



**2<sup>nd</sup>  
Revised  
Edition**

# PRINCIPLES AND PRACTICE OF **AUDITING**

**Biswa Mohana Jena • Sanjay Kumar Satapathy**

## UNIQUE FEATURES OF THE BOOK

- Companies Act 2013
- New areas of auditing
- Standard on auditing
- Accounting standard
- Glossary of auditing terms
- Objective type questions
- Question bank
- Case study



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# PRINCIPLES AND PRACTICE OF AUDITING

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## PREFACE TO THE SECOND REVISED EDITION

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The development of modern accountancy and the growth of the auditing profession in India and, indeed, in the world as a whole must be seen in the context of the enormous expansion of industry, trade and commerce which has taken place in the last decade. The auditing profession is now going beyond the duties prescribed by the Companies Act. It is initiating its own accounting standards, and auditing regulations and guidelines. At present, it has sought to standardise the accounting procedure by issuing mandatory accounting standards and also issuing standardised auditing guidelines for conducting audit work. In addition to that, auditing in its modern form has adopted a multidimensional approach. At present, the scope of auditing is not restricted to only financial audit under the Companies Act but has been extended to cost accounts, managerial policies, operational efficiencies, system applications, social implications of business organisations and environmental aspects too.

This book has made update on Companies Act, 2013, recent developments in auditing practice and procedure, and changes in accounting and auditing standards. The above updates will help the students to get latest challenges in the field of auditing. The aim of this book is to provide the students with sound ideas on the principles, methods and techniques of solving auditing compliance together with ample scope for mastering the subjects through practice. All the stress and strain we have encountered while writing this book will be considered meaningful and substantial if this title fulfills the expectations of the students.

We take this opportunity to place on record our sincerest thanks to all our teachers and colleagues, friends, scholars and well-wishers who have been a perennial source of invaluable advice, thanks, co-operation and inspiration to us in our endeavour to prepare the manuscript of this book. We also thank Mr. Bijay Kumar Ojha, Himalaya Publishing House Pvt. Ltd., but for whose kind patronage, the book could not have been brought out. All suggestions for the improvement of the book received from any quarter would be gratefully and gracefully acknowledged.

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## CONTENTS

|  |           |
|--|-----------|
| Preface  |           |
| 1. Introduction to Auditing                                | 1 – 26    |
| 2. Classification of Auditing                              | 27 – 43   |
| 3. General Conduct of an Audit                             | 44 – 56   |
| 4. Internal Control, Internal Check and Internal Audit     | 57 – 77   |
| 5. Vouching of Cash Transactions                           | 78 – 92   |
| 6. Vouching of Trading Transactions                        | 93 – 99   |
| 7. Vouching of Impersonal Transactions                     | 100 – 107 |
| 8. Verification of Liabilities                             | 108 – 113 |
| 9. Verification of Assets                                  | 114 – 128 |
| 10. Verification of Financial Statements and Balance Sheet | 129 – 138 |
| 11. Reserves and Provisions                                | 139 – 148 |
| 12. Company Accounts                                       | 149 – 167 |
| 13. Audit Report   | 168 – 186 |
| 14. Dividend and Divisible Profit                          | 187 – 198 |
| 15. Audit of Debentures                                    | 199 – 202 |
| 16. Audit in EDP Environment                               | 203 – 210 |
| 17. Investigation  | 211 – 222 |
| 18. Liabilities of an Auditor                              | 223 – 230 |
| 19. Special Audits   | 231 – 249 |
| 20. New Areas of Auditing                                  | 250 – 273 |
| Objective Type Questions with Answers                      | 274 – 279 |
| Annexures  | 280 – 284 |
| Glossary of Auditing Terms                                 | 285 – 288 |
| Significant Legal Decisions                                | 289 – 291 |
| Companies Act, 2013  | 292 – 306 |





# INTRODUCTION TO AUDITING

## Learning Objectives:

*Going through the chapter carefully, we could:*

- Understand the concept, fundamentals postulates and major objectives of audit.
- Be familiar with the auditing practices when there is a possible evidence of fraud.
- Be aware of the auditor's responsibility in this regard.

## 1.0 EVOLUTION

The word “**Auditing**” has been derived from the Latin word “**Audire**”, which means “to hear”. Such an expression conveys the foundation of auditing in ancient days. However, in the post-ancient period, auditing has gone through dramatic changes. According to **Dicksee**, traditional auditing can be understood as an examination of accounting records undertaken with a view to establishing whether they completely reflect the transaction correctly for the related purpose. But this is not the end of the story. Besides, the auditor also expresses his opinion on the financial character of the statements of accounts prepared from the accounting records, so as to examine whether they portray the true and fair view of financial statements. The term audit is used in this sense ever since the days when public accounts were accepted and approved on the basis of leaving the accounts read. It was **Fra Luca Bartolomeo de Pacioli** (popularly known as Luca Pacioli), father of accounting who introduced double entry bookkeeping. He defined and described the duties and responsibilities of an auditor. Since then, there have been far-reaching changes in the scope and definition of audit. Further, the industrial revolution in England compelled the necessity of auditing. When the First Companies Act of 1913 came into force, it became obligatory on the part of every company registered under it, to have the accounts audited at least in every year.

## 1.1 CONCEPT OF AUDITING

Concept of Auditing dates back to ancient Egyptian, Roman and Greek Civilizations, where commercial transactions were systematically checked and counterchecked by financial administrators. In India, Pre-Vedic literature makes references to the existence of well developed system of accountancy. In ancient times, auditing was coupled with the levy of tax. Whenever taxes were levied on commercial transactions, auditing became inevitable. When a person was appointed to administer finance, the amount received and payments made by him were checked by another official either periodically or at the time of expiry of his term of office. The objectives, techniques and approaches of today's audit are entirely different from that of the past. One can say that the change in the technology, expansion of business organization, diversification of activities have influenced and altered the auditing scope and techniques. **Present-day Auditing has come a long way from traditional auditing.** Traditional auditing involved vouching of all transactions, verification of posting to ledgers, detailed verification of documents, subsidiary books and the principal books of entries. This was possible because the business entities were small, the transactions were not many, the activities were localized and traditional method of bookkeeping was followed.

In the contemporary world, business organizations have expanded and diversified their activities. The transactions have become numerous. The fast developing communication technology has shrunk the earth into a global village. Transactions are made through internet across the world. Rates are fixed over telephone. Receipts and payments are made online. Use of paperwork has been reduced greatly. In these circumstances, it is impossible to apply the traditional methods of auditing.

|          |   |                   |
|----------|---|-------------------|
| <b>A</b> | : | ACCOUNTABILITY    |
| <b>U</b> | : | UNDERSTANDABILITY |
| <b>D</b> | : | DILIGENCE         |
| <b>I</b> | : | INSPECTION        |
| <b>T</b> | : | TRANSPARENCY      |

## 1.2 WHAT IS AN AUDIT?

An audit is the examination of the financial report of an organization - as presented in the annual report – by someone independent of the organization. The financial report includes a balance sheet, an income statement, a statement of changes in equity, a cash flow statement, and notes comprising a summary of significant accounting policies and other explanatory notes.

