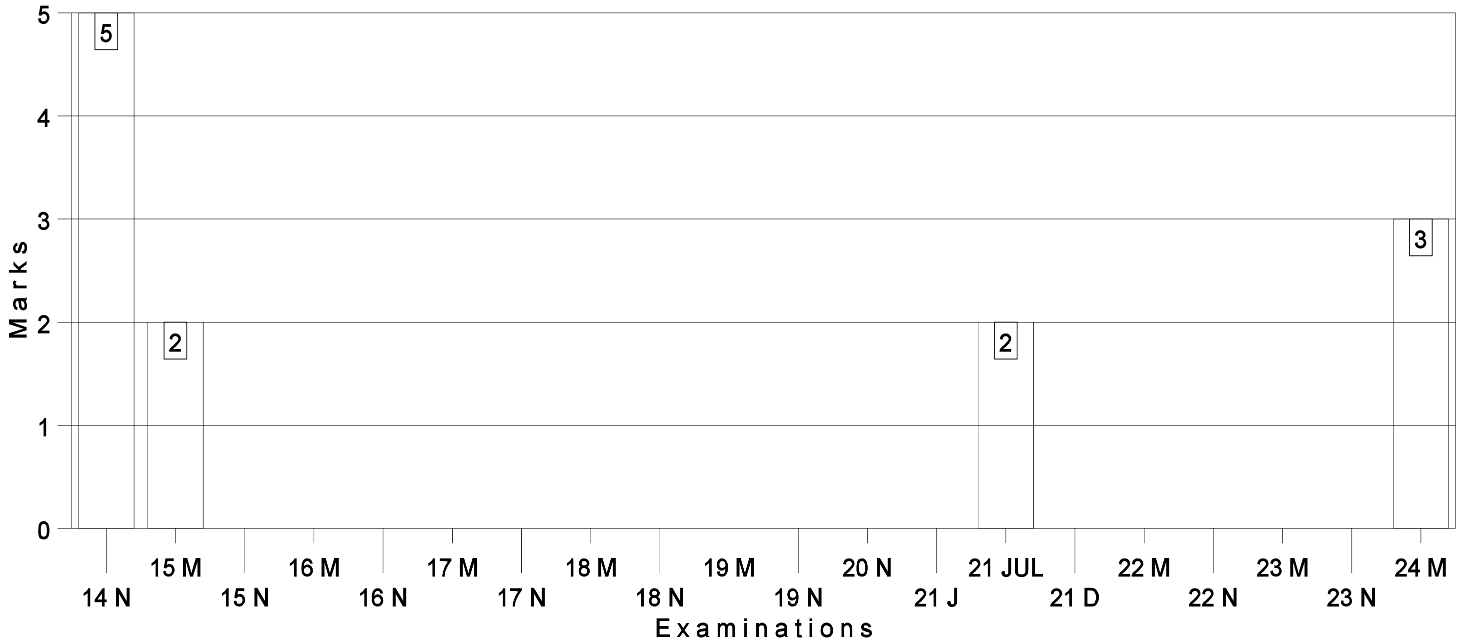
THE GRAPH **Trend Analysis**

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

Objective | Short Notes | Distinguish | Descriptive | Practical



5.16

CHAPTER	
1	# Nature, Objective and Scope of Audit

This Chapter Covers: Study's Chapter: 1

Topic Number	Name of the Topic
1.	Origin of Auditing
2.	Meaning And Nature of Auditing
3.	Interdisciplinary Nature of Auditing Relationship with Diverse Subjects
4.	Objectives of Audit
5.	Scope of Audit- What it Includes?
6.	Inherent Limitations of Audit
7.	Benefits of Audit- Why Audit is Needed
8.	Audit - Mandatory or Voluntary
9.	Who Appoints An Auditor?
10.	To Whom Report is Submitted by An Auditor?
11.	Qualities of Auditor
12.	Engagement and Quality Control Standards: An Overview

TIME MANAGER					***Plan and Manage your Time***			
Time	**First In-depth learning**	**Instant Revision (in hours)**		**Periodic Revision (in hours)**				
	i.e..... .... Day 1	Next day i.e.... .... Day 2	After 7 days i.e. on .... Day 8	After 30 days i.e. on .... Day 30	After 60 days i.e. on .... Day 60	After 90 days i.e. on .... Day 90	Fix as per your need.	
1. Budgeted	16	4.00	3.12	2.20	1.35	1.35		
2. Actual								
3. Variance (1-2)								

OBJECTIVE QUESTIONS

2010 - May [1] (ii)	**Topic 2**
State with reasons (in short) whether the following statement is True or False: The auditor compares entries in the books of accounts with vouchers and if two agrees, his work is done. (2 marks)	

Answer:

False:

The totaling of entries in the books with vouchers shows fairness of financials statements. But auditor has to determine reliability of annual statement of accounts alongwith the truth and fairness.

2015 - May [2] (viii)	**Topic 4**
State with reasons (in short) whether the following statement is correct or incorrect: The basic objective of audit does not change with reference to nature, size or form of an entity. (2 marks)	

Answer:

Correct:

The meaning and nature of audit does not change with the nature or size of entity, audit is examination of true and fair view of statement of any entity irrespective of its size and legal structure as defined in definition of audit.

2021 - July [1] {C} (c)	**Topic 5**
State with reasons whether the following statement is correct or incorrect. Assertions refer to the representations by the auditor to consider the different types of the potential misstatements that may occur. (2 marks)	

Answer:

Incorrect:

SA 315 "Identifying and Assessing the Risk of Material Misstatements through understanding the Entity and its Environment" defines the term assertion as, "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."

