

PRINCIPLES AND PRACTICES OF AUDITING

UNIT -1 INTRODUCTION

MEANING OF AUDITING

“Auditing is concerned with verification of accounting & financial records with view to determine their accuracy & reliability”.

“ Detailed examination of books of accounts of an organization for a given period by an independent & qualified person, who with the help of vouchers, documents & information given, whether the profit & loss a/c position & balance sheet exhibits a true & fair state of affairs of the business or not”.

DEFINITION OF AUDITING

According to R.B. Bose “ Auditing may be said to be the verification of the accuracy & correctness of the books of accounts by an independent person qualified for the job & not in any way connected with the preparation of such accounts”

According to Mautz “ Auditing is concerned with the verification of accounting data, with determining the accuracy & reliability of accounting statement & reports”.

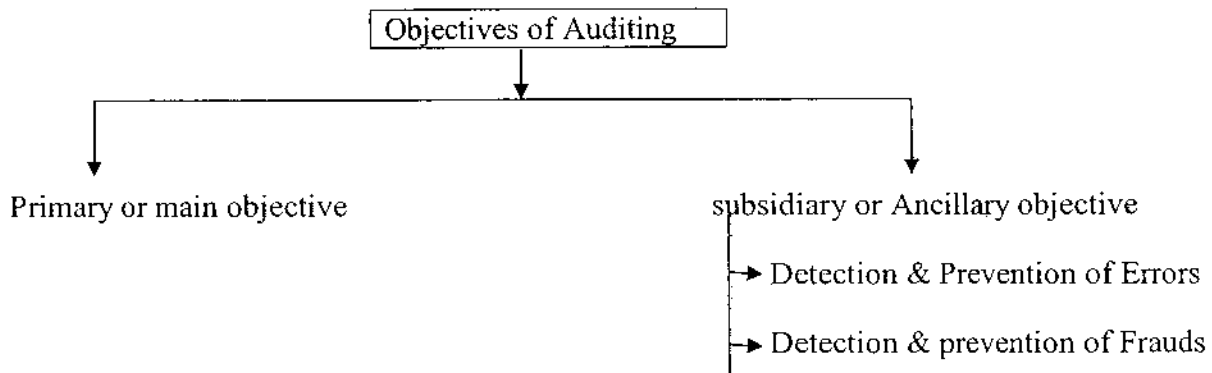
According to Montgomery “ Auditing is a systematic examination of the books & records of a business or other organization in order to ascertain or verify & to report upon the facts regarding the financial operation & the results thereof”

According A.W Hanson” An Audit is an examination of such records to establish their reliability & the reliability of statements drawn from them”.

CHARACTERISTICS OF AUDITING

1. Audit is a crucial review of the system of accounting & internal control
2. It is an organized & scientific examination of the books of accounts of a business
3. Audit is undertaken by an independent person or body of persons who are duly qualified for the job
4. Audit is a verification of the results shown by the profit & loss account & the state of affairs as shown by the balancesheet
5. Audit is done with the help of vouchers, documents, information & explanation received from the authorities.

OBJECTIVES OF AUDITING



1. Primary or Main objective:-

The main objective of audit is to report to the owners of the business whether the balance sheet exhibits a true & fair view of the state of affairs of the company as at the end of the financial period & the P/L a/c exhibits a true & fair view of the Profit & loss for the financial period.

2. Subsidiary or Ancillary objective:-

- i. Detection & Prevention of Errors
- ii. Detection & Prevention of frauds

I Detection & Prevention of Errors

Errors refer to unintentional misstatements or mis-description made in the books of accounts by the account assistants.

Errors are reportedly committed innocently, an auditor should be very careful about it, because sometimes, errors which might appear as innocent are the results of fraudulent manipulation.

Types of Errors

- a) Technical Errors or Clerical errors
- a) Errors of Principle

a) Technical Errors or clerical errors:-

Errors which are committed –

- In the course of recording transaction in the books of original entry such as the cash book, purchase, sales book etc.,
- In casting carry forward & balancing the subsidiary books
- In posting the entries from the books of original entry to the concerned accounts in the ledger
- In the totalling or balancing ledger accounts.

Technical or clerical errors may be sub divided into three types

- i) Errors of Omission
- ii) Errors of Commission
- iii) Compensating Errors

- i) **Errors of Omission :-** Errors which arise on account of transaction not being recorded in the books of accounts either wholly or partially are called errors of omission.

If a transaction is completely omitted to be recorded in a subsidiary book, it is an error complete omission. An error of complete omission doesn't affect the agreement of trail balance as both the aspects of the transaction are omitted from the trail balance. Therefore such errors cannot be detected easily, an intensive checking of the subsidiary books & the posting from subsidiary books to the ledger is required.

- ii) **Errors of Commission:-** when incorrect entries are made in the books of accounts either wholly or partially, the errors are known as errors of commission. Eg:- the amount 535 might be entered as 355 in the books of original entry such errors can be located while vouching the purchases with original invoices.

- iii) **Compensating Errors:-** When the effect of one error is counter-balanced, set off or compensated by another errors are known as compensating errors.

Eg:- if salaried account is under cast by Rs. 150 & wages account is over cast by Rs 150 the errors in salaries account is set off by the error in wages account. Such errors detected only by through checking of different subsidiary books & ledger accounts.

b) Errors of Principle

If a transaction is recorded in the books of accounts against the generally accepted principles of accountancy, the errors are known as errors of principle. As such errors not disclosed by the disagreement of trail balance, they cannot be detected by mere routine checking.

II Detection & prevention of Frauds

Fraud refers to intentional misstatements or mis-description made in the books of accounts by the account assistants, with a view to cheat some body.

Types of Frauds

- a. Misappropriation
- b. Fraudulent manipulation of accounts

a. Misappropriation:-

It refers to dishonest use of another's funds or property for one's own use.

Misappropriation may be sub divided into two types

- i) Misappropriation or embezzlement of cash
- ii) Misappropriation of goods

i) Misappropriation of embezzlement of cash:-

Refers to the fraudulent appropriations of belonging to another person by one to whom it has been entrusted or by one who handles it.

Different ways to misappropriating the cash

- (a) Non-disclosure of cash receipts:- recording the cash sales proceeds at a figure lower than the actual cash sales proceeds. Omitting to record the credit sales.
- (b) Showing false cash Payments:- recording false cash purchase & pocketing the amount, inflating the cash purchase i.e. at a figure higher than the actual & pocketing the difference etc.,

ii) Misappropriation of Goods:-

It means the wrongful or fraudulent conversion or fraudulent application of goods by those who handle them.

Different ways of misappropriation of goods

- (a) Recording sales of larger quantities than actually supplied & misappropriating the balance quantity.
- (b) Recording purchase of large quantities, getting delivery of lesser quantities & receiving the balance quantity privately.

b. **Fraudulent manipulation of accounts:-**

It is said to be committed when a person makes a false entry in the business records or alters, erases, removes or destroys a true entry in the business records.

Different ways of manipulations of accounts:

1. Non-payment of depreciation on fixed assets
2. Provision of less depreciation on fixed assets
3. Provision of more depreciation on fixed assets
4. Over-valuation & under valuation of assets
5. Creation of secret reserves.

DIFFERENCE BETWEEN ACCOUNTING & AUDITING

| BASIS | BOOK KEEPING & ACCOUNTANCY | AUDITING |
|------------------|---|--|
| 1.Period | The book keeping & accounting work is done continuously throughout the year | Auditing work is generally undertaken at the end of the financial year |
| 2.Nature of work | The book keeping & accounting work is constructive in approach | Auditing is concerned with examination of past transactions. |

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|---------------------------------------|--|---|
| 3. Recording of business transactions | The book keeping & accountancy is concerned with current recording of business transactions | Auditing is concerned with examination of past transactions |
| 4. detection of frauds | The book keepers & accountants are not expected to detect frauds | Auditors are required to detect frauds |
| 5. Status | The book keepers & accountants are the employees of the concern. | Auditors are the outsiders. The qualified Chartered accountants. |
| 6. Remuneration | The book keepers & accountants are paid regular salaries. | Auditors are given fee for the specific work done. |
| 7. Qualification | The book keepers & accountants need not be chartered accountants | Auditors should be Chartered accountants |
| 8. knowledge | The book keepers & accountants may or may not have the knowledge of audit techniques & procedures. | Auditors must have the knowledge audit techniques & procedures. |
| 9. Accountancy & audit work | The book keepers or accountants cannot take up both accountancy & audit work | Auditors can take up both accountancy & audit work. |
| 10. code of conduct | The book keeping & accounting work is not governed by any code of conduct prescribed by any profession body. | Auditing work is governed by code of conduct prescribed by the institute of chartered accountants . |

CLASSIFICATION OR TYPES OF AUDIT

I ON THE BASIS OF THE CONDUCT OF AUDIT

- a) Continuous Audit
- b) Interim Audit
- c) Balancesheet audit
- d) Final audit
- e) Partial Audit
- f) Occasional audit

II ON THE BASIS OF OBJECTIVE OF AUDIT

- a) Cash audit
- b) Cost audit
- c) Management audit
- d) Special audit
- e) Operational audit

- f) Performance audit

III ON THE BASIS OF DEGREE OF INDEPENDENCE

- a) External Audit
- b) Internal Audit

IV ON THE BASIS OF ORGANISATIONAL STRUCTURE

- a) Statutory audit
- b) Voluntary Audit
- c) Government Audit

I ON THE BASIS OF THE CONDUCT OF AUDIT

a) CONTINUOUS AUDIT:-

It is an audit, where the books of accounts are verified throughout the either at regular or irregular intervals & the financial statements of the business are examined at the end of the year. Say weekly, monthly & quarterly.

Continuous audit becomes imperative in the following types of business(suitability)

1. When internal check system is not satisfactory
2. In big concerns where the volume of transactions are numerous
3. In concerns, where monthly accounts are required to be presented to the management
4. Where it is desired that the audited final accounts should be ready immediately after the close of the accounting period.

Advantages of Continuous Audit

1. **Detection of errors & frauds:-** Auditor gets sufficient time to check all the books of accounts in detail, in case of continuous audit. This facilitates auditor to detect errors & frauds easily & quickly.
2. **Moral Check;-** frequent visits of the auditor to the client's business imposes a moral check on the accounting staff to keep the books of accounts up-to-date & accurate.
3. **Early presentation of accounts:-** as accounts are checked throughout year. It becomes possible for the accountant to present the audited financial statements to the owners of the business immediately after the close of the accounting year.
4. **Valuable suggestions:-** in case of continuous audit, auditor gets an opportunity to familiarize himself with all the aspects of the clients business this will help the auditor to give valuable suggestions for the improvement of operational efficiency of the business.
5. **Preparation of interim accounts:-** if the directors of a company decide to declare an interim dividend, continuous audit will help them in preparing interim accounts without much delay.

6. **Work efficiency :-** as auditor has constant touch with the clients's business & business & sufficient time, he can plan his work properly & carry out his work more efficiently.

Disadvantages of Continuous audit

1. **Very expensive:-** it is very expensive, as more audit fees is required to be paid to the auditor for his continuous visits.
2. **Time consuming:-** it involves much time. The time spent on audit will be a sheer waste, if the size of the business is small
3. **Alteration of figures:-** in case of continuous audit, figures may be altered by the dishonest accountant, after the auditor has checked the books of accounts for a particular period.
4. **Losing link in the audit work:-** if proper notes of the work done on pervious visits are not correctly made, the auditor may lose link the work & will fail to clear up the outstanding queries.
5. **Monotony:-** as audit is carried out throughout the year in case of continuous audit, there is the danger of the audit work becoming mechanical.
6. **Inconvenience:-** frequent & unexpected visits of the auditor to the clients's business may cause inconvenience to the client's staff & dislocation of clients work.

b) INTERIM AUDIT

It is kind of audit, which is done between the two annual audits. It is suitable for those companies, which wants to declare interim dividend.

Advantages of Interim audit

1. The final audit can be completed very soon, if there has been an interim audit
2. Errors & frauds can be detected easily & quickly
3. It imposes a moral check on the staff of the client.

Disadvantages of Interim audit

1. Figures may be altered in the accounts, which have already been audited.
2. Even in case of interim audit, auditor is required to take extensive notes of the figures audited. This would increase the work of the auditor.
3. It is comparatively expensive, as it involves additional financial burden to the organization.
- 4.

Difference between Interim Audit & Continuous Audit

| Basis | Interim Audit | Continuous Audit |
|----------------|---|--|
| 1.period | Accounting records of only a part of the accounting year are audited. | Accounting records of one accounting year are audited. |
| 2.verification | Verification of assets & liabilities is undertaken at the time of interim audit | Verification of assets & liabilities is undertaken at the close of the financial year. |

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| 3. Auditors report | Auditors report is submitted at the time of interim audit. | Auditors report is submitted at the end of the financial year. |
| 4. Detailed checking | The detailed checking is not done | The detailed checking is done. |

c) **BALANCESHEET AUDIT**

It is type of audit, which concentrates mainly on the verification of the items in the balance sheet, such as capital, reserve & provisions, profit & loss account balancesheet, assets & liabilities of the business. It may be noted that in case of balancesheet audit, audit work commences from the balancesheet, working back to the books of original entry & documentary evidences.

