Ch 1 :-Nature, objectives and scope of audit

1.Objectives of Audit : objectives of Auditor in accordance with SA-200 "overall objectives of the independent Auditor and the conduct of Audit in accordance with standards on auditing" are,

a) To obtain reasonable assurance that the financial statement are free from material misstatement , whether due to fraud or error , thereby enabling the auditor to express an opinion on the financial statement are prepared, in all material respect, in accordance with applicable financial reporting framework .

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

2. Scope of Audit :

1) coverage all aspect of entity : Audit of financial statement should be organize adequately to cover all aspect of the entity relevant to financial statement being audited.

2) Reliability and sufficiency of financial information : Auditor should be satisfied that information contained in underlying accounting records and other sources data is reliable and sufficient for preparation of financial statement.

Auditor should makes judgement of reliability and sufficiency of financial information by making a study and assessment of accounting system and internal controls and by carrying out appropriate tests, enquires and procedures.

3) Proper disclosure of financial information: Auditor should also be decide that relevant information is properly disclosed in the financial statement. He should also keep in mind statutory requirements in this regards.

It is done by considering judgement made by management in preparation of financial statement.

The management responsible for preparation and presentation of financial statement.

The Auditor evaluates selection and consistent application of accounting policy by management, whether such selection is proper and whether chosen policy has been applied consistently on a period-to-period basis.

3. Inherent limitations of Audit:

Why auditor cannot provide absolute assurance?

Ans. The process of audit suffers from certain inbuilt limitations due to which an auditor cannot obtain an absolute assurance that the financial statement are free from material misstatement due to fraud or error.

These fundamental limitations arise due to following factors :

1) Nature of financial reporting :

Preparation of financial statement involves making judgement by management. These judgement involves subjective decisions or a degree of uncertainty. Therefore, Auditor may not be able to obtain absolute assurance that the financial statement are free from material misstatement due to fraud or error.

One of the premises for conducting Audit is that the management acknowledges it's responsibility of preparation of financial statement in accordance with applicable financial reporting framework and for devising suitable internal controls. However, such controls may not have operated in produce reliable financial information due to their own limitations.

2) Nature of Audit procedures :

Auditor carries out his work by obtaining audit evidence through performance of audit procedure.

However, there are practical or legal limitations on the ability of Auditor to obtain Audit evidence.

The 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 requested by auditor.

It may provide fake or non-genuine documents.

Auditor is not an expert in Authentication of documents. Therefore, He may be led to accept invalid audit evidence on the basis of unauthentic document.

It is possible that entity may be entered into some transactions with related parties. Such transactions may have only paper transaction and may not have actually occured. Auditor May not be aware about related party relationship or audit procedure may not be able to detect probable wrong doings in such transactions.

3) Not in the nature of investigation :

Audit is not an official investigation. Hence, Auditor cannot obtain absolute assurance that the financial statement are free from material misstatement due to fraud or error.

4) Timeliness of financial reporting and decrease in relevance of information over time :

Relevance of information decreases overtime and auditor cannot verify each and every matters. Therefore, a balance struck between reliability of information and cost of obtaining it.

5) Future events :

Future events may affect an entity adversely.

Adverse events may affect ability of an entity to continue its business.

Business may cease in future due to changes in market conditions or emergence of new business models or products or due to onset of some adverse events.

Therefore, auditor cannot provide absolute assurance that the financial statement are free from material misstatement due to fraud or error.