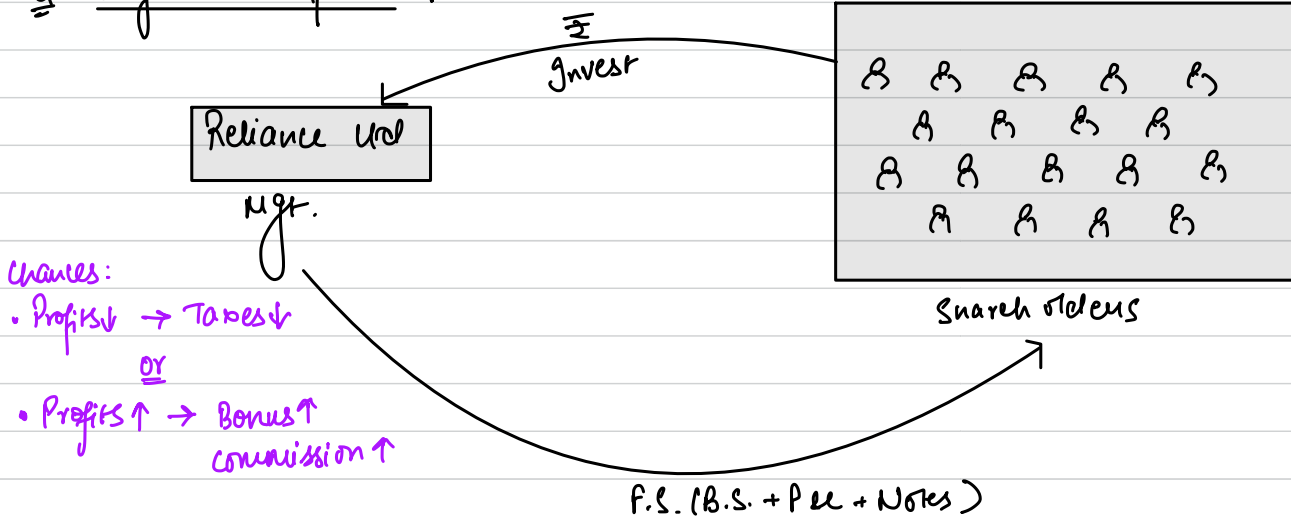


Target → 70+ Audit

Basics of Audit

Q Why Audit of F.S.?