Suitability:- it is suitable for small & medium sized business units. It is also quite effective in those big concerns, which have a good internal control system & qualified accountants.

Difference between continuous audit & Balancesheet Audit

| Basis | Continuous Audit | Balance sheet Audit |
|------------------------------------|--|--|
| 1. suitability | It is suitable for big business units, where the volume of business transactions is numerous. | It is quite suitable for small & medium sized business units. |
| 2. Detection of error & frauds | It facilitates auditor to detect errors & frauds easily & quickly | It doesnot facilitate auditor to detect errors & frauds easiy & quickly. |
| 3. moral check | Frequent visits of the auditor to the client's business impose a moral check on the accounting staff . | The auditor visits the clients business only at the end of the accounting year. Therefore it is difficult for the auditor to impose a moral check on the accounting staff. |
| 4. preparation of interim accounts | It will helps in the preparation of interim accounts without much delay. | It will not help in the preparation of interim accounts without much delay. |
| 5. Work efficiency | Auditor can carry out his work more efficiently | It may be difficult for the auditor to carry out his work more efficiently. |
| 6. expensive | It is very expensive | It is less expensive |
| 7. Time consuming | It involves more time. | It involves less time |
| 8.. Alteration of figures | Figures may be altered by the dishonest accountant | There is no scope for alteration of figures. |
| 9. monotony | There is the danger of the audit wok becoming mechanical | There is no danger of the audit work becoming mechanical |
| 10. Inconvenience | It may cause inconvenience to the client's staff | It may not caused inconvenience to the clients staff. |

d) FINAL AUDIT

It is an audit, where the auditor takes up his work of checking the books of accounts at the end of the accounting period, when the transactions for the whole year are completely recorded & financial statements have been prepared.

Suitability:- final audit is adopted by almost all concerns. This type of audit is more suitable for small concerns.

Advantages of Final Audit

1. Final audit is not very expensive. Therefore, more suitable for small concerns
2. It involves less time
3. There is less scope for alteration of figures
4. There is no scope for the auditor may to lose the link of the work
5. There is less danger for the audit work becoming mechanical
6. It does not cause inconvenience to the client's staff

Disadvantages of Final audit

1. Auditor does not get sufficient time to check all the books of accounts in detail
2. Auditor does not impose a moral check on the accounting staff to keep the books of accounts, up to date & accurate
3. It is not possible for the accountant to present the audited financial statements to the owners of the business immediately after the close of the accounting year.
4. Auditors doesn't get an opportunity to familiarize himself with all the aspects of the clients business.
5. It does not help him them in preparing interim accounts in time.

e) PARTIAL AUDIT

It is kind of audit, where the work of the auditor is curtailed. For instance, auditor may be asked to check only the cash book to detect misappropriation of cash. It may be noted that partial audit is not permitted in case of companies.

f) OCCASIONAL AUDIT

It is kind of audit, which is not conducted on a regular Basis & it is not suitable for joint stock companies.

II ON THE BASIS OF SPECIFIC OBJECTIVE

1. **Cash Audit:-** it is a type of audit which only the cash receipts & payments are audited in detail by the auditor.
2. **Cost Audit:-** it is an independent & critical Examination of the various records maintained by the company by the cost auditor to ascertain whether cost of the product manufactured by the company have been correctly in accordance with the correct costing principles.

3. **Management Audit:-** the auditor examines the policies & the actions of the management to ensure that there is proper & maximum utilization of available resources.
4. **Special Audit :-** when the affairs of the company are not being managed, according to the sound business principles, the central government is empowered to appoint a special auditor to audit the company's working & its state of affairs.
5. **Operational Audit:-** It involves intelligent examination of the various operation of the different functional area of a business, & observing the weakness, lapses, inefficiencies in operation & suggesting ways for strengthening the system.
6. **Performance Audit:-** it s procedure for analyzing the profits & losses of different economic activities carried on by a business unit, examining the relationship between production & sales & discovering the avenues for maximizing profits.
7. **Propriety Audit:-** it is carried out with the objective of ascertaining that contracts entered into with third parties are in the best interest of the concern & there is a system, which ensures the safety of the assets of the concern.

III ON THE BASIS OF DEGREE OF INDEPENDENCE

1. **Independent or External Audit:-**

External auditors are independent firms that inspect the accounts of entity & render an opinion on whether its statements conform to GAAP & present fairly the financial position of the company & the results of operations.

The external auditor's primary obligation is to users of financial statements outside the organization. External auditors are required to register with ISO 9000.

2. **Internal Audit:-**

Internal auditing considers the examination, monitoring & analysis of activities related to a company's operation, including its business structure, employee behaviour & information system.

IV ON THE BAISI OF ORGANISATIONAL STRUCTURE

1. **Statutory Audit:-**

It refers to the audit of accounts of a business unit compulsorily under the provisions of a statue or law. It is carried out in a number organizations such as a Joint stick companies, Banking Companies, Insurance companies etc.

2. **Private or Voluntary Audit:-**

Where the audit is not compulsory under any statue, but is undertaken by the owners voluntarily to get the benefits of audit, such audit is known as private or voluntary audit. This suits to sole trading concerns, partnership firms & other individuals.

3. **Government Audit:-**

It refers to the audit of accounts of government departments & offices government companies & statutory corporations.

ANNUAL AUDIT

The final audit takes place only after the end of the trading period when all the transactions for the whole year are completely recorded & balanced; trading & profit & loss account & balance sheet have been prepared. The auditor carries on his audit work continuously till it is completed.

Advantages of Annual Audit

1. In case of annual audit, as the auditor visits the client's office only once a year the office work is not unnecessarily disturbed.
2. As audit work is done only in a one continuous session chance for alteration figures is minimum.
3. It is a less expensive system & suitable for small business houses
4. The audit work can be finished quickly within a reasonable time.
5. As audit work is done & completed in a continuous session, link in work can be properly maintained.
6. In continuous audit, work can be allocated according to time schedule.

Disadvantages of Annual Audit

1. Auditor may not be able to check & verify all the transactions. Hence there is every chance that some of the errors & frauds may be left undetected.
2. It may cause delay in the declaration of dividends & holding annual general meetings. The decisions of vital importance may be delayed due to the lack of audited & verified information.
3. In annual audit detailed checking of accounts is not possible for the auditor. Thus, there is greater chance of errors & frauds being left undetected.
4. For large scale concerns, periodical audit is rarely practicable & it is not much popular for them.

PREPARATION BEFORE COMMENCEMENT OF NEW AUDIT

1. Obtaining the letter of appointment

He must have a proper letter of appointment from the appropriate authority & ensure that his appointment is an order. Further if he has been appointed in place of another auditor, he should enquire from the retiring auditor, the reasons for the changes. This fact has been upheld by many cases.

2. Knowing the nature & scope of his duties

He should obtain definite instruction from his client about the nature & scope of his work i.e. whether he is to do continuous audit or final audit, whether he is to do the accountancy work or audit work or both. This question will not arise in the case of companies, as his duties, powers & liabilities are laid down by the companies act itself.

3. Knowledge of the system of accounting employed

He should examine the system of accounting employed by his client. If he finds any weak point, he must study it thoroughly & make recommendation to his client to remove these weak spots.

4. Obtaining of the list of principal officers of the client's organization

He should obtain a written statement of internal control system in force in the client's organization. It will help him in determining the extent of his audit work.

5. Knowledge of internal control in force in the client's business

He should obtain a written statement of internal control system in force in the client's organization. It will help him in determining the extent of his audit work.

6. Obtaining of the list of books

He should obtain a list of all the books maintained in the office, together with the names of in charge persons & their specimen signatures. A list should be duly signed by a responsible official of the company.

7. Study of the previous year's financial statements

He should study the previous year's financial statements as well as the auditor's report. This will help him to know the state of affairs of the concern.

8. Study of the important documents

He should study all the documents like memorandum of association, Article of Association etc., which have a bearing on the accounts.

9. Giving instructions to the clients

He should give clear instruction to his client in regard to the following:

- a) The books should be closed before audit
- b) The vouchers should be arranged date wise

If this has not been done, he should never begin his work until the documents are arranged as per the instructions given by him.

10. Ascertain the nature of business

He should ascertain the nature of the business of his client i.e. whether it is manufacturing or trading or service. The knowledge helps the auditor in planning of the audit procedure.

11. Knowledge of the organization structure

He should get organization structure present in the client's business. This will help the auditor in planning his work procedure wisely.

UNIT II
AUDIT PROGRAMME

AUDIT PROGRAMME

Meaning:-

An audit program is the auditor's plan of action, specifying the work to be done, the procedures to be followed for doing the work, the persons responsible for the completion of the work & the duration of time within which the work has to be completed.

Objectives of Audit Programme

1. To ensure that no part of the audit work (i.e. the routine checking & verification) has been omitted.
2. To provide clear instructions to the audit staff as to what work they have to do, how much of work they have to do. Where they have to do their work & within what time they have to complete their work.
3. To ensure proper distribution of work among the audit staff.
4. To facilitate the conduct of the audit work by several audit assistants simultaneously (i.e. at the same time).
5. To identify the audit assistants responsible for each part of audit work & to fix up their responsibility for omissions & commissions.
6. To serve as an index of the extent of the work performed (i.e. the progress of the work).
7. To enable the auditor to have proper control over the whole audit work
8. To complete the audit work in time.
9. To assess the cost of audit.
10. To serve as a guide for audits in succeeding years.

AUDITORS NOTE BOOK

Meaning:- an audit note book is a book, register or diary maintained by the audit staff during the course of audit for recording his observations during the course of audit, the points to be discussed with the senior audit clerk or auditor, the points which require further clarifications, explanations & investigation & also the enquiries made & the replies received there too.

Contents of Audit Note Book

a) General Information

1. Nature of the business carried on & the important documents relating to the constitution of the business i.e. MOA, AOA, Partnership deed & other legal documents

2. The name of the client & the audit year.
3. Names of principal officers, their powers, duties & responsibilities.
4. A list of books of accounts use of the business.
5. Particulars of the accounting & the financial system followed & the internal check in operation in the business.
6. Details regarding accounting & financial policies followed in the business.
7. A copy of the audit programme.

b) Special matters to be recorded in the audit note book

1. Routine quarries not cleared i.e. missing receipts & vouchers, etc.
2. Details o mistakes & errors discovered.
3. The points arising during the course of the audit, to which the attention of the auditor must be drawn i.e. failure of the company to comply with the provisions of the companies Act or MOA & other legal requirements.
4. Extracts from minutes books & contract & other correspondence with various government agencies, financial institution, debtors & creditors etc.
5. The point to be incorporated in the audit report.
6. The point which need further explanation & clarification. Eg:-a change in the basis f valuation of finished stock or in the computation of depreciation etc.,
7. Dates of commencement & completion of the audit
8. Important matters for further reference.
9. Special points requiring consideration at the time of final accounts.

Objectives of Audit Note Book

1. To know about the nature of business.
2. Detection & prevention of frauds & errors effectively.
3. To make the future audit work easier.
4. To know the facts where clarification & explanation are essential.
5. To check the list of debtors & creditors.
6. To present as a proof by the auditor to clearance over the cases.

Advantages of Audit Note Book

1. It helps the auditor to have a record of important points which arise during the course of audit.
2. It is helpful in the preparation of audit report.
3. It is helpful in assessing the efficiency, ability & sincerity of the audit staff.
4. It can serve as evidence in the court of law, if a suit is filed against the auditor for negligence of duty.

Disadvantages of Audit Note Book

1. If it is not prepared carefully & properly, it can be used in a court of law as an evidence of negligence on the part of the auditor.

2. It promotes a fault-finding attitude in the minds of the audit staff.
3. It may create misunderstanding between the staff of the client & audit staff.

AUDIT WORKING PAPERS

Meaning:- Audit working papers are the written private materials which an auditor prepares for each audit. They describe the accounting information which he has received from his client, the methods of examination used, his conclusions & financial statements.

Contents of audit working papers

1. Contract Letter:- This letter gives right to a person to start work of audit. It states the terms & conditions of appointment of an auditor. The nature & amount of work is recorded. This letter becomes a part of audit working papers.

2. Audit Program:- An audit program is a detailed plan of action to be used for audit. It is a time table of staff duties. The books to be examined are stated in audit program. Every audit work requires programme & then master audit program is prepared to cover all activities.

3. Audit Note Book:- The audit notebook is part of audit working papers. It may be bound book or loose-leaf card form. It contains useful information about the business enterprise. When report is drafted this book provides data for such report. The weak points like missing vouchers, queries not settled are stated in it.

