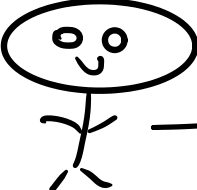



Business → Complex  
Environment

 → Money lender → Credit worthiness

 → Shareholders → Financial Position of Co.

 → Banks → credit worthy

 → Government → Taxes

 → Insurance Co. → Settle claims

RELIANCE?  
CONFIDENCE?

# Financial Statements → True & Fair

\* Auditing → Ancient Times → Many Societies  
↓

Kautilya's Arthshashtra → 4<sup>th</sup> Century BC

↓

Focus

- Fixed Accounting Year
- Process of Closure of A/c's
- Auditing
- Periodical Checking
- Verification
- Misstatement in F.S.
- Abuse of Power

\* Origin of the word 'Audit' → Latin → Audire  
↓  
To HEAR

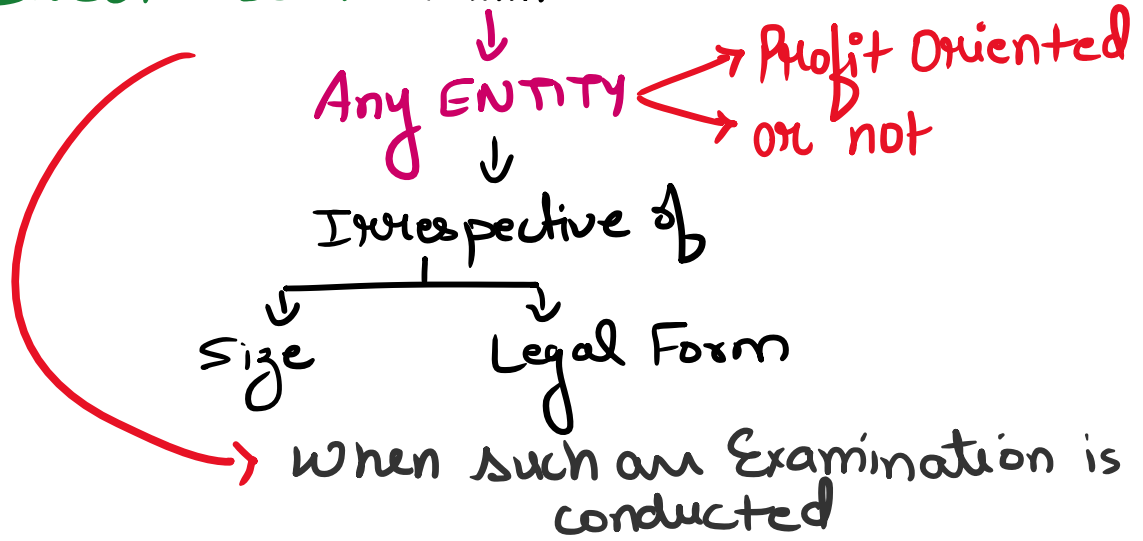
\* I Auditor General of India → 1860  
Accounting    Auditing

