



CA

INTERMEDIATE

**AUDITING AND
ETHICS**



- ▶ ICAI Study Material Questions Covered
- ▶ RTP/MTP Questions Covered
- ▶ Past Year Exam Questions Covered

Book recommended by AIR 1

Ankit Mundra

CONTENT

- 1** Nature, Objectives and Scope of Audit..... **1-53**
- 2** Audit Strategy, Audit Planning and Audit Programme..... **54-96**
- 3** Risk Assessment and Internal Control **97-225**
- 4** Audit Evidence **226-426**
- 5** Audit of Items of Financial Statements **427-564**
- 6** Audit Documentation **565-587**
- 7** Completion & Review **588-680**

8	Audit Report	681-814
9	Special Features of Audit of Different Types of Entities	815-952
10	Audit of Banks	953-1033
11	Ethics and Terms of Audit Engagements	1034-1108

CHAPTER WISE DISTRIBUTION

Chapter wise Distribution (May 2024)		ICAI Weightage
Chapter Number	Marks	Marks
1	3	4 to 6
2	11	8 to 12
3	10	8 to 12
4	11	8 to 12
5	18	12 to 20
6	3	4 to 6
7	7	8 to 12
8	7	8 to 12
9	7	8 to 12
10	4	4 to 6
11	7	8 to 12
Grand Total	88	80 to 122

Nature, Objectives and Scope of Audit

S. No.	Sub Topics	Easy	Moderate	Hard
01.	Introduction			
02.	Origin of Auditing			
03.	Meaning and nature of auditing			
04.	Interdisciplinary nature of auditing			
05.	Objectives of Audit			
06.	Scope of audit			
07.	Scope of audit-What it does not include			
08.	Inherent limitations of audit			
09.	What is an engagement?			
10.	External audit engagements			
11.	Benefits of audit-Why audit is needed?			
12.	Audit- Mandatory or voluntary?			
13.	Who appoints an auditor?			
14.	To Whom report is submitted by an auditor?			
15.	Meaning of Assurance engagement			
16.	Elements of an Assurance Engagement			
17.	Meaning of Review; Audit Vs. Review			
18.	Types of Assurance Engagements			
19.	Qualities of Auditor			
20.	Engagement and Quality control Standards: An Overview			
21.	Standards on Auditing			
22.	Standards on review engagements			
23.	Standards on Assurance engagements			
24.	Standards on Related Services			
25.	Standards on Quality Control			
26.	Why are Standards needed?			
27.	Duties in relation to Engagement and Quality Control Standards			

■ INTRODUCTION

Business Environment→Complex



→ Money Lender→Credit Worthiness



→ Share holders→Financial Position of Co.



→ Bank→Credit Worthy



→ Government → Taxes



→ InsuranceCo.→Settle Claims

RELIANCE ?
CONFIDENCE?

Financial Statements→True & Fair

■ ORIGIN OF AUDITING

Auditing→Ancient Times → Many Societies

Kautilya's Arthashastra →4th Century BC

Focus

- Fixed Accounting Year
- Proces of Closure of A/c.s
- Auditing
- Periodical Checking
- Verification
- Misstatement in F.S
- Abuse of Power

Origin of the word 'Audit' → Latin → Audire → To HEAR

I Auditor General of India → 1860

Accounting

Auditing

Presently → Constitutional Authority

↓

C & AG

ICAI → Statutory Body → Act of Parliament

What do such real-life situations highlight? Such instances underline importance of auditing in today's complex business environment. Be it investors desirous of investing their money in companies, shareholders anxious to know financial position of companies they have invested in, banks or financial institutions willing to lend funds to credit-worthy organizations, governments desirous of collecting taxes from trade and industry in accordance with applicable laws, trade unions negotiating with corporate managements for better wages or insurance companies wanting to settle property claims caused by fire or other disasters- range of diverse users in equally diverse fields rely upon audited financial statements.

