

Intermediate - Paper 5 Auditing and Ethics

(A) Books - (A) ICAI Study Material

(B) (i) Main Book - Concepts (ii) Question Bank - A - Descriptive Q.

B - MCQ

C - Case Scenario

(B) Paper Pattern - Part-I MCQ - 30

Part-II Descriptive - 70 - Q.1 - Compulsory 14 Marks

Q.2,3,4,5,6 - Any four $14 \times 4 = 56$

70

Each Question (Descriptive) $\left\{ \begin{array}{l} 4+4+3+3 \\ 5+5+4 \end{array} \right.$ (May/Sep. 24)

(C) ✓ Schedule of classes

✓ Revisions

✓ Doubts

✓ Tests

→ [Chapter-wise lecture plan]

Introductory Topics

(i) Meaning of Auditing: ^① Systematic and detailed examination of ^② data, records, statements, operations and performance of an Entity ^③ for a stated purpose.

Notes: (1) Step by step activity, carried out in a planned manner.

(4 Step Activity)

Step-1 : Audit Engagement

Step-2 : Audit Planning

Step-3 : Audit Execution - perform audit procedure to collect Audit Evidence

Step-4 : Audit Conclusion and Reporting

(2) Subject Matter to be Examined:

Data ⇒ financial data; Non-financial data.

Records ⇒ Accounting records; Secretarial records; Cost records

Statements ⇒ Financial statements

Operation ⇒ Business operations like Production, Purchase, Sales, etc.

Performance ⇒ Business Performance in terms of Revenue, Earnings etc.

(3) Entity: Corporate / Non-corporate - Individual, firm, HUF etc.

Profit-making / Non-profit making.

(4) Purpose: Auditor: To Express an Opinion whether F.S. reflects a true and fair view of financial position and financial results.
Mngt. and others: To enhance the reliance of Intended users over the financial statements.

(5) Independence: Auditor should remain independent while carrying out the audit, i.e. he should not work under the wishes or directions of the person who might have engaged him.

Auditor need to perform his work:

- (a) without being biased (Be objective)
- (b) with honesty and impartial attitude (i.e. with Integrity)
- (c) with due diligence (i.e. competency)
- (d) without being influenced by others (i.e. remain independent)

(ii) Meaning of Ethics: Ethics are the principles governing an individual or a group.

Fundamental Principles to be followed by a Professional Accountant:

As per code of ethics issued by ICAI, a professional accountant is required to ensure compliance of fundamental principles as stated below:

- (A) Integrity: Be honest and straight forward.
- (B) Objectivity: Requires impartial and fair attitude; No biasness.
- (C) Professional Competence and Due Care (PCDC): Perform Diligently and in compliance with Professional and Technical Standards.
- (D) Confidentiality: Do not share the confidential information of client or employer with others (unless permitted).
- (E) Professional Behaviour: Conduct of a professional accountant should not discredit the profession.

Threats involved in compliance of fundamental principles:

- | | | |
|---------------------------------|--------------------------------|----------------------------|
| (A) <u>Self Interest Threat</u> | (C) <u>Familiarity Threat</u> | (E) <u>Advocacy Threat</u> |
| (B) <u>Self Review Threat</u> | (D) <u>Intimidation Threat</u> | |

- Example: (A) Auditor is indebted to the client. - Self Interest threat
- (B) Auditor is associated with client from last 15 years - Familiarity "
- (C) Client warns the auditor not to disclose the fraud; otherwise, he will be terminated - Intimidation "
- (d) Auditor expresses opinion on effectiveness of an Information system; which is designed and implemented by him. - Self review "
- (e) Auditor is defending the client in a disputed matter as his representative - Advocacy "

(ii) Framework of Auditing:



(iv) Meaning and Types of Engagements:

An Arrangement to do something; in relation to audit, it is a formal agreement between the auditor and client under which auditor agree to provide auditing services.

Types of Engagements

(A) Assurance Engagements

An Engagement in which a practitioner obtains the assurance about the subject matter and express an opinion/conclusion on the basis of assurance obtained.

Examples: Audit Engagements

Review "

Other Assurance Engagements

like - Examination of Prospective

financial information;

- Examination of Internal

Controls.

(B) Non-Assurance Engagements

An Engagement in which a Practitioner reports on fact findings, without obtaining any assurance about the subject matter and No opinion or conclusion is expressed.

Examples: Related Services Engagements

like

(A) Compilation Engagement

(B) Agreed upon Procedures

- (v) Types of Assurance:
- (A) Absolute Assurance: Requires 100% satisfaction on accuracy of subject matter. (for Ex: Certification)
 - (B) Reasonable Assurance: Requires high, but not absolute assurance.
 - (C) Limited Assurance: Moderate Assurance which is lower than the Reasonable Assurance.