Presently → Constitutional Authority  
↓

C & AG

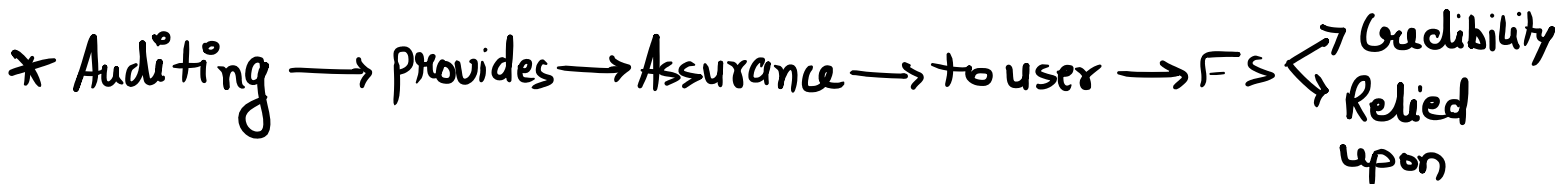
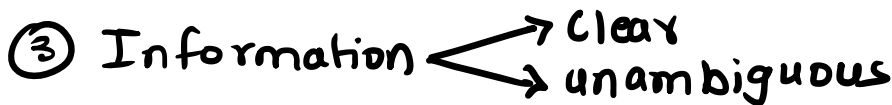
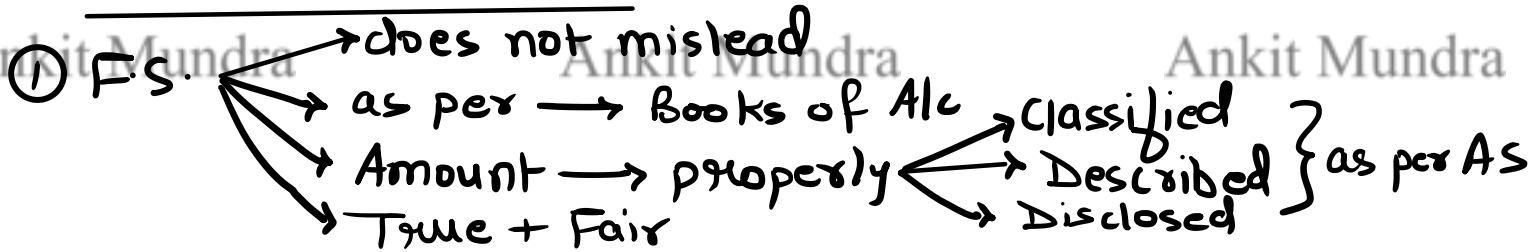
\* IACI → Statutory Body → Act of Parliament

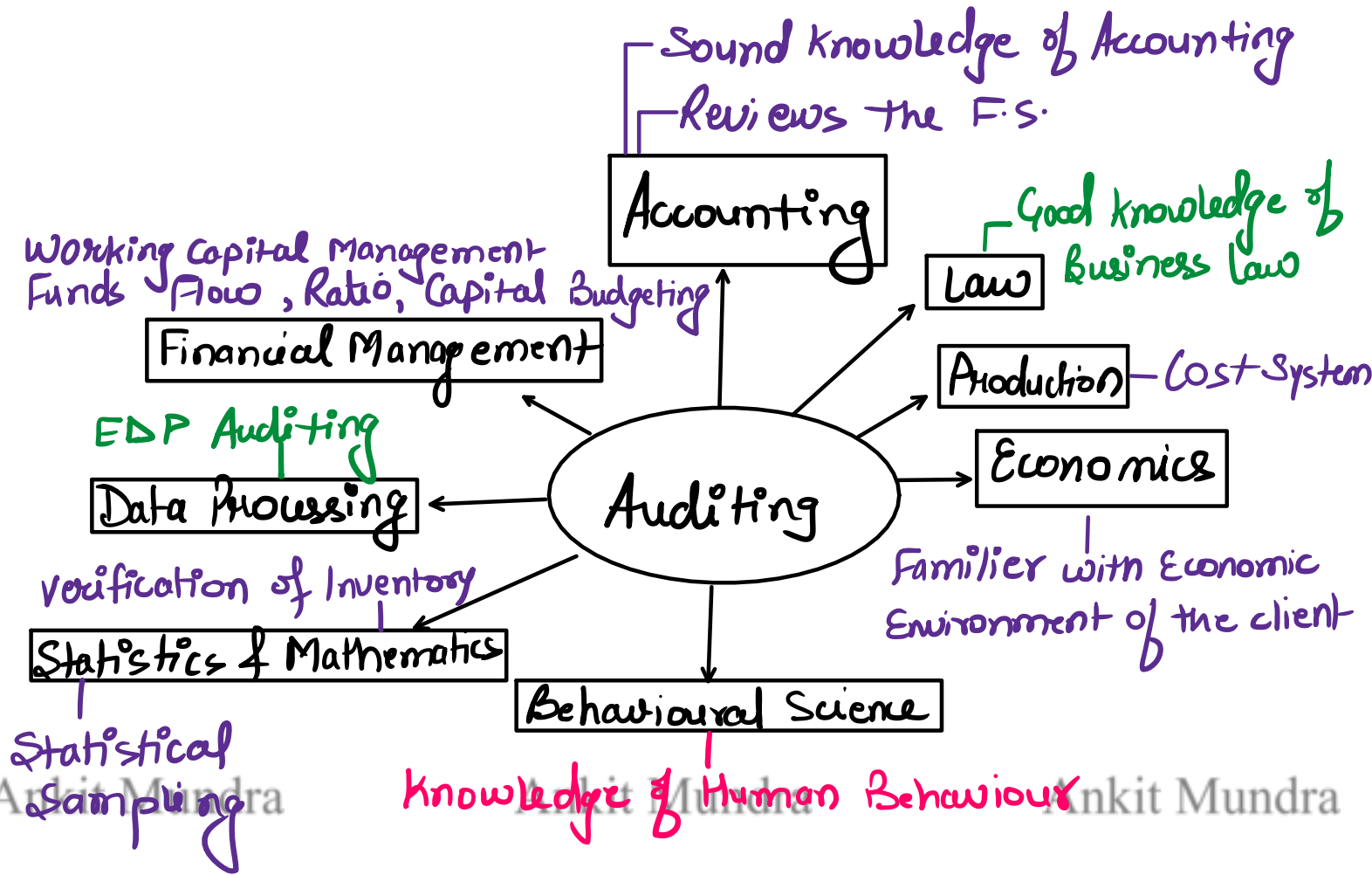
\* Audit → INDEPENDENT Examination → Financial INFORMATION



