Auditing & Tax

1) **Audit -Objectives of audit**
   Answer:

Auditing is an examination of accounting records undertaken with a view to establish whether they correctly and completely reflect the transactions to which they relate.

Spicer and Peglar define auditing as "An examination of the books, accounts and vouchers of a business's 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 his best of the information given to him and as shown by the book.

Mautz: defines auditing as being "Concerned with the verification of accounting data with determining the accuracy and reliability of accounting statements and reports. "Auditing (broadly defined) is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested parties. Auditing (narrowly defined) is a written report on the examinations of financial statements for a client.

Objective of audit

➢ **Main objective**

The main objective of the auditing is **to find reliability of financial position** and **profit and loss statements**. The objective is to ensure that the accounts reveal a true and fair view of the business and its transactions.

➢ **Secondary objective**

The secondary objectives of audit are:

Detection and Prevention of Error: Auditors should be very careful about the detection of errors because **manipulation in accounting** may also appear as error or it may be a result of carelessness on part of a bookkeeper.

Errors may be broadly classified as follows –

Error of Principle

Errors of Omission

Errors of Duplication

Errors of Commission

Compensating Errors

and Detection and Prevention of Frauds :

The main objective of auditing is to **ensure the financial reliability** of any organization; detection of fraud is just an incidental object.

Independent opinion and judgement form the objectives of auditing. The job of an Auditor is to ensure that the books of accounts are kept according to the rules stipulated in the Companies Act; an Auditor also needs to ensure whether the books of accounts show a true and fair view of the state of affairs of the company or not.

The following are the three distinct types of fraud –

Misappropriation of Cash

Misappropriation of Goods

Manipulation of Accounts

➢Specific objective

existence and completeness:

Auditing standards require that auditors test basic underlying management assertions implicit in the financial statements. Key among these various assertions are existence or occurrence, which describe a singular concept: Journal entries are not fiction. As the name implies, an auditor will conduct various procedures to verify that assets do in fact exist and that recorded transactions did in fact occur. Additionally, an auditor will seek evidence of completeness, so that the financial statements include all material transactions that occurred, and so the records do not omit material transactions for any reason.

rights and obligations:

The various rights and obligations of the company are important management assertions inherent in the financial statements. Thus, an auditor will obtain evidence regarding a company's rights, such as proper title to assets and status of intellectual property. An auditor will be concerned with assertions relating to the company's obligations, such as accounts payable balances, long-term debts and tax liabilities. Thus, the audit objectives will be fulfilled upon validating these specific assertions.

valuation allocation:

Valuation or allocation are managerial assertions which are often material to the financial statements; thus, an auditor will diligently conduct audit procedures relating to these objectives. Generally accepted accounting principles, or GAAP, require that certain balance sheet items be presented using different valuation methodologies. Meeting these standards is a key audit objective, as the risk of material misstatement is low in probability, but high in magnitude. Thus, among other things, the historical cost of assets is verified, depreciation methods are scrutinized and the fair value of investments are calculated to satisfy this objective.

presentation disclosure:

Another specific audit objective is validating the presentation of the financial statements and the adequacy of the disclosures therein. Financial statements should conform to certain requirements and expectations, and should include the balance sheet, income statement, statement of cash flows and the statement of owner's equity. Relating to disclosure, the auditor will consider the sufficiency and clarity of footnotes and the transparency in management discussion and analysis, so he can assess the risk of material misstatement and fulfill the audit objective.

02)Advantages of getting A/C audited

Answer:

-Audited account are detected as an authentic record of transaction.

-Errors and frauds are detected and rectified.

- It increases the morale of the staff and thus it prevents frauds and errors.

- Because of his expertise the auditor may advise on various matters to his clients.

-An auditor acts as a trustee of his shareholders. Hence he safeguards their financial interest.

-For taxation purpose auditing of account is must.

-In case of any claim is to be made from the insurance company only audited account should be submitted.

- Even in case of partnership firm auditing of accounts helps in the settlement of claim at the time of retirement/death of a partner.

-Auditor account helps in managerial decisions.

