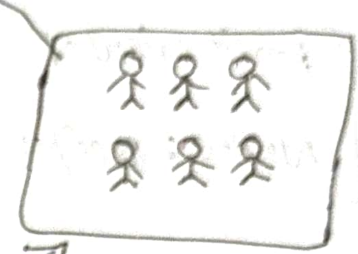
Ch-1 Nature, Objective & Scope of Audit

[Interest/owners]

Reliance Ltd
[Manage? : Management]



?

{ Profit / Loss?
Asset? / Liab? }

Financial Statement (FS)
BS
P&L (Risk ? sales profit ↑
Notes → mangement commission ↑
Bonus ↑

— Mgt ✗
— Share holder ✗

Independent Auditor

Q What is Audit?

Audit is independent examination

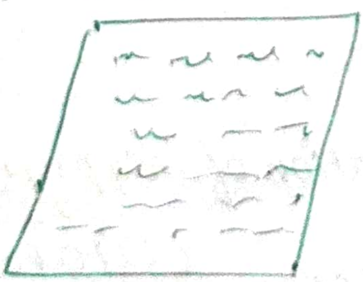
[kiski] • of financial information [FS → T.B → ledgers → J.E → purchases [invoice, Agreement)

[kiski] • of any Entity — whether profit oriented/not [NPO]
— irrespective of size / legal form.
(small/Big) (sole prop. firm, LLP, company].

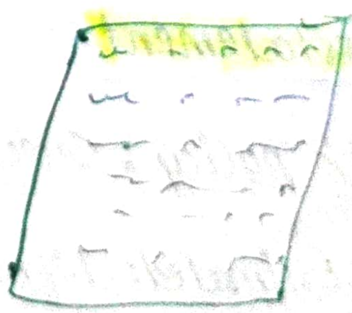
[kyu] • with a view to express opinion.

Q. How to examine FS?

Rough Answer sheet cheak!



Ans. sheet



Marking scheme

3

Audit

B/S
P&L
Notes to A/c

F.S.

• A/c standard
• Schedule III

Applicable Financial Reporting Framework (AFRF)

{ Profit oriented = P&L/B/S/Notes
N.P.O: Receipt payment A/c + Income Exp. A/c }

★ Applicable FRF: FRF

- Adopted by mgt. to prepare FS
- &
- Acceptable considerating
  - Nature of Entity
    - • Profit
    - • NPO
  - &
  - objective of FS.
    - General users: Accrual
    - Specific users: Cash

$\boxed{\text{OR}}$

required by Law/Regulation

[CO. → COS Act 2013
F.S sec 129]

~~galti~~

★ misstatement — kyu?
- unintentional → error
- intentional - fraud

Difference in.
- • Amount
- • Classification
- • Presentation
- • Disclosure

Reported in FS & Required by AFRF

Example of Misstatement

[Amount] • A/c policy: Selection/application of inappropriate A/c policy [LIFO Basis]

• A/c Estimated: Difference from AFRF [Debtor overdue > 3yrs ⇒ x provision]

• overstating ↑ of
• Receivables
• Inventory
• intention booking of fake expenses.

Classification: changing capital exp. to revenue exp. or vice versa
[wages of Building construction — P&L ✗
PPE capitalised]

presentation → schedule III

Disclosure: Difference from AFRF [Related party trans.
AS 18]

Rough

Decision to invest in share of RIL Ltd → [Reported] P&L Revenue · ₹ 10,000 Cr

AFRF
Case 1 9999 Cr
misstatement 1 Cr

AFRF
CASE 2 8,000 Cr
misstatement 200 Cr

case ⇒ Decision Badal jayega? case 2

Material misstatement

Misstatement that can influence economic decisions of users of FS.

Q. Auditor is affected by all misstatement? No
Only Material Misstatement

₹ Materiality ~~precisely~~ or judgement caclulate? $\boxed{\text{SA 320}}$ (later)

Q. Can Auditor guarantee → FS are free from MM?

No guarantee ✗ · Absolute Assurance ✗ [100% confidence ✗]

Reasonable Assurance
[High but not Absolute Assurance].

