

Chapter 1 – Nature, Objective and Scope of Audit

Meaning and Nature of Auditing

Meaning of Audit

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,
- when such an examination is conducted with a view to expressing an opinion thereon

Analysis of the definition

- Audit is an independent examination of financial information.
 - Independence, here, implies that the judgement of a person is not subordinate to the wishes or direction of another person who might have engaged him.
- Audit applies to various entities, including non-profits (e.g., NGOs, trusts), regardless of size or legal form (e.g., sole proprietorships, partnerships, LLPs, private/public companies, societies, trusts).
- The purpose of the audit is to express an opinion on the FSs.
- Historical financial information – relates to information expressed in financial terms of an entity about economic events, conditions or circumstances occurring in past periods.
- Financial statements – A structured representation of historical financial information,
 - including related notes,
 - intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time
 - in accordance with a financial reporting framework.

Objectives of Auditor

In conducting audit of FSs, objectives of auditor in accordance with SA 200 "Overall Objectives of the Independent auditor and the conduct of an audit in accordance with Standards on Auditing" are: –

- To obtain reasonable assurance about whether the FSs as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the FSs are prepared, in all material respects, in accordance with an applicable financial reporting framework, and
- To report on the FSs, and communicate as required by the SAs, in accordance with the auditor's findings.

Reasonable Assurance

A high, but not absolute, level of assurance.

Misstatement

A difference between

- the amount, classification, presentation, or disclosure
 - of a reported FS item
- and the amount, classification, presentation, or disclosure
 - that is required for the item to be in accordance with the applicable financial reporting framework.

Misstatements can arise from error or fraud

- The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the FSs is intentional or unintentional.
- 'Fraud' deals with intentional misrepresentation but, 'error' on the other hand, refers to unintentional mistakes in financial information.
- Few examples of misstatements could be: –
 - Charging of an item of capital expenditure to revenue or vice-versa
 - Difference in disclosure of a financial statement item vis-à-vis its requirement in applicable financial reporting framework
 - Selection or application of inappropriate accounting policies
 - Intentional booking of fake expenses in statement of profit and loss
 - Overstating of receivables in financial statements by not writing off irrecoverable debts
 - Overstating or understating inventories

When a misstatement will be considered as material

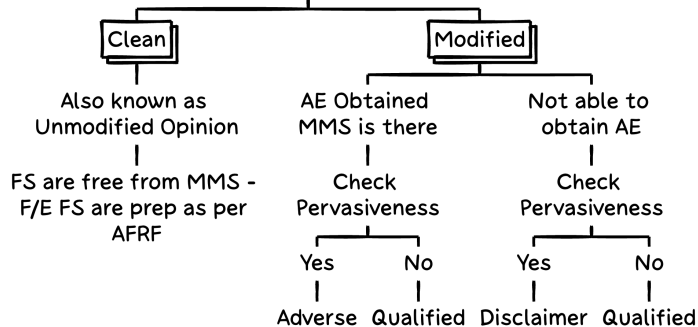
Misstatements, including omissions, are considered to be material

- if they, individually or in the aggregate,
- could reasonably be expected to influence the economic decisions of users taken on the basis of the FSs;

Meaning of Applicable financial reporting framework

Applicable financial reporting framework means a framework adopted in the preparation and presentation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

Types of Opinion



Meaning of Pervasive

- Describe effect of Misstatement
- Depends on auditor's judgement
- Pervasive – if not confined to specific item
- If confined – represent a substantial portion – still pervasive.
- Disclosures – fundamental to users understanding

Example 1 –

Super Duper Ltd. is a company engaged in the manufacture of office furniture. M/s Young Old & Associates are the statutory auditors of the company for the FY 2023–24. During the year under audit, the engagement partner CA Young noticed that the company has not bifurcated its loans into long term and short term. CA Young understands that such misstatement is not pervasive though the same is material. Explain the type of opinion that should be given by M/s Young Old & Associates in this case.

