assurance engagements dealing with subjects other than historical financial information.
2. These engagements do not involve auditing or reviewing historical financial data.
3. An example is an assurance engagement for examining prospective financial information.
4. IMP These standards cover various assurance tasks, including those related to non-financial matters like the design and operation of internal controls in an entity.

Examples of Standards on Assurance Engagements are:

1. SAE 3400 The Examination of Prospective Financial Information
2. SAE 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus

4 Standards on related services:

जो Auditor पर लगाते है।

1. These standards apply to engagements where agreed-upon procedures are performed on financial information.

Eg. For instance (eg), such engagements might involve the auditor conducting specific procedures on financial data like accounts payable, accounts receivable, related party purchases, segment profits, or entire financial statements such as a balance sheet.

3. In some cases, the practitioner might help (assist) management prepare historical financial information but doesn't provide assurance on it.

- These compilation engagements are related services and the practitioner issues a report stating that it's not an assurance engagement, and no opinion is given. [बस मदद करनी

Examples of Standards on related services are:

1. SRS 4400 Engagements to perform agreed-upon procedures regarding financial information
2. SRS 4410 (Revised) Compilation engagements

Standards on Quality Control: [SQC-1 to be applied for all Services Covered by Engagement Standard

1. Standards on Quality Control (SQCs) are guidelines for firms to maintain quality control in their audit, review, and assurance engagements.
2. SQC 1 ~~is one of these standards and~~ requires auditors/practitioners to establish a quality control system.
3. The system ensures compliance with professional standards, legal requirements, and the issuance of appropriate reports.
4. The main goal is to have a quality control system in firms to ensure compliance with professional standards and legal requirements when providing services covered by engagement standards.

15. Why are Standards required ? [Mainly Mandatory responsibilities of Auditors]

1. Standards ensure carrying out of audit against established benchmarks at par with global practices.
   जैसे or करते है वैसे ही है सही है
2. Standards improve quality of financial reporting thereby helping users to make diligent decisions.
3. Standards promote uniformity as audit of financial statements is carried out following these Standards.
   काबिल बनाना
4. Standards equip professional accountants with professional knowledge and skill.
5. Standards ensure audit quality.

16. Duties in relation to Standards

1. Professional accountants have a responsibility to follow ~~accounting~~ standards in their work.
2. They must adhere to these standards in most cases, but there can be situations where following a standard isn't effective for a specific job.
3. In such cases, accountants should document the alternative procedures they used and

explain why they departed from the standard unless it's obvious.

4. Their report should also highlight any departures from the standards.
5. Just disclosing a departure in the report doesn't excuse the accountant from following the standards.

Qualities of Auditor

Auditor is Concerned with the Reporting on financial Matters of Business and other.

Tact, Caution, Good temper, integrity, Judgement, Patience, reliability are some of Basic Qualities which an auditor should have.

He Must Have the highest degree of integrity.

Exhaustive knowledge of Accounting Law.

He Must know thoroughly all Accounting Principles.

CamScanner