This Study Material has been prepared by the faculty of the Board of Studies. The objective of the Study Material is to provide teaching material to the students to enable them to obtain knowledge in the subject. In case students need any clarification or have any suggestion for further improvement of the material contained herein, they may write to the Director of Studies.

All care has been taken to provide interpretations and discussions in a manner useful for the students. However, the Study Material has not been specifically discussed by the Council of the Institute or any of its Committees and the views expressed herein may not be taken to necessarily represent the views of the Council or any of its Committees.

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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 Final Level

Under the Revised Scheme of Education and Training, at the Final 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 has been conceived of to provide a highly useful technical service to the economy to know performances in financial and other appropriate terms in a reliable manner. It is needless to say that multitudes of significant decisions in the economic society are taken based on the financial information and, therefore, ensuring reliability of such information is an imperative necessity. Audit is a subject that requires a lot of quick and logical application of mind to answer practical problems. It is 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 in a meaningful manner along with practical training. Such learning would only help a student to become a better professional.
Know your syllabus and Study Material

The Study Material of Advanced Auditing and Professional Ethics subject has been designed having regard to the needs of home study and distance learning students. 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 test your knowledge by attempting question.

The Study Material has been divided into twenty chapters in line with the syllabus and further bifurcated into three modules for the easy handling and convenience of students. For bare text of Guidance Notes and Auditing Standards, the students are advised to refer the “Auditing Pronouncements” which has been separately published by the Board of Studies. For understanding the coverage of the syllabus, it is important to read the study material along with the Study Guidelines.

Framework of Chapters – Uniform Structure Comprising of Specific Components

Efforts have been made to present each topic of the syllabus in a lucid manner. Care has been taken to present the chapters in a logical sequence to facilitate easy understanding by the students.

Structure of the Study Material

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

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Components of Each Chapter</th>
<th>About the Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Learning Outcomes</td>
<td>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.</td>
</tr>
<tr>
<td>2.</td>
<td>Chapter Overview</td>
<td>As the name suggests, this chart/table would give a broad outline of the contents covered in the chapter.</td>
</tr>
<tr>
<td>3.</td>
<td>Introduction</td>
<td>A brief introduction is given at the beginning of each chapter/unit which would help you get a feel of the topic.</td>
</tr>
<tr>
<td>4.</td>
<td>Content</td>
<td>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</td>
</tr>
</tbody>
</table>
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.

<table>
<thead>
<tr>
<th>5. Exercise Questions with Answers / Test Your Knowledge</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
</tr>
</tbody>
</table>

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 – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS

(One paper – Three hours – 100 marks)

Objective:

(a) To acquire the ability to analyse current auditing practices and procedures and apply them in auditing engagements;

(b) To acquire the ability to solve cases relating to audit engagements.

Contents:

1. Auditing Standards, Statements and Guidance Notes: Engagement & Quality Control Standards, Statements and Guidance Notes on Auditing issued by the ICAI; Elements of System of Quality Control, Leadership Responsibilities for Quality within the Firm, Acceptance and Continuance of Clients Relationships and Specific Engagements, Engagement Performances, etc. (SQC 1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements).

2. Audit Planning, Strategy and Execution: Planning the Flow of Audit Work; Audit Strategy, Audit Plan, Audit Programme and Importance of Supervision; Principal's Ultimate Responsibility; Extent of Delegation; Control over Quality of Audit Work; Analytical Procedures Prior to Audit as well as towards finalization; Concept of Principal Auditor and Other Auditor, Acceptance as Principal Auditor, Procedures to be Performed by Principal Auditor, Co-ordination between the Principal Auditor and Other Auditor (SA 600 Using the Work of Another Auditor); Concept of Internal Audit Functions and its evaluation, Using the work of the internal audit function, Using Internal Auditors to Provide Direct Assistance (SA 610 Using the Work of Internal Auditors); Auditor's Expert – Meaning, Need for an Auditor's Expert, Understanding the Auditor's Expert, Agreement with the Auditor's Expert, Adequacy of the Auditor's Expert's Work (SA 620 Using the Work of an Auditor’s Expert).

3. Risk Assessment and Internal Control: Evaluation of Internal Control Procedures; Components of Internal Controls; Internal Control and Risk Assessment; Risk-Based Audit- Audit Risk Analysis, General Steps; Internal Audit; Reporting on Internal Control Weaknesses (SA 265 Communicating Deficiencies in Internal Control to Those Charged With Governance and Management); Framework on Reporting of Internal Controls.