4. Copies of Correspondence:- The copies of correspondence become part of audit working papers. The auditor can write letter to other parties. The replies can be received from debtors & creditors. The audit staff must keep the exchange of letter between auditor & other people.

5. Copies of Documents:- The copies of various documents are included in audit working papers. The partnership deed, AOA, MOA, trust deed, lease contract & similar other papers are collected from the managements.

6. Schedule of Debtors:- The client provides the schedule of debtors. This list is compared with the books of accounts. The auditors can confirm the balance from various debtors.

7. Stock Certificate :- The stock certificate is received from the managements. The auditor can watch the stock taking process. When the stock is lying in public warehouse, the certificate of warehouse keeper is accepted for audit.

8. Copies of Previous Audit:- The auditor can collect copies of previous audit reports. These papers become part of audit working papers. The auditor can note the weakness stated in the old report.

9. Resolution Copies:- Auditor collects the copies of resolutions. These copies are part of working papers. These copies are part of working papers. The decisions made by the directors & shareholders are implemented in preparing of books of accounts. The auditor can determine whether such decisions are implemented.

10.Depreciation:- The audit working papers contains the particular of depreciation. The rate of depreciation can be applied throughout the life of an asset. The reasonable amount of depreciation can be charged every year. The auditor can determine the exact amount of depreciation.

Essentials of Working Papers

1. The working papers should be prepared in a standard form i.e. the subject matter should arranged under various headings & sub-headings.
2. Papers of good quality should be used for working papers, as they are subject to frequent handling.
3. Paper used should be of uniform & convenient size, so that the working papers can be filed easily & properly.
4. The working papers should be quite clear & self explanatory.
5. The information contained in the working papers should be accurate.
6. The notes made on the working papers should be legible & neat.
7. The details included in the working papers should be relevant. Irrelevant details should be avoided.

Reasons for Preparing Working Papers

1. Basis for planning the audit.
2. Record the evidence accumulated & the results of the audit tests.
3. Data for determining the proper type of audit report.
4. Basis for review by supervisors & partners.
5. Evidence audit works being performed in accordance with approved auditing standards.

INTERNAL CONTROL

Meaning:-

“The whole system of controls, financial or otherwise, established by the management in order to carry on the business of the company in an orderly manner safeguard its assets & secure as far as possible the accuracy & reliability of its record”.

Definition:-

Acc. To SAP6 “ as a plan of organization & all the methods & procedures adapted by the management of an entity to assist in achieving management objective of ensuring as far as practicable orderly & efficient conduct of the business”.

Objectives of Internal Control

1. To evaluate the efficiency of performance in the various activities of the business.
2. To ensure orderly, efficient & economic conduct of the business.

3. To see that access to & use of assets are made **only** with proper authorization.
4. To **safe guard** the assets of the organization by **preventing** frauds, waste & inefficiency.
5. To ensure that there is periodical verification & comparison of assets in existence with those of accounting records & appropriate action is taken, when there is any difference between the two.
6. To ensure that transactions are recorded in the proper books of accounts regularly, correctly & systematically according to policies & procedures & the accounts are accurate & reliable.

Types of Internal Controls

1. Detective

Detective controls are designed to find errors or irregularities after they have occurred. Examples of detective controls are:

- a) Review of performance:- Management compares information about current performance to budgets, forecast, prior periods or other benchmarks to measure the extent to which goals & objectives are being achieved & to identify unexpected results or unusual conditions that require follow-up.
- b) Reconciliations:- an employee relates different sets of data to one another, identifies & investigates differences & takes corrective action, when necessary.

2. Preventive

Preventive controls are designed to discourage errors or irregularities from occurring. They are

- a) Segregation of Duties:- duties are segregated among different people to reduce the risk of error or inappropriate action. Normally, responsibilities for authorizing transactions, recording transactions & handling the related asset are divided.
- b) Approvals, authorizations & verifications:- management authorizes employees to perform certain activities & to execute transactions within limited parameters. Management specifies those activities or transactions that need supervisory approval before they are performed or executed by employees.
- c) Security of Assets(Preventive & detective): access to equipment, inventories, securities, cash & other assets is restricted, assets are periodically counted & compared to amounts shown on control records.

3. Corrective

Corrective controls are internal controls developed to remedy errors that can be systematically corrected. At times this may also involve additional training or employee disciplinary action. Following discovery of major fraud, corrective controls are developed to counter the particular scheme employed by the perpetrator.

Limitations of internal control

1. **Judgement**:- the effectiveness of control will be limited by decisions made with human judgement under pressures to conduct business based on the information at hand.

2. **Breakdowns:-** even well designed internal controls can breakdown. Employees sometimes misunderstand instructions or simply make mistakes. Errors may also result from new technology & the complexity of computerized information system.
3. **Management Override:-** High level personnel may be able to override prescribed policies & procedures for personal gain or advantage. This should not be confused with management intervention, which represents management actions to depart from prescribed policies & procedures for legitimate purposes.
4. **Collusion:-** control systems can be circumvented by employee collusion. Individuals acting collectively can alter financial data or other management information in a manner that cannot be identified by control systems.

INTERNAL CHECK

Meaning: It is the arrangement of the accounting duties under which the work of one person comes under the scrutiny(analysis) of another person, so that it is not possible to commit fraud without collusion between two or more persons.

Definitions:-

Acc. To Joseph Lancaster” Internal check is a method of organizing the entity operation of office, factory, warehouse & the duties of the respective staff so that frauds & irregularities are impossible without collusion”.

Acc. To L.R Dicksee” Internal check is an arrangement of the accounting routine that errors & frauds are automatically prevented or discovered by the very operation of the book keeping itself”.

Objectives of Internal Check

1. To prevent the commission of any error or fraud by a clerk
2. To prevent the misappropriation of cash or goods by any clerk.
3. To throw responsibility on a particular clerk, when the fraud or mistake is detected
4. To detect a fraud or an error quickly & easily.
5. To have an accurate record of all business transactions.

INTERNAL CHECK AS REGARDS TO PAYMENT OF WAGES

To minimize the fraudulent manipulations of wage records, cash & the other risks, the following internal check system can be adopted.

Maintenance of wage records

1. Time recording clock should be maintained for recording the time of workers entering & leaving the place of work
2. If the workers are paid on the basis of piece wages system, proper books for recording the actual work done by workers should be maintained.

3. If workers are allowed to work overtime, overtime slip must be issued to such workers by the properly authorized official.
4. If any worker wants to go out of the factory, he should take written permission from the authorized person.
5. If casual workers are also employed in the organization, a list of such workers must be prepared by the foreman of each department. The list so prepared must be certified by the officer, who is authorized to appoint casual workers

Preparation of Wage Sheets:

The work of preparation of wage sheets should be done by a separate department. This work should be done at least by four clerks, so that irregularities may be minimized. For example two clerks should examine the time records, piece wage records, overtime records etc. the third clerk should prepare individual employee statements i.e. address of the worker work done & rate of wages. The fourth clerk should check the calculations & deduct the rent, PF, income tax & instalment of loans etc., from the gross wages to arrive at the net amount to be paid to the workers. All these clerks should initial the wage sheets before they are signed by the works manager.

Payment of wages

1. The cashier should withdraw the net amount as shown in the wage sheets.
2. The payment of wages must be made by a person, who is in no way concerned with the preparation of wages sheets.
3. Each worker, who is to receive the wages should be present at the time of disbursement.
4. The foreman of each department should be present at the time of payment to identify the workers of his action.
5. The signatures of the workers must be obtained, when they receive the amount of wages.
6. Special arrangement should be made to pay to the absentee workers.
7. A list of unpaid workers should be prepared by the cashier & foreman of each department.
8. The officer employing casual workers should be connected with the payment of wages
9. As far as possible casual workers should be paid wages on a day different from the payment day of regular workers.
10. A surprise visit of a senior official, while the wages are disbursed will be an effective measurement of control.

INTERNAL CHECK AS REGARDS TO CASH SALES

For efficient working of sales department, its activities can be arranged in the following manner

Sales over the counter

1. For each counter, a separate salesman should be appointed to look after counter.
2. Each salesman should be given a separate sales memo book. Such books should be of different colours for different counters.
3. The salesman when he sells the goods to the customers, he should prepare three copies of cash memo. One copy should be retained for preparing sales summary & the remaining two copies should be handed over to the customer & instruct the customers to make payment at the cash counter.
4. The cashier, after having received the price of the goods from the customer, should give one copy duly stamped as cash paid to the customer & other copy must be retained by him.
5. At the end of the day, the cashier should prepare statement showing total cash received & salesman should prepare sales summary to know the total sales. Then both these statements should be sent to the officer in charge for verification.

Postal Sales:

1. A separate register should be maintained for recording sales made by value payable by post.
2. The goods returned should also be recorded in the value payable by post register.
3. The total receipts on this account should be entered in the value payable by post register.
4. Any advance received should be entered in the value payable by post register.

Sales by Travelling Agents:

1. The travelling agents should be allowed to issue rough receipts to the customers for cash received on the sale of the articles. final receipts should be issued only by the head office.
2. Agents should remit the entire proceeds to the head office or they should deposit the cash daily in a bank.
3. Agents should not be allowed to deduct their commission out of sale proceeds collected by them.
4. The agent should be asked to submit statements of sales & such statements should be checked in detail.
5. Head office should maintain a list of debtors & other customers. Reminders should be sent to those customers who have not cleared their debts.

INTERNAL AUDIT

Meaning:- Internal audit is a continuous & systematic review of accounting, financial & other operations of a concern by the staff specially appointed for the purpose.

Internal audit is an independent, objective assurance & consulting activity designed to add value & improve an organizations. The role of internal audit is to provide independent assurance that an organization's risk management governance & internal control process are operating effectively.

Features of Internal Audit

1. **Management Integrity:-** Management integrity is communicated to workers through employee handbooks & procedural manuals. These same publications also provide employee with necessary training on company policies & expected behaviours.
2. **Competent Personnel:-** Recruiting & retaining competent personnel helps a business properly record accounting transactions from year to year by providing consistency. The retention of employees increases the comparability of financial records from year to year.
3. **Segregation of Duties:-** Proper segregation of duties is a critical component of internal control because it reduces the risk of mistakes & inappropriate actions. An effective system separates authorities, according & custodial functions.
4. **Records Maintenance:-** a good records management program reduces operating costs, improves efficiency & minimizes the risk of litigation. Keeping appropriate records ensures that documentation exists for each business transaction.

Objectives of Internal Audit

1. To verify the correctness, accuracy & authenticity of the financial accounting & statistical records presented to the management.
2. To confirm that the liabilities have been incurred by the organisation in respect of its valid & legitimate activities.
3. To facilitate the early detection & prevention of frauds.
4. To comment on the effectiveness of the internal control system & the internal check system in force & to suggest ways & means to improve these systems.
5. To examine the protection afforded to company's assets & use of them for business purpose.
6. To identify the authorities responsible for purchasing assets & other items as well as disposal of assets.
7. To ensure that the standard accounting practices which have to be followed by the organization are strictly followed.
8. To understand special investigation for the management.
9. To assist management in achieving the most efficient administration of the operation by establishing procedures by complying with company's operating policies.

Merits of Internal Audit

1. To ascertain whether the internal check & accounting system are adequate & effective.
2. To ascertain whether the predetermined policies, plans & procedures have been complied with.
3. To evaluate the performance of the personnel, who are entrusted with certain responsibilities.
4. To ascertain whether the properties of the concern are safeguarded.
5. To suggest to the management the improvements desired in the internal check system accounting system.

Demerits of Internal Audit

1. Introduction of an internal audit system is quite expensive, as it involves additional costs,. Therefore, it is suitable only for big concern but not for big concerns but not for small concerns.
2. If the internal audit system is not properly organized, it may create chaos (misunderstanding) disorder in the working of the business.
3. It is purely optional or voluntary. It is conducted in addition to external audit by the employees of the concern, who may or may not be the CA, to ascertain whether the work of the concern is going on smoothly, efficiently & economically.

