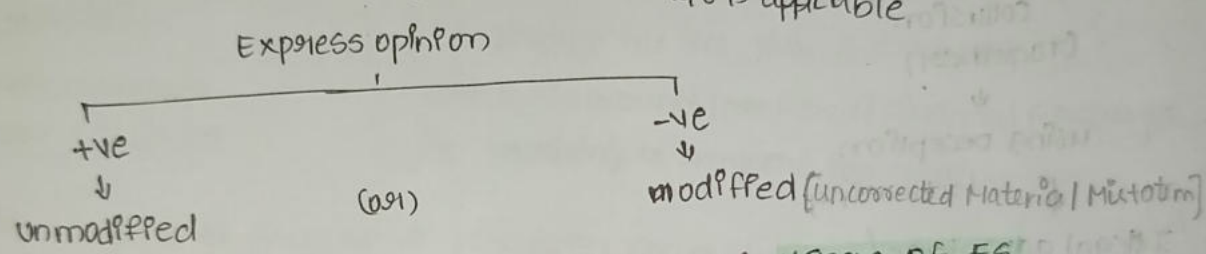
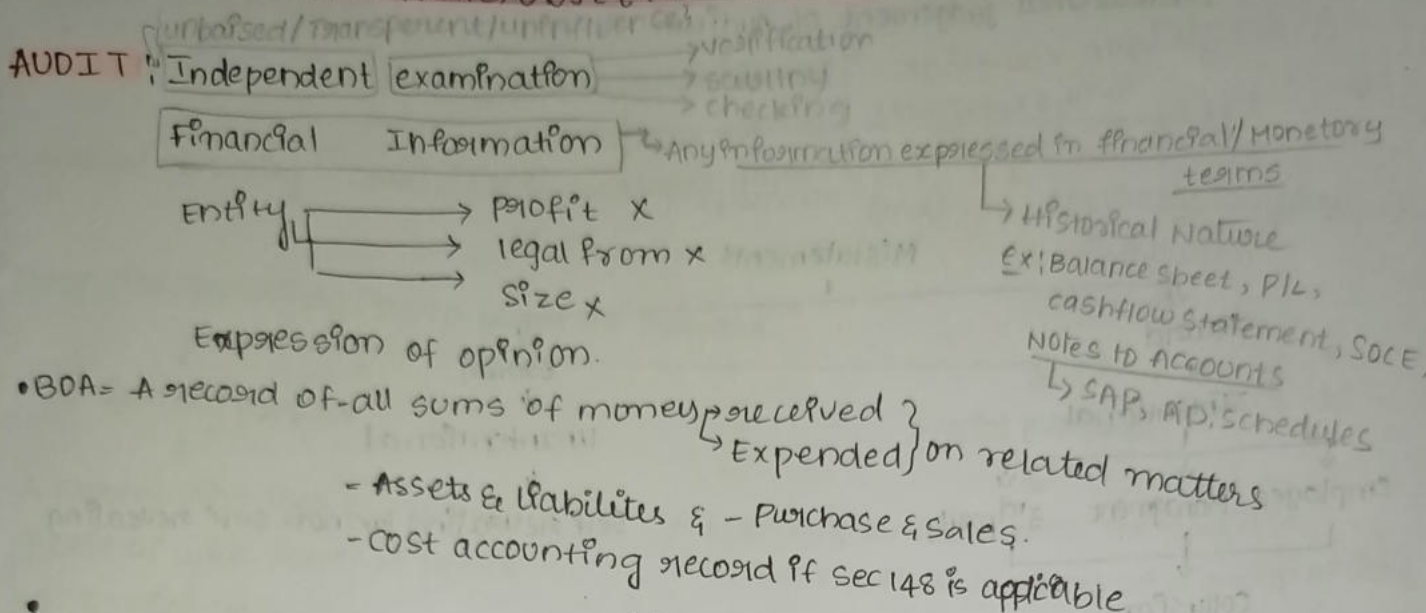


Fundamentals, NATURE, OBJECTIVE & SCOPE OF AUDIT SA 200.



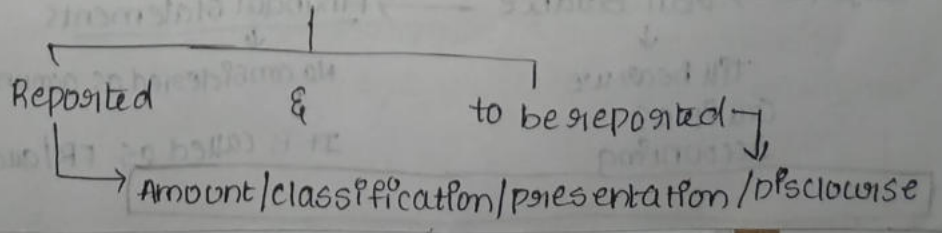
Purpose: Enhancing the degree of confidence of users of FS.

SA-200: overall objective of an independent Auditor & conduct Audit in accordance of SA's.

Objective: For forming assurance,

- Obtain reasonable assurance that the FS as a whole or free from material misstatements.
- Forming an opinion as to whether the FS are prepared as per applicable financial reporting framework in all material respects
- Communicating or reporting of auditing finds as per SA's.