Can you figure out reason behind such reliance? It is due to the fact that audited financial statements provide confidence to users of financial statements; audited financial statements provide assurance to users who may take their decisions on the basis of such audited financial statements.

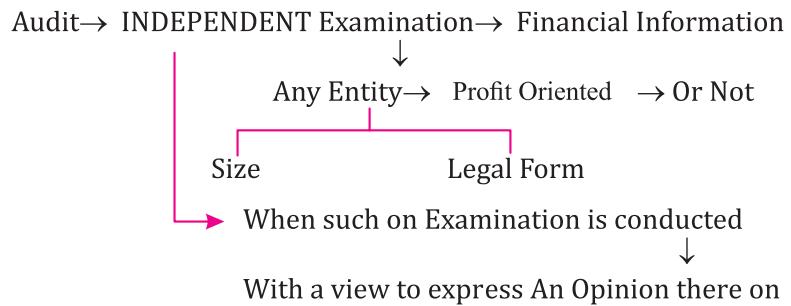
Herein lies the importance of auditing. You can very well understand how significant is role of auditing profession and auditors in modern world involving multitude of economic activities being carried out in equally dynamic legal and regulatory environments.

Here, comes a vital question. What do we mean by auditing? What is its nature and scope? What it includes and What it does not? What are its limitations? We shall try to find out answers to these questions in succeeding paras.

Before we get to understand meaning and nature of auditing, let's travel back in time to know about 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 Arthashastra even in 4th century BC. It talks about fixed accounting year, a process for closure of accounts and audit for the same. Concepts of periodical checking and verification existed even in those times. Even there are references in his monumental work to misstatements in financial statements due to abuse of power. Wasn't he far ahead of his times? 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 astronomical expansion in volume of trade and consequently demand of auditors. Coming to more recent history, the first Auditor General of India was appointed in British India in 1860 having both accounting and auditing functions. Later on, office of Auditor General was given statutory recognition. Presently, Comptroller and Auditor General of India is an independent constitutional authority responsible for auditing government receipts and expenditures. The Institute of Chartered Accountants of India was established as a statutory body under an Act of Parliament in 1949 for regulating the profession of Chartered Accountancy in the country.

Notes to Add

■ MEANING AND NATURE OF AUDITING



Auditor to Ensure

```

graph TD
    A[1) F.S.] --> B[Does not mislead]
    A --> C[As per → Books of A/c.]
    A --> D[Amount → Properly]
    A --> E[True + Fair]
    C --> F[Classified]
    D --> G[Described]
    E --> H[Disclosed]
    F, G, H --> I[As per AS]
    B, C, D, E, F, G, H, I --> J[Entries]
    J --> K[Supported by Suff. + Appro. A.E.]
    J --> L[Not omitted]
    K --> M[Information]
    M --> N[Clear]
    M --> O[Unambiguous]
    N, O --> P[Auditing]
    P --> Q[Provides]
    Q --> R[Assurance]
    R --> S[To user]
    S --> T[F.S.]
    T --> U[Credibility]
    T --> V[Relied Upon]
  
```

(1) F.S.

- Does not mislead
- As per → Books of A/c.
- Amount → Properly
- True + Fair
- Classified
- Described
- Disclosed
- As per AS

(2) Entries

- Supported by Suff. + Appro. A.E.
- Not omitted

(3) Information

- Clear
- Unambiguous

Auditing → Provides → Assurance → To user → F.S.