DIFFERENCES BETWEEN INTERNAL CHECK & INTERNAL AUDIT

| Basis | Internal check | Internal Audit |
|------------------------|---|---|
| 1.Meaning | It is the arrangement of the accounting duties under which the work of one person comes under the scrutiny(analysis) of another person, so that it is not possible to commit fraud without collusion between two or more persons. | Internal audit is a continuous & systematic review of accounting, financial & other operations of a concern by the staff specially appointed for the purpose. |
| 2.Scope | The scope of internal check is quite limited. | The scope of internal audit is quite broad. |
| 3.commencement of work | It starts operating from the moment a transaction is entered. | It starts only after the transaction have been recorded in the books. |
| 4.suitability | Any organisation can adopt the system of internal check | It is adopted only by those business undertakings, who really need it. |
| 5.Nature of work | The work of one employee is automatically & independently checked by another person simultaneously. | The work of an employee is checked by the internal auditor, after the former has finished the work. |
| 6.Appointment of | There is no separate staff appointed | There is a separate salaried staff |

| | | |
|--------------|--|--|
| staff | specifically for the purpose. | of internal auditors specifically appointed for the purpose of internal audit. |
| 7.Objectives | Aims at the prevention or minimization of errors & frauds. | Aims at discovering the errors & frauds already committed. |

DIFFERENCES BETWEEN INTERNAL AUDIT AND EXTERNAL AUDIT

| Basis | Internal Audit | External Audit |
|---------------------------------|---|--|
| 1.conduct of audit | It is conducted by the staff of the organisation. | It is conducted by an independent & qualified chartered accountants. |
| 2.Periodicity | It is carried out continuously throughout the year. | It is carried out generally, once in a year. |
| 3.scope of audit | The scope of internal audit is determined by the management | The scope of external audit is determined either by statute or by agreement. |
| 4.Object of audit | It is to ascertain whether the internal check & accounting systems in the business are adequate & effective | It is to find out whether the financial statements exhibit a true & fair state of affairs of the business unit or not. |
| 5.Nature of work | Auditor examines both accounting & non-accounting transactions | Auditor examines only the accounting transactions |
| 6.Audit Report | It is not required to submit any audit report. | It is required to submit his audit report to the shareholders or owners of the business unit. |
| 7.Responsibility | It is responsible only to the management. | It is responsible to all the stakeholders of the business unit. |
| 8.Duties | The duties of an internal auditor can be modified or reduced by the management. | The duties of an external auditor cannot be modified or reduced. |
| 9.Appointment | It is appointed by the management. | It is either appointed by the shareholders or by the government. |
| 10.Remuneration | The remuneration of an internal auditor is fixed by the management. | The remuneration of an external auditor is fixed by the shareholders or owners. |
| 11.status | Internal auditor does not enjoy independent status | External auditor enjoys independent status. |
| 12.Detection of errors & frauds | Detection of errors & frauds are the main objective of internal audit. | Detection of errors & frauds are the secondary objective of external audit. |
| 13.Attendance at meetings | It has no right to attend a meeting of the shareholders. | It has much a right. |

V- AUDIT OF DIFFERENT ORGANIATIONS & INSTITUTIONS

Introduction

Audit is an independent & systematic examination of statutory records, books of accounts, documents & vouchers of an organization. This mainly performed or conducted to ascertain how far the financial statements as well as non-financial disclosures present a true & fair view of the concern. Audit is an activity that attempts to ensure that the books of accounts are properly maintained by the concern as required by law.

Objective of audit is to pursue & attain its various corporate objectives. Company should follow audit system. There are various form needed in business process to facilitate supervision & monitoring prevent detect irregular transactions, measure ongoing performance, maintain adequate business records & to promote operational productivity. It enables further investigation by management if it is warranted under the circumstances.

Audit of Different Organization & Institutions

1. Partnership firm
2. Educational Institutions
3. Co-operative Society

~~1. AUDIT OF PARTNERSHIP FIRM~~

~~Although no compulsory audit is provided by the Indian partnership Act, 1932 but in practice most of the~~

1. AUDIT OF PARTNERSHIP

Although no compulsory audit is provided by the Indian Partnership Act, 1932 but in practice most of the partnership firm get their accounts audited. As per the Income Tax 1961 Tax audit of partnership firm is mandatory if the turnover/gross receipt exceed rupees one crore in case of business & rupees twenty five lacs in case of profession. It is highly recommended that ever partnership firm should go for audit of his accounts

i. General Aspects:-

1. Agreement between auditor & firm is very important the rights & duties of an auditor depend on it.
2. He should be equally fair to each partner of the firm, if his appointment may be due to efforts of single partner only.
3. An auditor might at times be required to do bookkeeping work also, thus his scope of work should be clearly defined in writing to avoid any future dispute.
4. A written report should be submitted by Auditor at the end.

ii. Audit Procedure

Audit procedure is same as applicable to other business organisations, except corporate organisations, which are governed by Indian Companies Act 1956.

iii. Vital aspects of Partnership Audit.

1) Analysis of Partnership Deed

- a) Before commencing the audit of a firm auditor has to thoroughly understand the various provisions of the deed. He should focus on:-
 - Nature of the business
 - Accounting year of the firm
 - Capitals contributed by the partners
 - Profits sharing ratio agreed between the partners.
 - Rates of interest on capital & drawings.
 - Interest of loans from partners.
 - Salaries or remunerations or commissions if any allowed to the partners.
 - Borrowing powers possessed by the partners.
 - Basis of valuation of goodwill & its treatment in the books of accounts
 - Settlement of accounts at the time of dissolution
 - Other limitations on the powers of the partners.
- b) All the accounting & legal aspects have to be thoroughly examined.

2) Admission of a partner

- Auditor should examine the method of calculating goodwill, if any, on admission & see that it agrees with the provisions of the deed.
- Examine the capital to be contributed & the profit sharing ratio
- Examine whether the partner is allowed to draw any remuneration or commission on monthly or on yearly basis.
- Examine whether the capital drawings carry interest at an agreed rate.

3) Retirement & Death of a Partner

- Whether the goodwill paid, if any has been computed as per the agreement.
- Whether all outstanding amount relating to capital, interest, commission, profit/loss drawings has been adjusted to retiring/deceased partner's account has been adjusted in such partner's capital account.
- Examine how the final payment is made i.e. whether it is fully paid or converted into loan account.

4) Partners Becoming Insolvent

- ✓ Examine the insolvent partner's capital account & find out the liabilities incurred to the firm by such partner.

- ✓ Examine, how such liability is shared by the solvent partners. The time-honoured legal aspect that is practiced in sharing such is that solvent partners have to share it according such liability is that solvent partners have to share it according to their capital ratio. As the caused by insolvent partner is a capital loss, capital ratio has to be calculated after bringing cash to their loss on the realization (i.e. closing capital ratio).

5) Duties of Auditor on Dissolution

- Examine whether it is voluntary or compulsory dissolution.
- If it is compulsory dissolution, examine whether all statutory orders relating to dissolution have been complied with.
- If it is voluntary, whether all assets have been realized all obligation have been met & the balance is distributed to partners at the agreed ratio.

As stated in the beginning as far as audit of partnership is concerned, auditor has to examine the accounts of partners at every stage viz, admission, retirement, death, insolvency & dissolution, Normal audit work also has to be carried out to submit the report to concerned people.

2. EDUCATIONAL INSTITUTIONS

The source of income of educational institutions are fed from students, grants from the Government or local body, subscription & donations, incomes from investments etc, so, the audit of income should be on the following lines.

General :

1. He should examine the charter, trust deed, or university act, if any & note all the rules & regulations, especially those which relate to the accounts.
2. He should inspect the Minute books of the board of management, governing body or managing committee of the educational institution & ascertain from them any resolution specially passed in respect of accounts to confirm whether such resolutions have been complied with.
3. He should study the internal check system in operation to know how far it is satisfactory.
4. He should obtain a copy of the budget or financial statements to study the different heads of income & expenditure.

Incomes:-

- 1) He should verify the receipts of monthly or terms fees from the counterfoils or carbon copies of the receipts, the register of students & the cash book. He should also see whether the cash received has been banked daily or not.

- 2) He should vouch the receipts on account of admission fees by reference to the proper documentary evidence. He should compare the receipts from admission fees with the application forms for admission.
- 3) He should vouch the receipts on account of examination fees by reference to proper documentary evidence.
- 4) He should also verify other charges collected from the students, such as laboratory fees, fines etc. carefully.
- 5) He should see that the concessions of fees & free ships given to students are duly authorized by the proper authority.
- 6) He should vouch the grant-aid-received from the Government or local body carefully by examining the correspondence & any other documentary evidence.
- 7) Receipts from donations & subscriptions should be verified with counterfoils of the receipts book, cash book & the list of donors or subscribers published in the annual report.
- 8) He should vouch the incomes from endowments, fi any see that the incomes arising there from have been utilized for the objects of endowment.

Expenditures:-

- 1) He should vouch the amount of salaries paid to the staff register, counterfoils of the cheque book, cash book & the pass book.
- 2) He should see whether any increment given to an employee has been duly sanctioned by the proper authority say the managing committee.
- 3) He should see that, while making the payment of staff salaries, income-tax has been deducted at source & duly deposited with the income-tax department.
- 4) The establishment expenses must be careful vouched with relevant vouchers & the entries in the cash book.
- 5) The payment of scholarship should be verified with the receipts from students & the scholarship register.
- 6) He should vouch the items of capital expenditure & see that are sanctioned bt proper authority, i.e. the managing committee.

Miscellaneous:-

- 1) He should ascertain whether all purchase are properly authorised by a responsible.
- 2) He should verify the stocks of stationery sports materials, equipments etc. as far as possible. He should see that proper records have been maintained for these items.
- 3) He should ensure whether adequate depreciation has been provided on fixed asscts like furniture, equipments etc.,
- 4) He should see that proper distinction has been made between capital & revenue receipts & capital & revenue expenditure

- 5) He should see that the assets & liabilities are properly exhibited in the balance sheet.
- 6) He should verify the cash & bank balances in the usual manner.
- 7) He should see that investments representing prize endowment funds are kept separately & are not mixed up with ordinary investments.

3. AUDIT OF CO-OPERATIVE SOCIETY

Audit to co-operative societies institutions can be conducted by the Registrar of C.S through his authorised persons, or by C.A. wherever there is provision by state audit board wherever it is created & "Director of co-operative Audit" in case of Karnataka.

Co-operatives in India have been governed by the Central Act viz., the co-operative societies act 1912. But certain states like Karnataka, Madhya Pradesh have their own legislations to organize & manage co-operative institutions.

Types of Audit of co-operative Society..

- 1) Annual audit:- The final audit takes place only after the end of the trading period when all the transactions for the whole year are completely recorded & balanced; trading & profit & loss account & balance sheet have been prepared. The auditor carries on his audit work continuously till it is completed.
- 2) Concurrent Audit:- it is conducted in societies where the turnover is such that societies run into crores of rupees. In these institutions transactions are heavy, it takes place along with the period of maintenance of accounts & auditor is engaged continuously in audit work throughout the year.
- 3) Test Audit:- it takes place after the final audit to test the effectiveness & efficiency of audit staff, only selected societies are subjected to test audit. This takes place by superior officers in the presence of auditor who has conducted the audit.
- 4) Interim Audit.

Aspects of co-operative Audit.

- 1) The Registrar shall audit or cause to be audited by some person authorized by him by general or special order in writing in this behalf the accounts of every registered society once at least in every year.
- 2) The Audit should include an examination of overdue debts, if any & a valuation of the assets & liabilities of the society.
- 3) The Registrar, the collector or any person authorized by general or special order in writing in this behalf by the Registrar shall at all times have access to all the books accounts, papers & securities of a society & every officer of the society shall furnish such information in regard to the transactions & working of the society as the person making such inspection may require.

UNIT- III

VOUCHING, VERIFICATION AND VALUATION OF ASSETS AND LIABILITIES

VOUCHING

Meaning:- It is the act of testing or sustaining the validity, authenticity & accuracy of the entries made in the books of accounts with the help of relevant documentary evidence.

Vouching means a careful examination of all original evidence I.e, invoices, statements, receipts, correspondence, minutes & contracts etc., with a view to ascertaining the accuracy of the entries in the books & also to find out, as far possible, that no entries have been omitted in the books of accounts.

Definition :- Acc. To Arthur W Holmes "Vouching is the examination of the underlying evidence which is in support of the accuracy of the transaction. The process of vouching is intended to substantiate an entry by providing authority, ownership, existence & accuracy".

OBJECTS OF VOUCHING

1. To ensure that the transaction, as recorded in the books of accounts are properly authorized & correctly recorded.
2. To ensure that all the entries made in the books are supported by necessary documentary evidence.
3. To see that all the transaction connected with the business have been recorded in the appropriate books of accounts & nothing pertaining to the business has been left as unrecorded.
4. To ensure that no transactions which is not connected with the business has been recorded in the books of accounts.
5. Detection or errors & frauds is also one of the objectives of vouching.
6. Vouching is backbone of auditing, because it is just a mechanical process involving the comparison of the entries in the books of accounts with the documentary evidence. But, it is an intelligent inquiry into the genuineness of the transactions, accuracy of the amounts involved & the proper recording of the transactions in the appropriate accounts & detect all sort of errors & frauds.

IMPORTANCE OF VOUCHING

1. Vouching is the backbone of Auditing:- main aim of auditing is to detect errors & frauds for proving the true & fairness of results presented by income statement & balance sheet. vouching is only the way of detecting all sorts of errors & planned frauds. So, it is the backbone of auditing.
2. Vouching is the essence of Auditing:- Auditing not only checks the accuracy of books of accounts but also checks whether the transaction are related to business or not. All the transactions are performed after the prior approval of concerned

authority or not, transaction are real or not because an accountant may include fictitious transactions to commit frauds.

