SYLLABUS

B.Com - III Year

Subject – Auditing

UNIT – I	Introduction: Meaning and Nature of Auditing Objectives. Limitations, Classification of Audit, Errors and Frauds, Code of Conduct & value System for Auditors Audit Plan & Program
UNIT-II	Internal Control and Internal Check: Meaning and objectives, Features of a good Internal Control system. Internal Control Questionnaire, Checklist, Text. Internal Audit, Test checking, Audit Sampling
UNIT-III	Vouching and Verification: Vouching - Meaning and Objective Verification - Assets and Liabilities
UNIT-IV	Audit of Companies: Audit of company under Company Act 2013, Appointment, Remuneration of Auditor, Rights & Duties of auditor, Auditor's report.
UNIT-V	Special Areas of Audit: Cost Audit, Tax Audit, management Audit, Performance Audit, Social Audit, Environmental Audit, Audit of Banking & Insurance Company, Audit of Educational Institute, Club & Charitable Organisation.

UNIT-I

INTRODUCTION

Meaning of Auditing - According to AAS-1 An audit is an independent examination of financial information, of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to, expressing an opinion thereon.

The person conducting audit is know as the auditor, he makes a report to the person appointing him after due examination of the accounting records and the accounting statement in the form of an opinion on the financial statements. The opinion that he is called upon to express is whether the financial statement reflects a true and fair view.

A complete and comprehensive definition : "Auditing is a critical examination of the books of accounts of an organization, which is conducted by an independent individual skillfully on the basis of vouchers and other information, with an object to reporting that the profit and loss account prepared for a certain period expresses the true and fair profit or loss of the organization and the balance sheet of the organization, prepared on a certain date, depicts a true and fair picture of the financial position of the organization on the particular day".

Definition:

R.B. Bose : "Audit may be said to be the verification of the accuracy and correctness of the books of accounts by an independent person qualified for the job and not in any way connected with the preparation of such accounts.

Advantages of an Audit:

(a) Safeguards the financial interest of persons who is not under management of the entity, i.e., partners or shareholders.
(b) Acts as a moral check on the employees from committing frauds and errors.
(c) Helpful in setting liability for taxes, negotiating loans and determining the purchase consideration for a business.
(d) Useful for setting trade disputes whether it is a matter of performance bonus or increment or it is claim for the damages due to fire or other accident.
(e) Discover the areas of wastages and losses occurring due to the absence or inadequacy of internal checks or internal control measures.

(f) Audit report generally state the fact that whether proper books of account and related records have been properly kept so as to make the deficiencies or inadequacies good in this respect.
(g) As an appraisal function, audit reviews the existence effectiveness and continuity of various controls in the organizations and reports weaknesses, inadequacies, etc., in them.
(h) Audited accounts are of great help in the settlement of accounts at the time of admission or dissolution or death or retirement of partner.

The objectives of audit:

1. Examination of the Truth and Fairness of Final Accounts :
2. Discovery of Errors :
3. Detection of Fraud :
4. Prevention of Frauds and Errors :
5. Advice to Management :
6. Ascertaining true Financial Position of Business :
7. Objectives determined by International Auditing Practices Committee :

Types of Audit:

(1) On the basis of need of audit

a. External Need b. Internal Need

(2) On the basis of period of audit

(a) Continuous Audit (b) Interim Audit (c) Final/Annual Audit

1. **On the basis of Need:**

a. The auditor appointed to satisfy the internal or managerial needs of the organization is known as INTERNAL AUDITOR. According to AAS-7 The internal audit function constitutes a separate component of internal control established with the objective of determining whether other internal controls are well designed and properly operated.
b. The auditor appointed to satisfy the External Needs of the organization is known as EXTERNAL AUDITOR.
c. If external need is a statutory need the same external auditor is known as STATUTORY AUDITOR. For example :

2. On the basis of Period of Audit:

A. Continuous audit - A continuous audit is one where the auditor or his staff is constantly engaged in checking the accounts during the whole period or where the auditor or his staff attends at regular or irregular intervals during the period.

The following features of continuous audit come to light on analysis of the above definition.

(a) It is carried throughout the year.
(b) It is conducted at regular or irregular intervals depending on auditors professional judgment.
(c) The accounts are taken for scrutiny as and when prepared.
(d) Final accounts i.e. trial balance, profit and loss account and balance sheet are audited at the end of the year.

Advantages of Continuous Audit:

(i) Exhaustive and intensive.
(ii) Greater possibility of exposure of errors and frauds.
(iii) Early detection of errors & Frauds.
(iv) Moral impact on employees.
(v) Quick preparation of final accounts.
(vi) Early planning for future.
(vii) Proper advice of auditor
(viii) Early rectifications of errors.
(ix) Facility for interim accounts.

Disadvantages of Continuous Audit:

(i) Possibility of change in audited accounts.
(ii) Snags in routine work.
(iii) Adverse moral impact
(iv) More expensive
(v) Dislocation of sequence of work.
(vi) Mechanization of work
(vii) Sloth in work.

B. Annual Audit : Annual audit is one which is carried out only at the end of an accounting period, spicer and pegler have defined it as. An audit which is not commenced until after end of the financial period and is then carried on until completed. Annual audit is also called periodical, final or completed audit.

Characteristics: The main Characteristics of annual audit are as follows :

(a) It is done at the close of the financial year books of account have been closed and final accounts drawn by the management of the entity.
(b) The audit work is completed at a stretch i.e. in a single continuous session.
(c) Generally this type of audit suitable to small organizations.

C. Interim Audit : An audit conducted between two annual audits is called interim audit. More commonly it is known in case of banks as half yearly review. Interim audit helps management to take timely and appropriate decisions for example declaration of interim dividend or valuation of shares to decide swap ratio in case of a merger. Interim audit is gaining statutory status now a days various regulating authorities like SEBI and RBI requires periodic audited financial statements in between the to annual audited financial statements. However, it is generally carried out by professionally qualified auditors.

Limitations of Audit

1. Auditing does not guarantee 100% correctness.
2. All frauds are not necessarily disclosed by audit.
3. The auditor expresses only his opinion.
4. Auditing is not a credential of the perfect honesty of employees.
5. Auditing does not certify the commercial prudence of transactions.
6. Auditing does not pay attentions to trivial.
7. Auditing is not supported by practical independence.

❖ Audit Process:

The steps in audit process is :

1. Appointment of auditor
2. Determination of Objective and Scope of audit
3. Obtaining Knowledge of Clients business
4. Evaluating accounting system, Internal control and Audit risk.

5. Audit Planning and programming, Determining the nature timing and extent of audit procedure and co-ordination of work.
6. Collection of audit evidence
7. Drawing conclusions and making report.

❖ Preparation of Audit Programme:

Audit programme is a description, memorandum or outline of the work to be done in an audit and often of the time allotted and personnel assignments, prepared by a Principal as a definition of audit scope, or by an auditor for the guidance and control of assistants. It is the auditors plan of action, specifying the procedures to be followed.

Objects of audit programme :

a. To obtain informations regarding the accounting system, policies and control techniques of the client.
b. To ascertain the extent to which internal control techniques can be banked upon.
c. To lay down the nature, time and extent of audit techniques to be adopted.
d. To co-ordinate the total work.

Characteristics of good audit programme

i. Explicit and clarity of expression.
ii. Segmentation of work in the light of different aspects of accounting.
iii. Logical flow of accounting documents
iv. Elasticity
v. Review of work
vi. According to scope of audit
vii. Based on evidences
viii. Record of movements and accomplishments.

Advantages of audit programme :

i. Division of work as per ability

ii. Determination of responsibilities

iii. Progress of work

Disadvantages :

i. Mechanisation of work

ii. No motivation for free decision

iii. Want of constructive thinking

iv. Change of employees won't affect work

v. Uniformity in work

vi. Protection in court of law

vii. Complete examination

viii. Time saver

ix Facility of review

x. Pursuance of audit principles

iv. Want of moral influence

v. Planned frauds are undisclosed

vi. Disabilities remain concealed

vii. Plea against auditor

- **Audit working papers:**

Audit working papers are personal written materials which an Auditor prepares with regard to all audits and contains techniques adopted by the auditors, his decisions and conclusions and relevant information regarding financial statements.

Some papers included in Audit Working Papers;-

1. The agreement regarding the appointment if the auditor or letter of appointment
2. Technical Features of the audited business.
3. Audit Programme
4. Certificates of officials in regard to such important matters as bad debts, valuation of stock, unpaid expenses, accrued income etc
5. Certificate issued by the banks in regard to the bank balance of the client certain date, safe custody of documents etc.
6. Correspondence between the auditor and the debtors, creditors, etc. the client.
7. Rough trial balance.
8. Important extracts from the minute books
9. Particulars of investment.
10. Draft final accounts.
11. A copy of the auditors book.

Objects of keeping Audit-Working Papers;-

1. Certification of the correctness of record and report
2. Use as references, during discussion with the employer.

3. Defensive position of the auditor in case of legal dispute and court proceedings.
4. Guide for Subsequent examinations.
5. To co-ordinate and organize the work of audit clerks.

Ownership of Audit-Working Papers :-

These are the property of the auditor, whether prepared by him or presented to him by the owner of the business and therefore must be kept in safe custody.

Filing of Audit-Working Papers is a necessity. The auditor keeps these papers for his defense, reference, future guidance and as a proof of his. According to section 209 of the Indian Companies Act 1956, the books of accounts of a company must be kept safe up to 8 years after the relevant year.

- **Audit Note Book;-**

An important component of Audit-Working papers is audit note- book basically maintained by the audit clerk in which he notes down the important points and enquires which he has to refer to officials clients or to discuss with his senior or the auditor himself.