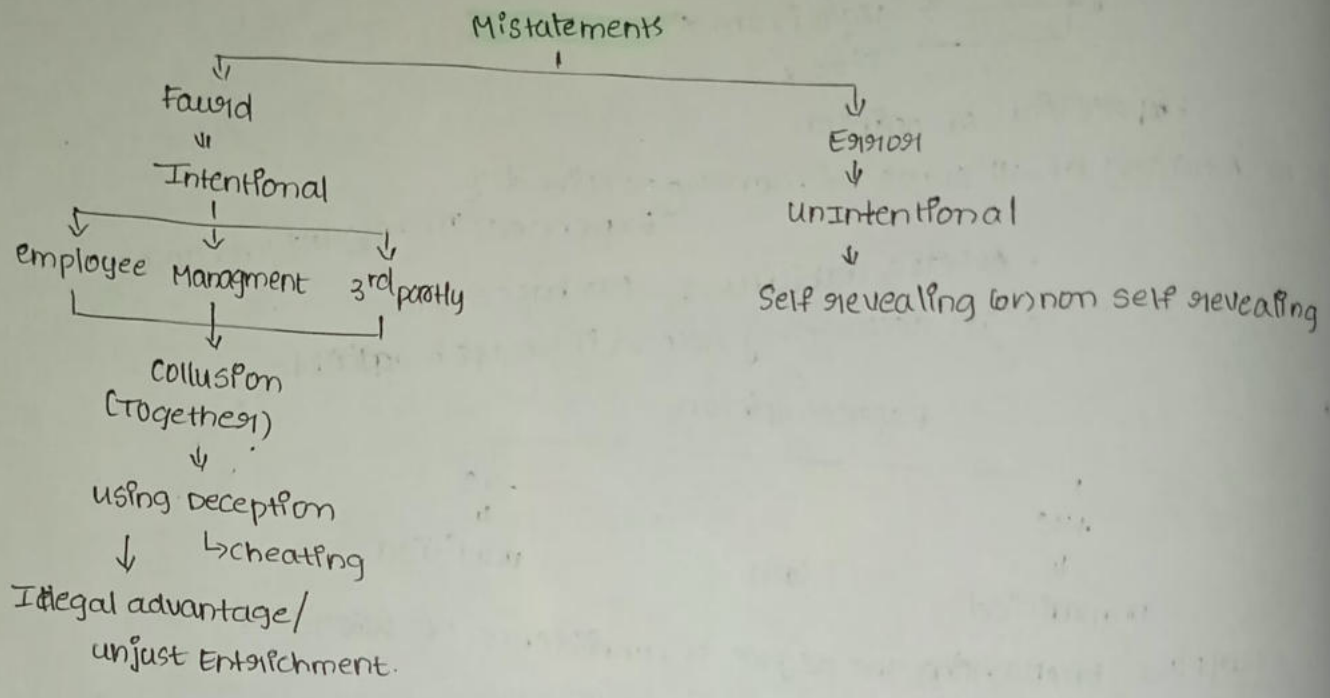
- Misstatement means a difference between



- Material means very important (SAR 200 & 320)

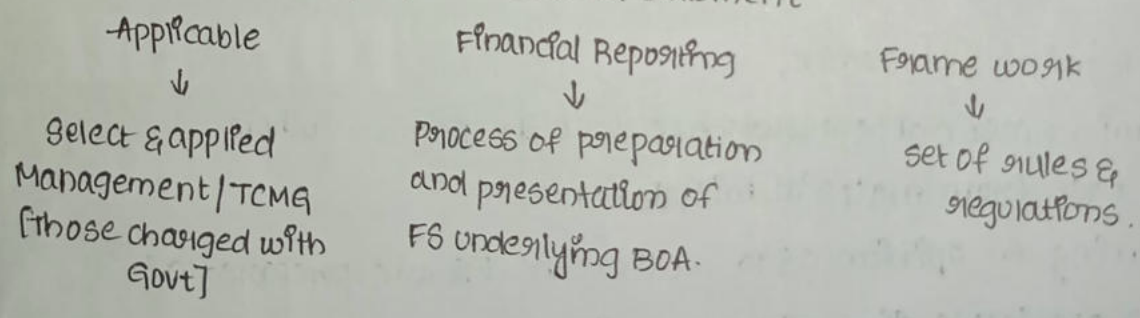
Anything that has impact on the economic decision making of users of FS in the professional judgement of Auditor.

↳ using knowledge, skill, experience & training } in taking an informed decision appropriate in circumstance

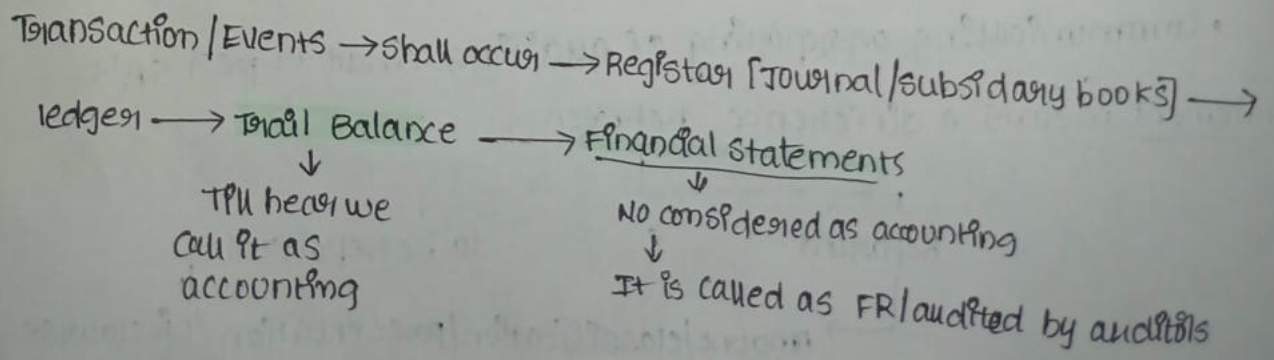


2nd objective:

* Management has to prepare financial statement



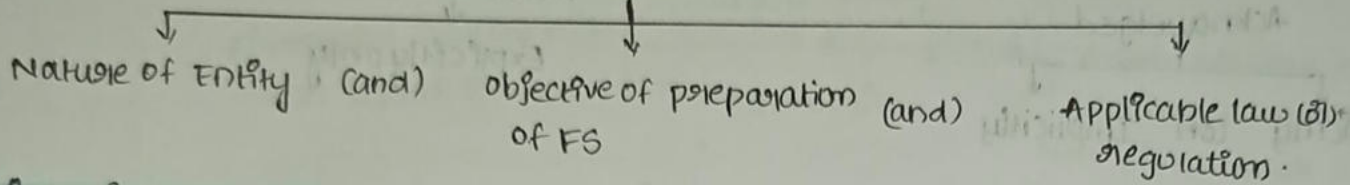
Process of Financial Reporting:



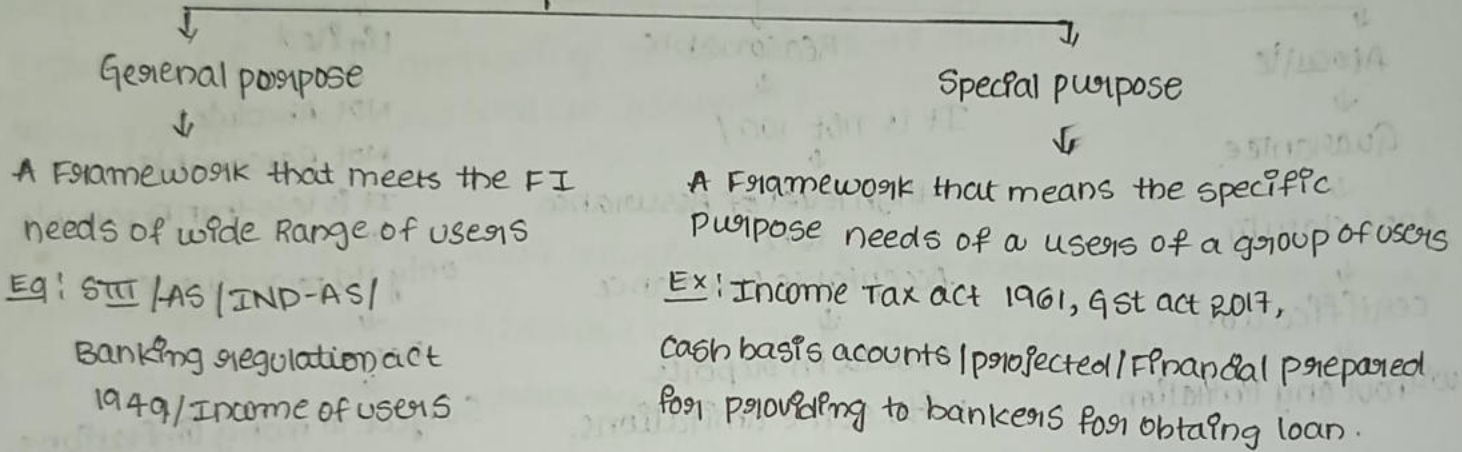
Reporting means conveying users financial position

* In process of applicable financial reporting there are three factors should be considered

Factors to be considered



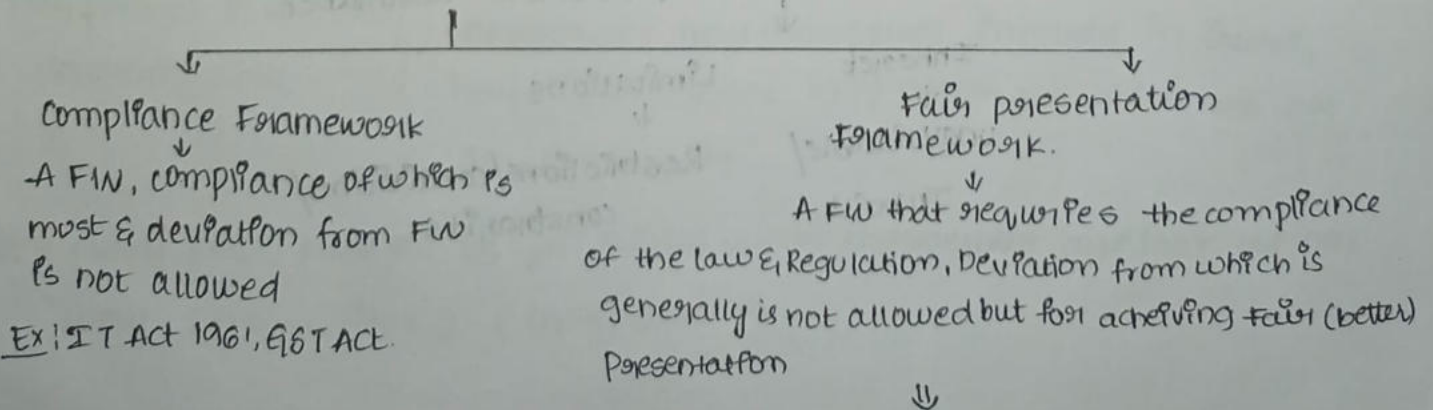
Financial Reporting: types based on purpose

