

# Auditing And Ethics - Chapter 1

## Nature, Objective and Scope of Audit

### 1.1 ORIGIN OF AUDITING

- Auditing has existed even in ancient times in many societies of world including India.
- The reference to auditing is found in **Kautilya's Arthshastra** in 4th century BC, it talks about fixed accounting year, a process for closure of accounts and audit for the same.
- There were concepts of periodical checking and verification even in those times. There are references in his monumental work to misstatements in financial statements due to abuse of power.
- The word "audit" originates from **Latin word "audire"** meaning "to hear".
- In medieval times, auditors used to hear the accounts read out to them to check that employees were not careless and negligent.
- Industrial revolution in Europe led to expansion in volume of trade and consequently demand of auditors.
- the first Auditor General of India was appointed in British India in 1860. Later, office of Auditor General was given statutory recognition. Presently, Comptroller and Auditor General of India is an independent constitutional authority responsible for government audits.
- The ICAI was established as a statutory body under an Act of Parliament in 1949 for regulating the profession of Chartered Accountancy in India.

### 1.2 MEANING OF NATURE OF AUDITING

<b>Definition as per ICAI</b>	<ul style="list-style-type: none"> <li>▪ An Audit is an <i>independent examination</i>,</li> <li>▪ of <i>financial information</i>,</li> <li>▪ of any <i>entity</i> whether profit oriented or not, and irrespective of its size or legal form,</li> <li>▪ when such an examination is conducted with a view to expressing an <i>opinion</i> thereon.</li> </ul>	
<b>Analysis of meaning of Auditing</b>	<b>Independent Examination</b>	<ul style="list-style-type: none"> <li>▪ Independence implies that the <b>judgement</b> of a person is <b>not subordinate</b> to the wishes or direction of another person who might have engaged him.</li> <li>▪ The auditor should be independent of client so that he can form an opinion without being affected by any influence.</li> <li>▪ Independence increases auditor's ability to act <b>objectively without any bias</b>. There are certain statutory provisions to ensure that auditor shall be independent.</li> <li>▪ For example, in the Companies Act, 2013 there are specific provisions where a Relative of Director or a shareholder who is a CA can not be appointed as an auditor.</li> <li>▪ If auditor maintains high degree of independence, <b>credibility</b> of financial statements is enhanced.</li> <li>▪ Independent audit report will be accepted &amp; respected by all <b>stakeholders</b>.</li> </ul>
	<b>Financial statements</b>	<ul style="list-style-type: none"> <li>▪ Auditor's opinion is on financial statements including Profit and loss account, Balance sheet &amp; Notes to accounts.</li> <li>▪ The <b>preparation and presentation</b> of financial statements is the responsibility of the <i>management</i> of entity.</li> </ul>
	<b>Entity</b>	<ul style="list-style-type: none"> <li>▪ His client can be <i>any entity</i> whatever is the legal form i.e. it may be proprietorship, partnership, trust or company etc.</li> <li>▪ The entity may be profit oriented or a charitable one like NGO.</li> <li>▪ The client can be a small, medium, or big enterprise.</li> </ul>

	<b>Opinion</b>	<ul style="list-style-type: none"> <li>▪ The purpose of audit is to express an opinion on the financial statements. <i>The auditor expresses <b>an opinion on financial statements in a written audit report.</b></i></li> <li>▪ To express his opinion, he shall see that financial statements would not mislead anybody by ensuring that: - <ul style="list-style-type: none"> <li>➤ the <b>accounts</b> have been drawn up with reference to <b>entries</b> in the books of account;</li> <li>➤ the entries in the books of account are adequately <b>supported</b> by sufficient and appropriate evidence;</li> <li>➤ <b>none</b> of the entries in the books of account has been <b>omitted</b> in the process of compilation;</li> <li>➤ the information conveyed by the statements is <b>clear and unambiguous</b>;</li> <li>➤ the financial statement amounts are properly <b>classified, described and disclosed</b> in conformity with applicable accounting standards; and</li> <li>➤ the statement of accounts presents a <b>true and fair</b> picture of the <b>operational results</b> and of the <b>assets and liabilities</b>.</li> </ul> </li> </ul>
<b>Auditing provides assurance</b>		<ul style="list-style-type: none"> <li>▪ Its basic nature lies in providing <b>confidence to users</b> of financial statements.</li> <li>▪ Such an assurance lends <b>credibility</b> to financial statements.</li> <li>▪ Audited financial statements provide <b>confidence</b> to users that financial information reflected in financial statements can be <b>relied</b> upon.</li> </ul>
<b>By whom</b>		In India, audit is to be conducted by a professional having good accounting & auditing background. A chartered accountant having certificate of practice is eligible to conduct audit.

