

## **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); 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 Procedure:** 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 (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. Audit Report in respect of different Category of Entities mentioned below: 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.