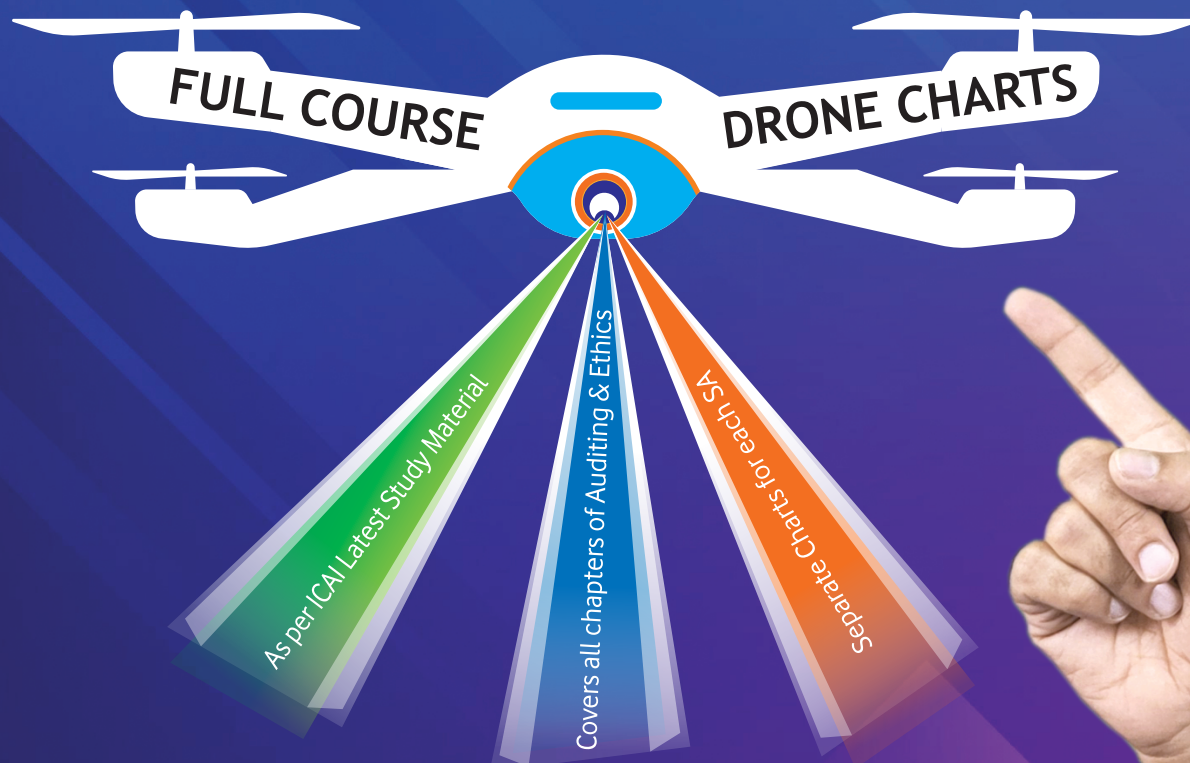


CA INTER

Auditing & Ethics



Features

These are **not just summary charts but covers all concepts in pictorial charts** for easy understanding and quick last day revision

Scientifically Designed & Beautifully Crafted It's Beauty with Brains!

Designed to assist solving integrated case study based MCQs

Full topics summarised - Enough for Exams



Crafted By :

By CA Sarthak Jain
All India CA Ranker

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F.A.S.T
first attempt success tutorials

Auditing & Ethics

Dear Students,
Special Audit Drone Chart 6.0 in your hand is the output of a dream which we were not just imagining, but living day and night. Finally it has come to life. Thanks to the inspiration given by you!
Every word, concept, connection in the book has been crafted with utmost care. It has been rechecked and subject to rigorous quality reviews and we trust that you will absolutely love this publication of FAST as you have loved the FR Brahmastra, Ind-AS and Audit Full course, Drone Charts, Question Banks and so many more. Now we are confident that 100% of Audit can be well covered and revised just in a day before the exams. Surely Ab Audit Hoga Sabse Scoring.