The purpose of an audit is to form a view on whether the information presented in the financial report, taken as a whole, reflects the financial position of the organization at a given date, for example:

- Are details of what is owned and what the organization owes properly recorded in the balance sheet?
- Are profits or losses properly assessed?

When examining the financial report, auditors must follow auditing standards which are set by a government body. Once auditors have completed their work, they write an audit report, explaining what they have done and giving an opinion drawn from their work. With some exceptions, all organisations subject to the Corporations Act must have an audit each year. Other organizations may require or request an audit depending on their structure and ownership or for a special purpose.

### **What Don't Auditors Do?**

- Audit other information provided to the members of the organization, for example, the directors' report.
- Check every figure in the financial report – audits are based on selective testing only.
- Judge the appropriateness of the organisation's business activities or strategies or decisions made by the directors.
- Look at every transaction carried out by the organization.
- Test the adequacy of all of the organisation's internal controls.
- Comment to shareholders on the quality of directors and management, the quality of corporate governance or the quality of the organization's risk management procedures and controls.

### **What Can't Auditors Do?**

- Predict the future – The audit relates to a specific past accounting period. It does not judge what may happen in the future, and so cannot provide assurance that the organisation will continue in business indefinitely.
- Be there all the time – The audit is carried out during a defined time frame, and auditors are not at the organization all the time. The prime purpose of the audit is to form an opinion on the information in the financial report taken as a whole, and not to identify all possible irregularities. This means that although auditors are on the look-out for signs of potential material fraud and it is not possible to be certain that frauds will be identified.

### **How is the Audit Conducted?**

- The organization's management prepares the financial report. It must be prepared in accordance with legal requirements and financial reporting standards.
- The organisation's directors approve the financial report.
- Auditors start their examination by gaining an understanding of the organization's activities, and considering the economic and industry issues that might have affected the business during the reporting period.
- For each major activity listed in the financial report, auditors identify and assess any risks which could have a significant impact on the financial position or financial performance, and also some of the measures (called internal controls) that the organisation has put in place to mitigate those risks.
- Based on the risks and controls identified, auditors consider what management has done to ensure the financial report is accurate, and examine supporting evidence.

- Auditors then make a judgment as to whether the financial report taken as a whole presents a true and fair view of the financial results and position of the organization, its cash flows, is in compliance with financial reporting standards and, if applicable, the Corporations Act.
- Finally, auditors prepare an audit report setting out their opinion, for the organization's shareholders or members.

### What Do Auditors Do, Specifically?

Auditors discuss the scope of the audit work with the organisation – the directors or management may request that additional procedures be performed. Auditors maintain independence from management and directors so that tests and judgments are made objectively. Auditors determine the type and extent of the audit procedures they will perform, depending on the risks and controls they have identified. The procedures may include:

- Asking a range of questions – from formal written questions, to informal oral questions – of a range of individuals at the organization.
- Examining financial and accounting records, other documents, and tangible items such as plant and equipment.
- Making judgments on significant estimates or assumptions that management made when they prepared the financial report.
- Obtaining written confirmations of certain matters, for e.g., asking a debtor to confirm the amount of their debt with the organisation.
- Testing some of the organisation's internal controls.
- Watching certain processes or procedures being performed.

## 1.3 MEANING OF AUDITING

An examination and verification of a company's financial and accounting records and supporting documents by a professional, such as a certified chartered Accountant. Auditing is the systematic and scientific examination of the books of accounts and records of a business. It enables the auditors to judge that the Balance Sheet and the Profit and Loss Account are properly drawn up so it exhibits a true and fair view of the financial state of affairs of the business and profit or loss for the financial period.

## 1.4 DEFINITIONS OF AUDITING

Auditing is concerned with the **verification** of accounting data, with determining the **accuracy** and **reliability** of accounting statements and reports. — **R.R. Moutz**

Auditing is an intelligent and a critical **scrutiny** of the books of accounts of a business with the documents and vouchers from which they are written up, for the purpose of ascertaining whether the working results for a particular period, as shown by the profit and loss account, also the exact financial condition of the business, as reflected in the balance sheet are **truly determined** and **presented** by those responsible for their compilation.

— **J.R. Batliboi**

“An audit denotes the **examination** of balance sheet and profit and loss account prepared by others together with the books of accounts and vouchers relating thereto in

such a manner that the auditor may be able to satisfy himself and honestly report that, in his opinion, such balance sheet is properly drawn up so as to **exhibit a true and correct view** of the state of affairs of the particular concern according to the information and explanations given to him and as shown by the books”. — **F.R.M. De Paula**

Auditing is a **systematic examination** of books and records of a business of other organization in order to ascertain or verify and to report upon the facts regarding the financial operations and the results thereof. — **Montgomery**

An audit is an **exploratory, critical review** by a public accountant of the underlying internal controls and accounting records of a business enterprise or other economic unit, precedent to the expression by him of an opinion of the propriety of its financial statements.

— **Eric L. Kohler**

Auditing may be defined as “**inspecting, comparing, checking, reviewing, vouching, ascertaining, scrutinizing, examining and verifying** the books of accounts of a business concern with a view to have a correct and true idea of its financial state of affairs.”

— **M.L. Shandilya**

According to the **INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**, “general guidelines in internal auditing defines auditing as the **independent examination** of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such examination is conducted with a view to expressing an opinion thereon.” “In brief, auditing involves **testing the reliability, competency and adequacy** of evidence in support of monetary transactions. It has its principal roots in accounting with its reviews, on which it leans heavily for idea and methods.

**S.K. SATAPATHY & B.M. JENA** — “*Auditing signifies the spiraling functions of auditors who certify the true and fair view of financial statements by delving through the process of **checking, vouching and verification** with its operational **efficiency, economy and effectiveness.**”*

AAS-1 defines the audit and also set out the basic principles, which govern the auditor’s responsibilities in carrying out the audit.

As per AAS-1, “An audit is the independent examination of financial information of an entity whether profit oriented or not and irrespective of size or legal form when such examination is conducted with a view to express opinion thereon”.

Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users. Auditing is the analysis of the financial accounts/records, by a qualified accountant, and procedures of a firm or organization. This is essential in order to gain a fair perspective on the company’s financial statements. With auditing, potential investors and creditors can look at the financial statements to decide whether to invest in a business or not. Auditing is important as it also protects the public from scams and corrupt business procedures.

## 1.5 AUDITING – THE NEED AND IMPORTANCE OF AUDITING IN A BUSINESS ORGANIZATION

The word 'audit', has been derived from the Latin word “**Audire**” meaning to hear. Auditing is a formal examination of accounting books, documents and vouchers of a business concern in order to verify the profit and loss and the financial position of a business. It is a systematic check or assessment of financial records of a business, department or organization to establish accuracy or efficiency or effectiveness.

