

Intermediate Course

Study Material

(Modules 1 to 2)

PAPER 6

AUDITING AND ASSURANCE

Module - 1



BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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BEFORE WE BEGIN...

Evolving role of a CA - Shift towards strategic decision making

The traditional role of a chartered accountant restricted to accounting and auditing, has now changed substantially and there has been a marked shift towards strategic decision making and entrepreneurial roles that add value beyond traditional financial reporting. The primary factors responsible for the change are the increasing business complexities on account of plethora of laws, borderless economies consequent to giant leap in e-commerce, emergence of new financial instruments, emphasis on corporate social responsibility, significant developments in information technology, to name a few. These factors necessitate an increase in the competence of chartered accountants to take up the role of not merely an accountant or auditor, but a global solution provider. Towards this end, the scheme of education and training is being continuously reviewed so that it is in sync with the requisites of the dynamic global business environment; the competence requirements are being continuously reviewed to enable aspiring chartered accountants to acquire the requisite professional competence to take on new roles.

Skill requirements at Intermediate Level

Under the Revised Scheme of Education and Training, at the Intermediate Level, you are expected to not only acquire professional knowledge but also the ability to apply such knowledge in problem solving. The process of learning should also help you inculcate the requisite professional skills, i.e., the intellectual skills and communication skills, necessary for achieving the desired professional competence.

Auditing – Core and Practical subject

Auditing is, perhaps, one of the most practical-oriented subjects in the C.A. curriculum. This paper aims to provide knowledge of generally accepted auditing procedures and of techniques and skills needed to apply them in audit engagements. A good knowledge of the subject would provide a strong foundation to students while pursuing the Chartered Accountancy course. A good understanding of the theoretical concepts, particularly, in the context of auditing standards would make practical training an enriching and enjoying experience. While studying this paper, students are advised to integrate the knowledge acquired in other subjects, specifically, accounting

and corporate laws in a meaningful manner. Such learning would only help a student to become a better professional.

Know your Syllabus

The study material deals with the conceptual theoretical framework in detail.

In each chapter, the topic has been covered in a step by step approach. The text has been explained, where appropriate, through illustrations, diagrams, tables, flowcharts, screenshots etc. You should go through the chapter carefully ensuring that you understand the topic and then can tackle the MCQs, Correct/Incorrect and other question.

For understanding the coverage of the syllabus, it is important to read the study material along with the Study Guidelines.

The entire syllabus has been divided into thirteen chapters.

Chapter-1 discusses the basics of audit such as nature, scope, objectives, advantages, limitations etc. of audit. Also, Audit Engagement; Auditor's Independence; Role of International Auditing and Assurance Standards Board (IAASB) & Auditing and Assurance Standards Board (AASB) have been discussed.

Chapter-2 is devoted to Audit Strategy; Audit planning and Audit programme;

Chapter-3 focusses on Audit Documentation; Audit evidence; Related Party Transactions, Written Representations, External Confirmations, Subsequent Events, Going Concern.

Chapter-4 is devoted to Audit Risk, Identifying and Assessing the Risk of Material Misstatement, Risk Assessment procedures; Understanding the entity and its environment; Internal Control.

Chapter-5 discusses the Responsibility for the Prevention and Detection of Fraud; Fraud Risk Factors; Risks of Material Misstatement Due to Fraud; Communication of Fraud.

Chapter-6 extensively deals with the Impact of IT related Risks, Impact on Controls, Internal Financial Controls, Audit approach, Understanding and documenting Automated environment, data analytics for audit.

Chapter-7 discusses about Audit Sampling.

Chapter-8 deals with analytical procedures.

Chapter-9 is devoted to the Audit of Items of Financial Statements. **Chapter-10** discusses about the provisions of the Company Audit. **Chapter-11** discusses about various aspects of Auditor's Report.

Chapter-12 deals with the Audit of Banks.

Chapter-13 extensively deals with the Appointment of Auditor, Audit Procedure and Audit Report in respect of different Category of Entities.

Structure of the Study Material

The content for each chapter/unit at the Intermediate level has been structured in the following manner –

	Components of each Chapter	About the component
1.	Learning Outcomes	Learning outcomes which you need to demonstrate after learning each topic have been detailed in the first page of each chapter/unit. Demonstration of these learning outcomes would help you to achieve the desired level of technical competence.
2.	Chapter Overview	As the name suggests, this chart/table would give a broad outline of the contents covered in the chapter.
3.	Introduction	A brief introduction is given at the beginning of each chapter/unit which would help you get a feel of the topic.
4.	Content	The concepts and provisions of law/standard are explained in student-friendly manner with the aid of Examples/illustrations/diagrams/flow charts. These value additions would help you develop conceptual clarity and get a good grasp of the topic. Diagrams and Flow charts would help you understand the concept/ provision in a better manner. Illustrations would help you understand the application of concepts/provisions.
5.	Exercise Questions with Answers	The exercise questions and answers would help you to apply what you have learnt in problem solving. In

		effect, it would sharpen your application skills and test your understanding as well as your application of concepts/ provisions.
6.	Let Us Recapitulate	A summary of the chapter is given at the end to help you revise what you have learnt. It would especially help you to revise the chapter quickly the day before the examination.
7.	Test Your Knowledge	This comprises of Multiple Choice Questions, Correct/ incorrect and other questions which test the breadth and depth of your understanding of the topic.

