CA Inter Audit Batch

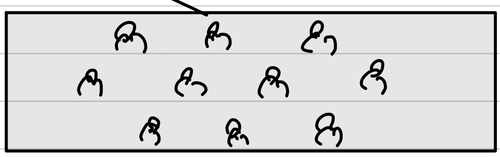
Intro: About me, Batch approach, Doubts support, class tests. : Intro session.

Books: Notes, QB, MCQ Booklet → Next week.

	Highest	Apka Target
• Jan'25	94	80+
• May'25	93 [300+ Exemptions].	

₹ [Invest/owners]

Reliance Ltd.
[Manage? : management]

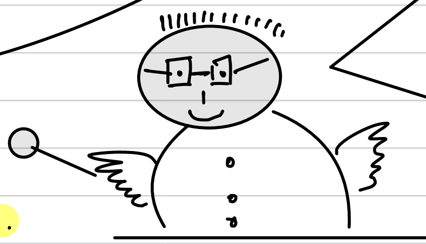


Shareholders

?

{ Profit? / loss?
Assets? / liab? }

Financial Statements [FS].
BS
P&L [Risk? Sales inflate↑ → mgt commission↑ / Bonus↑).
Notes.



Mgt? ✗
Shareholder? ✗

Independent Auditor.

Trivia:
{ Cos. Act : Sec 141(3)
Disqualification of auditor }

Q What is Audit?

Audit is Independent examination (check)

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

[kiski]. of an Entity — whether profit oriented / not [NPO].
— irrespective of size (Small / Big) / legal form. [Sole prop., firm, LLP, Company].

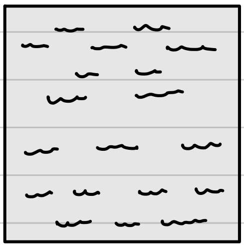
[kyu?]. with a view to express opinion.

[dmin].

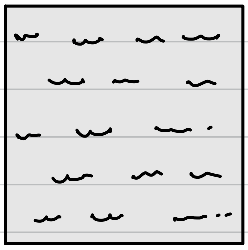
Q How to examine FS?

Rough

Answer sheet check?



Ans. sheet



Working scheme

Audit

F.S.	Applicable Financial Reporting Framework (AFRF)
B.S. P&L Notes to A/cs.	• A/c Standards • Schedule III

Profit oriented: P&L | BS | Notes.

N.P.O: Receipts & payment A/c + Income & Exp A/c.

Applicable FRF: FRF

- Adopted by mgt to prepare FS
- &
- Acceptable considering
  - Nature of Entity
    - • Profit
    - • NPO
  - &
  - Objective of FS.
    - General users.: Accrual
    - Specific users.: cash

OR

required by law/ Regulation.

[Co. → Cos Act 2013
FS. Sec 129].

Jain

★ Misstatement {Kyu? < unintentional → error; intentional → fraud}
Difference in

- Amount
- Classification
- Presentation
- Disclosure

Reported in FS & Required by AFRF

Examples of Misstatement

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

• A/c Estimates : Difference from AFRF [Debtors overdue > 3yrs ⇒ × provision].

• overstating ↑ of • Receivables
• Inventory
• intentional booking of fake expenses. [~~error~~ / fraud].

[Classification] charging capital exp. to revenue exp. or vice versa.
[wages for Building construction — ~~P&L~~ {PPE capitalise}].

[Presentation → Sched. III. x].

Disclosure : Difference from AFRF [Related Party transⁿ AS 18]

[2min] DDD

Rough

Decision to invest in shares of RIL Ltd. → Revenue. ₹10,000 cr.

[Reported]. P&L

Case 1: 9,999 cr. AFRF — Misstatement 1 cr.

Case 2: 8000 cr. AFRF — Misstatement 2000 cr.

Case ⇒ Decision badal jayega? case 2

Material misstatement
Misstatements that can influence economic decisions of users of FS.

Q Auditor is affected by all misstatements? No
Only material misstatements.

Materiality
- ~~precisely~~
- or
- judgement. calculate? $\boxed{\text{SA 320}}$ (later).
  - SA?
  - Break ke baad.

Q Can Auditor guarantee → FS are free from MM?
No guarantee ✗   Absolute Assurance [100% confidence] ✗.

[Mota Mati].
Reasonable Assurance
[High but not Absolute Assurance].

Q How to get R.A.?

eg purchases. [Amazon].
- Purchase order ✓
- Invoice ✓
- Bank statements. ✓
- Qty | Quality checks. ✓

} Audit Evidence.

Definition of Audit Evidence. Information → used by Auditor → to draw conclusion. [Sab thik?].