Risks and Controls at Entity Level and Process Level, Considerations of Automated Environment at each Phase of Audit Cycle, Using Relevant Analytical Procedures and Tests Using Data Analytics, Key Concepts of Auditing in Real-Time Automated Environments such as E-Commerce, ERP, Core Banking, etc..

5. **Audit of Limited Companies:** Application of Relevant Provisions under the Companies Act, 2013 relating to Audit and Auditors and Rules made thereunder; Powers/rights, Duties of Auditors; Branch Audit; Significance of True and Fair View; Dividends and Divisible Profits- Financial, Legal, and Policy Considerations; Depreciation; Special Features of Audit of Limited Liability Partnerships (LLPs)- Eligibility for Audit, Appointment of Auditor, Remuneration, etc. Audit Report under the Companies Act, 2013; Reporting under CARO.

6. **Audit Reports:** Basic Elements of Auditor's Report; Types of Opinion; Notes on Accounts; Distinction between Notes And Qualifications; Distinction between Audit Reports and Certificates; Communication to Management and those Charged with Governance; Self Review Threats; Drafting of Different Types of Audit Reports.

7. **Audit Reports & Certificates for Special Purpose Engagement:** Reporting on Agreed Upon Procedure, Review Reports, Special Purpose Reports (SA 800 Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Framework; SA 805 Special Considerations-Audits of Single Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement; SA 810 Engagements to Report on Summary Financial Statements); Guidance Note on Audit Reports and Certificates for Special Purposes including Scope of Special Purpose Reports and Certificates; Responsibility for Preparation of Special Purpose Statements, Scope of the Reporting Auditor’s Functions, Contents of such Reports and Certificates, Reports and Certificates on Specific Items of Financial Statements, Communication of Report or Certificate.

8. **Audit Committee and Corporate Governance:** Audit committee; Role of Auditor in Audit Committee and Certification of Compliance of Corporate Governance; Compliances with Laws and Regulations (SA 250 Consideration of Laws and Regulations in an Audit of Financial Statements); Disclosure requirements including those of SEBI; Regulatory requirements of Corporate Governance, Report on Corporate Governance.


10. **Special Features of Audit of Banks, Insurance & Non Banking Financial Companies,**

11. **Audit under Fiscal Laws:** Audit under Fiscal Laws, viz, Direct and Indirect Tax Laws including Documentation for Form 3CD etc.
12. **Special Audit Assignments**: Special Audit Assignments like Audit of Members of Stock Exchange, Mutual Funds, Depositories, Bank Borrowers; Environmental Audit; Energy Audit; Audit of Stock and Debtors (Unit Inspections).

13. **Audit of Public Sector Undertakings**: Special features, Directions of Comptroller and Auditor General of India; Concept of Propriety Audit; Performance Audit; Comprehensive Audit.

14. **Liabilities of Auditors**: Professional Negligence; Civil Liabilities; Criminal Liabilities; Liabilities under Different Statutes - for example Income Tax Act, Companies Act.

15. **Internal Audit, Management and Operational Audit**: Provisions of Internal Audit as per Companies Act, 2013; Scope of Internal Auditing; Relationship between Internal and External Auditor; Basics of Internal Audit Standards issued by the ICAI; Drafting of Internal Audit Report; Management Audit and Operational Audit.

16. **Due Diligence, Investigation and Forensic Audit**: Due Diligence Review; Audit versus Investigation; Steps for Investigation; Types of Investigation; Procedure, Powers, etc. of Investigator; Types of Fraud, Indicators of Fraud, Follow-up thereof; Forensic Audit- meaning, difference between Statutory Audit and Forensic Audit, Forensic Audit Techniques, Forensic Audit Report etc.