We hope that these student-friendly features in the Study Material makes your learning process more enjoyable, enriches your knowledge and sharpens your application skills.

Happy Reading and Best Wishes!

SYLLABUS

PAPER 6: AUDITING AND ASSURANCE (100 MARKS)

(One paper – Three hours – 100 Marks)

Objective:

To develop an understanding of the concepts in auditing and of the generally accepted auditing procedures, techniques and skills and acquire the ability to apply the same in audit and attestation engagements.

1. Nature, Objective and Scope of Audit

Auditing Concepts: Nature, objective and scope of Audit; Relationship of auditing with other disciplines;

Standard Setting Process: Overview, Standard-setting process, Role of International Auditing and Assurance Standards Board (IAASB) & Auditing and Assurance Standards Board (AASB); Standards on Auditing, Guidance Note(s) issued by the ICAI;

Engagement Standards: Qualities of Auditor, Elements of System of Quality Control (SQC 1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements); Ethical requirements relating to an audit of financial statements; Inherent Limitations of an audit (SA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing); Preconditions for an audit; Audit Engagement; Agreement on Audit Engagement Terms; Terms of Engagement in Recurring Audits (SA 210 Agreeing the Terms of Audit Engagements); Leadership Responsibilities for Quality on Audits; Concept of Auditor's Independence; Threats to Independence; Acceptance and Continuance of Client Relationships and Audit Engagements (SA 220 Quality Control for an Audit of Financial Statements).

2. **Audit Strategy, Audit Planning and Audit Programme:** Audit Strategy; Audit planning (SA 300 Planning an Audit of Financial statements); Audit programme; Development of Audit Plan and Programme, Control of quality of audit work - Delegation and supervision of audit work; Materiality and Audit Plan; Revision of Materiality; Documenting the Materiality; Performance Materiality (SA 320 Materiality in Planning and Performing an Audit).

- 3. Audit Documentation and Audit Evidence:** Concept of Audit Documentation; Nature & Purpose of Audit Documentation; Form, Content & Extent of Audit Documentation; Completion Memorandum; Ownership and custody of Audit Documentation (SA 230 Audit Documentation); Audit procedures for obtaining audit evidence; Sources of evidence; Relevance and Reliability of audit evidence; Sufficient appropriate audit evidence, Evaluation of Audit Evidence (SA 500 Audit Evidence); Written Representations as Audit Evidence; Objective of Auditor regarding Written Representation; Management from whom Written Representations may be requested; Written Representations about Management's Responsibilities (SA 580 Written Representations); Obtaining evidence of existence of inventory; Audit procedure to identify litigation & claims (SA 501 Audit Evidence - Specific Considerations for Selected Items); External confirmation procedures; Management's refusal to allow the auditor to send a confirmation request; Negative Confirmations (SA 505 External Confirmations); Audit evidence about opening balances; Accounting policies relating to opening balances; Reporting with regard to opening balances (SA 510 Initial Audit Engagements-Opening Balances); Meaning of Related Party; Nature of Related Party Relationships & Transactions; Understanding the Entity's Related Party Relationships & Transactions (SA 550 Related Parties); Meaning of Subsequent Events; Auditor's obligations in different situations of subsequent events (SA 560 Subsequent Events); Responsibilities of the Auditor with regard to Going Concern Assumption; Objectives of the Auditor regarding Going Concern; Events or Conditions that may cast doubt about Going Concern Assumption; Audit Procedures when events or conditions are identified (SA 570 Going Concern).
- 4. Risk Assessment and Internal Control:** Audit Risk, Identifying and Assessing the Risk of Material Misstatement, Risk Assessment procedures; Understanding the entity and its environment; Internal control, Documenting the Risks; Evaluation of internal control system; Testing of Internal control; Internal Control and IT Environment (SA 315 Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment); Materiality and audit risk (SA 320 Materiality in Planning and Performing an Audit); Internal audit, Basics of Standards on Internal Audit (SIAs) issued by the ICAI; Basics of Internal Financial Control and reporting requirements; Distinction between Internal Financial Control and Internal Control over Financial Reporting.