Q. How to get R.A?

Eg purchase [Amazon]
- purchase order
- Invoice
- Bank statements
- Qty/Quality cheaks

} Audit Evidence

Defination of Audit Evidence : Information → used by Auditor → to draw conclution

Audit Evidende (kaisa?) — [Qty] sufficient & [Quality] Appropriate Audit Evidence

⇒ SAB [sab thik?]

rough

A/cs → Accounting standard

Audit → Standards on Auditing [SA.] → comply complusory? Cos Act 2013 sec 143(9)

SAs ka Raja $\boxed{SA200}$

OOIA CASA

Overall Objective of Independent Auditor & Conduct of Audit as per Standards on Auditing

Overall objective

i) To obtain Reasonable Assurance
- whether FS. are free from material misstatements due to error (or) fraud
- enabling auditor to express opinion that
- FS. are prepared in all ~~material~~ Material respects as per AFRF

ii) Report & communicate as per SAs.

6

Analysis:

i) Auditors objective is obtain R.A. whether FS are free from MM. (due to error/fraud)

- RA. is different from absolute assurance
- Absolute assurance is complete assurance/gurantee.
- RA is high but not absolute level of assurance.

ii) Misstatements can be due to error/fraud.
Auditor seek R.A that is are free from MM. due to error/fraud.

iii) [opinion] obtaining R.A helps auditor to form opinion whether FS are prepared in all material respects as per AFRF.

iv) opinion is Reported & communicated as per SAs.

Audit Risk [wrong opinion. when FS have M.M].

Zero? No [✗ guarantee → R.A.V]

↓

Audit Risk can be reduced to an acceptably low level.

Reason? **ILA [Inherent Limitations of Audit]**.

Eg 1

Judge Sahab [Legal Case].

↓

FS. [provision/cont. Liab.]

↓

Mgt. judgement → $\boxed{\text{win}}$ / $\boxed{\text{Lose}}$

- Subjective
  or
- degree of uncertainty

Entity socha → win → provision → Later on lost case

MM ho sakti hai

Eg. 2

(Good Receiving Section) (uday)

Goods + Bill ← RDX (Supplier)

Bill → stamp [Qty receive]
sign
- Date + Time

→ Majnu [Accountant] → payment (₹) → RDX (Supplier)

Internal Control (process) : Bill will be paid only when goods are received.

Control Risk : Collusion of majnu, Uday & RDX ⇒ purchase MM

{ ✗ Good Receive
✓ Bill payment ₹3L → ₹1L, ₹1L, ₹1L Co. fraud 3L }

1. Nature of Financial Reporting

- Preparation of FS involves judgement by mgt.
- These judgement involve
  → subjective decisions
  or
  → degree of uncertaining

- Mgt. is responsible to prepare FS as per AFRF & devise internal controls.

↓

Internal control may not provide reliable info. due to own limitations.
Eg :- Collusion.

2. Nature of Audit Procedures

Practical Limitation
Auditor doesn't test all trans
↓
He forms opinion by Sample testing

Legal Limitation
Mgt. may not provide complete info
↓
Auditor can't force mgt to provide all info.
↓
He can only report.

(Baimaan)
- Mgt. may have dishonest & unscruplous people involved in fraud.

[Chhupa]
⇒ They may conceal fraud ~~[illegible]~~ using [sochi samjhi saazish] sophisticated & carefully organised schemes

Eg: ① Febricated docs → fake / not genuine
② Paper trans with Related parties ⇒ not actual

Entity → sale 29/03/25 [FY24-25 - sales↑] → Related party

Related party → 2/04/25 sales Return → Entity

Fake docs
- Sale order
- Invoice
- Delivery docs

} pdfs, edit.

3. Audit is not investigation

[Mgt → allegation]

- Audit is not investigation into alleged wrongdoing.
- He doesn't have legal powers of — search or — recording witness statement on oath.
- Audit is different from investigation

Investigation
is critical examination of accounts with special purpose [fraud exist?]

Audit
is to obtain R.A that FS are free from MM due to error/fraud, to express opinion.

Test Ques!!
Examine account ⇒ to check if fraud exist? investigation

4.) Timeliness of Financial Reporting & Balance between benefit & cost

[Time]
Relevance [value] of info. reduces over time.