The need of audit arises due to the fact that a business enterprise needs to ensure the correctness of all accounts pertaining to the business. It is also important to ascertain whether or not, the financial statements, profit and loss account and balance sheet have been prepared in a way as to show the summary of the flow of transactions for the whole period and the true picture and position of a business enterprise. Besides, in order to ensure the accuracy or the efficiency of the records, detection and prevention of errors is vitally important. Hence, audit under its main objectives and subsidiary objectives fulfills the purpose.

Audit is an effective tool for Business Management, as internal audit is conducted in order to ensure the policies are being followed. It enables to make valuable suggestions for improvement and to formulate future policies of a business. Audit also helps management to review the policies from time to time.

Since audit involves a detailed verification of accounting records: It helps greatly to discover errors or frauds while it promotes a moral check on the employees through which their efficiency may also be determined. To its more positive form, audit can motivate the employee to maintain the efficiency leading to increase their performance level. Aside from these, it is with the help of audit that misappropriation of goods and manipulation of records may be identified.

Audit is of great importance to gain confidence in investors of a joint stock company. Since the audited statements are very much useful, the investors can ensure whether or not they need to invest capital.

## 1.6 DIFFERENCES BETWEEN

### 1.6.1 Accountancy and Bookkeeping

**Accountancy** involves recording of all transactions having financial character and classifying, summarizing and interpreting the activities of the organization for a particular period by preparing profit and loss account and balance sheet.

**Bookkeeping** is the initial part of accounting involving recording of all transactions, journalizing, posting and balancing. The errors are rectified and the balances are arrived at by the accountant. The profit earned or loss incurred for a particular period is arrived by the preparation of Profit and Loss Account. The financial status of the organization as on a particular date is shown in the balance sheet.

### 1.6.2 Bookkeeping and Auditing Posting

| <b><i>Bookkeeping</i></b>  | <b><i>Auditing</i></b>   |
|--|--|
| (i) Bookkeeping involves recording of transactions in the books of accounts. | (i) Auditing involves examination of Balance Sheet and Profit & Loss account, which are prepared from Trial Balance in order to find out whether they are prepared in conformity with law and shows the true and fair view of business concerns. |
| (ii) There is no need for skill, knowledge, etc. for bookkeeping.            | (ii) In case of auditing, skill, knowledge, etc. are must.   |
| (iii) Nature of work is more or less of mechanical or routine.               | (iii) In auditing, work is technical in nature.  |
| (iv) Bookkeeping is continuous process and done throughout the year.         | (iv) Generally, auditing is carried on till the completion of the year.  |
| (v) Bookkeepers are regular and paid employees.                              | (v) Auditors not regular and are not paid employees.   |
| (vi) The work of bookkeeping precedes auditing.                              | (vi) The work of auditing starts where the bookkeeping ends.   |
| (vii) Bookkeeping work is constructive in approach.                          | (vii) Audit work is critical and analytical in approach.   |
| (viii) Bookkeeping relates to the current period.                            | (viii) Auditing is done for the previous year.   |

### 1.6.3 Accountancy and Auditing

| <i>Accountancy</i>  | <i>Auditing</i>  |
|---|--|
| (i) Accountancy is primarily constructive in nature and it is concerned with compilation of accounting information preparing Profit & Loss Account and Balance Sheet. | (i) Auditing is analytical in nature and is concerned with checking and verification of financial statements.          |
| (ii) It involves preparation of financial statements and their interpretation.  | (ii) It involves examination and checking of accounting records.   |
| (iii) The object of Accountancy is to find out the operating results and financial position of the business concern.  | (iii) The object of auditing is to ascertain the truth and fairness of the financial statements and to comment on it.  |
| (iv) No formal qualification has been prescribed for an accountant.   | (iv) An auditor must necessarily be a Chartered Accountant.  |
| (v) Accountancy starts where bookkeeping ends.  | (v) Auditing starts where Accountancy ends.  |
| (vi) An accountant need not be an expert in the work of auditing.   | (vi) An auditor must be an expert both in accounting as well as auditing.  |
| (vii) Accountant is a permanent employee of a concern.  | (vii) Auditor is an independent outsider.  |
| (viii) Accounting work is carried on throughout the year.   | (viii) Auditing is carried on generally at the end of the financial year.  |
| (ix) Accountant receives monthly salary.  | (ix) Auditor gets a fixed sum as per the agreement.  |
| (x) Accountant need not prepare and submit a report on the accounts and statements prepared by him.   | (x) Auditor is required to prepare and submit a report about the truthfulness and fairness of accounts audited by him. |

### 1.6.4 Audit and Investigation Audit

| <i><b>Audit</b></i>   | <i><b>Investigation</b></i>  |
|---|--|
| (i) Audit is the scientific and systematic examination of the books, accounts, vouchers, and other financial records that will help an auditor to give opinion regarding true and fair view of the state of affairs of the business and Profit & Loss accounts. | (i) Investigation is a process through which an investigator on behalf of his client investigates different matters as per need of the client and gives report to him. |
| (ii) Audit is compulsory in case of company as per Companies Act 1956.  | (ii) Investigation is not compulsory and is conducted as per the needs of client (except special audit made by the order of the Government as per statute).            |
| (iii) A person must be a Chartered Accountant for conducting statutory audit of a company.  | (iii) There is no prescribed qualification in the Companies Act for conducting investigation (except special audit directed by the Government).                        |
| (iv) Audit techniques such as test checking can be applied for vouching and verification of books of accounts.  | (iv) Detailed examination of books of accounts is required to solve the special purpose.   |
| (v) Remuneration of a company auditor is determined as per Companies Act.   | (v) Remuneration is fixed by agreement between the client and the investigator.  |
| (vi) Audit is mainly concerned with the examination of the books of accounts.   | (vi) It includes examination of financial, technical, legal, economic, social, etc.  |
| (vii) The time of completing audit work is generally required for four to six months.   | (vii) The time of completing investigation work may require several years.   |
| (viii) The report of the auditor is prepared as per Companies Act and the auditor's opinion and not too long.   | (viii) In case of investigation, report may be long enough to present the details of investigation, i.e., financial, technical, legal and other aspects.               |
| (ix) The company auditor will place his report to the shareholders of the company.  | (ix) The report of investigator is to be submitted to the Appointing Authority.  |
| (x) Audit is the examination of books of accounts which remains unexamined before that.   | (x) Where the auditing work ends, the work of investigation starts, i.e., investigation is the special type of examination of audited accounts.                        |

|   |   |
|---|---|
| (xi) Audit is conducted on behalf of the owner of the entity.   | (xi) Investigation may be conducted either on behalf of the owner or on behalf of outside parties.  |
| (xii) In case of audit work of a company, the work of an auditor cannot be avoided which is given in the Companies Act, 1956, <i>i.e.</i> , an auditor must not be negligent about his duties given in the Statute. | (xii) In case of investigation, some matters are left unchecked for examination because investigation serves a specific purpose and as per the needs of the client. |

## 1.7 OBJECTS OF AUDITING

The main object of auditing is to verify the accounts and to report whether the Balance Sheet and Profit and Loss account have been prepared as per the Companies Act and whether they show true and fair view of the state of affairs of the concern. Besides, there are certain subsidiary objects also to conduct an audit. *They are as follows:*

- (A) Detection and prevention of errors.
- (B) Detection and prevention of frauds.

