

CA INTERMEDIATE

3rd Edition

**AUDITING
AND
ETHICS**

Theory Notes

One Day

day one

By India's Most Dynamic Faculty For Audit

CA AARTI LAHOTI

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CA INTERMEDIATE
NEW SCHEME - GROUP - II

AUDITING & ETHICS

THEORY NOTES

3RD EDITION

Author

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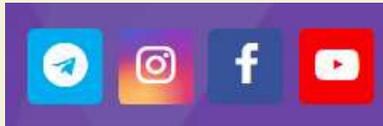
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CA Aarti N. Lahoti

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“Right Concept. Right Practice. Right Result.”

Dear Students,

IT'S ALL ABOUT THEORY — THE FOUNDATION OF AUDIT!

It gives me immense pleasure to present before you Module 1 – Theory Notes of Auditing & Ethics for CA Intermediate, the first part of a comprehensive three-module learning system comprising:

Module I – Theory Notes,

Module II – Q & A Scanner, and

Module III – MCQ Compiler.

Auditing is a subject where clarity of provisions, standards and concepts forms the very basis of success. This module has been specially designed to serve as a complete, structured and reliable reference for the entire theory syllabus.

Each topic has been presented in a systematic, logical and student-friendly manner, with emphasis on conceptual understanding, flow of provisions and practical relevance. The tabular and pointwise presentation is intended to facilitate easy comprehension, faster revision and better retention. Special focus has been given to definitions, procedures, responsibilities, reporting aspects and ethical principles, which constitute the core of Auditing.

For effective and result-oriented preparation, this module should be used along with – Module II – Q & A Scanner for developing writing skills and answer presentation, and – Module III – MCQ Compiler for strengthening conceptual accuracy and objective-type problem solving.

Always remember — strong theory is the foundation of confident writing and accurate answering. Regular and cumulative revisions of these notes will greatly enhance your command over the subject and examination performance.

Any constructive suggestions for further improvement are always welcome.

Wishing you disciplined preparation, conceptual clarity and excellent success in your CA Intermediate journey.

Happy Auditing!

Regards,

CA Aarti Lahoti

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CA Aarti Lahoti Classes



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LIST OF ABBREVIATIONS

AFRF (SA 200)	APPLICABLE FINANCIAL REPORTING FRAMEWORK
FRF	FINANCIAL REPORTING FRAMEWORK
GPF	GENERAL PURPOSE FRAMEWORK
SPF (SA 800)	SPECIAL PURPOSE FRAMEWORK
RMM (SA 200)	RISKS OF MATERIAL MISSTATEMENT
SAAE (SA 200)	SUFFICIENT APPROPRIATE AUDIT EVIDENCE
TCWG (SA 260)	THOSE CHARGED WITH GOVERNANCE
MGMT	MANAGEMENT
WR (SA 580)	WRITTEN REPRESENTATIONS
FS	FINANCIAL STATEMENTS
AFS	AUDITED FINANCIAL STATEMENTS
CG	CENTRAL GOVERNMENT
NTE	NATURE, TIMING & EXTENT
EP (SQC 1 & SA 220)	ENGAGEMENT PARTNER
EQCR (SQC 1 & SA 220)	ENGAGEMENT QUALITY CONTROL REVIEW
KAM (SA 701)	KEY AUDIT MATTERS
EOM (SA 706)	EMPHASIS OF MATTER
OM (SA 706)	OTHER MATTER