Contents of audit note book:

1. Technical details about the business.
2. Queries for which explanations and information have to be demanded.
3. Missing vouchers and invoices whose duplicates have to be obtained.
4. Fraud and errors found in the books during the course of audit.
5. Details to be included in audit report.
6. Notes regarding system of maintaining accounts.
7. Information to be needed in future.
8. Names of officials who certify bad debts, depreciation, etc.
9. Record of all important correspondence.
10. Total of important ledger accounts.
11. Progress of audit work.
12. Record of suggestions made by the audit staff.

Advantages:-

1. Defense in court of law.

2. Yard-stick of the efficiency and diligence and skill of the auditor,

3. Guide for future.

4. Future references,

5. Permanent certificate of audit.

UNIT-II

INTERNAL CONTROL

Meaning of Internal Control :

Internal control comprises all the measures whereby every aspect of business is controlled. A businessman wants to control the internal functions of the business in such a way to maximize profits and reduce to a minimal level the possibilities of errors, frauds, and embezzlement. For such a situation, the businessman controls each and every aspect of the business in a planned manner. Such a measure at the organisational level is called internal control. It helps to control all sorts of business activities, financial as well as administrative. The following definition by W.W. Bigg explains internal control in clear terms. "Internal control is best regarded as indicating the whole system of controls, financial or otherwise established for the conduct of business including internal check, internal audit and other forms of control.

Internal control can be defined as control of enterprise over its business. Every policy, standard procedure, system, rules, plans, introduced with the sole objective of establishing the control is known as internal control. Internal control is all pervasive and not confined to accounting system only. Internal control system is defined as-

All the policies and procedures (Internal controls) adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable,

- The orderly and efficient conduct of its business, including adherence to management policies,
- The safeguarding of assets,
- The prevention and detection of fraud and error,
- The accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

Objects of Internal Control :

1. Correct accounting of Transactions
2. Prevention of Error and Fraud
3. Fixing responsibilities
4. Safety of assets
5. Efficiency and improvement in performance

6. Provide aid in management planning
7. To encourage and measure how far policy of business is being implemented

Internal Audit

Internal auditing is the independent appraisal activity within an organisation for the review of the accounting, financial and other operations as a basis for productive and constructive service to management. It is conducted by regular employees of a business concern.

Objects of Internal Audit:

1. To assure the effect of internal check.
2. To see that transactions are authorised
3. To discover frauds.
4. To prevent frauds.
5. To discover errors and prevent them.
6. To facilitate statutory audit
7. To check the safety and proper accounting of assets.
8. Improvement in procedures.
9. To check commitment to Planning
10. To Review.

Difference between Internal Check and Internal Audit

1. **Nature of job-** Internal check is a system of recording transactions whereas internal audit is a system of checking the records.
2. **Time of examination –** The transactions are so recorded by internal check that the checking work continues with the recording. The checking of internal audit commences when recording or accounting work is over.
3. **Disclosure of fraud –** Internal check is a device wherein fraud is discovered in the course of the work. Internal audit discloses frauds when the work ends.
4. **Test of Effectiveness –** Internal check assures whether the accounting system is reliable and effective or not. Internal audit assures whether both the accounting system and internal check the reliable and effective or not.
5. **Operative function and Advisory function –** Internal check is an operative function whereas internal is an advisory function.

6. **Checking and Review-** The checking function continues with the accounting function in internal check system. But internal audit only reviews the accounting function.
7. **Persons involved** – In internal check, same persons are involved in both accounting and checking. But the persons acting as internal auditors are separate individuals. They have nothing to do with accounting function.

Limitations of Internal Audit:

1. Limited ability
2. Lack of Independence
3. Use of Employees in Miscellaneous Jobs
4. Fraternity
5. Prejudices

Internal check system in different business transaction:

The business transactions can be divided into following categories from internal-check point of view:

(i) Purchase of services, assets and goods.
(ii) Sale of goods.
(iii) Cash-Receipts.
(iv) Cash-Payments
(v) Internal transactions.

Purchase of Service, Assets and Goods

With regard to services, there is a Personnel Department in big companies which performs the job of purchasing the services. For purchase of services of high categories and permanent assets, the Board of Director or top management is generally authorised.

The function of purchase can be dividend into following segments:

1. **Estimation of requirements** – Usually it is the duty of the store-keeper to send indent to the purchase department for purchasing goods, by filling up Purchase Requisition Form, mentioning the quantity of goods, quality, code number and estimated cost while a copy of the Form is kept in the Stores. The Purchase

Department can place orders for the supply of goods on the basis of these Requisition forms.

2. **Placing order for Supply of goods** – After making an estimate the Purchase Department begins the activity of purchasing goods. First of all, inquiries are made from different suppliers regarding goods and information is collected in respect of price, terms of purchases and other matters. After the decision of top officer with regard to the supplier order for goods are prepared. The purchase department maintains an order book for this purchase containing order forms which bear serial numbers.

3. **Receipt of Goods-** On the arrival of goods, it must be recorded in the Goods Inward Book, provided such a book is maintained at the gate, and thereafter, the goods must be sent to the Material Stores directly, together with 'packing note' sent by the vendor. The goods has got to be weighed, counted or measured. The Store-keeper must have no authority to receive until he has received a copy of the 'Order' for Goods.

4. **Checking the Invoice and making payment-** The Receipt clerk of the enterprise sends the invoice to the Purchase Department, where the stamp of number and date of receipt has got to be put on it.

Purchases Returns and Internal Check :

As goods received are sometimes not in agreement with the order for goods or they get broken in transit, then it becomes imperative to return such goods. In this case, the internal check system shall take the following form:

1. **Intimation by Stores for Purchases Return-** If the goods received is not in accordance with the order, the Store- keeper must mention the fact in the remarks column of Goods Received Note. The intimation of goods to be returned must be sent by the Store-keeper to Purchase and Accounts Departments. It is also his duty to segregate such goods so that it may be returned soon after necessary action.

2. **Action by Purchase Department to Return Goods** – It is the Purchase Department which passes the invoice of in-coming goods. Obviously, the invoice

has to be in agreement with goods Received Note sent by the Store-keeper. The Purchase Department is required to send an Advice Note annexed to the invoice, which must bear a clear advice that the purchase, return goods has got to be kept in mind, while passing the invoice.

3. **Action by Accounts Department-** The Accounts Department must check the said Advice-Note with the invoice and Goods-Received-Note received from Store-keeper. After a complete inquiry the Accounts Department must prepare a Debit Note and record it in the Purchase-Return Book.

4. **Return of Goods –** As soon as a Debit Note is received by the Purchase Department, action must be initiated to return the goods accordingly. The purchase Department must issue instructions to the Stores Clerk to pack the returnable goods and the same must be recorded in Goods Outward Book kept at the gate. The purchase Department, thereafter, must return the goods together with Packing note, Debit-note and other dispatch documents to the vendor and the Credit-note received from him must be sent to Accounts Departments, keeping back the particular with it.

Credit Sales and Internal Check

1. **Receiving Sales order and preparing copies thereof –** Order for goods is received first of al by the Sales Department. As soon as an order is required, all the particulars thereof, should be recorded in the 'Order Received Book', i.e., the date of order, quantity of goods, name of customer, date of receipt etc.

2. **Dispatch of goods-** As soon as the Dispatch Section receives a copy of the order, the in-change officer of the section issues instructions for collecting, packing and dispatching goods and the copy is sent to Stores Section for necessary action.

3. **Dispatch of Invoice-** The Invoice clerk prepares invoice in accordance with the copy of the order received from Dispatch section, which is to be signed by a responsible officer after checking it. Invoice is prepared in three copies.

4. **Accounting of Sales and Receiving Payments-** The transaction is recorded in the Sales Book in accordance with the copy of invoice in Accounts Department.

This accounting should never be in the hands of the employees of Sales Department or the cashier who keeps the accounts of payments received from the customers.

Sales Returns and Internal Check

1. Receipt of intimation as well as Sales-Return from Customer,
2. Preparation of Credit-Note and its dispatch,
3. Accounting on the basis of Credit-note.

Cash Transactions and Internal Check

1. **Cash Receipts –** The internal check system in respect of cash-receipts should be so effective that accounting is done as soon as cash is received and that the due amount is actually received. Cash-received can be of three types: (a) Cash receipts by mail, (b) On window, and (c) Cash Sales.
   - **(a) Cash receipts by mail –** A responsible employee must be authorised to open the mail containing Cash, cheque, Bills of exchange, and Draft etc. This work should never be assigned to the cashier. All such mails should be duly recorded in Mail-Receipt Register and then handed over to the cashier. All documents must be crossed and the word 'Not Negotiable' put in between the lines.
   - **(b) Cash-receipt on window-** The cash-receipt clerk must issue cash-receipt-foil duly singed by authorised person forthwith to the depositor and keep counterfoil with him. After business hours the cashier must hand over all the counterfoils and the total amount of cash received to the employee who has the charge of Cash-book. He shall cash entries and put serial number of receipt against each entry. Now, a third person shall post the entries in the ledger. The other things to be noted in this context are the same as detailed heretofore regarding Cash-receipts by mail.
   - **(c) Cash-Sales-** Cash-sales can be done by any of the following manners:
     - (i) Sales at the counter
     - (ii) Sales by Travelling agents
     - (iii) Postal sales.
2. **Cash Payments:**

Frauds are common regarding payment for purchases of goods, sundry expenses, labour-charge etc.

Therefore, satisfactory evidence of each payment must be obtained. To make effective check on such payments, the system should be divided into the following divisions:

(i) Passing the payments for purchases

(ii) Preparing cheques for payment

(iii) Examining the cheques,

(iv) Accounting of the payments.

Wages and Internal Check:

The procedure of internal check for wages can be classified in four segments:

(i) Purchase of the services of labour ;

(ii) Accounting of each labourer on time and function basis;

(iii) Computing the wages of labour for a definite period;

(iv) Making payment of wages

INTERNAL CHECK SYSTEM

ROUTINE CHECKING:

Regular checking of all the daily transactions is known as Routine Checking. Routine checking incorporates the following tasks:

- Checking of record in primary books, costing, transfer etc.
- Checking transfer of transactions from original books of accounts to ledger account.
- Checking debit and credit side of various accounts.
- Checking transfer of balances of various accounts to other pages or accounts or statements.