Best of Luck

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Ab! Audit Scoring



1. ORIGIN OF AUDITING



A **Kautilya's Arthshastra (4th century BC)**
It talks about fixed accounting year, a process for closure of accounts and audit for the same.



B **Origin of word "AUDIT"** (Medieval times – 1100 to 1500 AD)
Word audit originating from Latin word "audire" meaning "to hear".



C **Industrial revolution in Europe** (Late 18th / Early 19th Century)
Led to expansion in volume of trade and demand of auditors.



D **Auditor of Government Entities in India (1860)**
The first Auditor General of India was appointed in British India in 1860. Presently, Comptroller and Auditor General of India (C&AG) is an independent constitutional authority responsible for auditing government receipts and expenditures.



E **Institute of Chartered Accountants of India (1949)**
Established as a statutory body under an Act of Parliament in 1949 for regulating the profession of Chartered Accountancy in the country.

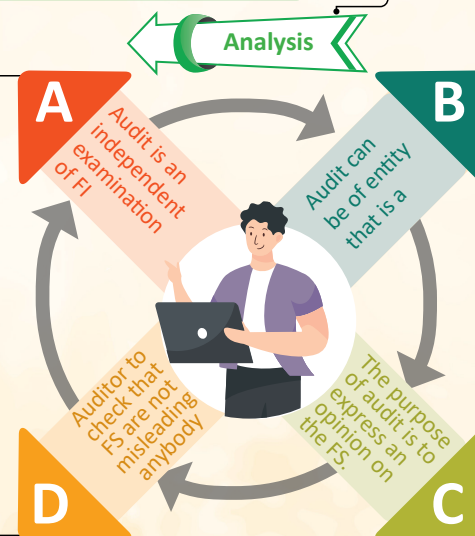
"An audit is an **independent examination** of FI of **any entity**, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to **expressing an opinion** thereon".

2. MEANING AND NATURE OF AUDITING

- 1** **Meaning of Independence -**
Judgement of a person is not subordinate to the wishes or direction of another person who might have engaged him.
- 2** The auditor should be independent of entity under audit to form opinion without any influence.
- 3** Independence increases its ability to act objectively without any biases.

He ensures that-

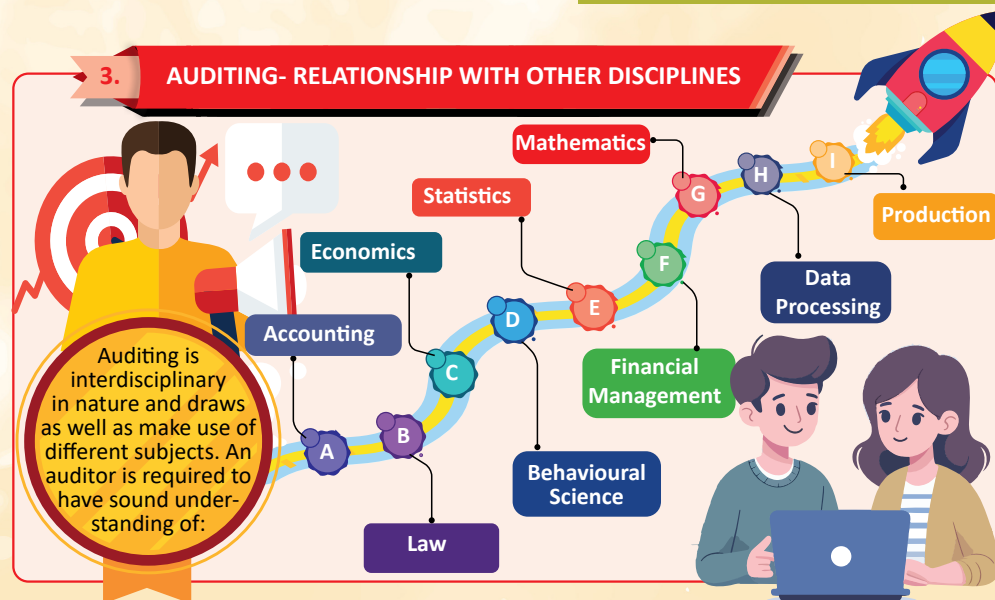
- 1** Accounts have drawn with **reference to entries in the books**;
- 2** Entries in the books **supported by sufficient and appropriate evidence**;
- 3** **None of the entries in the books has been omitted**;
- 4** Information conveyed by the **statements is clear and unambiguous**;
- 5** **FS amounts are properly classified, described and disclosed in conformity with accounting standards; and**
- 6** The statement of accounts presents a **T&F picture** of the operational results and of the assets and liabilities.
Auditing provides assurance.
Its basic nature lies in providing confidence to users of FS. Such an assurance lends credibility to FS.