&

[Balance] to be maintained between reliability of info. & cost.

Eg
2023-24, 2024-25] machine useful life ⇒ 10 yrs = Testing ✓✓
2025-26] Audit fee↓ → staff↓ → useful life 10 yrs Testing ✗

Later on
Machine use↑
Actual useful life 6 yrs → Depn MM

5. Future Event. [Fundamental A/c Assumptions: Going concern, Accrual, Consistency]

Future events/conditions may affect entity adversely (Badly)

↓

Affect ability to continue business

↓

Business may cease in future due to: [Close]

- Adverse event [Corona → Lockdown] (2020 Lockdown)
- or Change in mkt condition [digitisation]
- or New business model. [physical → online]

Professional Skepticism [Shak]

Attitude of

Being Alert / to possible misstatement

Questioning mind [?]

Critical assessment of evidence.

Bank Balance

Bank state. £100,000

Bank confirm. £100

Examples

- Audit evidence that contradicts other audit evidence.
- Info. that brings into question reliability of docs.
- Conditions indicating fraud
- Circumstances creating needs for additional audit procedures

Reduces risk of

- overlooking unusual circumstances [Bank stat. → confirmation, Match – unusual / unusual]
- overgeneralising when drawing conclusions
- Inappropriate assumption for Nature, Timing & Extent of procedures.

SAAE? No

Eg: R.P sales → R.P debtor → Balance confirmation [Feel – Entity / R.P collude]

Is Audit Mandatory?

Yes

All companies [Sec 139(1)]

or

Tax audit [Income Tax Act 1961].

Sec 44AB

[Turnover, Threshold limit].

No

Why?

Benefits of Audit

Benefit of Audit (Why Audit is needed?)

• High Quality Info. [Audited A/cs give confidence to user]

↓

user?

- Shareholder [Not involved in daily affairs + need indepenedent Mechanism to protect ~~them~~ them]
- creditor/Lenders [Make credit desions ie whether to lend or not]
- Govt. [Determine tax Liability]

How?

• Moral cheak on employee from committing frauds → Detetion of error/frauds → Point out deficiencies by reviewing controls.

Q. How auditor ensures FS don't mislead anybody?

[Flow: Trans (SAAC) → Entry → Ledger A/cs → FS].

1. A/cs drawn w.r.t entries in books of A/cs.
2. Entries in books of ~~docs~~ A/cs supported by SAAC.
3. None of entries is omitted in books.
4. Info. ~~conveyed~~ conveyed is clear & unambiguous.
5. FS amount properly classified & disclosed in confirmity with AS.
6. FS present true & fair (R.A) picture of — operational results, assets & liabilities

Correct? → Absolute Assurance

Entry > 3 → clear confirm True & fair pi

Qualities of Auditor

Intro: Auditor is concerned with reporting an financial matters.

Police
Good Temper, integity, firmness, Tack, Caution
(GIFT)

Yudhishtir
- independence
- integrity
- position of trust.

[Human Qualities]

- critically review FS
  ↓
  Expert knowledge of Accounting
  ↙ principles
  ↘ Techniques

★ Scope of Audit

Inclusions
- All aspects of entity
- Reliability & sufficiency of info.
- Disclosure of financial info.

Excludes (From Books)
- Resp for preparing F.S
- Investigation
- Authentication of Docs.
- Duties outside complence

Inclusions ① All aspects of entity relevant to FS.

Eg:- Internal control (process)
- I. Washrooms → daily cleaning ✗
- II. Cleaning agency Bill → mgt verify & pay ✓

② Reliability & Sufficiency of info.

Info. in a/c records & other data [Bills; docs etc] is
- Reliable [Bharosa]
- +
- sufficient [Qty]

⇓

study & access A/c system & interal controls.
(Tally, SAP).

Purchase
- Quotations
- Purchase order [Authorised]
- Delivery good [Qty/Quality check]

③ Disclosure of financial info.
- Ensure relevent info. disclosed in FS.
  - keep in mind statutory requirements [Schedule III + AS]
- FS summurise events & transactions considering mgt. judgement. (purpose?)
- Mgt. makes many judgement in PPFS [Preparation & presentation of FS].