Various signs are used while conducting routine check. Such signs provides the proof of routine checking of transactions.

Signs which are used in audit should be small and clear. Generally red or pink color is used while conducting routine check. But green color is used while conducting final audit.

Advantages Of Routine Checking:

Following benefits can be obtained from the routine checking:

1. All the original entries will be checked; so all the errors and frauds can be detected easily.
2. All the entries and posting will be tested.
3. Routine checking helps to conduct final audit because all the balancing and totals have already been checked.
4. Separate and specific staffs are not needed because it is a regular process.

Disadvantages Of Routine Checking:

Followings are the limitations of routine checking:

1. Routine checking is a mechanical test, so the staff who performs this work does not have inspiration. So, there are chances of leaving errors and frauds.
2. Routine checking can only detect small errors and frauds but not the planned frauds.
3. Routine checking is not needed where self balancing system is applied.
4. Routine checking cannot detect principle and compensating errors.

❖ INTERNAL CHECK:

Internal check means that check imposed in such a way on a day to day transaction that work of one person is checked by another person automatically in this way the chances of frauds and errors minimizes.

Objects of Internal Check:

i. Prevention of Fraud
ii. Prevention of Error
iii. Swift discovery of fraud and error
iv. Fixing the responsibility
v. Correct accounting of business transactions
vi. Fast preparation of Final Accounts
vii. Facility of Audit work.

Essential features of Ideal Internal Check System:

1.	Regarding Employees	i. Qualification and Training ii. Honesty and Integrity iii. Security iv. Monitoring v. Fixing Responsibilities vi. Allocation of Work vii. Authorization viii. Compulsory Leave
2.	Regarding Accounting	i. Sound System of Accounting ii. Procedure Manual iii. Forms
3.	Other Features	i. Utilization of Machinery ii. Control over mailing iii. Flexibility.

Advantages of Internal Check:

i. Cautious Employees
ii. Honest Employees
iii. Moral Impact on Work Environment
iv. Elimination of Errors
v. Minimum Frauds
vi. Early discovery of errors and frauds.
vii. No cumulative effect on business
viii. Fast preparation of final accounts
ix. Facility to Auditor
x. Responsibility Fixing
xi. Substitution of Audit
xii. Relief for businessman.

Disadvantages of Internal Check:

i. Expensive
ii. Repetition
iii. Negligence of Owner
iv. Adverse effect on Employees
v. Negligence of Auditor
vi. Frauds through Collusion.

Internal Check Systems in different Business Transactions:

i. Purchase of Services, Assets and Goods
ii. Sale of goods.
iii. Cash Receipts
iv. Cash Payments
v. Internal Transactions

❖ **TEST CHECKING**:

Test checking is a substitute for detailed checking. It involves only a partial checking. The auditor normally does not check completely all the records made into the books of accounts but, through a process of sampling, selects a few items and if they are found correct, he presumes that the remaining entries would also be correct likewise.
Thus, the whole system of test checking implies selecting and checking only a few selected transactions so as to enable the auditor to form his final judgment as to the whole set of transactions.

As stated above, in applying 'test check', the selection of transactions is made by the auditor at random and no specific principles are followed in it. The choice for adoption of testing methods is fully dependent on the discretion and judgment of the auditor who will depend on the situation of individual cases.

The use of test checking is, however, dependent upon the system of internal check in operation. If this system is satisfactory, test checking can be of immense help to the auditor.Where there is an efficient system of internal check and the business maintains a separate staff for internal audit, test checking can be a very reliable device to carry on the work of audit.

But it should be kept in mind that if the system is reliable and test check is applied but mistakes are detected, a thorough checking of books would provide an answer. Thus, given an efficient system of internal check in operation, test checking can reduce the volume of work involved in audit.

Test checking should be applied and carried out intelligently and carefully, otherwise, it may lead to dangerous consequences. But much will depend on the system of internal check and the intelligence of the auditor.

Advantages:

i. Time Saving
ii. Correct Results
iii. Utilization of Saved Energy
iv. Suitable for large size enterprise.
v. Adds to the significance of Internal Check.

Disadvantages:

i. Undisclosed errors and frauds.
ii. Incredibility and unauthenticity.
iii. Enhancement of Auditor's Liability
iv. Negligent Employees
v. Continuance of vicious circle.

INTERNAL CONTROL

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- The safeguarding of assets,
- The prevention and detection of fraud and error,
- The accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

<u>Objects of Internal Control :</u>

8. Correct accounting of Transactions
9. Prevention of Error and Fraud
10. Fixing responsibilities
11. Safety of assets
12. Efficiency and improvement in performance
13. Provide aid in management planning
14. To encourage and measure how far policy of business is being implemented

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12. To see that transactions are authorised
13. To discover frauds.
14. To prevent frauds.
15. To discover errors and prevent them.

16. To facilitate statutory audit
17. To check the safety and proper accounting of assets.
18. Improvement in procedures.
19. To check commitment to Planning
20. To Review.

Difference between Internal Check and Internal Audit

8. **Nature of job-** Internal check is a system of recording transactions whereas internal audit is a system of checking the records.
9. **Time of examination –** The transactions are so recorded by internal check that the checking work continues with the recording. The checking of internal audit commences when recording or accounting work is over.
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12. **Operative function and Advisory function –** Internal check is an operative function whereas internal is an advisory function.
13. **Checking and Review-** The checking function continues with the accounting function in internal check system. But internal audit only reviews the accounting function.
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Limitations of Internal Audit:

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7. Lack of Independence
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(ix) Cash-Payments
(x) Internal transactions.

Purchase of Service, Assets and Goods

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5. **Estimation of requirements –** Usually it is the duty of the store-keeper to send indent to the purchase department for purchasing goods, by filling up Purchase Requisition Form, mentioning the quantity of goods, quality, code number and estimated cost while a copy of the Form is kept in the Stores. The Purchase Department can place orders for the supply of goods on the basis of these Requisition forms.

6. **Placing order for Supply of goods –** After making an estimate the Purchase Department begins the activity of purchasing goods. First of all, inquiries are made from different suppliers regarding goods and information is collected in respect of price, terms of purchases and other matters. After the decision of top officer with regard to the supplier order for goods are prepared. The purchase department maintains an order book for this purchase containing order forms which bear serial numbers.

7. **Receipt of Goods-** On the arrival of goods, it must be recorded in the Goods Inward Book, provided such a book is maintained at the gate, and thereafter, the goods must be sent to the Material Stores directly, together with 'packing note' sent by the vendor. The goods has got to be weighed, counted or measured. The Store-keeper must have no authority to receive until he has received a copy of the 'Order' for Goods.

8. **Checking the Invoice and making payment-** The Receipt clerk of the enterprise sends the invoice to the Purchase Department, where the stamp of number and date of receipt has got to be put on it.

Purchases Returns and Internal Check :

As goods received are sometimes not in agreement with the order for goods or they get broken in transit, then it becomes imperative to return such goods. In this case, the internal check system shall take the following form:

5. **Intimation by Stores for Purchases Return-** If the goods received is not in accordance with the order, the Store- keeper must mention the fact in the remarks column of Goods Received Note. The intimation of goods to be returned must be sent by the Store-keeper to Purchase and Accounts Departments. It is also his duty to segregate such goods so that it may be returned soon after necessary action.

6. **Action by Purchase Department to Return Goods –** It is the Purchase Department which passes the invoice of in-coming goods. Obviously, the invoice has to be in agreement with goods Received Note sent by the Store-keeper. The Purchase Department is required to send an Advice Note annexed to the invoice, which must bear a clear advice that the purchase, return goods has got to be kept in mind, while passing the invoice.

7. **Action by Accounts Department-** The Accounts Department must check the said Advice-Note with the invoice and Goods-Received-Note received from Store-keeper. After a complete inquiry the Accounts Department must prepare a Debit Note and record it in the Purchase-Return Book.

8. **Return of Goods –** As soon as a Debit Note is received by the Purchase Department, action must be initiated to return the goods accordingly. The purchase Department must issue instructions to the Stores Clerk to pack the returnable goods and the same must be recorded in Goods Outward Book kept at the gate. The purchase Department, thereafter, must return the goods together with Packing note, Debit-note and other dispatch documents to the vendor and the Credit-note received from him must be sent to Accounts Departments, keeping back the particular with it.

Credit Sales and Internal Check

5. **Receiving Sales order and preparing copies thereof –** Order for goods is received first of al by the Sales Department. As soon as an order is required, all the particulars thereof, should be recorded in the 'Order Received Book', i.e., the date of order, quantity of goods, name of customer, date of receipt etc.

6. **Dispatch of goods-** As soon as the Dispatch Section receives a copy of the order, the in-change officer of the section issues instructions for collecting, packing and dispatching goods and the copy is sent to Stores Section for necessary action.

7. **Dispatch of Invoice-** The Invoice clerk prepares invoice in accordance with the copy of the order received from Dispatch section, which is to be signed by a responsible officer after checking it. Invoice is prepared in three copies.

8. **Accounting of Sales and Receiving Payments-** The transaction is recorded in the Sales Book in accordance with the copy of invoice in Accounts Department. This accounting should never be in the hands of the employees of Sales Department or the cashier who keeps the accounts of payments received from the customers.

Sales Returns and Internal Check

4. Receipt of intimation as well as Sales-Return from Customer,
5. Preparation of Credit-Note and its dispatch,
6. Accounting on the basis of Credit-note.

Cash Transactions and Internal Check

3. **Cash Receipts –** The internal check system in respect of cash-receipts should be so effective that accounting is done as soon as cash is received and that the due amount is actually received. Cash-received can be of three types: (a) Cash receipts by mail, (b) On window, and (c) Cash Sales.
   (a) Cash receipts by mail – A responsible employee must be authorised to open the mail containing Cash, cheque, Bills of exchange, and Draft etc. This work should never be assigned to the cashier. All such mails should be

duly recorded in Mail-Receipt Register and then handed over to the cashier. All documents must be crossed and the word 'Not Negotiable' put in between the lines.

