

BASIC CONCEPTS IN AUDIT

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BASICS

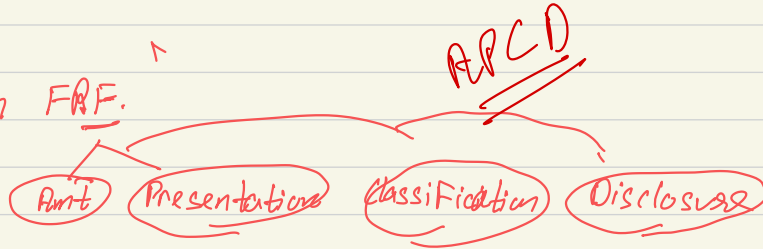
① FRF

→ A Framework used by Mgt for preparation and presentation of F/S.

→ Eg: In case of co → AFRF → Sch. III, AS.

② Misstatement

→ Deviation from FRF.



→ Auditor is concerned with Material Misstatement {MM}

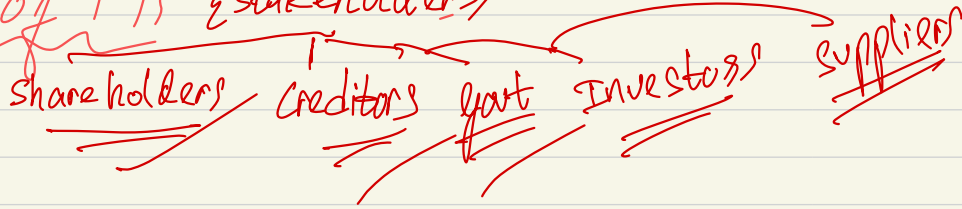
③ F/A

→ F/S are prepared as per AFRF

→ F/S are free from MM

→ Examples,

④ Users of F/S & stakeholders



⑤ F/S

- ① B/S
- ② P/L
- ③ CFS
- ④ Notes to A/c
- ⑤ SOCE

Audit Vocabulary

A/c Balances ✓

Class of Trans. ✓

Disclosures ✓

Procedures

Verification

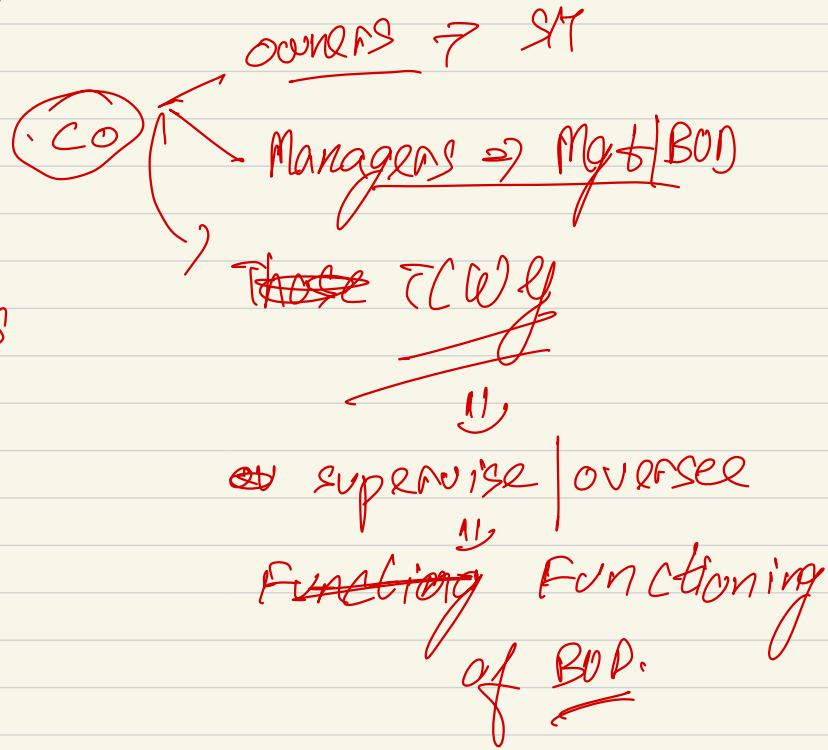
Vouching

Substantive Procedures

⑥ Mgt ~~⑤~~ Those Charged with Governance

Role

- ① Preparation of F/S
- ② Designing Internal Controls
- ③ Compliance of C&R.