-They are useful to secure loan at the of amalgamation, absorption, reconstruction etc.

03)Audit report elements

Answer:

The auditor should review and assess the conclusions drawn from the audit evidence obtained as the basis for the expression of an opinion on the financial statements. The auditor’s report should contain a clear written expression of opinion on the financial statements taken as a whole.

a) Title
b) Address
c) Opening or introductory paragraph
d) Scope paragraph
e) Opinion paragraph
f) Date of the report
g) Place of signature
h) Auditor's signature

4)Internal check

Answer: The term internal check implies that the work of various members of the staff is allocated in such a way that the work done by one person is automatically checked by another. It is defined as "such an arrangement of book keeping routine where in errors and frauds are likely to be prevented or discovered by the very occupation of book keeping itself'.

Internal check is a system under which accounting methods and details of an establishment are laid out that the accounts and procedures are not under the absolute and independent control of any one person or the contrary the work of one employee is complementary to that of another.

Objectives:

Eliminates frauds and errors to prevent misappropriation of goods in cash.

To encourage specialization of labor.

To reduce the time spent on a particular work.

To exercise moral pressure over staff members.

To make accounting system more reliable.

5)Vouching vs verification

Answer:

Vouching	Verification
Vouching examines the entries relating to transactions recorded in books of accounts	Verification examines the assets and liabilities appearing in the Balance Sheet.
Vouching is done throughout the year.	It takes place at the end of the year.
Vouching is bases on only documentary examination.	Verification is based on personal as well as documentary examination.
It does not include verification.	It includes valuation.

Vouching is normally done by audit assistant.	It is done by the auditor himself.

06)Internal vs independent audit

Answer:

Internal	Independent
1. An internal auditor is a regular employee of the company.	1. He is a professional auditor appointed by the company who is not an employee.
2. His duties, rights and responsibilities are determined by management.	2. The scope of audit work liabilities, duties etc are explained by concerned statutes.
3. He is appointed by the management.	3. He is appointed either by shareholders or by govt.
4. It's not compulsory.	4. It is compulsory for all companies.
5. Internal auditor acts as an advisor to the management.	5. He is independent of the management.
6. To become an internal auditor professional qualification is not necessary.	6. An independent auditor must have professional qualification as per the act.
7. Internal Auditor ensures that the system of accounting is efficient.	7. the independant auditor comment on the true and fair view of business.
8. An internal auditor reports to the management.	8. The Internal Auditor reports to the shareholders.
9. Internal audit is a continuous process.	9. It's a periodic process.

07)Contents of audit notebook

Answer: an audit note book is one of the most important document maintained by the auditor. It is defined as a record used mainly in recording audit, containing data on work done and comments made. Audit Note book contains information regarding the day to day work performed by the audit staff, notes about errors, explanations required etc. the auditor can use it as an authentic evidence in the court if there is any case against him.

Contents:
-Nature of business and important documents such as MOA, AOA, Partnership deed etc.
-List of books of accounts.
-List of officials, their duties and responsibilities.
-Copy of the audit programme.
-Information on missing receipts, vouchers etc.
-Details of errors discovered.
-Explanations sought from the officials.
-Points to be included in the audit report.
-An audit note book should be preserved by the auditor as it contains valuable information in respect of the work done by its staff.

8) IS/IT auditing

Answer: Information System Auditing (ISA) is an examination of the system controls within an IT architecture - which means the process of evaluating the suitability and validity of an organization's IT configurations, practices and operations. It is also referred to as automated data processing (ADP) auditing, electronic data processing (EDP) auditing or information technology (IT) auditing.

The IT audit's agenda may be summarized by the following questions:

• Integrity - Will the information provided by the system always be accurate, reliable, and timely?

• Confidentiality - Will the information in the systems be disclosed only to authorized users?

• Availability - Will the organization's computer systems be available for the business at all times when required?

09)Preventive control

Answer: Preventative controls are designed to be implemented prior to a threat event and reduce and/or avoid the likelihood and potential impact of a successful threat event. Examples of preventative controls include policies, standards, processes, procedures, encryption, firewalls, and physical barriers.