with a view to express AN OPINION thereon

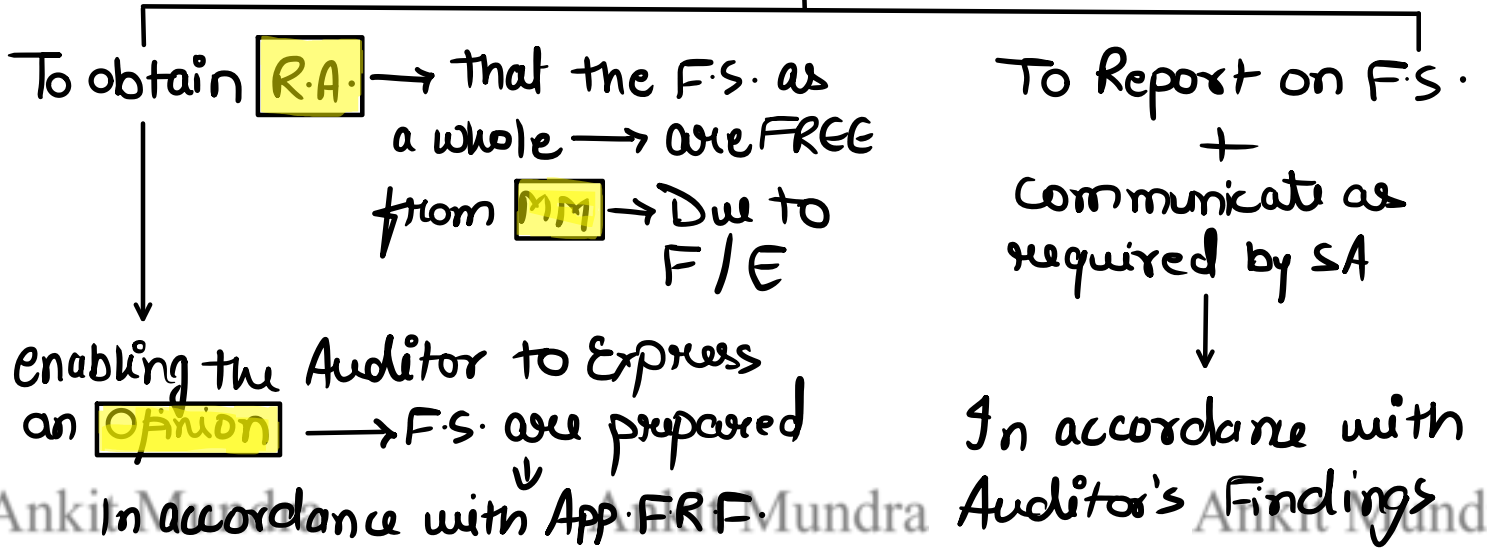
\* Auditor to ensure :-





As per SA 200 → "Overall OBJECTIVES of an Independent Auditor of the conduct of an Audit in accordance with SA"