⑦ Internal Control

Set of Policies (2) }
Procedures } designed by Mgt (2) ICWly

Provide Reasonable Assurance
regarding

P → Prevention (2) Detection of Frauds (2) Errors
→ Safeguarding of Assets (2)

R → Reliability of Financial Reporting.

O → Orderly (2) Effective Conduct of Business

C → Compliance of Laws (2) Regulation.

PAROC
C

⑧ Materiality

① something that can influence the decision of users of Fls

⑨ Pervasiveness {Relativa}

⇒ Spread to the entire Fls
⇒ Not confined to a specific element.

⑩ Professional Judgment

!b
on the basis of knowledge, experience, training - a Prof. Accountant has to apply his judgment in several areas of audit.

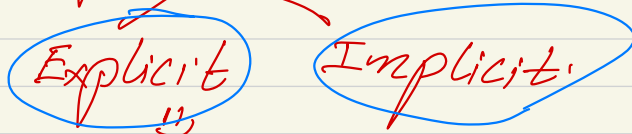
① Professional Skepticism (sakkhi mind)

Be alert

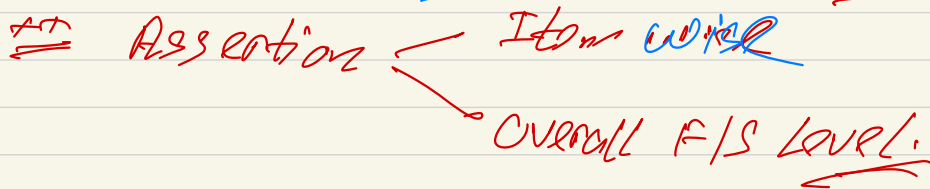
Have a questioning mind.

② Assertion

→ Representation made by - management.



Embodied in F/S about ① AK ② Bal ③ COF ④ Risk



As RS Auditor, Identify ROMM at Assertion Level. RISK of material mist.

⑫ Audit Process

Accepting Audit Engagement

Audit Planning

Performing Audit Procedures

Obtaining SRA 2

Reporting

Express opinion.

Sufficient
& Appropriate.

⑭ Mgt Responsibility vs Auditor Responsibility

FS

⇒

IC

⇒

AE

→ Accounting estimates

⇒

L2R

⇒

Access to Auditors

To Books of Accounts
To acc person

Objective → FIS → IF/IF

⇒

Responsibilities

SA

Ethics

SAAR

Give
A.A.

⑮ Auditor's Opinion

- current period
- give R.A., not A.A.
- Modified / UnModified.
- Auditor's Opinion is not an assurance regarding the future viability of the enterprise.

① Independence ② ETHICS

¹¹³
ETHICAL Requirements of IPR?

- O → Objectivity { unbiased }
- I → Integrity
- P → Professional Behaviour
- C → Confidentiality
- C → Competence (3) Due Care

SA 200

a

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AUDIT PROCEDURES

Test of Controls
↓

Substantive Procedures
↓

Also known as Compliance Procedures
⇓

- ① Test of Details
- ② Analytical Procedures

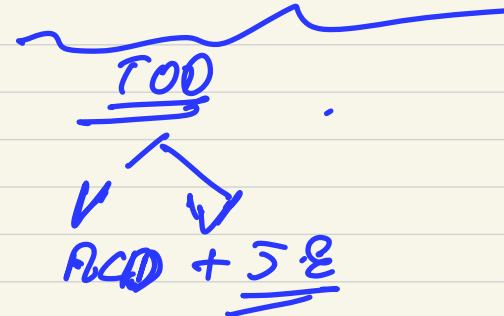
D - Design of IC
O - Operating Effectiveness
T - Throughout
Procedures to Evaluate

I.C. is operating throughout the year

DOT OF I.C.

⇓

Depending of results of TOC, Decide
Nature, Time, Extend of S.P. in TE



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Nature, Time (Ⓢ) Extent of Substantive
Procedures same

Nature - which procedures??

Time - when to perform??

Extent - how much to perform??