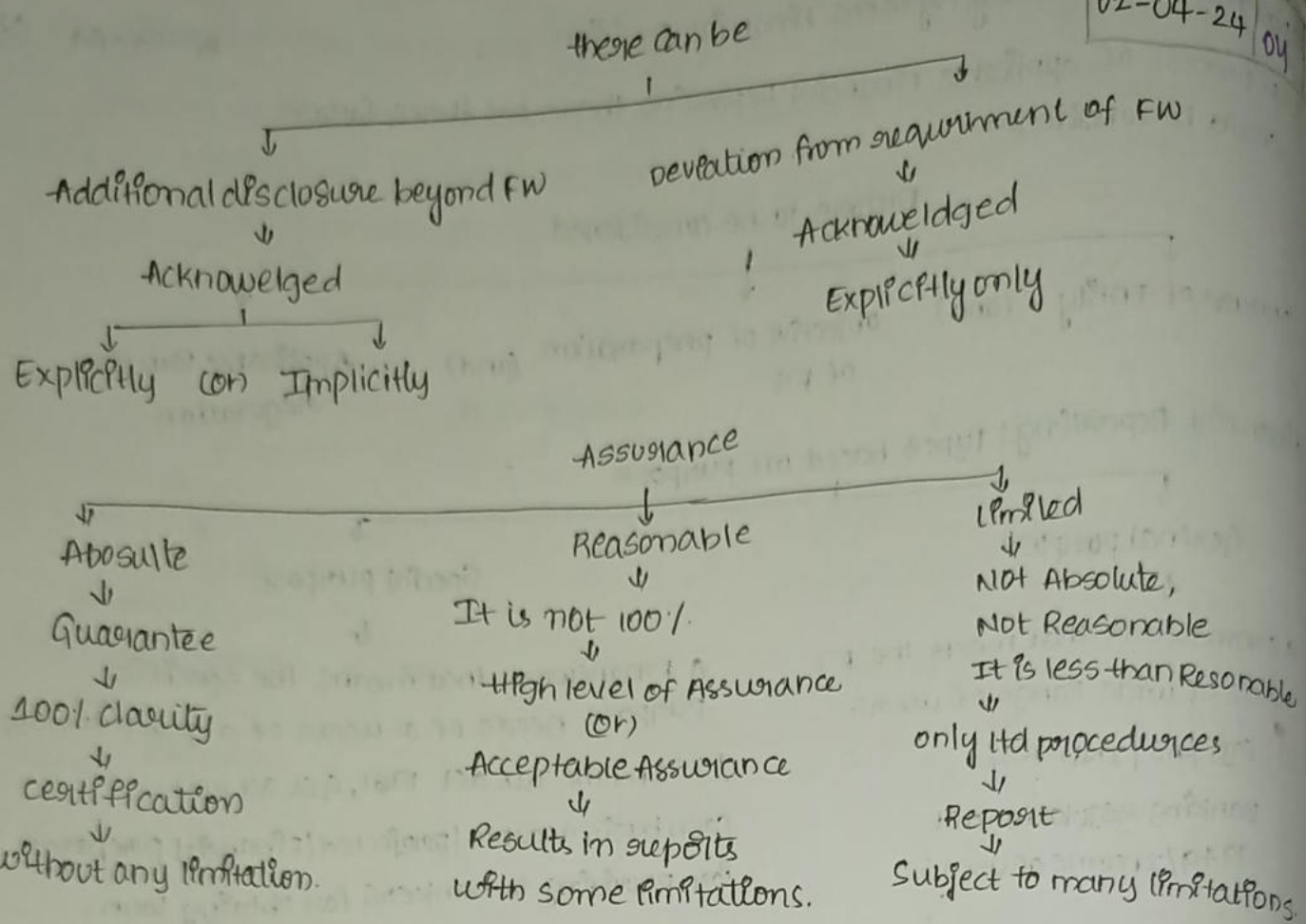


Characteristics of General purpose of Financial Framework!

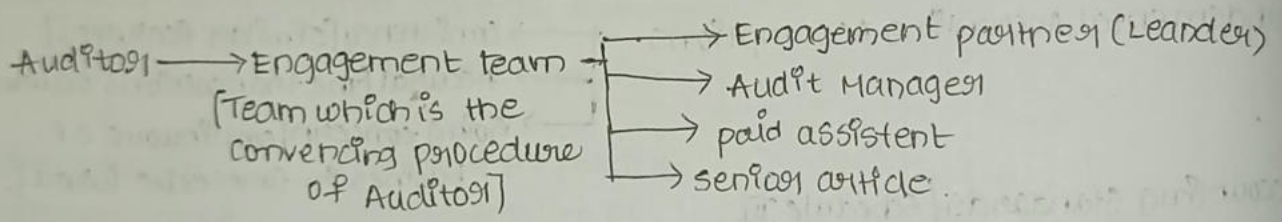
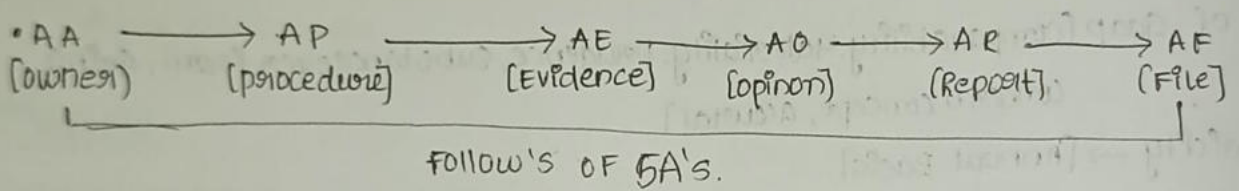
- 1) Usage of Gaap [comparability, materiality, prudence, substance over form, going concern concept, accrual].
- 2) periodicity → [Annual Basis]
- 3) Fundamental Accounting Assumptions
 - Consistency [similar features]
 - Accrual [the transactions occurred]
 - Going concern [continuous of business in foreseeable future].
- 4) Accounting standards / Schedule III.

FRFW → Types based on statute (Law)

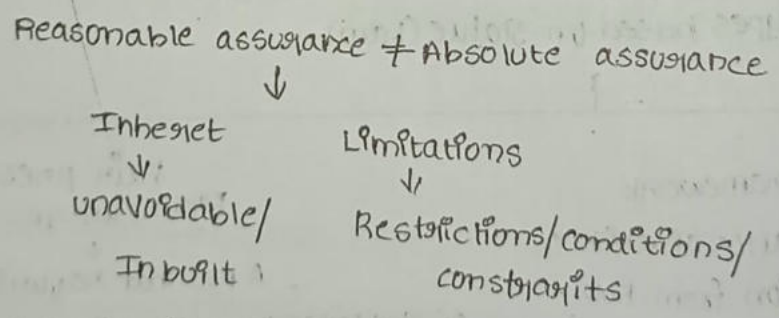




Audit time line:

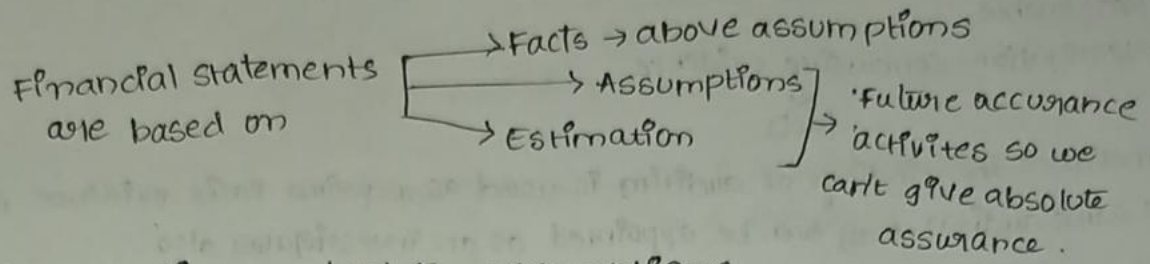


Income of Auditors:



Limitations!