10) Management control

Answer: Management control is defined as a process that helps to achieve organizational goals. The teams or an individual within a business entity is forced to perform specific actions and avoid another set of particular actions so that they can reach their destined target. Management control is described as a function that is aimed at achieving defined goals within a set timetable. The process has three major components, like taking remedial action, measuring the actual performance, and setting standards. The process includes comparing actual and planned performance, measuring the difference between the two, identifying the causes that have lead to the difference and taking corrective action to minimize or remove the difference.

In simple terms, it is the process through which the management of an organization influences other members to implement the strategies laid down by the company.It can be a tool, process, policy, practice or a system that is put into place so that the management can direct the resources of its organization as per its wishes to achieve set targets.

11) Detective control

Answer: Detective control is an accounting term that refers to a type of internal control intended to find problems within a company's processes once they have occurred. Detective controls may be employed in accordance with many different goals, such as quality control, fraud prevention, and legal compliance. One example of a detective control is a physical inventory count, which can be used to detect when actual inventories do not match those in accounting records.In small firms, internal controls can often be implemented simply through management supervision. At large firms, however, a more elaborate system of internal audits and other formalized safeguards is often required to adequately control the company's operations.

12) Tax characteristics of BD

Answer:

- It is an enforced contribution

-It is generally payable in money.

-It is proportionate in character, usually based on the ability to pay

-It is levied on persons and property within the jurisdiction of the state

-It is levied pursuant to legislative authority, the power to tax can only be exercised by the law making body or congress

-It is levied for public purpose

-It is commonly required to be paid a regular intervals.

-No direct benefits

-Not a penalty

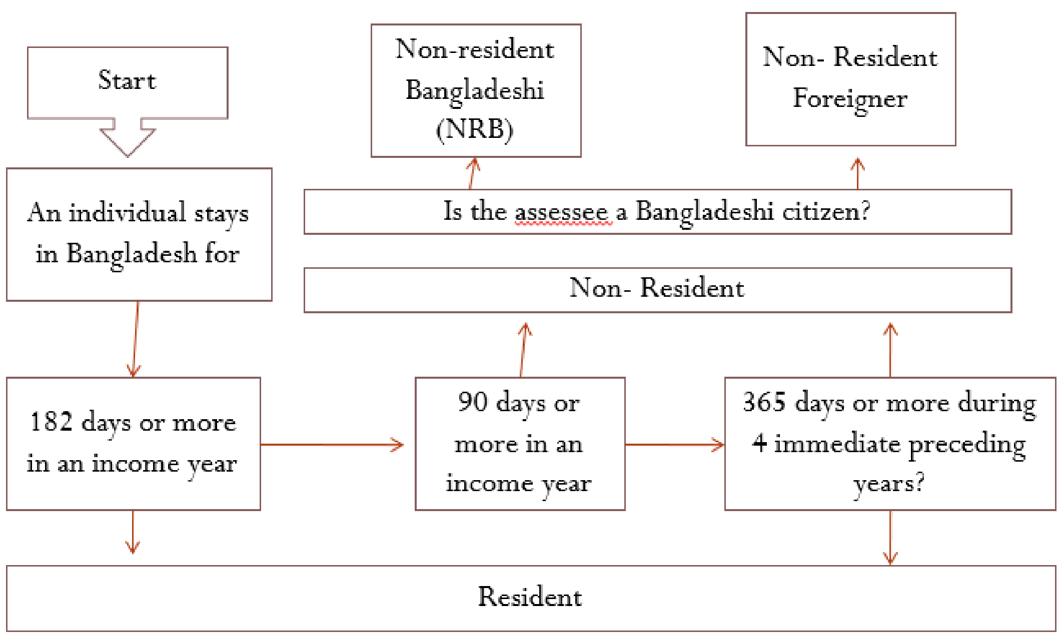
13) Residential status of assess

Answer: According to Section 2(55)(a) of the ITO 1984, an individual will be a resident in any income year if he fulfills any of the following two conditions:

