PRINCIPLES AND PRACTICE OF AUDITING

CHAPTER 1: INTRODUCTION TO AUDITING

Meaning:

The word audit is derived from the Latin word **"AUDIRE"** which means **to hear.** Initially auditor was a person appointed by the owners to check account whenever the suspected fraud, he was to hear explanation given by the person responsible for financial transactions. Emergence of joint stock companies changed the approach of auditing as ownership was pestered from management. The emphasis now is clearly on the verification of accounting data with a view on the reliability of accounting statement.

Definition:

According to **R. K. Moutz,** "Auditing is concerned with the verification of accounting data with determining the accuracy and reliability of accounting statement and reports."

According to **Spicer And Pegler,** "such an examination of the books, accounts and vouchers of a business, as shall enable the auditor to satisfy himself whether or not the balance sheet is properly drawn up, so as to exhibit a true and correct view of the state of affairs of the business, according to the best of his information and explanation given to him and as shown by the books; and if not, in what respect it is untrue or incorrect".

Objectives Of Auditing:

Basic objective of Auditing is to find the opinion of an auditor about correctness and reliability of accounts and financial position of a business concern.

Its objectives are classified into two groups which are given below:

A) Primary Objectives of Audit:

i. Examining the system of internal check
ii. Checking arithmetical accuracy of books of accounts, verifying posting, costing, balancing etc.
iii. Verifying the authenticity and validity of transactions.
iv. Checking the proper distinction of capital and revenue nature of transactions
v. Confirming the existence and value of assets and liabilities.
vi. Verifying whether all the statutory requirements are fulfilled or not.
vii. Proving true and fairness of opening results presented by income statement and financial position presented by Balance sheet.

B) Subsidiary Objectives of Audit:

i) **Detection and Prevention of Errors**

Errors are those which are committed due to carelessness or negligence or lack of knowledge or without having vested interest.

Errors are of various types:

a) **Errors of Principle:** These are the errors committed by not properly following the accounting principles. These arise mainly due to the lack of knowledge of accounting. Eg: Revenue expenditure may be treated as Capital Expenditure, wrong posting of revenue item, treating revenue expenditure as personal expenditure.

b) **Errors of Omission:** These are the errors which arise on account of transaction into being recorded in the books of accounts either wholly partially. If a transaction has been totally omitted it will not affect trail balance and hence it is more difficult to detect. On the other hand if a transaction is partially recorded, the trail balance will not agree and hence it can be easily detected.

c) **Errors of Commission:** when incorrect entries are made in the books of accounts either wholly, partially such errors are known as errors of commission. Ex: wrong entries, wrong calculation, posting, carry forwards, etc, such errors can be located while verifying.

d) **Compensating Errors:** when two/more mistakes are committed which counter balances each other. Such error is known as compensating error. Eg: if the amount is wrongly debited by Rs 100 and wrongly credited by Rs 100 such mistake is known as compensating error.

e) **Clerical Errors:** A clerical error is one which arises on account of ignorance, carelessness, negligence etc.

Location of Errors: It is not the duty of the auditor to identify the errors but in the process of verifying accounts, he may discover the errors in the accounts. The auditor should follow the following procedure in this regard.

1. Check the trial balance.
2. Compare list of debtors and creditors with the trial balance.
3. Compare the names of account appearing in the ledger with the names of accounting in the trial balance.
4. Check the totals and balances of all accounts and see that they have been properly shown in the trial balance.
5. Check the posting of entries from various books into ledger.

ii) **Detection and Prevention of Frauds:**

Frauds are those mistakes which are committed knowingly with some vested interest on the direction of Top Level Management.

Frauds are of various types:

i) **Misappropriation of Cash/Embezzlement:** This is one of the major frauds in any organization. It normally occurs in the cash department. This kind of fraud is either by showing more payments/ less receipt. The cashier may show more expenses than what is actually incurred and misuse the extra cash. Eg: showing wages to dummy workers. Cash can also be misappropriated by showing less receipt

ii) **Misappropriation of goods:** Here records may be made for the goods not purchase not issued to production department; goods may be used for personal purpose. Such a fraud can be deducted by checking stock records and physical verification of goods.

iii) **Manipulation of accounts or falsification of accounts without any Misappropriation:** Manipulation of accounts means falsification of accounts without any misappropriation of cash or goods. It implies presentation of accounts more favourably than what they actually are. Manipulation of accounts may be done in any of the following ways:

(1) Non provision of depreciation on fixed assets.
(2) Provision of less depreciation on fixed assets
(3) Provision of more depreciation on fixed assets
(4) Over valuation of assets. Etc.,

iii) **Under or Over Valuation of Stock:**

Normally such frauds are committed by top level executives of the business. So, the explanation given to the auditor also remains false. So, an auditor should detect such frauds using skill, knowledge and facts.

iv) **Other objectives:**

- To provide information to income tax authority.
- To satisfy the provision of company act.
- To have moral effect.

Features of Audting

a) Auditing is a systematic and scientific examination of the books facts and financial statement of a business.
b) Auditing involves inspecting, comparing, checking, reviewing and verifying the vouchers which supports the evidence.
c) Auditing implies the verification that is the physical inspection of the assets and liabilities of the business as shown in the balance sheet.
d) Auditing is the examination of the books of accounts of a business by a qualified person or persons.
e) Auditing is the examination of the books of accounts of business prepared by others that is by the employees of the concerned.
f) Auditing of the accounts of the business may be made throughout the year or periodically.
g) Auditing examination requires the auditors to express his opinion about the truth and fairness of the financial statement.
h) Auditing examination of books of accounts applies to business concern as well as to a non - business concern.

The advantages / Merits / Benefits and Disadvantages/ Demerits/ Limitations of Auditing.

1. Verification of Books and Statements.

The main object of audit is the verification of books of accounts and the financial statement concerned.

2. Discover and Prevention of Error& Frauds

Auditor finds the error frauds committed by employees and give suggestions about prevention of errors and frauds in future.

1. Moral Check

Each staff member of the company knows that financial transactions will be examined by the auditor and he will have moral fear of committing frauds. Therefore fear of detection acts as a moral check on the staff members of the company.

2. Independent Opinion

Auditing is very useful to obtain the independent opinion of the auditor about the business condition. The accounts are audited by the independent auditor and audit report will be submitted to the management. The audit report gives true facts about the company accounts.

6. Protects the interest of Shareholders

Audit protects the interest of the shareholders in case of Joint Stock Company. Shareholders are assured that the accounts of the company are maintained properly through audit and the interests of shareholders are protected.

7. Check on Directors

Audit acts as a check upon the directors and precaution against fraud on part of the management.

8. Proper supervision

Sometimes owner of the business cannot look after the business personally. Audit acts as a check on employees and it saves the owner from losses.

9. Valuable Advice

The auditor has expert knowledge about the procedures and process of accounts and finance. Therefore he may be consulted about the clarifications and suggestions.

10. Loan Facility

Audited financial statements are very useful in obtaining loans from banks and financial institutions because of the accuracy of accounts as verified by the auditors.

11. Insurance Claim

The fire insurance claims and fraud claims can be settled on the basis of audited financial statements of the previous year.

12. Property value Assessment

Audited financial accounts ensure smooth valuation of property during sale of business. Audited accounts are considered more reliable in the eyes of law.

13. Correct information about Business

This is the major advantage of auditing as auditing reports provide correct information about the accounts and the business as and when it required.

14. Advantage for General Public

Audited financial statements present the real position of the company before the general public. Audited financial statements help the assessment of the companies to make investments.

Disadvantages/ Demerits/ Limitations of Auditing.

1. **Non Detection Frauds/ Errors:**
   Auditor may not be able to detect certain frauds which are committed with no intentions.
2. **Dependence on opinions of others**
   Auditor has to rely on the views or opinions given by different experts viz Lawyers, Solicitors, Engineers and Architects etc. he cannot be an expert in all the fields.
3. **Conflict with others:**
   Auditor may have difference of opinion with the accountants, management, engineers etc. in such cases, personal judgment plays an important role. It differs from person to person.
4. **Corrupt practices to influence the auditors:**
   The management may use corrupt practices to influence the auditors and get a favorable report about the state of affairs of the organization.
5. **No assurance:**
   Auditor cannot give any assurance about future profitability and prospects of the company.
6. **Detailed checking not possible:**
   Auditor cannot check each and every transaction. He may be required to do test checking.

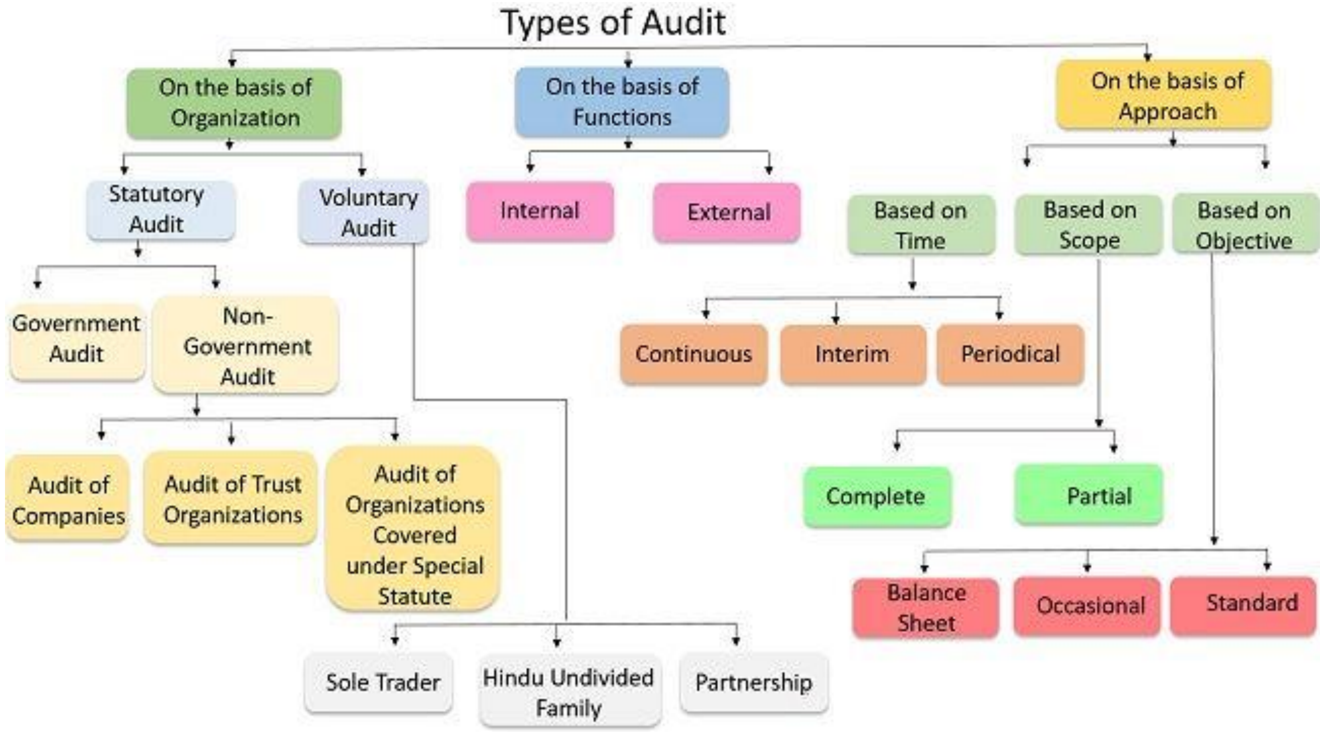
Difference between Accounting and Auditing.

Point of Difference	Accounting	Auditing
Meaning	Accounting means the maintaining books of accounts.	Auditing means examining the books of accounts and reporting the accuracy.
Performance of Work	Accounting job is performed by Accountant.	Auditing job is performed by the auditor.
Appointment	Accountant is appointed by the management as an employee.	Auditor is appointed by the management as an Expert from outside the company.
Nature of Job	Accountant job is mechanical in nature	Auditor job is not so mechanical.
Qualification	Accountant does not require specific qualification.	Auditor requires specific qualification.
Responsibility	The responsibility of the	The responsibility of the auditor is

	accountant is fixed by the management.	fixed by the Law.
Submission of Report	To the management	To the shareholders
Time	In case of accounting period is usually one year.	The period of may be one year or half year or quarterly.
Purpose	The purpose of accounting is to show the financial position of a business.	Auditing verifies the true picture of the financial statement.
Record/ Data	Accounting is related with the present record.	Auditing is related with the past record.
Nature of Employment	Accountant is a permanent employee.	Auditor is not a permanent employee.
Reward	Reward of accountant is called as Salary.	Reward of auditor is called as Fee.
Liability	Accountant has no liability after preparing the final accounts.	Auditor has a liability after presenting the auditor report.
Importance	Accounting is necessary for every business.	Auditing is not necessary for every business.
Rules	Accounting is not governed by the code of conduct laid down by any institute.	Auditing is governed by the code of conduct specified by the Institute of Charted Accountants.
Removal	Accountant can be removed from his job at any time.	Auditor cannot be removed till he completes his period of appointment.

<u>Advantages of aduit to various parties</u>

<u>Types of Audit.</u>



Expalination:

I. **On the Basis of organization:**

1) **Statutory Audit:** Any audit carried on as per the requirement of law is called as a statutory audit. eg: all companies have to get their accounts audited as per the provision of the company's Act of 1956. Company Act 2013.
2) **Private Audit/voluntary Audit:** When the Audit is not a statutory requirement, but conducted at the desire of owners, such audit is called as private audit. Ex: audit of sole trading concern, partnership firm, individuals.
3) **Government Audit:** Audit of government offices and departments. A separate department is maintained by government of India known as Account and Audit department headed by Comptroller and Auditor general of India.
4) **Non-Government Audit:** Non-Governmental Organizations (NGOs) are established as public trusts as per Trust Laws, or as per Societies Registration Act or as Companies under the Companies Act, 2013. All these acts apply to entities as per their choice of the constitution. The NGO must get its accounts audited as per the Incorporation Law depending on their mode or form of Registration.

II. **On the basis of Function /degree of Independence of The Auditor**

1. **Independent Audit or External Audit:** External audits are conducted by unbiased third parties, Auditors must adhere to the Generally Accepted Auditing Standards (GAAS) when dealing with your company's information.
2. **Internal Audit:** Internal auditing is the individual appraisal activity within an organization for the review of the accounting, financial and other operations as a basis for protective and constructive service to the management.

III. **On the basis of Approach or conduct of audit.**

ii) **Continuous Audit:** According to R C Williams "a continuous audit or detailed audit is one where the auditor or his staff is constantly engaged in checking the accounts during the whole period or where the auditor or his staff attends at regular or irregular intervals during the period."

iii) **Periodical Audit or Final Audit:** according to Spicer & Pegler, " An final audit or completed audit is commonly understood to be an audit which is not commenced until after end of the financial period and is then carried on until completed".

iv) **Interim Audit:** its an audit conducted in the middle of the accounting year before the accounts are closed. In other words any audit conducted between two financial audits is known as interim audit. The objective is to get periodical results, to declare interim dividend.

v) **Complete Audit:** Thorough examination and verification of a company's financial and accounting records and internal controls is known as Complete Audit.

vi) **Partial Audit:** when an auditor is asked to audit certain category of transactions or transactions made during a part of period, it is known as partial audit. The auditor may be asked to audit the payment side of cash book. This type of audit is made only for a particular purpose.

vii) **Balance Sheet Audit:** Balance sheet audit relates to the verification of various items of balance sheet such as assets, liabilities, reserves and surplus, provisions and profit and loss balances. Under this audit, auditor assumes that there exists a reliable system of internal control.

viii) **Occasional Audit:** it is conducted as a special event, normally in those organizations where routine audits are not taking place. For example, in a partnership firm when a new partner is to admitted or where government orders a special audit to investigate into certain matters.

IV. On the basis of audit dimension:

i) **Cash Audit:** A cash audit is a type of auditing that focuses on cash transactions conducted between an identified start date and end date.

ii) **Cost Audit:** Cost audit refers to verification of cost accounting records to ensure that they are in conformity with cost accounting principles, plans, procedures and objective.

iii) **Management Audit:** Management audit is a process of systematically examining, analyzing and appraising management's overall performance.

iv) **Operational Audit:** Operational audit is a systematic process of evaluating an organization's effectiveness, efficiency and economy of operations under management's control and reporting to appropriate persons the results of the evaluation along with recommendations for improvement.

v) **Performance Audit:** Performance audits are independent reviews of government funded organizations to assess whether organizations are undertaking their functions efficiently, effectively and economically.

vi) **Tax Audit:** Tax audit is an audit to compute the taxable income according to the law and for maintaining transparency in the financial statements filed by assesses with The income Tax Department.

vii) **Special Audit:** It is a kind of audit with some special objectives in view. It is a fact finding enquiry. A special audit is a tightly-defined audit that only looks at a specific area of an organization's activities. This type of audit may be initiated by a government agency, but could be authorized by any entity, or even internally

viii) **Proprietary Audit:** It is kind of audit which is concerned with the examination of the validity of appropriations or with verification that there is no leakage of revenue and and wastage of fund knowingly or unknowingly.

Statutory Audit

Statutory Audit refers to the audit of the accounts of a business carried out **compulsorily** under the **provision of a Statute of Law**.

The following are some of the organisation which requires statutory audits:

- ✓ Companies- According to Companies Act 1956
- ✓ Banking Companies- According to the Banking Regulations Act, 1949
- ✓ Co-operative Societies-The Co-operative Societies Act, 1912
- ✓ Insurance Companies-The Insurance Act, 1938
- ✓ Public and Charitable Trusts - Various Religious and Other Endowment Acts

Advantages of Statutory Audit:

1. It increases the authenticity of the financial reports as the auditor properly verifies the statements.
2. It helps to improve the management to perform their job efficiently.
3. Improves the organisation's reputation because the financial reports are free of errors, fraud, misrepresentation and inaccuracies.
4. Minimise the risk of fraud in an organisation.
5. It improves the organisation's reputation because the financial reports are devoid of errors, fraud, misrepresentation and inaccuracies.
6. It helps to gain the trust of shareholders, banks and the government.
7. The auditor includes a comment on the organisation's internal control, whether they are there and working efficiently or not. He also advises the organisation about the areas where internal control is weak, and risk is more.
8. Even though audit might not apply to certain small companies, if they get themselves audited, it helps them keep their systems strong and easily obtain bank loans and other facilities.

Disadvantages

1. Due to sampling, the accuracy of the audit report may be affected.
2. If there is any conflict of interest among the audit personnel, it can affect the quality of the audit.
3. Audits are undoubtedly costly reports, and in the case of statutory audits, outsourcing increases the cost.
4. Evidence constraint may lead to the possibility of error.
5. The hiring of inexperienced audit staff.
6. In certain cases, time limits may also affect the accuracy of the audit.
7. The auditor performs an audit on a sampling basis and cannot do 100% checking. Thus, they cannot give absolute assurance; only a reasonable assurance is possible.
8. Numerous things in an audit depend on the judgment of the auditor. It may vary from person to person.

Private Audit:

The private audit is not compulsory under any statute, but under taken by the owners voluntarily to get the benefit of audit, this audit is called private audit or general audit.

Advantages of Private Audit:

- Private Audit is carried on by qualified professional auditors.
- Private audit would serve as a good defense against any charge of negligence on his part including his audit examination.
- It provides a moral check on the employees.
- It helps the owners of the business to know the real profitability and the state of affairs of their business.
- Audited statement of accounts facilitates the process of raising loans from banks or other financial institutions.
- Audited statement of accounts serve as a reliable basis for assessment of tax liability such as income tax liability, sales tax liability.
- Audited statement help in the settlement of disputes and claims between the partners of the firm.
- It provides the third parties with the information needed by them and thereby helps to eliminate the doubts of the third parties as to the working conditions of the business.

The difference between Statutory Audit and Private Audit.

Point of Difference	Statutory Audit	Private Audit
Meaning	Statutory Audit refers to the audit of the accounts of a business carried out compulsorily under the provision of a Statute of Law.	The private audit is not compulsory under any statute, but under taken by the owners voluntarily to get the benefit of audit, this audit is called private audit
Conduct of Audit	It is required to be conducted compulsorily under law.	It is purely voluntary or optional.
Carried out	It is to be carried out every year.	It need to be carried out every year. It is carried out at the instance of the owners as and when decided.
Appointment of Auditor	The auditor is appointed under a statue of law.	Auditor is appointed under an agreement as decided by Management.
Purpose	The purpose of this audit is to comply with the requirements of laws.	The purpose of this audit varies from one enterprise to another. It is to suit the needs of the particular enterprise.
Method of Verification	The auditor has to follow the profession of the law applicable to the business.	Auditor has to check the accounts and verify the transactions according to the standard audit practice to meet the needs of the management.
Rights, Duties and Liabilities	The rights, duties and liabilities of a statutory auditor are statutory and are defined by the statue of law.	The rights, duties and liabilities of a private auditor are contractual and are defined by the agreement.
Type of audit	Statutory audit must be a complete audit and no scope for partial audit.	It can be complete audit or partial audit.
Report	The auditor has to give his report in the prescribed form.	Auditor can give his report in any form he likes or management requires.

<u>Government Audit.</u>

Government audit is applicable to Government departments and departmental undertakings. Government of India maintains a separate department known as Accounts and Audit Department. Comptroller and Auditor General of India heads this department.

Meaning: Government audit means the organised and independent examination of a public entity's financial, administrative and other operations for evaluating and verifying them.

<u>Features/ Objectives of Government Auditing:</u>

i) Government audit is done as per the provisions of law.
ii) Government audit is conducted either by the Controller and Audit General of India or by Professional Charted Accountants approved by the Contemporary and Auditor General of India.
iii) A government audit is continuous audit as a very large number of transactions are involved.
iv) To ensure that the payment has been sanctioned by the captains of authority.
v) To ensure that every payment is made as per the rules and regulations.
vi) To see that the expenditure is incurred by the right person i.e., the officers who are authorized to incur the expenditure.
vii) To see that the payment have been made to the right persons are duly entered in the books of accounts on the basis of voucher obtained.
viii) To ensure that the expenditure is not excessive.

ix) To ensure that the expenditure has been incurred in the public interest.
x) To check the system of granting allowance to employees such as travelling allowance, daily allowance etc. to ensure that they are granted under the rules framed for the purpose. To see that the payments are properly classified as capital or revenue and to verify the existence of stocks and stores and their valuations.
xi) To ensure that a proper system to stock taking has been adopted.
xii) To make suggestions to proper authority for improvement in the rules and regulations for a greater efficiency and economy.

The Independent Audit or External Audit or final audit

A final or complete audit refers to audit which is not commenced until after the end of the financial period and then carried on until completed.

(Or)

It refers to the audit of an organization undertaken independently by a qualified auditor, who is an independent of the organization, hiring his service for the purpose of audit.

Objectives of Periodical Audit or Final Audit:

- To know whether the organization has maintained regularity at the time of maintaining books of accounts.
- To know that the profit or loss presented by the business is true and fair.
- To know that the financial position presented by the balance sheet is true and true and fair

Advantage of External / Independent Audit:

1) **Alteration chances limited:** In the other types of audit the alteration is possible in the audit. But in the final audit the alteration of any type is not possible after the audit.
2) **Checking of complete record:** In the final audit there is complete checking of the books of accounting. He can decide either to check cent percent or by sampling.
3) **Advantage for the shareholders:** Final audit serves the shareholders by giving them the most reliable financial information for the investment purpose
4) **Advantage for the owner:** Sometimes the business is so large that even one owner doesn't know the real position about the business. So final audit throws light on the business position and provides him satisfaction.
5) **Convenient or Suitable:** Final audit is very suitable for the auditor and client staff. It saves both the parties from continuous disturbance.
6) **Saving of Time:** In the continuous audit the work of audit is continuous through out the year. It takes a lot of time. But as compare to it final audit takes a very short time. So, in the final audit the time is saved.
7) **Legal Demand:** Final audit is also helpful in checking either the management has fulfilled the legal requirements or not. The management is bound to fulfill the legal requirement
8) **Economical:** Final audit is beneficial for the client. It is not a regular burden on him, because it is conducted only once in a year at the end of the accounting period. So, it gives the maximum benefit with minimum cost.
9) **Improves the efficiency:** In this audit the performance of the staff improves due to finding out the weak points of the employees by the auditor by overcome these weakness the staff can improve his efficiency.
10) **Submission of report:** About the fairness and correctness of accounts final report is very important for the good will of the company and its complusory to submit the report in the annual general meeting to the shareholders.
11) **Staff duties:** In final audit there is no clash of duties between the audit and accounting staff. They performed their work accordingly. The accounting staff remains busy throughout the year in his work and the audit staff his work when the accounting staff ends his work.

12) **Convenient for management:** The benefit of final audit is that it is convenient for management as well as for audit staff. The auditor can start and complete the audit at one session. The queries can be cleared on the same day.
13) **Minimum time period:** The time required for final audit is less as compared to continuous audit. The auditors can start and complete many audits. They can raise their income by means of new audit work.
14) **Planned work:** The final audit has minimum time. So, the work of audit is completed under planning. An audit programme is maintained which provides the schedule of the working of the audit staff and the principal auditor can control the audit work.
15) **Work Continuity:** In the final audit the work of audit go through without any break and same way the auditor can be satisfied for the doubt, which raise from his work on the same time.

Disadvantages of final audit

1) **Late Correction:** The demerit of a final audit is that errors are located after the end of the year. The corrections of errors take time so long errors are not corrected the accounts are incomplete.
2) **Accounts Delayed:** The demerit of a final audit is that delay occurs in the preparation of accounts. The accounting staffs are unable to close its accounts exactly at the end of the year. There is a delay in finalizing the accounting matters.
3) **Audit Report:** The demerit of a final audit is that report is not presented in time. It may be submitted one or two months late. The decisions are to be made on the basis of audited accounts.
4) **Low Moral Check:** The drawback of a final audit is that it has less moral pressure on employees of the business concern. The audit staffs come after one year. The employees are free to commit errors and frauds for twelve months.
5) **Planned Frauds:** The disadvantage of a final audit is that planned frauds are not detected. The employees have one full year at their disposal to think, plan and commit frauds. The auditors may fail to discover frauds.
6) **Past Data:** The audit of accounts relates to previous year's facts and figures. The past year is a part of history. Whether there were errors or frauds in the books of accounts it has no concern with present or future.
7) **Thorough Checking:** The drawback of a final audit is that there may not be thorough checking. Audit sampling may be used to complete work. In this case, errors and frauds may not be located.
8) **Planning for Future:** The budgets and estimates for future may not be prepared in time. As the audit work is started after the end of accounting year it takes time to check the accounting records.
9) The audit work is completed late. So the projected income statements balance sheets and budgets may be prepared late.

Continuous Audit:

The accounts are audited throughout the year by the audit staff under the guidance of the auditor, it is called continuous audit. The work involved in continuous audit is considerably high and the management requires the auditor to report at regular intervals.

Advantages of Continuous Audit:

a) **Easy to Quick discovery of Errors**: Errors and frauds can be discovered easily and quickly as the auditor checks the accounts at regular intervals and in detail. Auditor visits the client after a month or two or so on, the number of transactions will be small and the errors will be detected easily and quickly.
b) **Knowledge of Technical Skills:** Auditor is regularly in touch with the business: he/she is in a position to know its technical details and hence can be of great help to his/her clients by making valuable suggestions.
c) **Quick presentation of accounts**: As most of the checking works are already performed during the year, the final audited accounts can be presented to the shareholders soon after the close of the financial year at annual meeting.

d) **Keep the client's staff alerts:** As the auditor visits the clients at regular intervals, the clerks are very regular in keeping the accounts up to date. They will see that there is no in accuracy or frauds as it would be detected by the auditor at the next visit.
e) **Moral check on the client's staff:** If the auditor pays surprise visit, it will have a considerable moral check on the clerks preparing the accounts as they do not know when the auditor may pay a visit to check. Moral check will be more valuable to make staff alert and careful.

