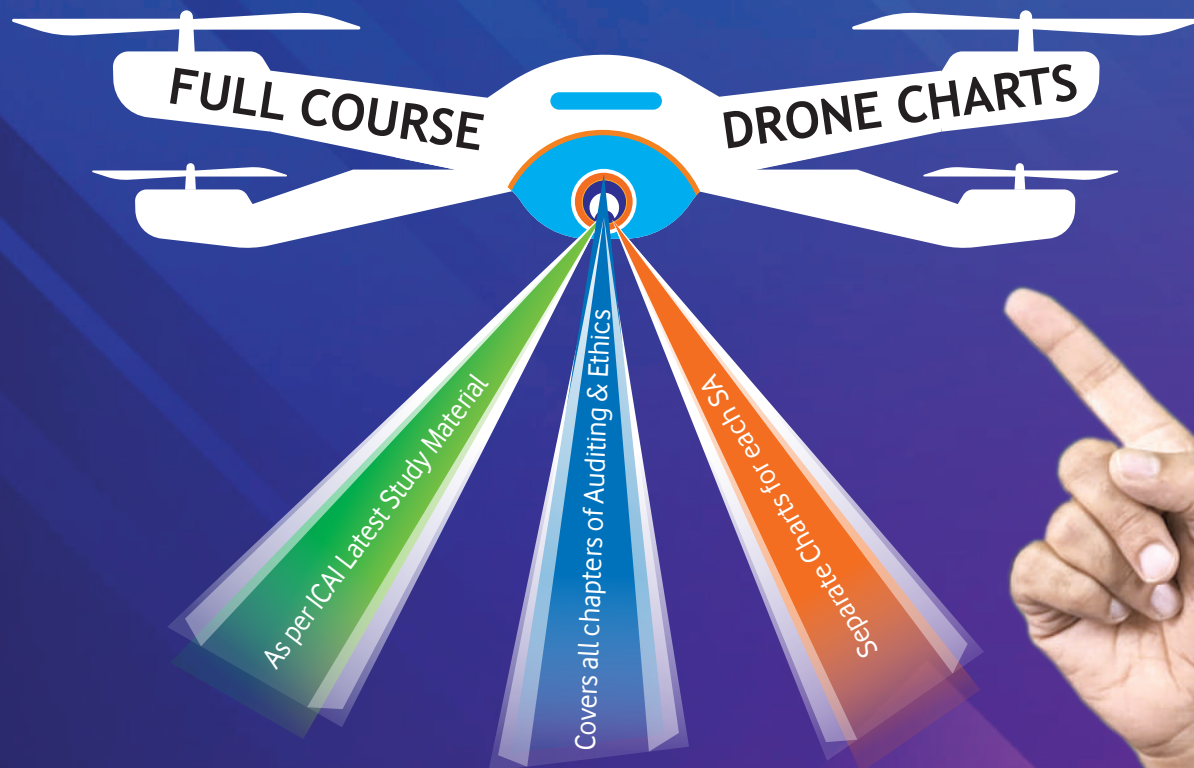


CA INTER

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

INDEX

1-5	Chapter 01	85-94
Nature, Objective and Scope of Audit		Completion and Review
6-11	Chapter 02	95-107
Audit Strategy, Audit Planning and Audit Programme		Audit Report
12-32	Chapter 03	108-125
Risk Assessment and Internal Control		Special Features of Audit of Different Type of Entities
33-59	Chapter 04	126-135
Audit Evidence		Audit of Banks
60-81	Chapter 05	136-143
Audit of Items of Financial Statements		Ethics and Terms of Audit Engagements
82-84	Chapter 06	
Audit Documentation		
	Chapter 07	
	Chapter 08	
	Chapter 09	
	Chapter 10	
	Chapter 11	

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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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.

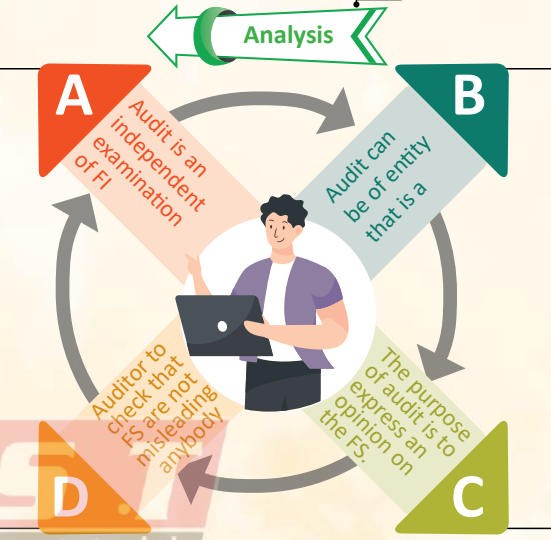
E **Institute of Chartered Accountants of India (1949)**
Established as a statutory body under an Act of Parliament in 1949 for regulating the profession of Chartered Accountancy in the country.

"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.

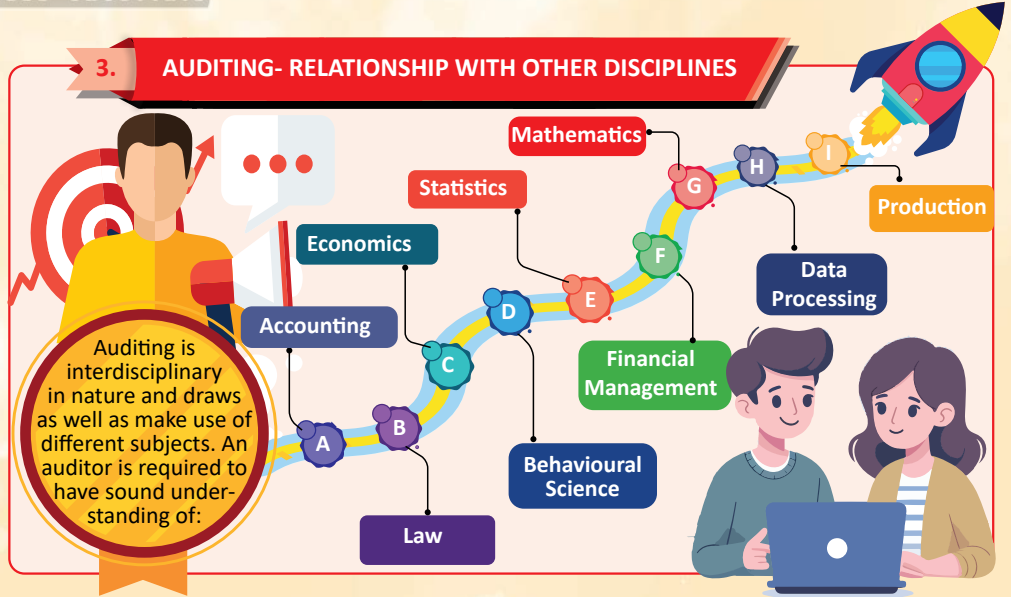
- He ensures that-**
- 1 accounts have drawn with reference to entries in the books
 - 2 entries in the books supported by sufficient and appropriate evidence;
 - 3 none of the entries in the books has been omitted
 - 4 information conveyed by the statements is clear and unambiguous;
 - 5 FS amounts 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 assurance to users - 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 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 uses 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.