Notes

assessed

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BASIC PRINCIPLES Governing an Audit

DISCO PAIR

- ① Documentation ✓
- ② Integrity, Objectivity ✓ ② Independence ✓
- ③ Skill ③ Competence ✓
- ④ Confidentiality ✓
- ⑤ using the work performed by others. {0?}
- ⑥ Planning ✓
- ⑦ Audit Evidence R
- ⑧ Internal Control I
- ⑨ Reporting R

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⇒ "Applicability of STATUTORY AUDITS"

⇓

Mandatory required under Law

⇓

It is not a sign of wrong doing by co

Independent check on F/s to enhance reliability of users of F/s.

⇒ Conducted by CA in px

⇒ Applicable For co's, LLP's, co-op soc, Elect. Co, INS. co's etc.

② Is Auditor Liable For MM not detected during the course of Audit??

⇓

- ① Inherent limitations of Audit
- ② Required to obtain reasonable assurance (x) not absolute assurance.
- ③ Conclusion;
Not liable if complied with SA's and exercised due care and complied with Basic principles governing an audit.

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AUDIT PROCESS

Appointment of Auditors



Planning the Audit



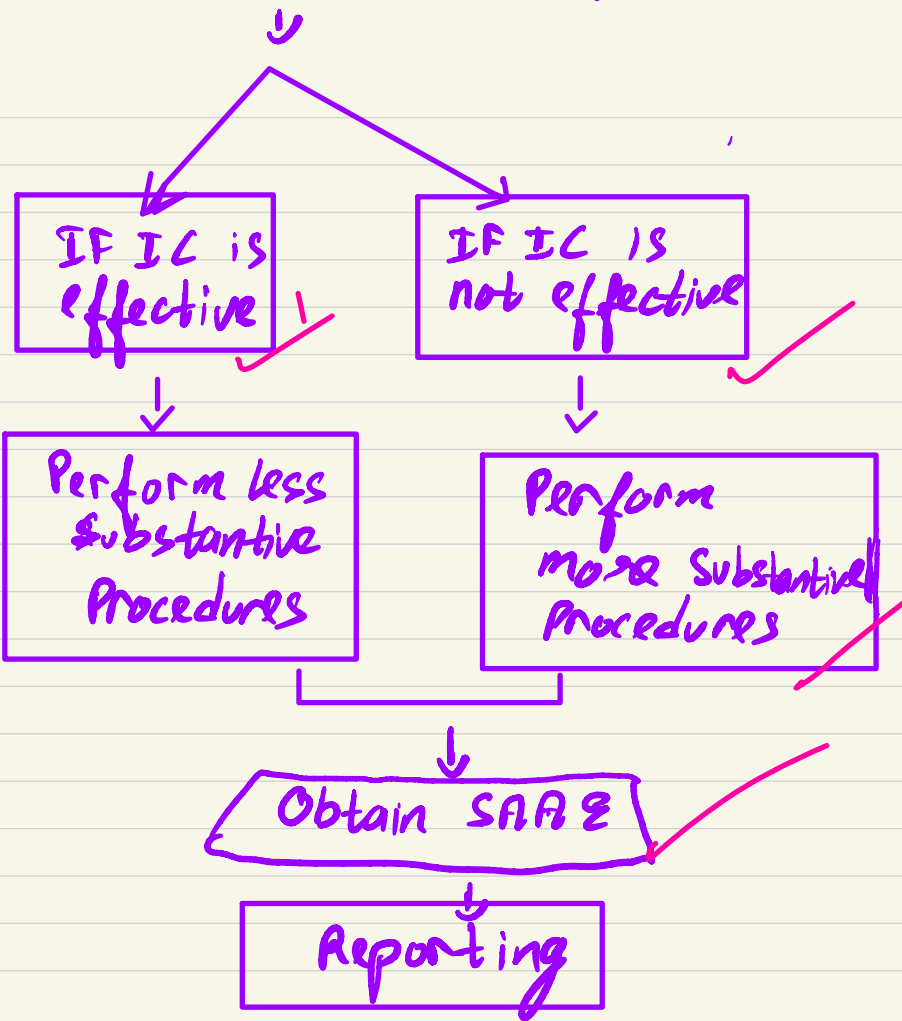
Understanding the client



Risk Assessment



Perform TOL ⊕
Assess effectiveness
of IC



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~~Q~~ Types of opinion

Exam Pattern

→ Concepts + Revision.

① MCQ's { 30 m }

45 m

② Correct / Incorrect

35 m

③

Remaining

16 m

65 m

35 m

↓
Descriptive, Case Study / Ans