### 1.3 BENEFITS OF AUDIT-WHY AUDIT IS NEEDED?

- Audited accounts provide **high quality information**.
- It gives **confidence to users** that information on which they are relying is qualitative and applicable Auditing Standards have been followed.
- In case of companies, **shareholders** may or may not be involved in daily affairs of the company. The financial statements are prepared by management consisting of directors. As shareholders are owners of the company, they need an independent mechanism so that financial information is qualitative and reliable. Hence, their interest is safeguarded by an audit.
- An audit acts as a **moral check on employees** from committing frauds for the fear of being discovered by audit.
- Audited financial statements are helpful to **government authorities** for determining tax liabilities.
- Audited financial statements can be relied upon by **lenders, bankers** for making their credit decisions i.e. whether to lend or not to lend to a particular entity.
- An audit may also **detect fraud or error** or both.
- An audit reviews existence and operations of various **controls** operating in any entity. Hence, it is useful at pointing out **deficiencies**.

### 1.4 AUDIT- MANDATORY OR VOLUNTARY?

- It is not necessary that audit is always legally mandatory.
- There are entities like companies who are compulsorily required to get their accounts audited under law.
- Even non-corporate entities may be compulsorily requiring audit of their accounts under tax laws. For example, in India, every person is required to get accounts audited if turnover crosses certain threshold limit under income tax law.
- Some entities like schools may be required to get their accounts audited for the purpose of obtaining grant or assistance from the Government.
- However, getting audit done is not always mandatory.
- Many entities may get their accounts audited voluntarily because of benefits from the process of audit. Many such concerns have their internal rules requiring audit due to advantages of an audit.

*These are the class notes exclusively to be circulated among the students of CA. Surbhi Bansal*

## 1.5 RELATIONSHIP OF AUDITING WITH OTHER DISCIPLINES - INTERDISCIPLINARY NATURE OF AUDITING

<b>Accounting</b>	(a) Auditor provides <i>opinion</i> on financial statements. (b) For this, he has to review & <i>evaluate the financial statements</i> . (c) Thus, he should have thorough & sound <i>knowledge about accounting principles</i> & form and contents of financial statements. (d) It requires complete <i>expertise</i> of accounting concepts.
<b>Mathematics</b>	(a) Auditor deals with financial figures & <i>amounts</i> that appear in financial statements. (b) It requires knowledge of <i>calculation procedure</i> involved in computing various items for e.g., depreciation, provision for tax etc. (c) He has to make <i>comparisons</i> & perform <i>ratio</i> analysis. Thus, a good hand on maths is required.
<b>Statistics</b>	(a) <i>Sampling</i> is an important auditing technique. (b) For drawing random sample, he requires knowledge of <i>probability theory</i> & various <i>statistical concepts</i> .
<b>Economics</b>	(a) Before conducting audit, auditor needs to obtain knowledge about overall <i>business &amp; economic environment</i> affecting the client. (b) Thus, economic concepts are required to perform auditing in a meaningful way.
<b>Law</b>	(a) Auditor has to <i>check</i> transactions w.r.t <i>conformity with law</i> . (b) Thus, he should have sound knowledge of laws affecting the client.
<b>Computer information system and Data Processing</b>	(a) Now a days, most of the <i>clients maintain</i> their accounts in computer information system. (b) Thus, <i>working knowledge</i> on computer is required for auditors to conduct audit in an effective way. (c) EDP auditing in itself is developing as a discipline.
<b>Production and other management areas</b>	(a) It is vital for the auditor to understand the <i>business being run by the client</i> . (b) Knowledge about the <i>production process, costing system</i> and <i>terminology</i> will be useful for better communication between the auditor and the management.
<b>Behavioural science</b>	(a) Auditor has to deal with <i>many personnel</i> . (b) He has to <i>obtain explanation</i> from client's staff & management. (c) Moreover, he has to <i>direct &amp; supervise</i> his own audit staff. (d) He should have <i>tact</i> of getting along with people.
<b>Financial management</b>	(a) He should have knowledge of <i>financial techniques</i> like ratio analysis, funds flows analysis & working capital management etc. (b) This will help him to <i>understand &amp; evaluate</i> the financial statement in a better way.