SOLUTION

M/s Young Old & Associates should give a qualified opinion as the effect of the misstatement on account of the non-bifurcation of loans into long term and short term loans, is material but not pervasive.

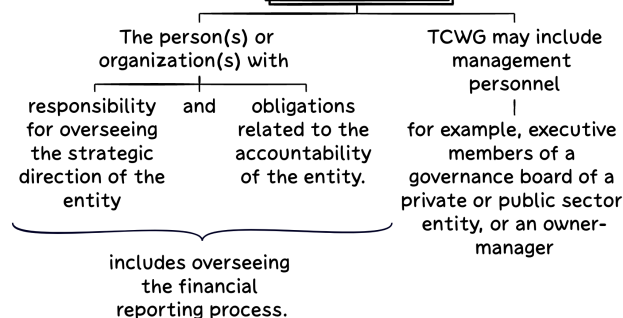
Example 2 –

M/s Taj Raj & Associates are the statutory auditors of Polax Ltd. engaged in the manufacture of premium watches, for the FY 2023–24. During the course of the audit, CA Taj the engagement partner found that the stocks and debtors of the company constituting about 80% of the total assets of the company are not realisable. CA Taj is of the view that the impact the situation on the financial statements is material and pervasive and thus, the financial statements represent a distorted view of the state of affairs of the company

Example 3 –

CA Sarasbhai Patel, while conducting an audit of an entity, feels that there is an atmosphere of non-cooperation all around. He has not been provided with necessary support for attending the Inventory count process of the entity as at year end. Besides, the CFO is not providing him present addresses of customers as well as suppliers for sending external confirmations. Even mail ids have not been provided on the pretext of business confidentiality. He was not able to verify revenues of the entity due to lack of complete details. For verifying expenses, he has been asking for bills on a sample basis, but staff has been making lame excuses. The matter was brought to knowledge of higher echelons of management, but of no avail. The auditor feels that there could be misstatements and their possible effects would be material and affect many aspects of financial statements. What type of opinion should be expressed by the auditor?

Meaning of TCWG



Management

The person(s) with executive responsibility for conduct of entity's operation

Pre- Conditions for an audit

In order to establish whether the preconditions for an audit are present, the auditor shall:

- Determine whether the financial reporting framework is acceptable; and
- Obtain the agreement of management that it acknowledges (मानती है) and understands (जानती है) its responsibility:
 - For the preparation of the financial statements in accordance with the applicable financial reporting framework;
 - For the Design, implementation and maintenance internal control as management considers necessary; and
 - To provide the auditor with:
 - Access to all information such as records, documentation and other matters;
 - Additional information that the auditor may request from management for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

Internal Control

The Process designed, implemented and maintained by

- Those charged with governance
- Management
- Other personnel

To Provide Reasonable Assurance with regard to

- Reliability of financial reporting
- Effectiveness & Efficiency of operations
- Safeguarding of assets
- Compliance with applicable law & regulations

Test Checking

- Application of Audit Procedures to less than 100% of the Transaction. It is also known as Sampling.
- Should be done in such a way that every item must have an equal chance of selection.

Judgement

The application of relevant

- training, knowledge & experience (TKE)
- in making informed decisions
- about the courses of action that are appropriate in the circumstances of the audit engagement.

Professional judgement is essential to the proper conduct of an audit.

Framework to conduct audit

- Engagement / Appointment of the auditor
- Planning
- Materiality
- Risk assessment (Risk assessment procedures) ; and
- Response to the assessed risk (Further audit procedures)
 - Tests of controls, when required by the SAs or when the auditor has chosen to do so; and
 - Substantive procedures (Checking of Assertions), including
 - ◆ Tests of details and
 - ◆ Substantive analytical procedures.
- Audit Evidence
- Conclusions, Opinion and Reporting
- Audit Documentation.