Disadvantages of Continuous Audit:

i) **Alteration of figures:** Figures in the books of accounts which have already been checked by the auditor at previous visit, may be altered by a dishonest clerk and the frauds may be committed.
ii) **Disturbance of client's work:** The frequent visit by the auditor may disturb the work if the client and cause inconvenience to the latter.
iii) **Expensive:** Continuous audit is an expensive system of audit because an auditor devotes more time. So, company needs to pay more amount as the remuneration of an auditor.
iv) **Queries may remain outstanding:** The audit clerk may lose the thread of work and the queries which he/she wanted to make may remain outstanding as there might be a long interval between two visits.
v) **Extensive note taking:** Extensive note taking may be necessary in order to avoid any alteration in the figures after the audit.

The difference between the Continuous audit and Final audit.

Point of Difference	Continuous Audit	Final Audit
Period	Continuous audit remains continuous for whole year.	Final audit is done at the end of the year.
Scope	In case of continuous audit, accounts are checked in detail.	In case of final audit, detailed checking is not made as compared to continuous audit.
Chances of Fraud	In case of continuous audit, chances of errors and frauds are reduced.	In case of final audit, chances of errors and frauds are high.
Visits	In case of continuous audit, the auditor makes many visits.	In case of final audit, the auditor makes one visit in a year.
Dividend	To declare the interim and final dividend continuous audit is very useful.	Final dividend is declared due to final audit.
Scale of business	Continuous audit is desirable for large size of business.	Final audit is very desirable for small business.
Checking	In case of continuous audit, there is strong check on the employees.	In case of final audit, there is less check on the employees.
Fee	In case of continuous audit, audit fees is high	In case of final audit, audit fees is low.
Time of conduct	In case of continuous audit, audit is conducted when entries and records are being prepared.	In case of final audit, audit is conducted after the completion of entries and records.
suitability	In case of poor internal control system, continuous audit system is suitable.	In case of effective control system, final audit may be conducted.
Proper planning	In case of continuous audit, planning is effective because accounts are prepared in time.	In case of final audit, planning is not made effective because accounts are prepared late.

Internal audit:

Internal audit is a review of operations and records undertaken within business by specially assigned staff.

Major roles and responsibilities of Internal Audit Function:

a) It evaluates and provides reasonable assurance that risk management, control and governance systems are functioning as intended and will enable the organization's objectives and goals to be met.
b) It reports risk management issues and internal controls deficiencies identified to the audit committee and provides recommendations for improving the organization's operations, in terms of both efficient and effective performance.
c) It evaluate information security and associated risk exposures.
d) It evaluates regulatory compliance program with consultation from legal counsel.
e) It evaluates the organization's readiness in case of business interruption.
f) It maintains open communication with management and the audit committee.
g) It teams with other internal and external resources as appropriate.
h) It engages in continuous education and staff development.
i) It provides support to the company's anti – fraud programs.

The Objectives of Internal Audit.

i) To verify the correctness, accuracy and authenticity of the final accounting and statistical records presented to the management.
ii) To confirm that the liabilities have been incurred by the organization in respect of its valid and legitimate activities.
iii) To comment on the effectiveness if the internal control system and the internal check system in force and to suggest ways and means to improve these systems.
iv) To facilitate the early detection and prevention of frauds.
v) To examine the protection afforded to company's assets and use if them for them for the business purpose.
vi) To identify the authorities responsible for purchasing assets and other as well as disposal o assets.
vii) To ensure that the standard accounting practices which have to be followed by the organization are strictly followed.
viii) To undertake special investigation for the management.
ix) To assist management in achieving the most efficient administration of the operation by establishing procedures by complying with company's operating policies.

The Advantages and disadvantages of Internal Audit.

Advantages of internal audit:

a) Staff remains alert because their work shall be checked by the internal auditor. So, accounting remains correct.
b) Internal audit helps to detect errors and frauds and provides suggestions to improve them which help the management to take corrective action.
c) Internal audit detects the misuse of resources in time which helps to reduce unnecessary expenses.
d) Internal audit checks the efficiency of staffs which helps to increase the efficiency of them.
e) Internal audit checks the books of accounts, detects errors and frauds and helps in its corrections which makes the act of final auditor easier.
f) Internal audit increase the morale of honest staff because evaluation of performance of any staffs will be made at any time.

Disadvantages of Internal Audit:

a) Internal audit seeks to help and guide the management; it does not seek to safeguard the interest of the owners of the business and outsiders, who deal with the business.
b) It is entirely dependent on the management soothe quality of the internal audit is wholly dependent on the management.

c) It is conducted by the staff of the organization who may not be as qualified and skilled as independent. So it may not be as efficient and independent as an independent auditor.
d) It is not obligatory. It is purely optional.

The difference between Internal Auditor (Audit) and External Auditor (Audit).

Point of Difference	Internal Auditor (Audit)	External Auditor (Audit)
1) Appointment	Internal Auditor is appointed by the management of the company.	External auditor is appointed by the shareholder of the company.
2) Legal position	Internal audit is not compulsory by Law.	external audit is compulsory by Law.
3) Status of Auditor	Internal auditor is employee of the company.	External Auditor is an Independent Person.
4) Qualification	Internal auditor has no any specific qualification and not compulsory.	External auditor has specific qualification and compulsory.
5) Submission of Report	Internal auditor does not require submitting any report.	External auditor submits report to the shareholders.
6) Fixation of Remuneration	Internal auditor remuneration is fixed by the management of the company.	External auditor remuneration is fixed by the shareholders of the company.
7) Name of Remuneration	Internal auditor receives salary.	External auditor receives fee.
8) Nature of Checking	Internal Auditor checks all the transactions.	External auditor may apply test check.
9) Right of Attending Meeting.	Internal auditor has no right to attend the meetings of the company's shareholders.	External auditor has right to attend the meetings.
10) Kinds of Audit	Internal audit is a kind of continuous audit.	External audit is conducted after the preparation of final accounts.
11) Guidance	Internal auditor gives suggestions to the management for the betterment of the business.	External auditor does not require giving suggestions unless he is asked.
12) Duties	Internal auditor's primary duty is to find the frauds and errors.	External auditor has to report about final accounts whether these are true are false.
13) Removal	Internal auditor can be removed by the management.	External auditor can be removed by the shareholders.
14) Case of Misconduct	Internal auditor cannot be prosecuted for professional except (C.A)	External auditor can be prosecuted.

Cost Audit:

Cost audit refers to verification of cost accounting records to ensure that they are in conformity with cost accounting principles, plans, procedures and objective.

Objectives of Cost Audit:

i. To establish the accuracy of costing data. This is done by verifying the arithmetical accuracy of cost accounting entries in the books of accounts.
ii. To ensure that cost accounting principles are governed by the management objectives and these are strictly adhered in preparing cost accounts.
iii. To ensure that cost accounts are correct and also to detect errors, frauds and wrong practice in the existing system.

iv. To check up the general working of the costing department of the organization and to make suggestions for improvement.
v. To help the management in taking correct decisions on certain important matters i.e. to determine the actual cost of production when the goods are ready.
vi. To reduce the amount of detailed checking by the external auditor if effective internal cost audit system is in operation.

The Advantages of Cost Audit:

TO MANAGEMENT:

- Management will get reliable data for its day-to-day operations like price fixing, control, decision making etc.
- A close and continuous check on all wastages will be kept through a proper system of reporting to management.
- Inefficiencies in the working of the company will be brought on the light to facilitate corrective action.
- Management by exception becomes possible through allocation of responsibilities to individual managers.
- The system of budgetary control and standard costing will be greatly facilitated.
- A reliable check on the valuation of closing stock and work in progress can be established.
- It helps in detection of errors and frauds.

TO SOCIETY:

- Cost audit is often introduced for the purpose fixation of prices. The prices so fixed are based on correct costing data and so the consumers are saved from exploitation.
- Price increase by some industries is not allowed without proper justification as to increase in cost of production, inflation through price hikes can be controlled and consumers can maintain their standard of living.

TO SHAREHOLDERS:

Cost audit ensures that proper records are kept as to purchases and utilization of materials and expenses incurred on wages etc. it also makes sure that the valuation of closing stocks and work in progress is on fair basis. Thus the shareholders are assured of a fair return on their investment.

TO GOVERNMENT:

- When the government enters into cost plus contract, cost audit helps government fix the price of the contract at a reasonable price.
- Cost audit helps in fixation of ceiling prices of essential commodities and thus undue profiteering is checked.
- Cost audit enables the government to focus its attention on inefficient units.
- Cost audit enables the government to decide in favor of giving protection to certain industries.
- Cost audit facilitates settlement of trade disputes brought to the government.
- Cost audit and consequent management action can create a healthy competition among various units in an industry. This imposes automatic check on inflation.

Disadvantages of cost audit

- Holding a Cost Audit can be expensive. This is because a company will often bring in an independent auditor who are normally charging higher price.
- A Cost Audit can be a long process which will likely involve more time. This extra time and effort can impact an employee’s day to day routine work.
- If a Cost Audit is carried out in order to find fraudulent activity it can take a long time by which time people stealing could have covered their tracks.
- Cost Audits involve a large amount of estimation and so there is the possibility that figures will be incorrect and if record keeping from the company is not good to start with then inaccuracies will be arises.

Difference between Financial Audit and Cost Audit

Point of Difference	Financial Audit	Cost Audit
Meaning	It is the examination of the financial records and business accounts by an independent body which is conducted for the compliance, taxation and to ensure high accuracy in given reports.	Cost accounting refers to verification of accost accounting records to ensure that they are in conformity with cost accounting principles, plans, procedures and objective.
Conduct	It is mandatory to conduct every year for all companies registered under companies act, 1956.	Cost audit is conducted in a year when it is required only in case of companies involved in manufacturing or mining business.
Purpose	It is done to report on financial data, consisting of a statement of balance sheet and profit and loss to ensure fairness of business perspectives.	It is done to certify after careful examination or checking of reports on expenditure made on production of intended items.
Appointment of auditor	Financial auditor is appointed by the shareholder.	Cost auditor is appointed by the board of directors with the previous approval of the government.
Remarks	The finance auditors have to give their remarks about the exact expenditure shown on the record.	The cost auditors have to give remarks about how correctly the decisions have been taken in production of items.
Report	The finance auditor submits the report in annual general meeting organized by shareholders.	Cost auditor submits the report to the company and central government within 180 days from the end of financial year.

Balance Sheet Audit.

Balance sheet audit is a condensed statement that shows the financial position of an entity on a specific date (usually at the last day of an accounting period).

An audited balance sheet is often demanded by the investors, lenders, suppliers and taxation authority. To be considered valid, a balance sheet must give a true ans fair view of an organization's state of affairs and must follow the provisions of GAAP.

It involves a number of checks as auditors conduct evaluation based on supporting documents. After a balance sheet audit, it helps to detect irregularities or weakness in a company's accounting system.

Operational Audit.

Operational audit is a systematic process of evaluating an organization's effectiveness, efficiency and economy of operations under management's control and reporting to appropriate persons the results of the evaluation along with recommendations for improvement.

Objectives of Operational Audit:

- To appraise the effectiveness and efficiency of a division, activity, or operation of the entity in meeting organizational goals.
- To understand the responsibilities and risk faced by the business.
- To identify with the management participation, opportunities for improving control.
- To provide senior management of the organization with a detailed understanding of the operations.

Advantages of operational Audit:

- In addition to making the business more efficient and profitable in the long run, an operational audit almost always provides a company with some new, fresh prospective.
- It makes executives aware of problems that might not have been found otherwise and lets them evaluate risks for the future.
- Managers can also use results to motivate employees, as the company always has something to work toward at the end of the process.

Disadvantages of Operational Audit:

- Reviewing operational processes can be very time consuming and costly.
- When employees and managers are working with the auditor, they can't do other activities that might benefit the business, so projects or production might slow temporarily.
- Something, the changes that a business makes are hard for works to get used to, this can increase conflicts or confusion.

Performance Audit:

Performance audits are independent reviews of government funded organizations to assess whether organizations are undertaking their functions efficiently, effectively and economically.

These are often referred to as the three E's:

i. **Effectiveness:** This refers to the outcomes or results of a program activity. A performance audit will compare the planned outcomes with actual outcomes.
ii. **Efficiency:** This refers to the best way of doing things, but with regard to acceptable quality. It is concerned with the relationship between the goods and services produced and the resources used to produce them.
iii. **Economy:** This refers to the cheapest way of doing things but with regard to acceptable quality. It is concerned with minimizing the cost of resources used.

The Process/ Phases/ Steps/ Stages in Performance Audit OR How performance audit undertaken.

1. **Planning:** During this stage the performance audit team develops the audit team develops the audit objectives, criteria and plans the audit fieldwork. Audit criteria are standards of performance against which an organization or program is assessed. Criteria may be based on best practice, international standards, government targets, procedures or guidelines.
2. **Fieldwork:** During this phase the performance audit team will collect information relevant to each audit criterion. This generally involves interviewing people within the organization, undertaking surveys and reviewing documents and data.
3. **Reporting:** At the end of the fieldwork conduct meet with the organization's management team to discuss the audit findings. Following this will prepare a draft performance audit report which also discuss with the management to check that facts presented in the report are accurate and that any recommendations are appropriate. A final report is then provided to the head of the organization and to the government.

Interim Audit.

Interim audit is an audit which is conducted between the two periodical or balance sheet audits.

Objectives of Interim Audit:

1. To know profit or loss of interim period.
2. To distribute interim dividend.
3. To get loan on the basis of interim account.
4. To get information about the financial position of interim period.

The Advantages and disadvantages of Interim Audit:

Advantages of interim Audit:

- **Publication of Interim Figures:** In some cases the publication of interim figures is compulsory. So in such cases interim audit is very useful.
- **Easy Detection of Errors**: By conducting the interim audit, errors and frauds can be easily detected in time.
- **Check on staff:** When the staff of the client knows that at any time during the year accounts are checked for the interim period then they will not commit any fraud.
- **Completion of final audits:** If interim audit is countered then final audit can be completed very soon and easily.
- **Suggestions implementation:** In case of interim audit, auditor's suggestions can be quickly implemented.

- **Satisfactory work**: Staff of the client may work with proper attention satisfactory along with the advice of the auditor.
- **Convenient:** Interim audit is very convenient for the management because they can invite the audit staff when their business activity is low.
- **Interim dividend:** The management can easily prepare the accounts for proposed interim dividend. Interim audit is very useful to declare thus dividend.
- **Moral check:** All the work done by any staff members of the company is checked by the auditor in the interim audit, so it provides the moral check.
- **Case of new partner:** In a business when a new partner enters, interim audit determines correct position of assets and liabilities.
- **Death case:** When any partner dies then interim audit is very helpful in determining the assets and liabilities.
- **Retirement case:** If any partner wants to leave or retire from the business then interim audit can easily determine the correct position of its assets and liabilities.
- **Price fixing:** The prices of the goods and services are fixed by the management and cost is calculated by adding the profit. Interim audit is desirable to fix selling price.
- **Encourages investment:** Due to interim audit, investor rely more on the company's performance. Investor can purchase and sell the shares keeping in view the audit report.

Disadvantages of Interim Audit:

- **Disturbance:** Regular accounting work is disturbed by the interim audit.
- **Burden of work:** audit staff required to prepare the audit notes when they will finish the interim audit. So the burden of work in this way.
- **Changing in figures:** A dishonest official may change the figures of accounts which are already audited by the auditor. So there is also a chance of fraud in such type of audit.
- **More expensive:** this type of audit increases the expenses of business because it is not compulsory by law.
- **Not useful for third party:** It has no use for third party because the audit is used only to improve the efficiency and effectiveness of accounting system.

Management Audit.

Management audit is a process of systematically examining, analyzing and appraising management's overall performance.

Definition:

Management Audit is Independently Examination of organisation structure, operation function Analyzing goals plans Policies, Activities, weaknesses and Evaluation of earning capacity of the Management.

OBJECTIVES OF MANAGEMENT AUDIT

- To identify the level of achievement of t main objectives of organization.
- To identify the defects or irregularities of management executives
- To ensure that the management is going to achieve the objectives.
- To help the management to do efficient administration of the operations
- To ensure optimum utilization of human resources and available physical facilities.
- To point out deficiencies in objectives, policies, procedures and planning.
- To suggest improved methods of operations.
- To point out weak links in organizational structure and in internal control system and suggesting improvements.
- To help management by providing early signals of sickness its ways and means to avoid the same; and
- To anticipate problems and suggest remedies to solve them in time.

The characteristics of management audit are as follows :

Management audit is a process of examination and evaluation of the performance of managerial functions.

- It is an appraisal of both policies and actions.
- It ensures the sound and healthy growth of the business organisation.
- It is both preventive and curative. Besides detecting and diagnosing the existing problems, it suggests measures to avoid probable dangers.
- It is not a post-mortem examination of the business activities. Its concept is forward looking and therefore management audit is more concerned with future.
- It is dynamic and result oriented rather than simply procedure bound.
- It is a constructive method of assisting management to improve the operations of its business. It identifies areas of weakness in internal control system in operation and suggests measures to improve performance.
- It is an extension of internal audit and is a development over it and is very close to operational audit.

Principles of Management Audit

1) Integrity, Objectivity and Independence : The auditor should be straight forward, honest and sincere in his approach to his professional work and should maintain an impartial attitude.

2) Confidentiality : The auditor should respect the confidentiality of information acquired in the course of his audit work.

3) Skills and Competence : The audit should be performed and the report should be prepared with due professional care by persons who have adequate training, experience and competence in auditing.

4) Documentation : The auditor should maintain documents which are important in providing evidence that the audit was carried out in accordance with the basic principles.

5) Planning : The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner.

6) Audit Evidence : The auditor should obtain sufficient appropriate audit evidence to enable him to draw reasonable conclusions there from on which he can base his opinion on the financial information.

7) Accounting System and Internal Control : The auditor should reasonably assure himself that the accounting system is adequate and that all the accounting information which should be recorded has been recorded intact.

8) Audit Conclusions and Reporting : The auditor should review and assess the conclusions drawn from the audit evidence and submit a report that contains a clear written opinion on the financial information of the organisation.

Advantages of Management Audit

The importance of management audit are as follows :

- Management audit attests the quality of the management in the similar way as financial audit attests the accuracy of the records and financial statements.
- It permits more objective and complete evaluation of the total management and operating structure.
- It enables the management to find specific problem areas where managers are unable to come out with fruitful solutions.
- Identification of major areas needing shoring up is made possible by the management audit.
- A check can be made on new policies and practices for both their suitability and compliance.
- It provides adequate measure for the extent to which the current managerial controls are effective.
- It provides mechanism for continually updating the total management and operating structure of the firm.
- Management audit does not concentrate on individual performance.

Disadvantages of Management Audit

The limitations of management audit are as follows :

- Management auditor cannot understand the practical problems. So, the suggestions provided by them is theoretical but not practical.
- Scope of management audit is vague(unclear). So, it does not help to achieve specific goal.
- Generally management gives more emphasis on maintaining books of accounts rather than concentrating on other factors. So, it consumes time of farsighted management.

Relationship of Auditing with other disciplines

Auditing is a multidisciplinary field that has connections and relationships with various other disciplines and areas of study. Here are some key relationships between auditing and other disciplines:

1. **Accounting:** Auditing is closely related to accounting as auditors examine financial statements and accounting records to ensure accuracy and compliance with accounting principles and standards. Auditing provides independent verification of financial information prepared by accountants.
2. **Finance:** Auditing is important in the financial sector to assess the financial health and risk of organizations. It helps investors and stakeholders make informed decisions about investing and financing.
3. **Law:** Auditors often work closely with legal professionals, especially in cases involving financial fraud or white-collar crimes. Legal requirements and regulations influence auditing standards and practices.
4. **Economics:** Auditing contributes to the economic efficiency by promoting transparency and accountability. Economic theories can help auditors understand the incentives and behaviors of entities under audit.
5. **Information Systems and Technology:** With the increasing use of technology in business operations, auditing often involves the evaluation of information systems and controls. Knowledge of IT systems and cybersecurity is essential for modern auditors.
6. **Management:** Auditing provides feedback to management on the effectiveness of internal controls and helps in identifying areas for improvement. It is a crucial tool for corporate governance and risk management.
7. **Ethics:** Ethical considerations are fundamental in auditing. Auditors must adhere to a strong code of ethics to maintain independence, objectivity, and integrity in their work.
8. **Statistics and Data Analysis:** Auditing relies on statistical sampling and data analysis techniques to draw conclusions about the entire population of financial transactions. Statistical concepts are important for audit planning and testing.
9. **Taxation:** Auditors often assess tax compliance as part of their work, ensuring that organizations comply with tax laws and regulations.
10. **Environmental Science and Sustainability:** With the growing emphasis on corporate social responsibility, auditors may also evaluate and report on sustainability and environmental performance.
11. **Psychology and Behavioral Science:** Understanding human behavior and biases is essential when assessing the reliability of financial statements and the effectiveness of internal controls.
12. **Healthcare and Healthcare Quality:** Auditing in healthcare ensures compliance with regulations and the quality of patient care. This area has unique audit requirements.
13. **Education and Training:** Auditors must undergo specialized education and training to keep up with changing regulations and best practices. Educational institutions provide the necessary training.

These relationships demonstrate that auditing is a dynamic field that draws from and contributes to various other disciplines, and it plays a critical role in ensuring transparency, accountability, and trust in financial reporting and business operations.

The preparation before commencement of New Audit.

A person, who is qualified under sec 226.will be appointed as auditor to company under sec224, before commencing the audit work.

The following preliminary steps are to be executed:

1. **VERIFICATION OF APPOINTMENT:** First of all auditor has to confirm whether his appointment is properly made or not. If appointment is not proper, he cannot claim remuneration. If he is appointed by the shareholders, if he is appointed by the shareholders he has to see whether the procedure specified under sec 224 is properly followed or not. If he is appointed by directors he has to go through the resolution made by the court.
2. **VERIFICATION OF MEMORANDUM:** Memorandum is started of the company. It deals with external affairs of the company. Out of its clauses, the information written under objects clause, liability clause and capital clause is useful to auditor. Therefore he should refer to memorandum and such information should be taken to audit note book.
3. **VERIFICATION OF ARTICLES:** Articles read about internal affairs of the company. It includes calls on shares, transfer of shares, reserves, payment of dividend etc. all these things are useful to company auditor and hence abstracts from articles should be taken to audit note book.
4. **VERIFICATION OF PROSPECTUS:** Before commencing the audit work, auditor should refer to prospectus also to obtain information relating to minimum subscription, preliminary expenses, underwriters commission, terms of issue etc.
5. **VERIFICATION OF CONTRACT DEEDS:** On account of legal entity company can enter into contracts. Auditor should refer to those contract deeds to know about names of parties to the contract, contract prices, other terms.
6. **VERIFICATION OF CERTICATE OF INCORPORATION AND CERTIFICATE OF COMMENCEMENT OF BUSINESS:** If it is the first audit of the company, audit should refer to certificate of Incorporation and Certificate of Commencement of Business issued by registrar of companies to confirm that that the company has got formed properly in accordance with requirements of companies act.
7. **VERIFICATION OF INTERNAL CHECK SYSTEM:** Internal check means arrangement of staff in such a way where work done by one clerk automatically gets checked by the other. Well planned internal check system minimizes scope for frauds and errors. In presence of well designed internal check system, auditor can follow shortcut methods like test checking etc. good internal check system reduces the work load of auditor.
8. **LIST OF BOOKS:** Auditor should obtain list of books maintained by the company. Company maintains several statutory books or compulsory books, statistical or optional books; cost records, financial records etc. all those books are to be listed.
9. **LIST OF OFFICES:** Auditor should refer to organization chart of the company and the key positions are to be formed. Here auditor has to gather names, rights, duties, specimen signatures etc of staff members employed at such key positions.
10. **VERIFICATION OF FINANCIAL STATEMENTS:** Auditor should get copies of previous 3 or 4 years financial statements along with audit report. By going through them an idea with regard to profitability, financial position and previous auditor's opinion can be obtained.
11. **CENTRAL GOVERNMENT PERMISSION:** On certain occasions company has to obtain permission from central government. For example: to issue share warrants, granting to directors etc. here auditor has to observe whether permission from Central Government is obtained or not.

Working papers:

Auditing working papers are the documents which record all audit evidence obtained during financial statements, internal management auditing, information system auditing, and investigations.

(or)

Audit working papers are the outcome of the documentation process. Working papers are the record of various audit procedures performed, audit evidence obtained, allocation of work between audit team members etc. Audit working papers are the documents and evidence that an auditor collects and retains with himself during the audit.

Definiton:

According to SAS 41, working papers are the records the auditor keeps of the procedures, the tests performed, the information obtained, and the pertinent conclusions reached in the engagement.

Importance of auditing working papers

1. Working papers assist in the planning and performance of the audit.
2. Working papers are necessary for audit quality control purposes.
3. Working papers assure that the work delegated by the audit partner has been properly completed.
4. Working papers provide evidence that an effective audit has been carried out.
5. Working papers increase the economy, efficiency, and effectiveness of the audit.
6. Working papers contain sufficiently detailed and up-to-date facts which justify the reasonableness of the auditor's conclusions.
7. Working papers retain a record of matters of continuing significance to future audits.
8. The preparation of the working papers is a means to give training to the audit clerks as to how to summarize the work done by them.
9. The working papers enable the auditor to point out to the client the weakness of the operation's internal control system and the accountancy system's inefficiency. Therefore, he may be in a position to advise his client on how to avoid such pitfalls.
10. The working papers enable the auditor to prepare the report to be issued without wasting time.
11. He can know that his assistants had followed his instructions.

Contents of Working Papers

Each audit working paper must be headed with the following information:

1. The name of the client.
2. The period covered by the audit.
3. The subject matter.
4. The file reference.
5. The initials (signature) of the member of staff who prepared the working paper and the date on which it was prepared.
6. In the case of audit papers prepared by client staff, the date the working papers were received, and the initials of the audit team member who carried out the audit work.
7. The initials of the member of staff who reviewed the working papers and the date on which the review was carried out.

Characteristics of Good Working Papers

A good working paper should meet the requirements of ISA 230 by displaying the following characteristics:

1. Working papers should contain all the essential information to be of maximum utility. Facts that are not important should be omitted.
2. It should state a clear audit objective, usually regarding an audit assertion (for example, 'to ensure the completeness of trade creditors').
3. It should fully state the year/period end (e.g., 31 October 2006) so that the working paper is not confused with documentation belonging to a different year/period.
4. It should state the full extent of the test (i.e., how many items were tested and how this number was determined). This will enable the preparer and subsequent reviewers to determine the sufficiency of the audit evidence provided by the working paper.
5. Where there is a necessary reference to another working paper, the full reference for that other working paper must be given. A statement that testing details can be found on 'another working paper' is insufficient.

6. The working paper should clearly and objectively state the test results without bias and based on documented facts.
7. The conclusions reached should be consistent with the results of the test and should be able to withstand independent scrutiny.
8. The working paper should be referenced to be filed appropriately and found easily when required later.
9. It should be signed by the person who prepares it so that queries can be directed to the appropriate person.
10. It should be signed and dated by any person who reviews it to meet the quality control requirements of the review.
11. The paper used for working papers should be of good quality so that it may not be damaged by frequent handling.
12. Paper used should be of convenient and uniform size.
13. Sufficient space should be left after each note so that any decision the auditor may take down in that space.

Audit Note Book:

Audit Notebook is a diary for auditors to record observations, errors, doubtful queries, explanations, and clarifications to be received from the clients.