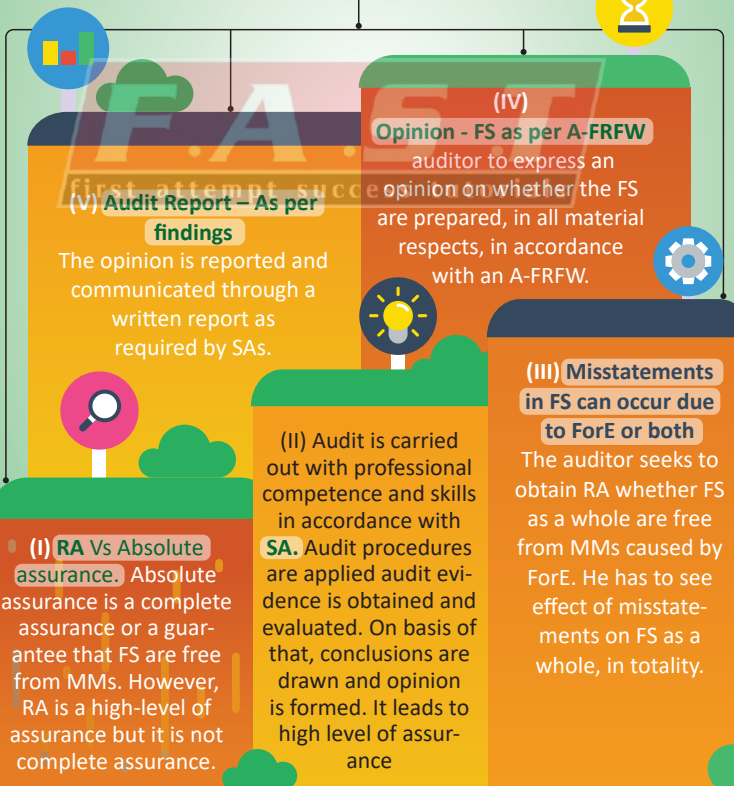
4. OBJECTIVES OF AUDIT

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

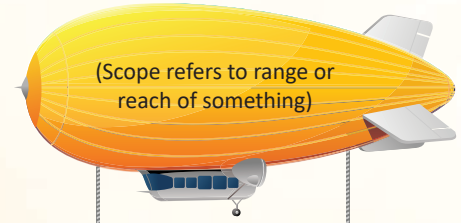
In conducting audit of FS, objectives of auditor are :-

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



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.

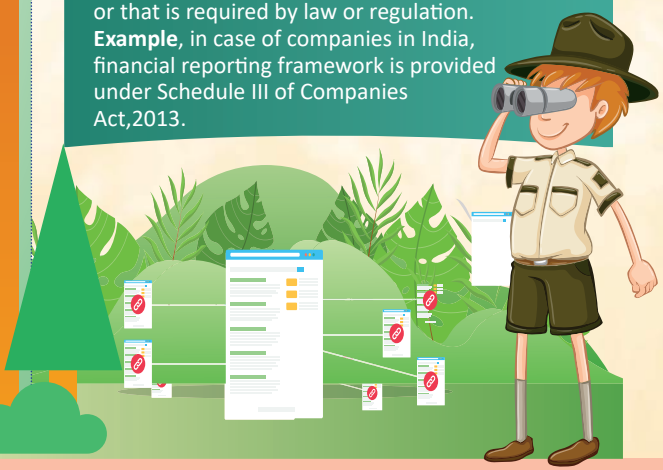
Users of FS

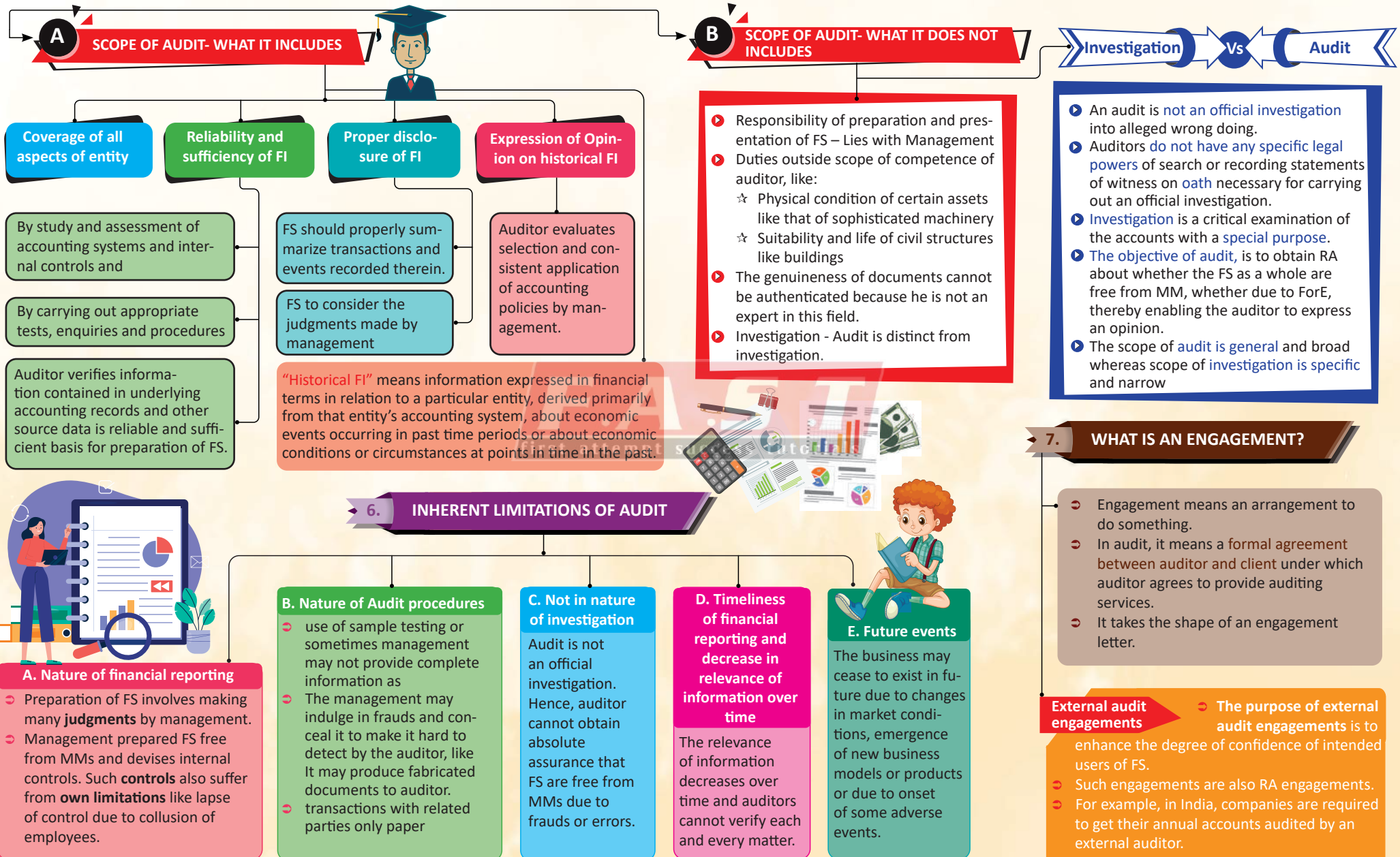
May be shareholders, employees, customers, government and regulatory authorities, bankers etc.

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?