1. Nature of financial Reporting:



Facts cannot be according to absolute assumptions, because of internal controlling, assumptions as correct (or) wrong ⇒ Hence it is reasonable assurance.



Management, Employees, TCWG, collusion - May know (or) don't know about errors had inherent limitations [Because of these Reasonable assurance will be followed but absolute Assurance].

Internal controls: set of rules and Regulations designed and implemented with in the entity with an objective of specially reducing funds of errors.

AA x } Inherent limitations of IC
 RA ✓ }
 ↓
 Eg: collusion.

2) Nature of Audit procedures: There are practical & legal limitations on auditors
 Management shall provide information;
 May not provide! Maximum power is to tell to shareholders but not compared with special powers conferred to an investigation
 May provide Restricted document also } management may themselves involves in fraud, they might disclose only papers for which are not at all a reality.

Every first auditor is an initial audit engagement auditor but not every IAE auditor is a first auditor

3) Audit is not in the nature of investigation;

⇒ Audit will be depend on persuasive & evidence convincing (prima facie)

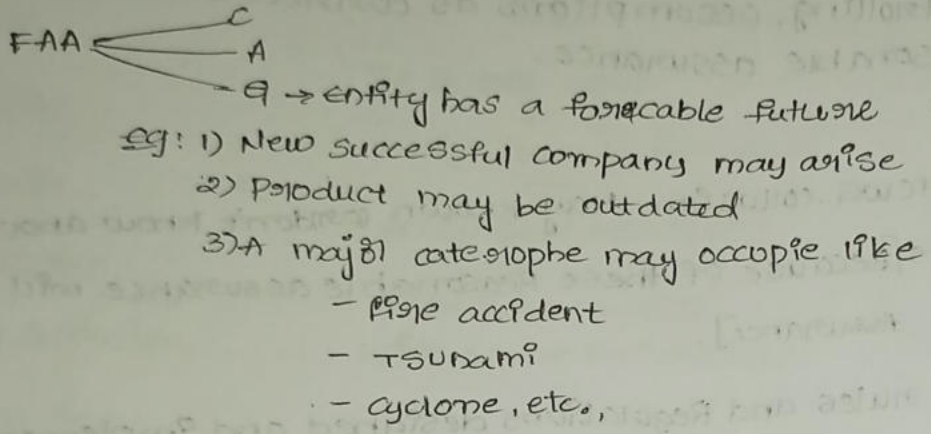
Reasonable

Investigation - conclusive evidence

↓
facts

* Sometimes the findings of auditing is used as a prima facie evidence for investigation. The same auditor may even be appointed as an investigator also.

4) Future events!

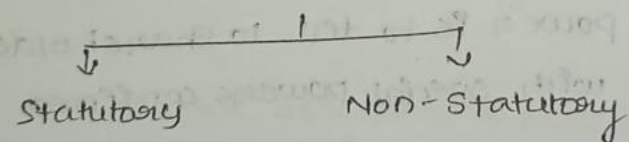


5) Time line of financial reporting & decrease of relevance of information over time!

1) Audit Risk - Risk that auditor may express an unmodified opinion) where he is supposed to express a modified opinion)

2) Risk that the auditor would express an inappropriate opinion where financial statements are material misstatement.

Audit Types



Statutory Audit: It is compulsory / mandatory which is required by law → company audit, Bank audit, LP, Society Audit, Income Tax audit...

↓
Terms & conditions of audit shall be prescribed by the concerned state ↓

Scope of work → ↑ permitted (Mutual agreement)
↓ - Not allowed.

↓
Independence → Mind ⊕ Appearance

Non Statutory Audit! → voluntary optional → Not required by law

12-04-24 07

Partnership audit, HUF audit, Sole prop. audit

Terms & conditions of Audit shall be mutually agreed up by both auditor (or) Audit

Scope of work → ↑ Permitted (MA)
→ ↓ Permitted

Independence → Mind
→ Appearance (Optional)

If addressing 3rd parties better appear to be Independent

Independence!

Judgement of a person being subordinate to wishes & directions of a person who might have engaged them.

Types of Independence

Mind

State of mind that permits the provision of opinion without expressing being affected by influence

Allowing individual to act with

Integrity: honestly, truthful, straightforward, faithful.

Objectivity: being purposeful & being influenced by any obligation

Personal (or) Financial

Professional skepticism

having a questioning mind, alert to unusual circumstances, critical analysis of audit evidence

Contracting Evidence → Req. to go beyond CA.
Profitability of fraud
Doubt on reliability of AE