↓  
Objectives of Audit

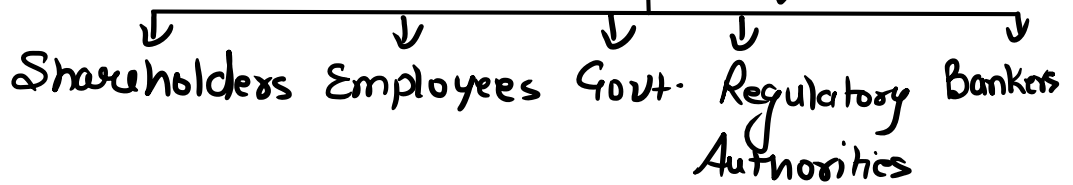


\* Absolute = Guarantee Assurance

R.A. ≠ Not Guarantee = High Level of Assurance

\* Scope = Range or Reach

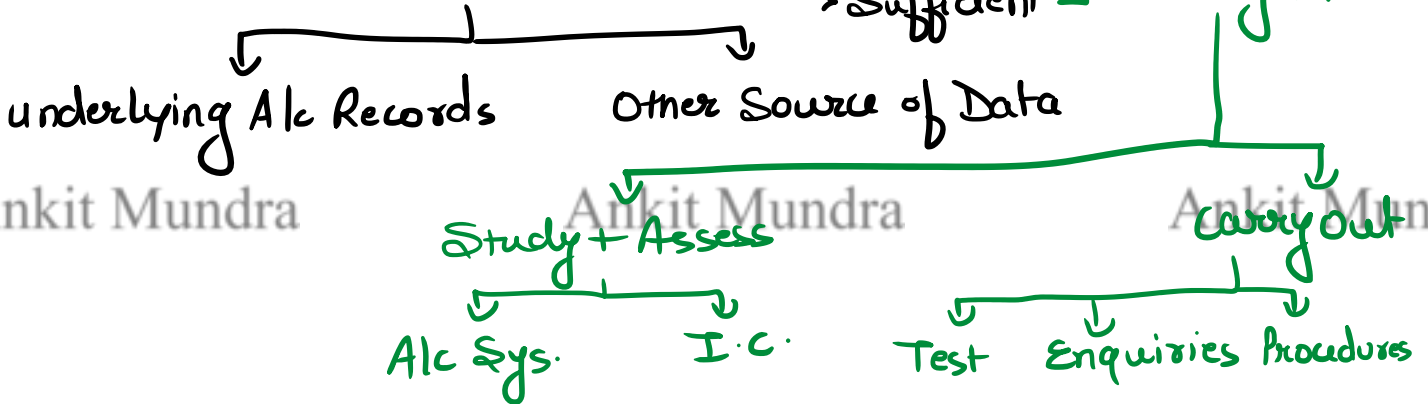
\* Purpose of Audit = Enhance the degree of Confidence of the intended users of F.S.



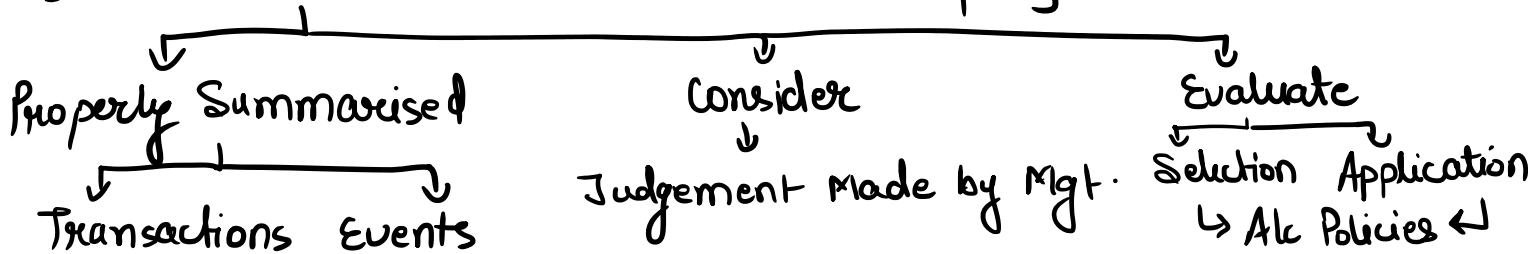
\* Scope of Audit

1) Cover adequately all ASPECTS of an enterprise

2) Financial INFORMATION → Reliable → Judgement  
→ Sufficient



3) INFORMATION → Relevant ← Properly Disclosed



4) Expression of an Opinion

\* Historical Financial (Info.)

