

SHUBHAM JAIN



# CA INTERMEDIATE AUDITING & ETHICS

## CHAPTER - 1

# NATURE, OBJECTIVE AND SCOPE OF AUDIT

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Hi,

I am Shubham Jain, a dedicated CA student who has successfully cleared the CA Foundation with distinction and CA Intermediate Group 1. With a strong grasp of accountancy and finance, I strive to simplify complex concepts through logically structured notes and practical examples. My approach focuses on conceptual clarity, ensuring that learning becomes easy, effective, and application-oriented.

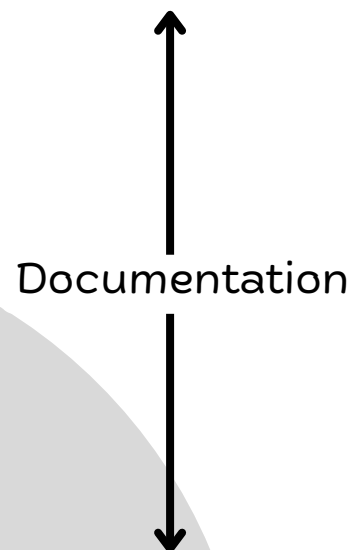
"There might be typing errors in this book. If you find any, please let me know, and I will try to correct them in the upcoming edition."

SHUBHAM JAIN

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- Engagement - 210
- Planning - 300
- Materiality - 320
- RAP - 315
- FAP - 330
- Evidence
- Conclusion ---- Opinion ----- Report



### COMMON:

The purpose of an audit is to enhance the **degree of confidence** of **intended users** in the F.S by the **express opinion** by the auditor on whether the F.S are prepared as per **AFRF**.

AFRF - means a framework **adopted** in the PPFS that is **acceptable** in view of the nature & size of the entity, that is required by L/R

- **MMS** - Material Misstatement
- **F.S** - Financial statement
- **AFRF** - Applicable Financial Reporting Framework
- **PPFS** - Presentation & preparation of Financial Statement
- **A.E** - Audit Evidence

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## SA 200 - OOIA CASA

**Overall Objectives of the Independent auditor & conduct audit in accordance with SAs"**

# OBJECTIVES

- To obtain - **reasonable assurance** about whether the F.S are **free from MMS**, due to fraud or error, which enables
- To express - **opinion** on whether the F.S are prepared as per **AFRF**
- To **report** on the F.S and **communicate** as required by the SAs

## SCOPE OF AUDIT

### 1. Coverage of **all aspects** of entity :

Audit should cover **all aspects** of the entity **relevant to** the F.S.  
(Ex: Flight chart )

### 2. **Reliability** and **sufficiency** of financial information :

The auditor ensure **Reliability** and **sufficiency** in **A/c records** and **other source data** (like bills, vouchers, documents etc.) for PPFS.  
by analysis - A/c system , I.C  
by carrying out - tests, enquiries, procedures.

### 3. Proper **disclosure** of financial information :

The auditor ensure **relevant information** is **properly disclosed** in F.S. as per applicable **statutory requirements** (A.S) .

F.S are **properly summarize** transactions and events and by considering the **Mgt. judgments**.

The management makes many **judgments** in the **PPFS** -  
Ex : choosing of **appropriate accounting policies** (see F3) :  
method of charging depreciation  
method for inventories valuation

## FACTS :

1. Reasonable assurance VS absolute assurance.

- Absolute assurance is a **complete guarantee** that F.S free from MMS.
- Reasonable assurance is **not** a complete guarantee.

"It is a high-level of assurance but it is not absolute"

2. F.S are prepared on **historical financial information** basis.

"HFI" means Info expressed in **financial terms** about **economic events** occurring in **past** .

3. The auditor evaluates **selection** and **consistent** application of **accounting policies** by management and selection is proper and policy has been applied consistently on a period-to-period basis.

## SCOPE OF AUDIT - NOT INCLUDE

- Auditor shall not perform duties which fall outside domain of his competence.
- The **genuineness of documents** cannot be **authenticated** by him because he is **not an expert** in this field.
- An audit is **not an official investigation**. He does not have any **legal powers** of "recording statements of witness on oath"

Investigation is **critical examination** of the A/c with a **special purpose**.

Ex : If someone suspects fraud and asks the auditor to check the accounts specially to find out if fraud really happened, then it becomes an investigation becuz he do examination for special purpose.

The scope : > audit - **general** and **broad**  
> investigation - **specific** and **narrow**.

## BENIFITS OF AUDIT

1. **Audited A/c** - give **confidence** to users that the Info. is **reliable**.
2. **Safeguarding- Interest** of Shareholders.
3. Act as a **moral check** on employees from committing **frauds** with the **fear** of being discovered.
4. **Audited F.S** - helpful to govt. for determine **tax liabilities**.
5. **Audited F.S** - used by lenders, bankers for make **credit decisions**
6. detect **fraud** or **error** or both.
7. check **I.C.** Hence, it is useful to finding out **deficiencies**.

"An audit is an **independent examination** of **financial information** of any entity, whether **profit oriented or not**, and **irrespective of its size** or **legal form**, with a view to **expressing an opinion** ".