- 1** Business or a non-profit organization like an NGO or a charitable trust.
- 2** Small, medium or large organisation.
- 3** Any entity with **any legal structure** i.e. proprietary concern, a partnership firm, a LLP, a private company, a public company, a society or a trust whether **small, medium, large business or NPO**.

- 1** Preparation and presentation of FS of an entity is **responsibility of management**.
- 2** The **auditor expresses an opinion** on FS by means of written audit report.

3. AUDITING- RELATIONSHIP WITH OTHER DISCIPLINES



A Accounting

Auditing reviews the FS which are nothing but a result of the overall accounting process hence a sound knowledge of accounting principles is required.

B Law

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

C Economics

Auditor is expected to be familiar with the overall economic environment of the client in which the business is operating.

D Behavioural Science

Knowledge of human behaviour as auditor has to interact with people for seeking information and making inquiries.

E Statistics

Knowledge of statistical sampling for meaningful conclusions. Auditors use statistical methods to draw samples in a scientific manner. It is not possible for an auditor to check each and every transaction. So, use of statistical methods to draw samples for conducting audit is made.

F Financial Management

Auditor is expected to have knowledge about various financial techniques such as working capital management, funds flow, ratio analysis, capital budgeting etc. These also assist in applying some audit procedures effectively. Knowledge of financial market is also expected from auditor.

G Mathematics

For verification of inventories and other checks.

H Data Processing

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

I Production

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

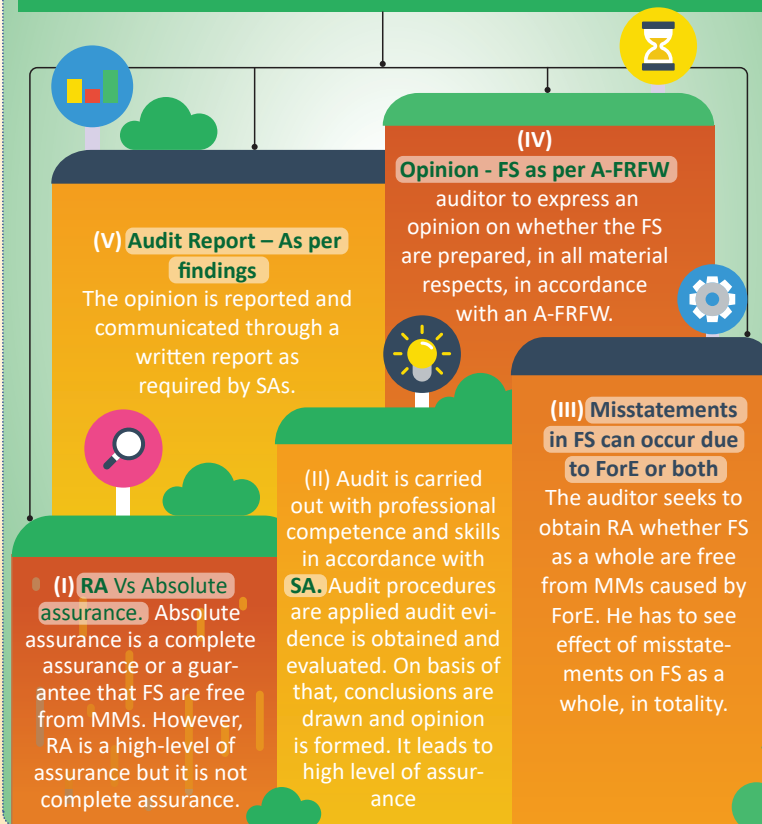
4. OBJECTIVES OF AUDIT

SA-200 "Overall Objectives of the Independent auditor and the conduct of an audit in accordance with SA"