Eg:- choosing appt. A/c policies
- method of depn on fixed assets (SLM/WDV)
- method of valuation of inventory [FIFO / weighted Avg]

Auditor?
Evaluate A/c policies, whether
- selection is proper
- &
- applied consitetly

} AS 5

Elements of Assurance Engg [Audit]

- **3 parties**
  - **Practioner** — person who provides assurance [Auditor].
    - Broader concept
      - Auditor ✗
      - practioner ✓
        - Auditor
        - Reviewer
        - other
  - **Responsible party** — Resp. to prepare subject matter [Mgt.]
  - **Intended Users** — person for whom report issued. [share holder]
- **Subject matter** — info. to be examined by the practioner [financial info. in FS].
- **Criteria** — Benchmark to evaluate the subject matter. Like - standard, Law etc. [AFRF]
- **Sufficient & Appropriate Evidance** [SAAE]
- **Report** — written Report having conclusion about subject matter. [Audit Report opion about FS].

Engagement [Engg]: Agreement/Arragement to do something.

- Engg.
  - Assurance [Confidence]
    - Historical financial info.
      - Audit
      - Review
    - other
  - other/Related service

Assurance Engagement

Engg. in which

- practioner expresses conclution
- kya? to enhance confidence
- kiska? of intended users (not responsible party)
- kaise? about evalution of subject matter against criteria.

Audit cycle

① perform Audit procedures. → ② Audit Evidence [info.].
- Test of details
- Analytical procedure

④ opinion & Report ← ③ conclution [M M?]

Types of Assurance Engg.

1. Audit → standard on Auditing → Reasonable Assurance [High but not absolute].

(Elaborate & extensive Audit procedure → sufficient & Appt. Audit Evidence → Reasonable conlusion)

2. Review → standard on Review Engg. (SRE) → Limited Assurance.

Rough. Listed entities → quarterly financial results → SEBI → submit 45/60 days from end of qtr.]

[Limited procedures → sufficeint & Approprate evidence → Limited conclusion

Inquiry   Analytical pro.

Historical financial info. [BS & P/L ⇒ info.]

- info expressed in financial terms.
- derived from A/c system About Economic

[BS] conditions/circumstaces at a point in time in past

[P&L] Event occuring in past time periods.

Difference b/w Historical ...

HFI

Related to info. expressed in financial terms about Economic ccc occuring in past periods.

PFI

Financial info. based on Assumptions about future events & possible actions by entity

Conclution: HFI is related to past events & PFI is related to future events.

Other Assurance engg → std. on Assurance Engg → prospective financial info. [PFI].
[other than Historical financial info.] → Design & operation of Internal control

Prospective financial Info. [PFI]: Financial info based on Assumptions about future events (online order 20%↑) & possible action (order + sales ↑ fulfill) by entity.

Eg:- Forecast, projection or both

Forecast → past treads → Y.O.Y. sales grow 20% → Next year 20%↑ (Best Estimate)

projection → plant install karenge → New product → sale↑ [Hyphothetical]

Obtain SAE about PFI (future) (Fo info (present) → Assumption → PFI (future))

- [Assumptions thik hain] mgt. assumptions are not reasonable
- [Banado] PFI properly prepared on basis of assumption.
- (Bata do.) PFI properly presented & all material assumptions disclosed.

• PFI related to future events evidence may be available to support assumptions is also future oriented. [Agreement 5000 unit sales order].

Rough

Report kaise krenge → 1. ~~Assumptions~~ thik hai
Or
2. Assumption → gadbad nahi mila

Q Can Auditor express opion → Result of PFI will be achieved? No

He can report → assuming → Nothing has come to his attention to suggest that assumption are not reasonable.
↓
Moderate Assurance.

Related Services [Non- Assurance Engg].

Agreed upon procedures

Mgt tells
- What to test? [Debtors]
- How to test [confirmation]

⇓

Report factual findings [variations].

+

procedures

★ SRS (Standard on Related services).

Compilation Engg. (SRS 4410)

Mgt gives
- A/c Records
- Docs
- judgement

Compile FS [prepare]

Q CA = FS
- compile ✓
- Audit? ✗

Standards on Quality Control [SQC-1]

Firm's responsibility for system of Quality Control [Policies]

Firm & personnel [log] comply with PRL requirements.

