

Notes on Chapter 1- Nature, Objective and Scope of Audit

Students would be briefed about meaning and definition of auditing, its context on modern business environment and why study of auditing is important. Further, fundamental fact that preparation of financial statements is responsibility of management and audit is independent examination of financial information of a concern with a view to expressing opinion thereon would be made clear and highlighted.

The objectives of audit flowing from definition of auditing would be made clear. It would also be tried to lucidly explain objectives of auditing including report on financial statement and its communication as required. Scope and aspects of audit would also be made clear. It would be hammered that an audit includes examination of system of accounting and internal control, review of system, checking accuracy of books of accounts, verification of transactions and assets etc. Also, different types of audits like audit under Companies Act and other laws, voluntary audits would be dwelt upon.

In line with basic meaning of auditing, advantages flowing to an organisation from an audit to various stakeholders like management, government authorities and bankers would be deliberated upon.

The limitations of audit including limitations due to nature of financial reporting, nature of audit procedures and other matters would be studied and discussed. It would be made clear that auditor is not expected to and cannot reduce audit risk to zero. It would also be made clear that audit does not provide absolute assurance that financial statements are free from material misstatements due to inherent limitations of audit. Further, distinction between auditing and investigation would be made clear with examples.

Relationship of auditing with other disciplines like accounting, law, economics, financial management etc would be discussed and studied. It would be made clear that how accounting and auditing are organically related. Relationship with other main disciplines would be similarly discussed and explained.

Qualities of auditor and concept of “independence of auditor” would be explained with examples. Further, threats to independence of auditor like self interest threats, self-review threats, advocacy threats as listed by IFAC would be deliberated upon with examples. The concept of “Professional Skepticism” and its basic ingredients would be discussed. The spirit of this concept would be tried to be explained.

Simultaneously, engagement procedure of auditor in accordance with SA 210 would be highlighted upon and contents of engagement letter or any other such written agreement would be discussed.

Standard setting process in the field of auditing would be explained at length including role of IAASB and AASB of ICAI. The overall synopsis of SAs, SREs, SAEs and SRSs would be provided. The distinction between guidance notes and Statements issued by ICAI would be discussed with examples.

Further, all topics in study material of BOS would be deliberated with questions and MCQs to enhance understanding of students and providing them clarity of thought in different areas of the Chapter.