DESCRIPTIVE QUESTIONS

2011 - May [3] (a)	**Topic 6**
Discuss limitations of audit. (8 marks)	

Answer:

Inherent limitations of Audit:

As per **SA-200, Overall Objectives of the Independent Auditor and the conduct of Audit in accordance with standards of auditing,** the purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. In the case of most general purpose frameworks, that opinion is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework. An audit conducted in accordance with SAs and relevant ethical requirements enables the auditor to form that opinion.

The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive.

The inherent limitations of an audit arise from:		
1.	The Nature of Financial Reporting	The preparation of financial statements involves judgment by management in applying the requirements of the entity's applicable financial reporting framework to the facts and circumstances of the entity. In addition, many financial statement items involve subjective decisions or assessments or a degree of uncertainty, and there may be a range of acceptable interpretations or judgments that may be made. Consequently, some financial statement items are subject to an inherent level of variability which cannot be eliminated by the application of additional auditing procedures.

2.	Non Co-operation by Management	There is the possibility that management or others may not provide, intentionally or unintentionally, the complete information that is relevant to the preparation and presentation of the financial statements or that has been requested by the auditor. Accordingly, the auditor cannot be certain of the completeness of information, even though the auditor has performed audit procedures to obtain assurance that all relevant information has been obtained.
3.	Fraud may involve sophisticated and carefully organised schemes designed to conceal it	Therefore, audit **procedures** used to gather audit evidence may be ineffective for detecting an **intentional** misstatement that involves, for example, collusion to falsify **documentation** which may cause the auditor to believe that audit evidence is valid when it is not. The auditor is neither trained as nor expected to be an expert in the authentication of documents.
4.	Timeliness of Financial Reporting and the Balance between Benefit and Cost	The matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive. Appropriate planning assists in making sufficient time and resources available for the conduct of the audit, Notwithstanding this, the relevance of information, and thereby its value, tends to diminish over time, and there is a balance to be struck between the reliability of information and its cost. There is an expectation by users of financial statements that the auditor will form an

		opinion on the financial statements within a reasonable period of time and at a reasonable cost, recognising that it is impracticable to address all information that may exist or to pursue every matter exhaustively on the assumption that information is in error or fraudulent until proved otherwise.
5.	Risk of failure of Internal Control	Any system of internal check/control may become ineffective due to collusion among employees for doing fraud and fraud committed by top management itself.
6.	Management's Fraud	Risk of auditor not detecting a material misstatement resulting from management's fraud is greater than that of an employee's fraud because those charged with governance and management are often in a position that assumes their integrity and enables them to override the internal control procedures. For example- if a director of a company orders verbally the assistant not to record the sales made to particular party and to show the goods, sold as inventory, he is overriding the internally established procedure (internal control).

2011 - Nov [6] (b)	**Topic 5**
Discuss the types of audits required under law.	(5 marks)

Answer:

Legally audit is not compulsory for all the types of business organisation or institution. Thus it may be divided in two broad categories:

1. Statutory/Mandatory Audit
2. Voluntary/Independent Audit

1. **Statutory Audit:** It is an audit which is conducted under the control of law as under:

Enterprise	Governing Statute
Companies	Companies Act, 2013
Co-operative Societies	Multi state Co-operative Societies Act
Banking Co's	Banking Regulation Act, 1949, Banking Laws (Amendment) Act, 2017
Insurance Co's	Insurance Act and Companies Act
Electricity Co's	The Electricity Act, 2003
Public Charitable Trust	Indian Trust Act and also state enactments

2. **Voluntary Audit :** It is a purely optional audit and at the discretion of the governing body. Examples of enterprises of voluntary natures are individuals, private trust, partnership firm etc.

2013 - Nov [1] {C} (b)	**Topic 3**
Discuss the following: The discipline of behavioural science is closely linked with the subject of auditing. (5 marks)	

Answer:

Auditing is very much a discipline which involves review of various assertions both financial as well as non financial as regards his truthfulness. So audit can be performed in a better way only if the person also possesses a good knowledge about other disciplines.

The discipline of behavioural science is closely linked with subject of auditing. While carrying out audit activity an auditor is required to obtain information and explanations from the client's staff and he has also to interact with the client's staff in analysing the financial figures. So, the knowledge of human behaviour is very essential for an auditor. Thus knowledge of dealing with human being is indeed very essential for an auditor in order to discharge his duties.

2014 - Nov [1] {C} (c)	Topic 3
Discuss the following: Indicate the factors which make it appropriate for an auditor to send a new Engagement Letter for a recurring audit. (5 marks)	

Answer:

Factors what make it appropriate for an auditor to send a new Engagement Letter for a recurring audit:

- Any indication that entity misunderstands the objective and scope of the audit.
- Any revised or special terms of the audit engagement.
- A recent change of senior management.
- A significant change in ownership.
- A significant change in nature or size of the Entity's business.
- A change in legal or regulatory requirements.
- A change in the financial reporting framework adopted in the preparation of the financial statements.
- A change in other reporting requirements.

PRACTICAL QUESTIONS

2024 - May [2] (c)	Topic 6
JK Ltd. was having a 'Pager' manufacturing plant and looking at the demand it was of the view that the company will grow continuously in future. But, with the introduction of mobile phones in the market, the plant was shut down completely. The shareholders of the company were of the view that auditor failed to perform their duty and have not informed to them about the company's inability to continue its business, otherwise they	

might not have suffered the loss. List down the factors giving rise to the inherent limitations due to which auditor cannot provide a guarantee that the financial statements are free from material misstatement due to fraud or error. (3 marks)

Scan the QR code below to explore questions important for your preparation but not yet asked in examinations. This exclusive content is designed to enhance your understanding and prepare you for a broader range of topics. Stay ahead in your preparation by exploring these critical, yet unasked, questions.