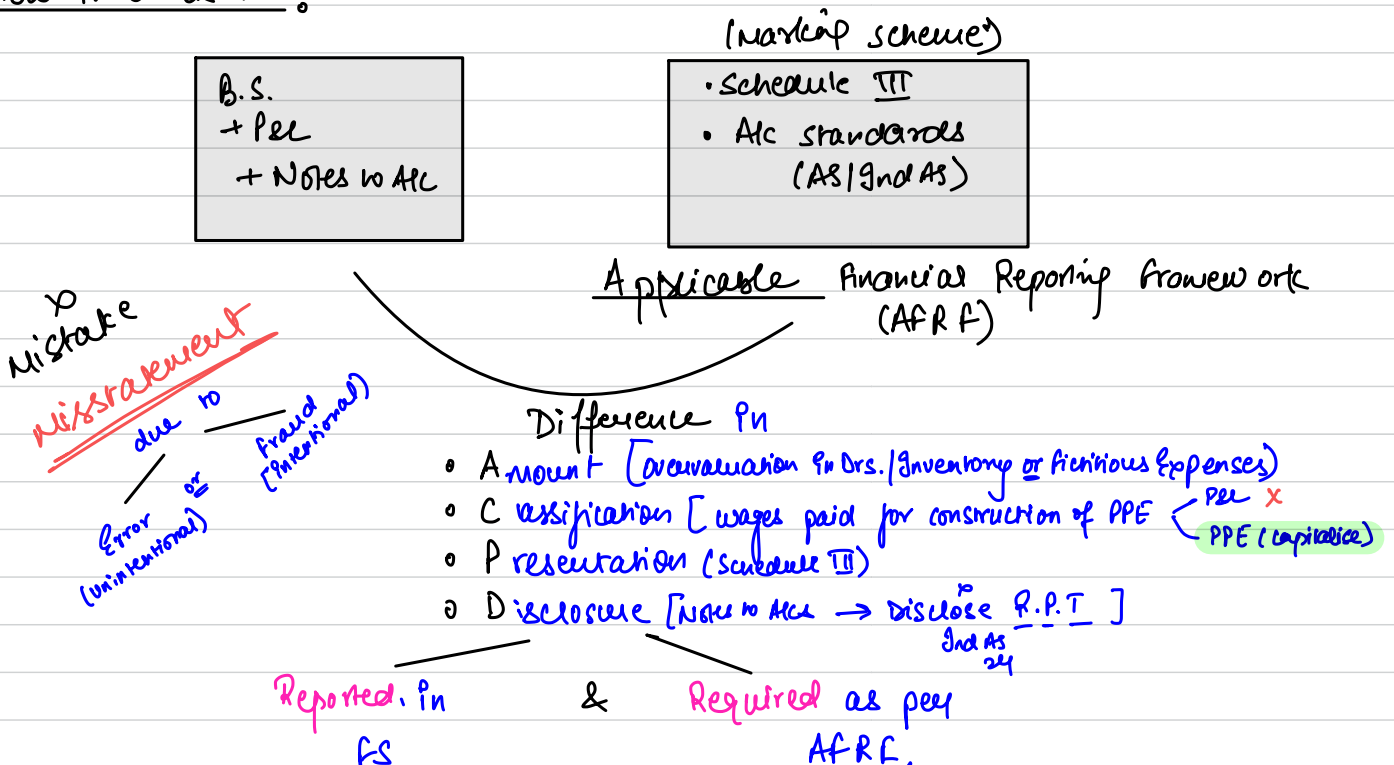


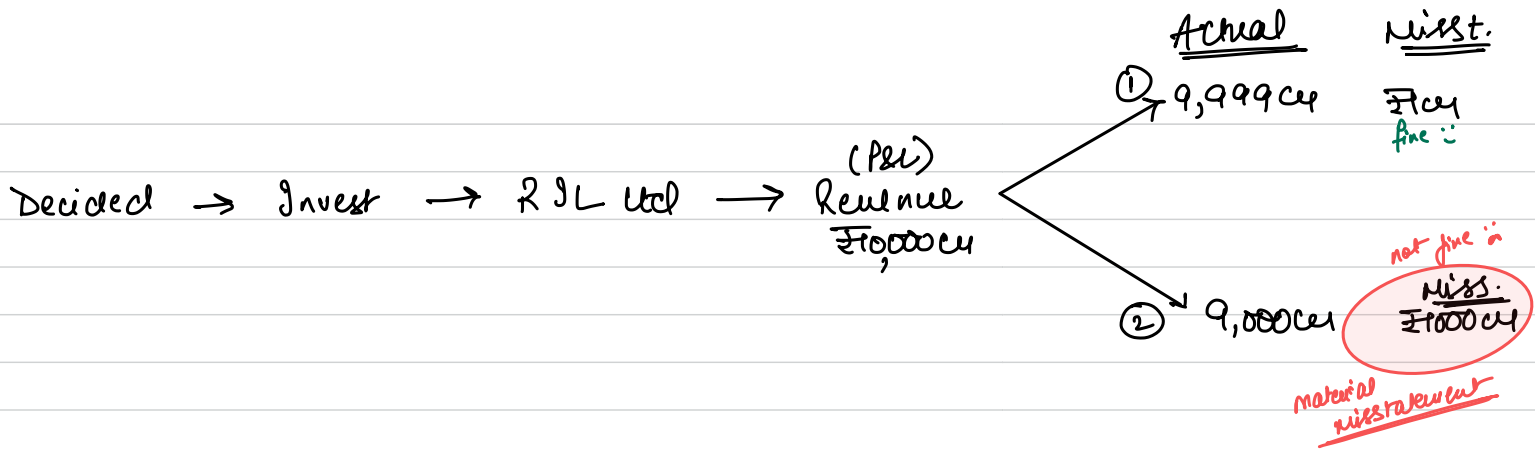
check F.S.

Independent Auditor (Co. Law ⇒ Sec 141(3))

- Shares to
- Employee / of Co. to officer

Q How to check F.S.?





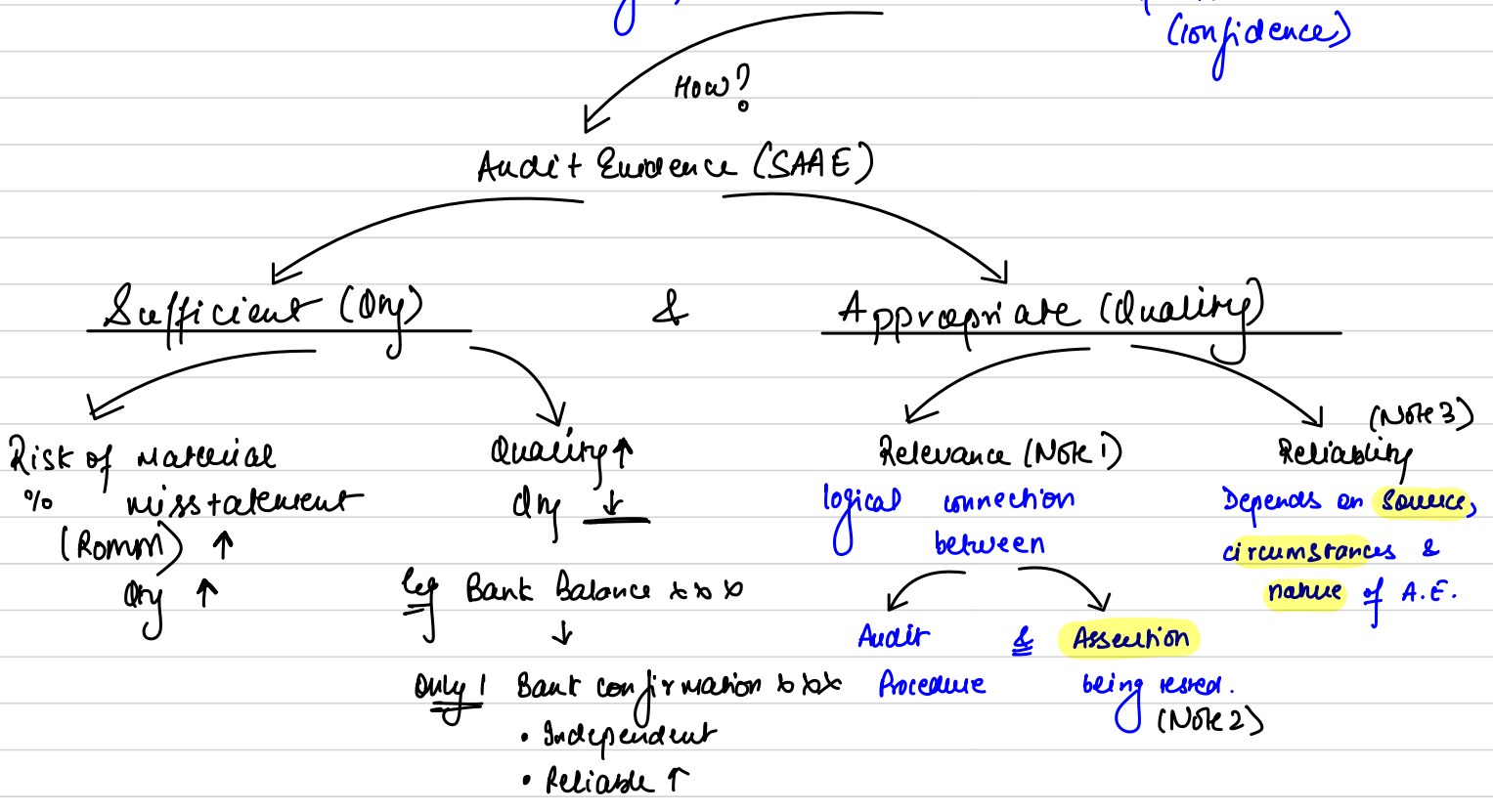
Q Auditor affected by which misstatements? **Material misstatement [M.M.]**

