

- Auditor can only assess the risk of material misstatement
- He cannot increase or decrease the risk of material misstatement
- Management can reduce the risk of material misstatement
- Risk of material misstatement cannot be reduced to 0

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 the limitations which cannot be overcome, irrespective of nature extended timing of audit procedures

Nature of financial reporting

- Preparation and presentation of financial statements involve judgement by management
- management is responsible for internal controls
- Internal control only gives reasonable assurance. It has its own inherent limitations such as collusion among employees
- Auditor might give his opinion, and for that opinion, he might have relied on internal control, which were not properly designed implemented or maintained

Nature of audit procedures

Practical and legal limitations are there

Not all transactions and balances are checked by auditor. He forms his opinion on the basis of samples. This is an example of practical limitation

Management may not provide complete information. There is no way to force and get information auditor can only report this fact. This is an example of legal limitation.

Management may consist of dishonest and unscrupulous people be involved in fraud itself

Engage in concealing fraud by designing sophisticated and carefully organized schemes, hard to detect by auditor

Management may produce fabricated documents. Auditor is not an document authentication expert.

Related

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 transaction 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, for example, determining whether fraud really exist or not.
- Scope of investigation is narrow in comparison to auditing.

Timeline of financial reporting and decrease in relevance of information over time

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

Future Events

— Going Concern

- Future events or conditions may affect an entity adversely ①
- Adverse events may seriously affect an entity's ability to continue its business ②
- The business may cease to exist in future due to:
 - change in market conditions ③ →
 - Emergence of new business models or products ④

FUR
Future events are an inherent limitation of an audit because auditors cannot predict or foresee all possible future occurrences that may significantly impact the audited entity. Even if the financial statements 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 the going concern of the entity

Assurance Engagement

AFRF

Subject Criteria

CA Auditor

Practitioner

Examine

Senior

Responsible Party

TC04 N47

Evidence

Subject Matter

FS

Audit Evidence

Opinion

Report

Assurance

Client

Intended User

Owner

Details



Suitable criteria

Subject matter

Examine against suitable criteria →



←

Evidence
conclusion

opinion (Assurance)

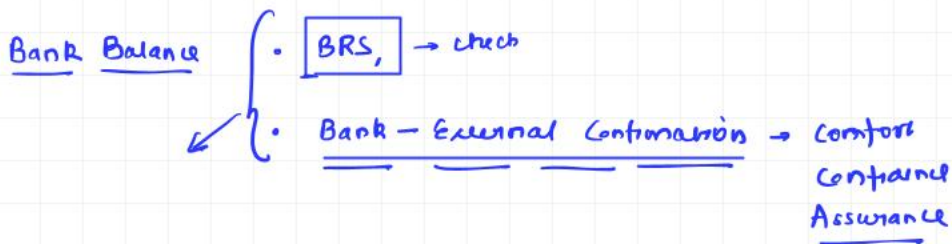
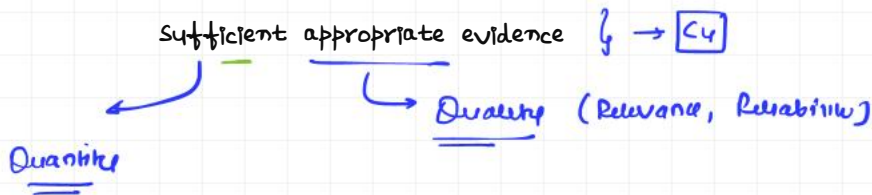
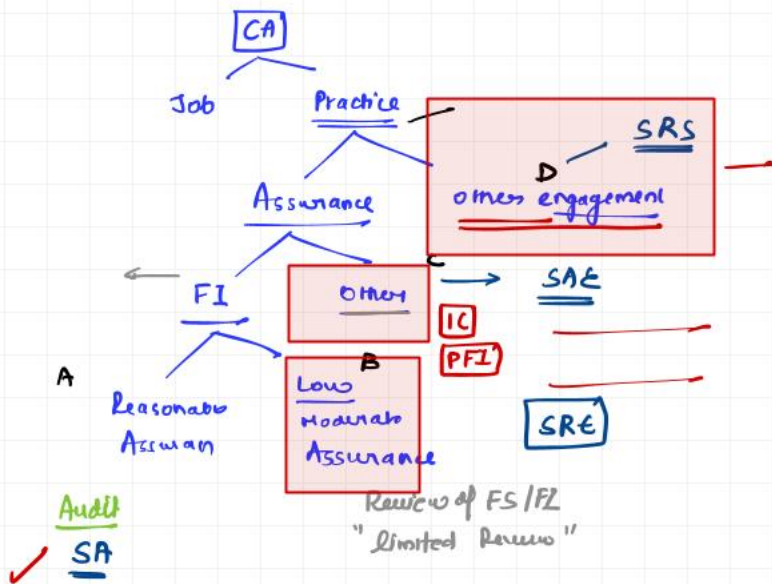
Report

Practitioner

Responsible party

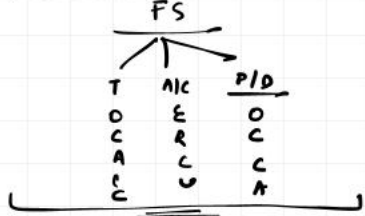


Intended user

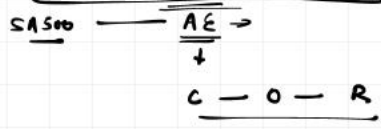


• — E
 • — P
 • — M
 • — RA — $\frac{315}{RAP}$ — 4 — E/EIC — ROMM

• — FAP/Barbonk — $\frac{330}{NEI}$ —
 TOC



Documentation - 230



AE →

Audit Evidence - 500

I → C — D

- 1 A → Analytical Procedure → SA 520
 - 2 E → Enquiry
 - 3 I → Inspection
 - 4 O → Observation
 - 5 U → Recalculation
 - 6 Reperformance
 - 7 External Confirmation
- Items 2, 3, 4, and 5 are grouped by a bracket and point to SA 500. Item 6 is grouped by a bracket and points to SA 505. Item 7 is grouped by a bracket and points to SA 505.