Risk Assessment and Risk Assessment Procedures

- Risk assessment is done to assess the risk of material misstatement. (ROMM)
- Risk of material misstatement is defined as 'the risk that the financial statements are materially misstated prior to audit
- Risk assessment procedures are
 - used to
 - obtain an understanding of the entity and its environment,
 - including its internal control
 - in order to
 - assess the risk of material misstatement and
 - determine the nature, extent and timing of further audit procedures.
- After RAP, the Auditor can assess the level of ROMM.
- Once the ROMM is assessed, we can decide NET of FAPs
 - Nature – (Compliance or Substantive)
 - Extent – (Sample size, Less work or more work)
 - Timing – (Interim period and some transaction at the year end OR all year end in detail)
- Risk assessment procedures alone do not provide audit evidence sufficient to support audit opinion.
- They are required in all financial statement audits.

Further Audit Procedures**Compliance Procedure or Test of control**

- Auditor will test internal control to assure that his initial understanding of IC was right or not.
- We will evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements

Substantive Procedure

- Auditor will check transactions, account balance presentation and disclosure
 - Analytical Procedures
 - Test of Details (Vouching and Verification)

Assertions

- Assertions refer to representations by management, explicit or otherwise, that are embodied in the FS
- The assertions used by the auditor to identify potential errors or inaccuracies in financial statements can be divided into three categories, Transaction, account balance, Presentation and Disclosure

Assertions related to transactions**Occurrence**

Transactions that are recognized in the financial records as having occurred, i.e., did it really happen? and such transactions and events pertain to the entity.

Completeness

All transactions and events that should have been recorded have been recorded.

Accuracy

Amounts and other data relating to recorded transactions and events have been recorded appropriately.

Cut-off

Transactions and events have been recorded in the correct accounting period.

Classification

Transactions and events have been recorded in the proper accounts.

Assertions related to Account Balance**Existence**

Assets, liabilities, and equity interests exist.

Rights and obligation

the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.

Completeness

All assets, liabilities and equity interests that should have been **recorded** have been recorded.

Valuation and allocation

Assets, liabilities, and equity interests are included in the financial statements at **appropriate amounts** and any resulting **valuation** or **allocation** adjustments are appropriately recorded.

Assertions related to Presentation and Disclosure Occurrence and rights and obligations

Disclosed events, transactions, and other matters have occurred and **pertain** to the **entity**.

Completeness

All disclosures that should have been included in the financial statements have been **included**.

Classification and understandability

Financial information is **appropriately presented** and **described**, and disclosures are clearly expressed.

Accuracy and valuation

Financial and other information are disclosed **fairly** and at **appropriate amounts**.

- The auditor verifies that lease agreements disclosed in FS of XYZ Pvt. Ltd. exist and that company has rights and obligations under those leases.
- The auditor ensures DEF Corp. has disclosed all contingent liabilities, including lawsuits and financial guarantees, without leaving out any material item.
- The auditor verifies that JKL Ltd. has clearly separated current and noncurrent assets in the balance sheet and disclosed the breakup of "Other Expenses" in notes to accounts so users can easily understand the nature of those expenses.
- the auditor checks that RST Pvt. Ltd. has disclosed its investment in mutual funds at fair value, and that unrealized gains/losses are correctly presented in accordance with Ind AS.

Audit evidence

Information used by the auditor in arriving at the **conclusions** on which the auditor's **opinion** is based. Audit evidence includes both information contained in the **accounting records** underlying the financial statements and **other information**.

Information contained in the accounting records

Accounting records include

- the records of initial accounting entries and supporting records such records of fund transfer
- Invoices;
- Contracts
- the ledgers, journal entries and other adjustments to the financial statements.
- records such as worksheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.

Other information

Other information that authenticates the accounting records and also supports the auditor's rationale behind the true and fair presentation of the financial statements:

Other information which the auditor may use as audit evidence includes, for example

- minutes** of the meetings,
- written **confirmations** from trade receivables and trade payables,
- manuals** containing details of internal control etc.