* Misstatements considered material, if they can influence economic decisions of users of FS.

Q Can auditor give "guarantee" that FS are free from M.M.?

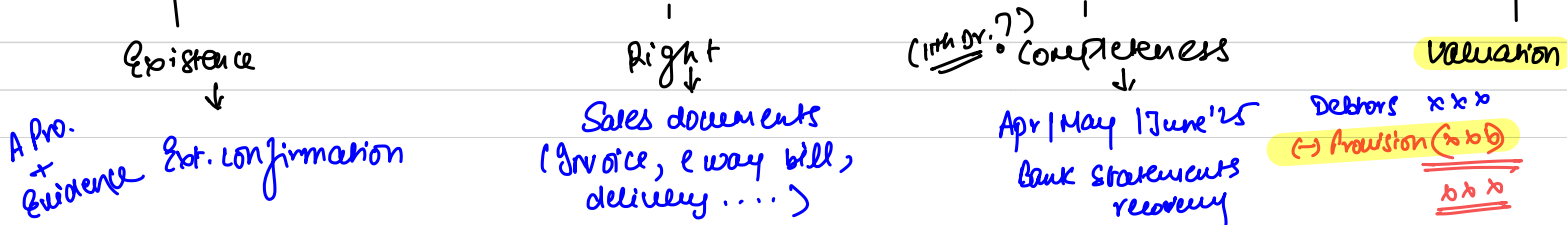
No, Auditor can give only "Reasonable Assurance".

High, but not absolute level of Assurance. (Confidence)



Note 1 (Relevance) 31.3.25 Debtors ₹50,000 [10%]

Assertions [ERC V]