(or)

A note book which is prepared by the audit staff to note down all the unclear queries which he may find in the course of audit and requires further clarification and explanation is known as audit note book.

Objectives of audit note book:

1. To know about the nature of business i.e., regarding provision of memorandum, articles of association.
2. Not to leave any errors and frauds which helps to make audit more efficient and effective.
3. To make the further audit work easier. Auditor can get information regarding nature of business from previous audit note book.
4. To check the list of debtors and creditors so that false list can be detected.
5. To know about the facts where clarification and explanation are essential.
6. To present as proof by the auditor to get clearance over the cases if auditor has been accused for misfeasance and negligence.
7. To assure the audit of major function or items of the business where there are chances of frauds and errors.

The Contents of Audit Note Book.

General Information:

1. The nature of the business carried on and the important document relating to the constitution of the business i.e., MOA and AOA in case of limited companies and partnership deed in case of partnership firm and other legal documents.
2. The name of the client and the audit year.
3. A list of books of accounts in use.
4. Names of principal officers, their duties and responsibilities.
5. Particulars of the accounting and financial system followed and the internal check in operation in the business.
6. Details regarding accounting and financial policies followed in the business.
7. A copy of the audit program.

Special matters to be recorded in the audit note book:

1. Routine queries not cleared i.e., missing receipts and vouchers.
2. Details of mistakes and errors discovered.

3. The points raised during course of audit, to which the attention of the audit must be drawn, i.e., failure of the company to comply with provisions of Companies Act or of the Memorandum of Association and other legal requirements.
4. Extracts from minute books and contracts and other correspondence with various government agencies, financial institutions, debtors, creditors etc.
5. The points to be incorporate in the audit report.
6. The points which need further explanation and clarification e.g., a change in the basis of valuation of finished stocks or in the computation of depreciation etc.
7. Date of commencement and completion of audit.

The Advantage of Audit Note Book:

1. **No need to repeat task:** All the facts related to audit are noted down in the audit note book. While auditing the books of accounts of same organization auditor does not need to do the same work. So he can save time and cost.
2. **Helps to get clearance against the case of Misfeasance and Negligence:** If any person files the cases against the auditor charging misfeasance and negligence, an auditor can present audit note book in the court or concerned authority and can get clearance against such cases.
3. **Helps to refer in future:** Auditor can refer such noted point in the future which helps to continue the work of audit in future to the auditor.
4. **To share way to the new staff:** All the points about the progress of audit, nature of audit and problems are noted down in the audit note book. If any staff leaves the job, new staff can refer note book of previous staff and can continue the work of audit.
5. **Helps to measure efficiency of staffs:** An auditor gets information about the performance of individual staff which helps to measure the efficiency of staffs. An auditor can allocate the job to the staffs on the basis of their efficiency.

Disadvantages of Audit Note Book

1. **Fault-finding Attitude:** It leads to development of a fault-finding attitude in the minds of the staff.
2. **Misunderstanding:** Very often maintenance of audit note book creates misunderstanding between the client's staff and the audit staff.
3. **Improper Preparation:** Since it serves as evidence in the court of law, it needs to be prepared with great caution. When the note book is prepared without due care it cannot be used as evidence against the auditor for negligence.
4. **Adverse Effects on Subsequent Audits:** Since audit note book is used in performing subsequent audits, any mistakes in the note book may have adverse impacts on the next audit.

Audit Programme.

Meaning:

An audit programme is a detailed, written statement designed by the auditor indicating the work to be performed by the audit assistants, specifying the time limit for completion of work, instructions and guidance to the audit staff. In short, it is a tool for planning, directing and controlling the audit work.

Definition: Prof. Meigs defines an audit programme as, "an audit programme is a detailed plan of the auditing work to be performed, specifying the procedures to be followed in verification of each item and the financial statements and giving the estimated time required."

Features of an Audit Programme:

The features of an audit programme include the following:

1. It is a set of procedures to be adopted to conduct the audit more efficiently.
2. It is a written scheme designed by the auditor.
3. It is a blue print of the audit work.
4. It facilitates delegation of work, based on the capabilities of audit staff.
5. It acts as evidence in future for the audit work being performed.

6. It specifies the work to be done by the audit staff, the manner and time limit for completion of the work.

Objectives of Audit Programme:

Following are the important objectives of audit programme:

a) To provide clear instructions to the audit assistants specifying the nature of work to be performed and fixing the time span for completion of each work.
b) To facilitate coordination among various parts of audit work.
c) To ensure uniformity in the performance of audit work and to avoid duplication and repetition of work.
d) To attain a fair allocation of work among audit team.
e) To fix responsibility and accountability of each audit assistant.
f) To serve as a guide for planning the audit work in future.
g) To serve as evidence in future showing the date of completion of audit work, methods or procedures undertaken, persons involved in completion of audit work etc.

Contents of an Audit Programme:

The following are the details of an audit programme:

a) Name of the client.
b) Nature of operations and business of client
d) Review of system of internal check.
e) Date of commencement of audit work
f) Accounting system followed in client organization.
g) Review the report of the previous auditor.
h) Review the remarks, instructions or objections raised in the previous audit report.
i) Examine the various ledger accounts and subsidiary books.
j) Examine the statutory books and registers, profit and loss account, and balance sheet

Advantages of the Audit Programme

An audit programme helps the auditor conduct the audit efficiently. Following are some of the advantages of an audit programme:

a) An audit programme helps in the proper distribution of work according to the skills and experience level of the audit team.
b) It helps to ensure that all the important areas are covered during the audit.
c) If a case of negligence is filed against the auditor, the audit programme can serve as evidence.
d) It can be used as a record to conduct future audits.
e) It helps in the proper understanding of the work to be undertaken by each member of the audit team and helps to avoid misunderstanding.

Disadvantages of Audit Programme

a) **Rigidity:** There is no set standard audit program that can be applied in the case of every entity. However, programs differ for different types of entities. Every entity has its own problems. Therefore, we cannot apply for a single audit program in the case of all business entities.
b) **Reduces the Initiative of Efficient Staff:** – A program reduces the initiatives of efficient and competent staff. Thus, staff members cannot make changes to the audit plan and cannot make suggestions for it.
c) **Audit Work becomes Mechanical:** The program becomes mechanical when it ignores other aspects like internal control.
d) **Overlooking New Areas:** A program may overlook the new areas. With the change in time and technology, new problems may arise that an audit program may not consider.

Qualities of an Auditor

No doubt auditor ‘is not a bloodhound, He cannot loot the property of the business for his personal benefit. He cannot allow management to misuse the property. He must use reasonable skill and care to locate errors and frauds in order to meet the requirements of an audit. Here check below the essential qualities of an auditor, which divided in two categories:

1. Professional Qualities of an Auditor
2. Personal Qualities of an Auditor

1. Professional Qualities of an Auditor:

i) **Accounting:** The auditor is an expert in the field of accounting. He knows the principles, methods, and techniques of accounting. It is a process that goes on for the whole year. The accounting system includes personnel, procedures, records, forms, and devices used by any business.

ii) **Auditing:** The auditor is an expert in the field of auditing. He knows the rules and regulations often audit. He has practical experience in the field of auditing. The auditor knows the checking of financial statements records and performance of any concern.

iii) **Company Law:** An auditor has full knowledge of Companies Ordinance 11984, Companies Rules 1985, Modaraba Companies Ordinance 1980, Modaraba Companies Rules 1981, and Banking Companies Ordinance 1962, the auditor carry examine the statements in the light of these rules.

iv) **Mercantile Law:** An auditor is an expert in the Mercantile Law. He has complete knowledge of Contract Act 1872, Sales of Goods Act 1930, Negotiable instruments Act 1881, Partnership Act 1932, Insolvency Act, Transfer of Property Act and Common Carrier Act.

v) **Taxation Laws:** The knowledge of taxation is essential for professional auditor. He knows Income Tax Ordinance.2001, Sales Tax Act, Gift Tax Act, Excise, and Customs Act. He knows the rates of Tax.

vi) **Business Organization and Operation:** The auditor must know organization structure and operations of the business. Placement of Workers on the job is organizational structure. He should know the working of various departments of the business.

vii) **Budget Preparation:** The auditor must be expert in preparing budgets. The figures are collected from past year. The estimates are established for the next year. The various budgets are prepared for all functions of the business concern.

viii) **Electronic Data Processing:** The auditor must be expert in electronic data processing. The computers are used in business for accounting and other functions. The auditor must have the training to handle data through computers.

ix) **General Knowledge:** The auditor must have knowledge of general matters, which may help him in his professional life. He must be aware of economic and political conditions. He should remain in touch with the latest knowledge affecting business concerns.

Personal Qualities of an Auditor

a) **Tact:** The auditor needs technical information to comment and criticize policies of management. When any information is missing he can collect such information with argument and debate without offending them.

b) **Honesty:** The auditor must have high moral standards. It' is his duty to report true and fair view of business matters. He must be straightforward, and honest in his professional work.

c) **Independence:** The auditor must be independent at the time of programming, investigation, and reporting. Other people do not influence him directly or indirectly.

d) **Vigilance:** The auditor is Vigilant about activities of accounting and audit staff. He can discover errors and frauds due to vigilance. He has an alert mind to watch audit work.

e) **Judgment**: The auditor must have judgment for Selection depreciation, provision for bad debts, and inventory can apply professional knowledge to make decisions.

f) **Leadership:** The auditor is a leader of an audit team. The senior and junior audit clerks are working under his leadership- As team leader. He can guide the auditors through demonstration.

Audit Planning

An audit plan is a detailed strategy that sets the nature, timing, scope, and boundaries for the auditor to carry out the entire audit procedure.

Factors Affecting Audit Planning

The factors to be considered while planning are as follows:

1. It should consider the size of the organisation and nature of its operations.
2. Accounting system, internal control and adherence to standard should be kept in mind.
3. The environment in which the company operates should be looked into.• Past experience with the client should be considered; and
4. The auditor should have adequate knowledge of the client's business.

Benefits (or) Advantages of Audit Planning

1) **Accomplishment of Objectives:** Audit plan ensures that it provides right means to achieve audit objectives. Further it also ensures that appropriate attention is devoted to important areas of audit.
2) **Identification of Problems:** A well drawn and established audit plan helps in identifying potential problems.
3) **Timely Completion of Work:** It ensures that work is completed properly within the specified time and no important area is left out. It also ensures that all important areas of management receive attention.
4) **Facilitates Coordination:** It facilitates coordination of the audit work done by auditors and other experts.
5) **Better Audit Work:** It helps in improving the quality of audit work and provides promptness and perfection in audit performance.

Audit Strategy

An audit strategy sets the direction, timing, and scope of an audit. The strategy is then used as a guideline when developing an audit plan.

The fundamental activities to be included in the strategy:

1. **Understanding of Indian accounting and regulatory frame work:** Gain a clear understanding of the rules and regulations governing financial reporting in India. This includes accounting standards, tax laws, and other regulatory requirements.
2. **Client understanding and industry knowledge:** Get to know the client's business operations and the industry it operates in. Understanding the client's unique challenges and opportunities is essential for an effective audit.
3. **Audit objectives:** Clearly define the goals and purposes of the audit. This involves specifying what the audit aims to achieve, such as ensuring the accuracy of financial statements and compliance with regulations.
4. **Risk assessment:** Identify and evaluate potential risks that could impact the accuracy of financial statements. This helps in focusing audit efforts on areas with higher risks of material misstatement.
5. **Material threshold:** Determine the level at which misstatements in financial statements would be considered significant. This threshold guides auditors in assessing the overall impact of errors on the financial statements.
6. **Audit approach:** Plan the overall strategy and methods for conducting the audit. This includes deciding on the nature, timing, and extent of audit procedures based on the identified risks.
7. **Audi team and expertise:** Assemble a team with the right skills and expertise for the specific audit. Ensure that team members have the knowledge necessary to understand and assess the client's operations.

8. **Time line and audit resource:** Define the timeline for completing the audit and allocate resources effectively. This includes determining how much time and which team members are needed for various audit tasks.
9. **Communication with management and governance :** Establish effective communication channels with the client's management and governance structures. Keep stakeholders informed and address any concerns or questions they may have.
10. **Documentation and reporting standards:** Maintain thorough documentation of audit procedures and findings. Adhere to reporting standards to ensure that audit reports are clear, accurate, and in compliance with professional standards.
11. **Quality control:** Implement procedures to ensure the quality of the audit process. This involves reviewing workpapers, conducting peer reviews, and following internal quality control measures.
12. **Tax and legal compliance:** Ensure that the client is in compliance with tax laws and legal requirements. This involves reviewing relevant documents and assessing the accuracy of financial information related to tax and legal matters.
13. **Fraud detection and prevention:** Implement measures to detect and prevent fraud. This includes assessing the risk of fraud, implementing controls to mitigate those risks, and conducting procedures specifically designed to detect fraud.
14. **Corporate governance considerations**: Evaluate the client's corporate governance practices. This includes assessing the effectiveness of internal controls, transparency in financial reporting, and the overall governance structure.
15. **Regulatory changes and updates:** Stay informed about changes in laws and regulations that may impact the audit. Regularly update audit procedures to reflect any new requirements or standards.

Audit engagement

An audit engagement is a formal agreement between an auditor and a client in which the auditor agrees to provide an objective opinion on the client's financial statements.
Audot engement process: the procedures performed by the auditor such as testing transactions, reviewing internal controls as well as assessing the appropriateness of the company's accounting policies and disclosures.

The steps involves are:

1. **Planning the audit:** the auditor will plan the audit engagement by understanding the client business, the risk associted with the financial statements and developing an audit plan
2. **Gathering and evaluating evidence:** the auditor will gather evidence by testing the transactions, reviewing internal controls and assessing the appropriateness of the company's accounting policies and disclourses. The auditor will then evaluate to determine whether the financial statements are presented fairly.
3. **Communication the results:** the auditor will communicate the result of the audit to the client by issuing an audit report. The audit report will include the auditor's opini on the financial statements and any other information required by GAAS or IFRS or any other relevant standards.

Audit documentation

Definition: As per Auditing standard " The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as working papers or workpapers are also sometimes used)".

Audit Evidence: it provides the auditors with the information to help them judge whether or not the financial statements of an organization are accurate and true.

Types evidences:

1. Physical evidence: Tangible items like invoices, receipts, contracts, and other physical documents. Example: Original copies of invoices, physical inventory counts
2. Documentary: Written or electronic records that support transactions and financial statement amounts.Example: Bank statements, sales contracts, lease agreements.

3. Testimonial or oral: Oral or written statements from individuals inside or outside the organization. Example: Confirmations from customers, statements from management.
4. Analytical: Examination of relationships between financial and non-financial information to identify patterns or trends. Example: Comparing current and past financial performance, conducting ratio analysis.
5. Observation: Information obtained through direct observation of processes and activities. Example: Observing inventory counting procedures, walkthroughs of internal controls.
6. Electronic: Information stored electronically, including databases, emails, and other digital records. Example: Electronic bank statements, computerized accounting system data.
7. Confirmations: Obtained directly from third parties to confirm the accuracy of information. Example: Bank confirmations, confirmation of accounts payable with suppliers.

Written representation

A written representation is a (written) statement by management provided to the auditor to confirm certain matters or to support other audit evidence (**ISA 580** Written Representations).

Contents/ purpose

1. **Management Responsibility for Financial Statements:**

Purpose: Confirm that management acknowledges their responsibility for preparing accurate financial statements in line with applicable accounting standards.

Contents: A statement expressing management's commitment to the accurate and fair presentation of financial information.

2. **Completeness of Information Provided to the Auditor**:

Purpose: Ensure that management has provided the auditor with all relevant information for the audit.

Contents: Confirmation from management that they have disclosed all necessary information and have not withheld anything essential for the audit.

3. **Existence and Disclosure of Related Party Transactions:**

Purpose: Confirm that related party transactions have been appropriately identified and disclosed in the financial statements.

Contents: Information about related party transactions and assurances that they have been accurately disclosed.

4. **Compliance with Law:**

Purpose: Affirm that the company has complied with applicable laws and regulations.

Contents: A statement indicating management's awareness of and adherence to legal requirements.

5. **Appropriateness of Accounting and Estimates:**

Purpose: Verify that management has used appropriate accounting methods and estimates in preparing the financial statements.

Contents: Confirmation that accounting policies are in accordance with relevant standards and that estimates are reasonable.

6. **Fraud, Suspected Fraud, or Irregularities:**

Purpose: Bring to the auditor's attention any known or suspected instances of fraud or irregularities.

Contents: Disclosure of any instances of fraud, suspected fraud, or irregularities that management is aware of.

7. **Availability of Relevant Records and Documentations:**

Purpose: Confirm that management has made all necessary records and documents available to the auditor.

Contents: Assurance that the auditor has access to all relevant records, supporting documentation, and explanations.

The management representation letter is an important document in the audit process as it provides written confirmation from management regarding various aspects of the financial statements and the audit process. It enhances communication between management and auditors, contributing to the overall reliability of the audit. The contents of the letter serve to clarify responsibilities, disclose information, and address key aspects of the audit engagement.

Chapter 2: Risk Assessment & internal Control

Meaning of audit risk:

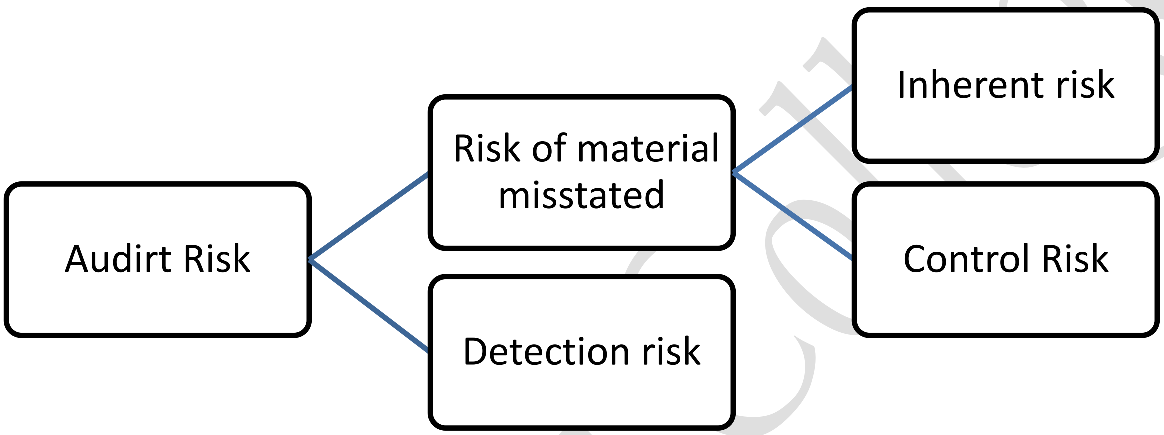
Audit risk means the risk that the auditor gives an inappropriate audit opinion when the financial statements are materially misstated.

(or)

It is the risk that the auditor may fail to express an appropriate opinion in an audit assignment.

Definiton: Audit risk is the risk that financial statements are materially incorrect, even though the audit opinion states that the financial reports are free of any material misstatements.

TYPES/Components of audit risk:



1. **Risk of material misstated:** it represents the likelihood that there are material misstatements (errors or fraud) in the financial statements before considering the effectiveness of the auditor's procedures.

a. Inherent risk: Inherent risk is the susceptibility of an account balance or class of transactions to material misstatement, without considering the effectiveness of internal controls.

Factors Influencing Inherent Risk:

- Complexity of transactions.
- Subjectivity in accounting estimates.
- Nature of industry and operations.
- Changes in the business environment.

b. Control Risk: Control risk is the risk that a misstatement that could occur in an account balance or class of transactions will not be prevented or detected and corrected on a timely basis by the internal control system.

Factors Influencing Control Risk:

- Effectiveness of internal controls.
- Reliability of information systems.
- Competence and integrity of personnel.
- Management's oversight and monitoring.

Significance:

- The RMM is a crucial consideration for auditors when planning an audit. It guides them in determining the nature, timing, and extent of audit procedures.
- Auditors aim to keep the RMM at an acceptably low level to provide reasonable assurance that the financial statements are free from material misstatement.

2. **Detection Risk:** Detection risk is the risk that the auditor's procedures will not detect a misstatement that exists in an account balance or class of transactions.

   Factors Influencing Detection Risk:
   - Extent and effectiveness of audit procedures.
   - Sampling risk (the risk that the auditor's sample may not be representative).
   - Auditor's competence and judgment.
   - Timing of audit procedures.

Risk Assessment Procedures:

1. **Understanding the Entity and Its Environment:**
   - Gain a thorough understanding of the entity's business, industry, regulatory environment, and the external factors that may affect its operations.
   - Understand the entity's internal control environment, including the control activities implemented by management.
2. **Risk Assessment:**
   - Identify and assess the risks of material misstatement in the financial statements. This involves considering inherent risks (related to the nature of the entity and its transactions), control risks (related to the effectiveness of internal controls), and fraud risks.
   - Utilize professional judgment and experience to evaluate the likelihood and potential impact of identified risks.
3. **Materiality Assessment:**

Determine the materiality thresholds for the financial statements. Materiality is the magnitude of an omission or misstatement that could influence the economic decisions of users.

4. **Designing and Performing Audit Procedures:**
   - Develop audit procedures that are responsive to the assessed risks. These procedures may include substantive procedures (tests of details and analytical procedures) and tests of controls.
   - Consider the nature, timing, and extent of audit procedures based on the assessed risks and materiality.
5. **Testing Internal Controls (if applicable):**
   - If the auditor plans to rely on the effectiveness of internal controls, perform tests of controls to assess their operating effectiveness.
   - Evaluate the design and implementation of internal controls relevant to the prevention or detection of material misstatements.
6. **Performing Substantive Procedures:**

Conduct substantive procedures, including tests of details and analytical procedures, to obtain sufficient appropriate audit evidence about the accuracy and completeness of the financial statements.

7. **Evaluating Audit Evidence:**

Evaluate the results of audit procedures to assess whether the evidence obtained is consistent with expectations, supports the conclusions reached, and is sufficient to reduce audit risk to an acceptable level.

8. Forming an Audit Opinion:

Based on the assessment of audit risk, the auditor forms an opinion on the financial statements. The opinion expresses whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

9. Documentation:

Document the entire audit process, including the risk assessment, procedures performed, evidence obtained, and conclusions reached. Proper documentation is essential for accountability and meeting professional standards.

Throughout the audit risk process, professional skepticism is critical. Auditors must remain objective and independent, continually questioning and challenging the information obtained. It's important to note that the specific steps and procedures may vary based on the circumstances of the audit and the nature of the entity being audited. The process also needs to comply with the relevant auditing standards and regulations in the jurisdiction where the audit is conducted.

Significance of audit risk assessment

The assessment of audit risk is a critical component of the audit process, and its significance lies in several key aspects that contribute to the effectiveness and reliability of the audit. Here are some of the key significances of audit risk assessment:

1. **Basis for Audit Planning:** Audit risk assessment serves as the foundation for the overall audit plan. By identifying and assessing the risks of material misstatement, auditors can plan their audit procedures, allocate resources, and determine the appropriate audit approach.
2. **Efficient Resource Allocation:** Understanding and assessing audit risks allow auditors to allocate their resources efficiently. They can focus their efforts on areas with higher assessed risks, ensuring that audit procedures are targeted where the risk of material misstatement is greatest.
3. **Risk-Based Audit Approach:** Audit risk assessment promotes a risk-based audit approach. This approach tailors the audit procedures to the specific risks faced by the entity, increasing the effectiveness of the audit in detecting material misstatements.
4. **Scope of Audit Procedures:** The assessment of audit risk helps determine the scope and nature of audit procedures. Higher assessed risks may require more extensive and detailed audit procedures, while lower risks may allow for a more limited scope.
5. **Identification of Key Audit Areas:** By assessing audit risk, auditors can identify key audit areas where the risk of material misstatement is significant. These areas may include complex transactions, estimates, or accounts with a history of errors.
6. **Evaluation of Internal Controls:** The assessment of audit risk involves evaluating the effectiveness of internal controls. Understanding the reliability of internal controls allows auditors to determine the extent to which they can rely on these controls to reduce audit risk.
7. **Materiality Determination:** Audit risk assessment is closely linked to the determination of materiality. It helps auditors set materiality thresholds, which guide their evaluation of the significance of misstatements in the financial statements.
8. **Professional Judgment and Skepticism:** The process of assessing audit risk involves the exercise of professional judgment and skepticism. Auditors critically evaluate the information provided by the entity, question assumptions, and consider the impact of potential risks on the financial statements.

9. **Communication with Stakeholders:** The assessment of audit risk is communicated to those charged with governance. This communication helps stakeholders, including management and the board of directors, understand the auditor's perspective on the risks associated with the financial statements.
10. **Enhances Audit Quality:** A robust audit risk assessment process contributes to overall audit quality. It ensures that the audit is conducted in a systematic and thorough manner, aligning with professional standards and ethical considerations.
11. **Supports the Auditor's Opinion:** The assessment of audit risk influences the auditor's opinion on the financial statements. A thorough risk assessment process provides a basis for forming a well-substantiated opinion on whether the financial statements are free from material misstatement.

In summary, the significance of audit risk assessment lies in its role as a guiding framework for the entire audit process. It helps auditors plan, execute, and conclude the audit in a manner that is effective, efficient, and in accordance with professional standards.

Internal control system

Meaning: It means by which an organization's resources are directed, monitored and measured. It plays an important role in detecting and preventing frauds and protecting the organization's resources.

(or)

A wide range of techniques used to regulate both financial and non financial operations. Efficient and economic functioning in an organization is ensured by the use of various checks and controls.

Definition: W W Bigg " internal control is best regarded as indicating the whole system of controls, financial and otherwise, established by the management in the conduct of business, including internal check, internal audit and other forms of control.

The objectives of Internal Control

1) **Authorization:** The objective is to ensure that all transactions are approved by the responsible personnel in accordance with specific or general authority before the transaction is recorded.
2) **Completeness:** The objective is to ensure that no valid transactions have been omitted from the accounting records.
3) **Accuracy:** The objective is to ensure that all valid transactions are accurate, consistent with the originating transaction data and information is recorded in a timely manner.
4) **Validity:** The objective is to ensure that all recorded transactions fairly represent the economic events that actually occurred, are lawful in nature, and have been executed in accordance with management's general authorization.
5) **Physical safeguards and securities:** The objective is to ensure that access to physical assets and information systems are controlled and properly restricted to authorized personnel.
6) **Error handling:** This objective is to ensure that errors detected at any stage of processing receive prompt corrective action and are reported to the appropriate level of management.
7) **Segregation of data:** This objective is to ensure that duties are assigned to individuals in a manner that ensures that no individual can control both the recording function and procedures relative to the processing the transaction.

Advantages of Internal Control

a. It helps early detection of frauds and errors.
b. Internal control system saves the time of the auditor, the auditing can be done on test check basis and completed with the prescribed time.
c. As worker performs only the work assigned to hime, the scope for error and frauds are minimum.
d. It helps in fixing the responsibility, accountability, which results in accuracy and realibility. Which helps the management to assess the perfrormance of the employees easily.

Disadvantages of Internal Control

i) Organizational Structure: Deficiencies in organizational structure make internal control ineffective.
ii) Size of the Organization: Small organizations have very low levels of internal control, which are almost negligible due to more interference by owners and management.
iii) Unusual Transactions: The internal control procedures normally fail to keep a check on unusual transactions.
iv) Costly: The implementation of internal control procedures and processes involves incurring costs in terms of time, effort and resources.
v) Abuse of Power: Members at the top-level management may override or interfere with control.
vi) Collusion of two or more People: It may lead to internal controls being over- ridden.
vii) Obsolescence: Control system may become redundant with passage of time if not updated with change in the size and nature of business.
viii) Human Error: Internal control fails as there are posibility of human errors.
ix) Frequent follow-up measures: Follow-up procedures need to be frequent to ensure its effectiveness, which is extremely time-consuming.