(b) Cash-receipt on window- The cash-receipt clerk must issue cash-receipt-foil duly singed by authorised person forthwith to the depositor and keep counterfoil with him. After business hours the cashier must hand over all the counterfoils and the total amount of cash received to the employee who has the charge of Cash-book. He shall cash entries and put serial number of receipt against each entry. Now, a third person shall post the entries in the ledger. The other things to be noted in this context are the same as detailed heretofore regarding Cash-receipts by mail.

(c) Cash-Sales- Cash-sales can be done by any of the following manners:

(i) Sales at the counter

(ii) Sales by Travelling agents

(iii) Postal sales.

4. Cash Payments:

Frauds are common regarding payment for purchases of goods, sundry expenses, labour-charge etc.

Therefore, satisfactory evidence of each payment must be obtained. To make effective check on such payments, the system should be divided into the following divisions:

(i) Passing the payments for purchases

(ii) Preparing cheques for payment

(iii) Examining the cheques,

(iv) Accounting of the payments.

Wages and Internal Check:

The procedure of internal check for wages can be classified in four segments:

(i) Purchase of the services of labour ;

(ii) Accounting of each labourer on time and function basis;

(iii) Computing the wages of labour for a definite period;

(iv) Making payment of wages

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UNIT III

VOUCHING

Vouching is the examination of transactions of a business together with documentary and other evidence of sufficient validity to satisfy an auditor that such transactions are in order, have been properly authorized and are correctly recorded in books.

Objects of Vouching -

1. Authentication of accuracy and truth of book keeping entries.
2. Satisfaction of entries of business transactions.
3. Knowing the transactions unrelated with business.
4. Authentication of transactions.
5. Essence of auditing.

The auditor must take care of following while vouching-

1. Proper filing of vouchers in serial order.
2. Adoption of test check methodology for examining vouchers.
3. Comparison of evidences with accounting entries.
4. Voucher must be in name of the person or business whose account is audited.
5. It must be related with business transactions.
6. Voucher should relate to period under audit.
7. It must be in printed form.
8. The amount and calculations in voucher must be checked.
9. Voucher must be signed, authenticated and duly stamped.

Vouching of Cash Book -

Cash Receipts :

(i) Internal check should be examined.
(ii) Issue of receipts and use of receipt books should be checked.
(iii) System of depositing the receipts into bank should be checked.
(iv) Auditor must obtain the list of all memorandum books like cash diary, Kuchi Rokar Bahi, Pucci Rokar Bahi, etc.
(v) Vouchers must be serially numbered and the name, amount date in vouchers must tally with the accounting records.

(vi) Accounting records unsupported by vouchers must be probed.
(vii) Soiled, unissued or cancelled receipts should not be torn but checked along with counterfoils.

Important points while vouching Cash Payments-

1. Actuality of payment.
2. Payment relates to audit year.
3. Payment for business
4. Payment to right person
5. Right amount to be paid.
6. Payment must be due with regard to date.
7. Authorization of payment.
8. No payment for ultravires acts
9. Legitimacy of payment
10. Correct accounting

Vouching Sales Book-

1. On the basis of copies of sales invoices.
2. Help from other books like orders received book, goods outward book, correspondence, etc.
3. Intensive examination of goods sold of the end of the year and beginning of new year.
4. Recording of only actual sales.
5. Help from statements of accounts of debtors.
6. Audit of totals and postings of sales book.

Vouching of Sales Returns Book-

1. Vouching the records on the basis of copies of credit notes.
2. Checking of goods inward book and correspondence.
3. Examination of the records at the commencement of the next year.
4. Totals and ledger posting of sales returns to be carefully examined.

Vouching Purchases-

1. Examination of purchase book on the basis of invoices.

2. Record of lost vouchers.
3. Help from goods inward book, challan form and packing notes.
4. Checking of totals & postings on the basis of invoices goods inward books, purchase order, challan form, goods receipt notes.

Vouching of Purchases Returns Book -

1. Checking entries of purchases returns book on the basis of credit notes.
2. Tallying with goods outward book.
3. Checking the totals and postings in ledger.

Vouching of Journal-

1. Opening entries shall be vouched with the balance sheet of previous year.
2. Closing entries to be vouched by checking the ledger postings.
3. Rectification entries must be checked thoroughly and must be countersigned.
4. Adjustment entries relating to outstanding and prepaid expenses, unearned income and accrued income must be vouched on the basis of relevant documents.
5. Transfer entries must be backed by proper authority.
6. Bad debts must be vouched on the basis of authorization and relevant correspondence with the debtors.
7. Consignment transactions must be checked by the account sale received from the agent.

Vouching Ledger Postings -

1. Methodology of vouching, i.e., checking the ledger postings on the basis of entries in books of original entries.
2. Persons vouching the accounts.
3. Recording the errors.
4. Vouching the balances of accounts
5. Test checking of ledger postings.
6. Vouching of different ledgers – purchase ledger, sales ledger, etc.

Vouching of various receipts -

1. Cash Sales & Credit Sales : Voucher, date, serial no., account head, sales invoices, charging of sales tax and excise duty, copy of delivery order, sales order, rates, quantity and authorization by sales/ marketing manager.
2. Receipt from debtor : Cash/Bank receipt voucher, date, serial no., account head, copy of invoice, sales order, rates quantity party ledger, bank statement, sales register.
3. Other Income (Interest dividend, etc) : Bank receipt voucher, date, serial no., account head copy of dividend warrant, interest warrant. TDS certificate, rates paid up value, investment register, bank book, bank statement.
4. Loan received : Receipt voucher, date, serial no., account head, (secured/unsecured) loan agreement, hypothecation or pledge deed, rates of interest, principal amount, resolution of board of directors, bank statement, ledger.
5. Rent Received : Cash/Bank receipt voucher, date, serial no., account head, rent agreement, rent receipt, TDS certificate, prepaid or outstanding rent, bank statement, ledger.
6. Sale of Investment : Voucher, account head, broker's note, copy of demat account, rate, quantity, bank statement, investment ledger.
7. Bills Receivable Discounted : Voucher date, account head, discounting charges, copy of B/R, bank advice, noting charges, bank statement/book, BR register.
8. Sale of Fixed Assets : Receipts voucher, sale agreement, sale value and wdv, authorization by BOD, fixed assets register, bank statement.
9. Royalty Received : Receipt voucher, account head, copy of agreement, TDS certificate, rates and quantity explored, produced or sold, royalty register, ban statement.
10. Insurance Claim : Receipt voucher, account head, copy of intimation of claim copy of sanction, loss assessors report, verify the amount of claim, insurance claim register, bank statement.
11. Recovery of Bad Debts : Voucher, account head, debtors control account, commission to factor, bank book, statement or list of bad debts written off in previous years.
12. Miscellaneous receipts (subscriptions amount received from, agents etc) : Voucher, counter fails of receipts, bank pass book, membership register, statements of agents, etc.

Vouching of Payments :

Purchase of Goods : Payment voucher, purchase order, builty, material received note, inspection report, bank statement, rates, quantity and terms of purchases, stores ledger, goods inward register, authorization, cash purchase register.

1. **Payment to Creditors** : Receipt by customer, statement of account, invoice copy, discount and allowances, and other deeds.
2. **Salaries & Wages** : Payment voucher, attendance register, salary sheet, wage roll, time keeping record, bank statement, PF, ESIC, overtime sheets, cash book or bank book, ledger,
3. **Payment for Acquisition of Assets** : Payment voucher, account head, sale/purchase agreement, title deed, bank statement, transfer deed, valuer certificate, stamp duty, broker's statement, auctioneer's note, fixed asset register, cash/bank book, authorization by BOD, Articles of association, etc.
4. **Payment of Taxes (Income Tax, Sales Tax)** : Computation of tax, copy of challan of advance tax, TDS certificates, challan of self assessment tax, return, etc.
5. **Travelling Expenses** : Voucher tour program, schedule, TADA rules, expense voucher, receipts,etc.
6. **Preliminary Expenses** : Memorandum & Articles of association, registry, Cheque no., bills & receipts, rate of stamps, vouchers, etc.

Verification of Assets & Liabilities

Verification is the process of substantiation involved in proving that a statement account or item is accurate and stated properly. It is an enquiry into the value, ownership & title, existence and possession, and presence of any charge on the assets as stated in the balance sheet.

Objects of Verification -

1. Picture of true position.
2. Correct valuation.
3. Not exceeding the actual.
4. Not less than actual.
5. Existence and possession.
6. Ownership and title.
7. Without fraud or irregularity.
8. Arithmetical correctness.
9. Correct presentation in the balance sheet.

Position of Auditor as regards valuation of assets -

An auditor is not a valuer or a technical expert. So he has to rely upon the valuation made by directors, partners, technical experts, surveyors, etc. However he must ensure that the valuation is fair and reasonable and based upon some accepted principles.

Verification of fixed assets -

(i) Goodwill -

(a) Existence : Whether purchased or acquired. Self generated goodwill is not said to be in existence.

(b) Records : Check the fixed asset register.

(c) Right of Ownership : Check purchase agreement, purchase consideration and MOU between the parties.

(d) Valuation and proper amortization as per AS-14, i.e. 5 years.

(e) Proper presentation and disclosure.

(ii) Freehold Properly :Which is in the name and title of owner.

(a) Ownership:Check the sale deed.
(b) Mortgage: Check the mortgage deed.
(c) Change in asset due to sale, purchase or construction work should be enquired and duly recorded.
(d) Revenue expenses regarding repairs and maintenance should be written off in P & L Account.
(e) The auditor must enquire into the existence, valuation and presentation in balance sheet.