Detailed Examination

Sufficiency, Relevance, Reliability → Appropriateness

* If auditor feels Audit evidence (AE) insufficient

Inappropriate
 ↓
 He shall perform alternative/addition procedure

→ NOT Reliable (or)
 → NOT relevant

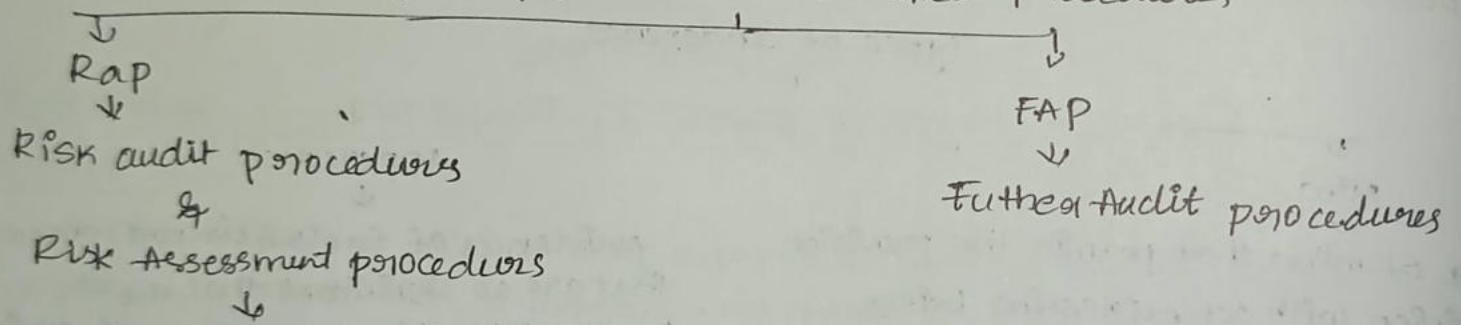
Threats to Independence:

Situations that may make an auditor to compromise his independence. It is identified by 'IFAC'. It broadly divided into 5 category.

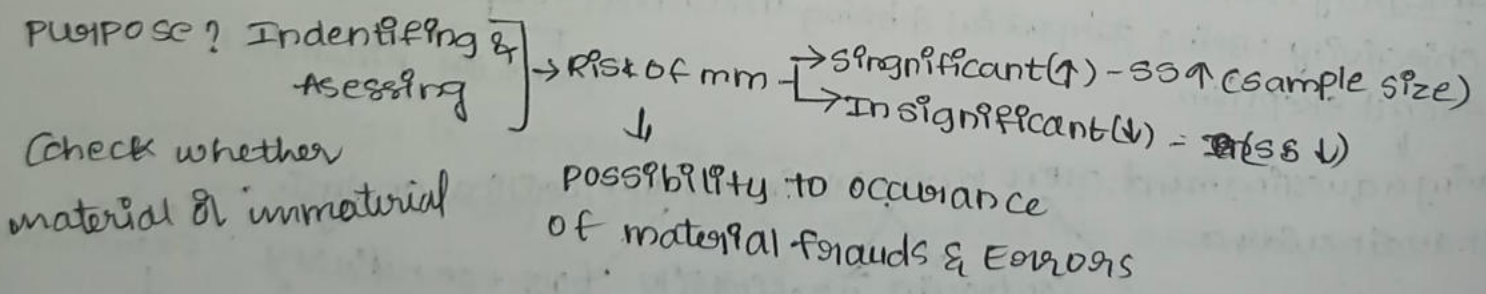
- 1) Self Interest Threats
- 2) Self Review Threats
- 3) Familiarity Threats
- 4) Advocacy Threats
- 5) Intimidation Threats