If he stays in Bangladesh for a period of, or for periods amounting in all to, onehundred and eighty-two [182] days or more in that year; or

for a period of, or periods amounting in all to, ninety days [90] or more in that year having previously been in Bangladesh for a period of, or periods amounting in all to,three hundred and sixty-five days [365] or more during four years preceding that year;Here, it is not essential that an assessee should stay at the same place during this period (Kinlock v. I.R.C. 14 TC 736]. His stay of 182 days or more may not be a continuous one. It is sufficient if he stays for a minimum period of 182 days in aggregate in an income year. If none of the above two conditions are satisfied, such individual is non-resident in Bangladesh during that income year as per Section 2(42).

Rules for determining residential status of an assessee



14) Role of tax in economic development

Answer: Roles-

-Optimum allocation of available resources

-Raising government revenue

-Encouraging saving and investment

-Reduction of inequalities in income and wealth

-Accelerating economic growth

-Price stability

-Control mechanism

15) Canons of tax

Answer: Canons of taxation refer to the administrative aspects of a tax. They relate to the rate, amount, method of levy and collection of a tax.In other words, the characteristics or qualities which a good tax should possess are described as canons of taxation. It must be noted that canons refer to the qualities of an isolated tax and not to the tax system as a whole. A good tax system should have a proper combination of all kinds of taxes having different canons.

-Canon of equality: Every fiscal economist, along with Adam Smith, stresses that taxation must ensure justice. The canon of equality or equity implies that the burden of taxation must be distributed equally or equitably in relation to the ability of the tax payers.Equity or social justice demands that the rich people should bear a heavier burden of tax and the poor a lesser burden. Hence, a tax system should contain progressive tax rates based on the tax-payer’s ability to pay and sacrifice.

-Canon of certainty: Taxation must have an element of certainty. According to Adam Smith, “the tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the amount to be paid ought to be clear and plain to the contributor and to every other person.”

-Canon of economy: This principle suggests that the cost of collecting a tax should not be exorbitant but be the minimum. Extravagant tax collection machinery is not justified. According to Adam Smith, “Every tax has to be contrived as both to take and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state."Owing to the complex and ever-changing nature of taxation laws in India, government has to maintain elaborate tax collection machinery with a large staff of highly trained personnel involving high administrative costs and inordinate delay in assessment and collection of tax.

-Canon of convenience: According to this canon, tax should be collected in a convenient manner from the tax payers. Adam Smith stresses: "Every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it." For example, it is convenient to pay a tax when it is deducted at source from the salaried classes at the time of paying salaries

-Canon of productivity: This implies that a tax must yield sufficient revenue and not adversely affect production in the economy.

-Canon of simplicity: This norm suggests that tax rates and tax systems ought to be simple and comprehensible and not to be complex and beyond the understanding of the layman. This is what is rarely found in the Indian tax structure.

-Canon of elasticity: Taxation should be elastic in nature in the sense that more revenue is automatically fetched when income of the people rises. This means that taxation must have built-in flexibility.

-Canon of diversity: Canon of diversity implies that there should be a multiple tax system of diverse nature rather than having a single tax system. In the former case, the tax payer will not be burdened with a high incidence of tax in the aggregate.

-Canon of expediency: This suggests that a tax should be determined on the ground of its economic, social and political expediency. For instance, a tax on agricultural income lacks social, political or administrative expediency in India and that is why the government of India had to discontinue it.

-Canon of functional efficiency

16) Positive vs negative tax

Answer: Taxpayers with income above the threshold would pay taxes in a cash amount equal to the difference ('positive taxes') and taxpayers with income below the threshold would receive NIT refundable credits in a cash amount equal to the difference ('negative taxes').

17) Tax vs Fees

Answer:

Taxes-A tax represents money that a government charges an individual or business when they perform a particular action or complete a specific transaction. This tax is often assessed as a percentage of an amount of money involved in the transaction. For example, a tax is applied on the income that a person makes during a year. In addition, a tax is often placed on the sale of goods.