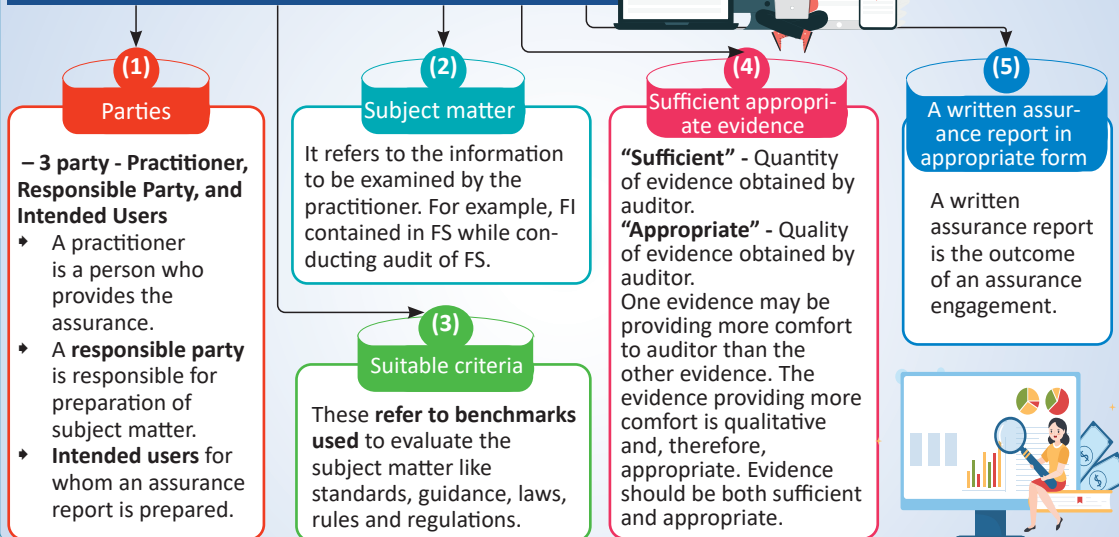
Company - Appointed by members (shareholders) in Annual General Meeting (AGM). Government companies - Appointed by C&AG, an independent constitutional authority.
Firm - Auditor is appointed by partners of firm.
Government Authority – Law may require to appoint auditor by government authorities.

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:-



(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	Limited assurance engagement eg. Review
RA engagement provides high level of assurance.	Limited assurance engagement provides lower level of assurance than RA engagement.
It performs elaborate and extensive procedures to obtain sufficient appropriate evidence.	It performs fewer procedures as compared to RA engagement.
It draws reasonable conclusions on the basis of sufficient appropriate evidence.	It involves obtaining sufficient appropriate evidence to draw limited conclusions.
Example of RA engagement is an audit engagement.	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	Audit of financial statements	RA engagement	Type of assurance 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, judgement, 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**.

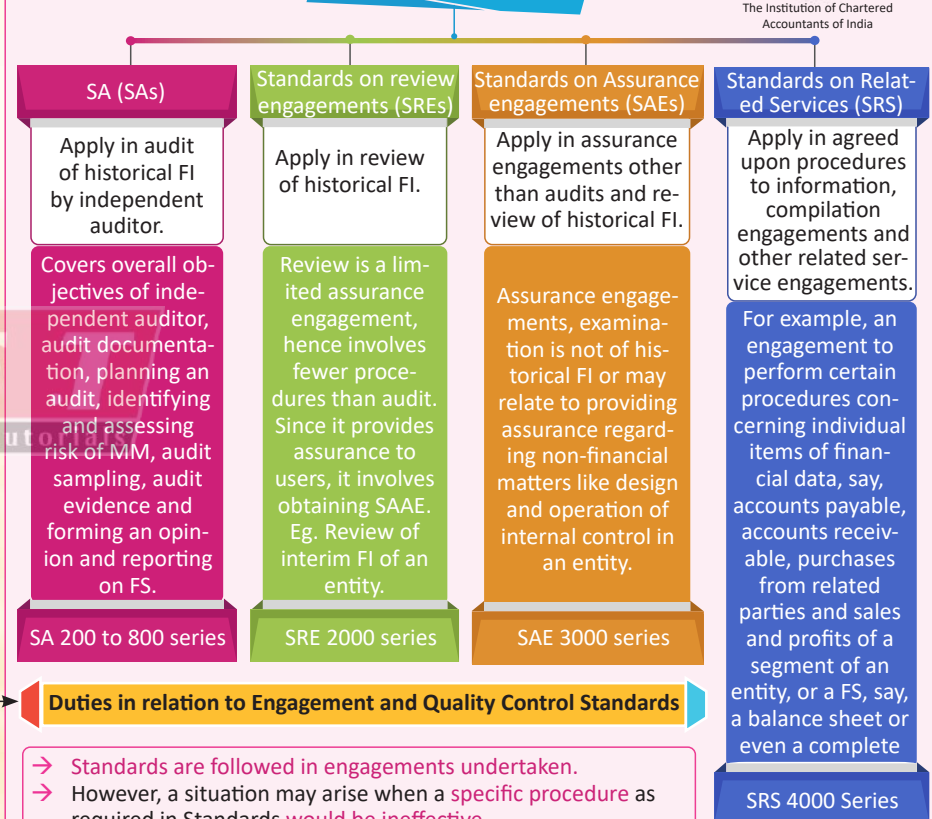
14. ENGAGEMENT AND QUALITY CONTROL STANDARDS: AN OVERVIEW

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



The Institution of Chartered Accountants of India

Engagement Standards



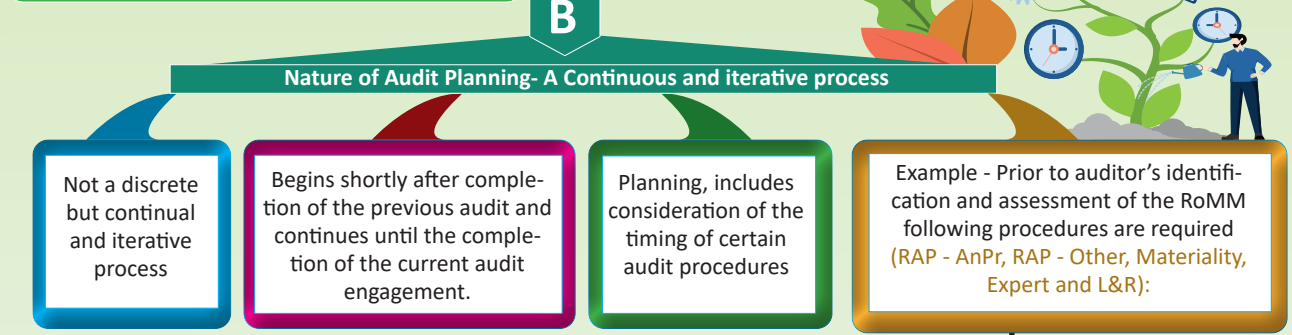
Duties in relation to Engagement and Quality Control Standards

- ➔ 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**.

