

PAPER
3

**FINAL COURSE
STUDY MATERIAL
GROUP-I**

**ADVANCED AUDITING,
ASSURANCE &
PROFESSIONAL ETHICS
MODULE 1 OF 3**



Board of Studies (Academic)
**The Institute of Chartered
Accountants of India**

(Set up by an Act of Parliament)

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BEFORE WE BEGIN.....

Evolving Role of a CA. - Shift Towards Strategic Decision Making

The role of a chartered accountant is evolving continually to assume newer responsibilities in a dynamic environment. There has been a notable shift towards strategic decision making and entrepreneurial roles that add value beyond traditional accounting and auditing. The causative factors for the change include globalisation leading to increase in cross border transactions and consequent business complexities, significant developments in information and technology and financial scams underlining the need for a stringent regulatory set up. These factors necessitate an increase in the competence level of chartered accountants to bridge the gap in competence acquired and competence expected from stakeholders. 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 stepped up 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 apply the professional knowledge acquired through academic education and the practical exposure gained during articleship training in addressing issues and solving practical problems. The integrated process of learning through academic education and practical training should also help you inculcate the requisite technical competence, professional skills and professional values, ethics and attitudes necessary for achieving the desired level of 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 enjoyable 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, Assurance 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 nineteen 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 webhosted on the BOS Knowledge Portal 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 –

S. No.	Components of Each Chapter	About the Component
1.	Learning Outcomes	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.
2.	Chapter Overview	As the name suggests, this chart/table would give a broad outline of the contents covered in the chapter.

3.	Beginning with a Story	After Chapter Overview in flowchart, importance of the Chapter and key points to make the Chapter interesting are explained in the form of Story.
4.	Introduction	A brief introduction is given at the beginning of each chapter/unit which would help you get a feel of the topic.
5.	Content	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 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.
6.	Test Your Understanding	Test your Understanding feature is also newly added feature. With the help of this feature student can test their understanding and refer the answer given after the end of the Chapter.
7.	Key Takeaways	This feature summarise the Key Takeaways for revision purpose.
8.	Exercise Questions with Case Study/ Case Scenario / Test Your Knowledge	Exercising questions and answers alongwith Integrated Case Scenario based 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.

Though all efforts have been taken in developing this Study Material, the possibilities of errors / omissions cannot be ruled out. You may bring such errors / omissions, if any, to our notice so that the necessary corrective action can be taken.

We hope that the 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, ASSURANCE AND PROFESSIONAL ETHICS

(One Paper – Three hours 100 Marks)

Objective:

- (a) To gain the ability to analyse current auditing practices and procedures and apply them in auditing engagements.
- (b) To develop the ability to solve cases relating to audit engagements.

Contents:

1. Quality Control

SQC 1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements

SA 220 Quality Control for an Audit of Financial Statements

2. General Auditing Principles and Auditors Responsibilities

SA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

SA 250 Consideration of Laws and Regulations in an Audit of Financial Statements

SA 260 Communication with Those Charged with Governance

SA 299 Joint Audit of Financial Statements

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

(Note: Content of SA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing; SA 210 Agreeing the Terms of Audit Engagements and SA 230 Audit Documentation is covered in depth at Intermediate level. Thus, application part of above SAs may be discussed in the form of Case Study at Final level.)

3. Audit Planning, Strategy, and Execution

SA 300 Planning an Audit of Financial Statements; (Content is covered in depth at Intermediate level, therefore, application part of SA 300 may be discussed in the form of Case Study at Final level.)

SA 450 Evaluation of Misstatements identified During the Audit

SA 520 Analytical Procedures

SA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures

SA 610 Using the Work of Internal Auditors

SA 620 Using the Work of an Auditor's Expert

4. Materiality, Risk Assessment and Internal Control

Evaluation of Internal Control Procedures; Components of Internal Controls; Internal Control and Risk Assessment; auditor's response to assessed risks; Risk-Based Audit- Audit Risk Analysis; Reporting on Internal Control Weaknesses, Framework on Reporting of Internal Controls.

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

SA 330 The Auditor's Responses to Assessed Risks

(Note : Content of SA 315 Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment and SA 320 Materiality in Planning and Performing an Audit is covered in depth at Intermediate level. Thus, application part of above SAs may be discussed in the form of Case Study at Final level.)