The various objects of an audit as shown in Fig. 1.1 are detailed in next page.

### 1.7.1 Primary Objects

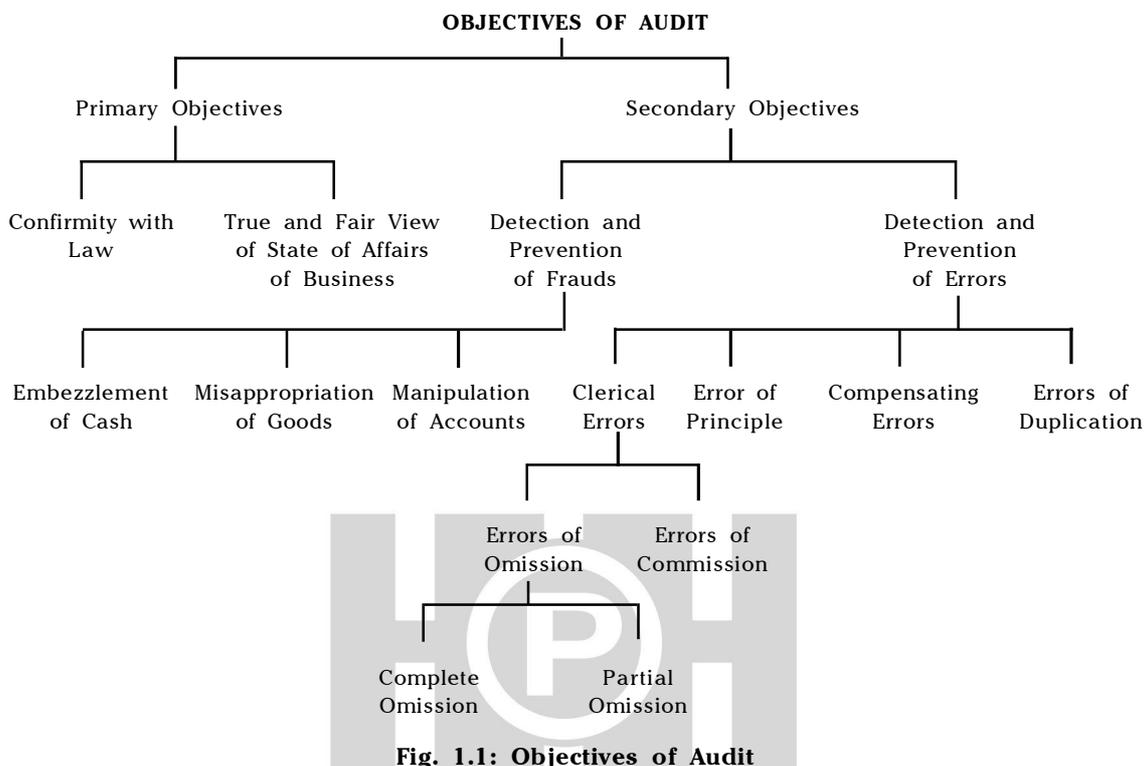
There are two objectives, which are considered as chief objectives of auditing. They are as below:

**(i) To see whether the financial statements are prepared in conformity with law:** Business concerns prepare Balance Sheet to portray their financial position. They also prepare Profit and Loss account to disclose the operating results of the period covered in the statement. These statements are submitted to the Auditor for checking and commenting. He checks the accounts with utmost diligence and care and also with professional competence. He verifies the accounts as to whether they are prepared as per the recognized accounting policies and practices, and also in conformity with the relevant statute.

**(ii) To see whether the financial statements reveal the true and fair view of the state of affairs of the business concern:** Auditor checks the financial statements submitted to him as to whether the facts given in Balance Sheet and Profit & Loss Account are true based on the checking the forms and independent judgment and opinion about the reliability of the accounting records and true and fair view of financial state of affairs and working results.

### 1.7.2 Secondary Objects

The secondary objectives as depicted in Fig. 1.1 are detailed hereunder.



#### A. Detection and Prevention of Errors

Generally, errors arise out of the innocence or carelessness on the part of those responsible for the preparation of accounts. Sometimes, errors may be the outcome of fraudulent manipulation of accounts. Therefore, the auditor must pay particular attention to every error. *The following are the various types of errors:*

##### (a) Clerical Errors

Clerical errors are those that are committed in posting, totaling and balancing. Such errors may again be subdivided into two namely.

**(i) Errors of Omission:** The errors of omission arise when a transaction is wholly or partly omitted from being properly recorded in the books. Usually, it arises due to the mistake of clerks. When a transaction is totally omitted from the books, it is “**Complete Omission**”. It will not affect trial balance and hence becomes more difficult to detect. This type of errors can be detected by careful scrutiny. Omission of entering purchases and sales entirely resulting in complete omission of the both aspects of an entry, omitting the entry for charging depreciation in the books, rent outstanding for the 12<sup>th</sup> month has not been recorded in the books, *etc.*, can be cited as examples here. Due to mistake, carelessness or oversight, clerks may omit to enter these transactions totally. They are unintentionally

made, hence can be detected only by careful checking and verification. On the other hand, when a transaction is practically recorded, it is called "**Partial omission**". Such kind of errors may affect Trial balance. They can be easily detected because of the disagreement of the trial balance. Omission of cash receipts/cash payments to be posted to the ledger from the cash book, entry from sale omitted from the account of the customer, total of sales day book omitted to be posted to sales account, etc., can be cited as examples here. In all these cases, as only one aspect has been omitted, it will affect the Trial Balance and the omission will easily be detected. Some of the errors of omission are easily detected. For example, if the number of rent or salary entries for a year is less than 12, the auditor can easily locate the omission. The errors of omission whether intentional or otherwise will affect the profit or loss of the year.

**(ii) Errors of Commission:** Sometimes, entries are made in the books of original entry or ledger incorrectly either partially or wholly. Such errors are called error of commission. Usually, these errors arise due to negligence in recording of transactions in the books of accounts. Such errors may or may not affect the Trial Balance, Profit & Loss Account and Balance Sheet. They may be intentional or otherwise. *Following are the examples of errors of commission:*

- A sale of ₹ 500 is entered in the sales book as ₹ 50 (*i.e.*, Incorrect Recording). It does not affect the Trial Balance.
- Sale of ₹ 100 may be written as ₹ 10 to the debit of the customer's account, thus debiting ₹ 90 less than the real figure (*i.e.*, Incorrect Posting). The effect of this erroneous posting on the Trial Balance would be that the debit side would be short by ₹ 90 and it would show the difference.
- The balance of ₹ 125 on the debit of an account may be carried forward to the debit column of the Trial Balance as ₹ 115 or ₹ 250, and even ₹ 125 may be written to the credit column of the Trial Balance, thus entering the correct figure against this account but in the column (*i.e.*, Errors in Carrying Forward Totals to Trial Balance).