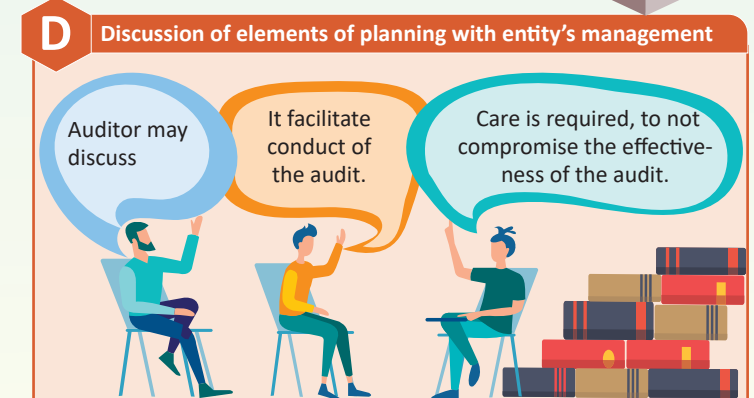
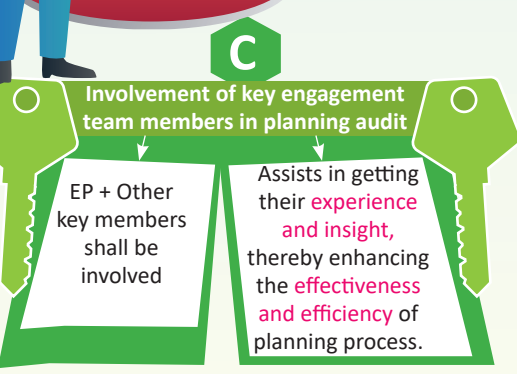
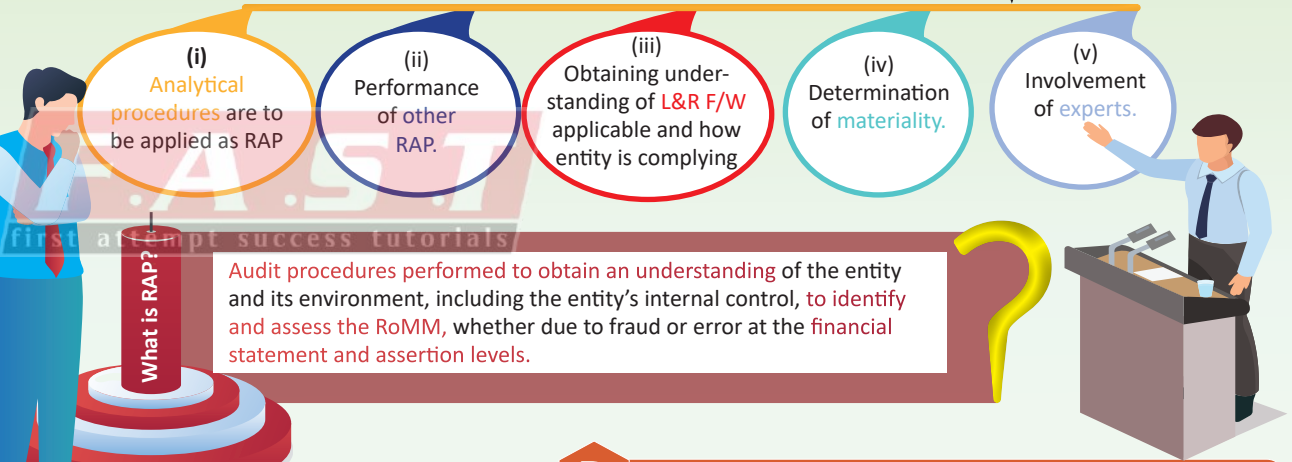
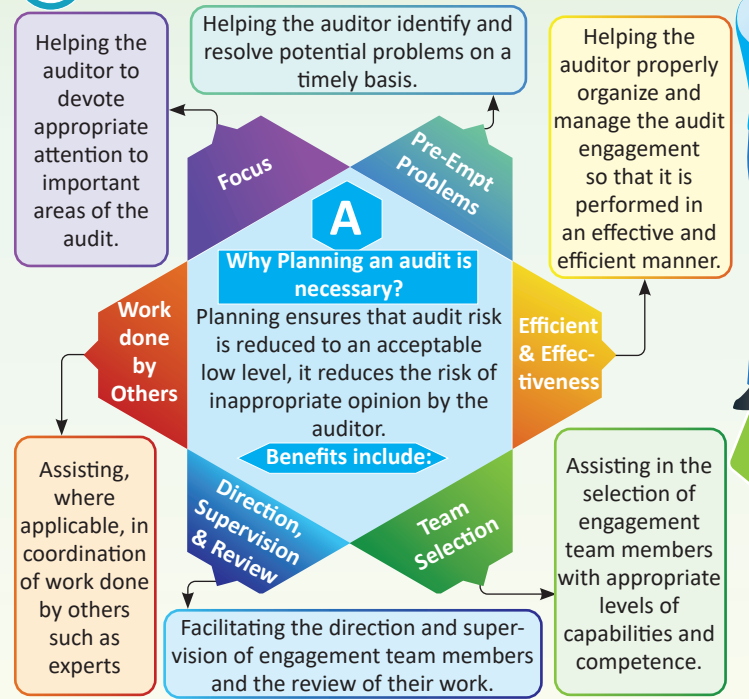




(SA 300 - Planning an Audit of FS)

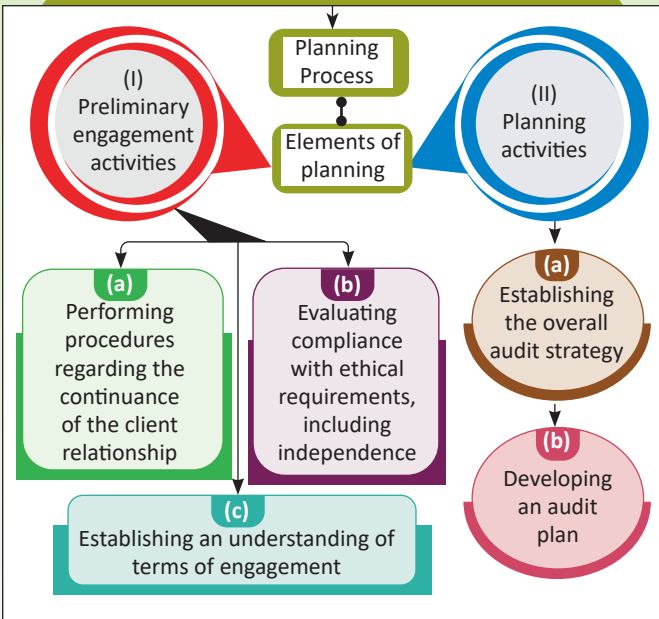


1 AUDITOR'S RESPONSIBILITY TO PLAN AN AUDIT OF FS



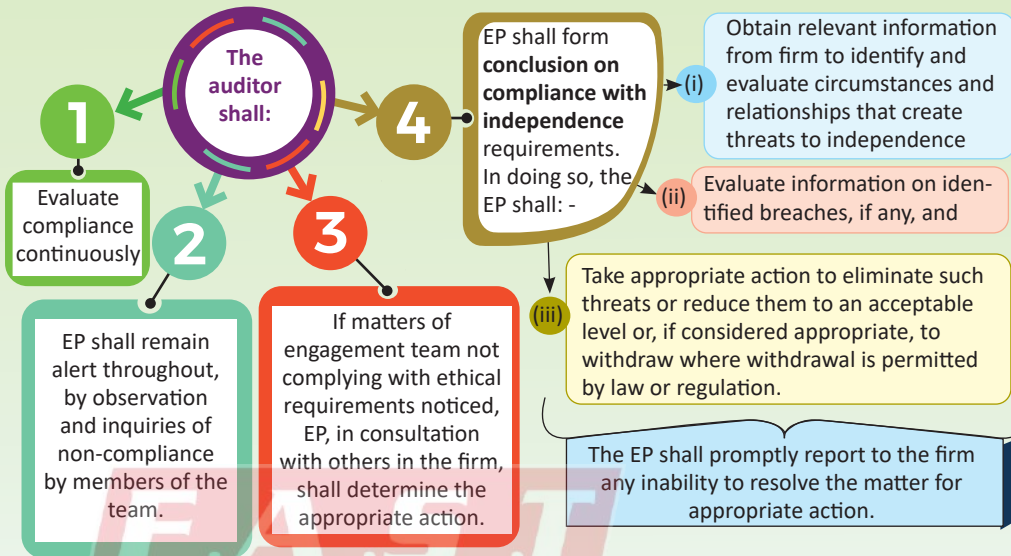
2 PLANNING PROCESS- ELEMENTS OF PLANNING

The elements of planning can be categorized as under:

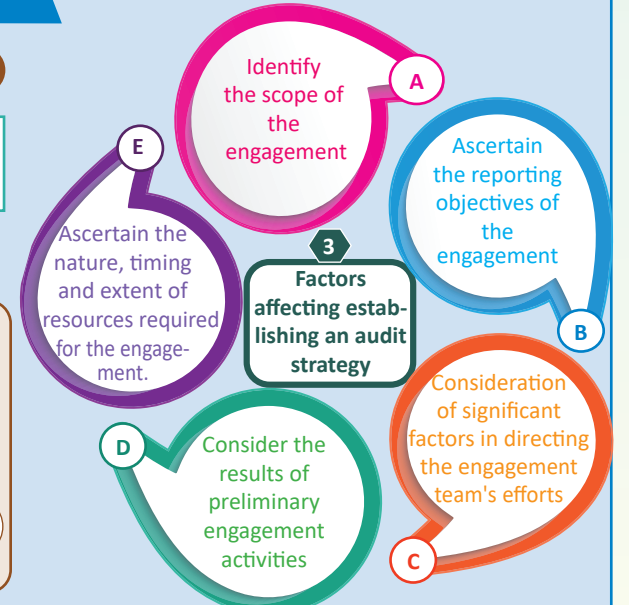
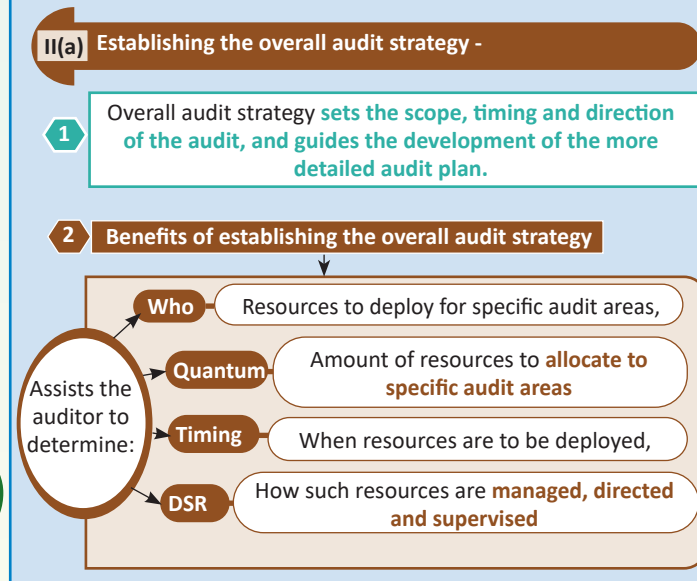


- I Preliminary engagement activities**
Assists the auditor in identifying and evaluating events or circumstances that may affect auditor's ability to plan and perform audit engagement.
- (a) Performing procedures regarding the continuance of the client relationship**
- (i) Procedures regarding acceptance and continuance of client relationships
 - (ii) The firm should obtain necessary information before accepting an engagement.
 - (iii) Integrity of principal owners and key management, **competence** of engagement team, and implications of **matters arisen during current and previous audit engagement** need to be considered.
 - (iv) Initial engagements communication with predecessor auditor should be made.

(b) Evaluating compliance with ethical requirements including independence

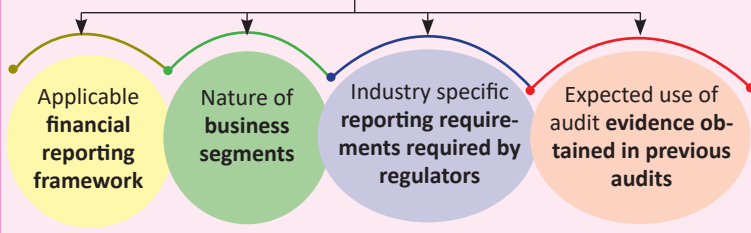


II Planning activities



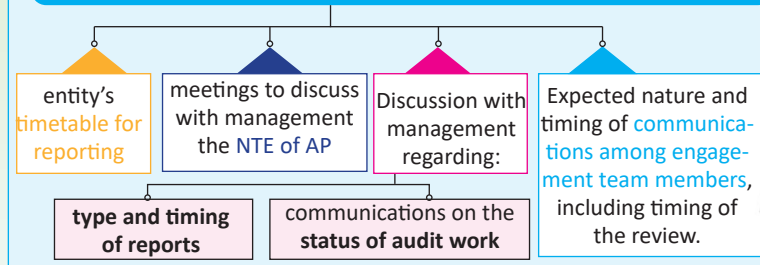
3(A) Identify the characteristics of the engagement that define its scope

Characteristics of engagement defining its scope are:

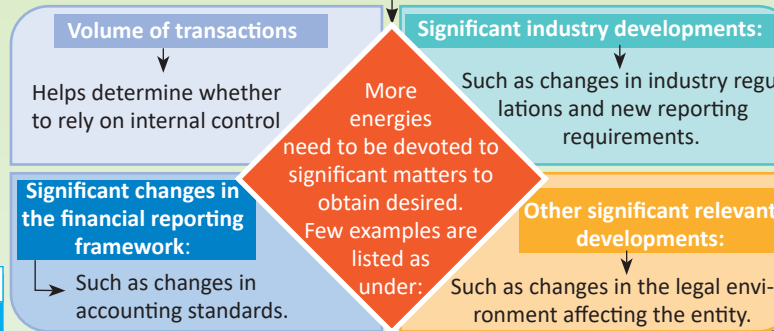


3(B) Ascertain the reporting objectives of the engagement

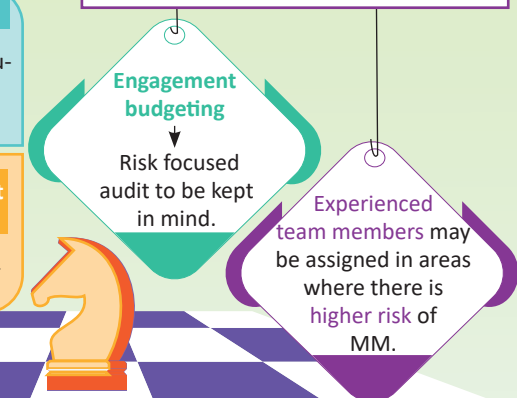
Helps the auditor to plan timing of different audit procedures and nature of communications. Some instances are:



3(C) Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts



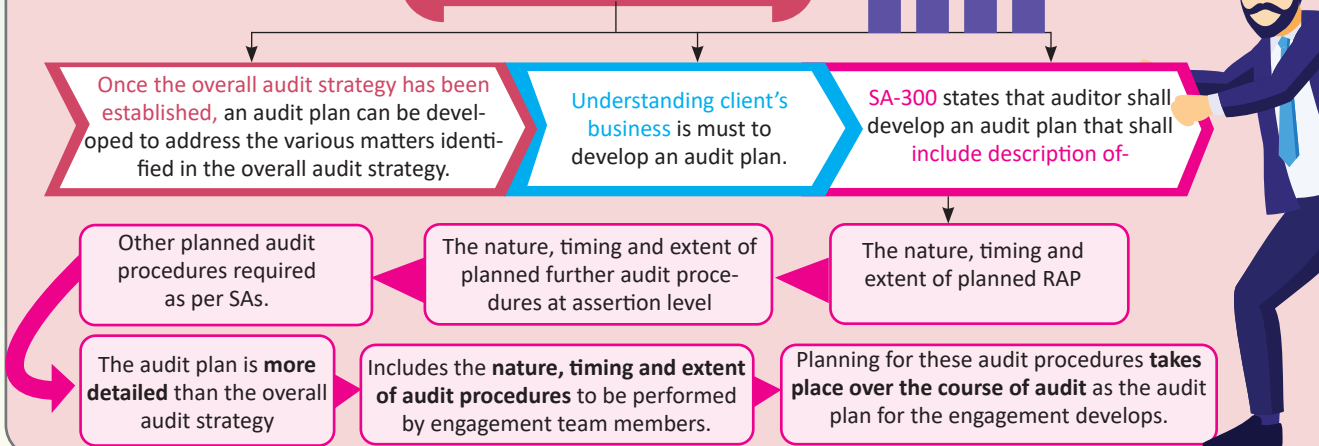
3(E) Ascertain the nature, timing and extent of resources necessary to perform the engagement.