## 1.6 DIFFERENCE BETWEEN AUDITING AND ACCOUNTING

<i>Basis</i>	<i>Accounting</i>	<i>Auditing</i>
<b>Meaning</b>	Accounting is the art of Recording, Classifying & Summarizing financial Information.	It is Independent Examination of financial information of an entity to express an opinion thereon.
<b>Function</b>	It <i>records</i> financial aspects of entity	It <i>examines</i> the financial information.
<b>By whom</b>	Any person having good <i>knowledge of accounting</i> .	Statutory audit can only be conducted by a <i>chartered accountant</i> .
<b>Principles</b>	As per <i>accounting standards (AS/IND AS)</i>	As per <i>auditing standards (SA)</i>
<b>Primary responsibility</b>	To <i>maintain</i> accounts & prepare financial statements is the responsibility of management.	To conduct audit in an effective way is the responsibility of <i>auditor</i> .
<b>Expertise</b>	<i>Accounting</i> expertise.	<i>Accounting &amp; auditing</i> Expertise (both).
<b>Time of occurrence</b>	Accounts are prepared by the management <i>prior</i> to get them audited.	Auditing is examination of financial information, thus can't be conducted prior to accounting.

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## 1.7 QUALITIES OF AUDITOR

<b>Integrity</b>	Auditor should be honest, sincere & straightforward while performing his professional duties.
<b>Independence</b>	<ul style="list-style-type: none"> <li>▪ He should not subordinate his judgement to the will of others (client or other person).</li> <li>▪ He should be free of any interest apparently as well as in reality.</li> <li>▪ He should audit the financial statements prepared by the management in unbiased way.</li> </ul>
<b>Knowledge</b>	<ul style="list-style-type: none"> <li>▪ He should have general knowledge of client's business and economic trends etc.</li> <li>▪ Awareness about laws like Taxation laws &amp; Contract Act, Partnership Act, Companies Act etc, is also required.</li> <li>▪ He must continuously update his knowledge to conduct audit effectively.</li> </ul>
<b>Communication skills</b>	During conduct of audit, he has to interact with various officers & staff of organisation & third parties, thus he requires good oral & written communication abilities.
<b>Tact</b>	He must be able to deal with different person in different situation. He has to direct & supervise his own staff as well, thus he should be tactful.
<b>Judgement</b>	He should be capable to taking firm judgement as to which items are to be checked & what should be the sample size.
<b>Logical skills</b>	He must be able to analyse & interpret problems so that he can accordingly deal with the same.
<b>Technical skills</b>	<p>He must have expertise over accounting &amp; auditing matters.</p> <p>He should have exhaustive knowledge of accounting in all its branches.</p> <p>Moreover, he should be aware of latest development in auditing standards so that he can perform audit in effective manner.</p>
<b>Confidentiality</b>	<p>He should not disclose, confidential information acquired during conduct of his professional duties, to any third party except when</p> <ul style="list-style-type: none"> <li>▪ Permitted by client or</li> <li>▪ Required by law</li> </ul>
<b>Caution &amp; Patience</b>	Whatever he does, he must do with proper skill & care.

## 1.8 OBJECTIVES OF AUDIT

<b>As per SA 200</b>	<p>In conducting audit of financial statements, objectives of auditor in accordance with SA-200 "Overall Objectives of the Independent auditor and the conduct of an audit in accordance with Standards on Auditing" are: -</p> <p>(a) To obtain <b>reasonable assurance</b> about whether the financial statements as a whole are <b>free from material misstatement</b>, whether due to fraud or error, thereby enabling the auditor to <b>express an opinion</b> on whether the financial statements are prepared, in all material respects, in accordance with an <b>applicable financial reporting framework</b>; and</p> <p>(b) To <b>report</b> on the financial statements, and <b>communicate</b> as required by the SAs, in accordance with the auditor's findings.</p>
<b>Analysis of Objectives of Audit</b>	<p>(1) <b>Auditor's objective is to obtain a reasonable assurance whether financial statements as a whole are free from material misstatement whether due to fraud or error.</b></p> <ul style="list-style-type: none"> <li>▪ Reasonable assurance is not absolute assurance.</li> <li>▪ Absolute assurance is a complete assurance or a guarantee that financial statements are free from material misstatements.</li> <li>▪ However, reasonable assurance is not a complete guarantee. Although it is a high-level of assurance but it is not complete assurance.</li> <li>▪ Audit of financial statements is carried out by the auditor with professional competence and skills in accordance with SAs.</li> <li>▪ Audit procedures are applied in accordance with SAs, audit evidence is obtained and evaluated.</li> </ul>

	<ul style="list-style-type: none"> <li>On basis of that, conclusions are drawn and opinion is formed.</li> <li>It leads to high level of assurance which is called as reasonable assurance but it is not absolute assurance.</li> </ul>
	<p>(2) <b>Misstatements in financial statements can occur due to fraud or error or both.</b></p> <ul style="list-style-type: none"> <li>The auditor seeks to obtain reasonable assurance whether financial statements as a whole are free from material misstatements, caused by fraud or error.</li> <li>He has to see effect of misstatements on financial statements as a whole.</li> </ul>
	<p>(3) <b>Obtaining reasonable assurance</b> that financial statements as a whole are free from material misstatements <b>enables the auditor to express an opinion</b> on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.</p>
	<p>(4) The opinion is <b>reported and communicated</b> through a written report as required by SAs.</p>

## 1.9 SCOPE OF AUDIT

- Scope refers to range or reach of something.
- The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements.
- Users of financial statements may be shareholders, employees, customers, government and regulatory authorities, bankers etc.
- Enhancing of degree of confidence is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

**Note:** Applicable financial reporting framework means a framework adopted in the preparation and presentation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation. (For example, Schedule III of Companies Act, 2013.)