17. **Peer Review and Quality Review**


**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/ Engagement and Quality Control Standards /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.
## CONTENTS

### MODULE – 1

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Auditing Standards, Statements and Guidance Notes – An Overview</td>
</tr>
<tr>
<td>2</td>
<td>Audit Planning, Strategy and Execution</td>
</tr>
<tr>
<td>3</td>
<td>Risk Assessment and Internal Control</td>
</tr>
<tr>
<td>4</td>
<td>Special Aspects of Auditing in an Automated Environment</td>
</tr>
<tr>
<td>5</td>
<td>Audit of Limited Companies</td>
</tr>
<tr>
<td>6</td>
<td>Audit Reports</td>
</tr>
<tr>
<td>7</td>
<td>Audit Reports &amp; Certificates for Special Purpose Engagement</td>
</tr>
<tr>
<td>8</td>
<td>Audit Committee and Corporate Governance</td>
</tr>
</tbody>
</table>

### MODULE – 2

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>Audit of Consolidated Financial Statements</td>
</tr>
<tr>
<td>10</td>
<td>Audit of Banks</td>
</tr>
<tr>
<td>11</td>
<td>Audit of Insurance Companies</td>
</tr>
<tr>
<td>12</td>
<td>Audit of Non Banking Financial Companies</td>
</tr>
<tr>
<td>13</td>
<td>Audit under Fiscal Laws</td>
</tr>
<tr>
<td>14</td>
<td>Special Audit Assignments</td>
</tr>
</tbody>
</table>

### MODULE – 3

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>Audit of Public Sector Undertakings</td>
</tr>
<tr>
<td>16</td>
<td>Liabilities of Auditors</td>
</tr>
<tr>
<td>17</td>
<td>Internal Audit, Management and Operational Audit</td>
</tr>
<tr>
<td>18</td>
<td>Due Diligence, Investigation and Forensic Audit</td>
</tr>
<tr>
<td>19</td>
<td>Peer Review and Quality Review</td>
</tr>
<tr>
<td>20</td>
<td>Professional Ethics</td>
</tr>
</tbody>
</table>
# DETAILED CONTENTS MODULE - 1

## CHAPTER-1: AUDITING STANDARDS, STATEMENTS & GUIDANCE NOTES-AN OVERVIEW

### LEARNING OUTCOMES

- "..." ........................................................................................................ 1.1

### CHAPTER OVERVIEW

- "..." ........................................................................................................ 1.1

### Contents:

1. **Introduction** ........................................................................................................ 1.2

2. **Historical Retrospect** ........................................................................................... 1.2

3. **Auditing and Assurance Standards Board-Scope and Functions** ......................... 1.3
   - **3.1** Setting up of AASB ....................................................................................... 1.3
   - **3.2** Scope and Functions of AASB ....................................................................... 1.4
   - **3.3** Scope of SAs .................................................................................................. 1.5
   - **3.4** Procedure for Issuing SAs ............................................................................ 1.5
   - **3.5** Compliance with the SAs ............................................................................... 1.5
   - **3.6** Linkage between SAs and Disciplinary Proceedings ..................................... 1.5

4. **Framework of Standards and Guidance Notes on Related Services** ...................... 1.6

5. **Quality Control and Engagement Standards** ......................................................... 1.8
   - **5.1** Structure of SAs ............................................................................................ 1.11

6. **Guidance Notes** .................................................................................................... 1.11
   - **6.1** Guidance Note on Tax Audit under Section 44AB of the Income-Tax Act ...... 1.11
   - **6.2** Guidance Note on CARO 2016 ..................................................................... 1.12
   - **6.3** Guidance Note on Audit of Internal Financial Controls over Financial Reporting .................................................................................................................. 1.12

7. **Guidance Note(s) on Related Services** ................................................................... 1.12

8. **Authority Attached to the Documents issued by the institute/MCA** ....................... 1.13
   - **8.1** Statements ..................................................................................................... 1.13
   - **8.2** Guidance Notes ............................................................................................. 1.13
   - **8.3** Accounting Standards and Standards on Auditing ........................................ 1.13

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8.4 Accounting Standards ........................................................................................................1.14
8.5 Ind AS ................................................................................................................................1.16

9. SQC 1- Quality Control for Firms That Perform Audit And Reviews of Financial Statement and Other Assurance and Related Services Engagements ......................................................... 1.20

10. SA/SRE/SAE/SRS-Brief overview ...................................................................................... 1.24

10.1 SA 200: Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with Standards on Auditing ............................................. 1.24

10.2 SA 210: Agreeing the Terms of Audit Engagements ......................................................... 1.24

10.3 SA 220: Quality Control for an Audit of Financial Statements ....................................... 1.25

10.4 SA 230: Audit Documentation .......................................................................................... 1.25

10.5 SA 240: The Auditor’s Responsibility Relating to Fraud in an Audit of Financial Statements ................................................................................................................. 1.25

10.6 SA 250: Consideration of Laws and Regulations in an Audit of Financial Statements ................................................................................................................................. 1.25