In conducting audit of FS, objectives of auditor are:-

To **obtain RA** about whether the FS as a whole are **free from MM**, whether due to ForE, thereby enabling the auditor to **express an opinion** on whether the FS are prepared, in all material respects, in accordance with an A-FRFW; and

To **report on the FS**, and communicate as **required by the SAs**, in accordance with the auditor's **findings**.



5. SCOPE OF AUDIT

(Scope refers to range or reach of something)

Purpose of an audit

To enhance the degree of confidence of intended users in the FS. It is achieved by the expression of an opinion by the auditor on whether the FS are prepared, in all material respects, in accordance with an A-FRFW.

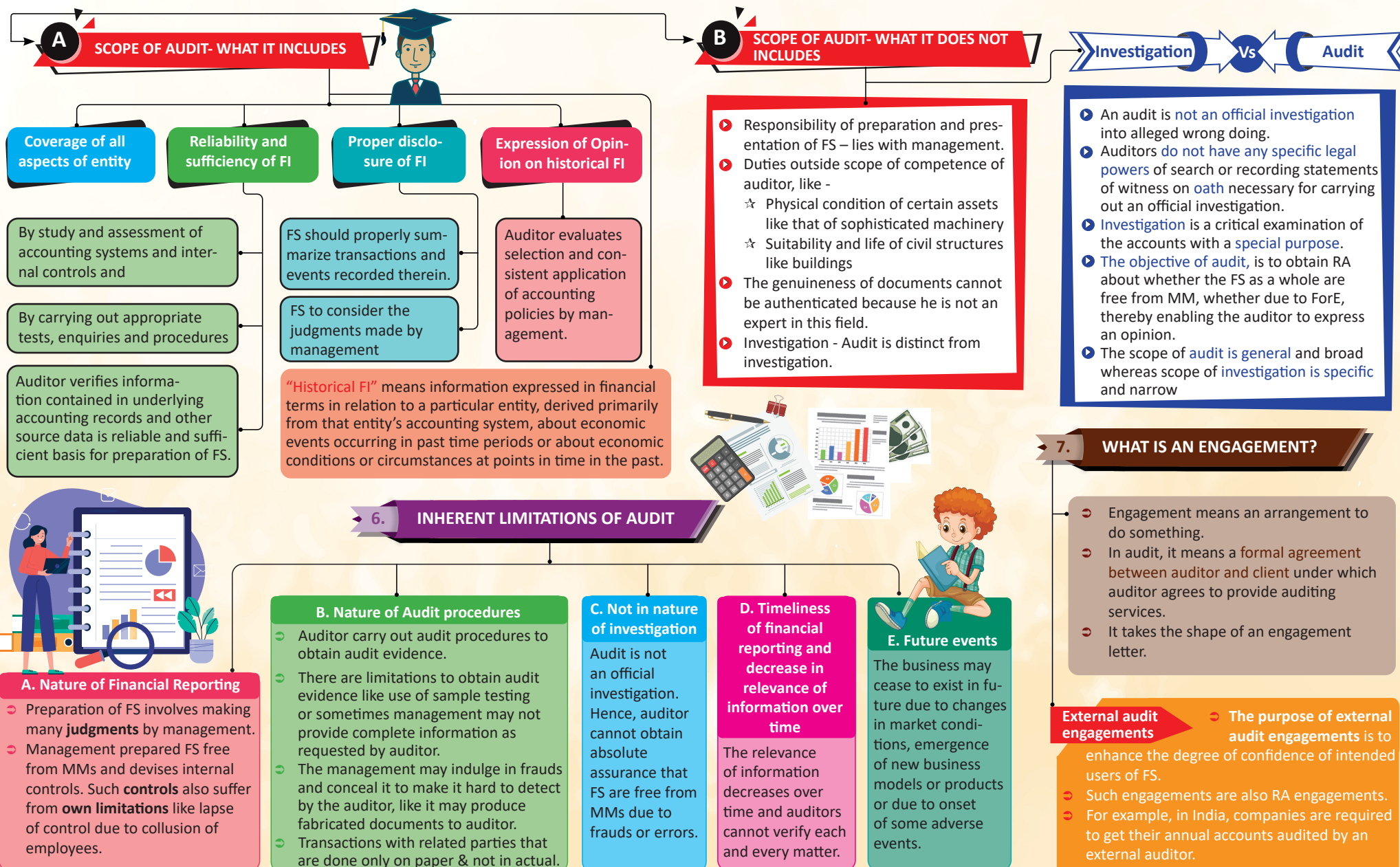
Users of FS

May be shareholders, employees, customers, government and regulatory authorities, bankers etc.

A-FRFW

Framework adopted in the preparation and presentation of the FS, acceptable in view of the nature of the entity and the objective of the FS, or that is required by law or regulation.

Example, in case of companies in India, financial reporting framework is provided under Schedule III of Companies Act, 2013.



BENEFITS OF AUDIT-WHY AUDIT IS NEEDED?

- » **Confidence to users** that information on which they are relying is qualitative and as per globally recognized standards.
- » **Shareholders interest is safeguarded** by an audit of FS prepared by management.
- » **Moral check on employees** for the fear of discovering frauds by audit.
- » Audited FS are helpful to government authorities for **determining tax liabilities**.
- » Audited FS can be **relied upon by lenders, bankers** for making their credit decisions i.e. whether to lend or not to lend to a particular entity.
- » An audit may also **detect ForE** or both.
- » An audit reviews existence and operations of **controls** operating in any entity. Hence, it is useful at pointing out **deficiencies**.

TO WHOM REPORT IS SUBMITTED BY AN AUDITOR?

The outcome of an audit is written audit report with his opinion. The report is submitted to **person making the appointment**.
Example: Companies – Shareholders; Firm – Partners who have engaged him.