Internal check:

Meaning:

Internal Check means that the check imposed in such a way on day to day transactions that work of one person is checked by other person automatically.

Definition of Internal Check.

According to 'F.R.M. De. PAULA " Internal check means practically a continuous internal audit carried on by one staff itself, by means of which work of each individual is independently checked by other members of the staff.

The objectives of Internal Check:

a. To eliminate the frauds and errors committed by the staff.
b. To prevent misappropriation of cash or stock.
c. To ensure the reliability of information produced by the accounting system.
d. To detect errors and frauds promptly this helps to minimize their effects in long term.
e. To exercise moral pressure over the staffs.
f. To allocate duties and responsibility to every clerk in the organization so that he may be held responsibility for their particular fraud and errors.
g. To ensure an accurate recording of all business transactions.
h. To ensure the efficiency of the clerk in the organization.
i. To exercise moral influence over the staff member.
j. To prepare final accounts with an ease and efficiency.

The principles of Internal Check.

1. **Sufficient staff:** Sufficient staff in an organization helps to conduct internal check in an efficient manner. The employees can be appointed according to the workload. The management can determine the amount of work, which is to be distributed among the departments for conducting internal check. The overloading or shortage of staffs can create trouble for the purpose of internal check.
2. **Division of work:** Division of work is a principle of internal check. The process of internal check can be more efficient and appropriate when it is divided among staffs or departments. The management can determine the total amount of work. The whole work of auditing the books of accounts internally is divided among departments. The heads of such department will be held responsible for completion of work according to timetable.
3. **Provision of check:** An organization should set up such provision, so that work can be checked by another staff. An officer can check the work of one staff by transferring to another staff and again.
4. **Use of Devices:** In this modern world, various devices can be used to do various functions like use of time record machine, wage determination machine etc. an organization should use such machines which helps to make work of internal check easier.
5. **Self-Balancing System:** An organization can use self-balancing ledger accounts which help to make the work of internal check easier. Self-balancing ledger accounts is a system in which two accounts must be affected with a single transaction within a ledger.
6. **Change in work:** An organization needs to transfer the staffs from one place to another place so that work of previous staffs can be checked by the later staff which helps to make the internal check system effective.
7. **Specialization:** Every staff may not have such knowledge to maintain the accounts properly. So, an organization should give training to increase their skill so that internal check can be made more effective.
8. **Control:** There is more chance of frauds where there is direct contact of consumer or public., so, a manager can keep eyes in those works so that internal check system can be made more effectively.
9. **Co-Ordination:** All departmental managers are bound to co-ordinate with each other in order to achieve organization's objectives. When there is a fault in one department, the work of the other department suffers. The objectives cannot be achieved. Internal check determines the degree of coordination among the managers.
10. **Rotation of duties:** The workers feel bore by doing the same work from year to year. There is a need of rotation of duties. It is in the interest of the concern as well as employees. The efficiency is improved due to changes in duties.
11. **Recreation leave:** Recreation leave is given for the employees for a long duration other than the usual vacation. This is usually provided for the employees who work in abroad, to see their families. This also acts as an internal check, as he cannot commit fraud as the new employee in his place can disclose the matter.
12. **Responsibility:** Responsibility of each individual must be properly defined and fixed. The work of the business should be allocated amongst various clerks in such a manner that their duties and responsibilities.
13. **Automatic machines:** The principle of internal check is that machines must be used to do accounting work if permissible. The machines can do lot work without delay. The changes of fraud

and error are reduced to a minimum. The working of machines improves efficiency of accounting staff.

14. **Checking:** The principle of internal check is to check the work of other employees. Many persons perform the work. The officers can put his signatures to verify the work done by his subordinate. In this way one work passes many hands. The changes f error and fraud are minimized due to checking and counter checking.
15. **Simple:** The principle of internal check is simple in working the employees can understand the working of internal check system. A person can work under the supervision of other employees. The line of authority moves from top to bottom level. All workers can understand their duties in the organization.
16. **Documents classification:** The classification of the documents is the principle of internal check. The business documents are prepared, collected, recorded and placed in proper files. The index is prepared to compile the data. The filing system is useful; to place the latter. In case of need the documents are traced at once.
17. **Dependent work:** Under internal check the work of one employee is dependent upon others. One work passes in the hands of two or three till it is complete. Another person checks the passes done by one person. No person in all in all to start and complete the transactions.
18. **Harmony:** The principles of internal check are harmony among the employees and departments. The understanding is essential for business goals. The management is o achieve other social and national objectives. The harmony is basis for successful internal check.
19. **Completion:** The work should be divided in such a way that no single person is allowed to complete the work solely by himself from the beginning to the end. However, there should be no duplication of work.
20. **Other principles:**

a) The division of the work should not be much expensive.
b) The financial and administrative power should be assigned very judiciously to different officers.
c) The duties among the staff of the business should be changed from time to time so that no staff should be engaged in a particular job for a long time.

Internal Check with regards to Wages.

The system of internal check for wages should be devised in a careful and planned way, especially in manufacturing concerns, employing large number of workers, possibilities of frauds are always there. Thus efforts should be made to prevent such frauds with the help of some suitable arrangements of internal check which should be revised from time to time in the light of experience gained. System should be actively enforced and supervised by some responsible official. The Objectives are as follows:

a. To avoid inclusions of dummy workers in the list of workers.
b. To avoid incorrect time or piece work records.
c. To avoid fraudulent manipulation of wage-sheet and misappropriation of money etc.
d. To minimize such frauds, the following system of internal check for wages is suggested.

The guidelines with regards to payment of Wages.

1) The clerks associated with the preparation of wage sheets must not be associated in the payment of wages to avoid collusion between two or more persons.
2) The cashier should be entrusted with the job of disbursement as it is associated with the preparation of wage sheets.

3) Each worker, who is to receive the wages, should be present.
4) The foremen or concerned officer of each department should be present at the time of payment to identify the worker of this section and to prevent any sort of impersonation for workers who are absent.
5) Where possible, signature of the workers should be obtained when they received the amount of wages.
6) If casual workers are also employed in the organization, separate list of such workers should be prepared and the payment should be made to them in the presence of a responsible officer.
7) Proper arrangements should be made with regards to unclaimed wages.
8) Advances to the workmen should be discouraged and if it becomes unavoidable they should be given and these should be later deducted from the wages of respective workers.

The Internal Check

Maintenance of Wage records:

1. **Time records:** Workers are paid their wages normally on the basis of time. Thus the time spent by each worker should be correctly recorded in that time-record book and for this purpose the following methods are in practice:
   - **The time recording clock:** The time recording clock is placed at the gate under the charge of a timekeeper. As soon as worker enters the gate, the time keeper inserts his time into the clock which records the time. It is recorded when the worker leaves the factory.
   - **Brass token:** The workers are given brass token bearing their numbers. At the gate, a time board is maintained on which each worker hangs his token as soon as he enters in the factory. The time keeper is thus able to record the time of workers entering the factory. He should be vigilant enough to see that no workers hang the token of others who are late or absent.
   - **Attendance cards/punching machine:** Each worker is provided with a time card with his name, number, department and wages rate mentioned on it. He should punch card at the time of his arrival and departure. The punching or card must be supervised by the time-keeper. Foreman of each department should also be asked to keep the time records of his workers. The time keeper and foreman should separately prepare the time records and the name of absentees at the end of the day.
   - **Computers:** This method is the most popular method now especially with the multinationals. An identity card is issued to each worker and when the employee enters the factory and leaves the factory, he puts his identity card in the slot of the time recording machine. This machine is controlled by the computer. So the computer records the time the employee spends in the office. Another advantage of this method is that only with a proper identity card, the employee can enter the office. That is only if the identity card is the authorized one, then only the door will open for the employee.
2. **Piece work records:** Where the workers are paid on the basis of piece wages system. Each worker should be provided with a job card, piece work return form bearing his name, job number, nature of work and rate at which wages will be paid. The actual work done by a worker should be recorded on this card which should be countersigned by the foremen of the department. Store keeper to whom the goods manufactured are handed over, should also sign this card. It should be finally checked by piece work reliever along with quantity of goods.
3. **Over time records:** Ordinarily one time work should not be encouraged. No workers should be allowed to work overtime unless is authorized to do so by the authorized official or the

organization. Strict check must be kept on loiterers at the place of the work. Over time slips should be sanctioned in advance. Such slips should bear the name and number of workers, overtime put in and the job or the department in which he engaged. At the weekend such slips should be sent to the timekeeper who will forward them to the wage office.

4. **Pass out records:** The workers should not be allowed to leave the factory before the scheduled time. But if sometimes, a worker wants to go out of the factory on his personal work during working hours he should not be allowed to go out of the factory premises without obtaining permission from authorized official, who should issue pass out slips. Such pass slips are handed over to gatekeeper. The wage office should also be given a copy of such slips. In case of workers leaves the factory before time on his own account, it should be properly accounted.
5. **Preparation of wage sheets:** The preparation of wage sheets should be done by a separate department. This work should be done by five clerks to minimize irregularities. Information regarding attendance can be had from the attendance register, job cards, piece work register, overtime slips, pass out slips etc. for time workers and piece rate workers, a separate wage sheet should be used. In big factories loose wage sheets should be used so that the work may be distributed amongst various clerks easily. All the essential particulars should be entered in the wage slips which should have columns for:

a) Name
b) Number/code number allotted to him and his address
c) Total time worked
d) Details of word
e) Rate
f) Total amount of wages
g) Bonus
h) Overtime, if any
i) Deductions
j) Net amount payable

The whole work is to be divided in various parts to be done by separate clerks in the wage department.

i. Two clerks should examine the time and piece wage records, over time records and other statements received from the foreman.
ii. The third clerk is to prepare individual employee statement i.e., name of the worker, code number allotted to him and his address, total time worked and rate of wages.
iii. The fourth clerk is to check the calculations and deduct the permissible amount i.e. rent, provident fund, income tax, installment of loans and other permissible deductions under the PAYMENT OF WAGES ACT, 1936. From the gross wages to arrive at the net amount to be paid to the workers.
iv. The fifth clerk is to check the whole work thoroughly.
v. All these clerks should initial the wage slips before these are signed by some responsible officer, such as director or works manager.

Internal check with regards to cash

The risk of misappropriation of cash needs no emphasis. The chances of fraud are numerous in cash transactions. For example, receipts may not be entered in the cash-book: records of cash received may be understated by preparing duplicate receipt for amounts less than the original. Cash sales may be treated as credit sales charging the amount to fictitious debtors, etc.

The following are the points that should be taken into consideration while devising a good and proper system of internal checks for cash transactions:

Cash Sales:

Cash Sales are of three types:

1. Sales at Counter / Counter Sales
2. Sales by travelling Salesmen.
3. Postal sales.

1. Sales at Counter / Counter Sales: The following procedure may be of great use in regard to cash sales:

a) A specific number, name or work may be allotted to every salesman.

b) Every salesman is supplied with a separate book containing blank copies of cash memo.

c) Cash memos should be printed in numerical sequence.

d) Cash memos are printed in different colours for salesman at different counters.

e) When the sales man sells goods to a customer he prepares four copies of the Cash Memo. These copies are checked by the senior clerk.

f) Three copies of the cash memo are handed over to the customer and the fourth is retained by the salesman.

g) The customer should hand over three copies of the cash memos to the cashier, who alters collecting the amounts and recording it in his cash register, returns two copies to the customer duly stamp marked “cash paid”.

h) So the cashier collects the amount and records it in his cash register.

i) The customer should present two copies of the cash memos at the counter where the goods purchased by him are to be delivered.

j) Here the customer will get the goods purchased by him are to be delivered to him.

k) The Clerk, at the delivery counter, checks the sales and delivers the goods to the customer and also keeps one copy of the cash memos.

l) In big business houses, the customer’s copy of the cash memo may be checked by the security staff before the customer is allowed to check out of the place.

m) At the end of the day, each counter salesman, cashier and the delivery counter clerk should prepare summaries of Cash Sales.

n) The cash sales summary prepared by the cashier should be verified with the cash sales summary of each salesman and the delivery counter clerk.

o) The differences if any should be immediately enquired into.

p) If the summaries tally, accounts are certified as correct. Then it is sent to the General Manager and another copy is sent to accounts department.

q) Daily cash receipts should be deposited into the bank on the same day.

r) Where cash recording machines are used, the total cash received as shown by the machine should be checked with the amount actually banked.

2. **Sales by Travelling Salesmen:** In big business houses, generally Travelling salesmen are employed to push sales and to collect debts. These Salesmen collect debts from old customers and accept advances for new ones. Ordinarily debtors will be asked to send the remittances by post and not to hand over the cash to any representative of the enterprise. But in exceptional circumstances travelling Salesmen may be permitted to collect cash from the debtors. For example, where it is necessary for enforcement of the terms of credit or where refusal by travelling salesman to collect

cash from a debtor may be regarded as a bad policy. Whatever the case may be, a good system of check over these salesmen is vitally essential. So the following precautions must be taken:

a) Travelling salesmen should be issued with pre-numbered, rough receipt books.

b) Final receipt against receipt of cash by travelling salesman should be issued either from the branch or head office to which the salesman is attached.

c) Customers should be asked to contact the head office or branch office if the final receipt is not mailed to them within a stipulated period.

d) Travelling salesmen should be instructed to remit the entire cash collected by them to the head office or branch office to which they are attached, without making any deduction towards salary or commission payable to them.

e) Head office or branch office should regularly send the statement of accounts to keep them informed of the latest position as to their liability.

f) Special attention should be paid to customer's accounts that have become overdue.

g) There should be surprise transfers of travelling Salesmen from one area to another. This will increase the efficiency of the agents and will also reduce the chances of fraud.

3. **Postal Sales or Value Payable Post (V.P.P) sales:** The following points should be noted in this regard.

   a) There should be a separate register to record sales by post of VALUE PAYABLE POST.

   b) When cash is received against V.P.P sales, it should be entered in the V.P.P register and then it should be posted to the cash book.

   c) Separate bank pay-in-slips should be used to deposit cash received against post sales.

   d) An offer should be deputed to check carefully this register an special attention should be given to those goods that have been returned and those against which payments has not been received .

   e) Cash book and orders received should be checked and order received should bed properly filed too.

Internal Check with regard to Cash Purchases:

1. **Requisition:** The procedure for issuing purchase requisitions should be specified. The head of the department, who is in the need of goods, should fill in a requisition slip duly signed and then should send it to the purchases department. The details about the quantity, is quality and the time by which the goods must be supplied be clearly mentioned in the requisition slip.
2. **Enquiry:** Purchase department makes an enquiry about the terms and conditions of purchases from different suppliers. For this purpose tender are generally invited. But, who shall open and accept the tenders, should be clearly specified. At a rule, the lowest tender should be accepted and accordingly a decision be taken.
3. **Purchase Order:** The Purchase Department places orders which should be recorded in the Purchase Order book. Four copies of purchase order should be prepared. One copy will be sent to the vendor, second to the store department, third copy to the Accounts department and fourth one will be retained by the purchase department itself. A responsible officer should review the purchase order, before signing by the authorized person or director.
4. **Receipt of Goods:** On receipt of goods, the purchase department should be properly inspect them, and there after an entry in the goods inward (Receipt) book, the same should be sent to the stores. Concerned department should be informed about the receipt of the goods.
5. **Making the Payments:** The Purchase Department should thoroughly check the invoices and send the same to accounting department for payment. The accounting department should

compare the invoice with the purchase order and Incoming Inspection Report and should also verify the calculation. The Accounts Department should enter the invoice in the Purchase Book. Only responsible official should draw cheque for the payment of invoice. At the time of signing, a signing authority must verify that correct payment is made. If some portion of the goods is returned to the supplier, a proper entry must be made in the Purchase Return Book. A Credit Note to that effect must be obtained from the supplier and accounts section must adjust the payment accordingly.

A good system of internal check with regard to purchase will prevent the following types of irregularities, errors and frauds.

a. **Fictitious Payment:** Fictitious Purchase may be recorded in the purchase book and the payments withdrawn may be misappropriated.
b. **Double Payment:** Some invoices may be recorded twice and double payment made may be misappropriated.
c. **Artificial inflation in profits:** Goods purchased may not be entered in the period so as to inflate profits.
d. **Artificial reduction in profits:** Goods not received in one period may be entered as purchases so as to show profits less than the actual.

The difference between Internal Check and Internal Audit.

Point of Difference	**Internal Check**	**Internal Audit**
Meaning	Internal Check means that the check imposed in such a way on day to day transactions that work of one person is checked by other person automatically.	It is an independent appraisal of operation and records of the company.
Purpose	The purpose is to prevent minimize possibilities of errors and frauds.	The purpose is to detect errors and frauds that are already committed.
Need of separate Staff	It doesn't require separate staff. It represents only the arrangement of duties.	It requires separate staff employed only for this purpose.
Conduct	It is a continuous process.	The internal auditor has to report periodically about various inefficiencies and suggest improvements.
Beginning	It begins along with the recording of transactions.	It begins when the accounting process ends.
Device	It is devices of doing the work.	It is a device for monitoring of work.
Scope	Scope of internal check is limited especially to the accounting department.	The scope of internal audit goes on beyond accounting department.
Way of Checking	Work is automatically checked.	Work is checked specially.

Chapter 3: Verification & Valuation of Assets & Liabilties

Meaning of verification of Asset:

Verification means the procedure carried out at the year end, to confirm the ownership, valuation and existence of items at the balance sheet date.

Definition:

According to Spicer and Peglar, "Verification of assets implies an enquiry into the value, ownership and title, existence and possession and the presence of any charge on the assets.

Meaning/ definition of verification of liability

According to ICAI " verification of liabilities in auditing involves the process of systematically examining and confirming the accuracy, Legality and completeness of an organization's reported obligations. The verification ensures that liabilities are appropriately recognized, valued, and disclosed in the financial statements.

Meaning of valuation of assets & Liabilties:

The process of determining the monetary value of assets or the financial obligations of the company it owes.

Definition:

"The valuation of assets is an attempt to ensure the equitable distribution of the original outlay over the period of the assets usefulness." Joseph lancaster.

According to ICAI" verification of assets should be aimed at establishing their existence, ownership,possession snd proper recording and proper verification".

Objectives of verification

1) To ensure that assets or liabilities are in existence at the date of the balance sheet and they belong to the client.
2) Assets have been acquired for the business and are clearly stated in the balance sheet.
3) To satisfy himself that the assets/liability are properly valued for the purpose of the balance sheet.
4) To verify that assets are free from any charge or encumbrances.
5) To satisfy himself that the assets are in the possession of the client or in the custody of the person authorized by him.

Principles of verification of assets& Liabilities

Assets:

i) **Existence:** The auditor should confirm that all the assets of thecompany are physically existing on the date of balance sheet.
ii) **Possession:** The auditor has to verify that the assets are in the possession of the company on the date ofbalance sheet.
iii) **Ownership:** The auditor should confirm that the asset is legally owned by the company.
iv) **Charge in lien:** The auditor has to verify whether the asset is subject to any charge or lien.
v) **Record:** The auditor should confirm that all the assets and liabilities are recorded in the books of accountand there is no omission of asset or liability

Liabilities

i) **Existence:** Confirm that the reported liabilities actually exists and valuation is proper. Example: Review contracts, agreements, or invoices to verify the existence of obligations or debts.

ii) **Accuracy & completeness:** Ensure that the recorded liabilities are correct and nothing is missing. Example: Check that all outstanding bills, loans, and other obligations are accurately reflected in the financial statements.

iii) **Ownership:** Confirm that the liabilities belong to the entity. Example: Verify that recorded loans and debts are truly obligations of the company and not mistakenly attributed to it.

iv) **Charge or lien:** Check if there are any assets pledged as security for the liabilities. Example: Confirm whether loans have been secured by specific assets, like property or equipment, and ensure this is properly recorded.

Advantages of verification:

i) **Check On Fraud :-** The chances of fraud reduces due to the verification. It saves the business from misappropriation. Due to this management is not allowed to misuse the assets foe their personal benefit.It is the also a moral pressure on employee.

ii) **Performance Evaluation :-** Verification is very useful in evaluation the performance of management. Auditor can give his remarks about the performance of management through verification and valuation. Keeping in view the remarks of the auditor management can improve its work.

iii) **Proper Use of Assets :-** The assets are properly used for the business because due to the fear of verification,officer never misuse the assets. They know that verification will disclose the misuse.

iv) **Safety For Creditors :-** Verification is very useful for the creditors. The audited accounts provide satisfaction to the creditors and they supply the goods and services to the business on credit. In other words guidance and safety creditors.

v) **Protection To The Lender :-** Proper verification removes the risk of loss. The lender can rely on the audit report of the auditor determines the ownership, value and possession.

vi) **Proper Valuation Of Assets :-** Verification is very useful for the assessment of assets value. There are two types of assets, fixed and floating. Both the assets are verified in different ways. The correct valuation is made by the auditor.

vii) **Proper Recording :-** Verification is very useful for the proper maintenance of record. Management knows that all the accounting information's will be verified by the auditor, so they keep the record properly.

viii) **Benefit For Public :-** The people can understand the exact financial position of business by the verification of the auditor. The auditor discloses the assets and liabilities in the general public which provides guidance to them.

ix) **Guidance For Management :-** Verification is very useful for the management. It provides guidance to the management for the improvement of the business. It also indicates the financial requirements of business. The timely arrangement of finance protects the business.

x) **Safety Of Assets :-** The auditor can inspect the rite of assets verify that these are existing or not. Due to verification these can not be destroyed. Auditor verifies that these are in safe hands or not.

xi) **Verification Of Profit :-** It is very helpful determining the true profit on business resources. The reasonable profit attracts the investors.

xii) **Liabilities Verification :-** The auditor verification of liabilities is very useful for the business owners. They must know the real value of their liabilities. If these are small then it is a good indicator for the business.

xiii) **Business Position :-** Verification of assets and liabilities disclose the real position of the business. If assets value is greater than the liabilities then business will be stable otherwise not.

xiv) **True Picture :-** After verification auditor gives the true picture of the business condition through financial statement. It is not possible for the auditor to give his opinion about the assets without verification.

Auditors duty with regard to verification of assets:

1. **Physical Inspection:**

Duty: Physically inspect significant tangible assets, such as inventory, equipment, and property.
Purpose: Confirm the existence and condition of assets and reconcile physical counts with recorded amounts.

2. **Examination of Documentation:**

Duty: Review supporting documents for asset transactions, such as invoices, receipts, and contracts.
Purpose: Verify the accuracy of recorded transactions and ensure compliance with accounting principles.

3. **Confirmation of Ownership:**

Duty: Confirm ownership of major assets by examining legal documents, titles, or other ownership records.
Purpose: Ensure that the organization has legal rights to the assets reported in the financial statements.

4. **Verification of Valuation:**

Duty: Assess the methods used for valuing assets, especially significant items like property and investments.
Purpose: Confirm that assets are valued appropriately based on relevant accounting standards.

5. **Testing for Impairment:**

Duty: Assess whether there are indications of impairment for assets such as goodwill or long-term investments.
Purpose: Ensure that assets are not overstated and that impairments are appropriately recognized.

6. **Review of Depreciation:**

Duty: Examine the application of depreciation methods to assess the reasonableness of asset values.
Purpose: Confirm that depreciation is calculated in accordance with accounting policies.

7. **Confirmation of Liens or Charges:**

Duty: Confirm the existence and accuracy of any liens or charges against assets, especially those used as collateral.
Purpose: Verify that the organization's obligations and restrictions related to assets are properly disclosed.

8. **Consideration of Leases:**

Duty: Review lease agreements for assets such as buildings or equipment.
Purpose: Confirm the accuracy of lease accounting and ensure proper disclosure.

9. **Subsequent Events:**

Duty: Consider any events occurring after the balance sheet date that may affect the value or existence of assets.
Purpose: Ensure that the financial statements reflect the most current information.

10. **Documentation and Workpapers:**

Duty: Maintain detailed workpapers documenting the audit procedures performed for asset verification.
Purpose: Provide a clear audit trail for the verification process and support the audit opinion.

11. **Communication with Management:**

Duty: Communicate with management regarding any issues or discrepancies identified during the verification process.

Purpose: Obtain explanations and additional information to ensure a thorough understanding of asset-related matters.

By diligently(thoroughly) performing these duties, auditors contribute to the reliability and credibility of the financial statements, providing stakeholders with assurance that the reported assets are accurately presented and comply with accounting standards.

Position of an auditor with regard to valuation of assets and liabilities

1. **Dependence on Valuation by Others:** Companies may rely on external experts or third-party appraisers to perform valuations of certain assets or liabilities.

Auditor's Position: Auditors must assess the competence and independence of these external valuers. While auditors may rely on the work of others, they cannot delegate their responsibility for the overall audit opinion.

2. **Auditor's Responsibility:** Auditors are responsible for forming an opinion on the fair presentation of financial statements, including the valuation of assets and liabilities.

Auditor's Position: Auditors must understand the methods used by management for valuation, assess the reasonableness of assumptions, and perform procedures to corroborate the valuations, ensuring they are in accordance with accounting standards.

3. **Market Value and Accepted Principles:** Valuation often involves considering market values, and it should be done in accordance with accepted valuation principles.

Auditor's Position: Auditors evaluate whether valuations are consistent with accepted principles. If market values are used, auditors may assess the reasonableness of market data and the appropriateness of the valuation method.

4. **Principles of Accountancy:** The principles of accountancy provide a framework for consistent and transparent financial reporting.

Auditor's Position: Auditors ensure that valuations adhere to accounting principles. They assess the consistency of valuation methods with accounting standards and the company's chosen accounting policies.

5. **Consistency and Disclosure:** Consistency in applying valuation methods and clear disclosure of these methods in financial statements are crucial for transparency.

Auditor's Position: Auditors assess whether there is consistency in valuation practices from one period to another. They also verify that the disclosure of valuation methods and assumptions is clear and sufficient for users to understand.

6. **Exercising Caution and Expertise:** Valuation often involves complex judgments and estimates. Exercising caution and relying on expertise are essential.

Auditor's Position: Auditors approach valuation with professional skepticism, carefully reviewing management's judgments and assumptions. They may engage their own experts or use specialists to assess complex valuation issues.

In summary, auditors play a critical role in the valuation process by evaluating the appropriateness and reliability of valuations performed by others or by management. They bring an independent and critical perspective to ensure that financial statements fairly represent the values of assets and liabilities in accordance with accounting principles and standards.

Methods of valuation of assets

i) **Cost price:** The price which is paid for acquisition of asset is known as its cost price; of course the expenses incurred in the purchase of an asset and its installation is included in its cost price.

ii) **Market value:** A value which an asset can fetch in the market when sold is known or termed as market value.

iii) **Replacement value:** It is price at which a particular asset can be replaced. The expenses such as commission, freight etc is also included in such a value.

iv) **Book value:** A value at which an asset appears in the books of accounts is known as book value. It is usually cost less depreciation written off so far.

v) **Going concern value or Conventional value or Token value or Historical value:** it is equivalent to the cost less a reasonable amount of depreciation written off. No notice is taken of any fluctuation in the price of the assets. Reason for this is that these assets are acquired for use in the business and not for resale.

vi) **Realizable value:** A value which will be realized in the market and received from the sale of an asset is known as its realizable value.

vii) **Scrap value:** A value which may be obtained from the asset if it is sold as scrap is scrap value.