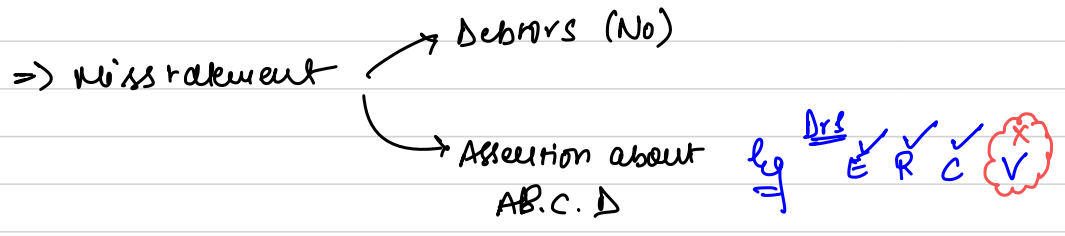
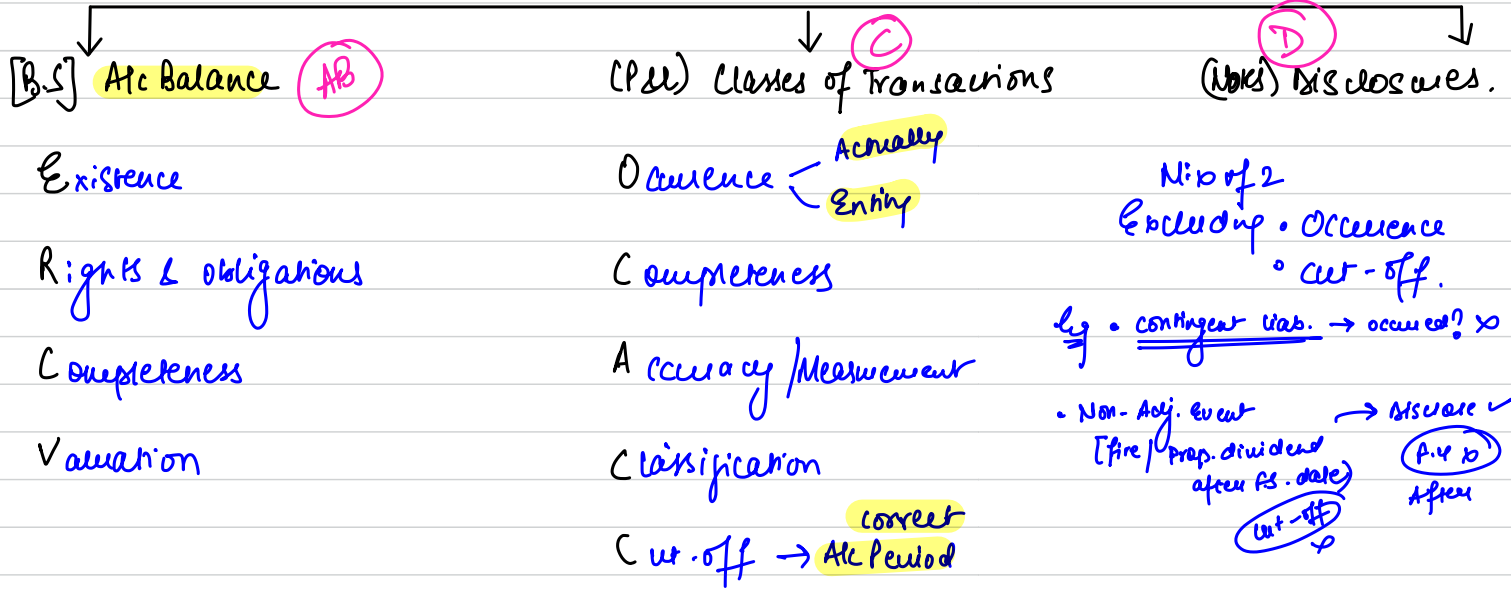
Ageing Analysis

Trade receivables ageing schedule (₹ in Crores)

Undisputed Trade Receivables - considered good	Outstanding for following periods from due date of payment as at 31st March, 2024						Total
	Not Due	Less than 6 months	6 months-1 year	1-2 years	2-3 years	More than 3 years	
	1405.64	1862.76	37.83	5.22	-	-	3311.45
	0%	10%	25%	50%	-	-	

Provision

Note 2 Assertions: Representations by mgt → embodied in F.S.
 (SA 315)
 ↓
 used by auditor to identify potential misstatements.



Note 3 Reliability

- Source
 - External → ↑ Reliable
 - Internally generated A.E. → Internal Controls effective → Reliable
- Circumstances → Directly > Indirectly through mgt
 eg. Observe internal control performed by entity > docs. from mgt. (processes)
- Name
 - Documentary > Oral
 - original > photocopy / digitised (pdf)

King of all SAs

ÓOIA CA SÁ

SA 200, Overall Objective of Independent Auditor

Conduct of Audit as per Standards on Auditing

- To obtain Reasonable Assurance that FS. are free from M.M. (due to Fraud/ error)
- ↓
- to express opinion that FS. are prepared in all material respects as per AFRF.
- ↓
- Report & Communicate as per SAs.

* Case Study *

Considering nature of business & operations of BBV Pvt Ltd.

- There are 40% chances that FS. are materially misstated.
- To deal with this, mgt designed & implemented internal controls.
- These controls expected to be 75% effective.
 → 25% control risks (P/D/C)
 X
- Auditor expects to detect 80% of material misstatements.
 20% DR

Calculate 1) Inherent Risk 3) Risk of M.M. 5) Audit Risk.
2) Control Risk 4) Detection Risk

Ans. 1) Inherent Risk: 40%
 Successibility (chances) of assertion about A.B.C.D
 • to a material misstatement (Individual / aggregate)
 • before considering I. Controls.

eg a) Risk of overvaluation of inventory → obsolete → fall in NRV

b) Airline Industry → Business failures → FS. prepared on C.C. Basis
 ↓
 Near future entity shuts down
 M.M. ✓

leg
Materiality \Rightarrow ESL

I
Miss. ESL
Individually
M.M.L

II
Miss. 1 200,000
2 50,000
3 100,000

650,000 > FL
Aggregate mm

2) Control Risk: Risk that a M.M. (Individually / Aggregate)
25%
• In an assertion about A.B.C.D.
• will not be presented / detected / corrected on timely basis by J.C.