10.7 SA 260: Communication with Those Charged with Governance ................................... 1.26

10.8 SA 265: Communicating Deficiencies in Internal Control to Those Charged with Governance and Management ................................................................. 1.26

10.9 SA 299: Responsibility of Joint Auditors ........................................................................... 1.26

10.10 SA 300: Planning an Audit of Financial Statements ........................................................ 1.27

10.11 SA 315: Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment .................................................. 1.27

10.12 SA 320: Materiality in Planning and Performing an Audit .............................................. 1.27

10.13 SA 330: The Auditor’s Responses to Assessed Risks .................................................... 1.27

10.14 SA 402: Audit Considerations Relating to an Entity Using a Service Organisation ................................................................................................................................. 1.27

10.15 SA 450: Evaluation of Misstatements Identified During the Audit .................................. 1.28

10.16 SA 500: Audit Evidence .................................................................................................... 1.28

10.17 SA 501: Audit Evidence—Specific Considerations for Selected Items ......................... 1.28

10.18 SA 505: External Confirmations ....................................................................................... 1.28

10.19 SA 510: Initial Audit Engagements- Opening Balances ................................................ 1.29
10.20 SA 520: Analytical Procedures ................................................................. 1.29
10.21 SA 530: Audit Sampling ............................................................................ 1.29
10.22 SA 540: Auditing Accounting Estimates, Including Fair Value
Accounting Estimates, and Related Disclosures .............................................. 1.29
10.23 SA 550: Related Parties............................................................................ 1.30
10.24 SA 560: Subsequent Events..................................................................... 1.30
10.25 SA 570 Going Concern ........................................................................... 1.30
10.26 SA 580: Written Representations............................................................... 1.30
10.27 SA 600: Using the Work of Another Auditor ........................................... 1.31
10.28 SA 610: Using the work of Internal Auditors............................................ 1.31
10.29 SA 620: Using the Work of an Auditor’s Expert ...................................... 1.32
10.30 SA 700: Forming an Opinion and Reporting on Financial Statements ...... 1.32
10.31 SA 701: Communicating Key Audit Matters in the
Independent Auditor’s Report........................................................................... 1.32
10.32 SA 705: Modifications to the Opinion in the Independent Auditor’s Report...... 1.33
10.33 SA 706: Emphasis of Matter Paragraphs and Other Matter
Paragraphs in the Independent Auditor’s Report.............................................. 1.33
10.34 SA 710: Comparative Information—Corresponding Figures
and Comparative Financial Statements ............................................................. 1.33
10.35 SA 720: The Auditor’s Responsibility in Relation to Other Information
in Documents Containing Audited Financial Statements.................................. 1.34
10.36 SA 800: Special Considerations—Audits of Financial Statements
Prepared in Accordance with Special Purpose Frameworks ................................ 1.34
10.37 SA 805: Special Considerations—Audits of Single Financial Statements
and Specific Elements, Accounts or Items of a Financial Statement ............... 1.34
10.38 SA 810: Engagements to Report on Summary Financial Statements ........ 1.35
10.39 SRE 2400: Engagements to Review Historical Financial Statements.............. 1.36
10.40 SRE 2410: Review of Interim Financial Information
Performed by the Independent Auditor of the Entity ........................................ 1.37
10.41 SAE 3400: The Examination of Prospective Financial Information ............ 1.37
10.42 SAE 3402- Assurance Reports on Controls at a Service Organisation............ 1.38
10.43 SAE 3420 - Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus ........................................... 1.38
10.44 SRS 4400: Engagements to Perform Agreed-upon Procedures regarding Financial Information ................................................................. 1.39
10.45 SRS 4410: Compilation Engagements .................................................................. 1.39