(iii) Leasehold Property : It has two owners and both have qualified rights over it. The following points to be considered :

(a) Ownership : Lease deed should be examined.

(b) Mortgage : Relevant deed should be perused.
(c) Revenue expenses : To be charged to P & L.
(d) Existence, valuation and presentation B/S to be checked.

(iv) Plant & Machinery :

(a) Existence : Physical verification to be conducted, additions and deductions to be checked.
(b) Records : Check the fixed asset register.
(c) Ownership : Invoice receipt and purchase order to be checked.
(d) Revenue and capital expenditure should be properly accounted for.
(e) Proper presentation and disclosure under the schedule of fixed assets.

(v) Furniture, fixture and fittings :

The auditor has to verify the existence, records, changes ,ownership, valuation, presentation and disclosure in the balance sheet, along with depreciation.

(vi) Motor Vehicles :

The auditor has to verify the existence, fixed asset register, log books, invoices, registration book, incidental charges like insurance and road tax, depreciation, licenses etc.

(vii) Copyrights, patents, trademarks, loose tools:

Check the existence ownership, valuation, presentation in balance sheet, respective registers, write off etc.

(viii) Investments :

a) Ownership: name of client, pledge or lien of investments, Classification: trade or non trade, long term, short term, stock in trade.
b) Physical verification: obtain relevant certificates, etc.
c) Changes: broker's purchase note or sale note should be checked.
d) Valuation and disclosure :Current investments should be valued at lower of cost or fair market value. Long term investments should be valued at historical cost of acquisition.

(ix)Inventory :

a) Classification of inventory : Stores and spare parts, loose tools, raw materials, material in process, finished goods, waste or by products.
b) Existence and records in the stock register to be verified.
c) Right of ownership : Invoices, documentary evidence to be checked.
d) Valuation : According to AS-2, valuation is done on cost or NRV whichever is lower.Method is FIFO or weighted average and method is not changed, unless required.
e) Presentation and disclosure in Balance Sheet.

(x)Debtors, Loans and Advances:

a) List of debtors to be obtained.
b) Correspondence with debtors.
c) Inquiry into discount and bad debts, provision for bad debts.
d) Securities.
e) Presentation and disclosure in Balance Sheet.
f) Classification of debtors according to age, security and reliability, bad and doubtful.

Loans and Advances.:

a) Names & Amounts involved.
b) Terms and Conditions of loan.
c) Regularity of repayment.
d) Steps for recovery/repayment of overdues.

Verification of Liabilities-

Steps for verification:

1. Examination of records .
2. Direct confirmation procedure.
3. Examination of disclosure.
4. Analytical review procedure.
5. Obtaining Management Representations.

The nature, timing and extent of substantive procedures to be performed is a matter of professional judgement of the auditor which is based on the auditor's evaluation of the effectiveness of the related internal controls.

UNIT – IV

COMPANY AUDIT

Modes of Appointment of Auditors-

The First Auditor:

a) The first auditor of a company shall be appointed by the board of directors within one month of the date of registration of the company. If the Board fails to appoint within the said period of one month, the company in general meeting may appoint the first auditors.
b) The first auditors shall hold office from the date of appointment to the conclusion of the first annual general meeting of the company.

Appointment of Subsequent Auditors:

At every annual general meeting, the auditor are appointed or reappointed by every company by passing an ordinary resolution. The appointment of auditors at an annual general meeting is an item of ordinary business. Such auditor holds office from the conclusion of the meeting in which they are appointed to the conclusion of the next annual general meeting.

Compulsory Reappointment:

At an annual general meeting, a retiring auditor by what so ever authority appointed, shall be reappointed except under any of the following situations:

(a) Where he is not qualified for reappointment
(b) Where he has given the company notice in writing of his unwillingness to be reappointed.
(c) Where a resolution has been passed at that meeting appointing somebody instead of him or providing expressly that he shall not be reappointed.
(d) Where notice has been given or an intending resolution to appoint some person in the place of a retiring auditor passed, but by reason of the death, incapacity or disqualification of that person the resolution cannot be proceeded with.

Appointment in case of Causal Vacancy :

Where a vacancy is caused by the resignation of an auditor, the company in a general meeting shall only fill the vacancy. The Board of Directors may fill casual vacancy in the office of an auditor caused by any other reason than prior resignation within 15 days. Any auditor appointment in a casual vacancy shall hold office until the conclusion of the next annual general meeting.

Appointment by special Resolution :

In case of a company in which not less than 25% of the subscribed share capital is held, whether singly or in any combination, by-

a. A public financial institution, or a government company or the Central Government or any state government, or
b. Any financial or other institution established by any provincial or State Act, in which a State Government holds not less than 51 % of the subscribed share capital, or
c. A nationalised bank or an insurance company carrying on general insurance business,

The appointment or reappointment at each annual general meeting of the company, an auditor or auditors shall be made by a special resolution.

It the company fails to pass such a special resolution for making the appointment of an auditor or auditors it shall be deemed that no auditor or auditors had been appointed by the company at its annual general meeting. In such a case, the Central Government may appoint a person to act as the auditor of the company.

Removal of Auditor:

Different modes of removal:

(a) Removal of first auditors before expiry of term :
The company may remove the first auditor by passing an ordinary resolution at a general meeting Although Nomination notice is required to given to the members of the company at least 14 days before the date of the meeting by this way only any other person may be appointed in place of removed auditor.

(b) Removal of subsequent auditor before expiry of their term:
The company may, after obtaining the previous approval of the Central Government, remove the auditors before the expiry of their term by passing an ordinary resolution.

(c) Removal if auditor has acted in fraudulent manner:
If the Company Law Tribunal is satisfied that the auditor has acted in fraudulent manner, the Tribunal can order the company to change its auditors.

(d) Resignation by Auditor:
An auditor may resign from his assignment. He has to file a statement with the registrar He will indicate the reason and other facts about his resignation.

Rights of Auditors [Section 143]-

1. **Rights of Auditors to access books of accounts** An auditors of a company shall have a right of access **at all times** to the books and accounts and vouchers of the company, whether kept at the head office of the company or elsewhere.

2. **Right to obtain information and explanations:**

   An auditor of the company is entitled to require from the officer of the company such information and explanation as he may think necessary for the performance of his duties as an auditor.

3. **Right to visit branch offices and access to branch account (sec 143(8)):**

Where the accounts of any branch office are audited by a person other than the company's auditor, the company's auditor is entitled to visit the branches, if he deems it necessary to do so for the performance of his duties as an auditor.

4. Right to receive notice and attend general meeting [Sec. 146]:

The auditor has the right of

- receiving all the notices and other communication relating to any general meeting of a company which any member of the company is entitled to have
- He is entitled to attend any general meeting and
- He is entitled to be heard at any general meeting which he attends on any part of the business which concern's him as an auditor.

5. Right to make representation:

The retiring auditor is

- Entitled to receive a copy of the special notice intending to remove him or proposing to appoint any other person as auditor.
- Further, the retiring auditor sought to be removed has a right to make his representation in writing and request that the same be circulated amongst the members of the company.
- In case, the same could not be circulated, the auditor may require that the presentation shall be read out at the general meeting. The auditor also has the right to be heard at the general meeting.

6. Remuneration of the Auditor:

Auditor is entitled to receive remuneration provided he has completed the work which he undertook to do.

7. Right to correct any wrong statement .

8. Right to have legal and technical advice.

Duties of Auditors:

1. Duty as to enquiry [Sec. 143(1)]:

Without prejudice to the rights given, auditor must enquire into following matters:

(a) Whether loans and advances made by the company on the basis of security:
(i) have been properly secured and

(ii) whether the terms on which they have been made are not prejudicial to the interest of the company or its members;

(b) Whether transactions of the company which are represented merely by book entries are not prejudicial to the interests of the company;

(c) Whether the company is an investment company or a banking company, whether so many of the assets of the company as consists of shares, debentures and other securities have been sold at a price less than at which they were purchased by the company;

(d) Whether loans and advances, made by the company have been shown as deposits;
(e) Whether personal expenses have been charged to revenue account; and
(f) Where it is stated in the books and papers of the company that any shares have been allotted for cash, whether the cash has actually been so received, whether the position as stated in the accounts books and the Balance Sheet is correct, regular and not misleading.

2. Submit report to members.
3. To specify a few things in the report.
4. Duties to sign report
5. To report for inclusion in prospectus.
6. To certify the Statutory Report.
7. Duties regarding Investigation.
8. To submit report on the Balance Sheet and P. & L. Account appended to the declaration of solvency at the time of voluntary winding up.

Liabilities of an Auditor:

A. Civil Liabilities **B. Criminal Liability**

(A.) Civil Liabilities:

1. Liability for Negligence:

If the auditor owes some duty towards the plaintiff (the person who files a suit in the court), and he does not discharge his duties with reasonable skill and care, resulting in a loss to the plaintiff, the auditor is guilty of negligence.

2. Liability for Misfeasance:

If the auditor does not approach and perform his duties it is misfeasance an auditor is liable to indemnity only if the following things are proved against him:

1) The auditor owned duty to the plaintiff:
2) He failed to discharge his duty;
3) The plaintiff suffered loss due to non-performance of duty by the auditor.

B. Criminal Liability :

1. Violation of company act.

2. Not signing authenticating as per the Act.

3. For not rendering help to the Inspector.

4. Fraud in books.

5. . For false statement in a report.

6. For untrue statement in the prospectus.

7. For prompting a person to invest.

8. For false evidence.

Liability towards Third Party:

Not liable for negligence: In regard to civil liabilities an auditor can be compelled to indemnify only if the auditor owed duty towards the plaintiff. Regarding company audit, as already stated, an auditor is appointed by company, therefore, he owes duty only to the company. If loss is suffered by third party due to negligence or misfeasance of the auditor, the auditor cannot be liable for it. It is only just because there is no contract between the auditor and third party.