### **(b) Errors of Principle**

Errors of principle arise when the entries are recorded against the fundamental principles of accountancy. Wrong allocation of expenditure between capital and revenue, valuation of assets against the principles of bookkeeping, providing inadequate depreciation, wrong provision for doubtful debts, ignoring the outstanding assets and liabilities, posting the transactions to wrong class of accounts, *etc.*, can be cited as examples for errors of principle. Such errors can be committed either intentionally or unintentionally. If they are committed intentionally, the object here is to manipulate the accounts with an ultimate purpose either inflating or deflating the profits. As they affect the Profit & Loss Account and Balance Sheet, the auditor must pay particular attention towards this kind of error. They are not disclosed by Trial balance or by Routine Checking. In order to detect them, auditor has to carry out independent searching and exhaustive scrutiny, as these are very serious mistakes affecting business to a great extent.

### **(c) Compensating Errors**

Compensating errors are also known as offsetting errors. An error compensated or counterbalanced by another error is called as Compensating errors. In case of compensating

errors, the adverse effect of one on debit side or credit side is neutralized by that of another on credit or debit side. *Following are the examples of such errors:*

- A's account is debited with ₹ 100 short and credit side of his account is undecast by ₹ 100.
- Sales ledger is undercast by ₹ 1,000 and purchase ledger also undercast by ₹ 1,000.

Compensating errors will not affect the Trial Balance and as such, will not be detected easily. These errors may or may not affect the Profit & Loss Account. These errors can be detected by checking the totals, posting and casting. A thorough and exhaustive preparation on the part of the auditor will help to detect such errors.

#### **(d) Errors of Duplication**

Errors of duplication arise when an entry in a book of original entry has been made twice and has also been posted twice. These errors do not affect the agreement of Trial Balance, hence cannot be located easily. For example, invoice sent in duplicate entered twice in the books and posted twice in the Ledger. Only thorough checking and comparing vouchers with entries in the books of original entry will reveal such errors.

#### **B. Detection and Prevention of Frauds**

Various terms like fraud, embezzlement, defalsification and misappropriations are often used in a confused way. Hence, it is desirable to understand the exact meaning of each term. Fraud may be referred to intentional misrepresentation of financial information by one or more individuals among management, employees, or third parties. *It may involve:*

- Manipulation, falsification, or alteration of records of documents.
- Misappropriation of assets.
- Suppression or omission of effect of transactions from records or documents.
- Recording of transactions without substance.
- Misapplication of accounting policies.

Errors are unintentional mistakes whereas frauds are intentional mistakes. The term is defined by **Kohler** in the "**Dictionary for Accountants**" compiled by him. Other authors also define the term fraud. We shall now see some of the definitions for the term fraud.

### **1.8 FRAUD**

Fraud is the successful practice of deception (deceiving) of artifice (skillfully) with intention of cheating or injuring another. — **L. Kohler**

The AICPA, in its statements on auditing standards declares, "fraud encompasses an array of irregularities and illegal acts characterized by intentional deception". — **AICPA**

"Fraud is the intentional misrepresentation of financial information by one or more individuals among management, employees or third parties".

— **The International Auditing Guidelines (IAG) of the International Federation of Accountants**

As per AS 240, "The auditor's responsibilities relating to fraud in an audit of financial statements". Two types of intentional misstatements are relevant to the auditor's consideration of fraud misstatements:

- (a) **Fraudulent Financial Reporting:** It involves intentional misstatements or omissions of amounts or disclosures in financial statements to deceive financial statements users. Fraudulent financial reporting may involve:
- Deception such as manipulation, Falsification or alteration of accounting records or supporting documents from which the financial statements are prepared. For example, in a period of rising prices, sales contract documents may be antedated to record sales at prices lower than the prices at which sales have actually taken place.
  - Misrepresentation or intentional omission from the financial statements of events, transactions or other significant information. For example, goods sold may not be recorded as sales but included in inventories.
  - Intentional representation of accounting principles relating to measurement, recognition, classification, presentation or disclosure. For example, where a contracting firm follows the completed contract method of accounting but does not provide for a known loss on incomplete contracts.
- (b) **Misappropriation of Assets:** It can be accomplished in a variety of ways (including embezzling receipts, stealing physical or intangible assets, or causing an entity to pay for goods and services not received); it is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing.

### 1.8.1 Characteristics of Fraud

**The Institute of Internal Auditors** beautifully explains the characteristics of fraud as follows:

- (i) Fraud consists of an array of irregularities and illegal acts characterized by intentional deceiving. People inside the organization or outside the organization can commit fraud. Similarly, it may aim to benefit the organization or to benefit some other person at the expense of the organization.
- (ii) Fraud committed for the benefit of the organization involves explanation of an unfair or dishonest advantage. Such frauds generally produce the desired benefits but involve deceiving of an outside party. The persons who commit such frauds for the benefit of the organization are also benefited indirectly. For example, tax frauds, intentional failures to disclose significant information to impress outsiders about the financial position of the company, intentional improper valuation of the assets and liabilities, illegal contribution to political parties, etc. The people in the helm of affairs commit these frauds. Hence, the auditors will not be called upon to probe into such irregularities generally.
- (iii) Fraud committed to the detriment of the organization, generally for the benefit of an employee or an outsider, another firm either directly or indirectly. For example, acceptance of bribes, diversion of a potentially profitable transaction which will produce some profit to the company in favour of another persons or another firm or to an outsider. By using inside information, these frauds are committed. Some of the frauds committed by utilizing inside information cannot be penalized even if it is detected. Other frauds like embezzlement, defalsification, misappropriations, etc. also come under this category but the parties involved can be punished. The auditors are generally asked to investigate into these types of frauds and report thereon.

### 1.8.2 Forms of Fraud Committed against the Interest of the Company

It is already stated that the frauds are committed carefully in a variety of methods. *The most usual forms of frauds committed against the interest of the company are:*

- Acceptance of bribe.
- Using inside information against the interests of the company.
- Embezzlement or misappropriation of the firm's assets for personal use.
- Manipulation of accounts.
- Improper payment for goods not supplied.
- Submission of claims for services, which are not actually rendered to the organization.

These types of frauds are a financial loss to the company. Hence, in most cases, the auditors are called upon to investigate into these types of frauds. Moreover, it is also desirable to prevent such frauds before being committed.

