



dronacharya

FOR
CA INTERMEDIATE

2024

**Nature, Objectives
and Scope of Audit**

Auditing & Ethics

ONE SHOT



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Topic: Introduction



→ Business Environment → Complex



→ Money Lender → Credit Worthiness



→ Share holders → Financial Position of Co.



→ Bank → Credit Worthy



→ Government → Taxes



→ Insurance Co. → Settle Claims

RELIANCE ?
CONFIDENCE?

Financial Statements → True & Fair



Topic: Origin of Auditing

Auditing → Ancient Times → Many Societies



Kautilya's Arthshastra → 4th Century BC



Focus

Fixed Accounting Year

Process of Closure of A/c.s

Auditing

Periodical Checking

Verification

Misstatement in F.S

Abuse of Power



Topic: Origin of Auditing



Origin of the word 'Audit' → Latin → *Audire* → To HEAR

I Auditor General of Indian → 1860



Presently → Constitutional Authority



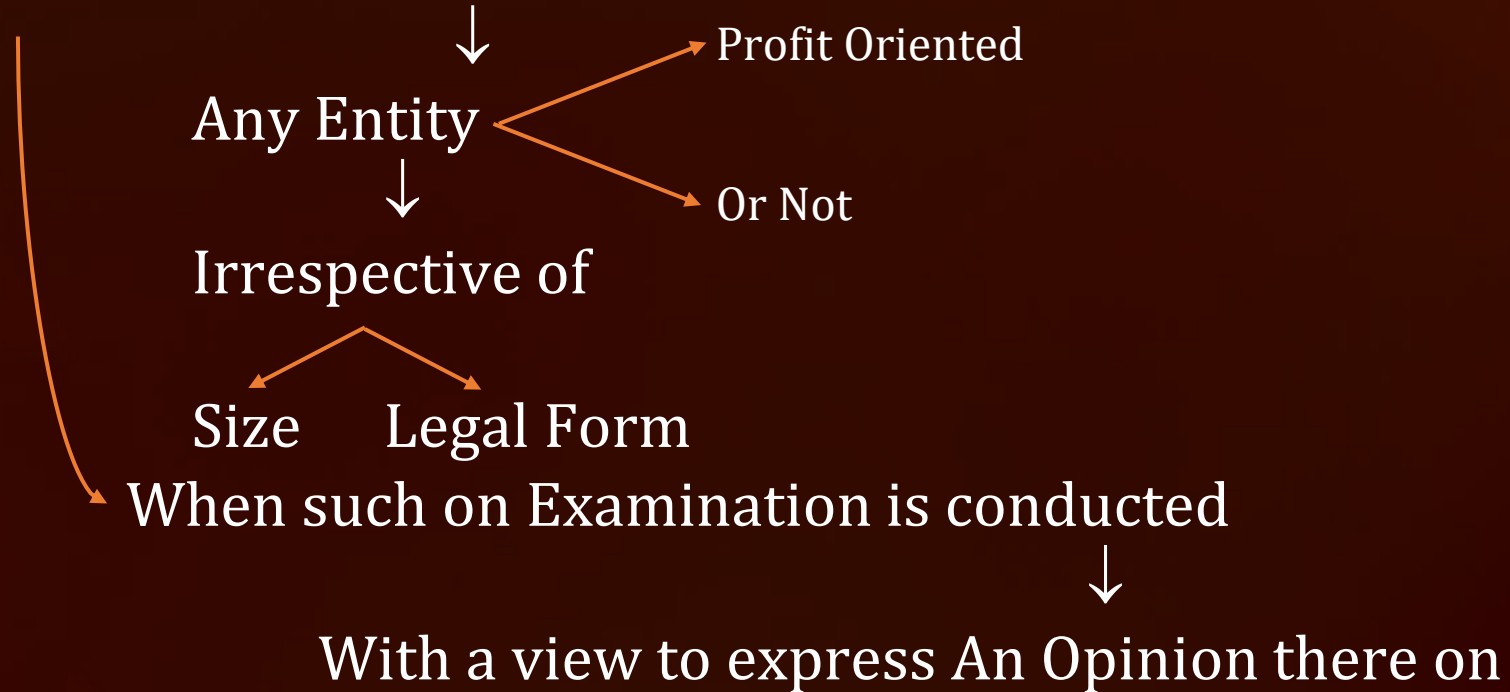
C & AG

ICAI → Statutory Body → Act of Parliament



Topic: Meaning & Nature of Auditing

Audit → INDEPENDENT Examination → Financial Information

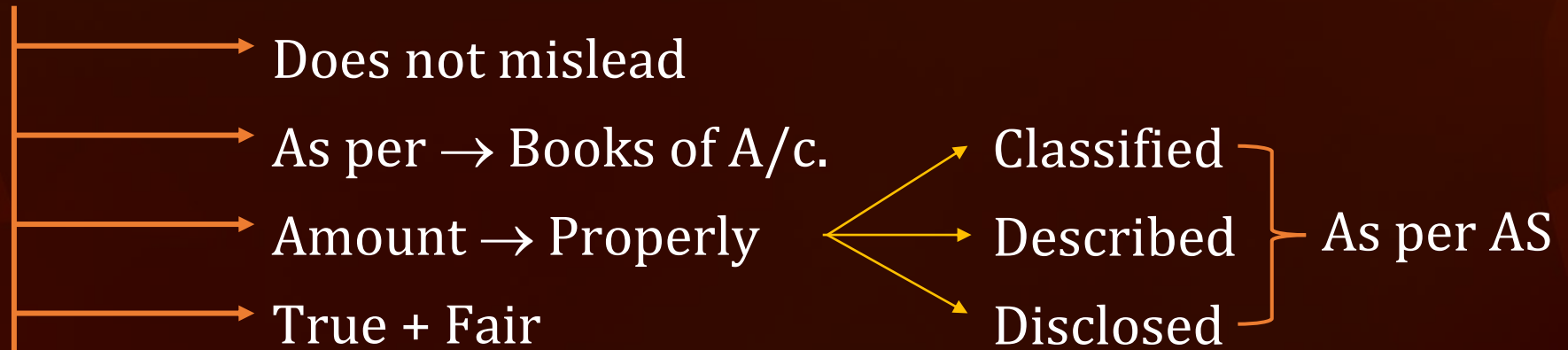




Topic: Meaning & Nature of Auditing

Auditor to Ensure:

(1) F.S.