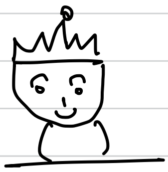
Audit Evidence [kaisa?]. < [Qty] Sufficient & [Quality]. Appropriate Audit Evidence ⇒ $\boxed{SAAE}$

Rough

A/cs → Accounting Standard

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

SAs ka Raja SA200



OOIA CASA

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

Overall objective

i) To obtain ① Reasonable Assurance (RA)
- whether f.s. are free from ② material misstatements due to < error or fraud.
- enabling auditor to express ③ opinion. that
- f.s. are prepared in all material respects as per AFRF

ii) ④ Report & communicate as per SAs.

2 min's

Analysis:

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

- R.A. is different from absolute assurance.
- Absolute assurance is complete assurance / guarantee.
- RA is HIGH but not absolute level of assurance.

ii) Misstatements can be due to error / fraud. [materiality → ignore]. Auditor seeks R.A. that FS 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.

QOTD: Q5

Process → Successful Results

Process

- class notes ✓
- QB ✓
- concepts ✓
- Revision ✓
- QOTD ✓

] clear exams in one go!!

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

zero? No [x guarantee → R.A.✓].

Audit risk can be reduced to an acceptably low level.

Reason? ILA [Inherent Limitations of Audit].

Eg 1

Judge sahab [legal case].

Entity Socha → win → provision ~~x~~ → ~~action~~ lost case → MM ho sakti hai

F.S. [Provision / Cont. Liab.].

mgt. judgment — win / lose

• Subjective or • degree of uncertainty

Eg 2

Goods ✗ + Bill ✓

[Goods Receiving Section].

Uday

RDX (supplier).

Bill → Stamp [Qty receive]. ✓ Sign ✓ • Date + Time.

Majnu [Accountant].

payment (₹)

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

Control risk : collusion of majnu, uday & RDX ⇒ purchase MM ✓

{ ✗ Goods Receive ✓ Bill payment ₹3L — & IL / & IL / & IL   Co. fraud ₹3L }.

1. Nature of Financial Reporting

- Preparation of FS involves judgment by mgt
  ↓
- These judgments involve
  → Subjective decisions
  or
  → degree of uncertainty

- mgt is responsible to prepare FS as per AFRF
  &
  devise internal controls.
  ↓
  Internal controls 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.

why? Beimaan.

- Mgt may have dishonest & unscrupulous people involved in fraud.
  ⇒ They may [chhupa] conceal fraud using sophisticated & carefully organised schemes. [sochi samjhi saazish].

Eg 1. Fabricated docs → fake / not genuine

2. Paper trans with Related parties → not actual.

Entity → Related party: Sale 29.3.25 [FY24-25 → sales↑].

Related party → Entity: 2.4.25 Sales Return.

fake docs
- sales order
- invoice
- delivery docs.

pdfs edit

Quins

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 statements on oath.
- Audit is different from investigation.

Investigation
is critical examination [100% Testing] of accounts with special purpose.
[fraud exist?].

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

Test Ques!!
Examine accounts ⇒ to check if fraud exists? Investigation

2 mins

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 years. ⇒ Testing ✓ F.S
2025-26] Audit fees ↓ → staff ↓ → useful life 10yrs Testing ✗

later on

Actual: Machines use ↑ useful life 6yrs. → Depⁿ MM ✓

5. Future Events.

[Fundamental A/c Assumptions:
Going Concern, Accrual, Consistency].

future events / conditions may affect entity adversely [Badly]

↓

Affect ability to continue business.

↓

Business may cease [Close] in future due to:

- Adverse event [Corona → lockdown]. (2020 lockdown)
- or change in mkt conditions [digitisation].
- or new business models. [physical → online].

Professional Skepticism

Attitude of

- Being Alert to possible misstatement ?
- Questioning mind [?].
- critical assessment of evidence.

Examples

Bank Balance	Bank Statement	Bank confirmation
	₹100,000	₹100

- Audit evidence that contradicts other audit evidence.
- Info. that brings into question reliability of docs. Khushboo?
- Conditions indicating fraud.
- Circumstances creating need for additional audit procedures. (Jain)
-
-
-
-
-

Reduces risk of (ROI)

- overlooking unusual circumstances [Bank St. — confirmation, match — usual, unusual].
- overgeneralising when drawing conclusions.
- Inappropriate assumptions for Nature, Timing & Extent of procedures.

during

Ans 15) [Theory] Maintaining professional skepticism is necessary to reduce risk of :

- Overlooking unusual circumstances
- Overgeneralising when drawing conclusion.
- Inappropriate assumptions when designing NTE of audit procedures.

Facts : In given case, revenue increased from ₹80cr to ₹100cr.
Profit increased from ₹6cr to ₹10cr.
Despite loss of ₹5cr due to fire.