Basis of valuation

i) ***Expected Working Life of the Assets:*** As an asset approaches the end of its expected working life, its residual value or remaining future cash flows may be lower, the longer life the higher the value.

ii) ***Original Cost of the Asset:*** The historical cost at which an asset was acquired or produced is a fundamental basis for valuation. The original cost serves as a starting point for valuation, especially for assets where historical cost is deemed relevant for financial reporting.

iii) ***Wear and Tear of the Asset:*** The physical condition or level of wear and tear affects the value of an asset. Auditors consider the current condition of the asset, as wear and tear may reduce its value. This is particularly relevant for tangible assets like machinery or equipment.

iv) ***Scrap Value of the Asset:*** The estimated residual or scrap value at the end of an asset's useful life. The scrap value is considered in determining the total economic benefit of an asset over its life. It contributes to the calculation of depreciation and influences fair value.

v) ***Chances of the Asset Becoming Obsolete:*** The risk of technological obsolescence or changes in market demand affecting the asset's utility. Assets with a higher risk of becoming obsolete may have a shorter useful life or reduced future cash flows, impacting their fair value.

vi) ***Market Conditions:*** The prevailing economic and market conditions influence the fair value of assets. In dynamic markets, changes in supply and demand, interest rates, or economic indicators can affect the fair value of assets.

vii) ***Impairment:*** Impairment occurs when the carrying amount of an asset exceeds its recoverable amount. Auditors assess whether there are indicators of impairment, considering factors such as changes in market conditions, technological advancements, or adverse economic events.

viii) ***Replacement Cost:*** The cost to replace an asset with a similar new asset. Replacement cost is considered in scenarios where the cost of acquiring a new asset is relevant for estimating fair value, especially when evaluating damaged or lost assets.

Each of these factors contributes to the overall valuation process, and auditors carefully consider them to ensure that the fair value of assets is accurately reflected in the financial statements. Auditors assess the reasonableness of management's estimates and assumptions related to these factors, contributing to the reliability and transparency of financial reporting.

Verification & Valuation of land & Building

Auditors have distinct responsibilities when it comes to verifying freehold and leasehold properties. The verification procedures ensure that the financial statements accurately reflect the ownership and valuation of these properties. Here's an overview of the auditor's duties:

I. Freehold Land and Building: is a permament property of the organization, has full rights over it.

Verification:

a. Title Deeds:

i) Auditor checks that title deeds are in the client's name, covering all land and buildings in the accounts.

ii) Any additions or sales during the year are carefully examined, ensuring proper profit or loss adjustments.

b. Mortgaged Property:

i) If mortgaged, auditor obtains a certificate from the mortgagee or their solicitor confirming possession of title deeds.

ii) Ensures there is no second or subsequent mortgage.

c. ***Legal Confirmation:*** Auditor may obtain a certificate from the client's legal advisor confirming the validity of the client's title to the property.

Valuation:

Freehold Land:

i) Shown at cost (purchase price, commissions, fees) or at market value if used as the basis.

ii) Development charges paid to authorities should be included in the cost.

Building:

i) Valued at cost less depreciation at a reasonable rate.

ii) Depreciation applied even if the building was not used during the year.

iii) Auditor verifies under-construction buildings with architect's and contractor's certificates.

iv) Ensures a reasonable allocation basis for staff-involved construction.

II. Leasehold Property: it aquired in the form of lease for a fixed periiod of time, and it has to be returned to the orginal owner after the term is completed.

Verification:

a. ***Separate Accounts:*** Auditor ensures separate accounts are maintained for freehold and leasehold properties.

b. Lease Agreement:

i) Auditor inspects the lease agreement for value and duration.

ii) Checks registration with the registrar and secures certification of validity from the client's legal advisor.

iii) Ensures compliance with the terms and conditions of the lease.

Valuation:

Leasehold land and Buildings: Valued at cost less depreciation sufficient to write off during the lease period.

This concise summary emphasizes the key verification and valuation aspects for both freehold and leasehold properties, providing a quick overview of the auditor's duties in these scenarios.

Verification og plant and machinery:

Verification:

a. Physical Inspection:

- The auditor physically inspects plant and machinery to confirm their existence, condition, and location.
- Ensures that items reported in the financial statements are present and operational.

b. **Serial Numbers and Identification**:
- Auditor verifies the presence of serial numbers and unique identification tags on plant and machinery.
- Helps in tracking and confirming the identity of each item.

c. Title and Ownership:
- Auditor checks ownership documents and title deeds for the plant and machinery.
- Ensures that the company has legal ownership or the right to use the assets.

d. Leased or Mortgaged Assets:
- If any plant and machinery are leased or mortgaged, the auditor verifies lease agreements or mortgage documents.
- Confirms compliance with terms and conditions and ensures proper accounting.

e. **Imported:** auditor should check with customs duties rules and procedure with regard to import/ export. Check with payment methodologyies and related correspondence between the parties and confirm the transaction.

Valuation:

a. Cost Basis: Plant and machinery are generally valued at cost, including the purchase price, transportation, installation, and any other directly attributable costs.

b. Depreciation: Auditor assesses the appropriateness of the depreciation method and rates applied. Depreciation is provided to reflect the reduction in the economic benefits of the assets over time.

c. Impairment (damage)Testing:
- Auditor performs impairment testing if there are indicators of a potential decline in the value of plant and machinery.
- Compares the carrying amount with the recoverable amount.

d. Revaluation (if applicable):
- If the company has opted for revaluation, the auditor ensures compliance with accounting standards.
- The fair value is determined, and any resulting surpluses or deficits are appropriately accounted for.

e. Useful Life Assessment:
- Auditor reviews the estimated useful life of plant and machinery to ensure it is reasonable.
- Considers technological changes, maintenance practices, and industry standards.

f. Documentation: Comprehensive documentation is maintained by the auditor, including details of physical inspection, valuation methods, and supporting evidence.

This concise summary highlights the key aspects of verification and valuation for plant and machinery, emphasizing the importance of physical inspection, ownership validation, and adherence to accounting principles.

Verification of investments:

Meaning of investment:

Investments refer to monetary assets acquired by an individual, company, or entity with the expectation of generating income in the future or selling the asset for a profit. These assets can include various financial instruments such as government securities, shares, debentures, and other securities. The investments are classified as – (1) Quoted Investments, and (2) Unquoted Investment

1) **Quoted Investment**

A company's share is said to be "lists", or "Quoted" if its share can be traded on a stock exchange, i.e., Public Limited Companies.

Verification:

a. Confirm board authorization for investment purchases.
b. Vouch entries in brokers' contract notes, share certificates, and cash books.
c. Physically inspect share certificates to ensure accuracy.
d. Confirm that the type and number of shares match the investment account.
e. Ensure proper classification and disclosure as per regulatory requirements.

Valuation:

a) Determine the value based on publicly quoted market prices.
b) Apply the lower of cost or market price principle.
c) The auditor should examine whether in computing the cost of investment, expenditure incurred on account of transfer fees, stamp duty, brokerage etc., is included in the cost of investment.

2) **Unquoted Investments:**

Unquoted investments, also known as unlisted investments, are financial instruments (e.g., shares) that are not traded on a public stock exchange. These investments are not subject to the same level of market scrutiny as quoted investments.

***Verification*:**

a. Verify authority for the purchase of unquoted investments.
b. Review the Memorandum of Association to ensure authorization.
c. Obtain a certified schedule of securities from a senior officer.
d. Examine the schedule for details like acquisition date, nominal value, cost, market value, rate of interest applicable, dates of interest due, tax deductions etc. at the date of balance sheet.
e. Confirm proper classification and disclosure of unquoted investments.

***Valuation*:**

a) Examine the method used to determine the market value of unquoted securities.
b) Verify that the valuation method aligns with recognized practices.
c) Consider recognized methods such as the breakup value, capitalization of yield, or yield to maturity.
d) Recognize any impairments if there is a permanent decline in value.
e) Apply accounting policies and practices as required by regulatory standards.

Verification of Good will

Goodwill is an intangible asset that represents the earning capacity of a business. It is not usually shown in the Balance Sheet unless purchased or brought into the books during a change in partnership deed. Goodwill arises from factors like the popularity of a location, attractiveness of goods, firm reputation, and owner reputation. It signifies the monetary value of a business's reputation and is classified as a fixed asset.

Verification:

a) When goodwill has been purchased along with a running business, the same should be verified from the agreement with a vendor showing the price paid for it.
b) It should be verified that the goodwill has been recorded in the books of accounts only when some consideration in money or its equal has been paid for as according to AS 10 issued by ICAI on Fixed Assets.

c) In case of Partnership firm, the partnership deed should be duly verified by the auditor. He may also verify the changes made in the goodwill account from time to time on the basis of provision made in the partnership deed

Valuation:

a. Goodwill should be valued at cost less amounts written off.
b. It is no part of an auditor's duty to comment upon the price paid for goodwill even though he considers it to be excessive.
c. The auditor must satisfy himself that the future benefits associated with goodwill exist to justify the continuation of goodwill account.
d. An auditor cannot insist on writing off the goodwill account, but if it appears to him that the future benefit is not existent, he should insist on the account being written off.

Stock in trade:

Meaning:

Stock-in-trade, or inventories, is the core of a business, representing goods held for resale or production. It includes raw materials, work-in-progress, semi-finished goods, finished goods, consumable stores, spare parts, and loose tools.

Verification:

I. ***Internal Control Evaluation***:

1. Custody: Ensure there are enough controls to protect inventory from theft, damage, or hazards. Storage procedures should safeguard items from harm.
2. Records: Maintain proper records of all stock movements, regularly reconciling them with accounts and costing records. This helps in accurate tracking.
3. Authorization: Authorize all stock movements properly. Clearly define authorities for purchase orders and receipts. Issues from stores should only be against approved requisition notes.
4. Insurance: Adequately insure different inventory items against fire, theft, etc. Pay insurance premiums on time and keep policies securely stored.
5. Slow-Moving Stock: Regularly review of inventory to identify and address slow-moving, obsolete, or defective stock. Take necessary actions to manage these items.

II. Examination of Stock Existence:

1. Knowledgeable and Independent Staff: Ensure staff involved in physical stock verification are both knowledgeable about the stock and independent from day-to-day handling or recording.
2. Written Instructions: Issue written instructions for stock counting procedures. Clearly define responsibilities for all staff involved in the process.
3. Calculation Check: Check and compute additions on stock sheets, ensuring accuracy in calculations. This step helps in avoiding errors.
4. Continuous Checks: Continuously or periodically align physical checks with records. Investigate any material differences found during the reconciliation process.

III. Verification of Stock Records:

1. Proper Maintenance: Ensure stock records are well-maintained. Verify receipts and issues of materials, and confirm that Inspection Reports and Stock Sheets are authorized by a responsible person. This ensures the accuracy of recorded data.

Valuation:

The auditor must make sure that stock-in-trade is valued at the lower of its cost price or market price, as specified by the Accounting Standards - 2 of the Institute of Chartered Accountants of India, on the date of the Balance Sheet.

Methods of Valuation of Stock

Valuation of stock-in-trade is ordinarily at cost or market price whichever is less. Auditor generally adopts either of the two methods in valuing stock such as: (1) Pick and Choose Method, (2) Global Method.

1) 'Individual or Pick and Choose' Method: According to this method, the lower of cost or market price is the basis in respect of each individual item and the total of the same is the value of the inventory.
2) Global Method: Under this method, first the cost of all items is determined and aggregated. Then, the market price of all the items is ascertained and aggregated. The lower of these two valuations is the value of the stock.

However, the following methods are used in determining cost price and market price of stock.

Methods of Calculating Cost Price:

a. Unit Cost or Actual Cost Method: Each item is valued at the actual price it was purchased, suitable for goods bought in different lots.
b. First in First Out (FIFO) Method: Issues are priced based on the order of purchase lots, valuing items at their earliest cost.
c. Last in First Out (LIFO) Method: Prices are assigned in reverse order of purchase, valuing items at their latest cost.
d. Base Stock Price Method: minimum quantity is held at a fixed price below the original cost, acting as a base stock.
e. Highest in First Out (HIFO) Method:Issues are priced at the highest available consignment value, maintaining the minimum value for closing stock.
f. Average Cost Method: Items are valued at a weighted average price, considering both quantities and costs, often used for large volumes of materials.
g. Standard Cost Method: Stock is valued at a predetermined cost per unit, known as the standard cost.
h. Adjusted Selling Price Method: Unsold stock is valued at the current price minus normal profit and estimated disposal costs.

Methods of Calculating Market Price:

a) Net Realisable Value: It is the estimated selling price in the market, considering costs like marketing and distribution expenses.
b) Replacement Cost: Represents the cost of replacing the stock with identical items at the balance sheet date.

These methods help in determining the value of stock, considering either the actual cost or market price, whichever is lower, ensuring a fair representation in financial statements.

Cash In hand

Process: Physically verify main cash and petty cash at the closing hours on the last day of the financial year.

Auditor's Caution:

- Be vigilant due to the common occurrence of fraud through cash defalcation or embezzlement.

- Conduct surprise verifications at any time during the audit.

Verification Steps:

i) Ensure the cashier is present during verification.
ii) Exclude temporary advances and payments on suspense accounts.
iii) Count cash at one sitting, compare it with the cashbook balance, and prepare a statement detailing denominations.
iv) Both the cashier and audit staff must sign the statement.
v) Provide a copy to the cashier and retain the original for reference.
vi) Discrepancy Resolution: If there's a disagreement between physical and book cash balance, demand an explanation from the cashier or accountant.
vii) Petty Cash and Other Items: Count petty cash, stamps, and IOUs for temporary advances. Obtain a certificate from the accountant in case of discrepancies.
viii) Verification of Cash-in-Transit: Verify cash-in-transit using proper documentation and correspondences.
ix) Frequency of Verification: Conduct surprise checks during the year to detect potential embezzlement.
x) Internal Control Measures: Discourage the practice of maintaining a large cash balance for better internal control.
xi) Bank Deposits for Cash: Recommend depositing the entire cash balance with a bank on the balance sheet date to simplify counting.
xii) Segregation of Duties: Ensure duties related to authorizing cash transactions are segregated among different personnel.
xiii) Bank Reconciliation: Confirm the periodic preparation of bank reconciliations.

Cash at Bank

verification and valuation of cash at bank, the auditor should take following steps:

1. Compare the balances as shown in the passbook with that shown in the bank column of the cashbook.
2. Bank reconciliation statement is very helpful in detecting various types of frauds. Therefore, prepare a bank reconciliation statement as on the last day of the accounting year for ascertaining the current position of the cheques drawn by the company but not yet presented for payment, or the cheques deposited by the concern but not yet cleared.
3. The auditor shall also carefully verify the post-dated cheques issued by the organisation before the end of the year and ensure that such cheques are not taken into account for the year under audit.
4. Examine that cheques issued for more than three months are treated as unpaid and the relative entries are reversed.
5. Obtain a certificate of balance in client's account as on the Balance Sheet date from the bankers.
6. When the organisation maintains accounts with more than one bank, the auditor should verify all the bank accounts individually.
7. Auditor should obtain separate certificates from the bank in respect of Fixed Deposit Account, Current Account, Savings Bank Account etc.
8. Scrutinise the fixed deposit receipts in respect of their date of issue, amount, rates of interest, date of maturity etc., and get interest accrued on deposits during the year duly adjusted.
9. If any charge created on the deposits or if the deposits made under any legal requirement, the auditor shall ensure that the fact is disclosed in the balance sheet.

10. Sometimes, due to legal restrictions, one or more of the bank accounts of the organisation may be blocked. In such a case, the auditor shall ensure that the fact is disclosed in the balance sheet.

Sundry Debtors (book debts)

Objective: To ensure the accuracy, validity, collectability, and proper disclosure of book debts.

A. Accuracy of Amount:

- Obtain a certified list of debtors from a responsible officer.
- Verify if the sales ledger's debit balance aligns with the control account.

B. Validity (Confirmation):

- Directly confirm balances with debtors through letters.
- Confirmations should be timely and selective, considering factors like response probability.
- Scrutinize and investigate non-responsive or conflicting balances.

C. Collectability:

- Conduct aging analysis to classify debts based on days outstanding.(under 30 days: 30 to 60 days, 60-120 days).
- Assess indicators of doubtful collectability (e.g., payment defaults, insolvency).
- Carefully analyze provisions for doubtful debts made by management.

D. Disclosure in Balance Sheet (Companies Act 2013):

- Present trade receivables not paid for over six months separately.
- Classify trade receivables as secured, unsecured, and doubtful.
- Disclose the allowance for bad and doubtful debts separately.
- Clearly state debts owed by directors, officers, or related entities.

In essence, verification ensures that the debtors' list is accurate, debts are confirmed, their collectability is assessed, and proper disclosures are made in the financial statements.

Patent:

According to the Patent Act 1970, "A patent is an official document that guarantees to the inventor an exclusive right for a term of years to make, use or sell his invention".

Verification:

1. ***Examine Official Certificates:*** Review the actual certificates issued by the patent office for granted patents.
2. ***Registration Confirmation:*** Ensure patents are registered in the name of the client.
3. ***Detailed List:*** Obtain a detailed list with information on each patent, including description, registered number, date, patented item, renewal date, and remaining years.
4. ***Purchase Agreements:*** Inspect agreements if patents have been purchased, noting details and age of each patent.
5. ***Lapse Verification:*** Verify that none of the patent rights have lapsed, and if lapsed, ensure appropriate write-off.
6. ***Capitalization of Fees:*** Capitalize original fees paid for purchasing patent rights. Treat subsequent renewal fees as revenue expenditure.

Valuation:

1. Cost Less Depreciation: Value patents at cost less depreciation.
2. Causes of Depreciation: Consider depreciation due to lapse of time, obsolescence, or the patented article going out of fashion.
3. Write-off for Valueless Patents: If a patent becomes valueless due to obsolescence or lack of demand, ensure its timely write-off.

In essence, the auditor verifies the existence, registration, and status of patents, ensures appropriate capitalization of fees, and values patents at cost less depreciation, considering factors like obsolescence or changes in demand.

Bills Payable:

MEANING

Bill refers to bill of exchange. Bills payable means bills acccepted for the credit purchases made. The amounts on bills are payable at the due dates. It is a current liability.

AUDITOR'S DUTY

1. ***Schedule of Bills Payable:*** The auditor should get a schedule of bills payable and compare with the Bills Payable Book and Account.
2. ***Verify Unpaid Bills:*** He should verify unpaid bills and check the subsequent payments with the cash book.
3. ***Vouch Payments:*** He should vouch the payments made against bills payable.
4. ***Examine Cash and Bank Statements:*** He should examine cash and bank statements for the bills which are met after the date of Balance Sheet but before the date of audit.

Creditors

MEANING: A person who gives a benefit without receiving money or money's worth immediately but to claim in future is a creditor. The creditors are shown as a current liability in the Balance Sheet.

AUDITOR'S DUTY

1. Verify Books of Prime Entry: The postings in purchase ledger are to be checked by verifying the books of prime entry. The postings may be checked for part of a year.

2. Verify Statement of Accounts: The balances shown in credit of suppliers account are to be verified with the statement of accounts obtained from the creditors.

3. Verify Credit Entries: The credit entries relating to discounts, returns, rebates etc. made in the suppliers account are to be verified with the statement of accounts obtained from them.

4. Accounting of Purchase Returns: The return outwards book is to be compared with the ledger accounts and confirm that all the returns are supported by the credit notes of the suppliers.

5. Purchases of Subsequent Year: The purchase invoices relating to the period immediately following the close of the year, are to be verified to ensure that they do not relate to the period under audit.

6. Obtain Reasons for Outstanding Balance: The balances outstanding for a long period is to be probed and reasons for the same are to be found out.

7. Comparison of Gross Profit: Percentage of gross profits of the previous years is to be compared with the gross profits of the year under audit. Variation if any, found to be unreasonable or omission of purchase or inclusion of fictitious purchases are to be considered.

8. Confirmation from Management: The auditor shall obtain from the management a certificate that all liabilities that had accrued till the close of the accounting year are carefully accounted for.

Contingent Liabilties

Meaning: Contingent liabilities are those liabilities, which may or may not arise in the future for payment. The auditor should ensure that all known and unknown liabilities have been accounted in the books of accounts and have been shown in the Balance Sheet.

The following are the examples of Contingent Liabilities:

- Liabilities on Bills Receivable discounted and not matured.
- Liability on account of partly paid calls.
- Liability on arrears of dividend on Cumulative Preference Shares.

- Liability under a guarantee.
- Liability for penalties under forward contracts
- Liability that arises on account of litigation in respect of labour suits, trademarks, copyrights etc.

Verification

1. **Reviewing Contracts:** Examine company contracts for potential liabilities. Ensure accounting includes likely future obligations.
2. **Management Certificate:** Obtain a certificate from management confirming disclosure of expected future liabilities.
3. **Accounting Standard 4 (AS4):** AS4 defines contingencies as uncertain situations with outcomes determined by future events. Recommends provisions for contingent losses based on certain criteria.
4. **Provisions for Contingent Losses:** If contingent loss is likely, it should be recorded in the profit and loss statement.
    - Required disclosures include:
    - ✓ Nature of the contingency.
    - ✓ Factors influencing the future outcome.
5. **Companies Act, 1956:**

Mandates disclosure of specific liabilities in notes, including:

- ✓ Unacknowledged claims.
- ✓ Partly paid shares.
- ✓ Estimated value of outstanding contracts on capital account.

Differences Between Verification and Valuation

Basis	Verification	Valuation
Meaning	Verification estiblishes existences ownership and acquisition of the asset	Valuation certifies correctness of value of asset and liabilities
Evidence	The title deed, purchase receipt constitutes documentary evidence for verification	The certificate offered by the owner, director or expert is the documentary evidence of valuation.
Purpose	Verification is used to confirm the accuracy and truthfulness of information,	valuation is used to determine the worth or value of an asset or entity.
Methodology:	Verification typically involves fact-checking, testing, and inspection	valuation often involves financial analysis, market research, and other techniques.
Timeframe:	Verification is typically a one-time process	valuation may be an ongoing process as market conditions and other factors change.
Personnel	It is done by auditor	Valaution is work of concerned authority or board (company
Legal Implications:	Verification is used to fulfill legal and regulatory requirements	valuation is used for tax, financial reporting and litigation purposes.

Chapter 4: Company Audit and Audit of other Entities

Meaning of an auditor: A company auditor is a qualified Chartered accoutnant appointed to examine the books of accounts and to give his report on the authenticity of books of accoutns at the Annual General meeting (AGM).

Definition of auditor:

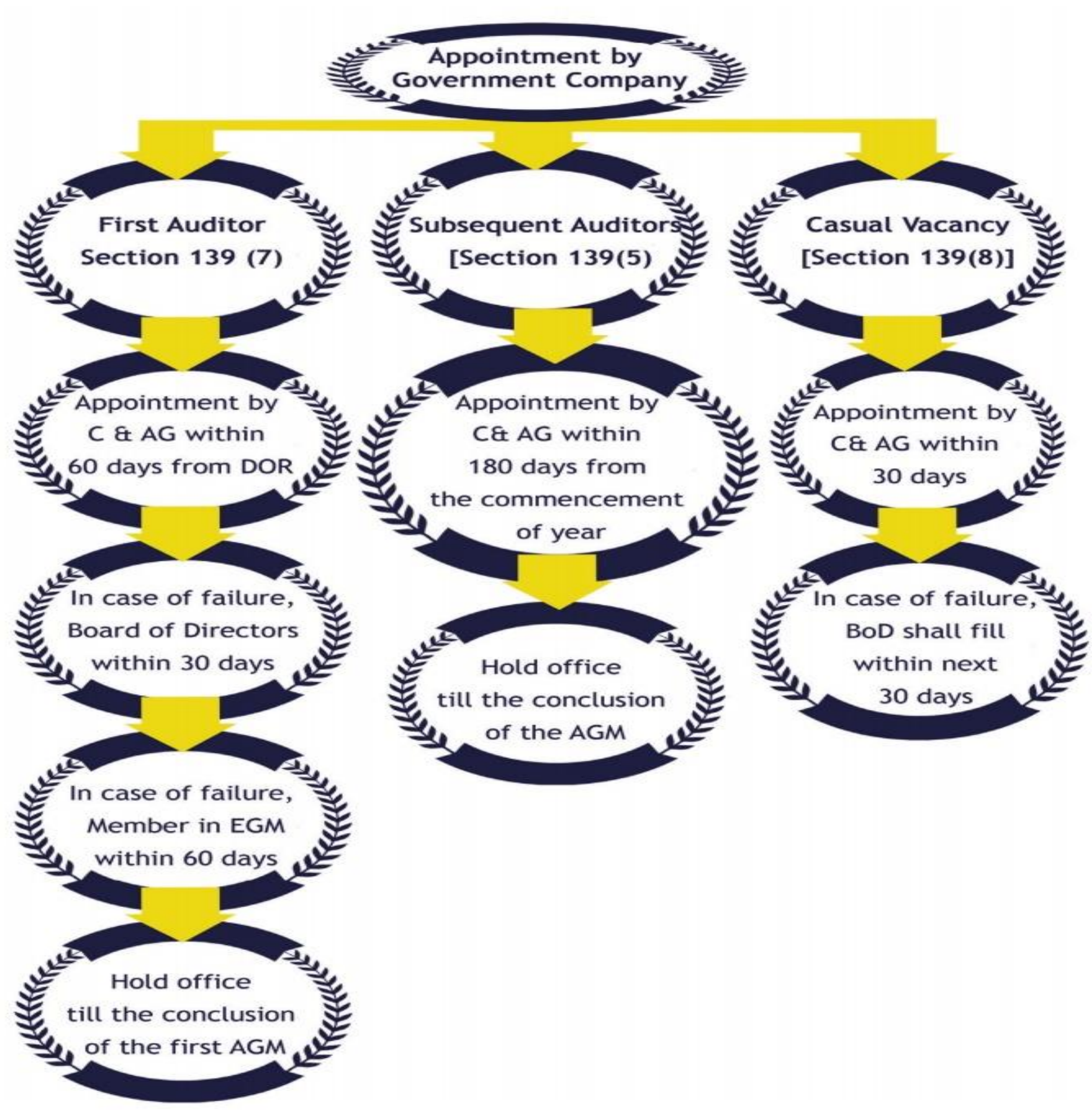
According to Companies Act, 2013, defines as an auditor "an individual or a firm, including a limited liability partnership (LLP), who is appointed by the company to conduct an audit of its financial statements, as required under the Companies Act."

Section 139 to 148 of the Companies Act 2013 deals with the qualification, disqualification, appointment, re-appointment, removal, rights, duties and reports of the auditor.

'company auditor refers to an auditor who is appointed U/S 139with the eligible quality as per Sec141 under the Companies Act 2013 who might be an individual or a firm.