3. Vouching is important to see whether evidence are correct or not:- an auditor checks the books of accounts to detect errors & frauds. Frauds may be committed presenting duplicate vouchers. All the small & big amounts of frauds can be detected with the help of vouching. So, all the documents & records are to be checked carefully & in detail by an auditor which is the scope of vouching.

ROUTINE CHECKING

Routine checking refers to the checking of the casting & posting of subsidiary books & the ledger accounts by the auditor.

IMPORTANCE OF ROUTINE CHECKING (5)

1. It facilitates through checking ob books or original entry.
2. A through checking helps I the preparation of trial balance.
3. Clerical errors & ordinary frauds are revealed by routine checking.
4. Routine checking helps in verifying the arithmetical accuracy of the entries in the books of account.
5. Routine checking ensures that no alteration are made in the figures after they have been checked & tricked.
6. It is a simple job. So, it can be done easily by any audit clerk with an ordinary knowledge of accounts.

DIFFERENCES BETWEEN ROUTINE CHECKING & VOUCHING

| VOUCHING | ROUTINE CHECKING |
|---|--|
| 1. Vouching is sometimes considered synonymous with routine checking | Vouching includes routine checking. But it differs from routine checking. |
| 2. It is checking of validity, authenticity & accuracy of the entries in the books of accounts. | It is the checking of castings, carry forwards, postings & balancing of books of accounts. |
| 3. It is intelligent checking of all the transaction with the help of documentary evidences. | It is simple or mechanical checking of the book entries. |
| 4. The real accuracy of the entries in the books of accounts is ascertained. | Arithmetical accuracy of the entries in the books of accounts is ascertained. |
| 5. Vouching includes routine checking | Routine checking doesn't include vouching. |
| 6. Reveals not only the clerical errors but also errors of principle. | Reveals clerical errors but doesn't reveal the errors of principle. |
| 7. It is broader concept which include not only checking but also verify the source of transaction. | It is narrow concept which involve merely involves checking of books of accounts. |

VOUCHING OF RECEIPTS FROM DEBTORS

1. CASH SALES

Vouchers-carbon copies of cash memos, salesman's diary, cashier summaries, counterfoils of receipts book etc. The vouching procedures with regard to cash sales should be following lines:

- I. Examining whether the allocation of duties is such that the authenticity to execute the sale receives the payment & deliver the goods is not with the same persons.
- II. Check whether the cash sales recorded in the cashier summaries & salesman's diary represent amounts actually received by the enterprises during the period under audit.
- III. Check the prices charged, discounts/rebate allowed & rates of sales tax charged & ensure that they are proper & duly authorized.
- IV. Check the arithmetical accuracy of cash memos, counterfoils of receipts books, salesman's diary & cashiers summaries.
- V. Summary of daily sales should be checked with the cash book & bank paying-in-slips & note that all cash is deposited into the bank daily.
- VI. Examine the classification of cash sales to ensure that correct account heads have been credited.
- VII. Compare the ratio of cash sales to total sales in each month with the ratio of the corresponding month of previous years to ensure that there are not unusual trends or fluctuations.
- VIII. The total in the rough cash book, if any should be checked with the main cash book.

2. BILLS RECEIVABLE

Voucher-cash book, passbook, bills receivable book.

- i. The B/R received relate to the business of the enterprise.
- ii. The authorized person has recorded the B/R received during the period under audit in the books of account.
- iii. The auditor should check the cash received from bills matured by comparing the B/R book with the cash book & the passbook.
- iv. The amount of cash received from bills discounted should be checked by comparing the bills discounted book with the cashbook, the passbook & B/R book.
- v. He should verify that the amount of discount deducted is separately debited to discount account.
- vi. He should determine contingent liability in respect of bills discounted, but not matured on the date of balancesheet & ensure that the particulars of such liability are shown in the balancesheet.
- vii. B/R discounted relating to the period after the date of balance sheet should be shown as an asset under the head "rebate on the bills discounted not yet due".

3.SALE OF INVESTMENT

Voucher- brokers note , bank advice, correspondences etc.

- i. Receipts from the sale of investment recorded in the books of account represent amounts actually received by the enterprises during the period under audit.
- ii. The receipts relate to the business of the enterprises.
- iii. He should see that the sale of investments is approved by the BOD
- iv. If investment are sold through brokers, brokers sold note should be examined.
- v. If the sale of investment has been affected through the bank, the bank advice should be examined.
- vi. If the investments have been sold cum-dividend, the auditor should see the sale of proceeds are properly apportioned between capital receipt & revenue receipt.
- vii. If the investment has been sold ex-dividend, the auditor should see that the dividend is received & recorded subsequently.
- viii. If the investments pertain to some earmarked funds,, the auditor should see that P/L on the sale of investments is transferred to the earmarked funds a/c.

4.SALE OF BUILDING

Voucher- sale deed account, correspondence.

- i. The auditor should see of buildings has been properly sanctioned.
- ii. The receipt on sale of recorded in the books of account represents amounts actually received by the enterprise during the period under audit.
- iii. The receipt relate to the business of the enterprise.
- iv. He should see that the sale of L/B is approved by the BOD
- v. If building is sold through a broker or an auctioneer, such sale proceeds should be vouched with the help of brokers sold note or auctioneer's note.
- vi. He may also vouch the sale proceeds of building with the sale contracts, the fixed assets account & correspondence with the parties.
- vii. If there is any capital profit on the sale of building, the auditor should see that it is credited to the capital reserve a/c & not to the general P/L a/c.
- viii. He can verify the entry for the receipt in the cash book with the counterfoils of the receipt issued to the party.

VOUCHING OR PAYMENTS TO CREDITORS

1. CASH PURCHASE

Voucher- cash memos, Goods inward book etc.

- i. He should see that the purchases are duly authorized.
- ii. The auditor should examine the original voucher to find out whether the goods were purchased for the business or for the personal use of any of the officers.
- iii. The purchases made during the period audit have been recorded in the books of accounts.

- iv. To ensure that goods have actually been received the available documentary evidence, such as goods received notes, goods inward book, should be examined.
- v. Payment for cash purchases should be vouched with cash memos of the suppliers
- vi. Special attention should be paid to trade discounts. He should see that only the net amount is recorded in the books of accounts.
- vii. If any voucher is missing, he should insist upon getting a duplicate copy of it.

2. BILLS PAYABLE

Voucher- bills payable register, payer's acknowledge

- i. He should see that the payments of B/R relate to the period under audit.
- ii. He should see that the payments of B/R are sanctioned by the authorized person.
- iii. He should see that the payments of B/R are for the purpose of the business.
- iv. The payment of B/P as recorded in the cash book, should be vouched with the B/P book & B/P returned by the payers.
- v. If the B/P is paid through the bank, the auditor should examine the passbook for the payment.
- vi. He should see that the B/P paid & returned by the payees is cancelled.

3. PURCHASE OF BUILDING

Voucher – invoice, agreements, letter of contract, receipts, etc.

- i. The auditor should ascertain whether there is proper authorization for the purchase of L/B.
- ii. He should see that the property purchased is registered in the name of the client & relate to the period under audit.
- iii. He should make a physical inspection of the property acquired.
- iv. If the property is purchased through a broker, the auditor should examine the broker's note.
- v. If the property purchased is a free hold property, the auditor should examine the conveyance deed.
- vi. If the property purchased is a lease hold property, the auditor should examine the lease deed.
- vii. He should ensure that all expenses incurred for acquiring & registering the property are capitalized.

4. PURCHASE OF PLANT AND MACHINERY

Vouchers- Invoice, Agreements Letter of Contract, Receipts, etc.

- i. The auditor should see that the purchase of plant & machinery is properly authorized.
- ii. The payment made for purchase of plant & machinery relate to the period under audit.
- iii. The payments are for the purpose of the business.
- iv. He should make a physical inspection of the P/M purchased.

- v. He should vouch the payments made for the purchase of machinery are capitalized.
- vi. If the P/M is purchased through a broker, the auditor should examine the broker's note.

5. PURCHASE OF PATENT AND COPYRIGHTS

Vouchers-invoice, agreements, letter of contract, receipts etc,

- i. The payment made for purchase of patent rights relates to the period under audit.
- ii. The payment is properly authorized.
- iii. The payment shown in the cashbook has been actually made for the business only.
- iv. If a patent has been purchased, the patent & the receipt acknowledging the purchase consideration should be seen.
- v. Any expenses incurred in acquiring it should be capitalized.
- vi. If the patent has been acquired through an agent, the auditor should see that his commission is capitalized.
- vii. It should be remembered that the renewal fee is not capitalized but treated as revenue expenditure.

6. PURCHASE BOOK

- i. He should see that purchase not made for the business re not recorded in the purchase book.
- ii. He should verify whether an officer duly authorized to do so places the order for goods.
- iii. He should find out whether the date of the purchase invoice agrees with the date in the purchase book & falls within the trading period under audit.
- iv. He should see that only credit purchase are recorded in the purchase book
- v. He should see that purchases of capital are not included in the purchases book.
- vi. To ensure that all invoices are included in the purchase book, the auditor should obtain the statements of accounts from the creditors & examine them.

7. SALES BOOK

- i. He should see whether the date of the outward invoice agrees with the date in the sales book.
- ii. He should see that sales not made for the business are not recorded in the sales book.
- iii. He should see whether goods sold by an officer duly authorized to do so.
- iv. He should see that only credit sales are recorded in the sales book.
- v. He should see that goods sold, but not delivered are not included in the closing stock.
- vi. He should see that goods sent on sale or return or consignment is not entred in the sales book.

8. BANK ACCOUNT

Voucher-bank pass book

- i. He should compare the cashbook with the bank passbook
- ii. Payment into the bank should be vouched from bank's advice notes.
- iii. Bank's interest on the deposits should vouched from the bank's advice notes.
- iv. Auditor should carefully note the dates of cash deposits into the bank.
- v. Auditor should compare the cashbook with the purchase.
- vi. Payments out of the bank can be vouched with the counterfoils of the cheques issued.
- vii. Bank charges can be vouched from the bank's advice note.
- viii. Auditor should carefully note the withdrawal dates.

9. OUTSTANDING EXPENSES

- i. An outstanding expenses refers to expenses incurred during the current year, but for which payments have not been made during the current year.
- ii. Examples of outstanding expenses are outstanding wages, outstanding rent etc.
- iii. Each outstanding expenses is added with the concerned expense on the debit side of the trading a/c or P/L a/c & again it is shown as a liability on the liabilities side of the balancesheet.
- iv. He should examine the demand notes, vouchers etc, to ascertain whether the outstanding liabilities are brought into account or not.
- v. He should compare the outstanding liabilities of the current year with those of the previous year & enquire into the material difference, if any.

10. PREPAID EXPENSES

- i. Prepaid expenses referred to the expenses of the subsequent years but paid during the current year.
- ii. Rent paid in advance insurance paid in advance, etc. are the examples of prepaid expenses.
- iii. Each prepaid expenses is deducted from the concerned expenses on the debit side of the trading account or profit & loss a/c is again shown as an asset on the asset side of the balancesheet.
- iv. He should examine the demand notes, vouchers, etc. to ascertain whether the outstanding assets are brought into a/c or not
- v. He should compare the outstanding assets of the current year with those of the previous year & enquire into the material difference, if any.

11. ACCRUED INCOMES

- i. Accrued incomes referred to income accrued during the current year, but not received during the current year.
- ii. O/S commissions, accrued rent etc. are the examples of O/S or accrued incomes.

- iii. Each accrued incomes is added with the concerned income on the credit side of the profit & loss a/c & is again shown as an asset on the asset side of the balancesheet.
- iv. He should compare the outstanding assets of the current year with those of the previous year & enquire into the material difference, if any.

VERIFICATION

Meaning :- verification is a process by which an auditor satisfies himself about the accuracy of the assets & liabilities appearing in the balancesheet by inspection of the documentary evidence available.

In other words, verification means proving the truth or confirmation of the assets & liabilities appearing in the balancesheet.

Definition:- Acc. To spicer & pegler “ Verification as it implies an inquiry into the value, ownership & title, existence & possession & the presence of any charge on the assets”.

Objectives of Verification

- i. To verify whether the value of assets shown in the balance sheet are valued as per generally accepted accounting principles.
- ii. To verify the evidence of proper accounting of the assets.
- iii. To verify whether his client is the owner of the assets shown in the balance sheet through legal & official documents examination.
- iv. To verify the existence of assets shown in the balance sheet through the physical examination of the assets.
- v. To verify whether the assets shown in the balance sheet are under the possession of his client.
- vi. To verify whether the assets shown in the balance sheet are free from any charge or lien.
- vii. If an auditor does not perform his duty of verification of assets properly, he will be held guilty of negligence & will be held liable to his client for damages.