Conclusion : CA D lacks professional skepticism.
- NTE of audit procedures needs to be altered
- He may include analytical procedures to analyse variations.
- If doubt about reliability of info. or fraud, modify or perform additional audit procedures.

- Revise ✓
- QOTD Q9

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'

Benefits of Audit (Why Audit is needed?].

- High Quality Info. [Audited A/cs give confidence to users?].

Users?

Shareholders
[Not involved in daily affairs + need independent mechanism to protect them)

Creditors | lenders
[make credit decisions i.e. whether to lend or not].

Govt.
[Determine tax liability].

How?

- Moral check on employees from commiting frauds

Detection of errors | frauds.

Point out deficiencies by reviewing controls.

Q How auditor ensures F.S. don't mislead anybody?

[Flow: Transⁿ → Entry → ledger A/cs → FS].
[SAAE]

1. A/cs drawn w.r.t. entries in books of A/cs.

2. Entries in books of a/cs supported by SAAE.

3. None of entries is omitted in books.

4. Info. conveyed is $\boxed{\text{clear}}$ & unambiguous. (Double meaning × confusion)

5 FS amounts properly classified & disclosed in $\boxed{\text{confirm}}$ing with A.S.

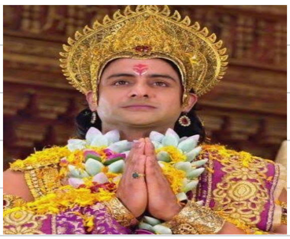
6. FS present $\boxed{\text{true \& fair}}$ picture of — operational results, [P&L] — assets & liabilities. [BS].
[R.A.]. Correct? → Absolute ass.

Qualities of Auditor

Intro: Auditor is concerned with reporting on financial matters.

Police

Good Temper, Integrity,
Firmness, Tact, 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 Book).
  - Resp for preparing FS
  - Investigation
  - Authentication of docs.
  - Duties outside competence.

Inclusions: 1. All aspects of entity relevant to FS.

Eg. Internal controls [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 & assess A/c systems (Tally, SAP). & Internal controls.

Purchase
- Quotations
- Purchase order [Authorised]
- Delivery goods [qty | quality check].

3. Disclosure of financial Info.

- Ensure relevant info. disclosed in FS.
  - ? Keep in mind statutory requirements. [Schedule III + AS].
  - purpose?
- FS summarise events & transactions considering mgt judgment.
- mgt makes many judgments in PPFS [Preparation & Presentation of FS].

Eg. choosing appt. a/c policies —
- method of depreciation on fixed assets [SLM | WDV]
- or
- method of valuation of inventories [FIFO | weighted avg].

& Auditor?

Evaluate a/c policies, whether — selection is proper & applied consistently. } AS 5

Elements of Assurance [Audit] Engg.

- **3 parties**
  - **Practitioner** — Person who provides assurance [Auditor].
    - Broader concept
      - Auditor ✗
      - Practioner: • Auditor • Reviewer • other
  - **Responsible Party** — Resp. to prepare subject matter [mgt].
  - **Intended users** — Persons for whom report issued. [shareholders]
- **Subject matter** — Info. to be examined by practitioner [financial info. in FS].
- **Criteria** — Benchmark to evaluate subject matter. like standards, laws etc. [AFRF]
- **Sufficient & Appropriate Evidence** — [SA E]
- **Report** — written Report having conclusion about subject matter. [Audit Report opinion about FS].

Engagement [Engg]: Agreement/Arrangement to do something

- Engg.
  - Assurance [confidence]
    - Historical financial info.
      - Audit
      - Review
    - other.
  - other / Related Services.

Assurance Engagement

Engg. in which

- • practitioner expresses conclusion
- kyu? • to enhance confidence
- kiska? • of intended users (not responsible party)
- kaise? • about evaluation of subject matter against criteria.

Audit cycle

① Perform Audit procedures. → ② Audit Evidence [Info.].
- Test of details
- Analytical Procedure.

② Audit Evidence [Info.] → ③ Conclusion [m.m.?].

③ Conclusion [m.m.?] → ④ opinion & Report.

Types of Assurance Engg.

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

(Elaborate & extensive Audit procedures. → Sufficient & Appt. Audit Evidence → Reasonable conclusion)

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

Rough: Listed Entities → Quarterly financial results. → SEBI → Submit 45/60 days from end of qtr.]. Inquiry, Analytical pro.

[Limited procedures → Sufficient & Appropriate evidence → Limited conclusion)

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

- Info. expressed in financial terms.
- derived from A/c system About Economic
  - [BS] conditions / circumstances at a point in time in past
  - [P&L] events occurring in past time periods.

Imp

Difference b/w Historical & Prospective financial info.