AUDIT- MANDATORY OR VOLUNTARY?

Companies Act – Every company to get its accounts audited.
IT Act – Audit needed if turnover crosses specified limits.
School / Colleges, etc – Audit pre-requisite for availing grants from the Government.

WHO APPOINTS AN AUDITOR?

Company - Appointed by members (shareholders) in Annual General Meeting (AGM). Government companies - Appointed by C&AG, an independent constitutional authority.
Firm - Auditor is appointed by partners of firm.
Government Authority – Law may require to appoint auditor by government authorities.

ASSURANCE ENGAGEMENT

“Assurance engagement” means an engagement in which a practitioner expresses 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.

(a) Elements of an Assurance Engagement

Following elements comprise an assurance engagement:-

(1) Parties

– 3 party - **Practitioner, Responsible Party, and Intended Users**

- ♦ A practitioner is a person who provides the assurance.
- ♦ A **responsible party** is responsible for preparation of subject matter.
- ♦ **Intended users** for whom an assurance report is prepared.

(2) Subject matter

It refers to the information to be examined by the practitioner. For example, FI contained in FS while conducting audit of FS.

(3) Suitable criteria

These **refer to benchmarks used** to evaluate the subject matter like standards, guidance, laws, rules and regulations.

(4) Sufficient appropriate evidence

“**Sufficient**” - Quantity of evidence obtained by auditor.
“**Appropriate**” - Quality of evidence obtained by auditor.
One evidence may be providing more comfort to auditor than the other evidence. The evidence providing more comfort is qualitative and, therefore, appropriate. Evidence should be both sufficient and appropriate.

(5) A written assurance report in appropriate form

A written assurance report is the outcome of an assurance engagement.

(b) Meaning of Review; Audit Vs. Review

Audit is a RA engagement. However, Review is a **limited assurance** engagement. It provides:
☆ **lower level of assurance** than audit; and
☆ is based on **fewer procedures**; and
☆ is useful for drawing **limited conclusions**.
Both are based on **historical FI**.