**Judgement** of a person is **not subordinate** to the **wishes / direction** of another person . The auditor **must be independent** from the entity, so that ,their **opinion** is **unbiased** and **free from influence**.

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# INHERENT LIMITATIONS OF AUDIT (ILA)

"due to ILA an auditor cannot provide an absolute assurance"

## 1. Nature of **financial reporting** :

Mgt. make many **judgments** in PPFS. These judgments may be **subjective** or involve **measurement uncertainty**.

So, auditor may **not** obtain **absolute assurance** that F.S ....

An audit is conducted on the assumption that : Mgt. is responsible for

- **PPFS** as per AFRF
- establish **internal controls**.

However, Sometimes such controls may **not be effective** to **produce reliable financial information** due to their **own limitations**.

## 2. Nature of **Audit procedures**

The auditor obtains **audit evidence** by performing **audit procedures**.

However, there are **practical** and **legal limitations** to obtain A.E.

He **can't test**

**all transactions & balances** .

So, forms **opinion** on the basis of **samples testing** .

Management may **not provide**

**complete information** as requested by the auditor. he can't **force** them .  
he can only **report**.

Management may be **dishonest** and even **involved in fraud**.

- They can **conceal fraud** using **sophisticated & organized scheme**, which may be **hard to detect** by the auditor. and
- show **fabricated documents** to mislead the auditor.

As we read : The **genuineness** of documents **can't be authenticated** by him . becz he is **not an expert** in this field.

So, Auditor may be led to **accept invalid A.E.** on the basis of fabricated documents.

## 3. Not in nature of **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. Decrease in **relevance** of information over time:

The **relevance** of information **decreases** over time and auditor **cannot verify** each and every matter.

So, a balance must be b/w **reliability** of Info. & **cost** of obtaining it.

An auditor has been auditing a company for two years. In the third year, he relies on some information which obtained in the second year. However, new changes may occurred and that information is not relevant.

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#### 5. Future events :

Future events may **affect** an entity **adversely** to **continue business** .

The business may **cease to continue** in future due to :  
change in market conditions , new competitors

Therefore, In view of above factors, that an auditor cannot provide a Absolute Assurance that F.S are free from material misstatements due to frauds or errors.

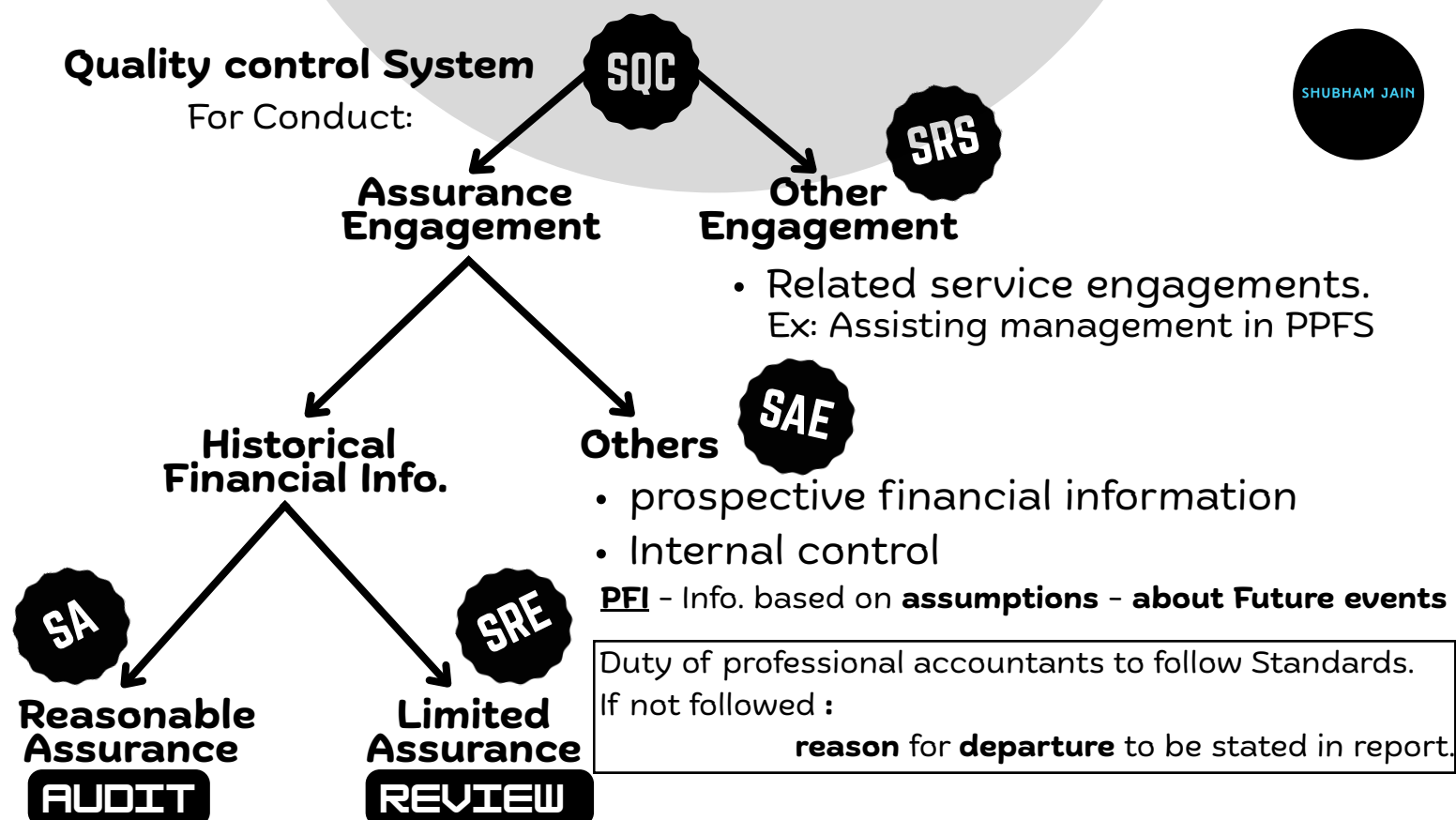
**ENGAGEMENT** - It means an **arrangement to do something**.