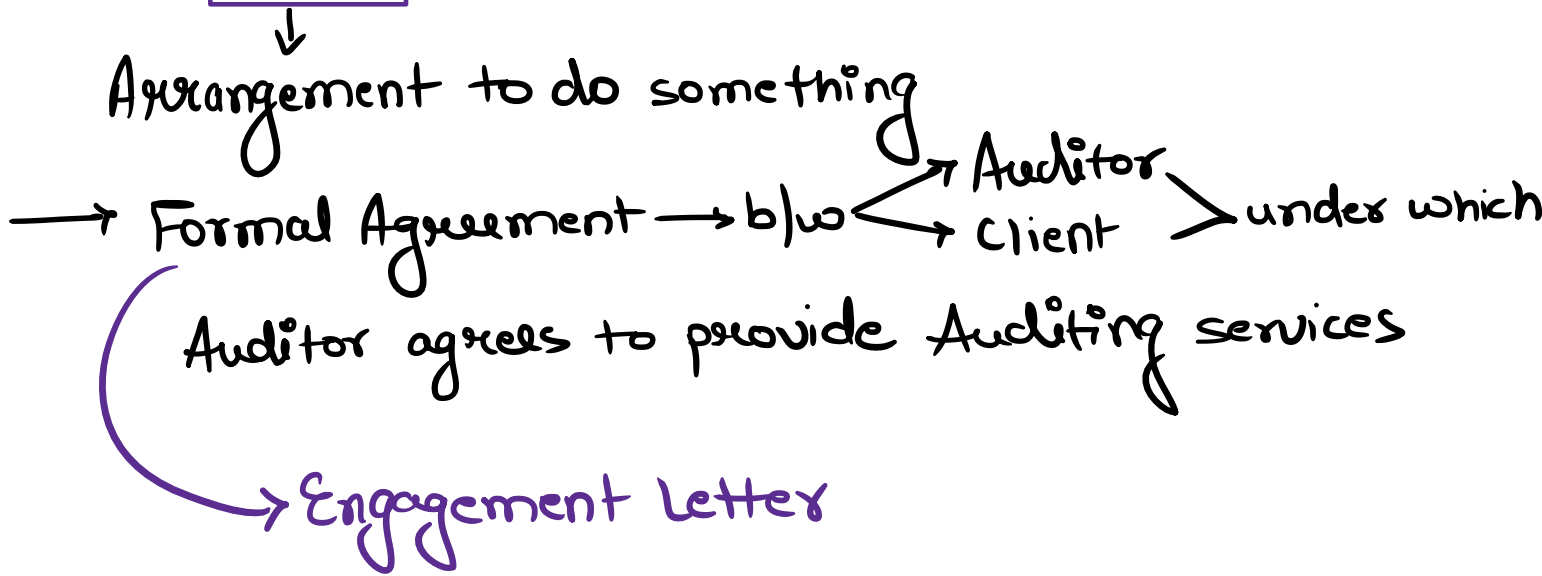
- Financial Terms
- Relation to particular entity
- Derived from Acc Sys.
- About Economic
  - Event
  - Conditions
  - Circumstances

} Past Pd.





8 - What is an Engagement?



\* 8.1 - External Audit Engagement / Reasonable Assurance Engagement

↓  
 purpose → Enhance the degree of confidence  
 of the intended users of F.S.

- ① Audited A/c → provide → High Quality Info.  
↓  
Give confidence to users of FS
- ② Interest of shareholders → safeguarded
- ③ Moral Check on employees
- ④ Helpful for Govt. → determine Tax Liabilities
- ⑤ Relied upon by Bankers / Lenders
- ⑥ Detection of F/E
- ⑦ Review → Existence & Operation → I.C.

10 - Audit - Mandatory or Voluntary?