1 Audit strategy & Audit plan

	AS	AP
1	AS: sets the broad overall approach	AP: addresses the various matters identified in the overall audit strategy.
	AS: determines scope, timing and direction of audit.	AP: describes how strategy is going to be implemented.
2	AP: more detailed and includes the NTE - AP and it considers the need to achieve audit objectives through efficient use of auditor's resources.	Audit strategy and audit plan – Not necessarily discrete or sequential but closely inter-related processes, as changes in one affects the other.

II(b) Development of Audit plan

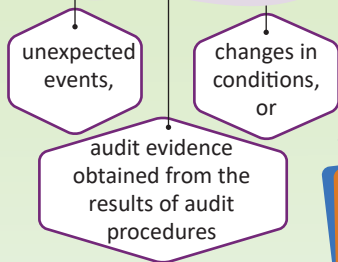


2 Auditor's Responsibility

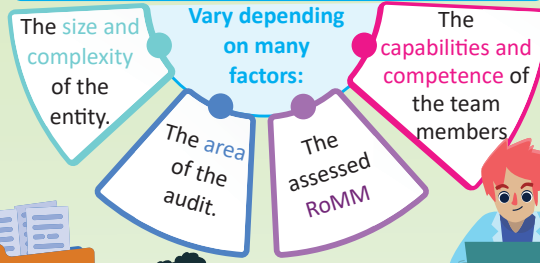
auditor may discuss elements of planning with entity's management without compromising the effectiveness of audit.



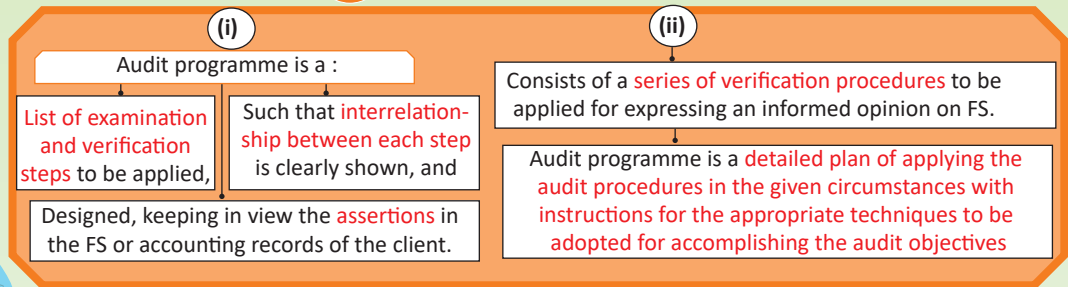
3 Changes to planning decisions during the course of audit
The auditor shall update and change the overall audit strategy and the audit plan as a result of:



4 Planning, supervision and review of work of engagement team members



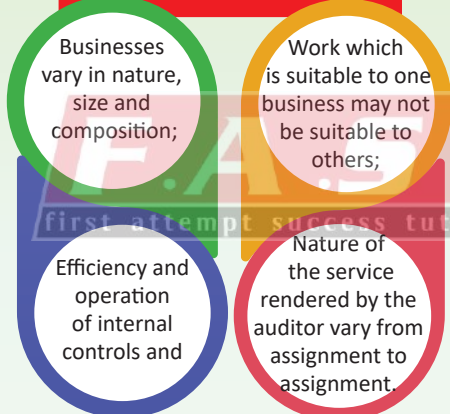
3 AUDIT PROGRAMME



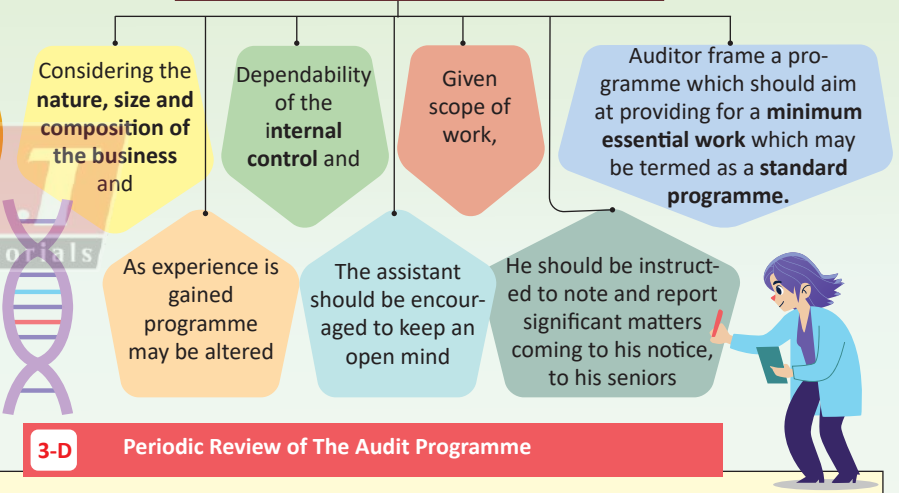
5 Documentation

What to document	(a) the overall audit strategy
	(b) the audit plan, and
Documentation of AS and AP is a RECORD of :	(c) any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.
	(a) Key decisions considered necessary to properly plan the audit and to communicate significant matters to the engagement team.
	(b) Planned nature, timing and extent of RAP and FAP at the assertion level in response to the assessed risks
	(c) Proper planning of the audit procedures that can be reviewed and approved prior to their performance . Use of standard, but tailored to particular engagement, audit programs / completion checklists is permitted.
	(d) Significant changes to the <ul style="list-style-type: none"> ➤ overall audit strategy and the audit plan, and resulting changes to the planned NTE of audit procedures ➤ explaining why changes were made, and ➤ how overall strategy and audit plan were adopted for the audit.
	(e) It also reflects record of appropriate response to the significant changes occurring during the audit.

3-A Why not one audit programme for all businesses?