General Principles of Verification

- i. Confirm that the assets were in existence on the date of the balance sheet.
- ii. Ascertain that the assets has been acquired for the purpose of the business & under proper authority.
- iii. Confirm that ownership of the asset rest with the organization
- iv. Ascertain that no charge as been created on the asset.
- v. Ensure that the current book value of the asset is determined after providing correct amount of depreciation for various years.
- vi. Ensure that values reflect current physical condition of the asset.
- vii. Ensure that disclosures regarding assets are adequate.

Difference between vouching & verification

| Basis for comparison | Vouching | verification |
|----------------------|---|--|
| 1. Meaning | Vouching means checking the accuracy of the transactions recorded in the books of accounts. | Verification means a process of substantiate the validity of assets & liabilities appearing in the balance sheet. |
| 2. Basis | Documentary evidence | Observation & documentary evidence. |
| 3. Examination of | Item of profit & loss account | Items of balance sheet |
| 4. Carried out by | Audit clerks | Auditor |
| 5. Time horizon | Year-round | At the end of the financial year. |
| 6. Objective | To examine the correctness, validity & completeness of the transaction. | To confirm the ownership, possession, existence, valuation & disclosure of the items appearing on the balance sheet. |

VALUATION

Meaning:- Valuation is a judgement that someone makes about how much something is worth. A valuation is the process of determining the fair market value of a company in a national context, meaning that the valuation is time specific, there is no negotiation & there is no exposure to the open market. Valuation are highly subjective calculations tht aim to determine the fair market value of a company.

Objectives of Valuation

- i. To provide information about the real financial position , valuation of assets is essential.
- ii. Required to calculate the actual amount of profit & loss.
- iii. To increases the good will of the firm
- iv. Provides the actual information about assets & liabilities to the shareholders which assure the safety of their investment.
- v. To ensure easy for sale
- vi. Financial institutes provide loan easily to such companies.
- vii. Whenever the loss occurs due to any incident, insurance company provided compensation on the basis of valuation of assets.

VALUATION & VERIFICATION VARIOUS ASSETS & LIABILITIES

1. GOODWILL

Verification

- i. If goodwill has been purchased along with a running business from the vendors, the auditor from the purchased agreement should verify the amount of goodwill.
- ii. When a company has raised goodwill account by writing up the value of its assets, the auditor should examine the basis on which the assets have been revalued.
- iii. The auditor with the help of the partnership deed should verify the amount of goodwill created in the books of a partnership firm, on admission or retirement or death of a partner.
- iv. The valuation of goodwill is a matter of financial policy, to be decided by the management to show its proper value.
- v. If it appears to the auditor that the future benefits associated with goodwill do not exist, he should insist on the writing off of the goodwill.

Valuation

Goodwill is defined as the assessed value of the reputation of a business or as the difference between the purchase price & the net assets which are purchased & the excess amount so paid, represents the goodwill acquired by the business. It is intangible assets, its value depends upon the earning capacity of the business & fluctuates accordingly. In case the Directors have debited object to this step especially when the action taken is likely to prejudice the interest on any class of shareholders. He should mention this fact in his report to the shareholders if such a step has been taken.

2. PATENT RIGHT

Verification

- i. He should see that patents are valued at cost price less depreciation
- ii. If patents are revealed at the end of every year & if there is any fall in the value of patents the depreciation is debited to the P/L a/c. on the other hand, if there is any appreciation in the value of patent, the appreciation should not be taken into a/c.
- iii. He should see that the patents are registered in the name of the client & they are the property of the client.
- iv. If the business holds a number of patents, the auditor should call for a schedule of patents duly signed by a responsible official of the business.
- v. The auditor need not bother about any charge on patents, as the question of any charge on the patents does not arise.

Valuation

- i. Inspect the certificate issued by the registering authorities
- ii. Examine the terms & conditions attached to the rights when such rights (including trademarks rights) are obtained by purchase from others

- iii. Verify the transfer deeds or assignments deeds.

3. LAND & BUILDING

Verification

- i. He should see that the freehold lands are shown in the B/S cost, are freehold buildings are shown at cost less depreciation.
- ii. He should see that the leasehold property is shown in the B/S at cost less depreciation written off to date.
- iii. He should examine the title deeds relating to the free hold lands & building to ensure that they are in the name of the client.
- iv. He should examine the lease deeds to ascertain the terms & conditions of the lease.
- v. He should find out the existence of L/B either through physical verification or through documentary examination.
- vi. If the L/B is mortgaged, the auditor should get a certificate from the mortgages stating that title deeds are in his possession.
- vii. He should make proper enquiry that there is no second mortgage on the free hold property.
- viii. Leasehold property cannot be mortgaged to others. But it can be sub-let to others. In case it is sub-let to anybody, the auditor should examine the agreement with the sub-tenant.

Valuation

Land is a permanent asset. It does not depreciate by use, so, it shown be in the balance sheet at its cost. The cost includes its purchase price, broker's commission, registration fees, & all other legal charges, etc. while valuating the land, the auditor see what type it is & for what purpose it has been purchased.

Land is of two types

- i) Freehold land & building:- freehold land & building is a permanent property of the institution has full rights over it. Its valuation should be done in the following manner.
 - a. The valuation of free hold land & buildings is done at cost, initial expenses like broker's commission, registration fees & other legal charges are added to the purchase price to determine the cost.
 - b. Expenses on repairs are not added to the cost because these are considered revenue expenses.
 - c. Any increase in property should be added to the cost of the property
 - d. Depreciation should be deducted from the cost in the balance sheet
 - e. The property should never be over-valued in the balance sheet. If it has been done i.e. if market or realizable value is taken as the basis, it should be clearly disclosed.

- ii) Leasehold Building & land:- leasehold building or land is also a permanent property. It is acquired by a lease agreement for a fixed duration. & is returned to its original owner after that period. It can again be acquired & kept on lease. The auditor should see that separate accounts are maintained for freehold & leasehold properties. Its valuation should be done in the following manner.
- Property is shown at cost.
 - Any increase in the value of the property is added to the cost.
 - Depreciation should be deducted from the cost, which is calculated by dividing the total cost of the lease with the period of the lease.

4. PLANT & MACHINERY

Verification

- He should see that it is valued at cost less depreciation written off to date.
- He should check the plant register with the plant & machinery a/c & satisfy himself as to the value of P/M
- If necessary he should obtain a certificate from the technically qualified persons for its valuations.
- Satisfy that depreciation has been provided on a recognized method. If not, see that adequate disclosure has been made in the year of change of the method along with monetary impact.
- He should find out the ownership & title of P/M through the examination of legal & official documents.
- Conduct spot inspection for the physical existence of P/M on random basis.
- If P/M is kept abroad, the auditor should get a certificate to that effect from the concerned auditor.
- To see the mortgage or charge on P/M, the auditor should look into the details given in the plant register.

Valuation

Valuation of P/M is made like other fixed assets by deducting depreciation from the cost. If the plant has been made by the concern itself, the auditor should see whether a reasonable proportion of overhead expenses have been included in its cost or not. If some property, has been sold, the auditor will have to check whether it has been recorded in the sales account.

Market or realization value of P/M is subject to fluctuations. It is not generally considered for the purpose of valuation. More over, it is a fixed asset & is not re-sale.

5. FURNITURE

Verification

1. The auditor has to see that a proper record showing quantitative details of furniture & fixtures owned by the client is maintained.
2. The auditor has to see that all expenses incidental to the purchase of furniture & fixtures is capitalised along with the purchase price paid for it .
3. The auditor has to enquire whether the furniture & have been properly insured or not
4. The auditor has to see that adequate provision for depreciation on furniture & fixtures is made.
5. The auditor if possible can go for physical verification of test check basis or he can rely on the management certificate to that effect.
6. He has to further see that any damaged or unusable furniture, if existing, is fully written off in the books.

Verification

- i. If investment are in large number, the auditor should obtain a schedule certified by a senior officer of the company. The schedule must include the name of the investment, the book value, the market price, the date of purchase of investment, rate of interest, date of payment of interest, tax deducted at source etc,
- ii. If the investments are in the hands of the client, the auditor should verify the existence of the investments by personal inspections.
- iii. If a trustee on behalf of the company holds the investments, the auditor should examine the trust deed.
- iv. If the investments have been entrusted to a bank for safe custody, he should get a certificate from the bank. If the securities are deposited with a bank or any other creditor as securities towards loans borrowed, the auditor should get a certificate from the bank or the creditor .

6. INVESTMENT

- i. Obtain a schedule of investment in hand at the beginning of the audit period. Obtain the details of description of investments together with distinctive number of face value, date of purchase, book value, market value, date of payment of interest or date around which dividend is declared etc., with also the details of interest or dividend received along with tax deducted at source.
- ii. Add to the above list, purchase made during the year and delete the investments sold during the year with all the above details.
- iii. Balance this schedule & compare the balance with general ledger & balance sheet
- iv. Check the market value of investment with reference to stock exchange quotations or other suitable method, on balance sheet date & see that the values are disclosed in the balance sheet.
- v. Inspect the certificate or securities physically on the balance sheet date.

- vi. Compare the income received with amount due & adjust the accrued income.
- vii. Confirm the uncalled liability on partly paid shares held as investment shown as contingent liability by way of a note to the balance sheet.
- viii. Adequate provision is made for an shortfall in the book value of investment shown in the balance sheet.
- ix. For investment in the capital of partnership, the partnership deed & copy of accounts of partnership firms is to be verified. Also adjust the share of profit & loss for the partnership period.
- x. Investments which stand in the name of person other than that of the company are to be confirmed with appropriate sanction.
- xi. For investment lodged with others as security or lying with banks or share brokers, obtain a certificate from the parties concerned.

7. STOCK IN TRADE

Verification

Objectives of verification of stock in trade

- a) Ascertainment of the correct profit/loss made during the accounting year.
- b) Disclosure of true & fair financial position of the business.
- c) Preparation of correct statement of claims for loss of stock, if any due to fire flood, etc.
- d) Determination of the value of stock on consignment
- e) Determination of value of stock sold on sale or return basis
- f) Ascertainment of ownership of stock.
- g) Ascertainment of the fact whether the stock is free from any charge.

Valuation

- a. The auditor should ensure that there is no change in the method of valuation.
- b. In case there is a change in method of valuation of stocks as compared to the previous year, the auditor should disclose this fact in his report & ensure that the method is proper & recognised.
- c. The auditor should ensure that the stock is valued & recorded according to the generally accepted principles of evaluation. He should ensure that the valuation is done in confirmation with the guideline issued by the ICAI.
- d. The auditor should check the computational accuracy of stocks by testing a few calculations involved in valuation.
- e. The auditor should ensure that there is no over/under valuation of stock which will distort the true & fair view of the accounts.

8. CREDITORS

Verification

- a. He should get a list of creditors from the management & verify the schedule contains all the details about sundry creditors.
- b. He may also obtain statement of accounts from the creditors to check the accuracy of the creditors ledger accounts.
- c. He should check the goods inwards book to ensure that all goods purchased during the year have been actually received & are duly recorded in the purchase book.
- d. He should compare the percentage of gross profit to sales of the current year with that of the previous year & investigate into any material difference in the percentage of profit.
- e. He should examine the purchase invoice for the succeeding year to ensure that none of them relate to the current year.
- f. To ensure that all the liabilities are properly valued classified & disclosed.
- g. He should check the schedule of creditors with the balances in the creditors ledger.
- h. He should check the postings from the subsidiary books, such as, purchase book, purchase returns book, cashbook, bills payable book etc to the creditors accounts in the ledger.

Valuations

- a. The auditor should ask for a schedule of creditors & check the same with the purchase ledger as that is already examined by him.
- b. He should ensure that all purchase made during the year especially at the end of the year are included in the accounts of the creditors.
- c. In case of suspicion about any creditors, the auditor with the consent of the client can ask the statement of account to be sent & verify the same by scrutinizing ledger accounts.
- d. He should see the various debt is given for discount, goods returned etc., & confirm that the same are genuine.
- e. The auditor should ask for the reason for not paying any overdue creditors.

9. BILLS PAYABLE

Verification

- a. He should obtain a schedule of bills payable, whether the schedule contains all the details of the bills payable
- b. He should check the total of the schedule of the B/P with the B/P account & cashbook.
- c. He should examine the returned B/P, which can be taken as an evidence for the payment made for the matured bills.

- d. He should see that the B/P, which have been paid, are not shown as outstanding.
- e. He should check the B/P paid after the balance sheet but before the date of audit with the entries in the cashbook.

Valuation

- a. The B/P book should be checked with the bills payable account.
- b. The B/P already paid should be checked from the cash book & the returned B/P should be examined.
- c. To verify the B/P which have not et matured at the year end, the auditor should examine the B/P book & should check the Cash book of the succeeding year, to see whether any payment has been in respect of such bills. In case of any doubt, the auditor may ask the drawers for the confirmation of the bill.
- d. The auditor should see if any charge has been created on the assets of the concern by accepting the bill & he should see that the facts are disclose in the balancesheet.