Mandatory → Companies

→ Entities



T/O > threshold limit  
as per Income Tax

→ Organisations → Receiving Govt. Grants

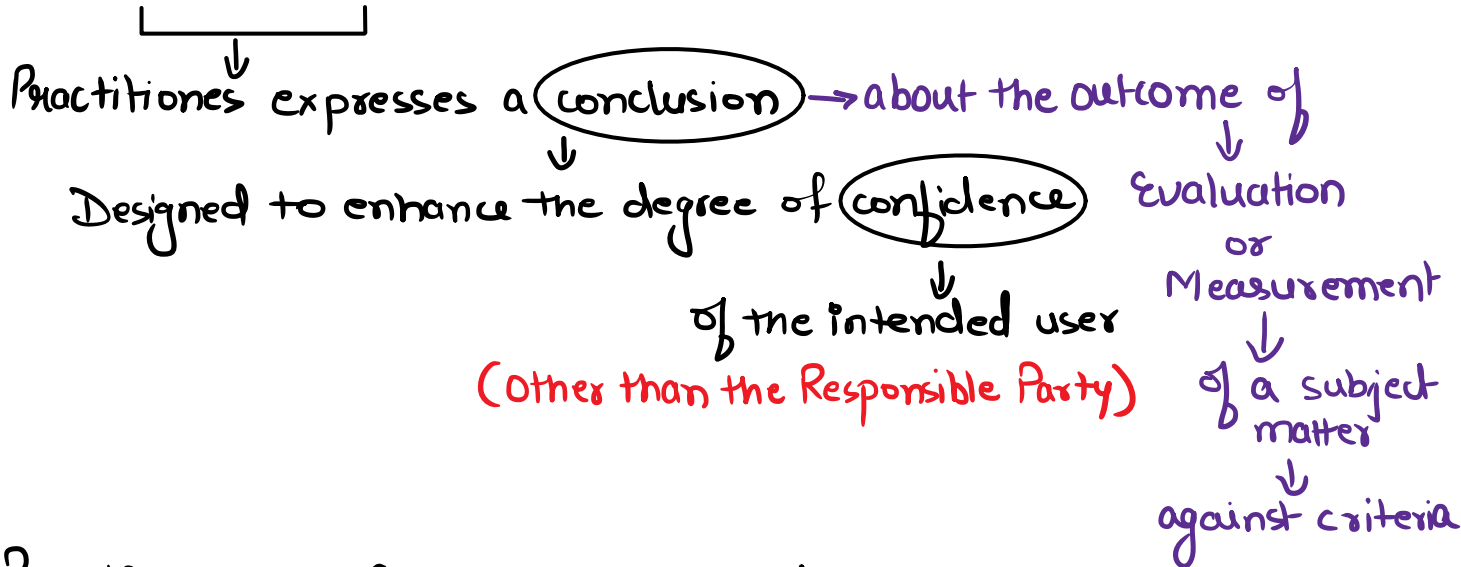
11 - Who appoints an Auditor?

- \* Generally → Owners
- \* Constitutional / Govt. Authorities → As per Law / Regulation
- \* Companies (Non-Govt.) → Members (Shareholders) @ AGM
- \* Companies (Govt.) → C & AG
- \* Firms → Partners

12 - To Whom Report is Submitted by an Auditor?