### The following points are included in scope of audit of financial statements:

<b>Coverage of all aspects of entity</b>	<ul style="list-style-type: none"> <li>Audit of financial statements should be organized adequately to cover all aspects of the entity relevant to the financial statements being audited.</li> </ul>
<b>Reliability and sufficiency of financial information</b>	<ul style="list-style-type: none"> <li>The auditor should be reasonably satisfied that information contained in underlying accounting records and other source data (like bills, vouchers, documents etc.) is <i>reliable and sufficient</i> basis for preparation of financial statements.</li> <li>The auditor makes a judgment of reliability and sufficiency of financial information by making a study and assessment of accounting systems and internal controls and by carrying out appropriate tests, enquiries, and procedures.</li> </ul>
<b>Proper disclosure of financial information</b>	<ul style="list-style-type: none"> <li>The auditor should also decide whether relevant information is properly disclosed in the financial statements. He should also keep in mind applicable statutory requirements in this regard.</li> <li>It is done by ensuring that financial statements properly summarize transactions and events recorded therein and by considering the judgments made by management in preparation of financial statements.</li> <li>The management responsible for preparation and presentation of financial statements makes many judgments in this process of preparing and presenting financial statements. For example, <i>choosing of appropriate accounting policies</i>.</li> <li>The auditor evaluates selection and consistent application of accounting policies by management; whether such a selection is proper and whether chosen policy has been applied consistently on a period-to-period basis.</li> <li>Since financial statements are prepared on the basis of historical financial information, it is logical that audit of financial statements is also based upon such historical financial information. Therefore, audit of financial statements is based upon historical financial information.</li> </ul>

### 1.10 SCOPE OF AUDIT-WHAT IT DOES NOT INCLUDE

- (1) Auditor is not expected to perform duties which fall outside domain of his competence. For example, it is not expected from an auditor to determine suitability and life of civil structures like buildings. These require different skillsets which may be performed by qualified engineers in their respective fields.
- (2) An auditor is not an expert in authentication of documents. The genuineness of documents cannot be authenticated by him because he is not an expert in this field.
- (3) An audit is not an official investigation into alleged wrong doing.
  - He does not have any specific legal powers of search or recording statements of witness on oath which may be necessary for carrying out an official investigation.
  - Audit is distinct from investigation.
  - Investigation is a critical examination of the accounts with a special purpose. For example, if fraud is suspected and it is specifically called upon to check the accounts whether fraud really exists, it takes character of investigation.
  - The objective of audit, on the other hand, is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion.
  - The scope of audit is general and broad whereas scope of investigation is specific and narrow.

### 1.11 INHERENT LIMITATIONS OF AUDIT

The process of audit suffers from certain inbuilt limitations due to which an auditor cannot obtain an absolute assurance that financial statements are free from misstatement due to fraud or error. These fundamental limitations arise due to the following factors: -

<b>Nature of financial reporting</b>	<ul style="list-style-type: none"> <li>▪ Preparation of financial statements involves making many judgments by management.</li> <li>▪ These judgments may involve subjective decisions or a degree of uncertainty.</li> <li>▪ Therefore, auditor may not be able to obtain absolute assurance .</li> <li>▪ One of the premises for conducting an audit is that management acknowledges its responsibility of preparation of financial statements in accordance with applicable financial reporting framework and for devising suitable internal controls.</li> <li>▪ However, such controls may not have operated to produce reliable financial information due to their own limitations.</li> </ul>
<b>Nature of Audit procedures</b>	<ul style="list-style-type: none"> <li>▪ The auditor carries out his work by obtaining audit evidence through performance of audit procedures.</li> <li>▪ However, there are practical and legal limitations on ability of auditor to obtain audit evidence.</li> <li>▪ For example, an auditor does not test all transactions and balances.</li> <li>▪ He forms his opinion only by testing samples. (Practical limitation)</li> <li>▪ Management may not provide complete information as requested by auditor.</li> <li>▪ There is no way by which auditor can force management to provide complete information as may be requested by auditor. (legal limitation)</li> <li>▪ The management may consist of dishonest and unscrupulous people and may be, itself, involved in fraud. Frauds are concluded by designing sophisticated and carefully organised schemes. It may produce fabricated documents before auditor to lead him to believe that audit evidence is valid. He may be accepting invalid audit evidence on the basis of unauthentic documents.</li> <li>▪ It is quite possible that entity may have entered into some transactions with related parties. Such transactions may be only paper transactions and may not have occurred in reality. The auditor may not be aware of such relationships or audit procedures may not be able to detect probable wrong doings.</li> </ul>