[Professional standards & Regulatory & legal requirement]

⇓

Report issued are appropriate [opinion → sahi]

SQC-1 applicable to
- Audit ✓
- Reviews ✓
- Other assurance engg ✓
- Related service ✓

i.e all engagements

Q Why are standard needed?

- Ensures audit done against benchmarks at par with global practices
- Equips accountant with knowledge & skill.

[Quality]
- Ensure audit quality
- improved quality of financial reporting

[Uniformity]
- Promotes uniformity as audit done using standards.

Case Sanario

SA 501 Auditor has to attend physical inventory count at client location

Issue : Govt impose lockdown, restricting travel.

Rough : Auditor ⇒ Give up? NO

Alernate procedure [options].

① Use video call/Drones

② Reconsilation

Last count	xx
+ purchase	xx
(-) Sales	(xx)
period end	xx

③ Inventory is with 3rd party ⇒ confirmation

Documentation

- Alternate procedures performed
- Reasons for departure
- Report should draw attention to such departure

SA210 : Agreeing the Terms of Audit Engg.

1st time — subsequent

Accept & continue audit only when BASIS is agreed
- 1. Pre-conditions present
- 2. Common understanding b/w auditor & mgt.

Pre-conditions of audit

FRF is acceptable & Agreement with mgt that it acknowledges & understands its reponsibility

- PPFs as per AFRF [presentation & presentation of FS]
- Internal control to prepare FS free from MM [fraud / errors]
- Provide Auditor with
  - Acess to All info: relevant to prepare FS i.e Records, docs etc — Ledger, T.B, invoices ....
  - Additional infos that auditor may request — Rent agreement
  - Unrestricted acces to persons within entity to obtain audit evidence — sales trans confirm by sales mger

⇒ Precondition not present ⇒ Dicuss with mgt. + Don't accept audit unless required by Law/regulation. [force nahi karega]

Contents of Engg. letter [Agreement b/w Auditor & Mgt]

Auditor —sent EL to→ mgt.

contents:

1. Objective & scope of audit → Responsibities of
   - (2) mgt → (4) AFRF for preparing FS.
   - (3) Auditor → (5) Reference to expected form & content of Audit Report & Statement there maybe circumstances when report may differ from expected from & content.

SA 570 / SA 70 / SA 705 / SA 706

Note: If law/regulation → precribes in sufficient detail terms of engg.

[Record again? No]

Auditor need not record them in agreement Except

Fact that such L/R applies

& mgt understands & acknowleges it responsibilities

Types of opinions

FS — M·M ✗ ⟶ unmordified opinion [True/Fair view]

FS — M·M ✓ ⟶ Modified opinion

Modified opinion (Types)

Material misstatement

SAAE ✓

SAAE ✗

Effect

Pervasive to f·s (affecting whole FS]

Adverse opinion

Pervasive ✗
[Not affecting whole F·S]
Eg: Loan → MM [Baki FS thik hai]

Qualified opinion

Perversive ✓
[SAAE → conclusion → opinion ✗]

Disclamier of opinion

{mgt fraud → evidence Bharosa? No
Evidence nahi mila}

[Pervasive concept → in detail → SA 705].

Mgt/TCWG → impose limitation on scope (SAA E✗) → Result in Desclaimer of opion ⟶ Accept? Dont accept such engg. unless reqd. by L/R.

Change in Terms of Audit Engg. (After Aceptance)

(Audit → ~~Review~~/Related services)

I. Circumtances ⇒ [Client request auditor to change terms of audit]

1. Restriction on scope of audit Reported by → Mgt or circumtances

FS creditor Balance ₹2L

confirmation × → Dispute

Entity — ₹5L goods → Creditor [Kachra seth]

₹3L goods Returend — × Return Accept

2. Change in circumtances affecting need for service

client need loan from..