Topic: Meaning & Nature of Auditing

(2) Entries

- Supported by → Suff. + Appro. A.E.
- Not omitted

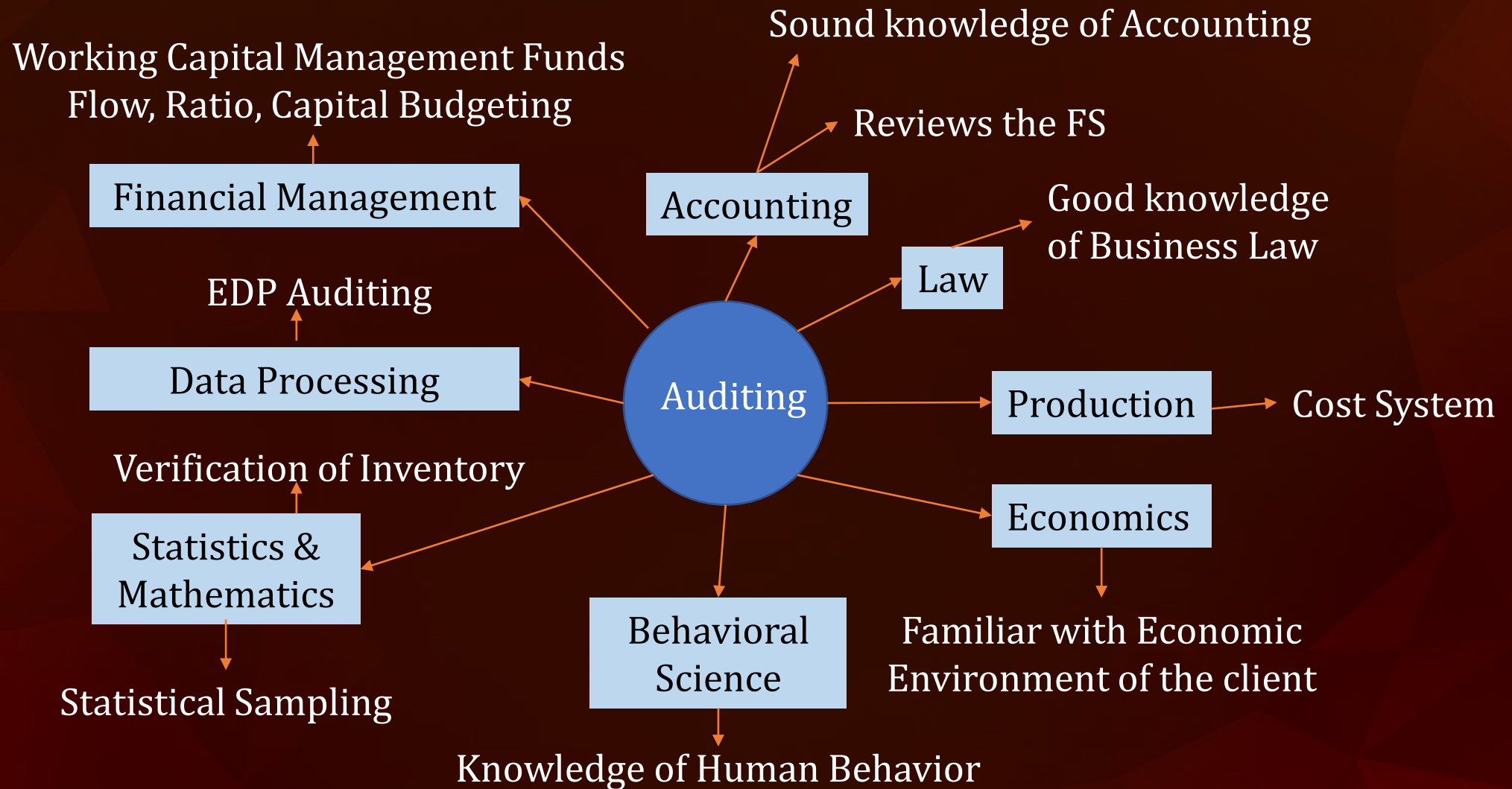
(3) Information

- Clear
- Unambiguous

Auditing → Provides → Assurance → To user → F.S.
 ↙ Credibility
↘ Relied Upon



Topic: Interdisciplinary Relationship with Diverse Subject





Topic: Objectives of Audit

As per SA 200 → "Overall OBJECTIVES of an Independent Auditor
AND conduct of an Audit in accordance with SA"



Objective of Audit



To obtain R.A. → That the F.S. as a whole
→ are Free from M.M.
→ Due to F/E



Enabling the Auditor to Express an Opinion
→ F.S. are Prepared



In accordance with App. F.R.F.

To Report on F.S

+

Communicate as required by SA



In accordance with Auditor's
Findings



Topic: Objectives of Audit



Absolute Assurance = Guarantee

R.A. \neq Not Guarantee
= High Level of Assurance



Topic: Scope of Audit -What is Included

- Scope = Range or Reach
- Purpose of Audit = Enhance the degree of Confidence of the intended user of FS.

Shareholders Employees Govt. Regulatory Authorities Bankers

- Scope of Audit

(1) Cover adequately all ASPECTS of an enterprise

(2) Financial Information $\left\{ \begin{array}{l} \text{Reliable} \\ \text{Sufficient} \end{array} \right\}$ Judgement