Credibility

Relied Upon

Notes to Add

QUESTIONS

Theory Questions

1. Explain clearly meaning of Auditing. How would you as an auditor perform the audit.

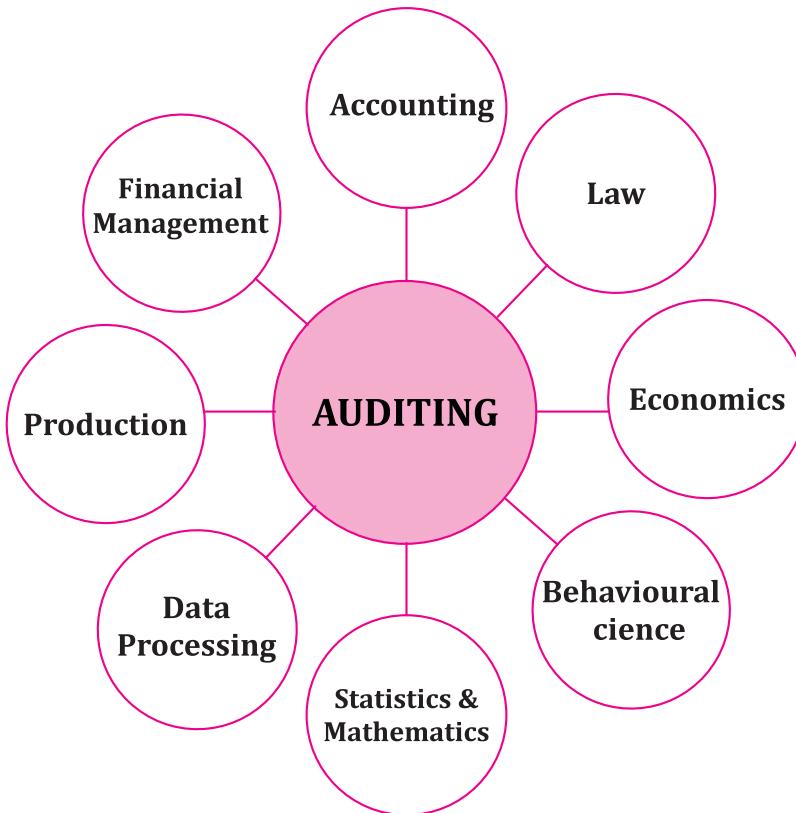
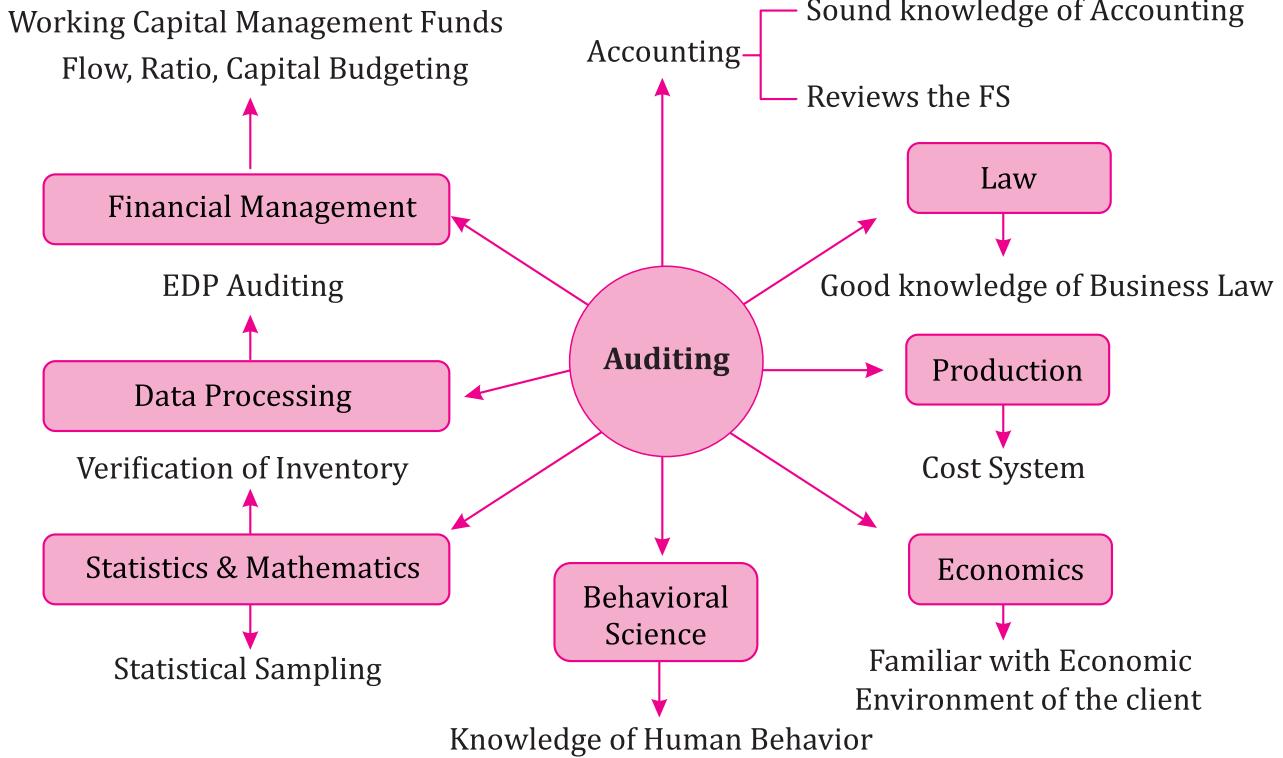
Ans. "An audit is an independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon."