SA 500: Audit Evidence

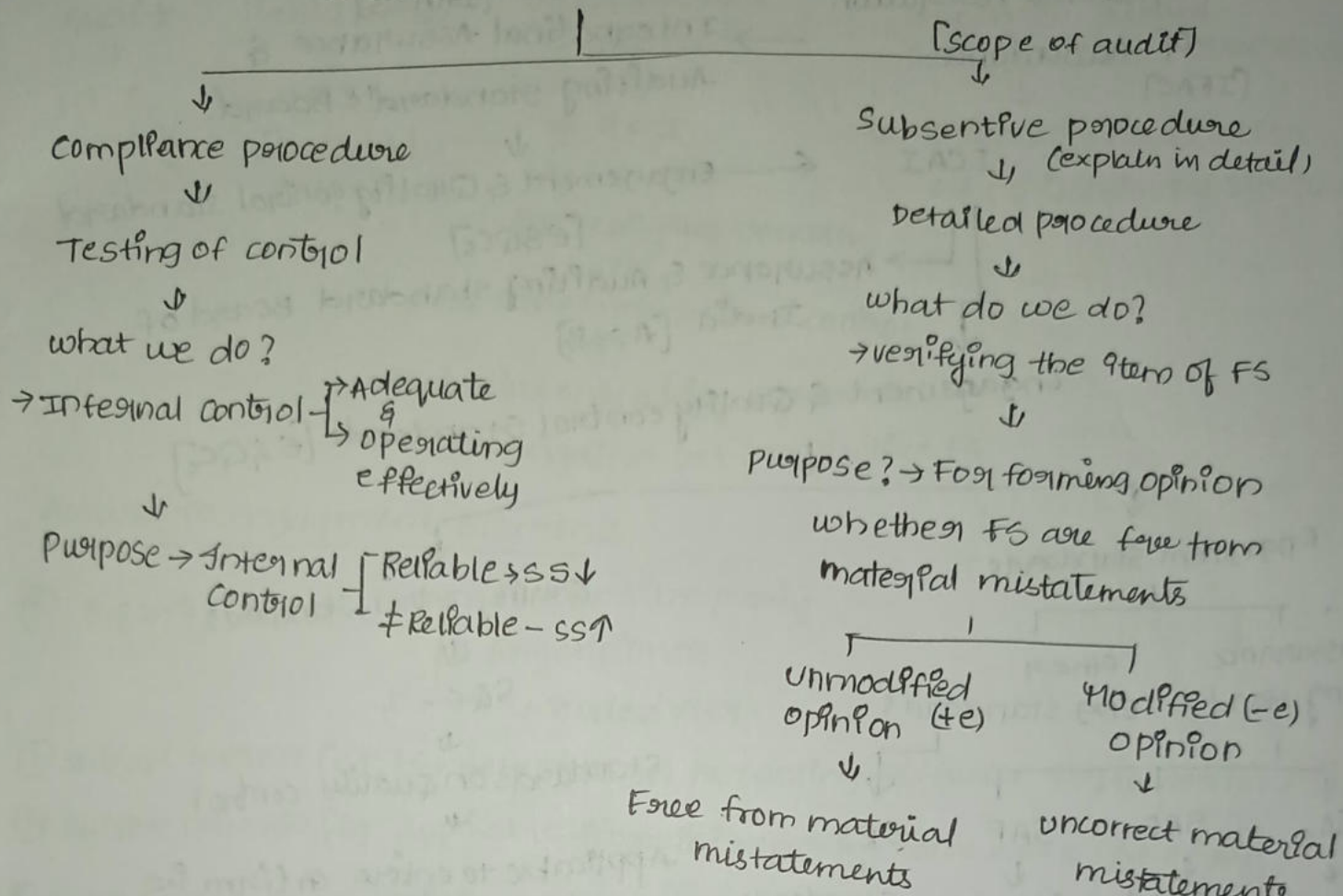
Auditors planned & performed procedures



What we do??
 We are going to understand the Entity, Environment & Internal Controls.



Further Audit procedure!



points kept in mind/factors to be considered for substance procedure/ while verifying FS; (SA 200).

- ① FS = ^{vatches} BOOKS of Accounts
- ② BOA = ^{Hatches} SUPPORTING Documents
- ③ FS = AFRFW {
 - Schedule III
 - AS/INDAS
 - BR Act, Etc.
- ④ Ensure there are no
 - omission
 - duplication
 - dummy/fictional// Ghost Entries.
- ⑤ FS shall be clean & understandable & unambiguous (without creating any confusion)
- ⑥ The FS { BS, P&L } shall be present in true & fair picture of business for fair presentation of FW. True & fair & correct view for complinence with FW.

* Auditor can't be expected to present any services out of his spe scope of work (or) competence

International Federation of Accountants (IFAC)

[IAASB]

International Assurance & Auditing Standards Board

ICAI

Engagement & Quality control standards

[E&QCS]

Assurance & Auditing standards Board of India (ASSB)

Engagement & Quality control standards [E&QCS]

Engagement Standards

Quality control standards

Assurance Eng stand

Other Eng standards

SQC-1

standards on quality control

SAs
↓
standa on auditing

SRE
↓
stand on Review Engag

SAF
↓
stand on other Assurance Engag

SRS
↓
standards Related on Services

Applicable to entire CA firm P/c to all the engagement teams in that CA firm

NO Report / NO certificate

SAs (yearly)

used for audit engagement

Reasonable Assurance

Report

SRE (quarterly)

used for limited Review engagement

limited Assurance

Report

SAF

used for other than historical finance info assurance engagement i.e other than audit or limited review