10. CONTINGENT LIABILITIES

Verification

- a. He should obtain a list of contingent liabilities duly certified from the management to ensure that all contingent liabilities have been disclosed.
- b. To verify the existence of contingent liabilities, he should examine the accounts books, minutes, correspondence, share certificates etc
- c. If there is provision for contingent liabilities, the auditor should examine the minute's book or resolution to confirm the provisions.
- d. He should see that contingent liabilities are properly disclosed in the balancesheet.
- e. If provision have not been made by the management for certain contingent liabilities & if the auditor thinks that they are likely t materialize as actual liabilities, he should insist on the management to make necessary provision for them.

Valuation

Contingent liabilities are those liabilities which may not arise in the future for payment. The auditor's duty is to see that all known & unknown liabilities have been brought into the accounts at the date of the balance sheet & have been shown in the balance sheet separately as such.

- a. Liabilities on bills receivable discounted & not matured:- if bills receivable are discounted with a bank & the money so received from it is made use of, the entire money will be refunded to the bank, if the acceptor does not make payment on the date of its maturity.

- b. Liabilities for calls on partly paid share:- the amount called on shares held & paid should be verified from the cash book & the liability for the amount uncalled should be ascertained.
- c. Liability under a guarantee:- the auditor should ascertain the liability for a guarantee given by the client for a loan or overdraft to his friend or partner. In case of non payment of such a loan, the possible liability should be ascertained.
- d. Liability for cases against the company not acknowledged as debt:- it is a liability in a disputed case where damages may have to be paid. A contingent liability should be ascertained & a note should be made at the foot of the balance sheet.
- e. Liability in respect of arrears of dividend on cumulative preference share:- the auditor should examine the articles of association which should lay down rules in this regard & due provision should be made for such a liability.

UNIT IV

COMPANY AUDITOR

Meaning

He is an agent or servant of the shareholders who is required to examine the accounts of the company & give an assurance to the shareholders that the annual accounts of the company are bona fide, & they give a true & fair view of the state of affairs of the company.

QUALIFICATION OF AN AUDITOR

A person can be appointed as an auditor of a company only if he is a chartered accountant within the meaning of the Chartered Accountants Act of 1949.

In case a firm is appointed as an auditor of a company, all the partners of the firm must of chartered accountants.

The holder of a certificate under the restricted auditors' certificate rules 1956 also qualified to act as an auditor of a company.

DISQUALIFICATION OF AN AUDITOR

Certain person are disqualified from being appointed as auditors of a company , they are:

1. A body corporate
2. An officer or employee of the company
3. A person who is a partner or who is in the employment of an officer or employee of the company.
4. A person who is indebted to the company for an amount exceeding Rs.1,000 or who has guaranteed the repayment of any debt of more than Rs.1,000 due to the company by a third party.
5. A director or a member of a private company.

Besides the above disqualifications, certain additional disqualification are also

- i. An auditor who has any direct financial interest in the company
- ii. An auditor who receives only loan or guarantee from or on behalf of the company.
- iii. An auditor who has any business relationship (other than as an auditor) in the company
- iv. An auditor who has been in the employment in the country.
- v. An auditor whose relative is in the employment of the company.

APPOINTMENT OF AN AUDITOR

***First Auditor**

The first auditor of a company is appointed by the Board of Directors within the month of the Registration of the company. The first auditor, appointed by the Board of Directors will hold office till the conclusion of the first annual general meeting of the company. If Board of Directors fails to appoint the first auditor, the company may appoint the first auditor in the general meeting. The first auditor appointed by the shareholders in the general meeting, will also be reappointed at the first annual general meeting of the company.

subsequent auditor

Every subsequent auditor is appointed every year at every annual general meeting by the shareholders. A subsequent auditor appointed by the shareholders at any annual general meeting will hold office till the conclusion of the next annual general meeting.

APPOINTMENT OF AN AUDITOR BY THE CENTRAL GOVT

If a subsequent auditor is not appointed by the shareholders at any annual general meeting, the company must bring it to the notice of the central govt. within seven days of the conclusion of the annual general meeting. On receiving the notice, the central govt. may appoint an auditor to fill the vacancy.

APPOINTMENT IN CASE OF CASUAL VACANCY

Any casual vacancy in the office of an auditor can be filled up by the board of directors. However, the casual vacancy caused by the resignation of an auditor cannot be filled up by the Board of Directors; it can be filled up by the shareholders at the general meeting. An auditor appointed to a casual vacancy can hold office only till the conclusion of the next annual general meeting.

REMOVAL OF AN AUDITOR

1. the first auditor who is appointed by the BOD to hold office till the conclusion of the first AGM, can be removed without obtaining the prior approval of the central government.
2. Subsequent auditor can be removed before the expiry of his term by the company only at a general meeting, after obtaining prior approval of the central government.

3. In all cases of auditors, provisions of companies are applicable. These relate to the right of auditor to make written representation, to get it circulated among the shareholders & to be heard orally at the AGM of the company.

DUTIES & RESPONSIBILITIES OF COMPANY AUDITOR

An auditor highlight accompany has several duties & responsibilities to perform. The various duties of an auditor of company can be grouped into 4 categories. They are

- I. Statutory duties
 - II. Contractual duties
 - III. Certain duties imposed by legal or court decisions.
 - IV. Duties arising out of professional ethics.
- I. **Statutory Duties (i.e. duties imposed by the companies act)**

Statutory duties refer to the duties imposed by the statute i.e. by the companies act. It may be noted that the statutory duties of an auditor cannot be restricted either by the articles of associations of the company or by any resolution of the members of the company or the directors of the company.

The various statutory duties of an auditor under the companies act of 1956 are as follows:

A. **Duty to make certain enquiries**

1. Whether loans & advances made by the company on the basis of securities have been properly secured.
2. Whether the terms on which loans have been made are not prejudicial to the interest of the company or its members.
3. Where the company is not an investment company, whether the shares, debentures & the other securities of the company have been sold at price less than its purchase price.
4. Whether loans & advances made by the company have been shown as deposits.
5. Whether the position as stated in the books is correct, regular & not misleading.

B. **Duty to sign his audit report**

It is the duty of an auditor to sign the audit report prepared by him. In the case of firm of auditors, any partner of the firm can sign the audit report.

C. **Duty to assist investigators or inspectors**

It is the duty of the auditor of a company to prepare & produce all books & papers relating to the company under investigation to the investigations or inspectors & to give them all assistance in connection with investigation.

D. **Duty to assist the central Government in connection with prosecution**

An auditor of a company is required to give the central government all reasonable assistance in connection with prosecution of directors, managing director or other officers of the company.

E. **Duty to certify the statutory report**

The auditor of the company should certify the statutory report as correct after it has been certified more correct by not less than two directors, one of whom should be the managing director.

F. Duty to report

1. Whether he has obtained all the information & explanations to the best of his knowledge & behalf & which were necessary for the purpose of his audit.
2. Whether, in his opinion, proper books of accounts, as required by law, have been kept by the company & proper returns necessary for the purpose of his audit have been received from branches not visited by him.
3. Whether the company's balance sheet & P/L a/c are in agreement with the books of accounts & returns.
4. Whether, in his opinion & to the best of his information & according to the explanations given to him, whether the balance sheet & P/L a/c have been drawn up according to the requirements of the companies act & exhibits a true & fair view of the state of affairs of the company.

II. Duties arising out of Common Law(i.e. under his Contract with the company)

An auditor is appointed by an agreement with his client, i.e. the company so, he has some duties arising out of the common law or the law of contract.

The important contractual duties of an auditor are:

1. If he is requested to perform certain special duties under the contract with the company, say conduct of efficiency audit or propriety audit, he has to perform them.
2. An auditor is required to perform his contractual duties with reasonable care & diligence in order to avoid his liability for breach of contract.

III. Duties imposed by legal or court decisions

There are certain duties imposed on a company auditor by court or legal decisions. They are

1. He is not bound to be a detective or to approach his work with suspicion or with foregone conclusion that there is something wrong. He is a watchdog, but not a blood hound. He is justified in believing the responsible officials of the company & is rely upon their representations, provided he takes reasonable care.
2. An auditor should correspond in writing with the previous auditor in whose place he has been appointed as an auditor of the company.

IV. Duties arising out of professional ethics

1. It is the duty of an auditor not to practice as an auditor unless he is a member of the Institute of Chartered Accountants & a holder of certificate of a practice from the council of the institute.
2. An auditor should comply with the rules & regulations formulated by the ICAI.

He must be honest, sincere, technically competent & carry on his duties with due regard to public interest & not in his personal interest. Further, he should disclose full & fair information about the working & the financial positions of the company to all the stakeholders.

LIABILITIES OF COMPANY AUDITOR

A company auditor is appointed under the companies act, so his liabilities are determined by the companies act. It may be noted that the liabilities of a company auditor laid down in the companies act cannot be curtailed or restricted. Further, under the companies act, the liabilities of a company auditor can be grouped under two heads

A. Civil Liabilities

Liability of an auditor to pay damages is known as civil liabilities. The civil liabilities of company auditor may be grouped under two heads.

1. Civil liability of an Auditor for negligence:-

an auditor of a company is appointed by the shareholders. As such, he becomes an agent of the shareholder, he must safeguard the interest of the company. To safeguard the interest of the company, he must exercise reasonable care & skill in the performance of his duties. If he fails to do so & as a consequence thereof, if the company suffers any loss, the auditor will be held liable to compensate the loss suffered by the company.

2. Civil Liability of an auditor for misfeasance:- misfeasance means breach of trust or duty imposed by law. In other words, if an auditor of a company does something wrongfully in the performance of his duties, resulting in financial loss to the company, he is held guilty of misfeasance.

B. Criminal Liabilities

Criminal liability of an auditor arises out of an act constituting a crime, say, misrepresentation of facts, falsification of facts, issue of false certificate, making of false statement, destruction of any voucher or document or doing or any other act, with an intent to deceive others. The penalty for any criminal liability of an auditor may be fine, imprisonment or both.

a. Criminal Liabilities of an Auditor under the Companies Act of 1956

1. Where the prospectus issued by a company includes any untrue statement or misstatement by the auditor, the auditor becomes criminally liable. In this case, he may be punishable with imprisonment for a term which may extend to two years or with fine which may extend to Rs. 5,000 or both
2. If an auditor intentionally gives false evidence upon any examination about the winding up of the company, he becomes punishable with imprisonment for a term which may extend to 7 years also to fine.

3. An auditor of the company becomes liable for criminal prosecution, if he, in any return report, certificate, makes a false statement, particularly knowing it to be false or omits any material fact, knowing it to be material. The punishment on conviction will be imprisonment for a term which may extend to 2 years & also fine.
 4. If an auditor destroys, mutilates or make alterations in any books, papers or securities belonging to the company with intent to defraud or deceive any person at the time of the winding up of the company he become punishable with imprisonment for terms which may extend to 7 years & also to fine.
 5. If the central government takes action & prosecutes any officer connected with the affairs of the company, the auditor is required to assist the prosecution. If he fails to do so, he becomes punishable with imprisonment for 6 months or with the fine up to 5,000 or with both.
- b. Criminal Liability of an auditor under the Indian Penal Code
If an auditor issues or signs any certificate, knowing or believing that such certificate is false in any material point, he becomes punishable in the same manner as if he gives false evidence.
- c. Criminal liabilities of an auditor under the Income tax act of 1961
If an auditor induces in any person to make deliver to the income tax authorities a false statement or declarations relating to any income chargeable to tax, he becomes punishable with simple imprisonment which may extend to 6 months with fine which may extend to Rs. 1,000 or with both.
- d. Criminal Liabilities of an auditor under the Chartered Accountants act 1949
If a person, not being a chartered accountant, acts as auditor of a company & signs any document, he becomes liable for criminal prosecution.

RIGHTS OF AUDITOR

1. **Right to of access to books to account & vouchers:-**
an auditor of company has a right to of access, at all times, to the books of accounts & vouchers of the company, whether they are kept at the head office of the company or elsewhere. The auditor of the company may examine the books & vouchers whenever he likes.
2. **Right to obtain information & explanation:-**
An auditor of a company has a right to obtain from the directors & officer of the company such information o& explanations as he may think necessary for the performance of his duties. If the directors or officers of the company refuse to supply any information on the ground that, in their opinion, it is not necessary to furnish it, the auditor has a right to mention that fact in his report.
3. **Right to comment on the inadequacy of the accounting system in his report:-**
If the system of maintaining accounts is inadequate, auditor can advice the directors to amend the system of accounting. However, if his advice or suggestion is not carried

out by the directors, he has a right to mention the fact in his report. He has to state in his report that proper books of accounts have not been maintained by the company.