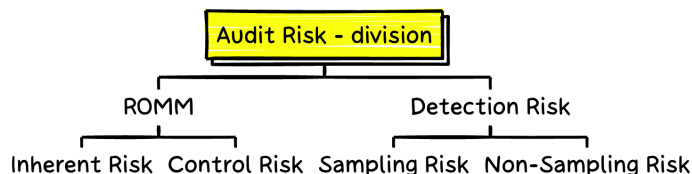
How is audit evidence obtained?

- A** - Analytical Procedures
- E** - Enquiry (or Inquiry)
- I** - Inspection
- O** - Observation
- U** - Recalculation
- Re-performance
- External Confirmation

Audit Risk

Auditor might express an inappropriate opinion when FS are materially misstated

What is not included in Audit Risk	
Risk that auditor might express an Opinion that FS are materially misstated when they are not.	
Does not refer to auditor's business risks such as	loss from litigation
	adverse publicity
	or other events arising in connection with audit of FS



Inherent Limitations of Auditing

- Audit risk cannot be reduced to 0
- Auditor cannot obtain absolute assurance.
- Evidence is persuasive rather than conclusive
- All this is because of inherent limitations of auditing
- Inherent limitations are limitations which cannot be overcome irrespective of NET of audit procedures.

Nature of Financial Reporting

- Preparation & presentation of FS involve judgment by MGMT
- MGMT is responsible for internal controls
- IC only gives reasonable assurance.

- It has its own inherent limitations such as collusion among employees
- The auditor's opinion may rely on IC that could be improperly designed, implemented, or maintained.

Nature of audit procedures

Practical and legal limitations are there

- Not all transactions and balances are checked; opinions are based on sampling (a practical limitation)
- Management may not provide complete information.
 - There is no way to force and get information
 - The auditor can only report this fact.
 - This is an example of legal limitation.
- Management may consist of dishonest individuals.
 - Could be involved in fraud.
 - May conceal fraud through sophisticated, well-organized schemes making detection difficult for auditors.
 - Management may produce fabricated documents.
 - Auditor is not a document authentication expert.
- Management may have transactions with related parties.
 - These can be only paper transactions
 - The auditor might not be aware of such related party relationships or such transactions may go undetected.

Not in the nature of investigation

- Auditor is not an official investigation.
 - Hence, no absolute assurance
- No legal powers of
 - searching or recording statement of witness on oath
- Investigation is for a specific purpose,
 - Ex – determining whether Fraud really exists or not.
- Scope of investigation is narrow in comparison to auditing.

Timeliness of FR & decrease in relevance of information over time – balance between benefit and cost of reliable information.

- The relevance of information decreases over time
- The auditor cannot verify each & every matter
- Therefore, a balance has to be struck between reliability of information and cost of obtaining it.

Future Events

- Future events or conditions may affect an entity adversely.
- May seriously affect an entity's ability to continue its business
- The business may cease to exist in future due to:
 - Change in market conditions
 - Emergence of new business models or products

Future events are an inherent limitation of an audit because the auditor cannot predict or foresee all possible future occurrences that may significantly impact the audited entity. Even if FS are prepared accurately and the audit is conducted properly, unforeseen future events can still adversely affect the entity's financial position and performance. Auditor cannot assess the impact of future events on going concern of the entity

Because of the limitations of an audit, there is an unavoidable risk that some material misstatements of the FSs may not be detected, even though the audit is properly planned and performed in accordance with SAs.

However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less-than persuasive audit evidence.

Who Appoints an Auditor?

Auditors are appointed by the entity's owners, members in AGMs for companies, or by government authorities as per law. In India, the CAG appoints auditors for government companies, while partners appoint auditors for firms. Sometimes, auditors may also be appointed by government authorities under specific laws or regulations, such as tax laws.

To Whom Report is submitted by an Auditor?