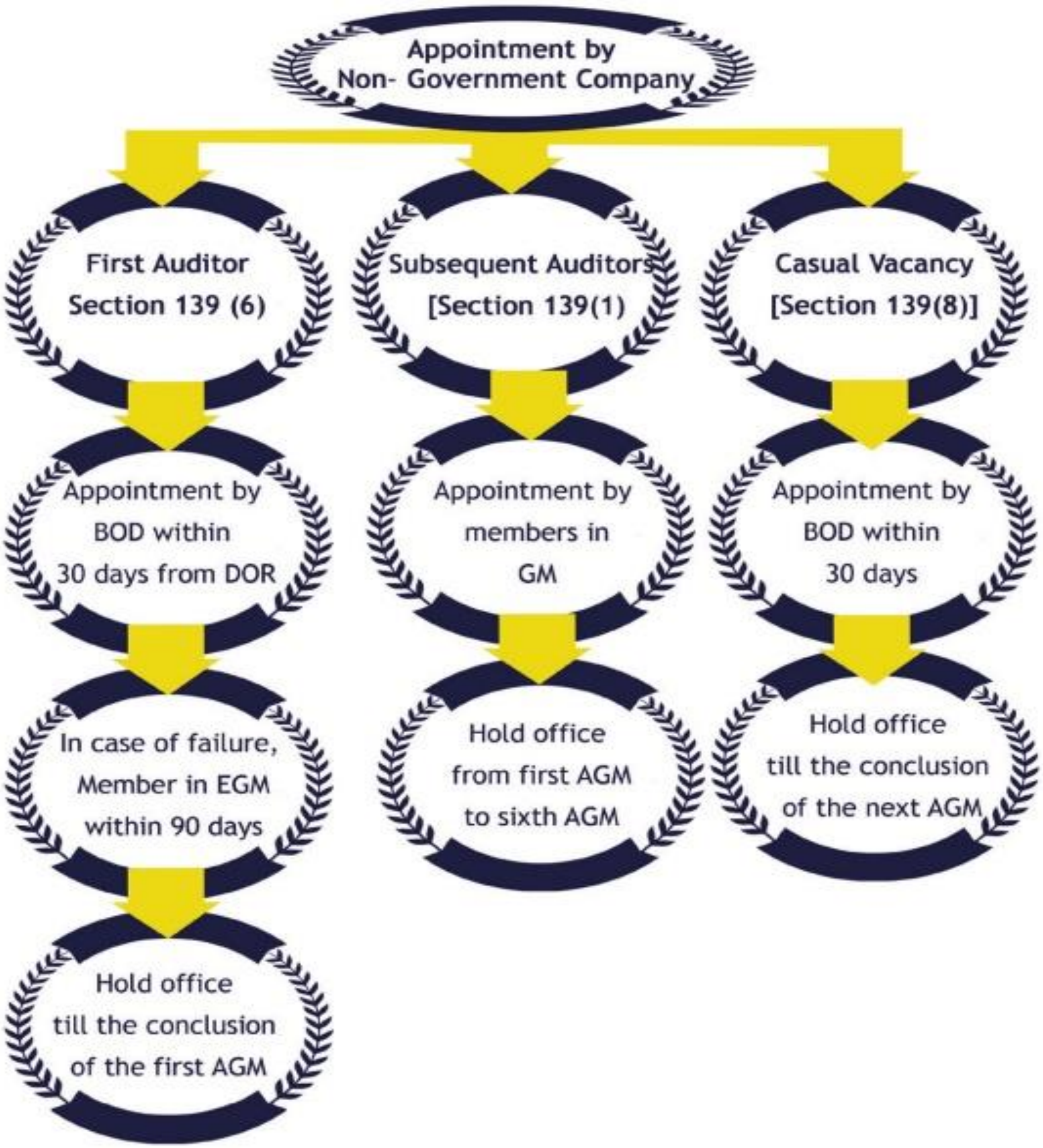
Appointment of an Auditor.

Appointment of Auditor in Government Company.



1. Appointment of First Auditor [Section 139 (7)]
   - The first auditor of Government company shall be appointed by the Comptroller and Auditor General of India within 60 days from the date of registration of the company.
   - In case the Comptroller and Auditor General of India does not appoint such auditor within 60 days, the Board of Directors of the company shall appoint first auditor within next 30 days.
   - In case of failure of the Board to appoint the first auditor, it shall inform Members of the company who shall appoint first auditor within 60 days at an Extraordinary General Meeting.
   - First Auditor shall hold office till the conclusion of the first Annual General Meeting.
2. Appointment of Subsequent Auditor [Section 139 (5)]
   The Comptroller and Auditor General of India shall appoint subsequent auditor of Government companies within 180 days from the commencement of the financial year and who shall hold office till the conclusion of the Annual General Meeting.
3. Appointment in case of Casual Vacancy [Section 139 (8)]
   Appointment of auditor due to casual vacancy in Government Company is filled by the Comptroller and Auditor General of India within 30 days. If he fails to do so, the Board of Directors shall fill within next 30 days.

Appointment of Auditor in Non-Government Company



1. **Appointment of First Auditor [Section 139 (6)]**

- The first auditor of a company other than a Government company, shall be appointed by the Board of Directors within 30 days from the Date of Registration of the company.
- In case of failure of the Board to appoint the auditor, it shall inform the members of the company. The Members shall appoint the auditor within 90 days at an Extraordinary General Meeting.
- Appointed First Auditor shall hold office till the conclusion of the first Annual General Meeting.

2. **Appointment of Subsequent Auditor's [Section 139 (1)]**

- Every company shall appoint an individual or a firm as auditor of the company at the first Annual General Meeting.
- The appointed auditor shall hold the office till the conclusion of sixth Annual General Meeting and thereafter till the conclusion of every sixth meeting.
- The Company shall place the matter relating to such appointment of ratification by member at every Annual General Meeting.
- The written consent of the auditor to such appointment and also a certificate from the auditor that he is eligible for appointment shall be obtained from the auditor.
- The company shall inform the appointed auditor and also file a notice of such appointment with the Registrar within 15 days of the meeting in which the auditor is appointed.

3. **Appointment in case of Casual Vacancy [Section 139 (8)]**

   - Causal vacancy arise due to death or insanity or insolvency of an auditor. If an auditor is disqualified after his appointment, he shall vacate his office as auditor. Such vacation shall be deemed to be a casual vacancy in the office of the auditor.
   - Appointment of auditor's in case of casual vacancy shall be done by the Board of Directors within a period of 30 days.
   - If vacancy is due to resignation of an auditor, such appointment shall also be approved by the company at a General Meeting convened within 3 months of the recommendation of the Board.
   - The auditor shall hold office till the conclusion of the next Annual General Meeting.

Removal and Resignation of Auditor.

- An auditor can be removed before the expiry of the term by obtaining the prior approval of the Central Government by filling an application.
- The Company shall hold the general meeting within 60 days of receipt of approval of the Central Government for passing the special resolution.
- The auditor concerned shall be given a reasonable opportunity of being heard.

Resignation of Auditor [Sec.140 & (3)]

- The auditor who has resigned from the Company shall file a statement in the prescribed form stating the reasons for his resignation to the Comptroller and Auditor General of India in case of a Government Company and to the Registrar of Companies in case of Non-Government Companies.
- While filing the statement, reasons for resignation and other facts as may be relevant with regard to his resignation shall also be indicated.
- In case of non-compliance, he shall be punishable with fine ranging from ₹.50,000 to ₹.5,00,000.

Qualifications of a Company Auditor [Sec.141 (1) & (2)]

Section 141 (1) & (2) of the Companies Act, 2013 prescribed the following eligibility and qualifications of auditor which are as follows:

1. A person, who is a chartered accountant and holds a certificate of practice, shall be qualified to be appointed as an auditor of a company.

2. The partners who are chartered accountants of a firm alone shall be authorized to act and sign on behalf of the firm.

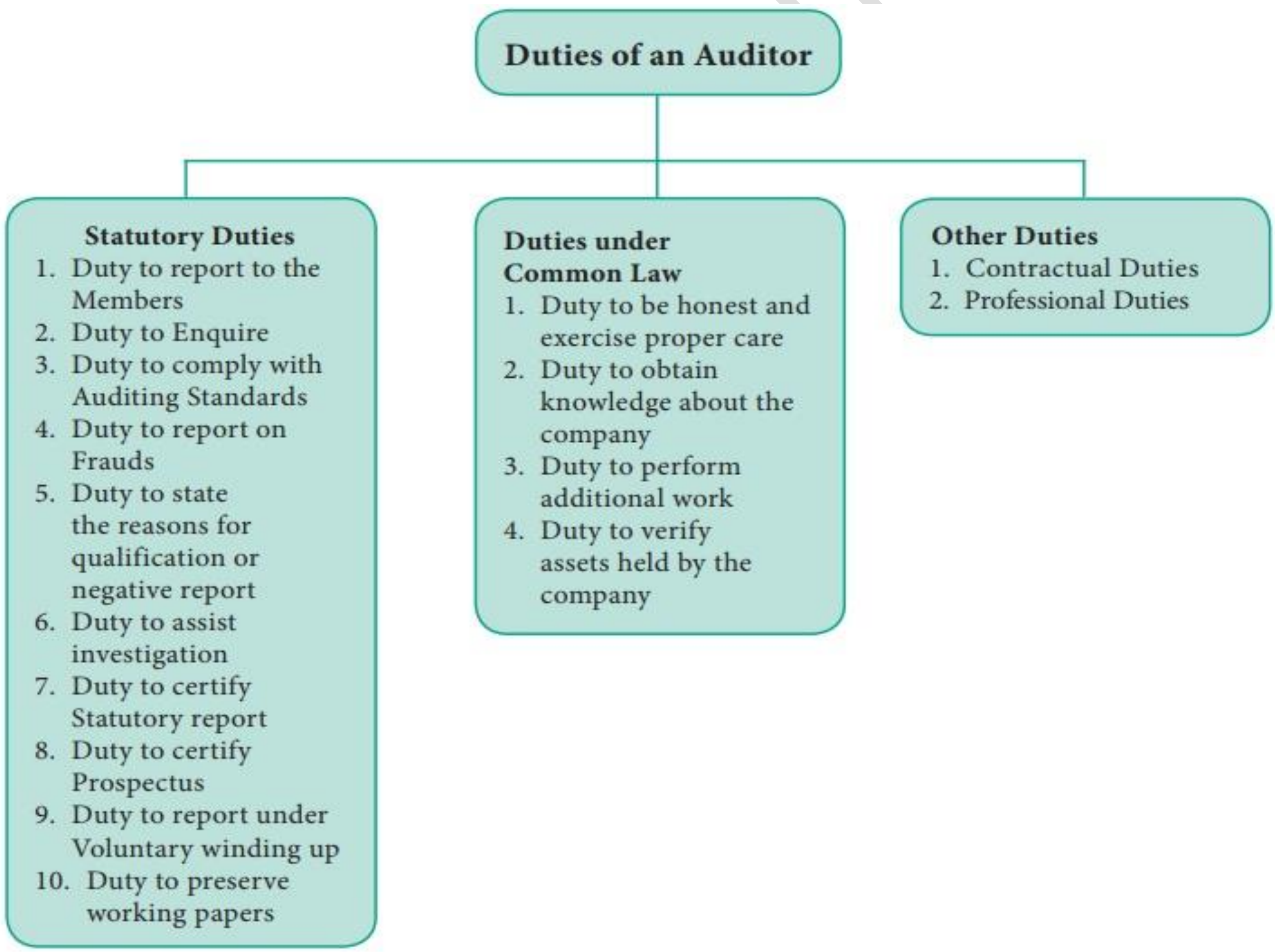
Disqualifications of a Company Auditor [Sec.141 (3)].

The following persons shall not be eligible for appointment as an auditor of a company.
1. A body corporate, except Limited Liability Partnership.
2. An officer or employee of the company;
3. A person who is a partner of an officier or employee of the company.
4. A person who is a relative or his partner of a company or holding or subsidiary company or associate company is disqualified in the following circumstances:
   a. When he is holding any security, or
   b. When he is indebted in excess of Rs.5,00,000, or
   c. When he is given a guarantee or provided any security in connection with indebtedness in excess of Rs.1,00,000.
5. A person or a firm has business relationship of such nature with a company or holding or subsidiary company or associate company.
6. A person whose relative is a director or is in employment of the company as director or key managerial personnel.
7. A person holding more than 20 company audit (20 company audit shall exclude one person company, small company, dormant company, private company with paid up capital less than Rs.100 Crore).
8. A person who has been convicted by a court of an offence involving fraud and a period of 10 years has not elapsed from the date of such conviction.
9. Any person who is engaged in consulting and specialized services.

Powers (or) Rights of an Auditor [Sec.143]
1. **Right to Access Books and Vouchers:** Every auditor of a company has a right to access book of accounts and vouchers of the company at all times. Vouchers include all documents, correspondence, agreements, etc. Books include financial, accounting, statutory and statistical books of the company. The term all times means only during the normal business hours.
2. **Right to Obtain Information and Explanation:** An auditor has the right to seek information and explanation from the directors and officers of the company. That will enable him to perform his duties successfully. Every officer of the company must furnish the necessary information to the auditor. If the officer refuses to do so, the auditor may report to the members of the company.
3. **Right to Sign Audit Report [Sec.145]:** The auditor has the right to sign the auditor's report. The auditor can also sign or authenticate any document which the law requires to furnish.
4. **Right to receive Notices and attend General Meeting [Sec.146]:** The company must send all notices and communications to the auditor relating to any general meeting. The auditor shall attend the meeting either through himself or through his representative, who shall be an auditor. The auditor in general meeting must be given reasonable opportunity to speak on any part of the business, which concerns him as the auditor.
5. **Right to visit Branches:** The auditor has the right to access all books and vouchers kept at the head office or at any branches of the company. In case the accounts of branches are audited by a person other than the company's auditor, he shall be entitled to visit the branch office. The company auditor can get copies of accounts certified by the branch auditor.
6. Right to get Remuneration: The remuneration of the auditor of a company shall be fixed in its general meeting for auditing the books of accounts of the company. The auditor can claim remuneration from the appointing authority. At the time of winding up of the company, he can claim remuneration as creditor of the company.

7. **Right to Report to Members:** The auditor has the right and duty to report to the members of the company regarding the accounts examined by him. He is also required to give his opinion about whether the financial statements give a true and fair picture of the state of affairs of the company.
8. **Right to seek Legal and Technical Advice:** The auditor has the right to seek expert advice in respect of legal or technical matters at the expense of the company.
9. **Right to give Suggestions to the Board:** The auditor has the right to suggest some modifications in the books of accounts to the Board. The Board should comply with the suggestions made by the company auditor. If not, the auditor should report the same to the members. But the auditor cannot make changes in the books of accounts of his own.
10. **Right to Correct Wrong Statements:** The auditor has the right to correct wrong statements made by the directors relating to the accounts. But it should be remembered that any statement by him to this effect will not relieve himself for any omission or incompleteness in his report.
11. **Right to be Indemnified:** The auditor has the right to be indemnified(reimbursed) out of the assets of the company against any liability incurred by him in defending himself against the civil or criminal proceedings by the company if it is proved that the auditor has acted honestly.

Duties of an Auditor [Sec.143]



1. Statutory Duties

1. **Duty to report to the Members [Sec.143 (3)]**: The auditor shall make a report to the members of the company on accounts and financial statements examined by him.

The report shall state:
a. Whether he has sought and obtained all necessary information and explanations.
b. Whether proper books of accounts has been kept.
c. Whether company's Balance Sheet and Profit and Loss account are in agreement with books of accounts and returns.

2. **Duty to Enquire [Sec.143 (1)]:** It is the duty to inquire into the following matters:

- Whether loans and advances made by the company based on security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members.
- Whether transactions of the company, which are represented merely by book entries, are prejudicial to the interests of the company.
- Whether loans and advances made by the company have been shown as deposits.
- Whether personal expenses have been charged to revenue account.
- Whether it is stated in the books and documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading.

3. **Duty to comply with Auditing Standards [Sec.143 (9)]:**

- Every auditor shall comply with the auditing standards.
- The Central Government shall notify standards in consultation with National Financial Reporting Authority, (NFRA).
- The government shall also notify that auditor's report shall include a statement on such matters as notified.

4. **Duty to report on Frauds [Sec. 143 (12)]:** When an auditor suspects an offence involving fraud is being committed by officers or employees of the company, he shall immediately report the matter to the Central Government in such manner as may be prescribed.
5. **Duty to state the reasons for qualified or negative report [Sec.143 (4)]:** In case of negative or qualified report, the reasons must be stated in the report.
6. **Duty to assist investigation:**

It is the important duty of the auditor to assist the investigator to investigate the affairs of the company. Further, it is the duty of the auditor,

- To provide and preserve the necessary documents which are in his custody to the investigator, and
- To assist the investigator by providing all assistance in connection with the investigation.

7. **Duty to certify Statutory Report:** The auditor has to certify statutory report as correct to the extent of –
   - Shares allotted by the company,
   - Cash received in respect of such shares, and
   - An abstract of receipts and payments of the company.
8. **Duty to certify Prospectus:** It is the duty of auditor to certify a report showing statement of profits or losses and assets and liabilities of the company and its subsidiaries. The report shall also include rates of dividend paid by the company for each of five financial years preceding the issue of prospectus.
9. **Duty to report under Voluntary winding up:** When the company proposes for voluntary winding up, directors of the company have to make a declaration of solvency. The auditor has to certify a report upon the solvency based on the Profit and Loss Account and Balance Sheet.
10. **Duty to preserve Working Papers:** It is the duty of an auditor to preserve and produce all books and papers relating to the company which are in his custody and to assist the inspector appointed by the government for investigation.

2. Duties under Common Law

A) **Duty to be honest and exercise proper care:** The auditor should be straightforward, honest and tactful and must not be influenced by others in discharge of his duties. He should be careful and cautious in performing his duties.

B) **Duty to obtain knowledge about the company:** He should obtain detailed knowledge about the activities and affairs of the company.

C) **Duty to verify assets held by the company:** It is the duty of the auditor to verify assets of the company.

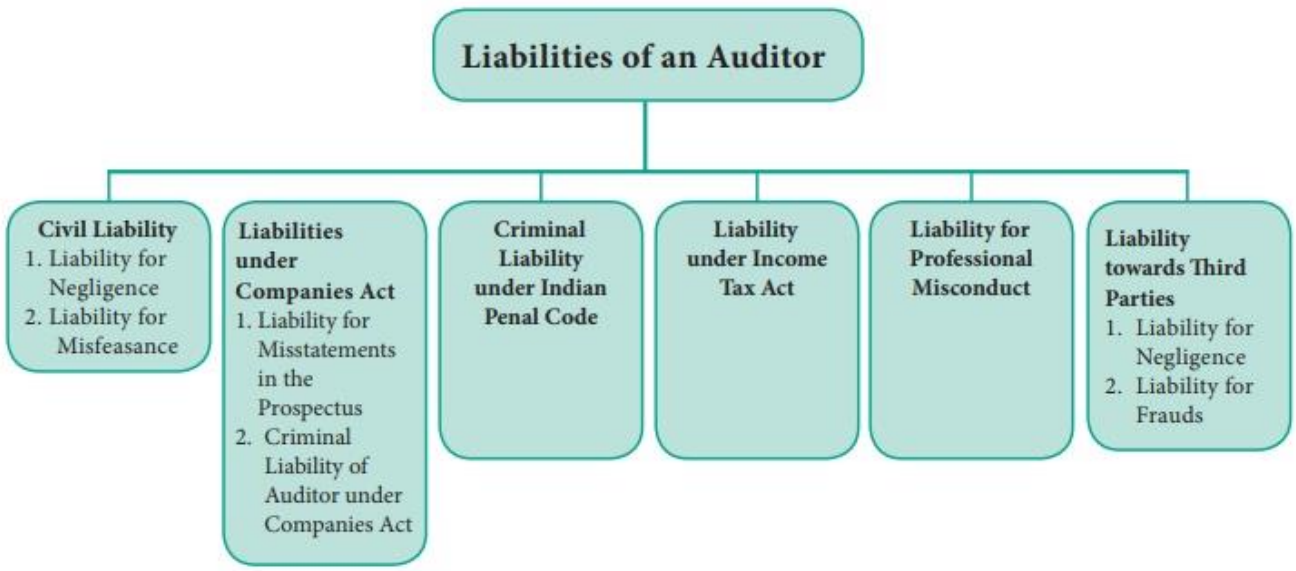
3. Other Duties

1. **Contractual Duties:** The auditor's duty will depend upon the terms and conditions of his appointment between him and the party who appointed him.
2. **Professional Duties:** The auditor has to observe the ethics given by the Institute of Chartered Accountants of India. He should correspond with the previous auditor before accepting the assignment.

Liabilities of an Auditor:

A Chartered Accountant is associated with the valuable profession. His primary duty is to present a report on the accounts and statements submitted by him to members of the company. He is responsible not only to the members of the company but also to the third parties of the company, i.e., creditors, bankers etc.

Normally the liability of auditor based on the work done by him as professional accountant and carry out his work due care, caution and diligence. The nature of liabilities of an auditor is discussed below:



Civil Liability

1. **Liability for Negligence:** Negligence means breach of duty. An auditor is an agent of the shareholders. He has to perform his professional duties. He should take reasonable care and skill in the performance of his duties. If he fails to do so, liability for negligence arises. An auditor will be held liable if the client has suffered loss due to his negligence. It should be noted that an auditor will not be liable to compensate the loss or damage if his negligence is not proved.
2. **Liability for Misfeasance:** Misfeasance means breach of trust. If an auditor does something wrongfully in the performance of his duties resulting in a financial loss to the company, he is guilty of misfeasance. In such a case, the company can recover damages from the auditor or from any officer for breach of trust or misfeasance of the company. Misfeasance proceedings can be initiated against the auditor for any untrue statement in the prospectus or in the event of winding up of the company.

Liabilities under Companies Act

1) **Liability for Misstatements in the Prospectus [Sec.35]:** If an auditor gives wrong information in a company's prospectus, causing investors to lose money, the auditor may have to pay for the losses to make things right. This ensures accountability for any mistakes in the expert advice provided.

   The auditor may escape from liability if he proves that:
   - The prospectus is issued without his knowledge or consent.
   - He withdrew his consent, in writing before delivery of the prospectus for registration.
   - He should have withdrawn his consent after issue of prospectus but before allotment of shares and reasonable public notice has given by him regarding this.

2) Criminal Liability of Auditor under Companies Act:

i. **Untrue statement in Prospectus [Sec.34]:** The auditor is liable when he authorizes a false or untrue prospectus. When a prospectus includes any untrue statement, every person who authorizes the issue of prospectus shall be imprisoned for a period of six months to ten years or with a fine, which may be three times the amount involved in the fraud or with both.

ii. **Non compliance by auditor [Sec. 143 and 145]:** If the auditor does not comply regarding making his report or signing or authorization of any document and makes willful neglect on his part he shall be punishable with imprisonment upto one year or with fine not less than ₹. 25,000 extendable to ₹. 5,00,000.

iii. **Failure to assist investigation [Sec.217 (6)]:** WhenCentral Government appoints an Inspector to investigate the affairs of the company, it is the duty of the auditor to produce all books, documents and to provide assistance to the inspectors. If the auditor fails to do so he shall be punishable with imprisonment upto one year and with fine up to ₹.1,00,000.

iv. **Failure to assist prosecution of guilty officers [Sec.224]:** An auditor is required to assist prosecution when Central Government takes any action against the report submitted by the Inspector. If he fails to do so, he is found guilty and is punishable.

v. **Failure to return property, books or papers [Sec.299]:** When a company is wound up the auditor is supposed to be present and subject himself to a private examination by the court and is also liable to return to the court any property, books or papers relating to the company. If the auditor does not comply, he may be imprisoned.

vi. **Penalty for falsification of books [Sec.336]:** An auditor when destroys, mutilates, alters or falsifies or secrets any books of account or document belonging to the company. He shall be punishable with imprisonment and also be liable to fine.

vii. **Prosecution of auditor [Sec.342]:** In the course of winding up of a company by the Tribunal, if it appears to the Tribunal that an auditor of the company has been guilty of an offence, it shall be the duty of the auditor to give all assistance in connection with the prosecution. If he fails to give assistance he shall be liable to fine not less than ₹ 25,000 extendable upto ₹.1,00,000.

viii. **Penalty for deliberate act of commission or omission [Sec.448]:** If an auditor deliberately make a statement in any report, certificate, balance sheet, prospectus, etc which is false or which contains omission of material facts, he shall be punishable with imprisonment for a period of six months to ten years and fine not less than amount involved in fraud extendable to three times of such amount.

Criminal Liability under Indian Penal Code

If any person issues or signs any certificate relating to any fact which such certificate is false, he is punishable as if he gave false evidence. According to Sec.197 of the Indian Penal Code, the auditor is similarly liable for falsification of any books, materials, papers that belongs to the company.

Liability under Income Tax Act [Sec.278]

- For tax evasion exceeds ₹.1,00,000, rigorous imprisonment of six months to seven years.
- A person who induces another person to make and deliver to the Income Tax authorities a false account, statement or declaration relating to any income chargeable to tax which he knows to be false, he shall be liable to fine and imprisonment of three months to three years. An auditor may also be charged in case of wrong certification of account.

- A Chartered Accountant can represent his clients before the Income Tax Authorities. However, if he is guilty of misconduct he can be disqualified from practicing.
- An auditor can face imprisonment upto two years for furnishing false information.

Liability for Professional Misconduct

The Chartered Accountant Act, 1949 mentions number of acts and omissions that comprise professional misconduct in relation to audit practice. The council of ICAI may remove the auditor's name for five years or more, if he finds guilty of professional misconduct.

Liability towards Third Parties

There are number of persons who rely upon the financial statements audited by the auditor and enter into transactions with the company without further enquiry viz. creditors, bankers, tax authorities, prospective shareholders, etc.

1. **Liability for Negligence:** It has been held in the court that auditor is not liable to third parties, as there is no contract between auditor and third parties. He owes no duty towards them.
2. **Liability for Frauds:** The third parties can hold the auditor liable, if there is fraud on the part of auditor even if there is no contractual relationship between auditor and third parties. In certain cases negligence of auditor may amount to fraud for which he may be held liable to third parties. But it must be proved that auditor did not act honestly and he knew about it.

Professional ethics of an auditor.

A Code of Ethics is a comprehensive statement of the values and principles which should guide the daily work of auditors

Meaning of professional ethics of an auditor:

Professional Ethics in auditing refer to the moral and ethical principles that guide auditors' behavior and decision-making processes while conducting audits. It encompasses a set of values, principles, and standards that promote integrity, objectivity, and independence in the audit profession.

Importance of Professional Ethics

a. **Independence:** Maintaining independence from the audited entity is crucial to ensure unbiased and impartial auditing.
b. **Public Trust:** Upholding ethical standards enhances public trust in the auditing profession, which is vital for the functioning of financial markets.
c. **Legal and Regulatory Compliance:** Ethical conduct ensures compliance with legal and regulatory requirements governing auditing.
d. **Reputation:** An auditor's reputation is closely tied to their ethical conduct, which can impact their career and opportunities.

Key Concepts in Professional Ethics

a. **Independence:** Auditors must be independent both in fact and appearance to avoid any conflicts of interest.
b. **Integrity:** Auditors should be honest, straightforward, and truthful in all professional and business relationships.
c. **Objectivity:** Auditors should not allow bias, conflicts of interest, or undue influence to compromise their professional judgment.
d. **Professional Competence and Due Care:** Auditors should maintain professional competence and conduct audits with diligence and care.
e. **Confidentiality:** Information acquired during audits should be treated as confidential, and auditors must not disclose it without proper authorization.
f. **Professional Behavior:** Auditors should adhere to a code of professional conduct, which includes being respectful and courteous in all professional interactions.