4. Right to receive notices & other communication of general meeting:-

An auditor of a company has a right to receive notices & other communications relating to any general meeting, like any other member of accompany, irrespective of the fact whether accounts are discussed or not at that meeting.

5. Right to have legal, technical or expert advice:-

An auditor has a right to take legal, technical or expert advice on any matter relating to the business in order to perform his work satisfactory. It may be noted that, no doubt, the auditor has the right to seek legal, technical or expert advice. But in his report, he must give his own opinion & not that of the expert.

6. Right to receive remuneration for his audit work:-

An auditor of a company has right to receive remuneration for his audit work provided he has completed the work which he undertook. It may be noted that if the remuneration payable to the auditor is fixed in the form of annual fee.

7. Right to be indemnified:-

An auditor of a company has a right to be indemnified, out of the assets of the company, for any liability incurred by him in defending himself against any civil or criminal proceedings by the company, provided the judgement is in his favour.

8. Right to sign the audit report:-

An auditor has the right to sign the audit report. It may be noted that only a person appointed as an auditor of the company may sign the auditor's report.

9. Right to make representation & to speak in the general meeting when he is asked to vacate office:- an auditor has the right to make representation in writing & also to speak in the general meeting in all cases when he is asked to vacate his office.

10. Right to refuse to start the audit work until the books of account of the business is balanced by the management:- an auditor has the right to refuse to start the audit work until the books of accounts of the business are balanced by the management.

AUDIT REPORT

Meaning:- an audit report is a statement through which an auditor submits his findings & expresses his opinion on the state of affairs of the company's business. It is the medium through which an auditor expresses his opinion on the financial statements of a business.

Features of Audit report

1. It is the medium through which an auditor express his opinion on the financial statements & conditions of a business.
2. It is the end product of audit, as it summarizes the results of the audit work conducted by an auditor.
3. It is based on factual information
4. It may be short or long
5. It may be in the form of a letter or mere statement.
6. It is attached to the balancesheet.

Contents of Audit Report

1. Whether he has obtained all the information & explanation which to the best of his knowledge & belief were necessary for the purpose of his audit
2. Whether proper returns adequate for the purpose of his audit have been obtained from branches not visited by him.
3. Whether proper books of accounts as required by law have been kept by company so far so appears from his examinations.
4. Whether the report on the accounts of any branch office audited by any other auditor has been forwarded to him & how he has deal with the same in preparing his report.
5. Whether the company's balance sheet & P/L A/c are in agreement with the books, accounts & returns.
6. Whether any other statements have been included as required by the central govt.
7. Whether his opinion & to the best of his information & according to the explanation given to him a true & fair view.

Types of Audit Report

1. Unqualified audit report:- unqualified audit report issued to financial statement when auditor found no material misstatement after their testing. This report contain the unqualified opinion form independence auditor. The report shown that he entity financial statements are prepared & present true & fair & complying with accounting framework being used.
2. Qualified Audit report:- it is the report that issue by auditors to the financial statements that found material misstatements on them. But those material misstatements are not pervasive.
3. Adverse audit report:- it is type of audit report that issued to the financial statements when auditors found that there are material misstatements in the financial statements. The misstatements found here are different from the material misstatements found qualified audit report.
4. Disclaimer Audit report:- it is the report that issues to the financial statements where there are matter to auditors independence & those matter cause auditor not be able to obtain sufficient audit's evidence to support their opinion.

AUDITORS CERTIFICATE

Meaning

An auditors' certificate is a written confirmation of the accuracy of the facts relating to the accounts for a particular time or to a specific matter, which does not involve any estimate or opinion. An auditors certificate represents that he has verified certain precise figures & is in a position to vouch safe their accuracy as per an examination of documents & books of accounts.

PROFESSIONAL ETHICS

The code of conduct is essentially a set of professional ethical standards regulating the relationship of Chartered Accountants with their clients, employers, employees, fellow members of the group & the public generally.

Professional ethics refers to the behaviour of a member of professional body toward the other members of his profession & towards the member of the public.

UNIT VI

RECENT TRENDS IN AUDITING

Meaning of Auditing Standards

Auditing standards prescribe the norms of principle & practices, which the auditors are expected to follow in the conduct of audit. They provide minimum guidance to the auditor that helps determine the extent of auditing steps & procedures that should be applied in the audit & constitute the criteria or yardstick against which the quality of audit result are evaluated.

Various Auditing and Assurance Standards issued by ICAI :

1. AAS 1 : Basic principles governing audit
2. AAS 2 : Objective and Scope of financial Audit
3. AAS 3: Documentation
4. AAS 4: Fraud and error
5. AAS 5 : Audit Evidence
6. AAS 6 : Risk Assessment and Internal Control
7. AAS 7 : Relying upon work of an Internal Auditor
8. AAS 8 : Audit planning
9. AAS 9: Using the Work of an Expert.
10. AAS 10 : Using the work of another Auditor.
11. AAS 11 : Representation by Management.
12. AAS 12 : Responsibility by joint Auditors.
13. AAS 13 : Audit Materiality
14. AAS 14: Analytical Procedures.
15. AAS 15 : Audit Sampling.
16. AAS 16: Going Concern Assumption.
17. AAS 17: Quality Control for Audit work.
18. AAS 18 : Audit of Accounting Estimate
19. AAS 19 : Subsequent events.
20. AAS 20 : Knowledge of the Business
21. AAS 21: Consideration of Laws and regulations in an Audit of Financial Statement.

- 22. AAS 22 : Initial Engagement
- 23. AAS 23 : Related Parties
- 24. AAS 24: Audit Consideration relating to Entities using Service Organisations.
- 25. AAS 25: Comparatives
- 26. AAS 26 : Terms of Audit Engagement
- 27. AAS 27 : Communication of Audit Matters with those entrusted with Governance.
- 28. AAS 28 : Auditor's Report on Financial Statements.
- 29. Audit in Computer information system Environment.

A BRIEF MENTION OF SAPs ISSUED BY ICAI

The appropriateness & reasonableness of assumptions & methods used & their application are the responsibility of the expert. The auditor does not have the same expertise & therefore, cannot always challenge the expert's assumptions & methods. However, the auditor should obtain an understanding of those assumptions & methods to determine that they are reasonable based on auditors knowledge of the client's business & on the results of his audit procedures.

The auditor while verifying the accrued liability for retirement benefits or for group gratuity schemes has to use the work of another expert i.e. insurer itself. In such a case, the issue to be considered is whether it is sufficient for the auditor to rely on the certificate given by insurer without establishing the reasonableness of the summations made by the insurer based on the auditors knowledge of the clients business. It is clarified that the auditor should, while using the certificate issued by the insurer, obtain an understanding of the methods used by the insurer in determining the liability & should also judge the appropriateness & reasonableness of assumptions, for examples

- a. Rate of return
- b. Number of employees
- c. Retirement age
- d. Salaries
- e. Promotion policies
- f. Age of employees

Statements on standard auditing practices (SAPs) have been renamed as auditing & Assurance /Standards (AASs), AASs carry the same authority as that is attached to SAPs.

AUDITING UNDER COMPUTERISED ENVIRONMENT

In recent years, there has been development in the use of computers as a means of keeping the accounting records & producing financial information. This trend has brought about significant changes in the way the organisations process, store data & disseminate information.

In a computerized environment it is expected that the auditor should satisfy himself that the controls are adequate enough to produce & complete financial statements.

Computerised environment includes the following

- a. Hardware(CPU, Monitor, Printers, ZIP drive, Scanners)
- b. Software (Operating systems, database, application software etc)
- c. The transmission media (Wires, Optical fiber cables & microwaves links)
- d. Networks devices (modems, gateways etc)

Further Challenges:-

1. Evidence collection challenge:- Collecting evidence on the reliability of a computer system is often more complex than collecting evidence on the reliability of a manual system- Hence auditors have to run through computer system themselves using Computer assisted audit techniques (CAATS) if they are to collect the necessary evidence.
2. Changes to evidence evaluation challenge:- paper documents are inherently more reliable because alterations are generally apparent or may be uncovered by forensic analysis. By comparison, electronic documents in their uncontrolled state are highly vulnerable to forgery & unauthorised change.
3. Skill competence Challenge:- the auditors should have sufficient knowledge of the computerised information system to perform such audit effectively. These skills are very limited.
4. Risks in a network environment challenges:- threats to accountability. In a manual system, a person has to be physically present to handle a paper document. It is not the same in a networked computer system. In a network environment , an electronic document may be created, assessed, read, amended, deleted or replaced from anywhere at any time & the true identity of the person responsible may not be known.

COMPUTERIZED AUDITING

A computer is an electronic device, which works faster than the ordinary human brain. Although a computer has no brain of its own to reason like human being, it has built memories that enable it perform complex mathematical problem as fast as possible, faster than the human brain.

OBJECTIVES OF COMPUTERIZED AUDIT

1. Understanding the methods auditors use to assess control risk in computerized accounting systems.
2. Identifying & describing the general & application controls found in computerized accounting systems & the methods used to assess risk for these controls.
3. Identifying & describing & assessing systems development & documentation controls & how they impact computerized accounting systems.

4. Identifying & describing hardware & systems software controls & how they impact computerized accounting system.
5. Understanding system security controls & the impact of these controls on the overall reliability of computerised accounting information systems.

USES OR BENEFIT OF COMPUTERIZED AUDIT

- 1) Speed : the work of recording of transactions , preparation of books ,accounts can be done with greater speed.
- 2) Greater accuracy : the chances of arithmetical errors and human errors are reduced to minimum.
- 3) Greater economy: under the mechanized accounting system, work can be done with minimum staff, with minimum cost.
- 4) Better records: records prepared by machines are neat and clean. It is more legible, systematic and uniform.
- 5) Greater information : various types of information and statistical data regarding the operation of the business can be easily collected.
- 6) Interim accounts : interim accounts can be prepared without delay. This will help the management to declare interim dividend.
- 7) Analysis of data : once the basic information is feed into the computers, it can be sorted in many different ways to provide analysis of statement .
- 8) Avoid overtime : the work of accounts are done quickly , the accounts can be prepared without any loss of time.
- 9) Reduction in audit fee: the work load of audit works is reduced by the computers. Hence the computerized audit reduces audit cost.
- 10) Computerized audit reduces the monotony of audit work:
- 11) Computersied audit enhances the reliability of audit
- 12) Computersied audit ensures flexibility in the audit programme.
- 13) Computersied audit is helpful for the smooth functioning of auditing.

CONSTRAINTS OR PROBLEMS OR DISADVANTAGES

- 1) It is not suitable for small business forms.
- 2) Difficulties to detect the errors and frauds.
- 3) Absence of supporting vouchers.
- 4) Storage problem
- 5) Computer frauds and computer virus.
- 6) Easy to make alterations
- 7) It creates unemployment.
- 8) Absence of input documents.
- 9) Lack of visible output
- 10) Coding problem.

Chapter-1

1. Define Auditing (2m)
2. State any or mention the types of errors & frauds (2 or more marks)
3. Distinguish b/w Accounting & Auditing (5m)
4. Preparation before commencement of new auditing. (5m) (15m)
5. Classification of auditing (15m)

Chapter-2

1. Define Audit programme (2m)
2. What is Internal control (2m)
3. What is Internal check (2m)
4. State any 4 contents of Audit programme (2m)
5. What is Audit note book (2m)
6. State the contents of Audit note book (2m)
7. What is Audit working paper (2m)
8. Distinguish b/w Internal check & Internal control (5m)
9. State the advantages of Audit programme (5m)
10. Difference b/w External & Internal audit (5 marks)
11. Internal check regarding Payments of wages (15m)

Chapter - 3.

1. What do you mean by valuation (2m)
2. Give the meaning of vouching (2m)
3. Give the meaning of ~~var~~ verification (2m)
4. What do you mean by contingent liabilities (2m)
5. &ka What are the objectives of assets & liabilities (5m)
6. Explain verification & valuation of Goodwill, Patent right, free hold & lease hold, L & B, P & M/c, furniture, Investments Stock in trade, creditors, Bills payable, contingent liabilities (5 or 15 m)
7. Difference b/w vouching & verification (2m or 5m)

Chapter - 4.

1. Who is an auditor (2m)
2. Explain the rights & duties of company auditor (15m)
3. What is audit report (2m)
4. What is auditor certificate (2m)
5. What is professional ethics (2m)
6. Explain the liabilities of company auditors (5m)

Chapter - 5.

1. Explain the audit programme of Partner - ship firm (15m)

2. Educational Institution & Co-operative Society (5m)
3. What is Partnership firm (2m)
4. What is Educational Institution (2m)
5. What is Co-operative Society (2m)
6. What is Auditing Standard.

Chapter - 6

1. What is Auditing Standard (2m)
2. What is computerised auditing (2m)
3. Explain the auditor under computer involvement (5m or 15m)
4. Explain the uses of computerised auditing (5 or 15m)

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