

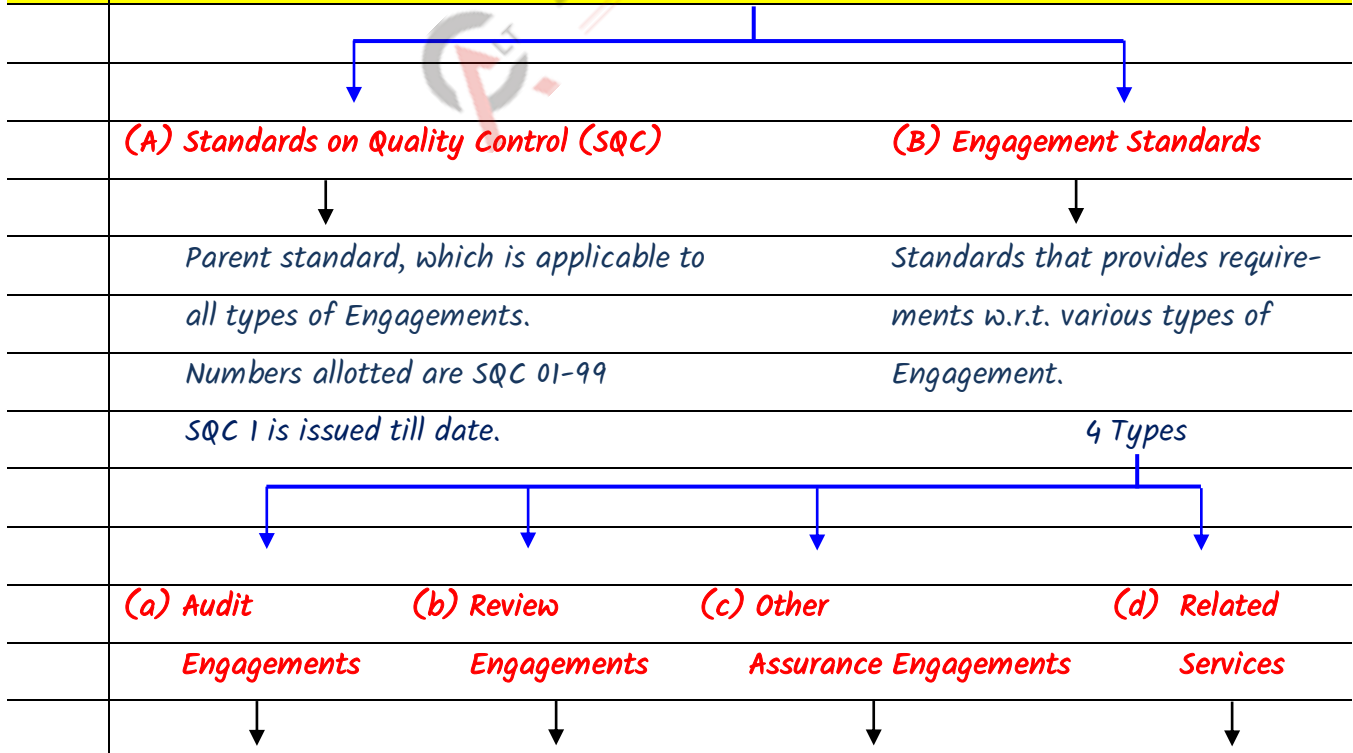
(i)	Meaning of Auditing:
	A <i>Systematic and Independent</i> examination of <i>data, records, statements, operations and performance</i>
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	of an Entity (Corporate / Non-Corporate; Profit Oriented or Not; Govt./Non Govt.)
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	for a stated purpose (to express an opinion whether the F.S. reflects True & Fair view)
	NOTES
	(a) Audit is a step-by-step activity, to be carried out in a planned manner.
	Step 1: Audit Engagement - Developing relationship of client and auditor.
	Step 2: Audit Planning - (a) Establish Audit Strategy; & (b) Develop Audit Plan
	Step 3: Audit Execution - Performing audit procedures to collect audit Evidence
	Step 4: Audit Conclusion & Reporting - To draw conclusion & issue Auditor's Report
	Whether F.S. are being prepared as per applicable financial reporting framework (As/Ind-As).
	(b) Independence: State of Mind which requires that the Judgement of a person should not be subordinate to the wishes of the person who might have engaged him.
	Auditor need to perform his work -
	(a) without being biased.
	(b) with honesty and impartial attitude.
	(c) with due diligence.
	(d) without being influenced by others.
(ii)	Meaning of Ethics:
	Ethics are the Principles governing an Individual or a group.
	Fundamental Principles to be followed by a Professional Accountant:
	A Professional Accountant is required to ensure compliance of fundamental principles as prescribed in Code of Ethics. Code of Ethics prescribes following fundamental principles:

- (a) **Integrity:** Honesty and Straight Forward
- (b) **Objectivity:** Impartial and Fair Attitude; No Biasness
- (c) **Professional Competence and Due Care:** Perform Diligently and in compliance with technical and professional standards.
- (d) **Confidentiality:** Do not share the client's information with others.
- (e) **Professional Behaviour:** Members conduct should not discredit the profession.

Threats involved in compliance of fundamental Principles:

- (a) **Self-Review Threat:** arises when a previous judgement need to be re-evaluated by a professional accountant responsible for that judgement.
- (b) **Self Interest Threat:** occurs as a result of financial or other interest of professional accountant or relative.
- (c) **Familiarity Threat:** occurs when a professional accountant becomes too sympathetic to the interest of others.
- (d) **Advocacy Threat:** occurs when a professional accountant promotes a position to the point that subsequent objectivity may be compromised.
- (e) **Intimidation Threat:** occurs when a professional accountant may be deterred from acting objectively (due to threat of replacement).