Liability for fraud: An auditor is not liable to third party for negligence or misfeasance but if he is guilty of fraud, he shall be held liable to the third party also.

Divisible Profits

Divisible Profit is that profit for the disbursement of which as dividend a company has legal right. Direct interest of shareholders of a company is in dividend, therefore, the management of the company always endeavours to disburse dividend to the shareholders but it cannot do so in such style as may result into the bankruptcy of the company, e.g. out of capital.

Divisible Profits under the Indian Companies Act:

Section 123 has made the following provisions :

1. Principles of Accountancy
2. Provisions of Memorandum of Association and Articles of Association
3. Legal Decisions
4. Legal Aspects

Preliminaries before starting Audit-

1. Appointment letter of Auditor.

2. Nature of Business of the Company.

3. Accounting Year.

4. Board of Director

5. Acquaintance with Management.

6. Knowledge of the byelaws regarding Memorandum of Association and Articles of Association.

7. Study of prospectus.

8. To receive the List of Books.

9. Obtaining the List of Employees and job description.
10. Knowledge of Internal Control.
11. Acquisition of Previous Final Accounts and Audit Report.

Audit of Share-Issue-

1. Checking the right to issue.
2. Checking the Procedure of issue.
3. Checking Books of original entry.
4. Checking Ledger Posting.
5. Presentation in Balance Sheet.
6. Audit of Calls in Advance.
7. Audit of Calls in Arrears.
8. Underwriting Commission and Brokerage.
9. Audit of Issues at premium
10. Audit of Issues at Discount.

Audit of Share Transfer -

1. Under the Companies' Act.
2. Under agreement:
   - (i) Checking the Articles.
   - (ii) Checking the Transfer Registrar.
   - (iii) Checking the Transfer Deed.
   - (iv) Checking the intimation to Transferee.
   - (v) Action by Directors' Meeting
   - (vi) Checking the Share Certificates.
   - (vii) Checking the Register of Membership.

Audit of Debentures -

1. Checking the Articles

2. Looking into commission.

3. Compliance of Act

4. Checking the restrictions on allotment.

5. Checking Debenture Register.

6. Checking of Transfers.

7. Checking the Charges.

8. Audit of Financial Books

(i) Cash Consideration

(ii) Other consideration

(iii) Commission and Discount

(iv) Application forms and Allotment

(v) Premium

(vi) Collateral security

(vii) Entries of interest

Audit Report

Contant of the Audit Report:

The auditor of the company appointed u/s 143 of the Companies Act, 2013 is required to report

1. Statement of opinion: Whether in his opinion and to the best of his information and according to the explanations given to him,

- the accounts give the information required by the Act in t he prescribed manner and
- also given a true and fair view of the company's affairs in its balance sheet and correct picture of the profit or loss during the relevant financial year.

2) Whether he has obtained all the information and explanations, which to the best of his knowledge and belief were necessary for the purpose of his audit.

3) proper books of accounts as required by law have been kept by the company so far as it appears from his examination of those books

4) Whether the report on the account of any branch office audited by a person other than the company's auditor, has been forwarded to him and how he has dealt with the same in preparing the auditor report

5) Whether the company's balance sheet and profit and loss account dealt with by the report are in agreement with the books of account and returns.

6) Whether the profit and loss account and balance sheet comply with accounting standards

7) Auditor's report shall state his observations or comments, which have any adverse effect on functioning of the company

8) Whether any directors are disqualified from being appointed as director

9) Internal Controls

10) Reasons for adverse report

Types of Audit Report:

An audit-report can be of two types:

1. Clean or Unqualified Report -

If the auditor is fully satisfied on the facts to be incorporated in his report, he shall submit a clean or unqualified report on the Final Accounts. Such a report shall be given on the accounts regarding which the auditor does not find any irregularity or fallacy and about which there is no complaint and the auditor has no suspicion about their being true and fair. A report being clean means the auditor has performed the following acts:

(a) Adequate examination of books.

(b) Follow-up of generally accepted principles of auditing.

(c) Adoption of necessary procedures as demanded by particular circumstances.

(d) Use of reasonable skill and care.

2. Qualified Report -

If the auditor is not satisfied regarding the facts to be mentioned in his report, he must mention his dissatisfaction in his report. Such a report is called Qualified Report. By and large, the following reasons may be ascribed to a Qualified Report:

(a) The auditor could not adopt the necessary audit procedures in the examination of the accounts for want of necessary evidence in the form of vouchers of documents.

(b) The generally accepted principles of auditing have been violated.

(c) The auditor may not have received adequate information and explanations sought by him, e.g., the accounting system may be incomplete.

(d) There may be some inconsistency in the principles of accounting adopted by the company from year to year, e.g., the closing stock may not have been valued on the lines of last year and the change may not be acceptable to the auditor.

(e) Any other reason for which the auditor may be dissatisfied.

Unit – V
Special Areas of Audit

Cost Audit

With the growth and development of cost accounting systems, it became necessary to maintain cost records and cost books to record costs and related transactions correctly.

Definitions and concept of cost audit:
Cost audit means an audit of cost accounts, which is related to deep checking and verification of the accuracy of cost techniques, methods, and accounts. Some of its definitions are as follows:

(1) "Cost audit is the verification of cost accounts and checks on the adherence to the cost accounting plan." -I.C.M.A., London

(2) "Cost audit means the detailed checking of the costing system, technique, and accounts to verify their correctness and to ensure adherence to the objective of cost accounting." -Smith & Day

(3) "Cost audit can be defined as verification of the correctness of cost accounts and adherence to the cost accounting principles, plans, and procedures." I.C.W.A., India

From the definitions of cost audit, it is evident that cost audit aims at:

(a) verifying that the cost books, cost accounts, and cost records have been correctly maintained as per the costing system adopted;

(b) verifying that the cost plan i.e., the prescribed routine and procedure, has been adhered to; and

(c) detecting errors and preventing fraud, misappropriations, and defalcations.

Objects or functions of cost audit:
The objects or functions of cost audit are the following:

(I) Protective Objects:
1. Accuracy of Cost Accounting
2. Adherence of Principles and Procedures

3. Detection of Errors
4. Examining the Adequacy of the System
5. Pinpointing Deficiencies
6. Verification of Correctness
7. Enforcement of Cost Control
8. Comparison with Budgets and Standards
9. Guidance to Management

(II) Constructive Objects:

(1) To provide useful information and data to management for regulating production.

(2) To assist in the selection of economical methods of operation.

(3) To present suggestions for reducing operational costs.

(4) To give suggestions to resolve errors in cost accounts.

(5) To provide suggestions and consultancy for cost control.

Importance of advantages of cost audit:

The advantages of cost audit are the following:

(I) To the Management:

1. Reliable Data
2. Check on Wastages
3. Knowledge of Inefficiency
4. Useful in Advanced Techniques
5. Cost Consciousness
6. Proper Valuation of Stock
7. Detection of Errors and Fraud

(II) To the Shareholders:

1. Faith in Management
2. Satisfaction with the Amount of Profit
3. Knowledge of Efficiency of Management

(III) To the Investors:

1. Faith in the Position of the Company
2. Assistance in Lending

(IV) To the Society and Consumers:

1. Better Quality at Reduced Cost
2. Maintenance of Standard of Living

(V) To the Government:

1. Reliable Data of Production and Cost
2. Convenience in Contract Pricing
3. Assistance in Protection Decision
4. Control on Profiteering
5. Knowledge of Inefficient Units
6. Settlement of Industrial Disputes
7. Creation of Healthy Competition

Aspects of scope of cost audit:

There are two main aspects of cost audit

1. Propriety Audit: It has been defined as an "audit of executive action and plans to bear on the finance and expenditure of the company". The cost auditor, under propriety audit, has to ensure that:

(a) the expenditure has been planned in a way as to give the optimum results:

(b) the planned expenditure, its size, and channels have produced the optimum results; and

(c) there is no other better alternative to the expenditure made and results obtained.

2. Efficiency Audit: This is also known as a 'Performance audit' and is related to the working efficiency of the cost plan. It has to be seen whether the plan has been executed efficiently or not and for this the results obtained are to be judged. The emphasis is on the point that:
(a) every unit of money invested must give the optimum or the best result, and

(b) the investment made in different types and areas is balanced and optimum.

Types and classification of cost audit:
The following are the types of cost audits:

1. **Cost Audit on behalf of Management:** An audit may be instituted by the management for its own satisfaction. The purpose of this audit is to provide correct and reliable cost information to management for taking managerial decisions and to ensure that the costing department is functioning according to the plan. The Cost Auditor is appointed by the management for this audit.

2. **Statutory Audit:** Under Section 148(1) of the Companies Act, 2013, it has been laid down that where in the opinion of the Central Government it is necessary so to do in relation to any company required to include in its books of account particulars referred to therein, the Central Government may, by order, direct that an audit of cost accounts of the company shall be conducted in such manner as may be specified in the order, by an auditor who shall be a cost accountant within the meaning of the Cost and Works Accountants Act, 1956.
3. **Cost Audit by the Government:** Besides the Statutory audit, the audit can be instituted by any Government-Central of State–for the following purposes:
   (a) to ascertain the cost of production and marketing in case of industries to whom financial assistance in the form of subsidy, grant-in-aid, lower or free rates of taxes, etc., is to be provided,

   (b) to ascertain costs in order to fix maximum prices of products,

   (c) to ascertain the cost of contracts to be given to contractors under Cost-plus contracts, and

   (d) to fix limits of loans to be advanced by financial corporations, small-scale industries, and banks to different industries, on the basis of production costs.