3) Risk of Material Misstatement (ROMM): Risk that FS. are materially misstated prior to audit.
75% ✓
$$= 40\% \times 25\%$$

IR CR
$$= 10\%$$

4) Detection Risk: Risk that audit procedures will not be able to detect a mm.
20%

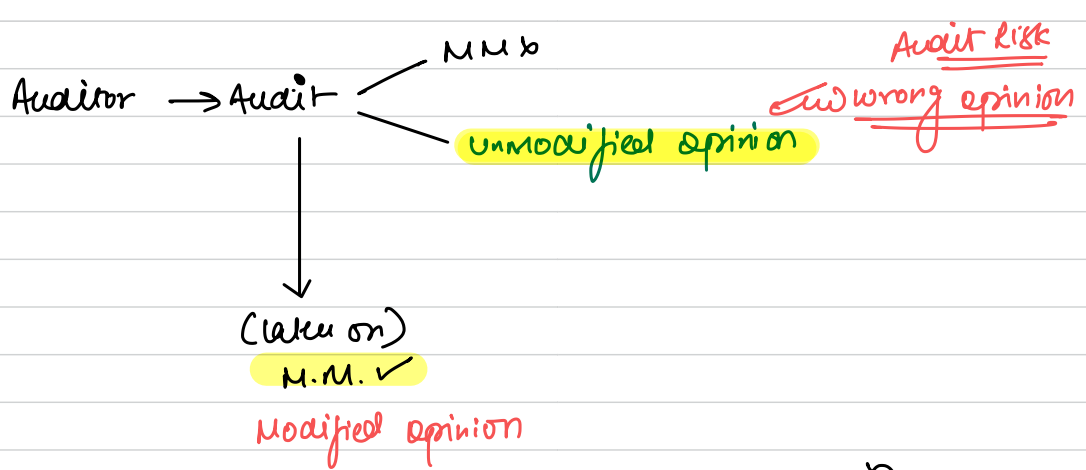
5) Audit Risk: Risk that auditor gives wrong opinion when FS. are materially misstated.
$$= 10\% \times 20\%$$

$$= ROMM \times D.R.$$

$$= 2\%$$

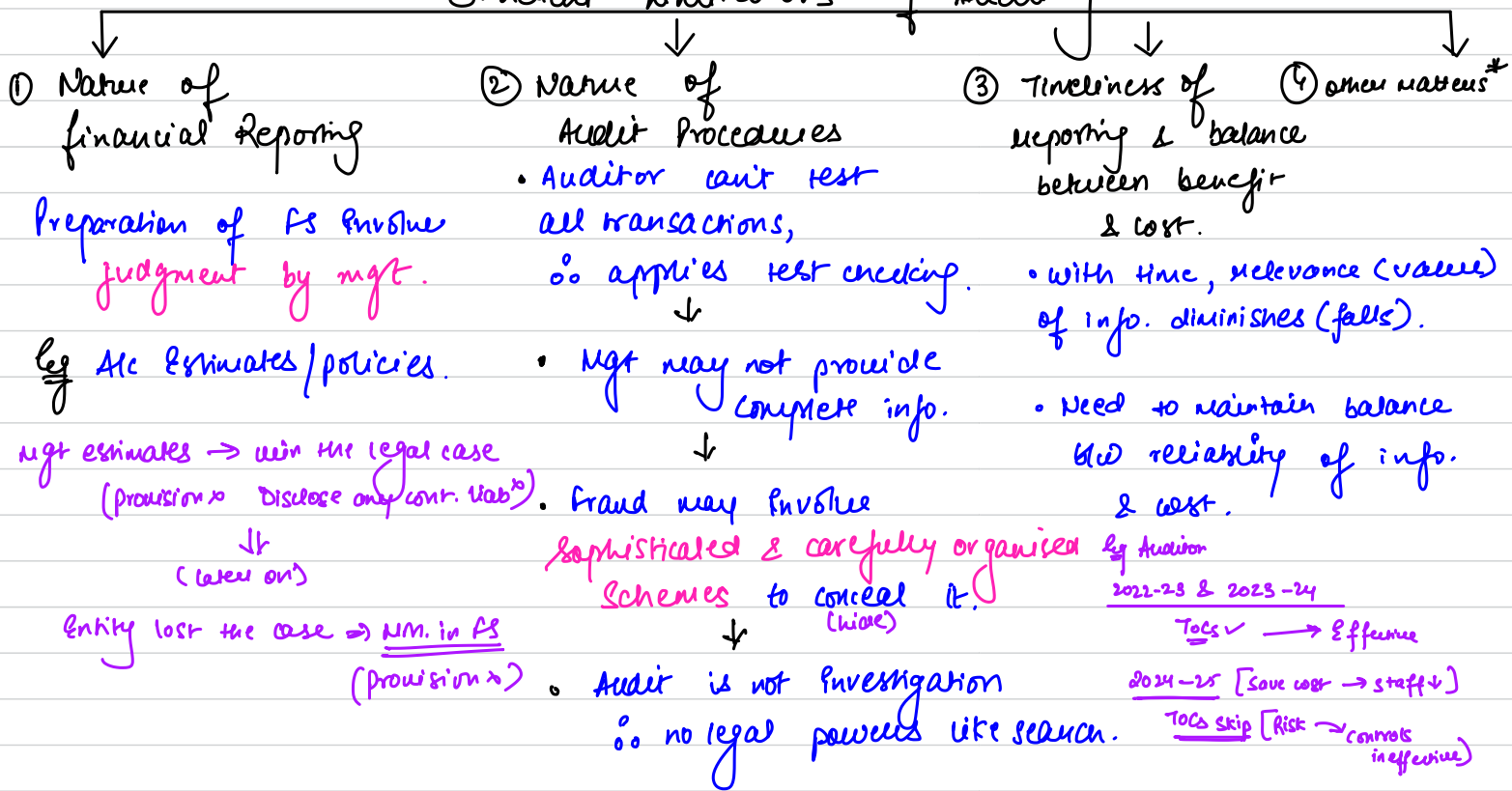
zero
X
guarantee
FS. free from mm
Reason: GLA

Audit Risk



Inherent Limitations of Auditing

Detect MM



4. For certain assertions/matters, potential effect of GLA to detect MM. are significant.

[Matters → Tough to detect MM.]