20 july ⇒ Audited FS [R.A]

25 july ⇒ Reviewed FS [L.A]

3. Misunderstending about nature of audit originally requested

Mgt: "We need Assurance on FS" (Double meaning)

R.A — L.A

Q. Can Auditor accept change in terms? yes only if ~~there~~ Reasonable justification.

II. What's Reasonable/Unreasonable

Reasonable

- Change in circumstances
- Misunderstanding about nature of service.

change may not be reasonable if,

Change related to Info. that [good bad]

- Incorrect
- Incomplete
- Unsatisfactory

Eg:- Auditor ⇒ Debtor = SAAE ×

Entity requested to change, from audit → to Review Engg.

to avoid Qualified/Disclaimer opinion

III: What to consider before agreeing change of Audit Engg. $\xrightarrow{\text{to}}$ Engg with lower Assurance

1. R.J. → Reasonable justification
2. Also assess, contractual/legal implications of change
3. Audit work performed till date maybe relevant to changed engg.
4. However : • work to be performed &
   • report to be issued
   should be appropiate to ~~original~~/revised engg
5. To avoid confusing reader,
   Report on related service
   shall not refer
   - Original audit engg.
   - or
   - any procedures that maybe performed in audit.

Exception: If audit engg. $\xrightarrow[\text{to}]{\text{changed}}$ Agreed upon procedures
[Reference to procedures included in report]

IV. Auditor agree & Mgt continue audit?

withdraw if possible under L/R

&

Report circumtances to:
- Regulator
- TCWG [Audit committee/BOD].
- Owners

Cos. Act Sec 140(2)

Resign ADT—3 (free). → 30 days from registration

↓

Reasons. — Co.
— ROC.

Recurring Engg (Audit performed over years)

2023-24 ELC

24-25 NewEL? depend on factors

(Revise Engg. letter)

(Engg. letter content)

- Entity misunderstands objective + scope
- Revised terms of Engg.

(Dhandhe)

Eg:- RIL → Jio start

- Significant change in nature/size of business

(E) Sig. change in ownership
Eg:- Mukesh Ambani

Chalata Recent change in senior mgt.
Jr. ~~Mgt~~

(Law/FRF)

- change in L/R

Mgt change in FRF
Eg:- New AS

Auditor change in Reporting requirements.
Eg:- CARO 2020

Quality

Purpose of audit : To provide confidence to users of FS.
∴ For that audit quality is essential
It's auditors responsibility to maintain high audit quality

Standards

SQC-1 [Quality control for firms]
- Applies to entire firm.
- Deals with all engg. — Audit / Review / other ass. / R.S

SA 220 [Quality Control for Audit of FS]
- Only applies to audit engg.

Rough
SQC-1 Firm [Quality control system] → All assurance engg → Practiner + Team → Independent
SA220 Audit Engg. [Quality control Policies] → Audit → Engg partner + Team + Independent

Based on Quality control system of firm,
Engg. team decides Quality control provides of Audit Engg.
Responsible?
- Engg. partner is responsible for quality control of audit.

Conclusion: SA 220 is premised on basis that firm is subject to SQC-1

Leadership Responsibity for Quality.

Firm [SQC-1]	Audit
• Firm to establish P&P to promote internal culture of quality [P&P = policies & procedures]. (Responsible?)	• Engg. partner is responsible for quality of audit.
• Firm's CEO/managing partner responsible for system of Q.C.	• Action & messages of EP to other members emphasises:— [PRL = Professional stds, Regulatory & Legal Requirements]
• (Awards) Firm leadership encourage inner culture that recognise high quality work.	ⓐ Importance of quality of: i) performing work as per PRL requirements (Bahar Wali) ii) comply with firm's quality control P&P (andar wali) iii) Issue appropiate audit report. iv) Engg. Team's ability to (sikayat) raise concerns without fear of reprisal (punishment).
• Person with operational responsibility (leader Quality?) should have experience, ability & authority.	ⓑ Fact that quality is essential for audit.

• **Ethical Requirements** [Fundamental principles of Ethics].

ⓐ **Integrity:-** • Be straight forward & honest.
• Implies fair dealing & truthfulness
• Dont associate with reports which contain

error { → Materially false info.
→ info provided negligently × cheak
ommission → Omits required info.

Eg:- To get client, bank loan, CA signed on false figures in F.S.

ⓑ **Objectivity:** Don't compromise professional judgement ~~become~~ because of:

[Biasness] [Conflict of Inrest] [under influence of [other].]