IFAC Code of Ethics – Threats to Objectivity and Independence (International Federation Of Accountants)

6 threats to audit objectivity and independence are:

1) **<u>The Self-interest Threat:</u>** Self-interest threat occurs when a firm, network firm, or an assurance team member could benefit from a financial interest in or other self-interest conflicts with an assurance client.
2) **<u>The Self-review Threat:</u>**
   Self-review threat occurs when
   - Any product or judgment of a previous assurance engagement or non-assurance engagement needs to be re-evaluated in reaching conclusions on the assurance engagement; or
   - A member of the assurance team was previously a director or officer of the assurance client or was an employee in a position to exert direct and significant influence over the subject matter of the assurance engagement.
3) **<u>The Advocacy Threat:</u>** Advocacy threat occurs when a firm, a member of the assurance team, or a member of the network firm, as applicable, promotes or may be perceived to promote an assurance client's position or opinion to the point that objectivity may or may be perceived to be, compromised. Such might be the case if a firm or an assurance team member were to subordinate their judgment to that of the client.
4) **<u>The Familiarity or Trust Threat:</u>** Familiarity threat occurs when a close relationship with an assurance client, its directors, officers, or employees, a firm, or a member of the assurance team or network firm, as applicable, becomes too sympathetic to the client's interests.
5) **<u>The Intimidation Threat:</u>** Intimidation threat occurs when a member of the assurance team may be deterred from acting objectively and exercising professional skepticism by threats, whether actual or perceived, from the directors, officers, or employees of an assurance client.
6) **<u>Safeguards :</u>**
   - The auditor's responsibility is to ensure that they remain independent of the client entity.
   - When no effective safeguards are available to reduce the threats to an acceptable level, the only possible actions are to eliminate the activities or interest creating the threat or to refuse to accept or continue the assurance engagement.
   - In assessing threats to independence and the possible safeguards to mitigate or eliminate these threats, auditors are required at all times to consider what is in the public interest.
   - It is also important to note that adopting certain safeguards may not address "independence in appearance."

<u>Audit of other institutions</u>

<u>Audit Procedure of NGOs</u>

The audit procedures for Non-Governmental Organizations (NGOs) involve a comprehensive examination of their financial statements, compliance with regulatory requirements, and the effectiveness of internal controls.
It's essential for auditors of NGO's to have a deep understnading of the organization's unique characteristics, operations, and funding sources. Additionally, they should stay informed about any changes in accounting standards and regulatory requirements that may impact the audit process.

1) **<u>Understanding the Organization:</u>** Obtain an understanding of the NGO's mission, objectives, and activities. This includes understanding the regulatory environment in which the NGO operates
2) **<u>Risk Assessment:</u>** Identify and assess the risks relevant to the NGO's financial statements and operations. This includes risks related to funding sources, regulatory compliance, and internal control weakness.
3) **<u>Planning:</u>** Develop an audit plan based on the assessed risks Determine the scope of the audit, materiality levels, and the allocation of resources
4) **<u>Internal Control Evaluation:</u>** Assess and evaluate the NGO's internal controls, including financial reporting, compliance with laws and regulations, and safeguarding of assets Identify any weaknesses or deficiencies.

5) **Compliance Testing:** Verify compliance with applicable laws, regulations, and donor agreements. This include reviewing documentation related to grant restrictions and conditions.
6) **Revenue Recognition:** Examine the recognition of revenue, particularly contributions and grants Ensure that revenue is recorded in accordance with accounting standards and donor restrictions
7) **Expense Verification:** Review and verify the NGO's expenses, ensuring that they are properly classified recorded. and supported by appropriate documentation Evaluate whether expenses are consistent with the organization's mission.
8) **Cash and Investments:** Confirm the existence and valuation of cash bank balarices and rivestintessee the quality of the NGO and whether there are any restrictions on the use of funde
9) **Asset Verification:** Verify the evelence and valuation of significant assets, such as property, plant and equipment Ensure that assets are recorded at their appropriate values and that depreciation scllculated correctly.
10) **Liabilities and Contingencies**: Review landibes and contingent liabilities to ensure they are properly disclosed in the financial statements Tres includes assessing the adequacy of provisions for future obligations.
11) **Governance and Board regulations:** Evaluate the governance structure and the effectiveness of the board's regulations. Assess the independence and competence of the board of directors or trustees
12) **Related Party Transactions:** Identify and evaluate any related party transactions. Ensure that such transactions are properly disclosed and comply with relevant regulations.
13) **Grant Compliance:** For NGOs receiving grants, assess compliance with grant terms and conditions verify that grant funds are used for their intended purposes and that reporting requirements are met.
14) **Audit Documentation**: Maintain comprehensive audit documentation that provides evidence of the work performed. the conclusions reached, and the support for the auditor's opinion.
15) **Communication and Reporting:** Communicate audit findings and issues with management and the board of directors Issue an audit report expressing the auditor's opinion on the fair presentation of the financial statements.
16) **Follow-Up Procedures:** Follow up on any prior audit recommendations and assess whether management has taken corrective action.

Effective audit procedures for NGOs focus on ensuring financial transparency, program effectiveness, proper use of frauds abd compliance with regulations. By conducting audit it heps in overall success of the NGO’s mission and objctives.

Audit of co-operative institutions:

Any group of ten competent individuals can apply to the Registrar of Co-operative Societies under Section 6 of the Co-operative Societies Act, 1912. Societies can create and register by-laws, and changes must be approved by the Registrar.

Audit of Co-operative Society

Let us now discuss the provisions for Audit as Per Section 17 of the Co-operative Society Act, 1912 −

- The Registrar shall audit or cause to be audited by some person authorized by him by general or special order in writing on his behalf, the accounts of every registered society once at least every year.
- The Audit under sub-section (1) shall include an examination of overdue debts, if any, and a valuation of the assets and liabilities of the society.
- The Registrar, the Collector or any person authorized by general or special order in writing on his behalf by the Registrar, shall at all-time have access to all the books, accounts, papers and securities of a society, and every officer of the society shall furnish such information concerning the transactions and working of the society as the person making such inspection may require.

Auditor Qualification and Appointment:

Auditors must be qualified, including being a chartered accountant or holding a government diploma in Co-operative Accounts. The Registrar appoints auditors, and fees are paid by the society as per the prescribed scale.

Appointment of Auditor

The appointment of an Auditor is done by Registrar of Co-operative Societies. The Auditor conducts his audit on behalf of the Registrar. The Audit fees is paid by co-operative society according to the statutory scale of fees prescribed by the Registrar in this regard according to the category of society. The Auditor is required to submit his audit report directly to the Registrar and one copy of the audit report is submitted to the concerned society.

Rights of an Auditor

- As per Section 17, an Auditor can access all the books, accounts, documents and securities of the society.
- He has to see that Balance-sheet of the society shows a true and fair view of a business according to information and explanation given to him.
- Every officer of the society is bound to give all information regarding working and transactions of the society.

Duties of An Auditor

- An Auditor needs to consider the following points to be able to perform his duties in an efficient way:
- An Auditor should be well-versed with the Co-operative Society Act, 1912 and the by-laws of the society.
- If there is any type of irregularities and improprieties found by an Auditor during his audit regarding Co-operative Societies Act, 1912 and by-laws, he should immediately point out the same.
- An Auditor should ascertain that how many shares are held by each member of the society; for this, he should check the member ship registers.
- An Auditor should be well aware of power of officers regarding loan, investment, borrowings, advancing of the funds.
- He should thoroughly check and vouch the cash book and bank book.
- An Auditor should check all the receipts and payments of the society according to standard auditing practice.
- He should go through the agreements between society and borrower to check the interest due on loan and repayment schedule. An Auditor should also check and compare the actual interest received and the repayment of loan received with dues from them.
- He should carefully vouch and verify that loan given to members of the society is according to agreement, regulation and resolution passed by the Managing Committee of the society or not.
- An Auditor has to assure that a loan given to a non-member is not without the permission of the Registrar.
- He should verify the loan given by Co-operative bank should be according to the prescribed limit.
- An Auditor should physically examine and verify the assets of a society.
- He should adopt different methods for different kind of societies.
- Balance-sheet, profit and loss account and Auditor report should be according to the proforma given by the Chief Auditor of the Co-operative Society of the State.
- Accounts should be according to the Co-operative Society Act and also with the provision of Income Tax Act.
- All the assets, expenses, income, cash-in-hand, etc. should be vouched and verified according to standard accounting procedures and principles.

Books, Accounts and Other Records of the Society

Under Section 43(h) of the Co-operative Society Act, 1912, the Government of a state can frame rules prescribing the books of accounts to be kept by a Co-operative society. Following books and accounts are prescribed by the Maharashtra Government.

- Cash Book
- General Ledger
- Stock register
- Personal Ledger
- Register of Members
- Register of Shares and debentures
- Minutes books of general body meeting and committee meetings
- Property Register
- Register recording loan applications
- Maintenance of register of audit objections and their rectifications

Special Features of Co-Operative Audit:

The checking of posting, arithmetical accuracy, vouching, verification of assets and liabilities and scrutiny of balance sheet are same as Auditor do in any other case. Here are few important aspects related to the Audit of Co-operative societies.

Examination of Overdue Debts

An Auditor has to examine and classify overdue debts

- from six months to five years and,
- overdue above five years in two categories and shall have to report it in his audit report.

Overdue Interest : While calculating the profit of Co-operative society overdue amount of interest outstanding should be excluded.

Valuation of Assets and Liabilities: General principles of accounting and auditing conventions and standard are adopted at the time of valuation of assets and liabilities. No specific provisions or instructions under the Act and Rules are provided.

Adherence to Co-operative principles: An Auditor should ascertain how far the objectives, for which the Co-operative society is set up, have been achieved in course of its working. It is not necessarily in terms of profit, but in terms of extending of benefits to members who have formed the Society.

Certification of Bad-debts: As per Rule No.49 of the Maharashtra State Co-operative Rules, 1961, it is very interesting to note that no bad debts can be written off unless they are certified as bad debts by the Auditor. Where no such requirement of law exists, the managing committee of the society must authorize the write-off.

Observation of the Provisions of the Act and Rules: An Auditor should be well versed with the Provisions of the Act and Rules of the Cooperative Society and the by-laws thereof. If the Auditor finds any irregularity, it should be immediately assessed and reported to the next level.

Verification of Members Register and Examination of their Pass Books: This is essential especially in rural and agricultural credit society where members are illiterate, the Auditor should verify the pass book and members register to verify the amount of loan granted and their repayments. It will help to ensure that the books of accounts are free from any manipulation.

Special Report to the Registrar: During audit if any irregularities are found by the Auditor that should be reported to the Registrar and an appropriate action may be taken by the Registrar against the society.

Audit Classification of Society: After assessing the overall performance, an Auditor has to award a class to the society. Judgement of Auditor should be based on the criteria fixed by the Registrar. The Auditor should be very careful when making decisions related to the classes in the society; if management is not satisfied by the award he may file an appeal to the Registrar and the Registrar may direct to review the audit classification.

Discussion on Audit Draft: After completion of audit, minor irregularities may be settled and rectified; matters concerning policies should be discussed in detail. The audit report can never be finalized without discussing with the managing committee.

By-laws: Each registered society is required to frame its own by-laws which have to be registered with the Registrar of Co-operative societies. According to Section 11 of the Act, the amendment of the by-laws of a registered society shall not be valid until the same has been approved by the Registrar of the Co-operative societies.

Investment of Funds: A registered society can invest or deposit its funds only in −

- ✓ Saving bank account of Government Banks.
- ✓ Any of the securities specified under Section 20 of the Indian Trust Act, 1882.
- ✓ The shares or in the security of any other registered society.
- ✓ Any bank or person carrying on the business of banking approved for this purpose by the Registrar.
- ✓ Any other mode permitted by the Section 32 of the Co-operative Societies Act.

Restriction on Co-operative Society: understand the restrictions that are imposed on co-operative society.

Restriction on Shareholding: According to Section 5 of the Act, where liabilities of the members of a society is limited, no member other than a registered society can hold more than 20% of the shares capital or shares of the society worth more than Rupees one thousand.

Restriction on Transfer of Share: A member of registered society with unlimited liability, cannot transfer any shares held by him or his interest in the capital of the society unless −

He has held that share for at least one year, and

The transfer and change is made to the society or to a member of the society.

Restriction on Loan: According to Section 29 of the Act, a registered society cannot advance any loan to any person other than a member except with the prior permission of the Registrar.

A society with unlimited liability cannot lend money on the security of a movable property except with the sanction of the Registrar of Co-operative society.

The State Government has the power and can prohibit or restrict loans against mortgage of immovable property by any registered society or class of registered societies.

Restriction on Borrowings: A registered society can receive deposits and loans from persons who are not members of the society, only such an extent and under such condition as may be prescribed by the rules of the Co-operative Societies Act or by-laws of the concerned society.

Exemptions: According to Section 28 Central Government may exempt any registered societies or class of registered societies from Income Tax (Payable on the profits of the society or on dividends or other profit related to payments received by the members of the society). Stamp duty or registration fees.

Reserve Fund, Contribution to Charitable Funds and Distribution of Profit:

- ❖ According to Section 33, the first 25% of the net profit earned during the year should be transferred to a Reserve Fund.

- 10% of Balance amount of net profit after transferring 25% to Reserve fund, a registered society can contribute for charitable purpose with the sanction of Registrar.
- Under such conditions as may be prescribed by the rules or by-laws, the balance amount of current profit plus past years profit can be distributed to members of the society.
- Dividend can be distributed according to rules and by-laws but cannot be more than 6.25%.
- Only after special order of the State Government, unlimited liability society can distribute his profit otherwise not.

Audit of Educational institutions

A large number of educational institutions are registered under the India Society Registration Act, 1860. The purpose behind the formation of educational institutions is to spread education and not just earn profits.

Main Source of Collection

- Admission fees, tuition fees, examination fees, fines, etc.
- Securities from students.
- Donations from public
- Grants from Government for building, prizes, maintenance, etc.

Types of Expenses / Payments

- Salary, allowances and provident fund contribution for teaching and non-teaching staff.
- Examination expenses
- Stationery & printing expenses
- Distribution of scholarships and stipends
- Purchase and repair of furniture & fixture
- Prizes
- Expenses on sports and games
- Festival and function expenses
- Library books
- Newspaper and magazines
- Medical expenses
- Audit fees and audit expenses
- Electricity expenses
- Telephone expenses
- Laboratory running & maintenance
- Laboratory equipment
- Building Repair & maintenance

Preliminary Audit of Educational Institutions

Following points need to be considered by an Auditor while conducting audit of educational institutions −

- It is to be confirmed whether the letter of his appointment (the Auditor's) is in order.
- The Auditor should obtain a list of books, documents, register and other records as maintained by the educational institutions.
- He should examine the audit report of last year and should note down the observation and qualification, if any.
- He should note down the important provisions regarding to accounts and audit from the Trust Deed, Charter of Regulations.

- He should examine the Minutes of Meetings of the Board of Trustee or the Governing Body for important decisions regarding the sale or purchase of fixed assets, investments or delegation of finance power.
- In case of colleges and university, the Grants Commission provides Grants to them subject to certain conditions. The Auditor should study all the conditions concerning grants.
- The Auditor should examine the Code of State regarding grant-in-aid.
- He should be aware of all the provisions and rules of related laws concerning books of account and audit.

Internal Control System

The Auditor should independently check the internal control system regarding authorization procedures, record maintenance, safeguarding of assets, rotation and division of staff duty, etc. Following are some of the important aspects that need to be considered by an Auditor to keep a check on the internal control system −

- Whether internal control and internal check system is working, if yes, how effectively.
- Is there is any system to physically verify the fixed assets, stores and consumables at regular interval.
- An Auditor should verify the control system concerning proper authorization, obtaining quotations, proper maintenance of accounts and record regarding purchase of fixed assets, purchase of material, investment, etc.
- Whether bank reconciliation statement is prepared at regular intervals and what kind of action is taken for un-cleared cheque which were pending since long.
- Whether waiver of fees is properly sanctioned by appropriate authorities.
- The person who is collecting fees and the cashier should not be the same person.
- Class wise fees receivable and the actual fees received reconcile or not.
- Whether collected fees is deposited in bank on a daily basis.
- Fees collection register should be maintained on a daily basis.
- Whether approved list of supplier of sports material, stationery, lab items are readily available.
- Whether control system for payment is adequate or not.
- The system of letting out conference hall and class rooms, etc. for seminars and conventions.
- Whether fees structure is properly authorized along with change in fee structure if any.

Audit of Assets and Liabilities

The following points need to be considered while conducting an audit of Assets and Liabilities −

- Verification of Assets register should be done considering grants on purchase of assets, if any received from State Government/ University Grant Commission (UGC).
- Verification of depreciation is very important; it should be according to useful life of assets or as per the Companies Act, whichever is applicable.
- If educational institution is running under Indian Public Trust Act, it is must for an Auditor to check, where investments have been made, because as per the Indian Public Trust Act, investment can be made in specific securities only.
- If donation is received in the form of investment, an Auditor has to check all related correspondence with the donor.
- All the applicable requirements of law should be fulfilled for the purchase of investments and fixed assets.

- ❖ An Auditor should read and note down the state code and provisions relating to the conditions and procedures of Grants. He should also verify the requirements of State/UGC which are to be fulfilled by educational institutions for receiving Grants and also for continuations of Grants.

Audit of Income of Educational Institutions

The following points need to be considered by an Auditor while conducting audit of the Income of Educational Institutions −

- ❖ Fees and charges received on account of admission fees, tuition fees, sports fees, examination fees etc. should be verified based on the approved fees structure.
- ❖ Verification of counterfoil copies of fees receipt with fees received register should be done.
- ❖ Prescribed conditions by the State Government and the University Grants Commission should be verified whether fulfilled or not.
- ❖ Cash book should be verified with counterfoil of receipt book and fees register.
- ❖ Fees receivable and actual fees received should be reconciled.
- ❖ Charges and fees received and receivable should be examined on account of hostel accommodation, mess, housekeeping and clothing, etc.
- ❖ Cash book should be verified with the donation received register.
- ❖ Donation received should be accounted for according to the nature of donation means careful distinction should be there for revenue nature donation and capital nature donations; the same procedure is to be followed for Grants received.
- ❖ The purpose and utilization of grant should be same.
- ❖ Investment register and cash book should be verified for income received on account of interest on investment and dividends, etc.

Audit of Expenses of Educational Institutions

The following points need to be considered by an Auditor while conducting audit of Expenses of Educational Institutions −

- ❖ Electricity expenses, telephone expenses, water charges, stationery and printing, purchase of sports items should be properly verified with quotation, purchase bills, inward register and Bills received from service providers, etc. All purchases should be authorized by appropriate person.
- ❖ In case where hostels purchase food items, provisions, clothing, etc. should be properly verified.
- ❖ Verification of Tax Deducted at Source, Employee State Insurance and Provident Fund should be checked. It is also very important that all deducted amount should be deposited in appropriate Government accounts well within time without any default. These can be verified from relevant bank challans.
- ❖ Payment made on account of salary should be verified from terms of appointment and increment policy. Auditor should verify the computation of salary and check whether all required deductions are made out of it or not like advance salary, loan installment, absence from duty, ESI (Employee State Insurance), PF (Provident Fund), etc. The Net Salary Payable amount will be verified from cash book and bank pass book for salary paid.
- ❖ Terms and conditions, cash book, voucher and receipts should be the basis for the verification of scholarship paid.
- ❖ Appropriate provision should be made on account of outstanding payments.

Audit of Charitable trusts:

The audit procedures for charitable institutions involve a thorough examination of their financial statements, compliance with legal and regulatory requirements, and the assessment of internal controls.

Audit procedures for Auditing Charitable institutions.

a) ***Understanding the Organization:*** Obtain a comprehensive understanding of the charitable institution, including its mission. objectives, activities, and the regulatory environment in which it operates
b) ***Risk Assessment:*** Identify and assess the risks relevant to the financial statements and operations of the charitable institution. This includes risks related to funding sources, compliance, and internal control weakness.
c) ***Planning:*** Develop an audit plan based on the assessed risks Determine the scope of the audit materiality levels, and the allocation of resources
d) ***Internal Control Evaluation:*** Assess and evaluate the internal controls of the charitable institution, including financial reporting compliance with laws and regulations, and safeguarding of assets Identify and address any weaknesses or deficiencies.
e) ***Revenue Recognition:*** Examine the recognition of revenue, particularly contributions and donations. Ensure that revenue is recorded in accordance with accounting standards and donor restrictions
f) ***Expense Verification:*** Review and verify the institution's expenses, ensuring proper classification, recording, and documentation Assess whether expenses align with the organization's mission
g) ***Cash and Investments:*** Confirm the existence and valuation of cash, bank balances, and investments Assess liquidity and any restrictions on the use of funds
h) ***Asset Verification:*** Verify the existence and valuation of significant assets, such as property plant and equipment. Ensure proper recording of assets and correct calculation of deprecation
i) ***Liabilities and Contingencies:*** Review Babilities and contingent liabilities to ensure proper disclosure in the fan statements Assess the adequacy of provisions for future obligations.
j) ***Governance and Board regulation:*** Evaluate the governance structure and the effectiveness of the board's regulations. Assess the independence and competence of the board of directors or trustees.
k) ***Related Party Transactions:*** Identify and evaluate any related party transactions. Ensure proper disclosure and compliance with relevant regulations.
l) ***Grant Compliance:*** If the charitable institution receives grants, assess compliance with grant terms and conditions Verify that grant funds are used for their intended purposes and that reporting requirements are met.
m) ***Donor Restrictions:*** Verify compliance with donor restrictions on funds. Ensure that funds are used in accordance with donor intentions.
n) ***Audit Documentation:*** Maintain comprehensive audit documentation that provides evidence of the work performed. The conclusions reached and support for the auditor's opinion
o) ***Communication and Reporting:*** Communicate audit findings and issues with management and the board of directors. Issue an audit report expressing the auditor's opinion on the fair presentation of the financial statements.
p) ***Follow-Up Procedures:*** Follow up on any prior audit recommendations and assess whether management has taken corrective action.

q) ***Legal and Regulatory Compliance:*** Verify compliance with applicable laws and regulations governing charitable institutions This includes filing requirements tax-exempt status, and adherence to fundraising regulations.

Audit of Government:

Auditing government entities involves unique consideration due to the nature of government operations, the size and complexity of transactions and the importance of transparency and accountability. Auditors, of an conduct these audits to ensure compliance with laws and regulations, proper financial reporting and effective internal controls.

Audit Procedure:

1. ***Understanding the government structure:*** Of government entity, including its organisation structure, function and the legal and regulatory framework under which it operates.
2. ***Risk assessment:*** Identify and assist specific to the government entity. Consider risk related to financial reporting, complaince, operations and governance.
3. ***Planning:*** And Audit plan based on the risk assissed. Determine the scope of the audit, materiality levels, and their location of resources.
4. ***Internal control evaluation:*** Assess and evaluate internal controls related to financial reporting, complaince with law and regulations, and operational effectiveness. Identify and address any deficiencies.
5. ***Budgetary controls:*** Review budgetary controls and assist weather budgets are adhered to. Evaluate the effectiveness of budgetary control systems.
6. ***Revenue and expenditure verification:*** Verify the completeness and accuracy of revenue recognition and expenditure recording. Ensure complaince with budgetary and accounting policies.
7. ***Cash and treasury management:*** Confirm the existence and valuation of cash and investment. Assist adequacy of treasury management practices and complaince with investment policies.
8. ***Asset verification:*** Verify the existence and valuation of significant assets such as property, infrastructure and equipment. Assist the appropriate Ness of depreciation methods.
9. ***Liabilities and contingencies:*** Review liabilities and contingent liabilities, and ensure disclosure in financial and assist the adequacy of provisions for future obligations.
10. ***Grant complaince:*** If the government entity administers grants, assist compliance with grant terms and conditions. Verify that grant funds are used for intended purpose and that reporting requirements are met.
11. ***Compliance with laws and regulations:*** Verify compliance with laws and regulations governing government entities. This includes to accounting standards, fiscal responsibility, law and other regulatory requirements.
12. ***Government and oversight:*** Evaluate the governance structure and effectiveness of oversight bodies such as legislative bodies or councils. Assist the independence and competence of oversight mechanisms.
13. ***Financial statement analysis:*** Perform analytical procedure on financial statement to identify any unusual trends or transactions. Analyse key financial ratios for indicators of financial health.
14. ***Audit documentation:*** Maintain comprehensive audit documentation that provides evidence of the work performed the conclusions reached and support for the auditors opinion.
15. ***Communication and reporting:*** communicate audit findings and issues with management, oversight bodies and other relevant stakeholders. Issue and audit report expressing the opinion on the fair presentation of the financial statements.

16. ***Follow procedure:*** Follow up on any prayer audit recommendations and assess whether management as taken correct it actions.
17. ***Performance audit***: Considered conducting performance audit to access the efficiency and effectiveness of government programs and operations beyond financial matters.
18. ***Technology controls***: assess the controls related to Information Technology system, ensuring the security and integrity of financial data.
19. ***Environmental and sustainability reporting:*** Evaluate the disclosure and reporting of environmental and sustainability matters, especially if the government entity as a significant impact on the environment.

Audit of Local Bodies:

Auditing local bodies, which include municipalities, townships and other local government entities, invoice a unique set of challenges and considerations. These entities play a crucial role in providing essential services to communities and their financial operation are subject to specific Regulation and oversight. Auditing local bodies involves a manifestated approach due to the diverse nature of services they provide, the complex financial structures they manage and varing legal frameworks they operate within. Auditors must navigate through these complexities by ensuring compliance, transparency and account ability in financial reporting.

1. ***Understanding the local body***: Before initiating the audit process it's necessary to gain a comprehensive understanding of the local bodies structure functions and the legal regulatory framework within which it operates.
2. ***Legal and regulatory framework*** They operate within a specific legal and regulatory environmental. Need to be familiar with local government laws, financial regulations and any other applicable statutes that govern their operations.
3. ***Risk Assessment:*** identify and assess the risk associated with the local bodies financial operation. Consider related to financial reporting, compliance,governance & the unique challenges faced by local governments.
4. ***Planning:*** Develop comprehensive audit plan based on the assist risk. Consider the scope of audit. materiality thresholds, and alocate resources efficiently.
5. ***Internal control evaluation:*** Asus and evaluate the local bodies internal control including those related to financial reporting law and regulations and operational efficiency. Identify and address any deficiency in internal control.
6. ***Budgetart controls:*** Review budgetary controls to access whether the local body adheres to its approved budget. Evaluate the effectiveness of control mechanism and ensure compliance with legal requirements.
7. ***Revenue and expenditure:***Verify the completeness and accuracy of revenue recognition and expenditure recording. Ensure complanses with budget and accounting policies especially considering the multi funding source local bodies.
8. ***Cash and treasury management*** confirm the existence and valuation of cash and investment. Assist adequacy of treasury management practice and compliance with investment policies.
9. ***Asset verification:*** Verify the existence and valuation of significant assets. Assist the appropriateness of depreciation methods used.
10. ***Liabilities and contingencies:*** Review liabilities and contingent liabilities, disclosure in financial statements and assess the provisions for future obligations. They may have long term loans or liabilities related to infrastructure projects.

11. ***Grand compliance:*** If the local body administer any Grants from the state or central government verify the intended purpose, approval and reporting requirements.
12. ***Compliance with local laws***: ensure complaints with local law and regulations. These include adherence to municipal codes, zoning law and other regulations specific to the locality.
13. ***Governance and oversight:*** Evaluate the government structure and the effectiveness of oversight bodies such as city councils commissioners. Assist the Independence and competence of oversight mechanisms.
14***. Financial statement analysis:*** Conduct analytical procedure on financial statements analyse key financial ratios for indicators of financial health.
15. ***Documentation:*** Maintain comprehensive audit documentation that provides evidence of the formed, the conclusion reached and support for the opinion.
16. ***Communication and reporting:*** Audit findings and issues with management, oversight bodies and other relevant take holders. Issue and audit report expressing the opinion on the presentation of financial statements.
17. ***Performance audit:*** Consider conducting performance audit to assist the efficiency and effectiveness of local government programs and operations beyond financial matters.