The person conducting this task should take care to ensure that financial statements would not mislead anybody. This he can do honestly by satisfying himself that:

- (i) The accounts have been drawn up with reference to entries in the books of account;
- (ii) The entries in the books of account are adequately supported by sufficient and appropriate evidence;
- (iii) None of the entries in the books of account has been omitted in the process of compilation and nothing which is not in the books of account has found place in the statements;
- (iv) The information conveyed by the statements is clear and unambiguous;
- (v) The financial statement amounts are properly classified, described and disclosed in conformity with accounting standards; and
- (vi) The statement of accounts present a true and fair picture of the operational results and of the assets and liabilities.

Notes to Add

■ INTERDISCIPLINARY NATURE OF AUDITING-RELATIONSHIP WITH DIVERSE SUBJECTS



Correct/Incorrect

State with reasons (in short) whether the following statements are correct or incorrect:

- According to Mr. H, one of the team members of the auditor of Very Essential Limited was of the view that no relation exists between accounting and auditing from the point of view of a company.

Ans. Incorrect: The viewpoint of Mr. H is incorrect because there exists a proper relation between accounting and auditing from the point of view of a company. Audit is conducted for financial statements of a company and those financial statements are prepared with the help of books of accounts of that company. In order to properly conduct an audit of a company, an auditor is required to be aware of accounting principles and accounting policies of that company.

- Mr. S, one of the new team members of the auditor of Extremely Effective Limited was of the view that for the purpose of conducting an audit, only knowledge of direct tax is required whereas no knowledge of indirect tax is required.

Ans. Incorrect: The viewpoint of Mr. S is incorrect because for the purpose of conducting an audit, proper knowledge of both direct tax as well as indirect tax is required.

Theory Questions

- "The independent audit of an entity's financial statements is a vital service to investors, trade payables, and other participants in economic exchange". Explain

Ans. Auditing along with other disciplines such as accounting and law, equips you with all the knowledge that is required to enter into auditing as a profession. No business or institution can effectively carry on its activities without the help of proper records and accounts, since transactions take place at different of time with numerous persons and entities. The effect of all transactions has to be recorded and suitably analysed to see the results as regards the business as a whole. Periodical statements of account are drawn up to measure the success of whole. Periodical statements of account are drawn up to measure the success or failure of the activities in achieving the objective of the organization. This would be impossible without a systematic record of transactions. Financial statements are often the basis for decision making by the management and for corrective action so as to even closing down the organization or a part of it. All this would be possible only if the statements are reliable; decisions based on wrong accounting statements may prove very harmful or even fatal to the business. For example, if the business has really earned a profit but because of wrong accounting, the annual accounts show a loss, the proprietor may take the decision to sell the business at a loss. Thus from the point of view of the management itself, authenticity of financial statements is essential. It is more essential for those who have invested their money in the business but cannot take part in its management, for example, shareholders in a company, such persons certainly need an assurance that the annual statements of accounts sent to them are fully reliable. It is auditing which ensures that the accounting statements are authentic. In today's economic environment, information and accountability have assumed a larger role than ever before. As a result, the independent audit of an entity's financial statements is a vital service to investors, trade payable, and other participants in economic exchange.

