Final Course
(Revised Scheme of Education and Training)
Study Material
(Modules 1 to 3)

PAPER 3

Advanced Auditing and Professional Ethics

MODULE – 1

BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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Edition : August, 2019

Website : www.icai.org

E-mail : bosnoida@icai.in

Committee/ Department : Board of Studies

ISBN No. :

Price (All Modules) : ₹

Published by : The Publication Department on behalf of The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi 110 002, India.

Printed by :
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 eighteen 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 –

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<td>1.</td>
<td>Learning Outcomes</td>
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<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>
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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.

| 5. Exercise Questions with Answers and MCQs / Test Your Knowledge | Exercising questions and answers alongwith MCQs 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. |

Attention is invited to the Significant Additions/Modifications made in this edition of the Study Material which are given on the next page.

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!
**SIGNIFICANT ADDITIONS/ MODIFICATIONS IN THE REVISED EDITION**

Students are advised to refer Multiple Choice Questions (MCQs) inserted at the end of each of the Chapters after Theoretical Questions under heading Test Your Knowledge.

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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.

4. **Special aspects of Auditing in an Automated Environment:** Key Features of Automated Environment, Related Risks and Controls, Standards, Guidelines and Procedures, Using Relevant Frameworks and Best Practices, Understanding and Documenting Automated Environment,
Enterprise Risk Management Overview, Assessing IT-Related Risks and Controls, Evaluating 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 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.


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

10. **Audit under Fiscal Laws**: Audit under Fiscal Laws, viz, Direct and Indirect Tax Laws including Documentation for Form 3CD etc.

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

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

13. **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.
14. 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.

15. 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.
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