0 NATURE, OBJECTIVE & SCOPE OF AUDIT

1 LIST OF QUALITY CONTROL & ENGAGEMENT

No. of SQC/SA/SRE /SAE/SRS	Title of the Standard	Key words	Effective Date
1 – 99	STANDARDS ON QUALITY CONTROL (SQC)		
SQC 1	Quality Control for Firms that Perform Audits & Reviews of Historical Financial Information, & Other Assurance & Related Services Engagements.	Quality Control for Firms	01.04.2009
SQM 1*	Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements	Quality Management for Firms	01.04.2025
SQM 2*	Engagement Quality Reviews	Quality Reviews	01.04.2025
*Applicable date yet to be notified			
100 – 899	AUDITS & REVIEWS OF HISTORICAL FINANCIAL INFORMATION (SA)		
100 – 199	INTRODUCTORY MATTERS		
200 – 299	GENERAL PRINCIPLES & RESPONSIBILITY		
SA 200	Overall Objectives of the Independent Auditor & the Conduct of an Audit in Accordance with Standards on Auditing	Overall Objectives	01.04.2010
SA 210	Agreeing the Terms of Audit Engagements	Engagement Letter	01.04.2010
SA 220	Quality Control for an Audit of Financial Statements	Quality Control for an Audit	01.04.2010
SA 230	Audit Documentation	Documentation	01.04.2009
SA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	Fraud	01.04.2009
SA 250	Consideration of Laws & Regulation in an Audit of Financial Statements	Laws & Regulations	01.04.2009
SA 260	Communications with Those Charged With Governance	TCWG	01.04.2017
SA 265	Communicating Deficiencies in Internal Control to Those Charged with Governance & Management	DIC – TCWG & Mgmt.	01.04.2010
SA 299	Joint Audit of Financial Statements	Joint Auditors	01.04.2018
300 – 499	RISK ASSESSMENT & RESPONSE TO ASSESSED RISKS		
SA 300	Planning an Audit of Financial Statements	Planning	01.04.2008
SA 315	Identifying & assessing the Risks of Material Misstatements through understanding the Entity & Its Environment	Risk Assessment	01.04.2008
SA 320	Materiality in Planning & Performing an Audit	Materiality	01.04.2010
SA 330	Auditor's Responses to Assessed Risks	Responses	01.04.2008
SA 402	Audit Considerations Relating to an Entity Using a Service Organisation	Service Organisation	01.04.2010
SA 450	Evaluation of Misstatements Identified During the Audit	Misstatements	01.04.2010
500 – 599	AUDIT EVIDENCE		
SA 500	Audit Evidence	Audit Evidence	01.04.2009
SA 501	Audit Evidence – Specific Considerations for Selected Items	Selected Items	01.04.2010

SA 505	External Confirmations	Confirmations	01.04.2010
SA 510	Initial Audit Engagements - Opening Balances	Opening Balances	01.04.2010
SA 520	Analytical Procedures	Analytical	01.04.2010
SA 530	Audit Sampling	Sampling	01.04.2009
SA 540	Auditing of Accounting Estimates, including Fair Value Accounting Estimates & Related Disclosures	Estimates	01.04.2009
SA 550	Related Parties	Related Parties	01.04.2010
SA 560	Subsequent Events	Subsequent Events	01.04.2009
SA 570	Going Concern	Going Concern	01.04.2017
SA 580	Written Representations	WR	01.04.2009
600 – 699	USING WORK OF OTHERS		
SA 600	Using the Work of Another Auditor	Branch Auditor	01.04.2002
SA 610	Using the work of Internal Auditors	Internal Auditors	01.04.2016
SA 620	Using the Work of an Auditor's Expert	Auditor's Expert	01.04.2010
700 – 799	AUDIT CONCLUSIONS & REPORTING		
SA 700	Forming an Opinion & Reporting on Financial Statements	Audit Report	01.04.2018
SA 701	Communicating Key Audit Matters in the Independent Auditor's Report	Key Audit Matters	01.04.2018
SA 705	Modifications to the Opinion in the Independent Auditor's Report	Modifications	01.04.2018
SA 706	Emphasis of Matter Paragraphs & Other Matter Paragraphs in the Independent Auditor's Report	EOM/OM	01.04.2018
SA 710	Comparative Information – Corresponding Figures & Comparative Financial Statements	Comparative Information	01.04.2011
SA 720	The Auditor's Responsibilities Relating to Other Information	Other Information	01.04.2018
800 – 899	SPECIALISED AREAS		
SA 800	Special Considerations - Audits of Financial Statements Prepared in Accordance with Special Purpose Framework	Special Purpose Framework	01.04.2011
SA 805	Special Considerations - Audits of Single Purpose Financial Statements & Specific Elements, Accounts or Items of a Financial Statement	Single Financial Statement/ Specific Elements	01.04.2011
SA 810	Engagements to Report on Summary Financial Statements	Summary	01.04.2011
2000 – 2699	STANDARDS ON REVIEW ENGAGEMENTS (SRE)		
SRE 2400	Engagements to Review Historical Financial Statements	Review of Historical FS	01.04.2016
SRE 2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity	Review of Interim FI	01.04.2010
3000 – 3699	STANDARDS ON ASSURANCE ENGAGEMENTS (SAE)		
SAE 3400	The Examination of Prospective Financial Information	Examination	01.04.2007
SAE 3402	Assurance Report on Controls at a Service Organisation	Service Auditor	01.04.2011
SAE 3420	Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus	Pro Financial Information	01.04.2016
4000 – 4699	STANDARDS ON RELATED SERVICES (SRS)		
SRS 4400	Engagements to Perform Agreed-upon Procedures Regarding Financial Information	Agreed Upon Procedures	01.04.2004
SRS 4410	Compilation Engagements	Compilation	01.04.2016