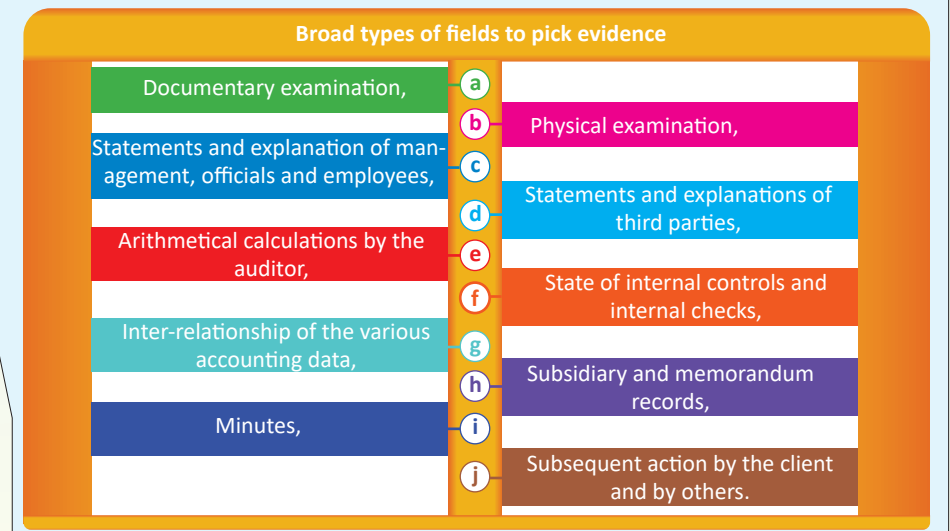
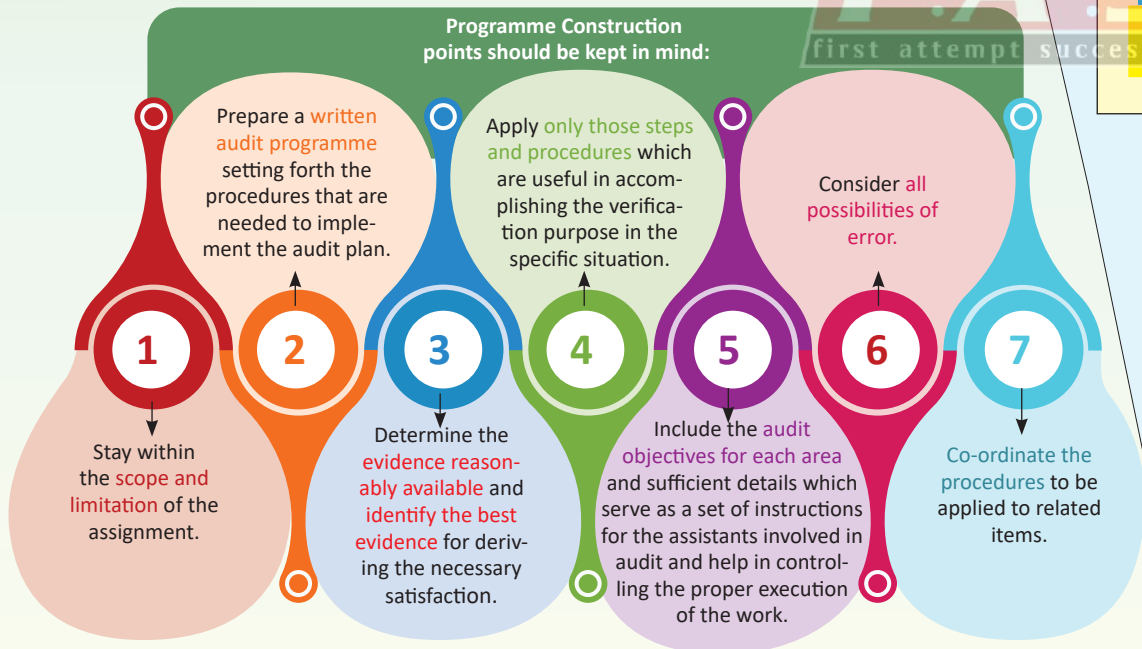
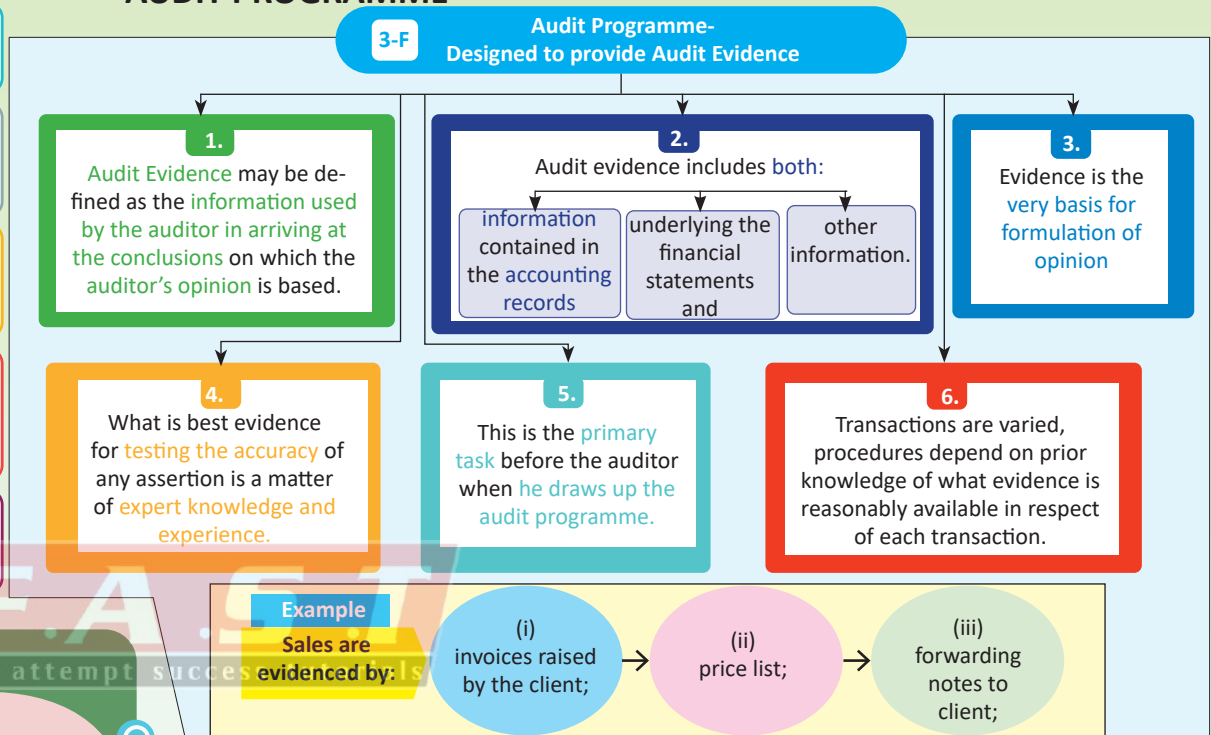
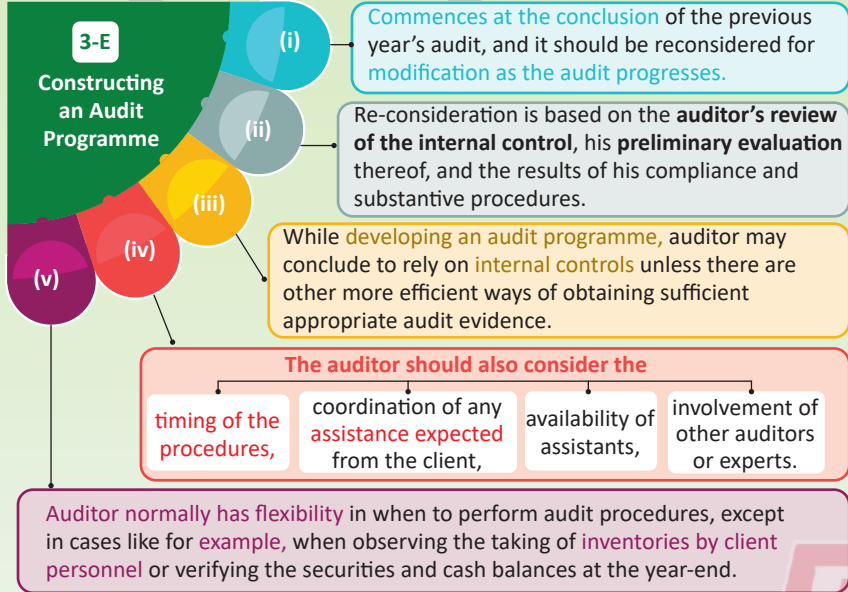
3-C The Assistant to keep an open mind



3-D Periodic Review of The Audit Programme

- ✦ To assess whether the same continues to be adequate for obtaining requisite knowledge and evidence about the transactions.
- ✦ Any change in the business policy of the client if ignored audit work may be carried on, on the basis of an obsolete programme and, for this negligence, the whole audit may be held as negligently conducted
- ✦ Utility of the audit programme can be retained by keeping the programme under periodic review so that inadequacies or redundancies of the programme may be removed.
- ✦ However, audit programme not only lists the tasks to be carried out but also contains a few relevant instructions, like the extent of checking, the sampling plan, etc.
- ✦ So long as the programme is not officially changed by the principal, every assistant should unflinchingly carry out the detailed work
- ✦ Plan an element of rigidity in the audit ? No! the periodic review is undertaken to keep the programme as up-to-date as possible

3-B Details included in the Audit Programme?
Nature of work to be done is detailed, avoids time less and special matter or any specific situation can be taken care of.