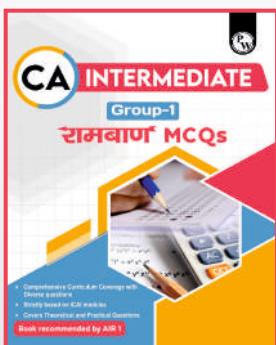
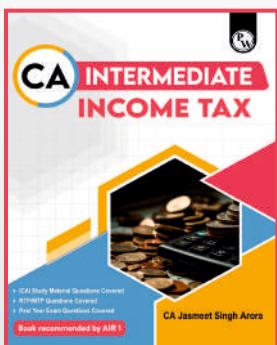
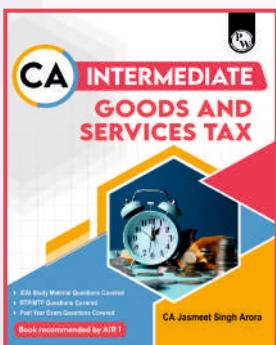
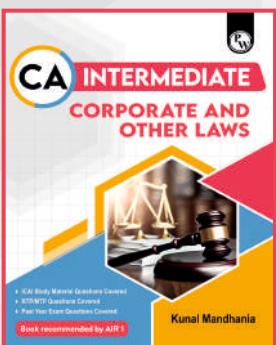
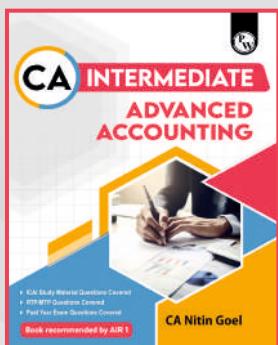
- Mr. G, one of the team members of audit team of Different and Capable Limited was of the view that role of computers and data processing in auditing is increasing with each passing day. Explain how computers and data processing helps in conducting audit of a company.

About The Author

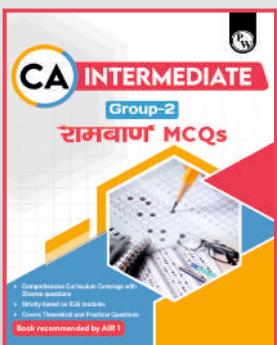
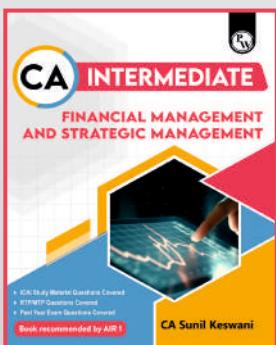
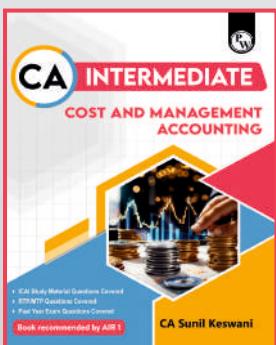
Ankit Mundra is a faculty member of Auditing & Assurance at Physics Wallah. He has been teaching for over 12 years and has a passion for helping students learn and grow. In addition to his work as a teacher, Ankit is also engaged as an entrepreneur, corporate lawyer, and GST practitioner. In the past, he has worked as a forensic auditor for various MNCs, a professor at various reputed colleges, and has also been engaged with ICAI and the Ministry of Corporate Affairs. Ankit is a dedicated educator and a talented author. He is passionate about students learning and his methods of teaching via charts, stories, and real-life examples are loved by his students. Till now, he has taught more than 100,000 students both offline and online.

Other Books in this Series

GROUP 1



GROUP 2



₹ 1199/-