Detection of fraud is one of the important duties of an auditor. In fact, auditing is conducted with a view to detect fraud wherever it is suspected. *Frauds may be divided into three categories as below:*

- (a) Embezzlement or misappropriation of cash.
- (b) Misappropriation of goods.
- (c) Fraudulent and manipulation of accounts.

**(a) Embezzlement/Misappropriation of Cash:** Cash is misappropriated by theft or cash receipts, petty cash, cheques and other negotiable instruments and showing fictitious payments to workers, creditors, purchasers, etc. Misappropriation of cash is easy affair. A person with a little effort can misappropriate cash. There is a greater possibility of embezzlement of cash in big business houses where there is not much direct contact between the owners of the business and the person handling the cash. Particularly when a person is not subject to any form of check, such person will have number of opportunities to commit fraud. However, in case of small business concerns, the possibility of frauds remaining undetected is remote because of close and direct contact between the owner and the person handling the cash. Hence, in big business concerns, strict control should be exercised over the receipt and payment of cash so that the work of one clerk is automatically checked by another clerk. Such a system is known as "Internal Check System". It shall be dealt elaborately in a subsequent chapter.

**Following are the some of the examples of misappropriation of cash:**

- Omitting to enter cash, which has actually been received.
- Entering fewer amounts than what has been actually received.
- Omitting to record sales and taking the money received from customers for such sales.
- Concealing money received from first customer and entering in his account when the cash received from second one and so on. This is popularly known as teeming and lading.
- Making fictitious entries for the items like discounts, returns, bad debts, etc. in the accounts of customers.
- Recording fictitious purchases and misappropriating the cash involved.
- Suppressing credit notes received from creditors for purchase returns and discount.
- Misappropriating money recorded as wages in the wages sheet by entering dummy names of worker therein.



- Overvaluation or undervaluation of stocks.
- Undervaluation or overvaluation of assets and liabilities.
- Providing less depreciation or more depreciation or not providing for any depreciation.

## 1.9 FUNDAMENTAL POSTULATES OF AUDITING

Postulates are fundamental truths or assumptions of a theory which are required to be accepted without proof. These assumptions help to explain the meaning of auditing principles. The basic postulates of financial auditing theory as formulated by Mautz and Sharaf in their book "The Philosophy of Auditing" in 1961 are as follows:

- (i) Application of recognized accounting principles would result in fair presentation.
- (ii) Financial statements and financial data are verifiable.
- (iii) The financial statements are free from collusive and other unusual irregularities.
- (iv) There is no conflict of interest between the auditor and the management of the entity.
- (v) The existence of a satisfactory system of internal control eliminates the probability of irregularities.
- (vi) In the absence of clear evidence to the contrary, what was held true in the past for the entity will hold true in the future.
- (vii) The professional status of an independent auditor imposes commensurate professional obligations.
- (viii) When examining financial data, the auditor acts exclusively in the capacity of auditor.

## 1.10 BASIC PRINCIPLES GOVERNING AN AUDIT SA 200 (AAS1)

### (i) Integrity:

- Honest and straightforward.
- Auditor not to practice dishonest means for satisfying client's requirement.

### (ii) Confidentiality:

- Not to provide information about the clients to third parties.
- Also covered by CA regulations.
- If required by law, he may disclose information with the consent of client.

### (iii) Objectivity

It Refers to purposefulness.

- To conduct audit keeping in mind secondary and primary objectives.
- He must be fair and must not allow prejudice or bias to override his objectivity.

### (iv) Independence

- Should not be capable of being influenced by anybody.
- Relevant for judging opinion on view presented by financial statements.

**(v) Skill and Competence**

- Be capable of applying the skill in practical situation.
- Update and upgrade knowledge in the relevant fields.
- The audit should be performed and the report prepared with due care by professional persons who have adequate training, experience and competence in auditing.

**(vi) Audit Planning**

- Audit be based on proper planning.
- The plan of audit must be developed before commencement of audit.
- It also includes programming.

**(vii) Audit Evidence**

- Audit be conducted by considering evidences through the performance of compliance and substantive procedures to enable him to draw reasonable conclusions therefrom on which to base his opinion on financial information.
- Evidence is available in the form of books, records and vouchers.
- It is available from internal and external sources.

**(viii) Audit Documentation**

- Auditor to record his observation of findings in working paper.
- To be maintained at Auditor's Office.

**(ix) Using the Work of Others**

- Involvement of other experts in the audit of financial statement.
- Auditor to use the work of other intelligently.
- The auditor should obtain reasonable assurance that work performed by others auditors or experts is adequate for his purpose.

**(x) Evaluation of ICS and AS**

- Client's responsibility to introduce ICS which includes AS.
- Auditor to evaluate the system before commencing audit.
- It is useful for Audit to determine the extent of checking and nature of audit procedure.

**(xi) Audit Conclusiveness**

- Formation of opinion.
- Report in specific format.
- Address to specific authority.
- Adequate disclosure of all material facts.

### 1.11 SCOPE OF AN AUDIT

The scope of an audit of financial statements will be determined by the auditor for having regard to the terms of the engagement, the requirements of relevant legislation and the pronouncements of the institute. As per SA 200, “overall objectives of the independent auditor and the conduct of an audit in accordance with standards on auditing”, the purpose of an audit is to improve the degree of confidence of intended users in the financial statements constraints on the scope of the audit of financial statements that impair the auditor’s ability to express an unqualified opinion on such financial statements should be set out in his report and a qualified opinion or disclaimer of opinion should be expressed as appropriate.

While the SAs include requirements and guidance in relation to such matters to the extent that they are relevant to forming an opinion on the financial statements, the auditor would be required to see that whether the relevant Information are properly disclosed in financial statement.

### 1.12 CONCEPT OF INDEPENDENCE OF AUDIT

- Independence is a state of mind.
- Should exist at all times.
- Existence enhances transparency.
- Auditor not to be influenced by the client.
- Auditor not to have vested interest in client’s business.

Companies Act 1956 contains following provisions regarding independence.

- (i) Auditor (other than 1<sup>st</sup> auditor) to be appointed by shareholder.
- (ii) Shareholder not to delegate power to board.
- (iii) Casual vacancy due to resignation to be filled only by shareholder.
- (iv) Central government’s sanction compulsory for removing auditor prior to completion of terms of office.
- (v) Sometimes special resolution to be passed to remove auditor.
- (vi) Officer/employer of company not to be appointed as Auditor.
- (vii) Shareholder of company cannot audit accounts.
- (viii) Indebtedness exceeding ₹ 1,000 to company results in disqualification.
- (ix) Scope of Auditor cannot be reduced either by director or shareholder.
- (x) Relative of director can be Auditor provided he discloses the nature of his interest.