<b>Not in nature of investigation</b>	<ul style="list-style-type: none"> <li>Audit is not an official investigation. Hence, auditor cannot obtain absolute assurance that financial statements are free from material misstatements due to frauds or errors.</li> </ul>
<b>Timeliness of financial reporting and decrease in relevance of information over time</b>	<ul style="list-style-type: none"> <li>The relevance of information decreases over time and auditor cannot verify each and every matter. Therefore, a balance has to be struck between reliability of information and cost of obtaining it.</li> <li>Consider, for example, an auditor who is conducting audit of a company since last two years. During these two years, he has sought detailed information from management of company regarding various matters. During his third- year stint, he chooses to rely upon some information obtained as part of audit procedures of second year. However, it could be possible that something new has happened and that information is not relevant. So, the information being relied upon by auditor is not timely and may have lost its reliability.</li> </ul>
<b>Future events</b>	<ul style="list-style-type: none"> <li>Future events or conditions may affect an entity adversely.</li> <li>Adverse events may seriously affect ability of an entity to continue its business.</li> <li>The business may cease to exist in future due to change in market conditions, emergence of new business models or products or due to onset of some adverse events.</li> <li>Therefore, it is in view of above factors, that an auditor cannot provide a guarantee that financial statements are free from material misstatements.</li> </ul>

## 1.12 WHO APPOINTS AN AUDITOR?

- Generally, an auditor is appointed by owners or in some cases by constitutional or government authorities in accordance with applicable laws and regulations.
- For example, in case of companies, auditor is appointed by members in Annual General Meeting (AGM). Shareholders are owners of a company and auditor is appointed by them in AGM.
- However, in case of government companies in India, auditor is appointed by Comptroller and Auditor General of India (CAG), an independent constitutional authority.
- In case of firm, auditor is appointed by partners of firm.
- There may be a situation in which auditor may be appointed by a government authority in accordance with some law or regulation. For example, an auditor may be appointed under tax laws by a government authority.

## 1.13 TO WHOM REPORT IS SUBMITTED BY AN AUDITOR?

The outcome of an audit is written audit report in which auditor expresses an opinion. The report is generally submitted to person making the appointment. In case of companies, these are shareholders and in case of a firm these are partners who have engaged him.

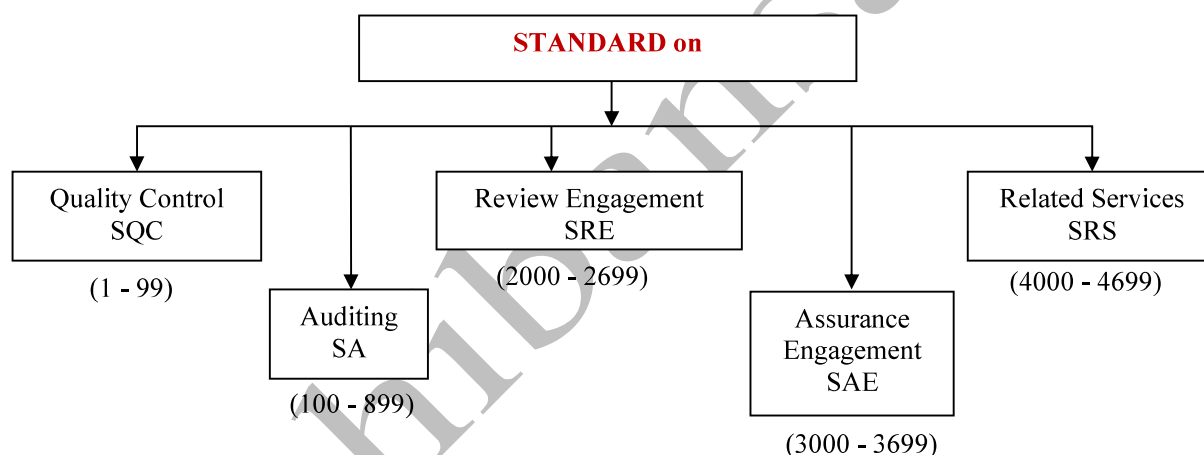
## 1.14 WHAT IS AN ENGAGEMENT?

