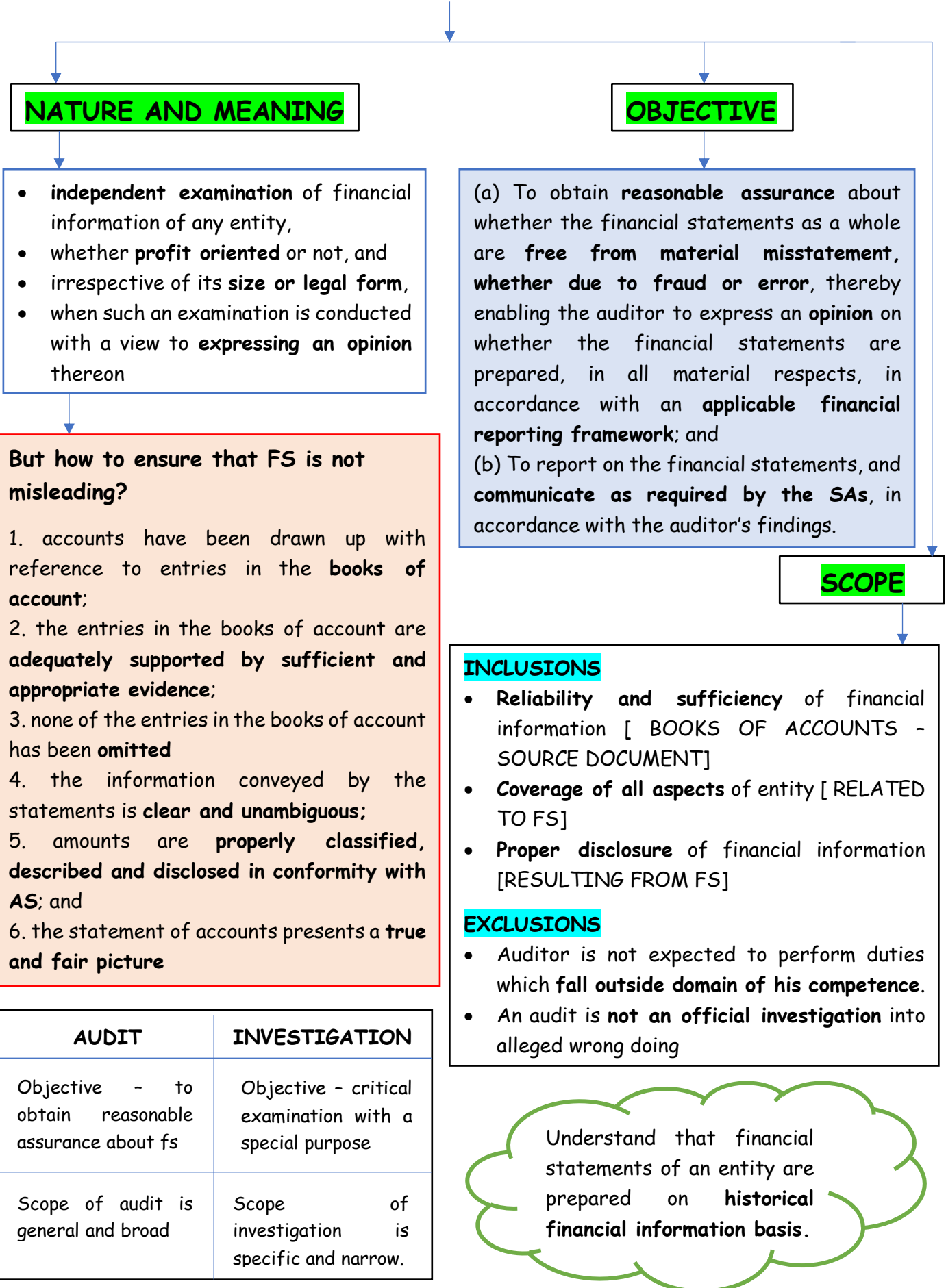


NATURE, SCOPE AND OBJECTIVE OF AUDIT



NATURE AND MEANING

- 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

But how to ensure that FS is not misleading?