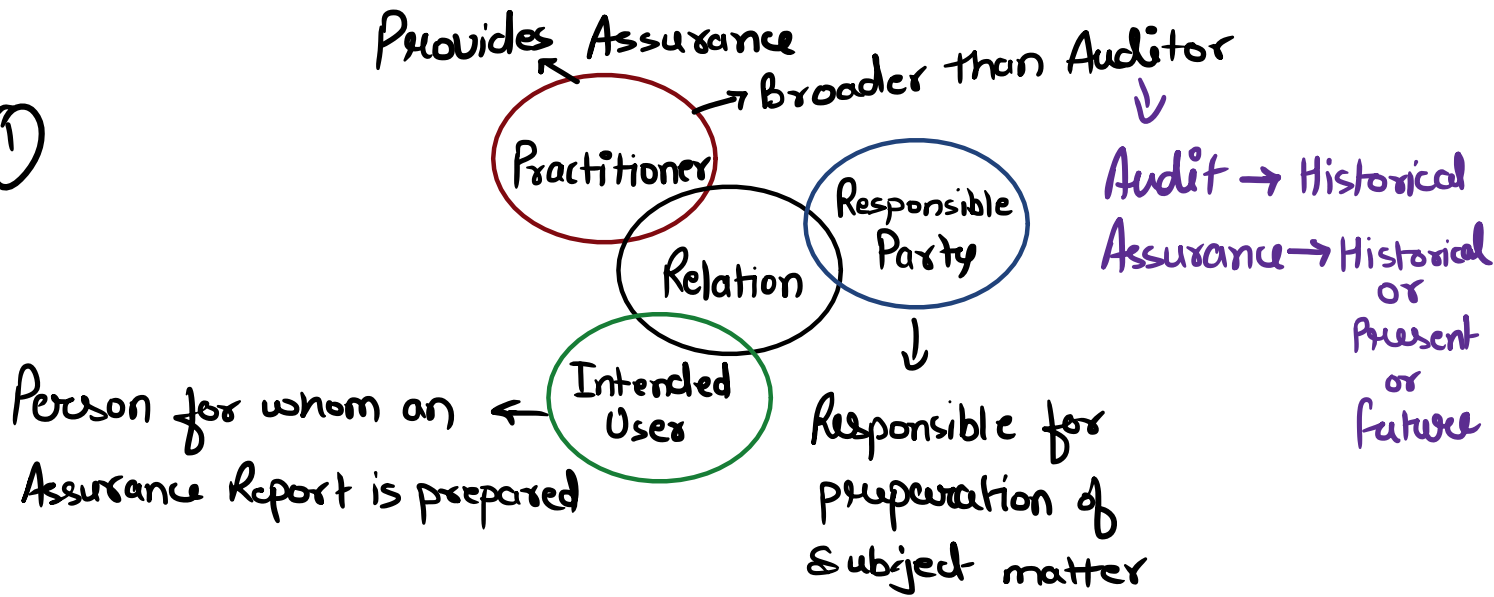
↓  
written

↳ To the person → making appointment



\* Practitioner → Gives Opinion → About SPECIFIC INFO.  
 ↓  
 Due to which users make confident decisions  
 ↓  
 Knowing well → chance of incorrect info  
 ↓  
 DIMINISHED

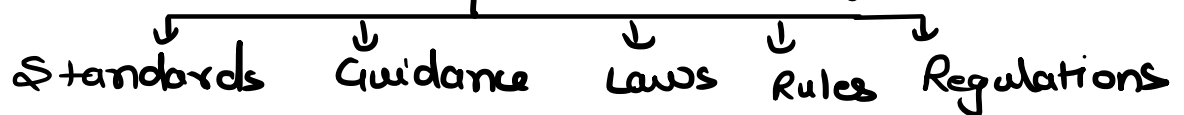
①



② Appropriate Subject Matter



③ Suitable criteria → Benchmarks → used to evaluate the Subject matter



④ Suff. + Appso. Evidence → conclusion → Opinion  
 Qty.   Quality

⑤ Written Assurance Report → in appropriate format  
 Outcome of an Assurance Engagement

Audit



- R.A. Engagement
- Higher assurance
- More Procedures
- Scope of Conclusion is higher

vs.

Review



- Limited Assurance Engagement
- lower level of assurance
- Fewer procedures
- Limited Conclusion

→ BOTH ARE RELATED TO FS PREPARED ON THE BASIS OF HISTORICAL FINANCIAL INFO.

## 13.3 - R.A. Engagement vs. L.A. Engagement

Basis

R.A.E.

L.A.E.

Level

Higher

Lower

Audit  
ProcedureElaborate &  
ExtensiveFewer procedure  
as compared with RA

Conclusion

Reasonable

Limited

Example

Audit Engagement

Review Engagement

\* Audit & Review → Historical Financial Info.

Prospective Financial Info. → **NOT** Historical Financial Info

↳ Generally on I.C. of an entity

↳ Based on ASSUMPTIONS → about events

↓  
That MAY occur in the future

+  
POSSIBLE Actions by an Entity

↳ In the form of  $\left\{ \begin{array}{l} \text{Forecast} \\ \text{Projection} \end{array} \right.$

↳ Obtains SUFF. + Approp. A.E. → about Mgt.'s Assumptions


↓  
**NOT UNREASONABLE**

↳ Financial Info. → properly  $\left\{ \begin{array}{l} \text{Prepared} \\ \text{Presented} \\ \text{Disclosed} \end{array} \right.$