The result of an audit is a written report with the auditor's opinion, submitted to the appointing party: shareholders for companies, and partners for firms.

Meaning of Assurance engagement What is Engagement?

Engagement means an arrangement to do something.

Assurance engagement

- An engagement in which a practitioner obtains sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.
- Giving assurance means offering an opinion about specific information so the users of that information are able to make confident decisions knowing that the risk of the information being 'incorrect' is reduced.

Elements of an Assurance Engagement

Following elements comprise an assurance engagement: –

A three party relationship involving a practitioner, a responsible party, and intended users

- An assurance engagement involves above said three parties.
- A practitioner is a person who provides assurance.
- The term practitioner is broader than auditor.
- Audit is related to historical information whereas practitioner may provide assurance not necessarily related to historical financial information.
- A responsible party is the party responsible for preparation of subject matter.
- Intended users are the persons for whom an assurance report is prepared. These persons may use the report in making decisions.

An appropriate subject matter

- It refers to the information to be **examined** by the practitioner.
- In the case of an audit, financial information is the appropriate subject matter.
- Who is responsible for subject matter in Audit - Management / Those charged with governance are responsible for subject matter that is the financial information.

Suitable criteria

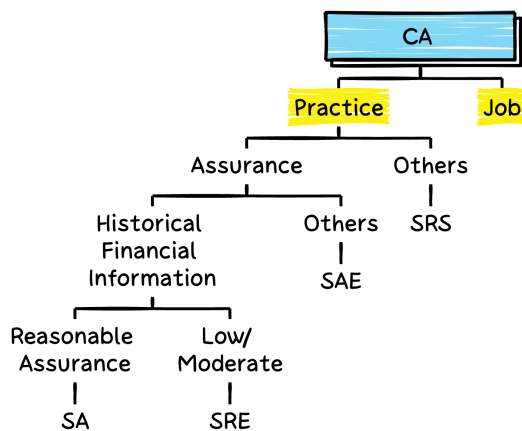
- These refer to **benchmarks** used to evaluate the subject matter like standards, guidance, laws, rules and regulations.
- In case of audit, accounting standards are the suitable criteria

Sufficient appropriate evidence

- The practitioner obtains sufficient appropriate evidence. It is on the basis of evidence that conclusions are arrived at and an opinion is formed.
- In Audit Evidence should be both sufficient and appropriate.
- "**Sufficient**" relates to **quantity** of evidence obtained by auditor.
- "**Appropriate**" relates to **quality** of evidence obtained by auditor.

A written assurance report in appropriate form

It is the **final outcome** of assurance engagement. It contains the **conclusion** that conveys the assurance about the subject matter.



Different Type of Assurance Engagements

- Audit
- Review
- Other Assurance Engagements.

Audit Vs. Review	
Audit	Review
Reasonable assurance - high, but not absolute	Limited Assurance - lower than reasonable assurance - Moderate assurance
Thorough Procedures - Test of Controls, Substantive Procedures - MORE DEPTH	Less detailed procedures - Enquiries, Analytical Procedure. - LESS DEPTH
Subject matters confirms suitable criteria in all material aspects (Reasonable Conclusions)	Subject matter is plausible in the circumstances. (Limited Conclusions)
Positively worded opinion	Negatively Worded Opinion Nothing has come to our attention that causes us to believe that the FSs of Y Company as of 31st March, 20XX are not prepared, in all material respects, in accordance with an applicable financial reporting framework
More Regulations / Standards	Less Regulations / Standards

Other assurance engagements

Assurance can also be related to matters other than historical financial information. Such an assurance may relate to prospective financial information. It may relate to providing assurance on internal controls in an entity.