Underlying A/c records

Other Source of Data

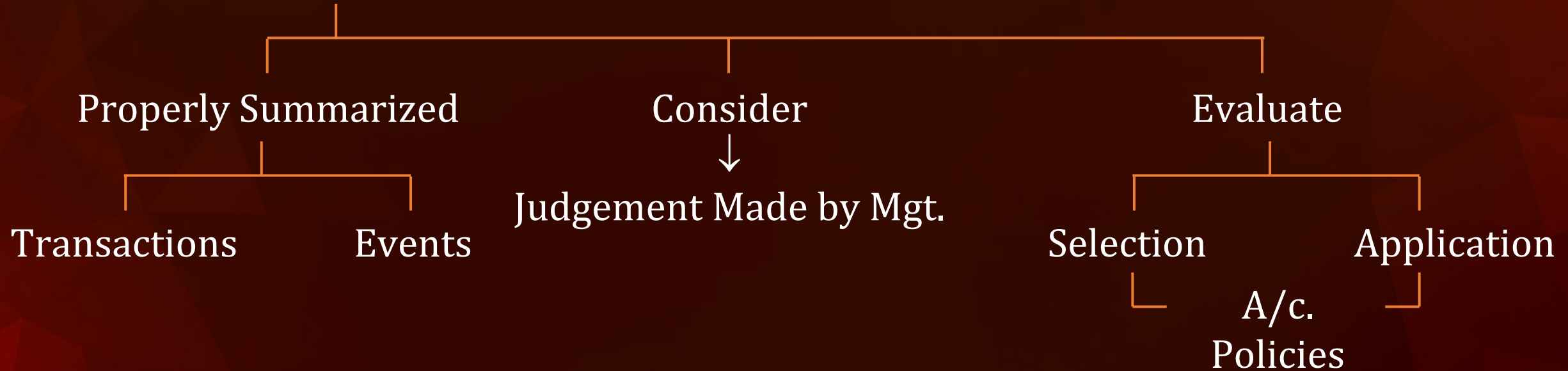
Study + Assess Carryout

A/c. Sys. I.C. Test Enquiries Procedures



Topic: Scope of Audit -What is Included

(3) Information → Relevant ← Property Disclosed

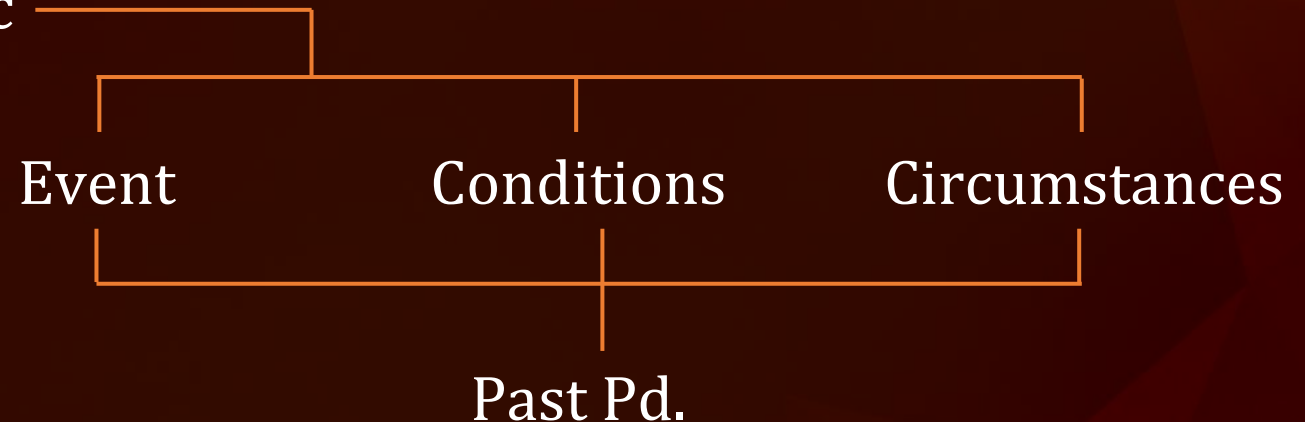




Topic: Scope of Audit -What is Included

(4) Expression of an opinion

- Historical Financial Info.
 - Financial Terms
 - Relation to particular entity
 - Derived from A/c. Sys.
 - About Economic





Topic: Scope of Audit - What is NOT Included

Auditor is NOT EXPECTED to:-

(1) Perform duties



which fall outside the domain of his competence

(2) Determine suitability + Life of civil structures (Bldg.)

(3) Authenticate Documentation → Not on Expert

(4) Audit ≠ Not official investigation → Alleged wrongdoing

(5) Auditor ≠ specific legal power

(6) Audit ≠ Investigation



Obtain R.A.



F.S. as a whole are free from MM → Due to F/E

(7) Responsibility → Preparation → FS

Critical Examination of A/c.