absolute / Reasonable / limited assurance

Report Certificate

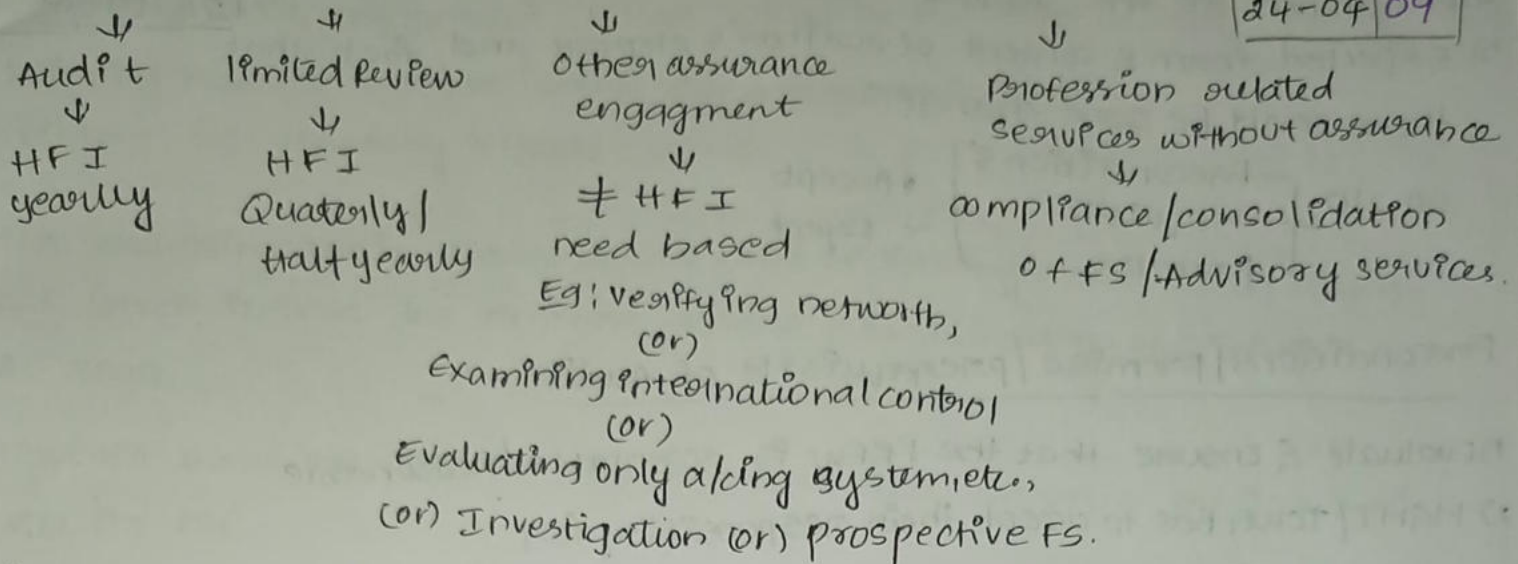
SRS

Any services to Profession that does not involve any assurance

Eg: preparation of Standalone or consolidated FS

Report

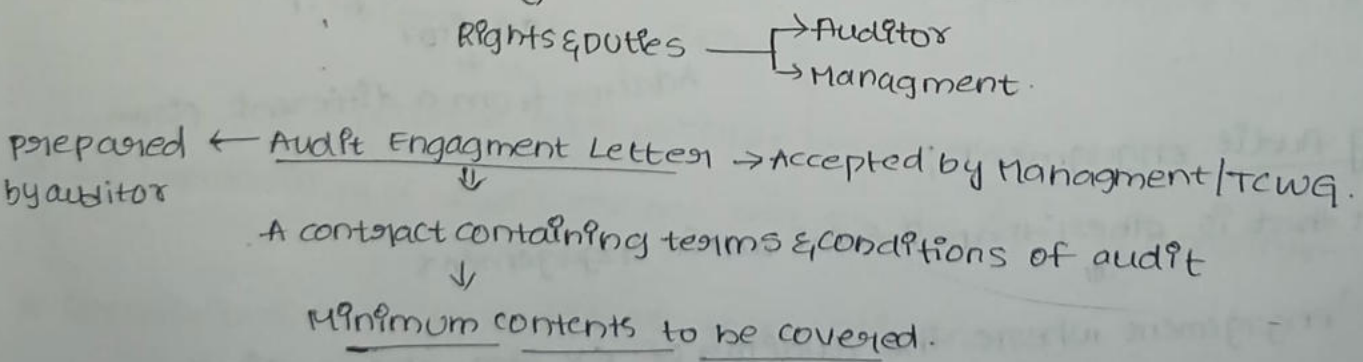
without any assurance



Assurance Engagement Elements

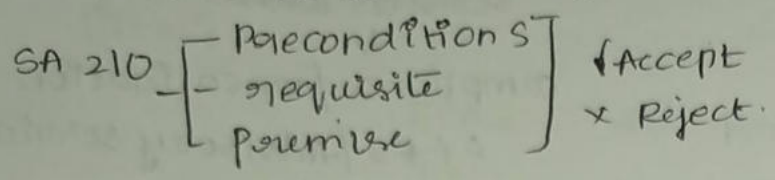
- ① 3 party Relation —
 - Responsible party
 - Practitioner
 - Intended user.
- ② Subject Matter [eg: FS, Network (or) Accounting software (or) prospective FS].
- ③ Suitable criteria [eg: Applicable financial reporting framework (AFFRW)].
- ④ Sufficient & Appropriate evidence [eg: Books of Accounts, supporting documents, Accounting].
- ⑤ A written Assurance report [eg: Audit report, limited review report (or) Network certificate etc].

SA: 210: Agreeing on terms of audit engagement



- 1) objective & scope of Audit
- 2) Responsibility of Management / TCWG
- 3) Responsibility of auditor

- 4) Reference to the AFRFW
- 5) Expected form & content of auditor's report and fact that there could be some changes



Preconditions / premise / prerequisite of Audit

- 1) Evaluate & ensure that the FRFW is acceptable / Reasonable
- 2) MGMT / TOWG has to accept their responsibility for
 - preparation of FS
 - Designing & Implementing & mainting of internal records.
 - providing the auditor with

- a) All the information
- b) Additional information requested by the auditor
- c) unrestricted access to people
 - within entity
 - (or)
 - outside

that is required for the conduct of efficiency & effectiveness audit.

Initial Audit engagement: Any audit engagement where either immediately preceeding FY is - un-audited (or)
 - Audited by a predecessor auditor
 ↓
 Auditor from a different firm.

Recurring Audit engagement:

Any audit that is other than initial audit engagement
 any audit engagement where the auditor of CY was the auditor of immediately preceeding FY.

* Generally audit engagement letter issued at the time of ap 24-04 | 11
pointing auditor shall be issued for entire period of
tenure i.e generally 5 years

⇓

For reappointing audit engagement no need of issuing a new audit engagement letter instead the term are defined AEL issued in the initial AE year

⇓

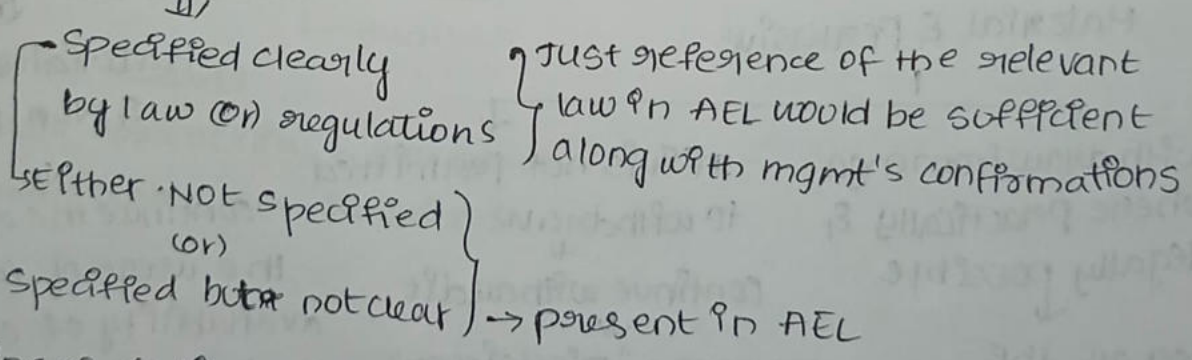
However there are certain circumstances that warrant the issue of REL for RAE.

⇓

- 1) change in terms & conditions of audit
- 2) change in nature & size of business
- 3) Misunderstanding of terms & conditions
- 4) Change in
 - Senior MGMT / TCWG
 - Significant ownership.
- 5) change in
 - AFRFW
 - Audit reporting requirement
 - Any other law.

AEL → Terms & conditions

Better reduce it to writing



* If preconditions of audit are not met at the time of appointment

* Restractions on scope audit at the appointment

Don't accept the audit

⇓

But if such a limitation is imposed or allowed by the law (or) regulation, accept the audit

* MGMT / TCWG requesting the auditor for change in terms & conditions of audit after the appointment but before the expiry of tenure of auditor