Eg:- CA took gift / special treatment from audit client.

ⓒ **Professional complence & Due Care**

Attain & maintain professional knowledge & skills
CA Book · Articleship · Excel · Time mgt

Act diligently as per Technical & professional standards.
→ Diligence:- Act carefully & on timely basis.

Eg:- CA → Failed to give proper advise to client / didnt submit report on time.

ⓓ **Confidentiality:** Respect confidentiality of info. acquired through professional relation S.

Exeptions: Confidence info. can be disclosed if:

Required by law
Sec 143(12)
Fraud Reporting 1cr/above → CG.

Permitted by law & authorised by client
[Tax Returns file.]

Professional duty to dislose.
NFRA Sec 132
[National financial Reporting Authority]
↳ investigation
↳ firm.

ⓔ **Professional Behaviour.**

Comply with laws & Regulations
× Illegal activity

& avoid any conduct that might descredit profession
[Badnaami]

Eg: Newspaper Ad ⇒ "CA caught taking 50k bribe client"

Threats to independence

1. **Self Interest threat:** Audit firm/partner/associate that will benefit from financial interest in client.

Eg:- Direct/Indirect financial intt. [Invested in shares]
- Loan/Guarantee
- Fees
  - High depence on fees ∴ concern of Losing client
  - contigent fees [x fixed → opinion – Unmodified – 12, Modified – 100]
- Business relation/potential employement

2. **Self - Review Threat:** Review of judgement/conclution [work] reached in previous audit/Non audit engg.

• Audit team member previously been Director/Sr. Employee of Client co.

Eg: ① [Same]
② Auditor performs services that are subject matter [financial info in FS] of engg [Auditor hi FS bana raha hai]

3. **Advocacy Threat:** Promoting clients opinion to a point that objectivity is compromised

Eg:- 1) Dealing [Promote] in shares of Client Co.
2) Advocate in Litigation with 3rd parties

4. **Familiarity Threat:** Form relationship with client ending up being too sympathetic to clients interest

Eg:- Blood 1) Close relation → at Sr. position [Role] of client
Firm 2) Former partner → Director/Sr. employee of client
Time 3) Long association b/w auditor & client
Gift 4) Accepting significant gift/hospitality from client

5. **Intimidation treat:-** when auditors are deterred from acting objectively.

Eg
- Threat
  - replaced over disagreement on accounts
  - of Litigation
- Pressure to reduce audit work as fee is low

Safeguards to independence

- CA has responsibility to remain independent. [Auditor].
- Safeguards are Actions to reduce threats to acceptable level

Guiding principle [Before Accepting]

1. For public confidence, auditor should be & appear to be independent → 2. Before taking any work consider threats to independence.

↓

3. When threats exist

Desist from task or place safeguards to eliminate/reduce threat to acceptable level

Accept ✗

4. If unable to implement safeguard don't accept work. ←

Independence of

Mind

Independence [policies & procedures]

[Batao]
a. communicate independence requirements to personnel

[Threats]
b). Identify & evaluate circumstances & relationships that create threats to independence

[safeguard]
c) Take appt. actions to
→ Eliminate threats
→ reduce to acceptable level
→ withdraw from engg.

3. Acceptance & continuance of client relationships & Engg.

1st time — subsequent — FS Audit, Tax Return, consultancy — FS Audit

Info. → Decide regarding acceptance / continuance of client

- significant matters arisen during CY or PY audit engg.

  Eg significant difficulties / sig. risks [Fraud, Related Party Trans]
  - Time pe SAAE ✗
  - A. procedure ✗

  MM%↑

  ⇒ Detail [After few classes

- compliance with Ethical requirements
- Competence of engg. team & necessary capabilities including time & resources
- Integrity of principal owners.

① SQC-I SA 220 Client Accept / continue ↓ SEC I — confusion — ② SA 210 Accept ↓ Basis < pre-condns / common understanding

Integrity of Client → matter?