- **Formal agreement** b/w auditor & client for providing **auditing service** are known as **engagement letter**.

#### • PURPOSE OF **EXTERNAL AUDIT ENGAGEMENTS** ?

To enhance the degree of confidence of intended users of F.S.

IT ALSO KNOWN **REASONABLE ASSURANCE ENGAGEMENTS**.



**HFI** - Info. expressed in **financial terms** about **economic events** occurring in **past** .

# ASSURANCE ENGAGEMENT

An engagement in which a **practitioner** expresses a **conclusion** about the evaluation of **subject matter** against **criteria**.  
to **enhance** the **degree of confidence** of the intended users  
(other than the responsible party)

## ELEMENTS OF ASSURANCE ENGAGEMENT

### 1. Three party relationship :

- Practitioner - who provides the **assurance**  
"practitioner is broader than auditor."  
Audit - historical financial information  
Practitioner - assurance not necessarily related to HFI"
- Responsible party - responsible for **preparation** of **subject matter**
- Intended users - **for whom** an **assurance report** is prepared.  
"use the report in **making decisions**"

**2. Subject Matter : Information** to be examined by the practitioner.  
Ex- Financial Info in F.S ( Audit)

**3. Suitable criteria : benchmarks** used to evaluate the subject matter  
Ex - AS , SA

**4. Sufficient appropriate evidence**  $\longrightarrow$  **conclusions**  $\longrightarrow$  **opinion**  
quantity                      quality

**5. written assurance report** : It contain **conclusion** that shows  
**assurance** on the subject matter.

## AUDIT VS REVIEW

<b>Reasonable</b> assurance engagement	<b>Limited</b> assurance engagement.
<b>High level</b> of assurance.	<b>Lower level</b> of assurance than audit.
<b>More procedures</b>	<b>Fewer procedures</b>
It draws <b>reasonable conclusions</b> on the basis of sufficient appropriate evidence.	It draws <b>Limited conclusions</b> on the basis of sufficient appropriate evidence.
Ex - <b>Audit</b>	Ex - <b>Review</b>

### Why are Standards needed?

- Audit carry out as per established **benchmarks** of **global practices**.
- Increase **Quality** of Info. , help user for **decision making** .
- Promote **Uniformity** in Audit of F.S
- ensure **Audit Quality**



## Prospective Financial Information :

**Evidence** - to support the **assumptions** (on which PFI is based)  
"is itself **future- oriented**"

So, he **not in a position** to express an opinion whether the **results shown PFI** will be **achieved**.

Therefore , practitioner provides a **report** assuring that :

**"nothing has come to practitioner's attention"** that suggest **assumptions** - are **unreasonable** .

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## Auditor see that F.S would not mislead anyone by ensuring that: -

- 1.The **A/c** - drawn up with **reference of entries**.
- 2.the **entries** - **supported** by sufficient and appropriate **evidence**;
- 3.entries shall not be **omitted**
- 4.**Information** - **clear** and **unambiguous**
- 5.PPFS as per **AFRF**
6. FS - presents a **true & fair** view of - Profit / loss & assets / liabilities

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## Qualities of Auditor :

All personal qualities of making **good businessman** also help in making a good auditor.

Along with professional training and education, he must have **basic human qualities**.

An auditor reviews F.S, so he must be an **expert** in **all areas of accounting** . He must know all **accounting principles** and **techniques**.

Tact  
caution  
firmness  
good temper  
integrity  
reliability  
discretion  
industry  
judgement  
patience  
clear headedness

## Auditing is interdisciplinary in nature:

Accountancy - He review F.S , must have knowledge of **Acc. principle**.

Law - knowledge of **Business / Tax law** (CA,2013 / CGST,2017)

Economics - to know **economic environment** in which its operating.

Statis & Math - Use **statistical method** to **Draw samples** .

F.M - **Fund flows , W.C management , Ratio Analysis**.

Behavioural Science - During course of audit, auditor has to **interact with lot of persons** for **seeking information** and making **inquiries**. This can be done only if one has **knowledge of human behaviour**.

# Thank You