These include:

- Fraud involving *Bsr. ✓* *B Jr.* *sr. mgt / collusion.* [SAR40]
- Related Party (R.P.) relationships & transactions. [SAR50]
- Non-compliance with laws & regulations. [NOCLAR] [SAR50]
- future events/conditions that may affect entity's going concern. [penalty]

Conclusion: % of GLA, there's **unavoidable risk**, misstatements may not be detected, even though, **audit is planned & performed as per SAS**.

• **Audit as per SAS** is determined by **Audit procedures performed**, **SAAE**, **Suitability of audit Report**.

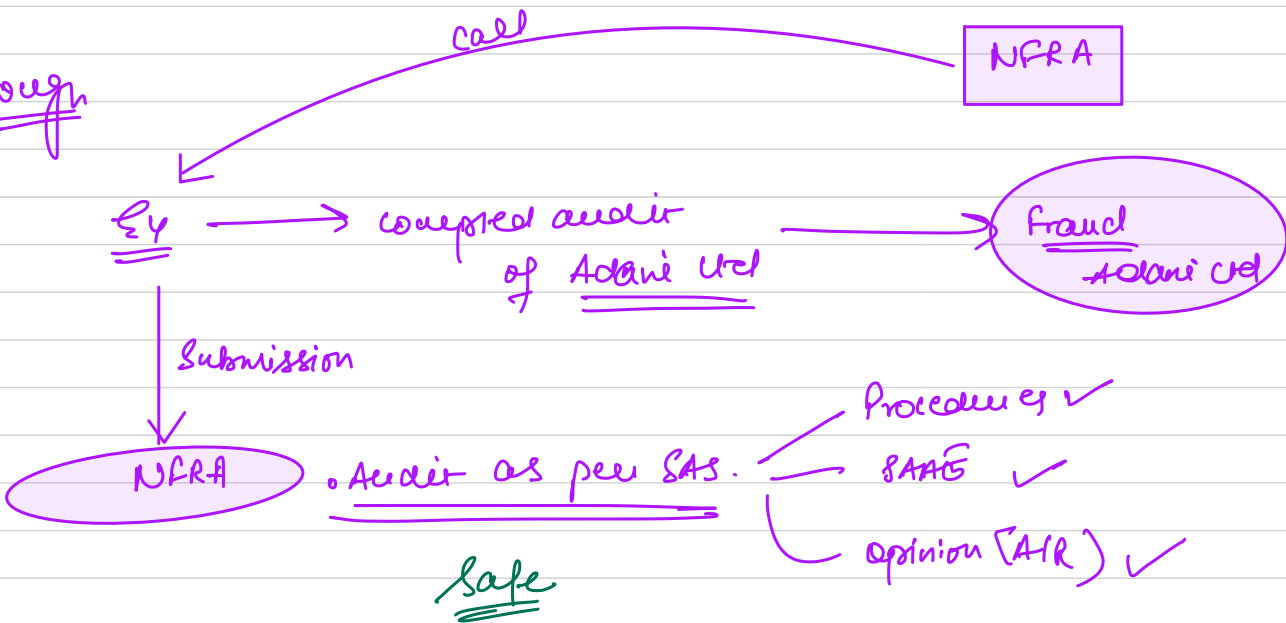
(Support)

• **Subsequent discovery of M.M.** doesn't indicate **failure to do audit as per SAS**.

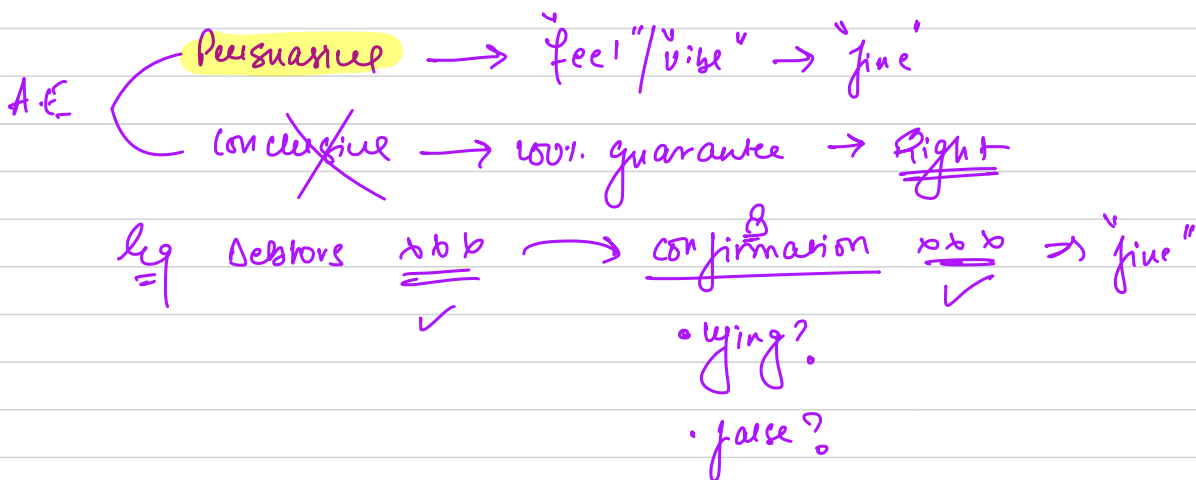
(Alert!)