- Reputation: Identity & business reputation of client ← owners / mgt / TCWG / Related parties
- Reason for proposed appointment of firm & non reappointment of previous firm.
  ↓ Adverse option.
- Nature of clients operations. Drug dealer
- Attitude of clients towards ← interpretation of A/c standard & internal control.
- Aggressiveness to maintain firm's fees as ↓low as possible. Quality×
- client maybe involved in money laundering.
- Inappropriate limitation on scope of work. SAAEX

Withdraw from Engg.

Auditor obtain info [if obained before → Declined Engg.]

↓

Withdraw [PRD]

① Professional & legal Responsibility & withdraw from Engg. or both Engg & client relationship

↓

$\boxed{\text{Report}}$

- Regulator
- TCWG
- Owner [who made appoitmnt]

TCWG [Those charged with [functioning / Governance]]

oversight of Stragic direction of entity

&

responsible for entity's obligation [Liabilities / Duties]

Eg: Chairman, Audit committee, BOD [Non-Executive]

Human Resources [PHP]

insure that firm has Sufficient & (Appropriate) personnel

completence, capability, committment to ethics,

⇒ To perform engg as per PRL requirement

⇒ To issue appropiate reports.

HR issues

Recruiting → Training → performance Evaluation → compensation & ↑ [promotion] Carreer development.

Engg. Performance

Consistency in quality of egg. performance, achieved through:

- Baniyega
- complying with standards
- supervise
- Review → Documentation.

- Briefing of ETs of their objeviews [ET → Egg. Team]
- processes for
  - Complying with standards
  - Engg. Supervision & training
  - Reviewing performance of work
- Proper Documentation of work performed,

concept

EP — opinion / discuss → EQCR [CA + firm senior]

Engg. Quality Control Reviewer

Q1 Why EQCR? [ILA]
⇒ Sig. judgement
Eg:- A/c estimate

Eg: Airtel
- Telecom licence ₹50 Cr
- TRAI notice → penalty ₹10 Cr - 100 Cr
  ↓
  provision — Sig. judgement ₹xxx

Q2 Entities audit?
- compulsory ↓ Listed
- other ↓ firm's criteria

Q3 Does EQCR reduce EP's responsibility for opinion?
No

EP. Responsibility? [EQCR for Listed entities & others]

1. EQCR is appointed
2. Discuss significant matters with EQCR
3. Not date (sign) Audit Report until completion of EQCR
4. If difference of opinion b/w EP & EQCR
   ↓
   follow firm's Policies & Procedure

Eg:- Consulting another practitioner / firm / professional or regulatory body. Eg:- ICAI/NFRA

Assembly of audit/engg. file

EP

DOC Sr. mgr + DOC mgr + DOC A.M + DOC Exec + DOC Article

Audit file [file/folder]
↓
[physical/electronic]

① **Time Limit**
- Audit Engg
  - ~~AR date phle~~
  - Baad ✓ 60 days after Date of Audit Report
- Other Engg → Limit appropiate

{Rough A/R → opinion → conclusion → evidence → procedure
Document ✓ Accordingly [Baad ✓]}

② **Policy → Documentation**

Maintain
- Confidentiality
- Safe custody — Accessability / Retrievability
- Intntegity

Rough
[EY canvas portal [Group] [Airtel] group assess — EY all / Specific
Archive → Backup → Restore]

③ **Retention period** : Audit file → 7 years from date of — Audit Report or Group Audit Report if later

• Engg. Documentation → whose property?
- Auditor / Auditor firm
- Client ✗
- ICAI/NFRA ✗

Engg. documentation it is property of firm
↓
it may at its discrection
↓
Make portions/extracts available to client
But,
Make sure it does not undermine → validity of work perfomed
or
→ Independence (Assurance engg.) (firm/person)

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Ethics

[Moral principles → govern person's behavior / Activity]

Eg:- Morals → lead simple / Healty life → leaving Alcohol

Principle Based

1) Comply with spirit of ethics

2) Exercise professional judgement (decision) in every situation based on professional knowledge & skill.

3) Evaluate every situation to (flexible) arrive at conclusion.

Rule Based

1) Strictly follow established rules.
Eg:- conf. Rule → client info. → relative ✗ friend ✓

2) Narrow outlook & spirit of ethics may be overlooked

3) He is rigid as may be unable to deal with every practical situation.

Conclusion: (feel) Sprit of code (of Ethics) should be followed.