4. **Cost Audit by Contractees:** Were it decided by the contractee with the contractor that the contractor would be paid the cost of the contract plus a fixed percentage of profit, as in the case of 'Cost-plus' contracts, the audit is instituted by the contractee to ascertain the correct cost of the contract. Similarly, where a contractor appoints sub-contractors on the basis of cost and profit basis, the contractor institutes a cost audit of the accounts of sub-contractors to settle payments.
5. **Cost Audit by Tribunals:** To settle labor disputes on wages, bonuses, profit sharing, etc., the Tribunals may ask for a cost audit of the concerned businesses. Similarly, Income-tax Tribunals may direct cost audits for the assessment of tax based on the profits of a manufacturing concern.
6. **Cost Audit by Trade Associations:** In the case of concerns of a similar nature costs are compared with each other under Uniform Costing or Inter-firm Comparison by Trade Associations. Trade Associations want to know the costs to seek concessions from the Governments in the gestation or take-off periods of certain concerns, and for that purpose, a cost audit is required.

Classification of Cost Audit:

Cost Audit can be classified as (1) Internal audit and (2) External or Statutory audit.

(I) Internal Audit: Internal audit is done by the auditor who is in employment by the business, with the help of his departmental staff. The objectives and scope of internal audit differ from concern to concern depending on the requirements of the management.

1. to ensure that the business is being run according to plan;
2. to verify the correctness of accounts by vouching:
3. to check that the budgets have been prepared correctly:
4. to detect errors of omission, commission, and errors of principle, and to prevent frauds and defalcations;
5. to check that forms and documents are executed regularly and submitted punctually:
6. to ensure that accounting is done daily, as per schedule;
7. to check whether the routine and procedures are being followed as per the Cost plan;
8. to detect weaknesses in the system and remove them:
9. to see that there is no communication gap between top management and the executives; the business policy and instructions are communicated to the workers as scheduled and the managerial reports are submitted in time to the management;
10. to verify the inventory control and physically check the stocks:
11. to compare the costs of products from period to period, analyze the causes of variations and suggest ways and means to reduce and control costs; and
12. to effect moral checks and improve efficiency.

(II) External or Statutory Audit: The external audit is conducted with a particular object in view, by the outside auditors, and thus, has a limited scope. It may be conducted by the Tribunal, Government, Contractee, or Trade Association, but in each case, the object is specific and limited. The external auditor is not an employee of the company but an outside party and he is responsible not to the company but to his appointing authority to whom he submits his report.

It may be mentioned that statutory cost audit was introduced with the objectives : (a) to make management cost-conscious, and (b) to help in improving industrial efficiency all around and to maximize production. However, such an audit may be required under the following conditions also:

1. For fixation of retention price in case of materials of national importance such as steel, cement, etc.
2. To check excessive profiteering.
3. To find the reasons for cost variation from unit to unit in the same industry.
4. For settling trade disputes about claims for higher wages, bonuses, etc.
5. To determine the correct cost of production, where duty or tax is levied on products based on the cost of production.

6. To find out the correct position of inefficient and uneconomic industrial units.

TECHNIQUE AND PROCEDURE OF COST AUDIT

In order to reap the benefit of cost audit, it is necessary that it should be done in its entirety and should be done continuously. Before the commencement of the audit, the costing method and technique adopted should be examined. The list of various sheets, documents, schedules, statements, etc., related to cost and cost records and books should be obtained.

It should be examined whether the work of internal control is effectively being done. It should also be seen what is the object for conducting the audit, the scope of the audit, nature, and size of the business. In case the size of the business is very large, then the function of book-keeping and accounting and internal control system should be very effectively organized.

After examining the above aspects, the cost auditor makes his cost audit programme which is similar to that of a financial audit. The work of vouching, checking, and ticking is also similar to a financial audit.

Generally, the technique of cost audit should be as follows:

(1) All the receipts and payments should be vouched i.e., each transaction should have a voucher, so as to verify the reliability of transactions.

(2) All the calculations and postings should be verified. For this special tick mark should be adopted. If the work is more and time is less then a test check should be applied.

(3) The items of the suspense account should be examined very carefully. All the adjustment entries should be well examined.

(4) The comparison of actual data with budgeted data should be made and any variance should be carefully analyzed.

(5) As regards to the technique the following points are to be considered:

(i) Physical Examination, (ii) Physical Count, (iii) Confirmation, (iv) Examination of original document, (v) Scanning, (vi) Enquiry.

(6) He should note down all those points in his notebook that he considers reasonable.

Tax Audit

Introduction:

The financial statement prepared by a business enterprise is very useful for owners of the organization. Besides them, there are other interested parties such as investors, bank authorities, creditors or suppliers, tax authorities, and labour representatives. It is, however, to be noted that these statements may not fulfill the requirements of all parties alike. As such, the organizations are advised to prepare a special statement of accounts giving relevant information and such a statement should be duly audited by professional accountants.

Tax Audit Defined:

Annual final accounts exhibit a true and fair view of the financial affairs of the business. Such accounts are audited by a professional accountant who duly certifies them and submits them to the owners of the business. But determining tax payable is not possible unless the auditor examines the counts and submits them to the Income Tax authorities.

Hence, it is established that in accordance with the provisions of the Income Tax Act, of 1961. the accounts of some types of assesses are required to be audited by an auditor for the determination of tax payable. The process as such is called a tax audit.

Appointment of Tax Auditor:

While a chartered accountant is covered as an auditor by definition, so only a practicing chartered accountant can perform tax audits as required under section 7 of the Chartered Accountants Act, 1949. Before accepting the assignment, the chartered accountant may communicate with the auditor of the previous year who has done similar work earlier.

For the purpose of tax audit and audit of statements for the purposes of reliefs and deductions under the Income Tax Act, an accountant may be appointed by the management of the organization or by the assessed himself. For a company, the Board of Directors or the Chief Executive on behalf of the Board can appoint the tax auditor. Similarly, the owner of a sole trader or partners in a partnership firm or any person authorized by them can appoint the auditor.

Limits (Ceiling) on Acceptance of Tax Audits:

The Institute of Chartered Accountants of India has prescribed the number of tax audits that a chartered accountant can accept in a financial year. For an individual chartered accountant, the number of tax audits that he can accept is sixty while for a firm of chartered accountants, a limit of 60 will be applicable per individual partner. For a partner in one firm, if he is a partner in another firm also, the number of tax audits to be accepted by him will not exceed sixty. The assessment can be corporate or non-corporate. Besides this, the tax audit of the head office and its branch or branches will be counted as one tax audit. If a tax audit is the head office and its branch or branches will be con conducted jointly by 2 or more firms, it will be counted as one tax audit in the case of such a firm.

Maintenance of Accounts by Certain Persons Carrying on 'Business' or 'Profession'

According to section 2(13) of the Income Tax Act, a 'business' includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture.

According to the Income-tax Act, every person carrying on legal, medical, engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or any other profession as is notified by the Board in the official gazette shall keep and maintain such books of accounts and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of this Act.

(i) It is obligatory for a person carrying on business to get his accounts audited before the 'specified date' if the total sales, turnover or gross receipts in business for the previous year exceed one crore rupees.

A person carrying on a profession has to get his accounts audited before the specified date if his gross receipts in profession for the previous year exceed twenty-five lakh.

(ii) where the business or profession is newly set up in any previous year, if his income from the business or profession is likely to exceed one lakh twenty thousand rupees or his total sales, turnover or gross receipts, as the case may be, in business or profession are or is likely to exceed ten lakh rupees during the such previous year.

(iii) where the profits and gains from the business are deemed to be profits and gains of the assesse under section 44AD or section 44ADA or section 44AE or as the case may be, and the assesse has claimed his income to be lower than the profits or gains so deemed to be the profits and gains of his business as the case may be, during such previous year; keep and maintain such books of account and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of this Act.

Compulsory Audit of Accounts:

(1) If turnover/gross receipts exceed the prescribed limit. It is obligatory for a person carrying on business to get his accounts audited before the 'specified date' if the total sales, turnover, or gross receipts in business for the previous year exceed one crore rupees.

A person carrying on a profession has also to get his accounts audited before the specified date if his gross receipts in profession for the previous year exceed 25 lakh rupees. Such persons are also required to obtain the 'species report of the audit in the prescribed form.

(2) Business under section 44AE. Where the assesse claims that the profits and gains of business of plying, hiring or leasing goods carriage (Sec. 44AE) are lower than the deemed profits, he has, to get his accounts audited by the specified report of the audit in the prescribed form.

(3) Business under section 44AD. Where the assesse claims that the profits and gains of business are lower than the deemed profits and his income exceeds the maximum amount which is not chargeable to tax during the such previous year, he has to get his accounts audited by the specified date and obtain a report of the audit in the prescribed form.

***(*4) Profession under section 44ADA.** Where the assesse claims that the profits from profession are lower than the deemed profits and his income exceeds the maximum amount which is not chargeable to tax during such previous year, he has to get his accounts audited by the specified date and obtain a report of the audit in the prescribed form.

(5) Assesse claims deduction under Sections 33AB, 33 ABA, 35AD, 350 or 35E. Where the assesse claims deduction under Tea development account'. 'Site restoration fund'. 'Specified Business'. "Preliminary expenses' or 'Expenditure on prospecting, etc., for certain minerals', he has to get his accounts audited by the specified date and obtain a report of the audit in the prescribed form.

Accountant:

An accountant, for the purpose of section 44AB as also for audit of specified statements under various sections of the Income Tax Act, means a chartered accountant within the meaning of the Chartered Accountants Act, 1949. Any person who by virtue of the provisions of section 141 of the Companies Act, 2013 is entitled to be appointed to act as an auditor of companies.

Penalty:

Under section 271B of the Income Tax Act, 1961, if any person fails to get his accounts audited in respect of any previous year or years relevant to an assessment year or furnish a report of such audit as required under section 44AB, the Assessing Officer may direct that such person shall pay, by way of penalty, a sum equal to one-half percent of the total sales, turnover or gross receipts, as the case may be, in business or of the gross receipts in the profession, in such previous year or years or a sum of 1,50,000, whichever is less.

MANAGEMENT AUDIT

Meaning and Definition: Management audit is attempt made to evaluate various management functions and process. A detailed and critical review of all the objectives, policies, procedures and functions of management is made with a view to bring about an overall improvement in managerial efficiency.