(iii) Engagement and Quality Control Standards (EQCS):



Standards on Auditing (SA)	Standards on Review Engagements (SRE)	Standards on Assurance Engagements (SAE)	Standards on Related Services (SRS)
SA 100 - 899	SRE 2000 - 2699	SAE 3000 - 3699	SRS 4000 - 4699
Applicable while Auditing the Historical Financial Information	Applicable while Reviewing the Historical Financial Information	Applicable while examining the (a) Prospective Financial Information (b) Non-Financial Information	Applicable while Performing (a) Agreed upon Procedures (b) Compilation Engagements
Reasonable Assurance	Limited Assurance	Reasonable/ Limited Assurance	No Assurance
(iv) Classification of Standards on Auditing (SA)			
SA 100-199	Introductory Matters - No Standards issued		
SA 200-299	General Principles - 200, 210, 220, 230, 240, 250, 260, 265, 299		(9)
SA 300-499	Risk Assessment - 300, 315, 320, 330, 402, 450		(6)
SA 500-599	Audit Evidence - 500, 501, 505, 510, 520, 530, 540, 550 560, 570, 580		(11)
SA 600-699	Using work of others - 600, 610, 620		(3)
SA 700-799	Audit Conclusion and Reporting - 700, 701, 705, 706, 710, 720		(6)
SA 800-899	Specialised Area - 800, 805, 810		(3)
Total SAs			= 38

(v)	Types of Engagements:	
	2 Types	
	↓	↓
	(A) Assurance Engagements	(B) Non- Assurance Engagements
	↓	↓
	An engagement in which a practitioner obtains the assurance about the Subject matter and Express an opinion/conclusion on the basis of Assurance obtained.	An engagement in which a practitioner reports on fact findings without obtaining any assurance about the subject matter; hence no opinion/ conclusion is being expressed.
	Types of Assurance:	Ex.: Related Services Engagements
	(i) Absolute Assurance: Requires 100% Satisfaction on accuracy of subject matter. For Ex: Certification work.	↓
	(ii) Reasonable Assurance: Implies High, but not absolute Assurance. For Ex: Audit Engagements.	(a) Agreed upon Procedures (b) Compilation Engagement.
	(iii) Limited Assurance: Moderate Assurance, which is lower than the reasonable assurance. For Ex: Review Engagements	
(vi)	Format of SA:	
	↓	↓
	Part - I	Part - II
	Introduction - comprises of	Requirement Section
	(a) Scope of SA	This section provides detailed requirements to be complied with by auditor.
	(b) Effective Date	
	(e) Objectives of Auditor	
	(d) Definitions	
	Note: Both introduction & requirements need to be Studied with Application & other Explanatory Material.	

(vii) Framework of Auditing:		
	↓	↓
(A) Legal Provisions	(B) Standards on Auditing	(C) Other Pronouncements
↓	↓	↓
As contained in	As issued by	(Formal Announcement)
- Companies Act, 2013	- Auditing and Assurance	(i) Issued by ICAI
- Income-tax Act, 1961	Standards Board (AASB)	(Standards,
- Banking Regulation Act, 1949	of ICAI.	Guidance Notes,
- LLP Act, 2008	- International Auditing and	Technical Guides,
- Co-operative Societies Act, 1912	Assurance Standards Board	Statements, etc.
	(IAASB) of International	(ii) Issued by
	Federation of Accountants	Regulatory
	(IFAC)	authorities like
		SEBI, RBI, IRDA
(viii) Auditor's overall objectives:		
As per SA 200 "Overall Objectives of the Independent Auditor and conduct of an Audit in accordance with Standards on Auditing" overall objective of the Independent Auditor is:		
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"To obtain Reasonable Assurance whether the F.S. as a whole are free from material mis-statements, whether caused due to error or fraud, so as to express an opinion, whether F.S. are prepared in all material respects as per the requirements of applicable FRF; and to issue a report thereon.		
NOTES:		
(1) Reasonable Assurance: High, but not absolute.		
(2) Financial Statements: As per Sec. 2(40) of Companies Act, 2013, F.S. includes:		
(a) Balance Sheet;		
(b) Statement of Profit and loss;		
(c) Cash Flow Statement;		
(d) Statement of Changes in Equity; and		
(e) Explanatory Notes to accounts.		

	(3) Materiality (SA320) : Anything that is so significant that can affect the economic decision of users of F.S.
	(4) Misstatement (SA 450) : Difference in Amount; Classification, Presentation and Disclosure of a F.S. Item.
	(5) Error or fraud (SA 240) : Error - Unintentional Activity
	Fraud - Intentional Act.
	(6) Financial Reporting Framework : Principles/Standards Guidelines, on the basis of which F.S. are prepared.
	For Ex.: AS; Ind- AS; GAAP; GFRS; Sch-III of Companies Act.
	Types of FRF: From auditing point of view, FRF can be classified in 2 categories:
	(A) Compliance Framework : Those FRFs, where management is not permitted to take any deviations from the requirements of FRF.
	(B) Fair Presentation Framework : Those FRFs, in which management is permitted to take deviations from the requirements of FRF so as to ensure that F.S. reflects true and fair view.