Fees-A fee is related to a tax, in that it is also a charge paid to the government by individuals or by a business. However, a fee is specifically applied for the use of a service. The fee rate is directly tied to the cost of maintaining the service. Money from the fee is generally not applied to uses other than to providing the service for which the fee is applied. For example, a government may charge a fee to visit a park.

18) Tax appellate tribunal

Answer: Taxes Appellate Tribunal is the highest Judicial authority in determining factual point of income tax cases. But in the case of law point, the appellant can go with a reference application to the honorable High Court against the order of the Tribunal. An assessee or the DCT may appeal to the Taxes Appellate Tribunal if he is aggrieved by an order of the Appellate Joint/Additional Commissioner or the Commissioner (Appeals). Taxes Appellate Tribunal is established under IRD of Ministry of Finance. Subject to the Provision of IT Ordinance, the Appellate Tribunal is functioning by its own Rules independently. The language of the Tribunal is English.

For the first time, one of the benches of Taxes Appellate Tribunal of Pakistan (HQ-Karachi) was established in Dhaka in 1955. After independence, Taxes Appellate Tribunal with a bench in Dhaka was established in 1972. Now, there are 7 division benches in Taxes Appellate Tribunal. Out of them, 5 are situated in Dhaka, one in Chittagonj and one in khulna. Every bench constitutes of 2 members and they give their decision jointly. The Government appoints one of the members of NBR as the President of Taxes Appellate Tribunal.Others members of the Tribunal are generally appointed from the ranks of the Commissioner of the Taxes. Existing/retired members of NBR, retired Commissioners of Taxes, Chartered accountants, cost and management accountants, exiting/retired district judges, Advocates/ITPs are also eligible for being appointed as a member of the Tribunal.After hearing both the parties, division benches of the Tribunal give their decision on the appeal cases. Each bench consists of 2 Members. If 2 members of the bench do not agree on any point, the President appoints one or more additional members for hearing of the case and the decision of the case is given with the opinion of the majority of the members. In average, 4500 cases are disposed of, in the Taxes Appellate Tribunal per year. Brief organogram of Taxes Appellate Tribunal in given as below:

-Taxes Appellate Tribunal

-Internal Resources Division

-Ministry of Finance

19) Non-assessable income

Answer:

Non-assessable non-exempt income (NANE) is ordinary or statutory income that is expressly made neither assessable income nor exempt income by a provision of the tax legislation or any other Commonwealth law.The consequences of an amount being non-assessable non-exempt income are:the amount is not assessable and is therefore tax free outgoings incurred in deriving the amount are not deductible capital gains and losses on assets used to produce some types of these amounts are disregarded, and tax losses are unaffected**.**

Most often this includes government allowances such as disability pensions, carer payments, rent assistance and such, but also some scholarships, child care payments and so on (some of which are listed below). Non-assessable non-exempt income.

20) Tax payable income

Answer: Income tax payable is the tax liability that a business has not yet paid to the applicable government, while income tax expense is the tax charged against taxable income in the current period. Income tax payable is listed on an entity's balance sheet, while income tax expense is listed on its income statement. Income tax payable is a liability that an entity incurs that is based on its reported level of profitability. The tax can be payable to a variety of governments, such as the federal and state governments within which the entity resides. Once the organization pays the income tax, the liability is eliminated. As an alternative to payment, the income tax liability can be reduced through the application of offsetting tax credits granted by the applicable government entity. Since tax credits typically expire after a period of time, one must pay close attention to which ones are available and can be applied to an income tax payable.The amount of income tax payable is not necessarily based solely on the accounting profit reported by a business. There may be a number of adjustments allowed by the government that alters the accounting profit to result in a taxable profit, against which the income tax rate is then applied. These adjustments can result in timing differences between the recognition of profits for accounting and tax reporting that can, in turn, create differences in the amount of income tax payable (as calculated on a tax return) and the income tax expense reported in a company's income statement.

For example, governments typically allow the use of accelerated depreciation for the purposes of calculating income taxes, which tends to delay the payment of taxes to a later period. This varies from the more common straight-line depreciation used by businesses for all other reporting purposes. The result is a timing difference between the recognition of income for financial and tax reporting purposes.