Assurance on Prospective Financial Information

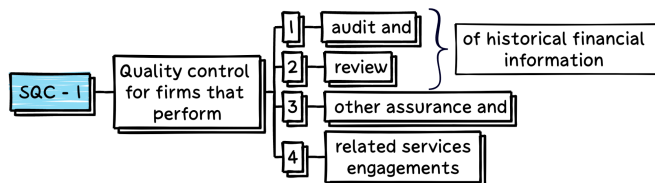
- PFI
 - FL Based on
 - Assumptions about events that may occur in future
 - Possible actions by entity
 - Can be
 - Forecast
 - Projection
- Assurance
 - Practitioner obtains sufficient appropriate evidence (SAE)
 - Assumptions are not unreasonable
 - PFI Properly prepared as per assumption
 - PFI Properly Presented
 - Material Assumption properly disclosed
- SAE
 - In this case is future oriented
 - Therefore practitioner not in a position to express an opinion as to whether the results shown in the prospective financial information will be achieved
- Report
 - practitioner provides a report assuring that nothing has come to practitioner's attention to suggest that these assumptions do not provide a reasonable basis for the projection.
 - provides only a "moderate" level of assurance.

Quality Control and Engagement Standards

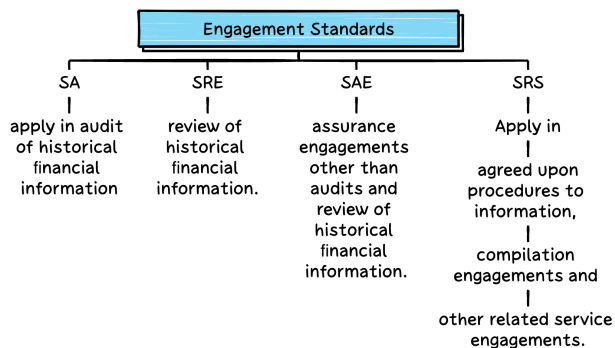
Need for Engagement standards

- Work as per global standards
- Promote uniformity
- Improve quality of FR
- Provide professional knowledge
- Ensure audit quality.

Standards on Quality Control



- Requires firm to establish QC to ensure
 - Compliance with Standards, Regulatory & Legal requirements
 - Reports are appropriate
- Provides guidance to firms for its responsibilities related to system of quality control
- SQCs are to be applied for all services covered by Engagement Standards i.e. SAs, SREs, SAEs and SRSs



SAs - Performance benchmark for auditors		
Apply in	Audit of FS	HFI Only
The main purpose is to bring as much uniformity as possible in work performed by auditors.		
cover a broad range of topics	Objective	
	Planning	
	Risk Assessment	
	Evidence	
	Documentation	
Examples	SA 200	Overall objectives of the Independent Auditor and the conduct of the Audit in Accordance with Standard on Auditing
	SA 300	Planning an Audit of Financial Statements
	SA 500	Audit Evidence
	SA 505	External Confirmation

Numbering of Standards

Standard on Quality Control (SQC)	01-99
Standard on Auditing (SA)	100-999
Standard on Review Engagement (SRE)	2000-2699
Standard on Assurance Engagement (SAE)	3000-3699
Related Services (SRS)	4000-4699

Classification of SAs

Introductory matters	100-199
General Principles and Responsibilities	200-299
Risk Assessment and Response to Assessed Risk	300-499
Audit Evidence	500-599
Using work of Others	600-699
Audit conclusions and Reporting	700-799
Specialised Areas	800-899

List of Standards

General Principles and Responsibilities

1	SA 200	Overall objectives of the Independent Auditor and the conduct of the Audit in Accordance with Standard on Auditing
2	SA 210	Agreeing the Terms of Audit Engagements
3	SA 220	Quality Control for an Audit of financial statements
4	SA 230	Audit Documentation
5	SA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.
6	SA 250	Consideration of Laws and Regulations in an Audit of Financial Statements
7	SA 260	Communication with those Charged with Governance
8	SA 265	Communicating Deficiencies in Internal control to those Charged with Governance and Management
9	SA 299	Joint Audit of financial statements