5. Audit Evidence

(Note : Content of SA 500 Audit Evidence; SA 501 Audit Evidence - Specific Considerations for Selected Items; SA 505 External Confirmations; SA 510 Initial Audit Engagements – Opening Balances; SA 530 Audit Sampling & SA 550 Related Parties is covered in depth at Intermediate level. Thus, application part of above SAs may be discussed in the form of Case Study at Final level.)

6. Completion and Review

(Note: Content of SA 560 Subsequent Event; SA 570 Going Concern and SA 580 Written Representation is covered in depth at Intermediate level. Thus, application part of above SAs may be discussed in the form of Case Study at Final level.)

7. Reporting

SA 700 Forming an Opinion and Reporting on Financial Statements

SA 701 Communicating Key Audit Matters in the Independent Auditor's Report

SA 705 Modifications to the Opinion in the Independent Auditor's Report

SA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

SA 710 Comparative Information – Corresponding Figures and Comparative Financial Statements

SA 720 The Auditor’s Responsibility in Relation to Other Information

8. **Specialised Areas**

Basic and Overview of SA 800 Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks

Basic and Overview of SA 805 Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

Basic and Overview of SA 810 Engagements to Report on Summary Financial Statements

9. **Related Services** : Basic and Overview of SRS 4400 Engagements to Perform Agreed-upon Procedures Regarding Financial Information

Basic and Overview of SRS 4410 Compilation Engagements

10. **Review of Financial Information**

Basic and Overview of SRE 2400 Engagements to Review Historical Financial Statements

Basic and Overview of SRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity

11. **Prospective Financial Information and Other Assurance Services**

Basic and Overview of SAE 3400 The Examination of Prospective Financial Information

Basic and Overview of SAE 3402 Assurance Reports on Controls at a Service Organisation

Basic and Overview of SAE 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus

12. **Digital Auditing and Assurance**

Auditing digitally and Digital auditing, Usage of Automated Tools such as CAAT, Data Analytics, Artificial Intelligence, etc., Remote Auditing.

13. **Group Audits**

Audit of Consolidated Financial Statements - Responsibility of Parent Company, Auditor of the Consolidated Financial Statements; Audit Considerations - Permanent Consolidation, Current Period Consolidation; Reporting.

Audit of Group Financial Statements including the work of Component Auditors,

SA 600 Using the Work of Another Auditor

14. **Special Features of Audit of Banks & Non-Banking Financial Companies**
15. **Overview of Audit of Public Sector Undertakings:** Concept of Propriety Audit; Performance Audit; Comprehensive Audit.
16. **Internal 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; Audit Trail, Internal Audit as a Management Function.
17. **Due Diligence, Investigation and Forensic Accounting:** 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 Accounting-meaning, difference between Statutory Audit and Forensic Accounting, Forensic Accounting and Investigation Report, Introduction of Forensic Accounting and Investigation Standards
18. **Emerging Areas: Sustainable Development Goals (SDG) & Environment, Social and Governance (ESG) Assurance etc.**
19. **Professional Ethics and Liabilities of Auditors:** Introduction of Code of Ethics as per IESBA and Code of Ethics with special reference to the relevant provisions of the Chartered Accountants Act, 1949 and the Regulations thereunder; Application of Fundamental Principles; Application of Threats, Evaluation of Threats; Addressing Threats and Safeguards; Conceptual Framework; Important Provisions of Chartered Accountants Act, 1949 and Chartered Accountants Regulations 1988.

Note: *If any new legislations / Engagement and Quality Control Standards/ Guidance Notes/ Statements are enacted in place of the existing legislations / Engagement and Quality Control Standards / Guidance Notes / Statements, the syllabus will accordingly include the corresponding provisions of such new legislations / Engagement and Quality Control Standards / Guidance Notes / Statements, with effect from the date to be notified by the Institute.*

Similarly, if any existing legislations / Engagement and Quality Control Standards/ Guidance Notes / Statements ceases to be in force, the syllabus will accordingly exclude such legislations/ Engagement and Quality Control Standards/ Guidance Notes / Statements with effect from the date to be notified by the Institute.

Further, the specific inclusions/exclusions in any topic covered in the syllabus will be effected by way of Study Guidelines every year, if required.

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