With a special purpose



Topic: Inherent Limitations of Audit

Auditor

- NOT EXPECTED to Reduce the Audit Risk to ZERO
- CANNOT obtain ABSOLUTE ASSURANCE



That the F.S. as a whole



are FREE from MM



Due to F/E



Topic: Inherent Limitations of Audit

Factor

(1) Nature of Financial Reporting

Preparation of FS → Involves → Mgt. Judgement



Topic: Inherent Limitations of Audit

(2) Nature of Audit Procedures

Practical + Legal Limitations



Sampling Approach

Mg +

Intentionally

Unintentionally

May not provide complete info

→ Fraud may involve



Fabricated Documents

→ Related party transactions

Sophisticated

Carefully Organised

Scheme



Topic: Inherent Limitations of Audit

(3) Not in Nature of Investigation

Not official Investigation

(4) Timeliness of Financial Reporting & Decrease in Relevance of Info. Over Time

Balance b/w. Reliability of Info \cong cost of obtaining it

(5) Future Events

Entity' ability to continue as Going Concern



Topic: What is an Engagement?

Arrangement to do something

→ Formal Agreement → b/w  Under Which

Auditor agrees to provide Auditing Service

 Engagement Letter



Topic: External Audit Engagement / Reasonable Assurance Engagement



Purpose → Enhance the degree of confidence



of the intended user of F.S.



Topic: Benefits of Audit / Why is Audit needed?

(1) Audited A/c. → provide → High Quality Info.

Give confidence to user of FS

(2) Interest of shareholders → safeguarded

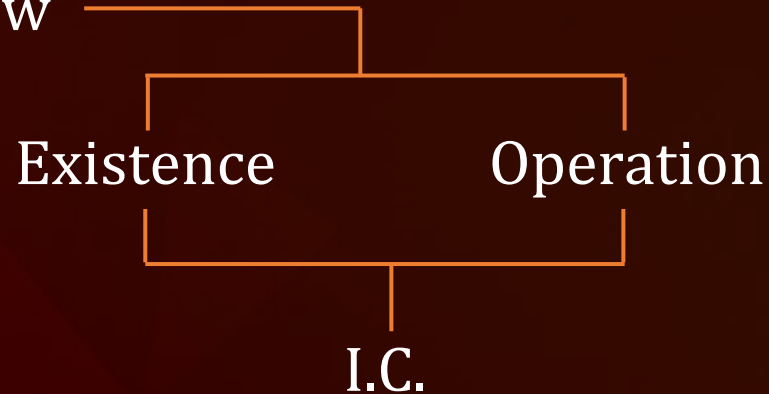
(3) Moral Check on employees

(4) Helpful for Govt. → determine Tax Liabilities

(5) Relied upon by Bankers / Lenders

(6) Detection of F/E

(7) Review





Topic: Audit -Mandatory or Voluntary?

Mandatory

→ Companies

→ Entities



T/o > threshold limit as per Income Tax

→ Organization → Receiving Govt. Grants



Topic: Who appoints an Auditor?

- Generally → Owners
- Constitutional/Govt. Authorities → As per Law/Regulation
- Companies (Non-Govt.) → Members (Shareholders) @ AGM
- Companies (Govt.) → C & AG
- Firms → Partners



Topic: To Whom Report is Submitted by an Auditor?



- Report → Written
- Submitted → To the person → Making Appointment



Topic: Meaning of Assurance Engagement

Practitioners expresses a conclusion → About the outcome of



Designed to enhance the degree of confidence



of the intended user
(Other than the Responsible Party)

➤ Practitioner → Gives Opinion → About SPECIFIC INFO.