Risk Assessment and Responses to Assessed Risks

10	SA 300	Planning an Audit of Financial Statements
11	SA 315	Identifying and Assessing the Risk of material Misstatements through understating the Entity and Its Environment
12	SA 320	Materiality in Planning and Performing an Audit
13	SA 330	The Auditor's Response to Assessed Risks
14	SA 402	Audit consideration Relating to an Entity using a Service Organisation
15	SA 450	Evaluation of Misstatements Identified during the Audit

Audit Evidence

16	SA 500	Audit Evidence
17	SA 501	Audit Evidence-Specific Consideration for selected Items

18	SA 505	External Confirmations
19	SA 510	Initial Audit Engagement – Opening balances
20	SA 520	Analytical Procedures
21	SA 530	Audit Sampling
22	SA 540	Auditing Accounting Estimates, Including fair value Accounting Estimates and Related Disclosures
23	SA 550	Related Parties
24	SA 560	Subsequent Events
25	SA 570	Going Concern
26	SA 580	Written Representation
Using Work of Others		
27	SA 600	Using the work of Other Auditors
28	SA 610	Using the Work of Internal Auditors
29	SA 620	Using the Work of an Auditor's Expert
Audit Conclusions and Reporting		
30	SA 700	Forming an Opinion and Reporting on Financial Statements
31	SA 701	Communicating key Audit Matters in the independent Auditor's Report
32	SA 705	Modifications to the opinion in the independent Auditor's Report
33	SA 706	Emphasis of Matter Paragraphs and other Matter Paragraphs in the Independent Auditor's Report
34	SA 710	Comparative Information –Corresponding Figures and Comparative Financial Statements
35	SA 720	The Auditor's responsibilities relating to Other Information
Standards on Quality Control		
36	SQC 1	"Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements"

SRE - Standards on Review Engagements		
Apply in	Review of FS	HFI only
Review is limited assurance eng.	Fewer Procedures are performed	Involves obtaining SAE
Example	SRE 2400	Engagements to Review Historical FSs
	SRE 24010	Review of Interim Financial Information Performed by the Independent Auditor of the Entity

SAE - Standards on Assurance Engagements		
Apply in	non-historical financial information	Example PFI
	Others	Example IC
Example	SAE 3400	The Examination of Prospective Financial Information
	SAE 3420	Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus

SRS - standards on related services		
Apply in	engagements to perform agreed-upon procedures regarding FI and	Agreed-upon procedures example - Perform certain procedures on individual items of financial data say, Accounts Receivable
	other services like assisting MGMT in preparation & presentation of FS	
Example	SRS 4400	Engagements to perform agreed upon procedures regarding FI
	SRS 4410	Compilation Engagements

Duties in relation QC / ES		
Ensure	Relevant standards are followed in engagements	
Situation when specific procedure required by standards would be ineffective	Document	how alternative procedures performed achieve the purpose of required procedure
	Reason	for departure has also to be documented unless it is clear.
	Draw Attention	To such departures in his reports

Scope(Coverage) of Audit

Basic – Purpose of Audit

- Enhance degree of confidence of intended users
- How is it achieved
 - Achieved through expression of opinion
 - FS are prepared in all material respects as per AFRF

Points to be included in Scope

- Coverage of all aspects
 - Relevant to FS being audited.
- Ensure reliability of FI
 - How?
 - Analysis of A/Cing systems and IC
 - How?
 - AEIOU, Re-perform, External Confirmation
- Ensure Adequate Disclosure
 - As per L/R
 - How?
 - Ensure
 - FS properly summarise events & transactions
 - Evaluates MGMT's judgments. Ex – selection of a/c policy
 - Understand FS are prepared from HFI

What is not Included?