### 1.13 DIFFERENCE BETWEEN AUDITING AND INVESTIGATION

| <i>Auditing</i>  | <i>Investigation</i>  |
|--|---|
| (i) Audit is conducted to see whether the Balance Sheet is properly drawn up and it shows true and fair view of state of affairs of the business and Profit and Loss Account of operating results during the year. | (i) Investigation is conducted with some specific objective such as investigating the future earning capacity, financial position, extent of fraud and misrepresentation, etc.  |
| (ii) Audit of accounts is usually conducted for a year.  | (ii) Investigation normally covers several years say 2, 3 or 5 years.   |
| (iii) Audit is conducted on behalf of the proprietor of the business concern.  | (iii) Investigation may be normally carried out on behalf of the outsiders who either want to purchase the business, to become partners, to advance loans or to purchase shares of a firm. Sometimes, it is conducted on behalf of the proprietor also. |
| (iv) Audit of accounts is a statutory requirement as per the Companies Act, 1956.  | (iv) Investigation is not a statutory obligation under the Companies Act, 1956.   |
| (v) Ordinarily investigated accounts are not audited.  | (v) Investigation is usually carried on after the books of accounts are subjected to regular audit.   |
| (vi) Only a Practicing Chartered Accountant can conduct audit.   | (vi) Investigator need not necessarily be a Chartered Accountant.   |
| (vii) Audit report is prepared as per the requirements of the Act.   | (vii) Investigation report is prepared as per the requirements of situation.  |
| (viii) Report of auditing is widely used.  | (viii) Investigation report is useful only to the client.   |

### 1.14 ADVANTAGES OF AUDITING

- Audited accounts are of great *help to the partnership* at the time of admission or death of partner.
- It *assesses the adequacy of the accounting system* in order to ascertain its effectiveness in maintaining accounting records of an organization.
- It is helpful to government to *verify before granting assistance* or issue a licence for a particular trade.
- Audited accounts are more *reliable* as evidence in the court of law.

- It act as a basis for *negotiating higher wages or bonus* for the employees.
- It serves as a *check on the integrity* of person at the helm of affairs.
- It is useful for *settling trade disputes* with workers and settling disputes by arbitration.
- It serves as a *basis for determining amount receivable or payable* in certain situation.
- It serves as a *basis for obtaining loans from banks and financial institutions*, for preparation of tax returns and various similar purposes.
- It serves *as a basis for establishment and improvement in the control system*.
- It acts as a *moral check on the employees from committing defalcations or embezzlement*.
- It *safeguards the financial interest of persons who are not associated with the management of the entity*, whether they are partners or shareholders.
- An audit can also help in the detection of wastages and losses to show the different ways by which these might be checked.
- Audited statements are necessary to fulfill certain legal obligations. For example, for raising capital in primary markets, for fulfilling listing requirements on stock exchanges etc.
- The future trend of the business can be assessed with certainty from the audited books of account.
- The audited account serves as a basis to determine action in bankruptcy and insolvency cases.
- Comparison can be made between the accounts of the current year and other years.
- Audited accounts are helpful in claiming reasonable compensation from the insurance company in respect of loss by fire or burglary, etc.
- Errors and frauds are detected and rectified.
- Audited accounts are more reliably accepted as a correct and authentic record of the transaction.

### 1.15 DISADVANTAGES OF AUDITING

- The auditing does not reveal the complete picture.
- It is more like a post-mortem examination.
- The auditing does not give any guarantee as to correctness of the financial statement of a concern.
- The audited accountants may be incorrect sometimes.
- The internal control suffers from certain inherent limitations.
- The auditing of books of accounts, in practice, may not serve the real purpose unless and until the auditors are quite independent and bold enough.
- Often, the audit work is undertaken by auditor in a biased way and he is not able to remain independent, in practice, even though he wants to remain so.
- An auditor has to rely upon them and if the certificate has been given wrongly, the report submitted by him may not be correct.

Legally, audit or auditing is the process carried out, at the end of the period under audit, which is:

- A critical and intelligent examination of the books of accounts,
- Verification of correctness of accounts, with relevant vouchers and documents in order to ensure that the entries in the books have been made correctly and

- That the profit and loss account and the balance sheet have been properly drawn up so as to exhibit a true and fair view of the state of affairs of an organization and the profit or loss for the period.

### 1.16 OTHER QUALITIES OF AN AUDITOR

| <i>Knowledge based qualities</i>  | <i>Personality based qualities</i>   |
|---|--|
| <p>The auditor should have knowledge of the following:</p> <ul style="list-style-type: none"> <li>• General economic trends.</li> <li>• Taxation law — direct and indirect taxes.</li> <li>• Client, nature of business and its peculiar features.</li> <li>• General principles of law of contracts, partnerships, companies etc.</li> <li>• Auditing standards, procedures, techniques and principles, assets.</li> <li>• Accountancy, its principles, techniques, accounting standards, etc.</li> <li>• Specific statutes and provisions applicable, e.g., Companies Act, Cooperative Societies Act, etc.</li> </ul> | <p>The auditor is expected to be:</p> <ul style="list-style-type: none"> <li>• Tactful, Cautious, Having good temperament.</li> <li>• Having managerial capabilities, judgmental power and patience.</li> <li>• Clear headed, reasonable, Reliable and trustworthy.</li> </ul> |

### 1.17 QUALITIES OF AN AUDITOR

According to company ordinance 1984, a person shall not be qualified for appointment as an auditor of a company unless he is a Chartered Accountant. An auditor should possess a thorough knowledge of the theory of financial accounting and cost accounting. He should have a practical knowledge of commercial procedures, business organization, accounting methods, finance, and taxation principles. He should be a man of integrity and honest as well as being skilled in his profession. His work required balanced judgement and analytical thinking on the evidence put before him. He must be an unbiased judge and not an advocate. His decision should be correct and tactful. He should receive full information of a particular business and keep it secret.

#### Qualities of an Auditor:

The qualities in an auditor are as under:

**1. Professionally competent:** An auditor must have a complete and exhaustive knowledge of the accountancy. To understand the accounting explanation, he can apply his knowledge and skill. He must know the method of audit taxation and law of his country.

**2. Up-to-date knowledge:** An auditor's knowledge of auditing must be up-to-date. He must have a thorough training in business organization, management and finance. He must know the general principles of economics, business and other subjects relating to auditing.

**3. Honesty:** An auditor must be honest. He must not report what he does not believe to be true and he must take a reasonable care and skill before he believes that what he certifies is true.

**4. Intelligent:** It is an important quality of an auditor that he should be brilliant. He must be able to know the technical details of any business.

**5. Tactful:** In a particular situation, auditor should deal properly. He should ask the questions in such a way that it does not show about his ignorance or weakness. He must have the tact of putting intelligent questions to extract full information.

**6. Qualification:** According to Company Ordinance 1984, the essential qualification for professional is that he must be a chartered accountant.

**7. Critical attitude:** It is also very important quality of the auditor. He should examine the statements critically. He should ask various questions to the client and try to find contradictions.

**8. Maintain secrecy:** The auditor nature of work is confidential. He should maintain secrecy from other about the affairs of his client.

**9. Bold and courageous:** Auditor should be courageous and bold person. He should not be effected by any authority. He should pass the courage to face the difference of opinion between him.