1. accounts have been drawn up with reference to entries in the books of account;
2. the entries in the books of account are adequately supported by sufficient and appropriate evidence;
3. none of the entries in the books of account has been omitted
4. the information conveyed by the statements is clear and unambiguous;
5. amounts are properly classified, described and disclosed in conformity with AS; and
6. the statement of accounts presents a true and fair picture

OBJECTIVE

- (a) 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 on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
- (b) To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor's findings.

SCOPE

- INCLUSIONS**
- Reliability and sufficiency of financial information [BOOKS OF ACCOUNTS - SOURCE DOCUMENT]
 - Coverage of all aspects of entity [RELATED TO FS]
 - Proper disclosure of financial information [RESULTING FROM FS]
- EXCLUSIONS**
- Auditor is not expected to perform duties which fall outside domain of his competence.
 - An audit is not an official investigation into alleged wrong doing

AUDIT	INVESTIGATION
Objective - to obtain reasonable assurance about fs	Objective - critical examination with a special purpose
Scope of audit is general and broad	Scope of investigation is specific and narrow.

Understand that financial statements of an entity are prepared on historical financial information basis.

BUT WHY DOES THE AUDITOR GIVE REASONABLE ASSURANCE AND NOT GUARANTEE?

INHERENT LIMITATIONS OF AUDIT -

- **Nature of financial reporting**
Preparation of financial statements involves making many **judgments by management**. **Controls related to FS may not have operated** to produce reliable financial information due to their own limitations
- **Nature of Audit procedures**
Practical limitation - Auditor **does not test all transactions and balances**
Legal limitation - **Management may not provide complete information** as requested by auditor
- **Not in nature of investigation**
Audit is **not an official investigation**. Hence, auditor cannot obtain absolute assurance
- **Timeliness of financial reporting and decrease in relevance of information over time**
The relevance of information **decreases over time** and auditor cannot verify each and every matter
- **Future events**
Future events or conditions may **affect an entity adversely**. Adverse events may seriously affect ability of an entity to continue its business.

INTERDISCIPLINARY NATURE OF AUDITING

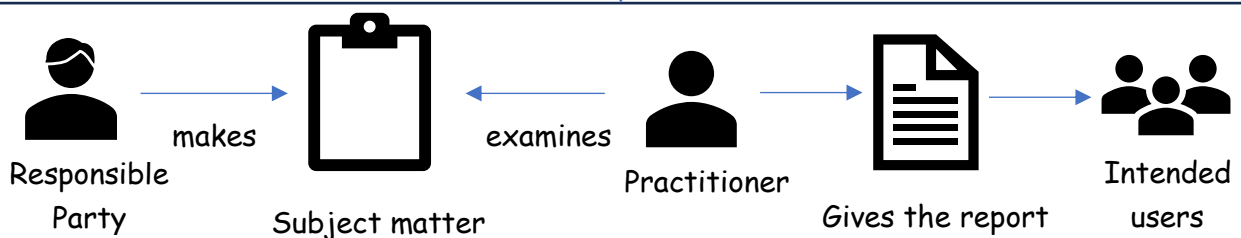
Accounting, Law, Economics, Behavioural science, Statistics and mathematics, Data processing, Financial Management, Production

WHAT IS THE BENEFIT OF AUDIT?

- Audited accounts provide **high quality information**.
- **Interest of shareholders is safeguarded** by an audit.
- An audit acts as a **moral check on employees**
- Audited FS are **helpful to government authorities** for determining tax liabilities.
- Audited FS can be **relied upon by lenders, bankers** for making their credit decisions
- An audit may also **detect fraud or error or both**.
- An audit **reviews existence and operations of various controls** operating in any entity.