Audit of Hotels:

1. ***Understanding the hotel operations***: Before diving into audit procedures auditor must gain a deep understanding of the hotel industry which includes knowledge of industry specific terminologies, revenue recognition methods, cost structure and the unique challenges faced by the hotels.
2. ***Risk assessment:*** Identify and access risk specific to the industry. Consider factors such as economic conditions, seasonality, competition and regularity changes. Recognise the significance of customer satisfaction and its impact on the hotel's reputation.
3. ***Planning:*** Develop a comprehensive audit plan based on the risk assist. Understand the hotels organisation structure including any affiliated entities and plan the audit accordingly.
4. ***Internal control evaluation:*** Assess and evaluate internal controls related to reporting, cash handling, inventory management and overall operational efficiency. Identify any weaknesses in internal control that could post risk to the accuracy of financial statements.
5. ***Revenue recognition:*** Verify the accuracy of revenue recognition methods. Given the multiple revenue streams in hotels (room revenue, food and beverage, events etc), ensure that revenue is recognised in a gardens with accounting standards and the hotel policies.
6. ***Room revenue verification:*** For room revenue, audit procedures may in wall reconciling room Occupancy records with revenue records. Verify the accuracy of Room rates, discounts, taxation and proper recording of no shows or cancellations.
7. ***Food and beverage revenue verification:*** Audit food and beverage revenue by reconciling sales records with inventory usage. Ensure compliance with portion control measures, accurate pricing and proper recording of complementary items.
8. ***Event and conference revenue:*** For hotels hosting events and conferences, verify the accuracy of event contracts, pricing and related revenue recognition. Confirm that deposits and advance payments are properly recorded.
9. ***Cash handling and bank reconciliation:*** Assess controls over cash handling at various points within the hotel. Perform bank reconciliation to verify the accuracy of cash transactions and identify any discrepancies.

10. ***Expense verification:*** Review and verify operating expenses, including payroll, utilities, maintenance and other overhead costs. Assess the reasonableness of expenses in relation to revenue generated.
11. ***Inventory management:*** For hotels with inventory, such as food and beverage items or retail merchandise, verify the accuracy of inventory counts, valuation methods and the proper recognition of cost of good sold.
12. ***Payroll and employee benefits:*** Verify payroll records, ensuring accuracy in wage rates, proper authorisation of overtime and compliance with Labour Law. Confirm the accuracy of employee benefit accruals.
13. ***Contractual agreements:*** Review contractual agreements with suppliers, service providers and other third parties. Confirm that the hotel is in compliance with the terms of these agreements and assess any potential financial implications.
14. ***Asset verification:*** Verify the existence and condition of significant assets, such as property, plant and equipments. Confirm the accuracy of depreciation calculations and assess the need for impairment testing.
15. ***Liabilities and contingencies:*** Review liabilities and contingent liabilities including potential legal claims and obligations. Ensure proper disclosure in financial statements and assess the adequacy of provisions for future liabilities.
16***. Technology controls:*** Controls related to information Technology system, property Management System, and reservation system. Verify the security and integrity of financial data.
17. ***Environment and sustainability practice:*** Assess the hotels disclosure and reporting of environmental and sustainability practice. Many modern hotels emphasize green initiatives and auditors may need to evaluate the financial implications of these practices.
18. ***Compliance with Industries standards:*** Ensure compliance with Industries specific standards and guidelines, such as those set by hotel associations, franchisors. Verify adherence to brand standards for franchised hotels.
19. ***Customer satisfaction matrix***: Consider incorprating customer satisfaction Matrix into the audit process. While not strictly financial, customer satisfaction is a critical aspect of hotels success and reputation.
20. ***Audit documentation:*** Maintain comprehensive audit documentation that provides evidence of the work performed, the conclusions reached and support for the opinion. Give the complexity of Hotel operations documentation is important.

Audit of Hospitals:

1. ***Understanding the Healthcare industry:*** Before initiating the audit process, auditors must gain comprehensive understanding of the Healthcare industry. This includes knowledge of Healthcare regulation, reimbursement system, and specific challenges faced by hospitals.
2. ***Risk assessment:*** Identifying and assist risk specific to the industry. Consider factors such as regulatory changes, changes in reimbursement policy, patient care quality and cyber security risk associated with patient data.
3. ***Planning:*** Developed a detailed audit plan based on the risk assessed. Consider the scope of audit, materiality threshold and the allocation of resources by understanding organisational structure, operating system etc.
4. ***Internal control evaluation:*** Assess and evaluate internal control related to financial reporting, healthcare regulations and operational efficiency. Identify any weaknesses in internal control system that can cause risk to the accuracy of financial statements and patient care.

5. ***Revenue recognition:*** Verify the accuracy of revenue recognition methods, particularly related to patient services. And share compliance with accounting standards and health care regulations. Hospitals receive revenue from various sources including insurance, government tears and self pay patients.
6***. Billing and coding compliance:*** Audit the hospitals billing and coding practices to ensure compliance with standards, documentation requirements and regulatory guidelines. Verify that services build align with care provided to patients.
7. ***Patient account receivables:*** Review patient account receivable to ensure the accuracy of outstanding balances, billing cycles and the effectiveness of the hospitals collection efforts. Assist the adequacy of provisions of doubtful accounts.
8. ***Expense verification:*** Review and verify operating expenses including payroll, medical supplies, utilities and other overhead cost. Assess the reasonableness of expenses in relation to revenue generated.
9. ***Payroll and employee benefits:*** Very fine payroll records, and sharing accuracy in veg rates, proper authorisation of overtime and compliance with Labour Law. Confirm the accuracy of employee benefit accruals in the contest of Health Care benefits.
10. ***Contractual agreements:*** Review contractual agreements with Healthcare providers, suppliers, insurers and other third parties. Confirm that the hospital is in compliance with the terms of these agreements and assess any potential financial implications.
11. ***Asset verification:*** Verify the existence and condition of significant assets, such as medical equipments, facilities and other capital assets. Confirm the accuracy of depreciation calculations and assist the need for impairment testing.
12. ***Liabilities and contingencies:*** Review liabilities and contingent liabilities including potential legal claims and obligations. Ensure proper disclosure in financial statements and assist the adequacy of provisions for future liabilities.
13. ***Technology controls:*** Control related to information Technology system, including electronic health records(EHR), patient information security and other Health Care related Technology. Very fine with security and integrity of health data.
14. ***Quality of patient care:*** Consider the hospitals to quality and safety standard in patient care. While not strictly financial.
15. ***Complaince with healthcare regulations:*** Ensure compliance with Healthcare regulations such as the health insurance Probability and accountability act(HIPPA), the affordable care act (ACA) and other relevant regulations. Confirm that the hospitals policies and procedures are inpar with regulatory requirements.
16. ***Environmental and sustainable practice:*** Assess the hospitals disclosure and reporting of environmental and sustainability practice, especially with the disposal of medical wastes.
17. ***Community benefit activities:*** For non profit hospitals, assist community benefit activities and ensure proper disclosure in financial statements.
18. ***Audit documentation:*** Maintain comprehensive audit documentation and provide evidences of the work performed, the conclusions reached and support the opinion.
19. ***Communication and reporting:*** Communicate audit findings and issues with hospital management, the board of directors and other relevant take holders. Issue and audit report expressing the opinion on the financial statements.

Audit of Clubs:

Clubs such as, social clubs, glof clubs, sports clubs. Auditing clubs requires a tailored approach that recognizes the unique characteristics of each type of club, the diversity in revenue streams, and the importance of governance and member satisfaction . Auditors play a crucial role in ensuring the financial integrity of clubs, promoting compliance with industry-specific regulations, and contributing to the overall success of the organization Staying informed about changes in industry standards, technology trends and any specific regulations applicable to clubs is essential for auditors to conduct effective and insightful club audits.

1. ***Understanding the Club's Operations:*** Gain a comprehensive understanding of the club's activities, membership structure, facilities and the nature of events or services it provides. Recognize the diversity in revenue streams including membership fees, event revenue, and possibly food and beverage sales
2. ***Risk Assessment:*** Identify and assess risks specific to the club's operations. Consider factors such as membership turnover, seasonal variations, regulatory compliance, and the impact of economic conditions on discretionary spending.
3. ***Planning:*** Develop a comprehensive audit plan based on the assessed risks. Consider the scope of the audit, materiality thresholds, and the allocation of resources. Understand the club's organizational structure, affiliated entities, and any unique financial reporting requirements.
4. ***Internal Control Evaluation:*** Assess and evaluate internal controls related to financial reporting, cash handling, membership management, and operational efficiency. Identify any weaknesses in internal controls that could pose risks to the accuracy of financial statements.
5. Membership Revenue Recognition: Audit procedures related to membership revenue should involve verifying the accuracy of membership records, ensuring that fees are properly recorded, and confirming the proper recognition of revenue over the membership period.
6. ***Event Revenue Verification:*** For clubs that host events, verify the accuracy of event contracts, pricing, and related revenue recognition Confirm that deposits and advance payments are appropriately recorded.
7. ***Food and Beverage Revenue Verification:*** If the club offers food and beverage services, audit revenue related to these activities. Reconcile sales records with inventory usage and confirm the accuracy of pricing and discounts.
8. ***Expense Verification:*** Review and verify operating expenses, including payroll, utilities, maintenance, and other overhead costs. Assess the reasonableness of expenses in relation to revenue generated.
9. ***Payroll and Employee Benefits:*** Verify payroll records, ensuring accuracy in wage rates, proper authorization of overtime and compliance with labor laws. Confirm the accuracy of employee benefit accruals.
10. ***Inventory Management:*** If the club manages inventory, such as food and beverage items or merchandise, verify the accuracy of inventory counts, valuation methods, and the proper recognition of cost of goods sold.
11. ***Contractual Agreements:*** Review contractual agreements with suppliers service providers and other third parties. Confirm that the club is in compliance with the terms of these agreements and assess any potential financial implications.
12. ***Asset Verification:*** Verify the existence and condition of significant assets, such as club facilities, equipment, and other capital assets. Confirm the accuracy of depreciation calculations and assess the need for impairment testing.

13. ***Liabilities and Contingencies:*** Review liabilities and contingent liabilities, including potential legal claims and obligations. Ensure proper disclosure in financial statements and assess the adequacy of provisions for future liabilities.
14. ***Technology Controls:*** Assess controls related to information technology systems, including point-of-sale systems, membership databases, and reservation systems Verify the security and integrity of financial data.
15. ***Environmental and Sustainability Practices:*** Assess the club's disclosure and reporting of environmental and sustainability practices, especially if the club has initiatives in these areas.
16. ***Governance and regulatory institutions:*** Evaluate the governance structure and the effectiveness of regulatory bodies, such as boards or committees Assess the independence and competence of regulatoary mechanisms.
17. ***Compliance with Industry Standards:*** Ensure compliance with industry-specific standards and guidelines relevant to clubs Verify adherence to any specific industry practices or regulations applicable to the type of club.
18. ***Audit Documentation:*** Maintain comprehensive audit documentation that provides evidence of the work performed, the conclusions reached and support for the auditor's opinion. Given the diversity of club activities, detailed documentation is essential.
19. ***Communication & Reporting:*** Communicate audit findings and issues with club management, the board of directors, & other relevant stakeholders. Issue an audit report expressing the opinion on the financial statement.

Audit of Banks:

In India all banking sector are regulated by RBI. There are 3 kinds of bank of bank:-Private banks, Public banks, Foreign Banks. All kinds of banks should be established and governed under Banking Regulation Act 1949.

Audit Procedure:

1. ***Understanding the Banking Industry:*** Gain a comprehensive understanding of the banking industry, including the regulatory environment types of banking services offered, and the overall economic conditions that may impact the industry.
2. ***Risk Assessment:*** Identify and assess risks specific to the banking industry Consider factors such as credit risk market risk liquidity risk operational risk and compliance risk Recognize the impact of economic cycles on the banking sector
3. ***Planning:*** Develop a comprehensive audit plan based on the assessed risks. Consider the scope of the audit, materiality thresholds and the allocation of resources. Understand the bank's organizational structure, affiliated entities, and any unique financial reporting requirements.
4. ***Internal Control Evaluation:*** Assess and evaluate internal controls related to financial reporting, risk management compliance with regulations, and operational efficiency. Given the importance of internal controls in the banking sector, identify any weaknesses that could pose significant risks.
5. ***Loan Portfolio Review:*** Examine the bank's loan portfolio to assess the accuracy of loan valuations, provisioning for potential credit losses, and adherence to lending policies. Verify the existence and collateral values associated with loans.
6. ***Securities and Investments:*** Audit the bank's securities and investment portfolios. Confirm the valuation of securities, adherence to accounting standards, and compliance with regulatory requirements for Investments.

7. ***Deposit and Liability Verification***: Verify the accuracy of deposit records, including the existence and valuation of various types of deposits. Confirm the appropriateness of interest rates paid on deposits and assess compliance with regulatory requirements.
8. ***Cash and Cash Equivalents:*** Confirm the existence and valuation of cash and cash equivalents. Assess the effectiveness of cash management practices and controls over cash transactions.
9. ***Derivatives and Hedging Activities:*** If applicable, audit the bank's derivatives and hedging activities. Confirm the proper accounting treatment, valuation methods, and compliance with accounting standards.
10. ***Asset Quality Review:*** Conduct an asset quality review, focusing on the classification of assets impairment testing. and the adequacy of loan loss provisions. Assess the quality of the bank's risk management practices
11. ***Interest Rate Risk Management:*** Evaluate the bank's interest rate risk management practices. Confirm that the bank has effective policies and controls in place to manage interest rate risk in its various assets and liabilities.
12. ***Compliance with Banking Regulations:*** Ensure compliance with banking regulations and regulatory reporting requirements. Verify that the bank's operations adhere to applicable laws and regulations, including capital adequacy standards.
13. ***Audit of Financial Instruments:*** Audit financial instruments, including derivatives, to ensure accurate valuation, disclosure, and compliance with accounting standards. Assess the adequacy of controls over financial instrument transactions.
14. ***Technology Controls:*** Assess controls related to information technology systems, including core banking systems. Online banking, and cybersecurity measures. Verify the security and integrity of financial and customer data.
15. ***Governance and Regulation:*** Evaluate the governance structure and the effectiveness of regulation bodies, such as the board of directors and audit committee. Assess the independence and competence of internal and external audit functions.
16. ***Anti-Money Laundering (AML) and Know Your Customer (KYC) Procedures:*** Review the bank's AML and KYC procedures to ensure compliance with regulations. Confirm that the bank has robust processes in place to identify and report suspicious transactions.
17. ***Audit Documentation:*** Maintain comprehensive audit documentation that provides evidence of the work performed the conclusions reached, and support for the auditor's opinion. Given the complexity and scrutiny in the banking sector detailed documentation is crucial.
18. Communication and Reporting: Communicate audit findings and issues with bank management, the board of directors, and regulatory authorities. Issue an audit report expressing the auditor's opinion on the presentation of the financial statements.

Chapter 5: Audit Report &Professional Ethics

Meaning of audit report: An audit report is a formal document that is generated by an auditor or an audit firm subsequent to completing and investigation of a company'sfinancial statement, records, internal control or any other information. This report contains auditors findings, suggestions and recommendations.

Lancaster has defined a report as "a report is a statement of collected and considered facts, so drawn up as to give clear and concise information to persons who are not already in possession of the full facts of subject matter of the report."

Advantages of audit report

1. ***Proof management integrity on their shareholders***: As an auditor is independent of Management, the report should prove whether management as honest to their shareholders or not. But, again, this related to principle and agency theory.
2. ***Assure financial statements:*** Audit reports are issued by a professional and independent auditor who is operational independent from the entity's management. The report issued from them would help the financial statement users to assure that financial information is correct.
3. ***It is the requirement of law and regulation:*** The entities that have specific criteria have their financial statements auditted by independent auditors. Criteria like turnover, value of assets, and the number of employees. The auditor is the evidence that could prove to the government that the entity compiles with the law.
4. ***Parent company requirements:*** Many parent companies that have subsidiaries operating in other countries or in the same country normally require their subsidiaries financial statement to be auditted. This report would help them manage the subsidiary even more effectively.
5. ***It is the requirement of shareholders:*** Most of the corporate shareholders want there entities financial statements to be auditted. This report is examined by the experts and Express in the easy words that could be understood by the most of the shareholders who do not have financial or audit background.
6. ***Help stay stakeholders to understand about entities financial and operational situation:*** This is probably the most important point the auditor is required to state whether the entity has any Going Concern problem or not. This includes financial and non financial problems that could lead the entity to face bankruptcy in the next foreseeable from the audit report date.

Limitations of audit a report:

1) ***Time too constraints for auditor:*** In practice auditor normally faces time constraints which do not provide them enough time to perform their testing as they should be.
2) ***The scope of the audit might be limited by the management:*** In the audit standard, auditors should have the full right to access information that could help them obtain audit evidence to express their opinion. However, in practice, management my tried their best to prevent auditors from obtaining some sensitive information. This might limit the scope of audit.
3) ***Auditors Independence:*** The code of ethics required auditors to stay independent from their audit clients. This is to ensure that auditors do not bias when they perform their work and issue audit opinion.
4) ***Risk that might not be detected by auditors:*** The audit standard requires auditor to have proper audit planning as well as risk assessment. This ensures that the auditing quality is maintained and Audit risk are identified and minimised. However, these things could not eliminate all kinds of material misstatement risk.

Elements od audit report (components)

1. ***Title***: The report title often states that it is an audit report.
2. ***Addressee:*** It contains address of the organisation, management team, board of directors, or shareholders of the company.
3. ***Introductory paragraph:*** This section provides an overview of the audit's goal, parameters and role of the auditor and Management. Additionally it contains details of reporting data.
4. ***Management's responsibility:*** The report normally contains a section describe in management accountability for creating and maintaining internal controls as well as preparations financial statements.
5. ***Auditor's responsibility:*** The duty of an auditor has prescribed in this part. These duties include carrying out audit in accordance with auditing standards, gathering adequate evidences and providing opinion on the financial statements.
6. ***Scope:*** The auditor explains the audit's scope including the steps used, the areas looked at and any limits that could have.
7. ***Opinion:*** It contains the main justification for its issues, it is an essential component of the document. Qualified opinions, unfavourable opinions and disclaimers opinion are some examples for common opinion.
8. ***Basis for opinion:*** The auditor explains the reason for their opinion. They would make references to particular audit techniques, the data gathered and any key audit results.
9. ***Additional reporting duties:*** The auditor Mein insert extra information such as topic paragraph relating to measure issues that need attention.
10. ***Date and signature:*** The auditor or audit from sign's the audit report to attest their ownership after report's content. Additionally the date of the report is included, while it normally do not the end of audit reports.
11. ***Address of the auditor:*** The report can include auditors location method of contact.
12. ***Date of the auditor's opinion:*** The date stated in the opinion denotes the time at which the auditor came to their conclusion based on the audit work.

Type of audit report:

1. Clean report(unqualified report)
2. Qualified report
3. Disclaimer report.
4. Adverse opinion report.

1. Clean report or unqualified report: Which means the auditor found no problems with the financial records of a company. The term "unqualified" indicates that the company does not need to satisfy any additional criteria to better it's financial standing.

A company obtains appear report when it demonstrates compliance with GAAP standards.

Example: ABC Limited has a history of maintaining meticulous financial records and strict compliance with GAAP. After a comprehensive audit, the auditor expresses and unqualified opinion, stating that ABC Limited's financial statements fairly represent its financial position and are in a gardens with GAAP. This clean report indicates that investors and stay coldest can have confidence in the accuracy of the company's financial statements.

2. Qualified report: A qualified report conveys the qualified opinion of an auditor regarding the financial position of a company. This demonstrates that a company has not followed all GAAP standards but is not engaging in unlawful or misleading practices.

Auditors issue this report if they are uncertain about particular business transactions or practices.

Example: Xyz Corporation, and IT startup, with as a complex revenue recognition process that the auditor finds challenging to verify. The auditor, therefore, issues a qualified report specifying the concern related to the revenue recognition process. That, why the financial statements are generally accurate, the company needs to address these specific issues to fully comply with GAAP. This report serve as a warning to the shareholders that certain aspects of the corporation accounting practices need to be improved

3. Disclaimer report: Auditor issue discrim a report where they are unable to express an opinion regarding company's financial position. This may occur if company fails to provide adequate responses to an auditor's enquiry.

Example: And auditor is engage in review financial statement of a family owned restaurant. ABC eats, The restaurant owner refuse to provide ke documentation and explanation about certain expenses, making it impossible for the editor to complete examination. In this case the auditor issues a disclaimer report stating, due to lack of cooperation and information they cannot Express and opinion on the ABC eats' financial statements. This report conveys the auditors enability to verify the accuracy of the financial data due to the lack of access.

4. Adverse opinion report: An adverse or negative report indicates fraud within an organisation. Auditors issue and advise report due to irregularities, miss representations. These businesses frequently this regarded accounting standards.

Example: An auditor of pharmaceutical company, xy Pharma limited, discovers evidence of fraudulent practices related to revenue recognition, inventory valuation and undisclosed related party transactions. In this case auditor issues and adverse opinion report, highlighting the financial gravity and mis representations found. This report raises are Red flag for investors and regulators which can lead to legal and regulatory actions against the company for the misconduct.

Independen auditor

It is a formal statement issued by an independent auditor (external auditor) expressing their opinion on the fairness of the financial statements. This report typically addressed to the shareholders or board of directors of the company.

Professional ethics

Meaning: 'code of conduct' is essentially a set of professional ethical standards relating to the relationship of chartered accountants with their clients employers, employees fellow memebers and generak public.

Fundamental principles of professional ethics (code of ethics)

1. ***Integrity:***- a professional auditor should be straight forward and honest in all professional and business relationships.
2. ***Objectivity:-*** a professional auditor should not allow bais conflict of interest or under influence of others to override professional or business judgment. Auditor should disclose any potential conflicts of interest and appropriate steps to address them.
3. ***Professional competence and due care:*** A professional auditor must maintain professional knowledge and skill at the required level to ensure that Client or employer receives competent professional services.
4. ***Confidentiality:*** A professional auditor should respect and maintain confidentiality of information acquired from professional and business
5. ***Professional behaviour:*** A professional auditot should compile with law and regulations to avoid any actions that negatively impact on profession.

6. ***Complaince with auditing standard:*** Amma ada Avatar stand up packet on touch moment auditors in India are obligated to comply with the relevant accounting, auditing standards set by ICAI.
7. ***Independence:*** Auditors must maintain independence in appearance and in fact to ensure the integrated and objectivity of the audit process. They should identify and evaluate threats to Independents and take a proparate measures to eliminate those threats.
8. ***Professional scepticism auditor*** cell approach their work with professionals practicism. They should critically assess evidences, question assumptions and diligently see to uncover any material mis statements or irregularities.
9. ***Communication:*** Auditor shell communicate frequently and transparently with clients, relevant stakeholders and other members of the team.
10. ***Continuous improvement***: Auditor shall actively seek opportunities for professional development and improvement. They should contribute to the enhancement of the auditing profession by sharing knowledge, experience and insights with their peer group.

Professional Accountants in public practice and business:

Professional accountant play a vital role in both public practice and business, con contributing to the financial health, compliance and strategic decision making of organisation.

Professional Accountants whether in public practice or business play integral role in shaping the financial landscape of organisation. The challenges they face underscore the dynamic nature of the profession, requireing adaptability, continuous learning and a commitment to ethical conduct.

Professional Accountants in public practice

Role and responsibility

The Institute of Chartered Accountants of India (ICAI) provides guidelines and standards for its members who are practicing chartered accountants. The roles and responsibilities of a chartered accountant in public practice, as per ICAI, encompass a wide range of activities. Here are key aspects:

1. ***Compliance with Standards:*** Adhere to the Accounting Standards (AS) and Auditing and Assurance Standards (AAS) issued by ICAI. Follow ethical guidelines outlined in the Code of Ethics for Chartered Accountants.
2. ***Financial Reporting and Auditing:*** Prepare and audit financial statements in accordance with the applicable accounting standards. Provide assurance on the fairness and reliability of financial information.
3. ***Tax Advisory and Compliance:*** Offer tax planning advice to clients for efficient tax management. Ensure compliance with tax laws and assist in the preparation and filing of tax returns.
4. ***Internal and Management Audit:*** Conduct internal audits to evaluate and enhance internal controls. Provide insights to management on operational efficiency and risk management.
5. ***Certification and Attestation:*** Certify various documents and financial statements as required by law. Attest to the authenticity and accuracy of specific information.
6. ***Corporate Governance:*** Assist in the implementation of corporate governance practices. Ensure compliance with corporate governance regulations and guidelines.
7. ***Advisory and Consulting:*** Provide advisory services on financial management, business strategy, and risk mitigation. Offer insights into improving business processes and overall performance.
8. ***Forensic Accounting:*** Investigate financial frauds and irregularities. Provide expert opinions and reports for legal proceedings.

9. ***Quality Control and Peer Review:*** Implement quality control procedures to maintain high professional standards. Participate in peer reviews as per ICAI's quality control mechanisms.
10. ***Continuing Professional Development (CPD):*** Engage in continuous learning and professional development. Stay updated on changes in accounting and auditing standards.
11. ***Client Relationship Management:*** Build and maintain strong relationships with clients. Communicate effectively and transparently with clients on financial matters.
12. ***Representation Before Authorities:*** Represent clients before regulatory authorities and government agencies. Handle tax assessments, appeals, and other regulatory matters.
13. ***Community Engagement:*** Contribute to the accounting profession by participating in ICAI events and initiatives. Engage in community service and awareness programs.

It's important to note that ICAI periodically updates its guidelines and standards, and members are expected to stay informed and comply with the latest requirements. The roles and responsibilities mentioned here align with the general expectations set by ICAI for chartered accountants in public practice.

Professional Accoutnant in Business (PAIB)

The role of a professional accountant in business is multifaceted, involving financial management, strategic planning, and compliance.

1. Financial Planning and Analysis: Develop and oversee financial plans, budgets, and forecasts. Analyze financial data to provide insights for decision-making.
2. Financial Reporting: Prepare and present accurate financial statements in compliance with accounting standards. Communicate financial results to stakeholders, management, and regulatory authorities.
3. Internal Controls and Risk Management: Design and implement internal control systems to safeguard assets and ensure financial accuracy. Assess and manage financial risks, proposing strategies for risk mitigation.
4. Cost Management: Analyze and control costs to improve efficiency and profitability. Implement cost accounting systems to track and allocate expenses.
5. Tax Planning and Compliance: Develop tax strategies to optimize the organization's tax position. Ensure compliance with tax laws and regulations.
6. Financial Decision Support: Provide financial insights and analysis to support strategic decision-making. Evaluate investment opportunities and assess their financial impact.
7. Treasury and Cash Management: Manage cash flow and liquidity to meet operational needs. Optimize working capital and assess financing options.
8. Audit and Assurance: Coordinate and liaise with external auditors for the annual audit. Ensure compliance with audit recommendations and implement improvements.
9. Technology Integration: Implement and leverage financial systems and technology for efficient reporting and analysis. Stay updated on technological advancements relevant to financial management.
10. Compliance and Regulatory Reporting: Ensure adherence to financial regulations and reporting requirements. Prepare and submit regulatory filings accurately and on time.
11. Contract Negotiation and Vendor Management: Participate in contract negotiations and assess the financial implications. Manage relationships with vendors and optimize procurement processes.

12. Corporate Governance: Uphold and promote ethical conduct and corporate governance principles. Ensure compliance with governance regulations and guidelines.
13. Performance Measurement: Establish and monitor key performance indicators (KPIs) to assess organizational performance. Implement performance measurement frameworks.
14. Continuous Professional Development (CPD): Engage in continuous learning and professional development. Stay informed about changes in accounting standards and business regulations.
15. Communication and Collaboration: Collaborate with cross-functional teams and departments. Communicate financial information effectively to non-financial stakeholders.
16. Strategic Planning: Contribute to the development and execution of the organization's strategic plan. Align financial strategies with overall business objectives.

The professional accountant in business plays a vital role in contributing to the financial health and success of the organization by providing accurate financial information, supporting decision-making, and ensuring compliance with relevant regulations.