However, **GLA is not a justification to settle with less than persuasive A.E.**

Rough

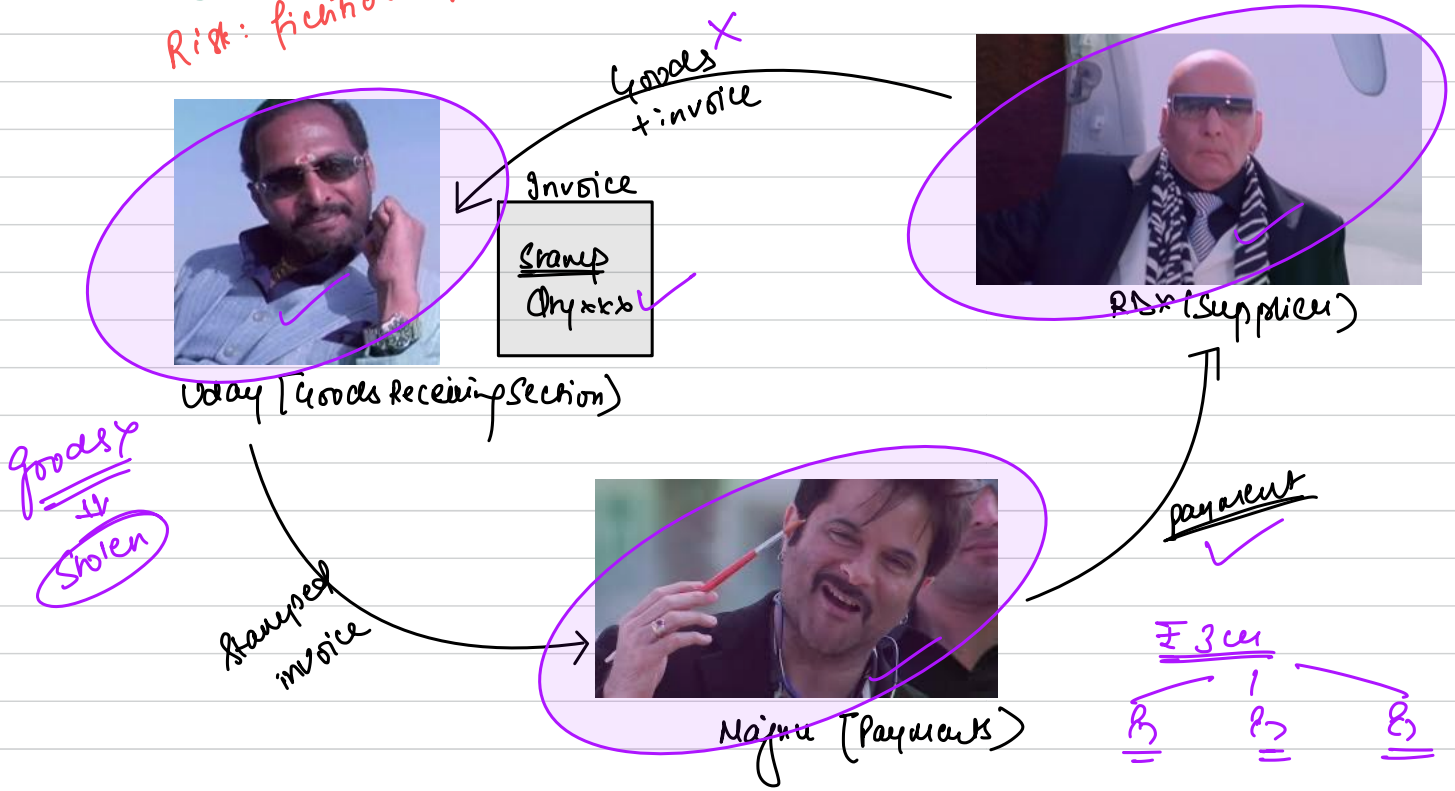


• Evidence → Persuasive



Control

Risk: fictitious purchases



Miscellaneous concepts:

- FRF
 - Fair Presentation Framework
 - Comply FRF → Achieve Fair Presentation
 - Comply FRF (compliance framework)
 - Add⁽⁺⁾ disclosures or
 - Extremely rare circumstances → depart from FRF (ignore) ↪
- R.O.M.M.
 - ↳ F.S. level (affecting many assertions)
 - ↳ Assertion level (restricted to particular assertion)

Eq 1. ngt fraud F.S. level

2. overvaluation of some obsolete inventory Assertion Evaluation

3. For one machinery → Invoice not in Co's name Assertion [Right]

4. Errors in A/c system → F.S. level

• T C W Y (Those charged with Governance)