**10. Courteous:** It is an important quality. The staff of client should be very humble and polite. He should also stress on his own staff to be courteous with the client.

### **Lets Sum Up**

- *The word audit is derived from Latin word "Audire" which means "to hear". In olden times when owners of a business suspected fraud, then appointed people who were concerned with the checking of the accounts.*
- *The dictionary meaning of audit is official examination of accounts. In brief, it is defined as the systematic examination of books of account and records of a business so as to check the reports.*
- *The essential features of auditing are accounting control, protecting, assurance, analyzing and reporting.*
- *The primary object of an audit is to promote efficiency and accuracy in accounting. For achieving the primary objectives, certain subsidiary objectives are to be realized, which include detection of errors and frauds and prevention of errors and frauds.*
- *Errors are the product of carelessness on the part of the person preparing the accounts. It can be of different types – errors of commission, error of omission, compensating errors and errors of principle.*
- *AAS-1 describes the basic principles governing an audit which are useful in achieving the objective of true and fair view.*
- *Auditing postulates are those which are assumed to be true and have its procedural aspects too.*
- *Auditing has a number of advantages which include sales tax payments, quick discovery of errors and frauds, moral check on employees, etc.*
- *Auditing has a lot of demerits also which include problem of dependence, existence of error in the audited accounts, etc.*
- *The auditor should possess a lot of good qualities, which include professional, inherited, general and acquired.*

|                         |
|-------------------------|
| <b>REVIEW QUESTIONS</b> |
|-------------------------|

**Short Questions**

1. Define auditing.
2. Define errors of commission and omission with examples.
3. State the characteristics of fraud.
4. State the circumstances where misappropriation of cash takes place.
5. Differentiate between auditing and accountancy.
6. What are the objectives of an independent audit? *(Madurai, B.Com.)*
7. Distinguish between auditing and investigation.
8. Briefly explain the fundamental postulates of auditing.
9. Discuss the concept of materiality in auditing.
10. "Auditor is a watchdog and not a bloodhound." Explain.
11. (a) Can a fraud be committed through an accounting procedure?  
(b) Is auditing a guarantee that there is no undisclosed fraud?  
(c) What are commonly used measures for prevention of frauds?
12. State the advantages and disadvantages of auditing.
13. State the objectives of auditing. *(Utkal University, B.Com. (Pass.), 2009)*

**Long Questions**

1. Define auditing. Discuss its scope and nature or features.
  2. "Accounting is a necessity while auditing is a luxury for a business enterprise." Do you agree? Give reasons for your opinion and examine critically the role of auditing in the efficient, honest and economical conduct of a business. *(University of Jodhpur, B.Com., 1998)*
  3. (a) Describe briefly the main classes of errors and frauds. Is the auditor expected to detect all errors and frauds? *(Delhi University, B.Com. (Hons.), 2000),  
(B.Com. (Pass.), 2003), (Mumbai University, B.Com., 2003)*  
(b) Can the auditor prevent such errors and frauds?
- or
3. "Detection and prevention of errors are the main objects of auditing." Discuss it fully and explain the duties of an auditor in this regard.
  4. Auditing is a dynamic social science- comment.
  5. "Fraud doesn't necessarily mean misappropriation of cash or goods". Discuss giving illustrations.
  6. Define an audit and state the various objects of an audit. *(Osmania, Calcutta, Gauhati, B.Com.)*
  7. "Teeming and lading is a process of misappropriating cash." Explain the statement with example.
  8. "Auditing can be termed as accounting control." Explain the statement.

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9. "Accounting begins where book-keeping ends and where accounting ends auditing begins."  
Discuss. *(Lucknow, B.Com.)*
  10. Discuss the basic principles governing audit.
  11. Evaluate the following statements:
    - (a) Every business entity should have an annual audit by a qualified auditor. To forgo an audit because of its cost is false economy.  
*(Delhi University, B.Com. (Hons.), 2004)*
    - (b) Although auditing and accounting are related, they are distinct from each other.  
*(Delhi University, B.Com. (Hons.), 2004)*
  12. Define auditing. State the objectives of auditing and point out the limitations of auditing.  
*(Ravenshaw University, B.Com. (Hons.), 2016)*
  13. Distinguish between:
    - (a) Accounting and auditing
    - (b) Auditing and investigation *(Ravenshaw University, B.Com. (Hons.), 2016)*
  14. Discuss about the Evolution, growth and development of audit and how is it associated with accounting. Comment on limitations of this.  
*(Ravenshaw University, B.Com. (Hons.), 2015)*
  15. State the meaning of auditing and discuss its advantages and limitations.  
*(Ravenshaw University, B.Com. (Hons.), 2014)*
  16. What is the importance of auditing and what are the major forces responsible for increasing scope of audit today? Outline the principles of governing an audit.  
*(Sambalpur University, B.Com. (Hons.), 2018)*
  17. Define auditing. Discuss its objectives. *(Utkal University, B.Com. (Pass.), 2018)*
  18. Describe briefly the main classes of errors and frauds. Is the auditor expected to detect all errors and frauds? *(Delhi University, B.Com. (Hons.) 2000; B.Com. (Pass.), 2003),  
(Mumbai University, B.Com., 2003)*
  19. Define an audit and state the various objects of an audit.  
*(Osmania, Calcutta, Gauhati, B.Com.)*
  20. Write Brief Notes On:
    - (a) Accountancy vs. Auditing *(Utkal University, B.Com. (Pass.), 2010)*
  21. Define auditing and discuss its objectives. What are the limitations of the auditing process?  
*(Utkal University, B.Com. (Pass.), 2005)*
  22. What are the objectives of auditing? Explain the necessity, advantages and disadvantages of auditing.  
*(Utkal University, B.Com. (Pass.), 2007)*
  23. What do you mean by auditing? Discuss the advantages and disadvantages of auditing to a partnership firm.  
*(Utkal University, B.Com. (Pass.), 2006)*

**PRACTICAL EXAMPLE**

Nandesh, Santanu and Pawan are partners in a firm of construction business. Since commencing in business in 15 months ago, they have been fairly successful. Nandesh who has a Diploma in Business Management as well as in building constructions has kept the books and Nandesh has also prepared the first year's accounts.

Three partners are discussing these accounts, which show a profit in excess of drawings. Santanu and Pawan suggest that they could draw out the excess but Nandesh counsels caution, talking about working capital needs, which confuses the others. Pawan questions Nandesh on his interpretation of the partnership agreement, which is a fairly complicated document and suggests that they should pay to have the accounts audited. Nandesh gets upset and says that it would be a waste of money and he is perfectly capable of maintaining the accounts and will not charge his partners for his work.

**Try to Answer:**

- What benefits would the partners get from employing an independent auditor?
- Where would they find a suitable auditor?



***“They were auditing us, and if something was wrong I figured, somebody would say something to me.”***

*~ Kelvin Sampson*