5. **Fraud and Responsibilities of the Auditor in this Regard:** Responsibility for the Prevention and Detection of Fraud; Fraud Risk Factors; Risks of Material Misstatement Due to Fraud; Communication of Fraud (SA 240 The Auditor's responsibilities Relating to Fraud in an Audit of Financial Statements); Provisions of the Companies Act 2013 relating to fraud and rules thereunder including reporting requirements under CARO.
6. **Audit in an Automated Environment:** Key features, Impact of IT related Risks, Impact on Controls, Internal Financial Controls as per Regulatory requirements, Types of Controls, Audit approach, Understanding and documenting Automated environment, Testing methods, data analytics for audit, assessing and reporting audit findings.
7. **Audit Sampling:** Meaning of Audit Sampling; Designing an audit sample; Types of sampling; Sample Size and selection of items for testing; Sample selection method (SA 530 Audit Sampling).
8. **Analytical Procedures:** Meaning, nature, purpose and timing of analytical procedures; Substantive analytical procedures, Designing and performing analytical procedures prior to Audit; investigating the results of analytical procedures (SA 520 Analytical Procedures).
9. **Audit of Items of Financial Statements:** Audit of sale of Products and Services; Audit of Interest Income, Rental Income, Dividend Income, Net gain/loss on sale of Investments etc.

Audit of Purchases, Employee benefits expenses, Depreciation, Interest expense, Expenditure on Power & Fuel, Rent, Repair to building, Repair to Machinery, Insurance, Taxes, Travelling Expenses, Miscellaneous Expenses etc.

Audit of Share Capital, Reserve & Surplus, Long Term Borrowings, Trade Payables, Provisions, Short Term Borrowings & Other Current Liabilities. Audit of Land, Buildings, Plant & Equipment, Furniture & Fixtures, Vehicles, Office Equipments, Goodwill, Brand/Trademarks, Computer Software etc. Audit of Loan & Advances, Trade Receivable, Inventories, Cash & Cash Equivalent, Other Current Assets. Audit of Contingent Liabilities.

(The list of items is illustrative only)
10. **The Company Audit:** Eligibility, Qualifications and Disqualifications of Auditors; Appointment of auditors; Removal of auditors; Remuneration of Auditors; Powers and duties of auditors; Branch audit; Joint audit; Reporting

requirements under the Companies Act, 2013 including CARO; Other Important Provisions under the Companies Act, 2013 relating to Audit and Auditors and Rules made thereunder.

- 11. Audit Report:** Forming an opinion on the Financial Statements; Auditor's Report- basic elements (SA 700 Forming an Opinion and Reporting on Financial Statements); Types of Modified Opinion; Circumstances When a Modification to the Auditor's Opinion is Required, Qualified, Adverse, Disclaimer of Opinion (SA 705 Modification to the Opinion in the Independent Auditor's Report); Qualification, Disclaimer, Adverse opinion, SA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report; Nature of Comparative Information; Corresponding Figure; Comparative Financial Statements (SA 710 Comparative Information – Corresponding Figures and Comparative Financial Statements).
- 12. Audit of Banks:** Understanding of accounting system in Banks, Audit Approach, Audit of Revenue items, Special Consideration in Bank Audit with emphasis on Advances and NPAs.
- 13. Audit of Different Types of Entities:** Appointment of Auditor, Audit Procedure and Audit Report in respect of different Category of Entities: Government; Local bodies and Not-for-profit organizations; Partnership Firms, Audit of different type of undertakings, i.e., Educational institutions, Hotels, Clubs, Hospitals Basics of Limited Liability Partnerships (LLPs) audit and Co-operative Societies Audit.

Note:

- (i) The specific inclusions/exclusions, in any topic covered in the syllabus, will be effected every year by way of Study Guidelines.
- (ii) The provisions of the Companies Act, 1956 which are still in force would form part of the syllabus till the time their corresponding or new provisions of the Companies Act, 2013 are enforced.
- (iii) If new legislations/ Standards on Auditing/Guidance Notes/Statements are enacted in place of the existing legislations, the syllabus would include the corresponding provisions of such new legislations with effect from a date notified by the Institute. The changes in this regard would also form part of Study Guidelines.

SIGNIFICANT UPDATES IN 2021 EDITION OVER 2020 EDITION

Chapter Name	Sections/Sub Sections wherein major updations have been done	Page Numbers
Chapter 1: Nature, Objective and Scope of Audit	TOPIC 6 (ii) The Nature of Audit Procedures-Point no. 3 Distinction between audit and investigation has been explained	1.11-1.12
	Topic 8.2-About SAs, SREs, SAEs and SRSs-explained in detail.	1.21-1.23
	Topic 10.2 fundamental principles of professional ethics explained.	1.27-1.28
	Topic 10.2.2 Threats to Independence More explanation added	1.30-1.31
Chapter 2: Audit Strategy, Audit Planning and Audit Programme	10.4 Constructing an Audit Programme- Topic has been revised	2.16
	Fig. at page 2.17 modified	2.17
	Topic 12- AUDIT PLANNING AND MATERIALITY-elaborated	2.21-2.23
Chapter 5-Fraud and Responsibilities of the Auditor in this Regard	Amendment related to Companies Act, 2013	5.22
	Change related to CARO,2020	5.23-5.24

Chapter 9- Audit of Items of Financial Statements	Changes related to disclosure requirements of Schedule III have been done at relevant places in bold and italics.	Throughout the Chapter at relevant places.
Chapter 10: The Company Audit	Amendment in Rule 11	10.36-10.37
	CARO,2020	10.41

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