Co. ⇒ non-Executive

Audit committee

chairman

Independent Directors

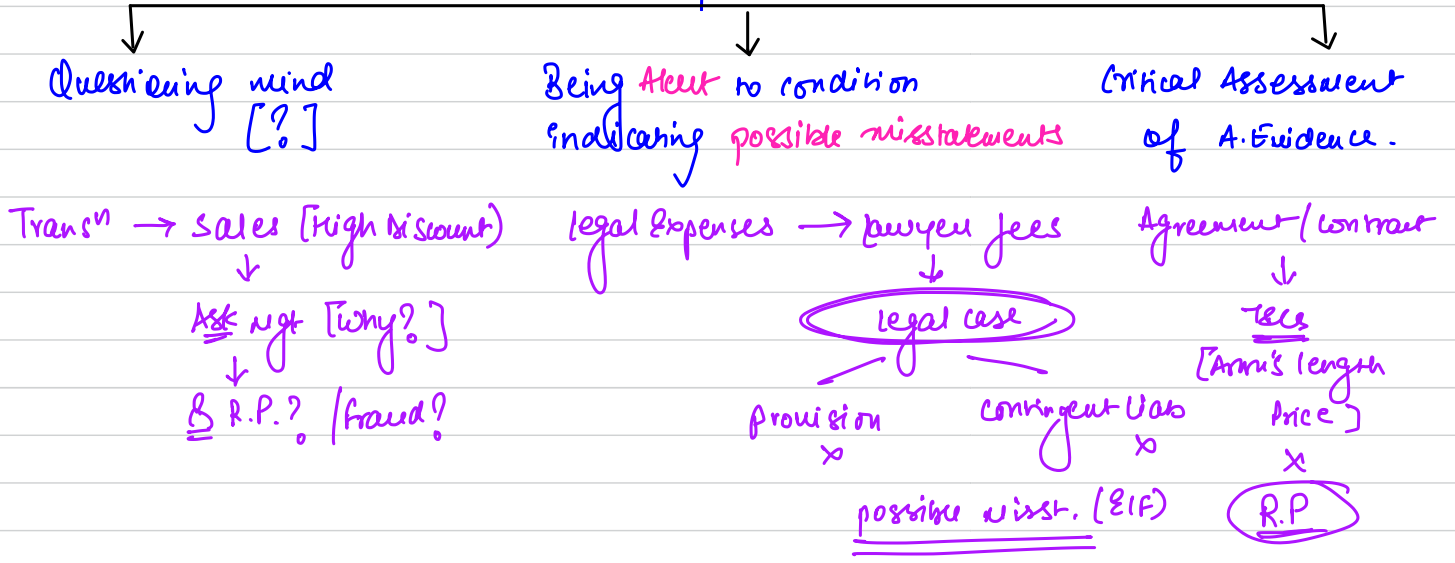
TCCG (Oversight Financial Reporting Process)

ngt [Execution] (Preparing fs.)

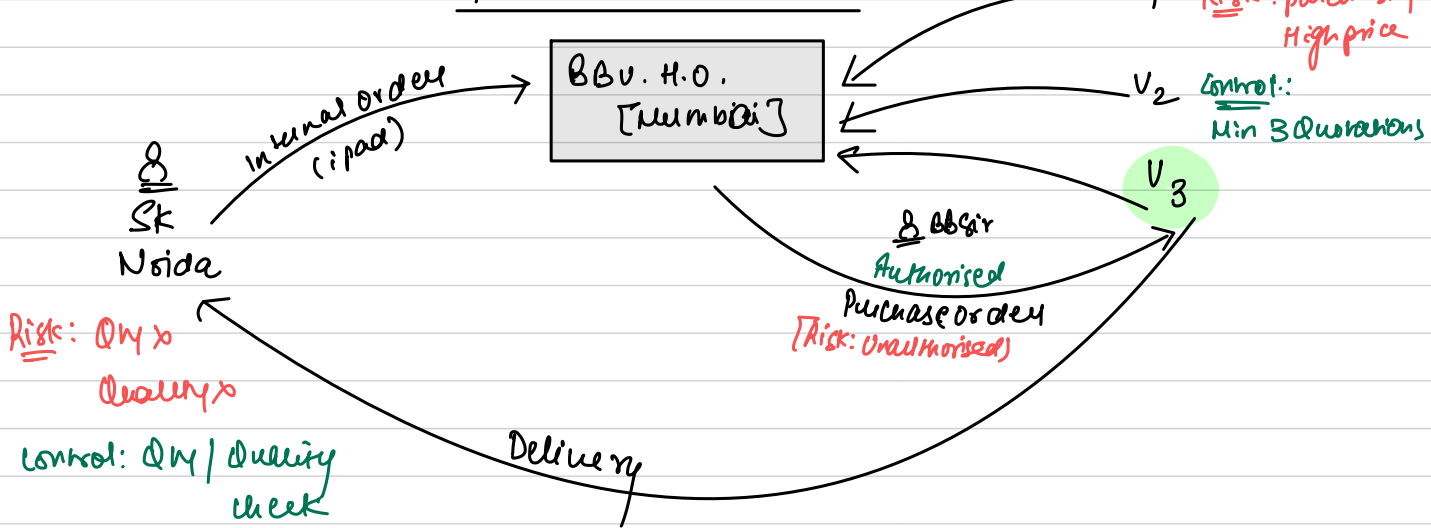
[ngt trouble auditor → TCCG] SA 260

Professional Skepticism

Attitude of:



Procurement Process



Audit Procedures [Purchase ₹ 3,00,000]