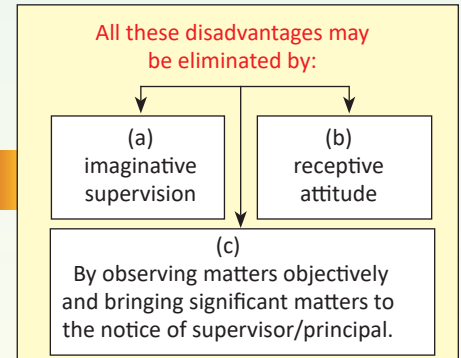
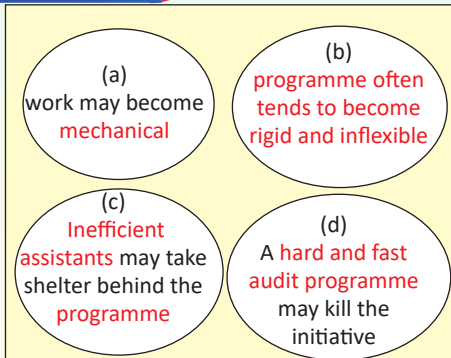
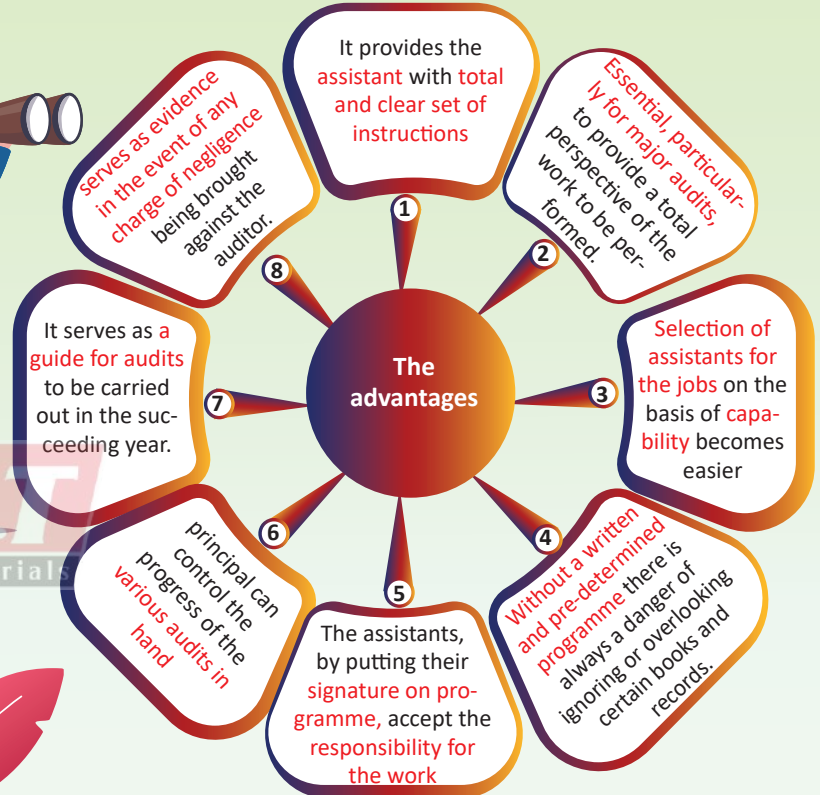
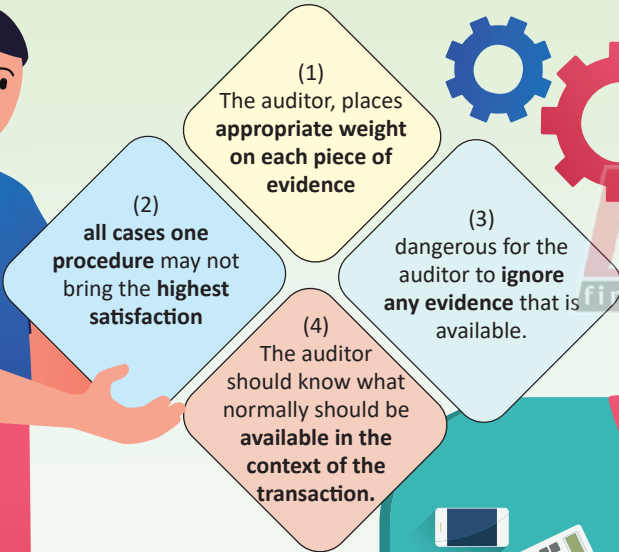
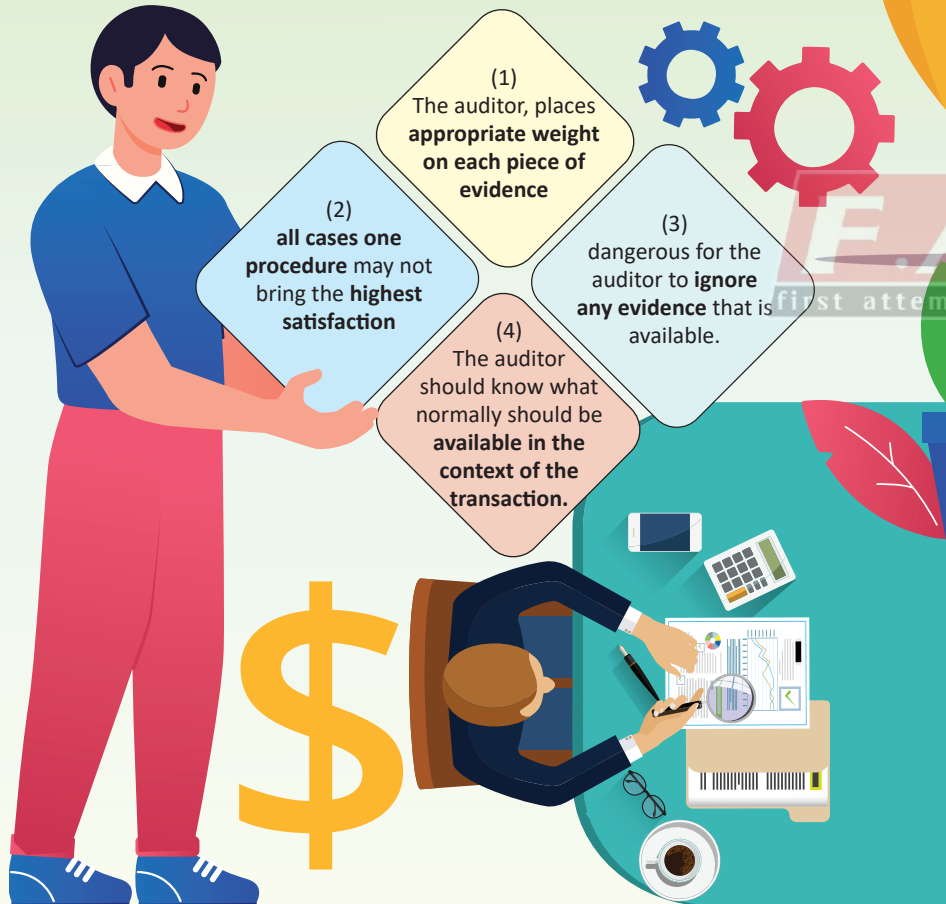
Example

For cash in hand, the best evidence is 'count'

For investment pledged with a bank, the banker's certificate.

For verifying assertions about **book debts**, the client's ledger invoices, debit notes, credit notes, monthly accounts statement sent to the customers are all evidence: some of these are corroborative, other being complementary. In addition, balance confirmation procedure is often resorted to, to obtain greater satisfaction about the reliability of the assertion.

3-G Advantages and Disadvantages of an Audit Programme





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