<b>Meaning</b>	<ul style="list-style-type: none"> <li>Engagement means an arrangement to do something.</li> <li>In the context of auditing, it means a formal agreement between auditor and client under which auditor agrees to provide auditing services.</li> <li>It takes the shape of engagement letter.</li> </ul>
<b>External audit engagements</b>	<ul style="list-style-type: none"> <li><b>The purpose of external audit engagements is to enhance</b> the degree of confidence of intended users of financial statements.</li> <li>Such engagements are also reasonable assurance engagements.</li> <li>For example, in India, companies are required to get their annual accounts audited by an external auditor.</li> <li>Even non-corporate entities may choose to have their accounts audited by an external auditor because of benefits of such an audit.</li> </ul>

## 1.15 STANDARDS ISSUED BY AASB UNDER THE AUTHORITY OF THE COUNCIL OF ICAI - ENGAGEMENT AND QUALITY CONTROL STANDARDS

The following Standards issued by the Auditing and Assurance Standards Board *under the authority of the Council* are collectively known as the Engagement Standards and Quality Control Standards.

<b>Engagement standards</b>	<ul style="list-style-type: none"> <li>(a) Standards on Auditing (SAs), to be applied in the <i>audit of historical financial information</i>.</li> <li>(b) Standards on Review Engagements (SREs), to be applied in the <i>review of historical financial information</i>.</li> <li>(c) Standards on Assurance Engagements (SAEs), to be applied in assurance engagements, other than historical financial information.</li> <li>(d) Standards on Related Services (SRSs), to be applied to engagements involving application of <i>agreed upon procedures</i> to information, <i>compilation engagements</i>, and other related services engagements, as may be specified by the ICAI.</li> </ul>
<b>Quality control standards</b>	Standards on Quality Control (SQC), issued by the AASB under the authority of the Council, are to be applied for all services covered by the Engagement Standards as described above.



<b>Audit</b>	<b>Review</b>
(1) Conducted as per SAs (Standard on Auditing)	(1) Conducted in accordance with SREs (Standard on Review Engagements)
(2) Reasonable assurance engagement. He expresses audit opinion	(2) Limited assurance engagements due to performance of fewer procedures. He expresses review conclusion.
(3) Objective is to reduce audit risk to an acceptably low level	(3) To reduce engagement risk to a moderate level by performing review procedures.
(4) SAs on many audit Related issues series (100-899) Examples: SA 570, Going Concern SA 230, Audit Documentation SA-500, Audit Evidence SA-560, Subsequent Events	(4) Examples: SRE 2400 – Engagements to Review Historical financial statements SRE 2410 – Review of Interim Financial Information performed by the Independent Auditor of the Entity

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**Standards on Assurance Engagements (SAE):**

- Applicable in assurance engagements which are not “audit” or “review.” (on audit SAs, and on review SREs are applicable)
- Examination of subject matters other than historical financial Information.
- Examples:
  - SAE 3400, The Examination of prospective financial information.
  - SAE 3402, Assurance reports on controls at a service organisation
  - SAE 3420, Assurance Engagements to report on the compilation of pro forma financial Information included in a prospectus.
- For instance, SAE 3400, is applicable on PFI which is a financial information based upon assumptions about the events that may occur in the future and possible actions by an entity. (Not historical information that has occurred in the past)

**Standards on Related Services (SRS):**

- Applicable in case of agreed upon procedures, compilation engagements and other related service engagements.
- Here, a CA does not provide assurance.
- Example: -
  - SRS 4400 “Engagements to perform agreed upon procedures regarding financial information”
  - SRS 4410 “Compilation engagements”
- For instance, agreed upon procedures may require the auditor to performs certain procedures as agreed upon (Between auditor and client and appropriate third party, if any) regarding individual items of financial data, like, sales, revenue, accounts receivable, or balance sheet or even financial statements as a whole.

**Standards on Quality Control**

- Issued to establish standards and provide guidance regarding a firm’s responsibilities for its system of quality control for the conduct of audit and review of historical financial information and for other assurance and related service engagements.
- SQC 1 has been issued in this regard. It requires auditors/practitioners to establish system of quality control so that firm and its personnel comply with professional standards and regulatory & legal requirements and reports issued are appropriate.
- Its basic objective is that while rendering services, to which engagement standards apply, there should be a system of quality control with in firms to ensure compliance with professional standards/legal requirements.
- System of quality control ensures issuing of appropriate reports in the circumstances.
- It is important to note that Standards on Quality Control (SQC) are to be applied for all services covered by Engagement Standards.