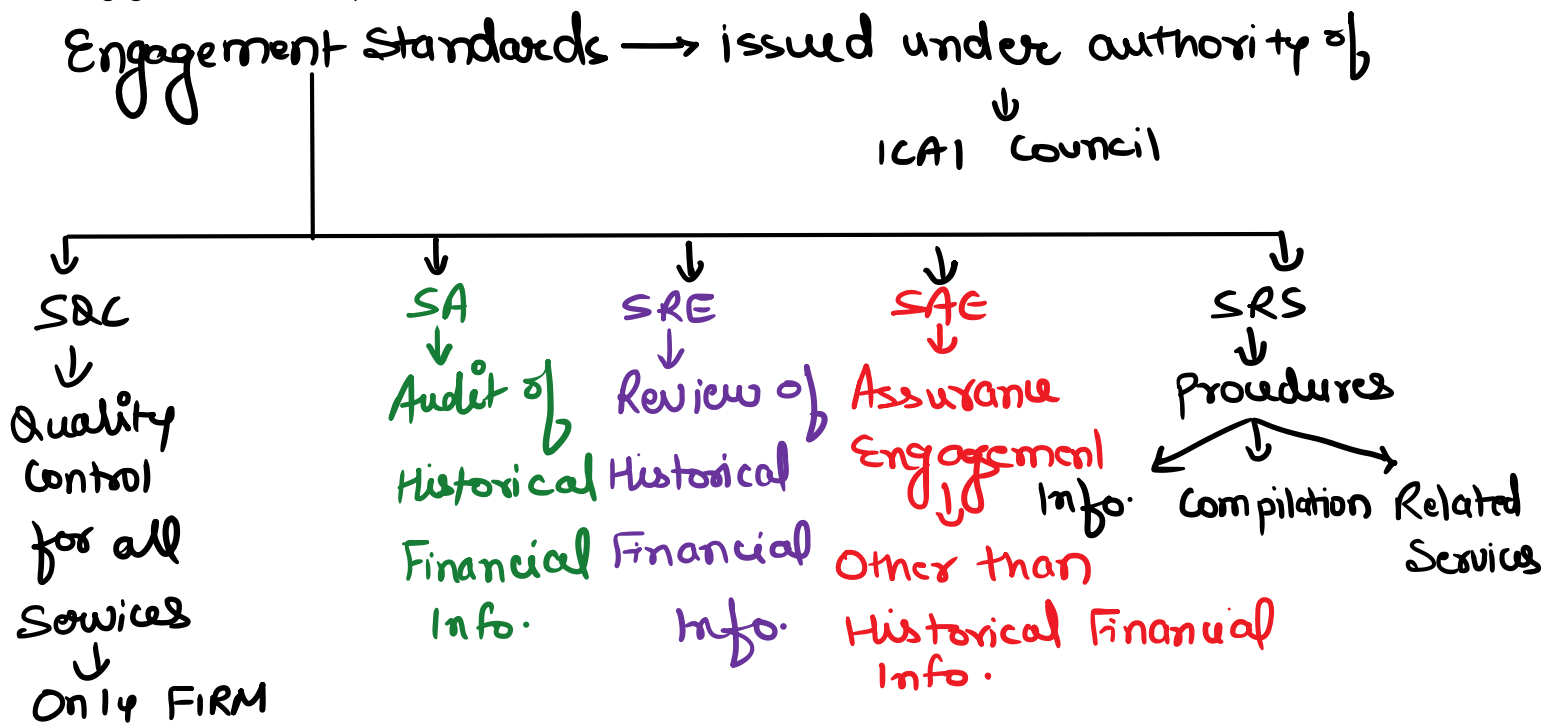
↳ Moderate level of Assurance

↳ Auditor → **NOT IN A POSITION** → to express an Opinion  
↓  
Results shown WILL BE achieved

↳ Report :- **Nothing has come to Practitioner's attention**  
↓  
**To suggest that these assumptions**  
↓  
**DO NOT PROVIDE A REASONABLE BASIS FOR THE PROJECTION**

- \* Tact, Caution, Firmness, Good Temper, Integrity, Discretion, Industry Judgement, Patience, Clear Headedness & Reliability
- \* Qualities of Good Businessman  $\Rightarrow$  Qualities of an Auditor
- \* Shine of Culture for attaining great height
- \* Highest Degree of Integrity + Independence
- \* Basic human qualities
- \* Exhaustive knowledge of Accounting is sine qua non
- \* Thoroughly know 

```
graph LR; A[Thoroughly know] --> B[Ac Principles]; A --> C[Techniques]
```



### \* Why are Standards needed?

- 1) Copying Audit as per Global Practices & Benchmarks
- 2) Improve → Quality of F.R.
- 3) Promote → uniformity
- 4) Equip → Professional Knowledge & Skills
- 5) Ensure → Audit Quality