

CHAPTER 1: NATURE OF AUDITING		
FUNDAS TO RATTOFY (FTR) An audit is independent examination of financial information 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. Assertions about account balances at the period end: (a) Existence(b) Rights and obligations(c) Completeness(d) Valuation and allocation Assertions: It refers to representations by management, explicit or otherwise, that are embodied in the FS, as used by the auditor to consider the diff erent types of potential misstatements that may occur. 'Guidance Notes' : are designed to provide guidance to members on matters which may arise in the course of their professional work and on which they may rely in the course of their professional work and on which they may desire assistance in resolving issues which may pose diffi culty. These are recommendatory in nature. 'Statements' have been issued with a view to securing compliance by members on matters which, in the opinion of the Council, are critical for the proper discharge of their functions. 'Statements' therefore are mandatory. Engagement partner refers to the partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. Auditing Standards Overview Auditing and Assurance Stanadard Board(AASB) defines scope ,objective,definitions etc. Framework For Audit and Assurance:SA-100-999,SQC 01-99,SRE 2000-2699, SAE 3000-3699,SRS 4000-4699 Professional skepticism refers to an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence. The auditor shall plan and perform an audit with professional skepticism recognising that circumstances may exist that cause the FS to be materially misstated.	SCOPE OF AUDIT 1.Organized to cover adequately all aspects of the enterprise 2.Satisfied as to whether the information contained in the underlying accounting records and other source data is reliable and sufficient 3. In forming his opinion, the auditor should also decide whether the relevant information is properly disclosed in the FS subject to statutory requirements, where applicable. 4. The auditor assesses the reliability and sufficiency of the information by: (a) making a study and evaluation of accounting systems and internal control (b) carrying out such tests 5. The auditor determines whether the relevant information is properly disclosed in the FS by: (a) comparing the FS with the underlying accounting records and other source data (b) considering the judgments that management has made in preparing the FS 6. The auditor is not expected to perform duties which fall outside scope of his competence. 7. Constraints on the scope of the audit of FS that does not enable auditor's ability to express an unqualified opinion on such FS INHERENT LIMITATIONS OF AUDIT (i) The Nature of Financial Reporting: The preparation of FS involves judgment by management in applying the requirements of the entity's applicable fi nancial reporting framework (ii) The Nature of Audit Procedures: There are practical and legal limitations : 1. There is the possibility that management or others may not provide, intentionally or unintentionally, the complete information 2. Fraud may involve sophisticated and carefully organised schemes designed to conceal it. Therefore, audit procedures used to gather audit evidence may be ineffective for detecting an intentional misstatement that involves, for example, collusion to falsify documentation which may cause the auditor to believe that audit evidence is valid when it is not. The auditor is neither trained as nor expected to be an expert in the authentication of documents. 3. An audit is not an official investigation into alleged wrongdoing. (iii) Timeliness of Financial Reporting and the Balance between Benefi t and Cost iv) Other Matters that Affect the Limitations of an Audit — Fraud, particularly fraud involving senior management or collusion. — The existence and completeness of related party relationships and transactions. — The occurrence of non-compliance with laws and regulations. — Future events or conditions that may cause an entity to cease to continue as going concern RELATIONSHIP OF AUDITING WITH OTHER DISCIPLINES Auditing and Accounting: reviews the FS which are result of the overall accounting Auditing and Law: knowledge of business laws affecting the entity. Auditing and Economics:overall economic environment of the client. Auditing and Behavioural Science:knowledge of human behaviour Auditing and Statistics & Mathematics:knowledge of statistical sampling Auditing and Data Processing: EDP auditing Auditing and Financial Management : financial techniques eg.working capital, funds flow Auditing and Production:business functions such as production, cost , marketing etc. ACCEPTANCE OF A CHANGE IN ENGAGEMENT An auditor who, before the completion of the engagement, is requested to change the engagement to one which provides a lower level of assurance, should consider the appropriateness of doing so. A request from the client for the auditor to change the engagement may result from- 1. a change in circumstances aff ecting the need for the service, 2. a misunderstanding as to the nature of an audit or related service 3. a restriction on the scope of the engagement, whether imposed by management or caused by circumstances. If the auditor concludes that there is reasonable justifi cation to change the engagement and if the audit work performed complied with the SAs applicable to the changed engagement, the report issued would be appropriate for the revised terms of engagement. In order to avoid confusion, the report would not include reference to: (a) the original engagement; or (b) any procedures that may have been performed in the original engagement. The auditor should not agree to a change of engagement where there is no reasonable justification for doing so. If the terms of the audit engagement are changed, the auditor and management shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.	If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall: (a) Withdraw from the audit engagement where possible under applicable law or regulation; and (b) Determine whether there is any obligation, to report the circumstances to TCWG,owners or regulators. RECURRING AUDITS Factors may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms: — indication that the entity misunderstands the objective and scope of audit — revised or special terms of the audit engagement. — recent change of senior management. — significant change in ownership. — significant change in nature or size of the entity's business. — change in legal or regulatory requirements. — change in the financial reporting framework adopted in the preparation of FS — Change in other reporting requirements LIMITATION ON SCOPE PRIOR TO AUDIT ENGAGEMENT ACCEPTANCE — If management or TCWG — impose limitation on the scope — such that auditor believes — limitation would result in — auditor disclaiming an opinion — the auditor shall not accept such a limited engagement unless required by law or regulation to do so. AGREEMENT ON AUDIT ENGAGEMENT TERMS SA 210 The agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include: (a) The objective and scope of the audit of the FS; (b) The responsibilities of the auditor; (c) The responsibilities of management; (d) Identifi cation of the applicable fi nancial reporting framework for the preparation of the FS; and (e) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may diff er from its expected form and content. If law or regulation prescribes in suffi cient detail the terms of the audit engagement , the auditor need not record them in a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities.
OBJECTIVES OF AUDIT SA-200 (a) obtain reasonable assurance about whether the FS as a whole are free from material misstatement ; and (b) report on the FS, and communicate as required by the SAs, Aspects to be covered in Audit (i) An examination of the system of accounting and internal control (ii) Reviewing the system and procedures (iii) Checking of the arithmetical accuracy of the books of account (iv) Verifi cation of the authenticity and validity of transaction (v) Ensuring that a proper distinction has been made between capital and of revenue nature (vi) Comparison of the balance sheet and P&L with the underlying record (vii) Verification of the title, existence and value of the assets (viii) Verification of the liabilities (ix)result shown by the profi t and loss shown are true and fair. (x) Where audit is of a corporate body, confirming that the statutory requirements have been complied (xi) Reporting to the appropriate person/body TYPES OF AUDIT Audit is not legally obligatory for all types of business organisations or institutions. (i) Audit required under law (ii) voluntary category proprietary entities,partnership fi rms, Hindu undivided families, etc ADVANTAGES OF AUDIT OF FINANCIAL STATEMENTS (a) It safeguards the financial interest of persons who are not associated with management (b) It acts as a moral check on the employees (c)settling liability for taxes,negotiating loans and for determining the purchase consideration (d) settling trade disputes for higher wages or bonus (e) detection of wastages and losses (f)ascertains whether the necessary books of account and allied records are properly kept (g)audit reviews the existence and operations of various controls and reports weakness (h)settlement of accounts at the time of admission or death of partner. (i) Government may require audited and certified statement		