Standard on Auditing	
Introductory matters	100 – 199
General Principles & Responsibility	200 - 299
Planning and Risk Assessment	300 - 499
Audit Evidence	500 - 599
Using works of others	600 - 699
Audit Reporting	700 – 799
Specialized areas	800- 899

**Note: To remember the key words, the scheme of ICAI is as follows (in short):**

**Audits and Reviews of Historical Financial Information {100-899 Standards on Auditing (SA)}**

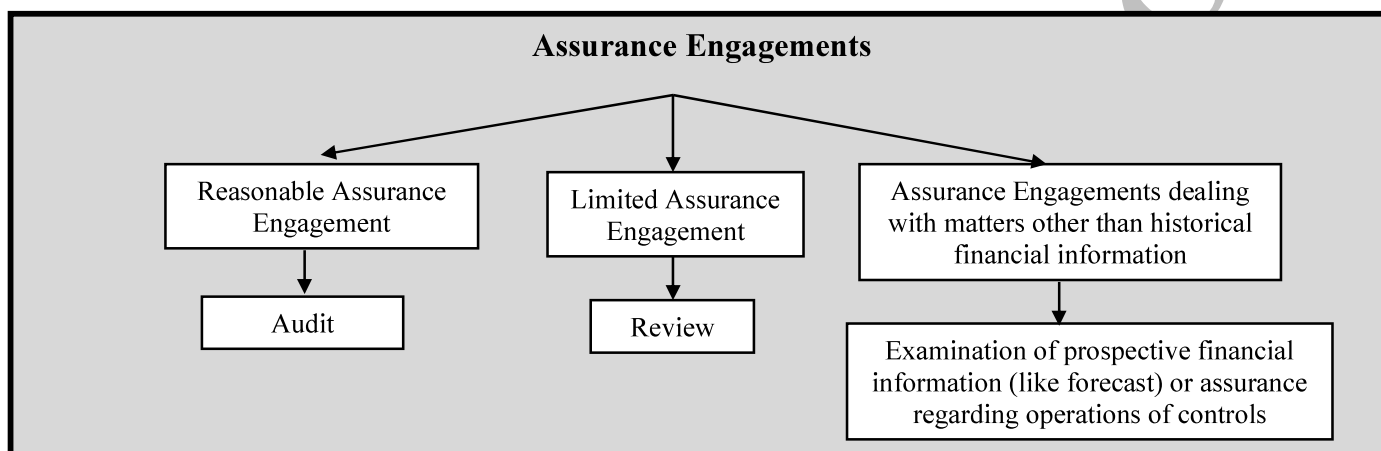
- **100-199 Introductory Matters**
- **200-299 General Principles and Responsibilities**
  - SA 200 (overall objectives)
  - SA 210 (Terms)
  - SA 220 (Quality control)
  - SA 230(Documentation)
  - SA 240(Misstatements)
  - SA 250(Law and regulations)
  - SA 260(TCWG)
  - SA 265 (weakness in I.C.)
  - SA 299(Joint auditors)
- **300-499 Risk Assessment and Response to Assessed Risks**
  - SA 300(Planning)
  - SA 315(Risk assessment)
  - SA 320(Materiality)
  - SA 330(Responses)
  - SA 402(Service organisation)
  - SA 450 (Evaluation of misstatements)
- **500-599 Audit Evidence**
  - SA 500(Evidence)
  - SA 501(Specific items)
  - SA 505(External confirmation)
  - SA 510(Initial engagement- opening balance)
  - SA 520 (Analytical Procedures)
  - SA 530(Sampling)
  - SA 540(Estimates)
  - SA 550(Related parties)
  - SA 560(Subsequent events)
  - SA 570(Going concern)
  - SA 580(Written representations)
- **600-699 Using Work of Others**
  - SA 600(Other auditor)
  - SA 610(Internal auditor)
  - SA 620(Expert)
- **700-799 Audit Conclusions and Reporting**
  - SA 700(Audit report)
  - SA 701(Key Audit Matters)
  - SA 705 (Modifications)
  - SA 706 (EOM and OM)
  - SA 710(Comparatives)
  - SA 720 (Other information)
- **800-899 Specialized Areas**
  - SA 800(Special Purpose framework)
  - SA 805 (Single financial Statement)
  - SA 810 (Summary Financial Statement)

*These are the class notes exclusively to be circulated among the students of CA. Surbhi Bansal*