Due to which users make confident decisions



Knowing well → Chance of Incorrect info



DIMINISHED

Evaluation
OR

Measurement



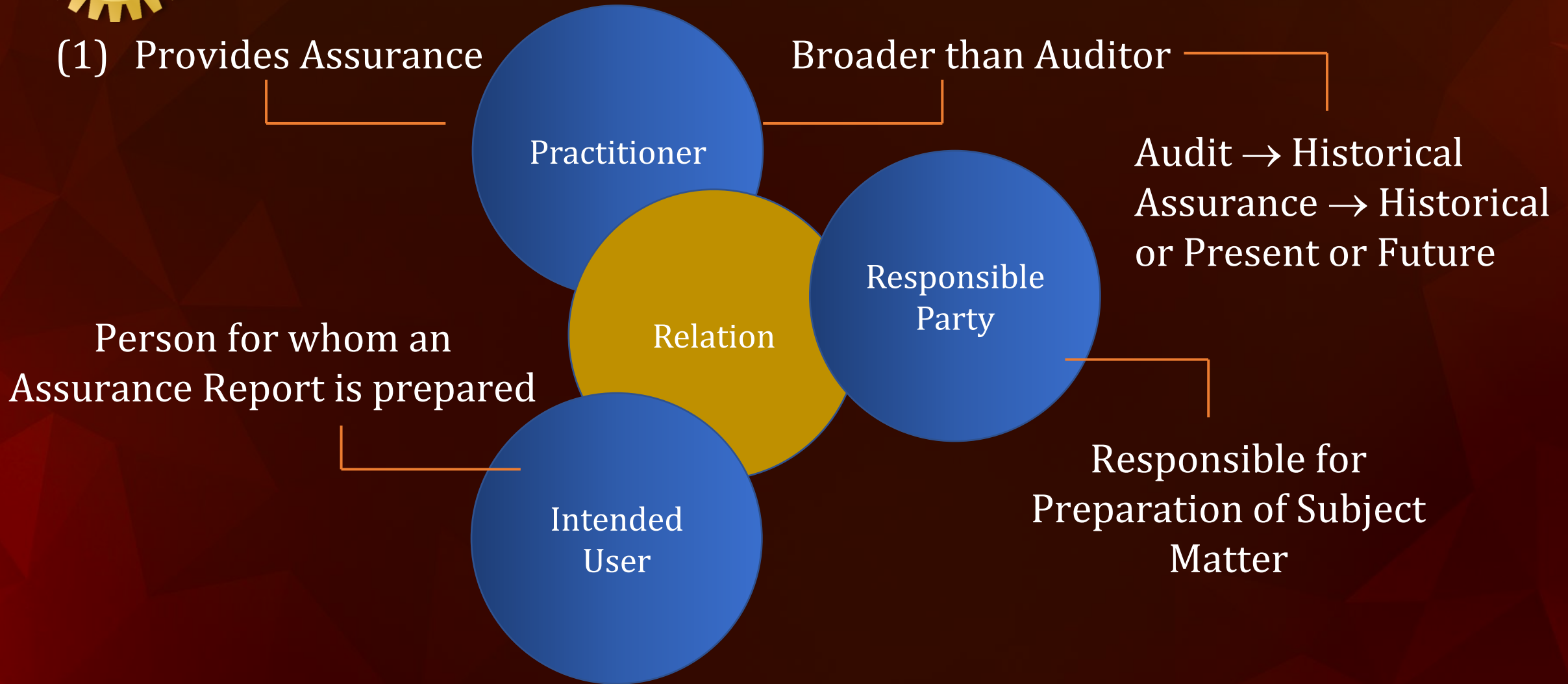
Of a subject
matters



Against Criteria



Topic: Elements of an Assurance Engagement





Topic: Elements of an Assurance Engagement

(2) Appropriate Subject Matter

Info. To be examined by the practitioner

(3) Suitable criteria → Benchmarks → Used to evaluate the subject matter

Standards Guidance Laws Rules Regulations

(4) Suff. + Appro. Evidence → Conclusion → Opinion

↓ ↓
Qty. Quality



Topic: Elements of an Assurance Engagement

(5) Written Assurance Report → in appropriate format



Outcome of an Assurance Engagement



Topic: Audit vs. Review



Audit

- R.A. Engagement
- Higher assurance
- More Procedures

v/s.

Review

- Limited Assurance Engagement
- Lower level of assurance
- Fewer Procedures

→ Scope of Conclusion is higher → Limited Conclusion

Both are related to FS prepared on the basis of Historical Financial INFO.



Topic: R.A. Engagement vs. L.A. Engagement

Basis	R.A.E	L.A.E.
Level	Higher	Lower
Audit Procedure	Elaborate & Extensive	Fewer Procedure as compared with RA
Conclusion	Reasonable	Limited
Example	Audit Engagement	Review Engagement



Topic: Audit & Review vs. Prospective Financial Info



➤ Audit & Review → Historical Financial info.

Prospective Financial Info. → NOT Historical Financial Info.