TEST YOUR KNOWLEDGE ......................................................................................... 1.41

CHAPTER-2: AUDIT PLANNING, STRATEGY & EXECUTION

LEARNING OUTCOMES ............................................................................................... 2.1

CHAPTER OVERVIEW ................................................................................................. 2.1

Contents:
1. Commencing an Audit .......................................................................................... 2.2
   1.1 Benefits/Advantages of Planning in an Audit of Financial Statements ............ 2.3
   1.2 Nature and Extent of Planning ......................................................................... 2.3
   1.3 Planning - A Continuous Process .................................................................... 2.3
   1.4 Overall Audit Strategy and Audit Plan - Responsibility of the Auditor .......... 2.4
   1.5 Acceptance and Continuance of Client Relationships and Audit engagements .. 2.4
   1.6 Contents of an Audit Plan ................................................................................ 2.5
   1.7 Changes to Planning Decisions ........................................................................ 2.5
2. Overall Audit Strategy .......................................................................................... 2.6
   2.1 Factors while establishing Overall Audit Strategy ........................................... 2.6
   2.2 Benefits of Overall Audit Strategy ..................................................................... 2.6
   2.3 Considerations in Establishing the Overall Audit Strategy ............................... 2.7
   2.4 Documenting the Audit Plan ............................................................................. 2.9
   2.5 Relationship between the Overall Audit Strategy and the Audit Plan .............. 2.9
3. Audit Programme .................................................................................................. 2.10
   3.1 Formulating an Audit Programme .................................................................... 2.10
   3.2 Drawing up the Audit Programme ................................................................... 2.12
4. Audit Execution ...................................................................................................... 2.13

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4.1 Execution Planning ............................................................................................................. 2.13
4.2 Risk and Control Evaluation ............................................................................................ 2.13
4.3 Testing ............................................................................................................................... 2.13
4.4 Reporting........................................................................................................................... 2.14
4.5 Other Important Considerations ....................................................................................... 2.14

TEST YOUR KNOWLEDGE .................................................................................................. 2.48

CHAPTER-3: RISK ASSESSMENT AND INTERNAL CONTROL

LEARNING OUTCOMES ........................................................................................................ 3.1
CHAPTER OVERVIEW ......................................................................................................... 3.2

Contents:
1. Introduction .......................................................................................................................... 3.2
2. Internal Control System - Nature, Scope, Objectives and Structure .................................. 3.4
  2.1 Nature of Internal Control ................................................................................................. 3.5
  2.2 Scope of Internal Controls ................................................................................................. 3.5
  2.3 Objectives of Internal Control System ............................................................................. 3.6
  2.4 Structure of Internal Control ............................................................................................ 3.8
3. Component of Internal Controls .......................................................................................... 3.9
  3.1 Control Environment ........................................................................................................ 3.10
  3.2 Entity’s Risk Assessment Process ..................................................................................... 3.11
  3.3 Control Activities ............................................................................................................. 3.12
  3.5 Monitoring of Controls .................................................................................................... 3.13
4. Review of the system of Internal Controls ........................................................................... 3.16
5. Methods of Recording ......................................................................................................... 3.18
  5.1 Questionnaire .................................................................................................................. 3.18
  5.2 Check List ........................................................................................................................ 3.20
  5.3 Flow Chart ....................................................................................................................... 3.21
6. Internal Control and Risk Assessment ................................................................. 3.28
   6.1 Preliminary Assessment of Control Risk ...................................................... 3.30
   6.2 Relationship between the Assessments of Inherent and Control Risk: .......... 3.34
   6.3 Detection Risk .............................................................................................. 3.34
7. Internal Control assessment & Evaluation ......................................................... 3.37
8. Reporting to clients on Internal Control Weaknesses ...................................... 3.38
9. Risk Based Audit .................................................................................................. 3.40
   9.1 Audit Risk Analysis ....................................................................................... 3.40
   9.2 General Steps in the Conduct of RBA ......................................................... 3.41
10. Framework of Internal Control ........................................................................... 3.42
    10.1 International Internal Control Frameworks: ............................................. 3.43
TEST YOUR KNOWLEDGE .................................................................................... 3.48

CHAPTER 4: SPECIAL ASPECTS OF AUDITING IN AN AUTOMATED ENVIRONMENT

LEARNING OUTCOMES .......................................................................................... 4.1
CHAPTER OVERVIEW ............................................................................................ 4.2

Contents:
1. Key Features of an Automated Environment .................................................... 4.2
2. Key concepts of Auditing in Real-Time Environment such as E-Commerce, ERP, Core Banking, etc. ................................................................. 4.4
3. Understanding and Documents Automated Environment .................................. 4.5
4. Consideration of Automated Environment at each phase of Audit Cycle ......... 4.6
5. Enterprise Risk Management Overview ............................................................ 4.7
6. Assessing IT-related Risks and Controls ........................................................... 4.9
8. Using relevant Analytical Procedures and Tests using Data Analytics ............. 4.16

GLOSSARY .............................................................................................................. 4.19
TEST YOUR KNOWLEDGE .................................................................................... 4.20