## 1.16 ASSURANCE ENGAGEMENT

<b>Meaning</b>	<ul style="list-style-type: none"> <li>▪ “Assurance engagement” means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.</li> <li>▪ It means that the practitioner gives an opinion about specific information due to which users of information are able to make confident decisions knowing well that chance of information being incorrect is diminished</li> </ul>	
<b>Elements of an Assurance Engagement</b>	Following elements comprise an assurance engagement: -	
	<i>A three party relationship involving a practitioner, a responsible party, and intended users</i>	<ul style="list-style-type: none"> <li>▪ An assurance engagement involves three parties.</li> <li>▪ A practitioner is a person who provides the assurance.</li> <li>▪ The term practitioner is broader than auditor.</li> <li>▪ Audit is related to historical information whereas practitioner may provide assurance not necessarily related to historical financial information.</li> <li>▪ A responsible party is the party responsible for preparation of subject matter.</li> <li>▪ Intended users are the persons for whom an assurance report is prepared. These persons may use the report in making decisions.</li> </ul>
	<i>An appropriate subject matter</i>	<ul style="list-style-type: none"> <li>▪ It refers to the information to be examined by the practitioner.</li> <li>▪ For example, financial information contained in financial statements while conducting audit of financial statements.</li> </ul>
	<i>Suitable criteria</i>	<ul style="list-style-type: none"> <li>▪ These refer to benchmarks used to evaluate the subject matter like standards, guidance, laws, rules and regulations.</li> </ul>
	<i>Sufficient appropriate evidence</i>	<ul style="list-style-type: none"> <li>▪ The practitioner performs an assurance engagement to obtain sufficient appropriate evidence.</li> <li>▪ It is on the basis of evidence that conclusions are arrived and an opinion is formed by auditor.</li> <li>▪ “Sufficient” relates to quantity of evidence obtained by auditor.</li> <li>▪ “Appropriate” relates to quality of evidence obtained by auditor.</li> <li>▪ One evidence may be providing more comfort to auditor than the other evidence.</li> <li>▪ The evidence providing more comfort is qualitative in nature and, therefore, appropriate.</li> <li>▪ Evidence should be both sufficient and appropriate.</li> </ul>
	<i>A written assurance report in appropriate form</i>	<ul style="list-style-type: none"> <li>▪ A written report is provided containing conclusion that conveys the assurance about the subject matter.</li> <li>▪ A written assurance report is the outcome of an assurance engagement.</li> </ul>

<b><i>Reasonable assurance engagement</i></b>	<b><i>Limited assurance engagement</i></b>
Reasonable assurance engagement provides high level of assurance.	Limited assurance engagement provides lower level of assurance than reasonable assurance engagement.
It performs elaborate and extensive procedures to obtain sufficient appropriate evidence.	It performs fewer procedures as compared to reasonable assurance engagement.
It draws reasonable conclusions on the basis of sufficient appropriate evidence.	It involves obtaining sufficient appropriate evidence to draw limited conclusions.
Example of reasonable assurance engagement is an audit engagement.	Example of limited assurance engagement is a review engagement.



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**HOW TO STUDY AUDITING IN THE CLASS TO GET MAXIMUM MARKS – CA. Surbhi Bansal**

1. **Concept clarity** is a must, this is a logical paper which is **easily understandable**. Whenever, a particular concept is taught with the **relevant examples and logic**, try to grasp them. If needed, write it down for future reference.
2. **Revision** is the key to ace this subject. Cumulative revision is going to help retain the subject matter.
3. After completing a chapter from notes, we will be doing the question answers of that chapter from **NEW STUDY MATERIAL of ICAI**. If you are able to solve mixed **case studies** from there, you can solve any unique question in the exams too. Ensure to be involved in the thought process in the class.
4. Whenever a question is given in the class in the form of small **test**, do that. It will help you maintain writing practice for exam day. Remember, there is no short cut to success.
5. Thorough **understanding of interrelated provisions** with **tricks** to learn the **keywords** can fetch you good marks.
6. **Remove distractions** while studying. 1 hour of **focused study** is better than hours of sitting without concentration.
7. In case of subject related doubt after any class, **ask the teacher**. Don't hesitate.
8. With **right attitude, positive mindset and dedication**, its easy to study and get the desired results.

**HAVE FAITH IN YOURSELF, PUT IN YOUR BEST EFFORTS, MEET DAILY TARGETS... YOU WILL DEFINITELY ACE THE EXAMS**

**GOD BLESS YOU ALL.....**

*CA. Surbhi Bansal is a fellow member of ICAI and a renowned faculty for the subjects "Auditing and Ethics" in CA Intermediate and "Advanced Auditing, Assurance and Professional Ethics" in CA final. Guiding the students since last 25 years, she has also been a visiting faculty of ICAI. Having taught thousands of CAs, hundreds of rankers and many AIR 1, she has vast experience and feels blessed to see the students well settled in their respective careers.*

*As her social initiative, she also provides free mentorship to commerce students who reach her for education or career related guidance.*

*CA. Surbhi Bansal, in her student life, has been a consistent topper and stood first in all the three years of college at graduation level.*

*She got all India 5th rank in her CA Foundation examination. She has been placed in the merit list of ICAI at CA Intermediate level as well. She has been awarded the PN Shah prize for being the best lady candidate of India by ICAI. She cleared both groups of CA Final in first attempt at the age of 21. Teaching and guiding students has been her passion since then.*