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IMPORTANT TERMS

1.	Historical financial information	<ul style="list-style-type: none"> Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
2.	Financial Statements	<ul style="list-style-type: none"> A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies & other explanatory information. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement.
3.	Applicable Financial Reporting Framework	<ul style="list-style-type: none"> The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation & presentation of the financial statements that is acceptable in view of the nature of the entity & the objective of the financial statements, or that is required by law or regulation. The term "fair presentation framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework &: <ul style="list-style-type: none"> (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or (ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances. The term "compliance framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.
4.	Auditor	<ul style="list-style-type: none"> "Auditor" is used to refer to the person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. Where an SA expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "auditor" is used. "Engagement partner" & "firm" are to be read as referring to their public sector equivalents where relevant.
5.	Management	<ul style="list-style-type: none"> The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager.
6.	Those Charged With Governance	<ul style="list-style-type: none"> The person(s) or organisation(s) (e.g., a corporate trustee) with responsibility for overseeing the strategic direction of the entity & obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.
7.	Internal Control System	<ul style="list-style-type: none"> The process designed, implemented & maintained by those charged with governance, management & other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness & efficiency of operations, safeguarding of assets, & compliance with applicable laws & regulations. The term "controls" refers to any aspects of one or more of the components of internal control. "Internal Control System" means all the policies & procedures (internal controls) adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly & efficient conduct of its business, including adherence to

		management policies, the safeguarding of assets, the prevention & detection of fraud & error, the accuracy & completeness of the accounting records, & the timely preparation of reliable financial information.
8.	Premise	<ul style="list-style-type: none"> ▶ Premise, relating to the responsibilities of management &, where appropriate, those charged with governance, on which an audit is conducted – That management &, where appropriate, those charged with governance have the following responsibilities that are fundamental to the conduct of an audit in accordance with SAs. That is, responsibility: <ol style="list-style-type: none"> (i) For the preparation & presentation of the financial statements in accordance with the applicable financial reporting framework; this includes the design, implementation & maintenance of internal control relevant to the preparation & presentation of financial statements that are free from material misstatement, whether due to fraud or error; & (ii) To provide the auditor with: <ol style="list-style-type: none"> (a) All information, such as records & documentation, & other matters that are relevant to the preparation & presentation of the financial statements; (b) Any additional information that the auditor may request from management &, where appropriate, those charged with governance; & (c) Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence. ▶ In the case of a fair presentation framework, the responsibility is for the preparation & fair presentation of the financial statements in accordance with the financial reporting framework; or the preparation of financial statements that give a true & fair view in accordance with the financial reporting framework. This applies to all references to “preparation & presentation of the financial statements” in the SAs. ▶ The “premise, relating to the responsibilities of management &, where appropriate, those charged with governance, on which an audit is conducted” may also be referred to as the “premise”.
9.	Overall Objectives of the Auditor	<ul style="list-style-type: none"> ▶ In conducting an audit of FS, the overall objectives of the auditor are: <ol style="list-style-type: none"> (a) To obtain reasonable assurance about whether the FS 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 FS are prepared, in all material respects, in accordance with an Applicable Financial Reporting Framework; & (b) To report on the FS, & communicate as required by the SAs, in accordance with the auditor’s findings.
10.	Reasonable assurance	<ul style="list-style-type: none"> ▶ In the context of an audit of financial statements, a high, but not absolute, level of assurance.
11.	Professional judgment	<ul style="list-style-type: none"> ▶ The application of relevant training, knowledge & experience, within the context provided by auditing, accounting & ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.
12.	Professional skepticism	<ul style="list-style-type: none"> ▶ An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, & a critical assessment of audit evidence.
13.	Assertions	<ul style="list-style-type: none"> ▶ Representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur.
14.	Misstatement	<ul style="list-style-type: none"> ▶ A difference between the amount, classification, presentation, or disclosure of a reported financial statement item & the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. ▶ Misstatements can arise from error or fraud. ▶ When the auditor expresses an opinion on whether the financial statements are presented fairly, in all material respects, or give a true & fair view, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor’s