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CHAPTER 5: COMPANY AUDIT

LEARNING OUTCOMES .................................................................................................................. 5.1

CHAPTER OVERVIEW .................................................................................................................... 5.2

Contents:

1. Appointment of Auditor ............................................................................................................ 5.2
   1.1 Appointment of First Auditor .......................................................................................... 5.3
   1.2 Appointment of Subsequent Auditor/Re-appointment of Auditor .............................. 5.5
   1.3 Filling of a Casual Vacancy ............................................................................................ 5.5

2. Eligibility, Qualifications and Disqualifications of an Auditor ............................................... 5.7

3. Rotation of Auditor .................................................................................................................. 5.13
   3.1 Applicability of section 139(2) Rotation of Auditor ..................................................... 5.13
   3.2 Manner of Rotation of Auditors by the Companies on Expiry of their Term .............. 5.16

4. Provisions relating to Audit Committee .................................................................................. 5.18
   4.1 Applicability of section 177 i.e. Constitution of Audit Committee .............................. 5.18
   4.2 Manner and procedure of selection and appointment of auditors ............................... 5.19

5. Auditor’s Remuneration .......................................................................................................... 5.20

6. Removal of Auditors ................................................................................................................ 5.20
   6.1 Removal of Auditor before Expiry of Term .................................................................. 5.20
   6.2 Appointment of Auditor other than retiring Auditor: .................................................. 5.21

7. Ceiling on Number of Audits .................................................................................................. 5.21

8. Powers/Rights of Auditors ..................................................................................................... 5.24
   8.1 Powers / Rights of Comptroller and Auditor-General of India ................................... 5.28

9. Duties of Auditors .................................................................................................................... 5.29

10. Joint Audit ................................................................................................................................ 5.35

11. Audit of Branch Office Accounts .......................................................................................... 5.36

12. Cost Audit ................................................................................................................................ 5.37

13. Punishment for non-compliance ............................................................................................. 5.40

14. Final Accounts Preparation and Presentation ........................................................................ 5.41
# Financial Statements

14.1 Financial Statements .................................................................5.41

14.2 Consolidated Financial Statement ..............................................5.43

14.3 Penalty for contravention .........................................................5.44

14.4 Constitution of National Financial Reporting Authority ..............5.44

14.5 Form of the Balance Sheet .......................................................5.45

15. Significance of True and Fair ....................................................5.46

16. Divisible Profits, Dividends and Reserves ..................................5.49

16.1 Depreciation under Section 123 of the Companies Act, 2013 
read with Schedule II to the Companies Act, 2013 ..........................5.49

16.2 Law relating to dividends .........................................................5.50

16.3 Right to dividend, rights shares and bonus shares to be held in 
abeyance pending registration of transfer of shares ..........................5.55

16.4 Power to close register of members or debenture-holders 
or other security holders ...............................................................5.56

16.5 Interim Dividend ......................................................................5.56

16.6 Payment of dividend and the Income tax Act ............................5.57

16.7 Audit procedure for “Payment of Dividend”: .............................5.57

16.8 Reserves ..................................................................................5.58

16.9 Deferred Taxation ....................................................................5.59

16.10 Non-provision of Tax in the Accounts ......................................5.59

17. Depreciation ..............................................................................5.63

18. Salient features of Limited Liability Partnerships (LLP) Audit ....5.64

19. Audit Report ..............................................................................5.67

19.1 Reporting Under CARO, 2016 ..................................................5.67

**Appendix 1:** Comprehensive Case Studies on CARO 2016 ..................5.73

**Appendix-2:** Key Aspects discussed in Guidance Note on Internal Financial Control 
over Financial Reporting ................................................................5.81

TEST YOUR KNOWLEDGE ........................................................................5.83

**Schedule III** .................................................................................A1-A47
CHAPTER-6: AUDIT REPORTS

LEARNING OUTCOMES .................................................................................. 6.1
CHAPTER OVERVIEW .................................................................................. 6.2

Contents:

1. Introduction .................................................................................................. 6.2
2. The Auditor’s Report on Financial Statements ........................................... 6.3
3. SA-700, “Forming an Opinion and Reporting on the Financial Statements” .... 6.4
   3.1 Purpose ................................................................................................... 6.4
   3.2 Basic Elements of the Auditor’s Report .................................................. 6.5
   3.3 Auditor’s Report Prescribed by Law or Regulation ................................... 6.13
   3.4 Auditor’s Report for Audits Conducted in accordance with both standards on auditing issued by ICAI and International Standard on Auditing or Auditing Standards of any other jurisdiction ....................................... 6.13
   4.1 Purpose: .................................................................................................. 6.14
   4.2 Scope ...................................................................................................... 6.15
   4.3 Determining Key Audit matters ............................................................... 6.15
   4.4 Communicating Key Audit matters: ......................................................... 6.16
5. SA 705, “Modifications to the opinion in the Independent Auditor’s Report” ..... 6.16
   5.1 Types of modified opinions ..................................................................... 6.16
   5.2 Objective ............................................................................................... 6.17
   5.3 Circumstances when a Modification to the Auditor’s Opinion is required .... 6.17
   5.4 Determining the type of Modification to the Auditor’s Opinion ................ 6.17
   5.5 Consequence of an inability to obtain Sufficient Appropriate Audit Evidence due to a Management-Imposed Limitation after the Auditor has accepted the Engagement .................................................................................. 6.19
   5.6 If the Auditor Decides to Withdraw .......................................................... 6.20
   5.7 Other Considerations Relating to an adverse opinion or Disclaimer of opinion 6.20
   5.8 Form and Content of the Auditor’s Report when the opinion is modified ........ 6.20

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2. Guidance Note on Reports or Certificates for Special Purposes ...........................................7.4
   2.1 Reasonable Assurance and Limited Assurance ..........................................................7.6
   2.2 Procedures required to be performed by practitioner as Laid down in Guidance Note ..........................................................7.7
   2.3 Preconditions for the Assurance engagement ...............................................................7.8
   2.4 Limitation on the scope Prior to acceptance of the engagement ..................................7.9
   2.5 Agreeing on the Terms of Engagement .................................................................7.9
   2.6 Professional Skepticism, Professional Judgement, and Assurance Skills and Techniques ..............................................................7.9
   2.7 Understanding the Underlying Subject matter and Other Engagement Circumstances .........................................................................7.11
   2.8 Forming the Assurance Opinion/Conclusion ............................................................7.14
   2.9 Assurance Report Content .......................................................................................7.15
   2.10 Documentation .......................................................................................................7.21
   2.11 Assurance Report prescribed by Law or Regulation .................................................7.22
   2.12 Illustrative formats of Reports/ Certificates (issued frequently) .............................7.23
3. SA 800: Special Considerations-Auditors of Financial Statements Prepared in Accordance with Special Purpose Framework ........................................7.28
   3.1 Objective ..................................................................................................................7.28
   3.2 Procedures required to be performed as per SA 800 ................................................7.29
   3.3 Considerations When Planning and Performing the Audit .......................................7.29
   3.4 Forming an Opinion and Reporting Considerations ................................................7.30
   3.5 Description of the Applicable Financial Reporting Framework ..............................7.30
   3.6 Illustrations of Auditors' Reports on Special Purpose Financial Statements ....7.30
4. SA 805: Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of Financial Statements ........................................7.35
   4.1 Objective ..................................................................................................................7.36
   4.2 Planning the Engagement .......................................................................................7.36
   4.3 Considerations When Planning and Performing the Audit .......................................7.36
   4.4 Forming an Opinion and Reporting Considerations ................................................7.37

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4.5 Illustrations of Auditors' Reports on a Single Financial Statement and on a Specific Element of a Financial Statement ........................................... 7.38

5. SA 810- Engagements to Report on Summary Financial Statements .......................... 7.40
   5.1 Objective ........................................................................................................... 7.40
   5.2 Engagement Acceptance and Other Planning Activities ................................. 7.40
   5.3 Procedures required to be Performed at the Executive Stage ...................... 7.41
   5.4 Form of opinion ............................................................................................... 7.42
   5.5 Auditor's report on Financial Statements ...................................................... 7.42
   5.6 Restriction on Distribution or Use or Alerting Readers to the Basis of Accounting ................................................................................... 7.44
   5.7 Comparatives .................................................................................................. 7.44
   5.8 Unaudited Supplementary Information Presented with Summary Financial Statements ................................................................................... 7.44
   5.9 Illustrations of Reports on Summary Financial Statements ......................... 7.44