HFI
Relates to info. expressed in financial terms about Economic C&E occurring in past periods.

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

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

Other Assurance engg → Std. on Assurance Engg. → Prospective financial info. [PFI]. / Design & operation of Internal controls.
[other than historical financial info.].

Prospective Financial Info. [PFI]: financial info. based on Assumptions about future events & possible actions by entity.

online orders 20% ↑ (future events)
order fulfill → sales ↑ (possible actions)

Eg. forecast, projection or both
- forecast ↓ past trends — Y.O.Y. Sales grow 20% → Next year 20%↑ [Best Estimate]
- projection ↓ plant install karenge → New product → sales ↑ [Hypothetical]

Obtain SAE about
- [Assumptions thik hain.] Mgt's assumptions are not unreasonable.
- [Banado] PFI properly prepared on basis of assumptions.
- (Batado) PFI properly presented & all material assumptions disclosed.

F.Info [present] → Assumptions → PFI [future]

• PFI relates to future events, evidence maybe available to support assumptions is also future oriented.
[Agreement 5000 units sales order].

rough
{ Report kaise kare? — 1. ~~Assumptions~~ thik hai
or
2. Assumptions → galat nahi mila }

Q Can Auditor express opinion → Results of PFI will be achieved? No

He can report → assuring → Nothing has come to his attention to suggest that assumptions are not reasonable
⇓
Moderate Assurance.

Qn ✓

Ans19 1. SAs apply for audit of HFI which is reasonable assurance engg. whereas SRE apply in review of HFI. which is limited assurance engg.

2. HFI is info. expressed in financial terms, derived from A/c system about economic [CCE] circumstances, conditions or events occured in past.

3. Audit is RA engg. & objective is to reduce engg. risk to ~~zero~~. acceptably low level.

4. Review is L.A. engg. & objective is reducing engg risk to acceptable level in circumstances.

5. SA Examples [SA 200/500/700].

6. SRE Examples [SRE 2400 Engg. to Review H.F.S. by x Auditor

SRE 2410 Review of Interim financial info. by Independent Auditor of entity.

Ans 20 Audit engg. is assurance engg.

Intro
- However assurance engg. is not limited to audit.
- They also include review engg., engg. to provide assurance on PFI, internal controls of entity.

Expl^n
- Assurance engg. provides assurance to users.
- Difference is of degree.
- Audit provides R.A. which is high level of assurance.
- Review provides L.A. which is lower level of assurance compared to audit.
- There are also assurance engg. which relate to matters other than HFI i.e. assurance on PFI & Internal controls of entity.
- Practitioner obtains SAE to effect that:
  → Mgt's assumptions are not unreasonable

→ PFI is properly prepared on basis of assumptions.

→ PFI is properly presented & all material assumptions are disclosed.

Facts: Kriti feels audit is only assurance engg, however Somaya feels otherwise.

Conclusion: Considering facts, Somaya is correct.

→ PFI is properly prepared on basis of assumptions.

→ PFI is properly presented & all material assumptions are disclosed.

Facts: Kriti feels audit is only assurance engg, however Somaya feels otherwise.

Conclusion: Considering facts, Somaya is Correct.

Related Services [Non-Assurance Engg].

Agreed Upon Procedures (SRS 4400)*

Mgt tells
- What to test? [Debtors]
- How to test [Confirmation].

↓

Report factual findings [Variations].
+
* $\boxed{\text{Procedures.}}$ * SAWO

Compilation Engg. (SRS 4410)

Mgt gives
- A/c Records
- Docs.
- judgements.

Compile FS. [Prepare].

Q
B CA ⇒ FS
- Compile ✓
- Audit? ✗

* SRS (Standard on Related Services).

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 requirements]

↓

Reports issued are appropriate. [Opinion → SAW].

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

i.e. all engagements

Q Why are standards needed?

USA | France | Germany | Australia | Dubai

ISAs → copy → SA

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

[Quality].
- Ensures audit quality
- improves quality of financial reporting

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

Quiz

Case Scenario

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

Issue: Govt impose lockdown, restricting travel

Rough: Auditor ⇒ give up? No

Alternate Procedures. [options].

1. Use video call / Drones
2. Reconciliation

last count	xxx
+ purchases	xxx
(-) sales	(xxx)
period end	xxx

3. Inventory is with 3rd party. → Confirmation.

Documentation

- Alternate procedures performed.

Afere
- Reasons [lockdown]. for departure [Depart kiya [no follow] → SA].
- Report should draw attention to such departure.

Ch-1 ✓

Test [Sunday] ⇒ 30 M

- 10 MCQ
- 20 Descriptive.

40% → 12 M

Revision video? Yes

- Concepts ✓
- Questions ✓

⇒ YT channel

5k