(c) Types of Assurance Engagements- Reasonable assurance engagement vs. Limited assurance engagement

RA engagement eg. Audit

RA engagement provides **high** level of assurance. It performs **elaborate and extensive procedures** to obtain sufficient appropriate evidence. It **draws reasonable conclusions** on the basis of sufficient appropriate evidence.
Example of RA engagement is an audit engagement.

Limited assurance engagement eg. Review

Limited assurance engagement provides **lower** level of assurance than RA engagement. It performs **fewer procedures** as compared to RA engagement. It involves obtaining sufficient appropriate evidence to **draw limited conclusions**.
Example of limited assurance engagement is review engagement.

(d) Prospective FI

"Prospective FI" means FI based on assumptions about events that may occur in the future and possible actions by an entity. It can be in the form of a forecast or projection or combination of both.

"Historical FI" Vs "Prospective FI."

HFI - Information expressed in financial terms of an entity about economic events, conditions or circumstances occurring in past periods. This is rooted in past events
PFI - FI based on assumptions about occurrence of future events and possible actions by an entity. This is rooted in future events.

Assurance Reports Involving Prospective FI

Practitioner obtains sufficient appropriate evidence that-

- **Management's assumptions on which the prospective FI is based are not unreasonable,**
- The prospective FI is **properly prepared** based on the assumptions; and
- It is properly presented and all material assumptions are **adequately disclosed**.

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**, providing only a "moderate" level of assurance.

Examples of assurance engagements

Example of engagement assurance	Type of assurance engagement	
	Audit of financial statements	RA engagement
	Review of financial statements	Limited assurance engagement
	Examination of Prospective FI	Provides assurance regarding reasonability of assumptions forming basis of projections and related matters
	Report on controls operating at an organization	Provides assurance regarding design and operation of controls

13. QUALITIES OF AUDITOR

- **Personal qualities** - Tact, caution, firmness, good temper, integrity, discretion, industry, judgment, patience, clear headedness, and reliability are qualities which an auditor should have. In short, all personal qualities that make a good businessman.
- **Shine of culture** for attaining a great height.
- Highest degree of **integrity** backed by adequate independence.
- Basic human qualities of being trustworthy.
- Expert and exhaustive knowledge of accounting in all its branches is the sine qua non of the practice of auditing. He must know thoroughly all accounting principles and techniques.

Standards on Quality Control

- ➔ Standards on Quality Control (SQCs) provide guidance regarding a firm's responsibilities for its system of quality control.
- ➔ It covers quality control of audit and review of historical FI and for other assurance and related service engagements.
- ➔ SQC 1 has been issued in this regard.
- ➔ It requires auditors/practitioners to establish system of quality control so that firm and its **personnel comply with professional standards and regulatory & legal requirements** and reports issued are appropriate.

Why are Standards needed?

- ➔ Standards ensure carrying out of **audit against established benchmarks** at par with global practices.
- ➔ Standards **improve quality of financial reporting** thereby helping users to make diligent decisions.
- ➔ Standards **promote uniformity** as audit of FS is carried out following these standards.
- ➔ Standards **equip professional accountants** with professional knowledge and skill.
- ➔ Standards ensure **audit quality**.

14. ENGAGEMENT AND QUALITY CONTROL STANDARDS: AN OVERVIEW

The following Standards issued under authority of ICAI Council are collectively known as **Engagement Standards** -



Duties in relation to Engagement and Quality Control Standards

- ➔ Ensure that standards are followed in engagements undertaken.
- ➔ However, a situation may arise when a **specific procedure** as required in Standards **would be ineffective**.
- ➔ In such a case, he is required to **document how alternative procedures performed** achieve the purpose of required procedure.
- ➔ Also, reason for **departure has also to be documented**. Further, his report should draw attention to such departures.
- ➔ It is also to be noted that a **mere disclosure** in the report **does not absolve a professional accountant from complying with applicable Standards**.

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