6. Standard on Related Services 4400-Engagements to Perform Agreed Upon Procedures regarding Financial Information ............................................ 7.46
   6.1 Agreed upon procedures may also be required to be performed in situations . 7.46
   6.2 Procedures to be followed by auditor while performing agreed upon procedures engagement as per SRS 4400 .................................................. 7.46
   6.3 Report on agreed upon procedure ................................................................ 7.47

7. Standard on Related Services 4410-Compilation Engagements .......................... 7.49
   7.1 Objective ........................................................................................................... 7.49
   7.2 The Practitioner's Report ................................................................................ 7.50
   7.3 Illustrative report ............................................................................................... 7.51

8. SRE 2400-Engagements to Review Historical Financial Statements ................. 7.52
   8.1 Objective ........................................................................................................... 7.52
   8.2 Practitioner's Report ....................................................................................... 7.52

9. SRE 2410 review of Interim Financial Information performed by the independent auditor of the entity ................................................................. 7.56
   9.1 Objective ........................................................................................................... 7.56
9.2 Finalising the report
9.3 Report format
9.4 Examples of Review Reports on Interim Financial Information’s
9.5 Key Difference between SRE and SRE 2410

TEST YOUR KNOWLEDGE

CHAPTER-8: AUDIT COMMITTEE AND CORPORATE GOVERNANCE

LEARNING OUTCOMES

CHAPTER OVERVIEW

Contents:

1. Introduction
2. Corporate Governance
3. The Legal Framework
   3.1 Issues of corporate governance
   3.2 Applicability of LODR Regulations
4. Audit Committee under LODR Regulations
   4.1 Qualified and Independent Audit Committee [Regulation 18(1)]
   4.2 Meeting of Audit Committee [Regulation 18(2)]
   4.3 Powers of Audit Committee [Regulations 18(2)]
   4.4 Role of Audit Committee [Part C (A) of Schedule II]
5. Audit Committee under section 177 of the Companies Act, 2013
6. Functions of the Audit Committee
7. Review of Information by Audit Committee
8. Role of Auditor in Audit Committee and Certification of
   Compliance of Conditions of Corporate Governance
   8.1 Auditor’s Responsibility
   8.2 General Principles of Audit
   8.3 Documentation
   8.4 Management Representations
8.5 Verification regarding Composition of Board [Regulations 17] ................................. 8.12
9. Remuneration of directors [Part C of Schedule V] ............................................................. 8.15
  9.1 Approval of Remuneration of Directors [Regulation 17(6)] ........................................... 8.15
10. Obligations With respect to employees including Senior management, key managerial persons, directors and promoters [Regulations 17(2) to 17(4), 25(5) to 25(6), 26(1) to 26 (2), 26(4) to 26(6)] ................................................................. 8.16
  10.1 Section 173(1) of the Companies Act, 2013 ................................................................. 8.19
  10.2 Compliance of SA 250, ‘Consideration of Laws and Regulations in an Audit of Financial Statement’ ................................................................. 8.19
11. Code of Conduct [Regulations 17(5), 26(3), 46(2) and Part D of Schedule V] ............... 8.20
13. Subsidiary of Listed Entity [regulations 16(c), 24 and 46 and Part C of Schedule ........... 8.21
14. Statement of Deviations or Variations (s) [Regulation 32 and Part C of Schedule II] ................................................................. 8.22
15. Disclosures-Management Discussion and Analysis [Schedule] ...................................... 8.23
16. Information to Shareholders [Regulation 36] ................................................................. 8.24
17. Stakeholders Relationship Committee [Regulations 20 and Part D of schedule II]........ 8.25
18. Transfer or Transmission or Transposition of Securities [Regulation 40] ..................... 8.26
20. Disclosures ....................................................................................................................... 8.28
  20.1 Disclosure and Transparency [Regulation 4] ................................................................. 8.28
  20.2 Related Party Disclosure [Regulations 27, 46 and Schedule V] ................................. 8.28
  20.3 Disclosure of Accounting Treatment [Schedule V] ...................................................... 8.29
  20.4 Disclosures in relation to the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013. (Schedule V). ......................... 8.29
21. Risk Management Committee [Regulation 21] ................................................................. 8.29
22. Nomination and Remuneration committee [Regulation 19 and Part D of Schedule II] ... 8.30
23. Report on Corporate Governance [Regulation 27 of Schedule II] ............................... 8.31
24. Auditors’ Certificate ...................................................................................................... 8.31
TEST YOUR KNOWLEDGE ............................................................................................... 8.35