ASSURANCE ENGAGEMENT

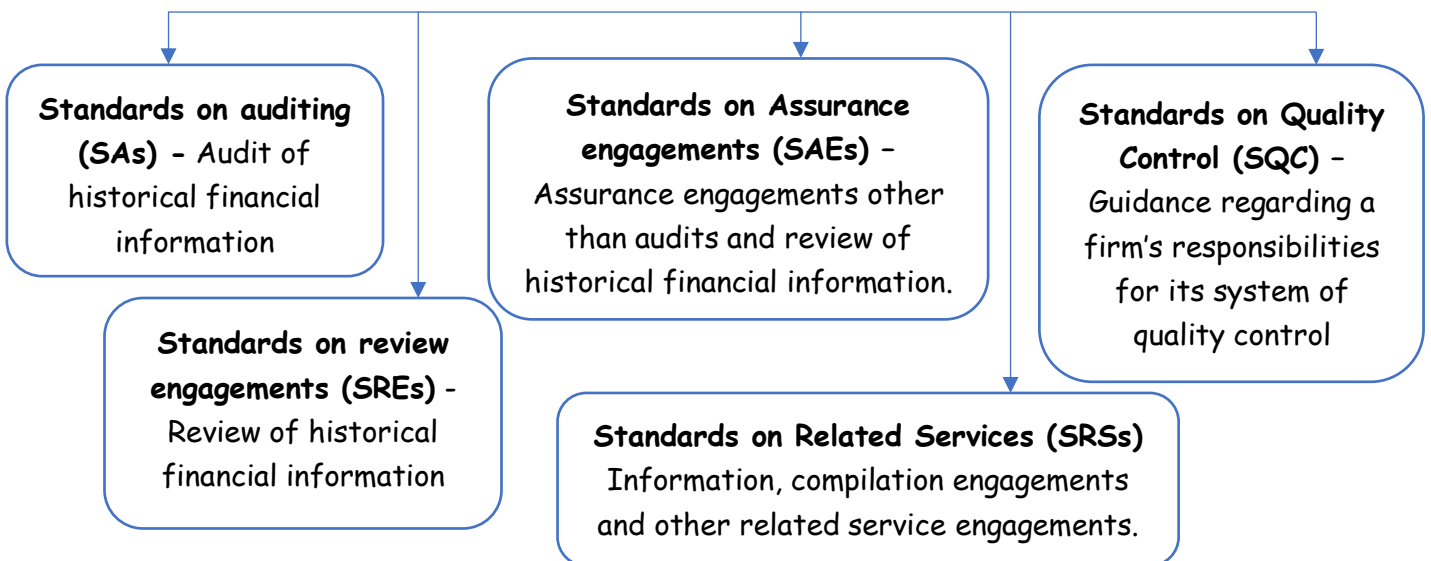
An engagement in which a **practitioner** expresses a **conclusion** designed to **enhance the degree of confidence** of the intended users other than the responsible party about the **outcome of the evaluation or measurement of a subject matter** against **criteria**.



TYPES OF ASSURANCE ENGAGEMENT

Reasonable assurance engagement (AUDIT)	Limited assurance engagement (REVIEW)	Assurance Engagements dealing with matters other than historical financial information
Applies to Historical FI	Applies to Historical FI	Applies to Prospective FI
Reasonable assurance engagement provides high level of assurance	Limited assurance engagement provides lower level of assurance than reasonable assurance engagement.	Such type of assurance engagement provides only a "moderate" level of assurance
It performs elaborate and extensive procedures to obtain sufficient appropriate evidence and draws reasonable conclusions	It performs fewer procedures to obtain sufficient appropriate evidence and draws limited conclusions	The practitioner obtains sufficient appropriate evidence to the effect that management's assumptions on which the prospective financial information is based are not unreasonable

ENGAGEMENT AND QUALITY CONTROL STANDARDS



DUTIES IN RELATION TO ENGAGEMENT AND QUALITY CONTROL STANDARDS

- Ensure that **standards are followed** in engagements undertaken by them.
- If situation arises when a **specific procedure as required in Standards would be ineffective in a particular engagement.**
 - Document how **alternative procedures performed** achieve the purpose of required procedure.
 - Also, **reason for departure** has also to be documented unless it is clear.
 - Further, his **report should draw attention** to such departures.

WHY ARE STANDARDS NEEDED?

- Ensure audit against **established benchmarks** at par with global practices.
- Improve **quality of financial reporting** thereby helping users to make diligent decisions.
- Promote **uniformity as audit of financial statements** is carried out following these Standards.
- Standards **equip professional accountants with professional knowledge** and skill.
- Standards ensure **audit quality**



QUALITIES OF AUDITOR

- Tact, caution, firmness, good temper, integrity, discretion, industry, judgement, patience, clear headedness and reliability
- Shine of culture
- Highest degree of integrity
- Basic human qualities apart from the technical requirement of professional training and education.
- An exhaustive knowledge of accounting in all its branches.

**Work Hard in Silence,
let the success make the noise**