- Matters beyond expertise
 - Example value condition of sophisticated machinery, or life of a civil structure
- Authentication of Genuineness of Documents
- Investigation into wrongdoing
 - No legal power of search or recording statement
 - Investigation is a critical examination for specific purpose
 - For ex – investigating existence of fraud
 - Scope of investigation is specific and narrow
- Preparation & Presentation of FS

Benefits of Audit	
Users	High quality information - confidence to users
Shareholders	Safeguard to interest of shareholders Audit provides a mechanism to shareholders to ensure that financial information is reliable
Employees	moral check on employees
Government	help in determining tax liabilities
Lenders	Audited FS can be relied by lender for for making credit decisions that is whether to lend or not to lend
Fraud and error	may detect fraud and error
Controls	controls - review the existence and operations - helping in pointing out deficiencies

Audit mandatory or voluntary	
not always legally mandatory	
compulsory for companies	
non-corporate	might be compulsory in tax laws
	if turnover exceeds the prescribed limit
For entities like Trus, NGOs, Schools etc	maybe required for grants or assistance from government or subsidies
Others	many entities get their accounts, audited voluntarily because of benefits of auditing

Qualities of Auditor

- Auditor's report on Financial matters
- Financial Matters prone to Human Fallibility
- Auditor should have following qualities
 - Tact
 - Caution
 - Firmness
 - Good temper
 - Integrity
 - Discretion
 - Industrious
 - Judgment
 - Patience
 - Clear headedness
- Must have highest degree of Integrity and Independence
- Must have all Personal qualities of a good Businessman

- Must have position of trust
- Must have basic human qualities
- Must have knowledge of an expert w.r.t financial statements
- Exhaustive knowledge of Accounting is a Sine Qua Non for practice of auditing.

Person conducting an audit should take care to ensure that financial statements would not mislead anybody

In doing so, he has to see that FSs would not mislead anybody by ensuring that: –

- Accounts drawn – with reference to entries in books of accounts
- Entries – supported by Sufficient Appropriate Evidence
- None of the entries is omitted
- Information – clear & unambiguous
- FS amounts – classified, described & disclosed as per AS
- Statement of accounts – true & fair picture of operational results & State of affairs

Auditing provides assurance. Such an assurance lends credibility to FSs. Audited FSs provide confidence to users that financial information reflected in FSs can be relied upon.

Origin of Auditing

The origin of auditing can be traced back to ancient times, with references found in Kautilya's Arthshastra (4th century BC) in India. The word "audit" comes from the Latin "audire" meaning "to hear," and the Industrial Revolution in Europe led to increased demand for auditors. In India, the Auditor General was appointed in 1860, and the Institute of Chartered Accountants of India (ICAI) was established in 1949 to regulate the profession.

Relationship of Auditing with other Subjects

Relationship of Auditing with other Subjects		
Audit is interdisciplinary in nature		
Auditor must have strong grasp over.	Accounting.	
	Business and tax laws.	
Auditor engage with lot of people.	He must have understanding of human behaviour.	
Auditor uses statistics for sampling.		
Auditor needs to understand business environment	economics will help	
financial management	knowledge of	funds flow
		working capital
		ratios
		will help the auditor in assessment and responding the ROMM
knowledge of financial market is also expected		

Auditing and Accounting

Auditing reviews the FSs which are nothing but a result of the overall accounting process.

Auditing and Law

An auditor should have a good knowledge of business laws affecting the entity.

Auditing and Economics

Auditor is expected to be familiar with the overall economic environment of the client

Auditing and Behavioural Science

Knowledge of human behaviour is essential for an auditor to effectively discharge his duties.

Auditing and Statistics & Mathematics

Auditor is also expected to have the knowledge of statistical sampling for meaningful conclusions and mathematics for verification of inventories.

Auditing and Data Processing

EDP auditing in itself is developing as a discipline in itself.

Auditing and Financial Management

Auditor is expected to have knowledge about various financial techniques such as working capital management, funds flow, ratio analysis, capital budgeting etc.

Auditing and Production

Good auditor is one who understands the client and his business functions such as production, cost system, marketing etc.