└ Generally on I.C. of an entity


└ Based on Assumptions → About events



That may occur in the future

+

Possible Actions by an Entity

└ In the form of  Forecast
Projection



Topic: Audit & Review vs. Prospective Financial Info

- └ Obtains Suff. + Appro. A.E. → about Mgt.'s Assumptions



NOT Unreasonable

- └ Financial Info. → Properly

Prepared

Presented

Disclosed

- └ Moderate level of Assurance

- └ Auditor → NOT in a position → to express an opinion



Results shown Will be achieved



Topic: Audit & Review vs. Prospective Financial Info



└ Report :- Nothing has come to practitioner's attention



To suggest that these assumptions



DO NOT PROVIDE A REASONABLE BASIS FOR THE PROJECTION



Topic: Qualities of an Auditor



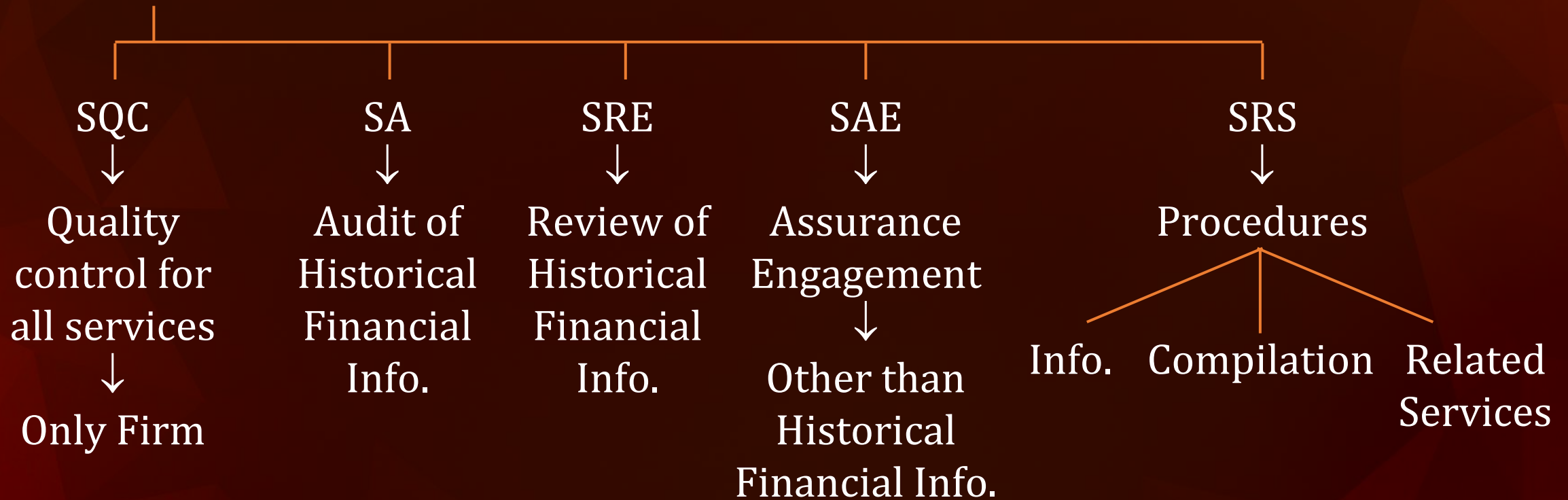
- Tact, Caution, Firmness, Good Temper, Integrity, Discretion, Industry
Judgement, Patience, Clear Headedness & Reliability
- Qualities of Good Businessman \Leftrightarrow Qualities of an Auditor
- Shine of culture for attaining great height
- Highest Degree of Integrity + Independence
- Basic Human Qualities
- Exhaustive Knowledge of Accounting is sine qua non
- Thoroughly known \rightarrow A/c. Principles \rightarrow Techniques



Topic: Engagement and Quality Control Standards



Engagement Standards → Issued under authority of → ICAI Council





Topic: Engagement and Quality Control Standards



➤ Why are standards needed?

(1) Carrying Audit as per Global Practices & Benchmarks

(2) Improve → Quality of F.R

(3) Promote → Uniformity

(4) Equip → Professional
Knowledge
Skills

(5) Ensure → Audit Quality



thank you