According to Leslie R. Howard, " An investigation of a business from the highest level downward in order to ascertain whether sound management prevails throughout, thus facilitating the most effective relationship with outside world and the most efficient organization and smooth running of internal organization."

The Scope of Management Audit:

A management audit is vast as compared to a financial review because it not only evaluates finance but also other features of a company. It has an efficiency for assessing management from top to lower level. Few main scopes of management audit are described below:

- **Calculate the Effectiveness of the Management-** It audits the entire level of management of a company.
- **Execution of Principals and Policies-** It reviews whether the policies and the principles deployed by the company is effective and successful.
- **Locate and Examine the Differences-**It helps to identify the differences in productivity and if the pattern set by the company is not fulfilled.
- **Suggest for Improvement-** The management audit suggests improvement in areas, e.g. purchase, sale, finance, administration, human resources, etc.,

Objectives Of Management Audit:

Some of the important objectives of Management Audit are as follows:

1. To streamline the managerial services according to the requirements of the business and achieve efficiency in the management.
2. To obtain first hand information and knowledge of operating characteristics and problems of each functional area so as to have most efficient administration of the operations.
3. To review the methods used in managerial services and suggest remedies for improvement to attain efficiency in managerial services.
4. To pinpoint deficiencies and defects in functional areas, thinks of an effective policy and thus aids or helps the management for better performance.
5. To enable the management to find out how far certain decisions of management have jeopardized the individual managerial decisions.
6. To aid management in discharge of their duties at all levels more effectively and efficiently.

Advantages of Management Audit:

1. It helps management in preparation of plans, objectives and policies and their efficient achievement.
2. It helps management in taking vital decisions for maximization of profits.
3. It helps the management in strengthening its communication systems within and outside the business.
4. It helps in evaluating the performance of management in various areas and measures to improve it.
5. It can help management in preparation of budgets and resource management.
6. It can help management in training of personnel and marketing policies.

Need of Management Audit:

The statutory auditor is not required to examine the policies of management and their implementation or whether any improvement in the efficiency of management can be made. In these days a report on all these matters is very important to the business. The management auditors are appointed to advise the management on various matters related to management. These persons examine the various aspects of management and evaluate the actual performance by comparing it with predetermined standards. Such auditors may or may not be from the field of accountancy. They advise management on the matters relating to performance of various departments as well as of the organization as a whole.

The management may conduct management audit periodically to review the efficiency of managers. The results may be used to provide incentives to staff. The management audit reveals irregularities and defects in the working of management and suggests the ways to improve the efficiency of management. It concentrates on the results and does not examine whether procedures have been followed or not.

Appointment of Management Auditor:

A team of experts should be appointed to conducted management audit. It can't be expected that an individual can possess expertise in all management's fields; therefore, an expert in each field of management should be included in the team of management auditors. Such team should have full cooperation from the top level management to enable it to conduct the audit smoothly.

The members of management audit team should have a proper training and expert knowledge of science of management. A wide experience of actual work situations will be added to o the advantage. The audit of the management involves an appraisal of activities of organization; the auditor must study the organization and its plan in detail.

The internal auditors may be regarded as suitable persons for conduct of management audit because they are familiar with the internal workings of management. Sometimes it is desirable to have O & M experts as management auditors. All will depend on the scope of management audit which the management has to decide.

Qualities of a Management Auditor : The area of activities of management audit is wide; no specific qualities can be narrated for management auditor. He must possess enough qualities to fulfill his professional obligations. Some of the qualities of the management auditor can be described as follows.

1. He should have a good knowledge of managerial functions.
2. He should be familiar with the various principles of management, planning, control, management by objectives, and management by exception.
3. He should have a good understanding of financial statements and their preparations.
4. He should understand the working of organization and its problems.
5. He should be able to understand the objectives of organization.
6. He should be able to assess and critically examine the internal control systems.
7. He should be able to understand the nature of the product and its production process.
8. He should understand plans, budgets, rules and the procedures applied in the organization.
9. He should have a good knowledge of financial statement analysis techniques like standard costing, budgetary control, ratio analysis, fund flow statements etc.
10. He should be familiar with the human resources accounting, social accounting, etc.

11. He should have a good knowledge of economics, business laws, etc

Management Auditor's Report: In the end, the management auditor prepares a report. On the basis of findings and definite information, the auditor prepares a report making suggestions for improvement in the working of the management. His report should give a correct assessment of the working of organization. He should not hesitate in criticizing the management. His recommendations should be constructive and not merely condemning in nature. His report may include the following matters:

1. Whether the management; and the staff relations are healthy.
2. Whether the return to shareholders is adequate.
3. Whether the methods of production are out-dated.
4. Comparison of operating efficiency of the organization with other concerns.
5. Rate of the return on investment.

Performance Audit

A performance audit is mainly concerned with ascertaining whether the various internal activities in the enterprise are being carried out efficiently. In this sense, the functions of a performance audit are by and large the same as that of internal audit. In order to ensure effective internal control, many persons within the enterprise have to perform various control activities. For example, for a proper control over cash disbursements, all activities forming part of the purchase procedure have to be closely reviewed, such as, departmental requisitions, purchase orders, purchase invoices, goods received memos, and so on. A review of activities performed at each of these stages will be an appropriate performance audit.

Audit of Clubs

The following points need to be considered while conducting Audits of Clubs –

- An Auditor should decide his scope of work from his appointment letter.
- He should know whether he is engaged for only accounting and financial matter or some other assignment too.
- He should know about the constitution and the legal status of the Club under which Act the club is registered.
- A Club may be registered under the Companies Act, the Societies Registration Act or the Public Trust Act.
- An Auditor should note down all the related provisions of the applicable Act relating to the accounts and audit.

- He should study the Memorandum of Association and the Articles of Association to know the powers of executive committee.
- An Auditor should be aware of the important decisions relating to accounts, finance, sale and purchase of fixed assets and investment from the minute book of meeting of the Board of Directors or the Trustees or the Managing Committee.
- He should obtain a list of books of accounts, related documents and other records maintained by that club.

Bank Audit

Auditor will begin his work by carrying out a thorough verification of the assets and liabilities of the banking company. Points to which he must pay his special attention in the performance of this work with regard to each individual asset and liability are discussed below:

1-Cash in hand / with other banks – Auditor will attend on the last date of the period under audit and will verify cash in hand or bullion by actual counting or weighing. He will compare and tally the balance with the Cash Book, the Day Book. Balances with the State Bank or other banks shall be verified.

2-Investments – Auditor shall obtain a list of the investments of the bank. He shall verify these investments at the close of the year by carrying out an actual inspection of the scripts or other documentary evidence available with the bank. He must take utmost care to see that the same investments are not shown to him twice.

3-Advances, Overdrafts, Loans and Cash Credits – Auditor shall obtain a schedule of all loans, advances, cash credits and overdrafts etc from the bank and will then proceed to verify them with the balances of respective leaders. The totals will be compared and checked up with the respective total accounts maintained in the general ledger.

The responsibilities of the auditor with regard to the verification of loans and advances etc are very heavy. He will have to pay special attention with regard to the different kinds of advances such as:

a) Advances against government securities;

b) Advances against stock in trade;

c) Advances against properties;

d) Advances against Life policies;

e) Advances against fixed deposits;

f) Advances against bullion.

4-Bills Discounted and Purchased – Auditor will verify bills discounted and purchased as recorded in the books with those which are in the actual possession of the bank. He shall see that the limits fixed by the Board of Directors have not been exceeded and that the total of the Bills Discounted Ledger agrees with the balance of the control account in the General Ledger. He will examine the date of maturity of each bill in order to verify the amount of overdue bills.

5-Contra Accounts – Usually they relate to the following types of accounts (a) Bills for collection (b) acceptances, guarantees, letters of credit etc, opened on behalf of the customers. These items appear on both sides of the balance sheet as they constitute both the assets and liabilities of the bank.

6-Branch adjustments – This item discloses the combined effect of the differences in the inter-branch balances. Auditor shall verify this item from the certificates of balances received from branches preparing reconciliation statements.

7- Other Assets – Other assets of the bank shall include premises, furniture and fixtures, stock of stationary, interest accrued on investments etc. Auditor shall examine the title deeds or any other type of documentary evidence in order to ascertain that the assets of the bank, on the date of the Balance Sheet, do exist in the name of the bank and that they have been properly valued.

8-Liabilities – Important items which usually appear on the liabilities side of the Balance Sheet of a bank are the customer's deposits, borrowings from other banks or agents etc, bills payable, branch adjustments, liabilities for outstanding expenses and contingent liabilities etc. Auditor will try to check up the understatement or overstatement of liabilities.

Audit of Educational Institutions

Audit of books of educational institutions like school, college, universities etc. or other such institutions which are engaged in the educational field is known as audit of educational institutions. Auditor should check income and expenditure account and balance sheet of such institutes in order to verify and report the true and fairness of results presented by income statements and financial position presented by the balance sheet. Generally, the methods and procedures for vouching and auditing is same even though an auditor of educational institution should perform following tasks:

1. The auditor should go through the University Act. Trust deeds and should note the rules and regulations relating to accounts. The governing body may pass resolutions from time to time in respect to accounts. A copy of minutes books should be made available to him so that he may be able to confirm whether the decision of the government body have been compiled with.
2. Auditor should obtain a copy of budget or financial statements to study of different heads of income and expenditure.
3. Auditor should thoroughly assess the strength of internal check.
4. Auditor should vouch the grant-in-aid from the government carefully.
5. Auditor should verify the receipts of monthly fees from students, from counterfoils or carbon copy of the receipts. He should also see whether cash received has been banked daily or not.
6. Other charges from the students such as examination fees, laboratory fees, fines etc. should be carefully verified.
7. Any fees received in advance should be properly adjusted.
8. The concession of fees and other charges should be duly authorised by the proper authority. Any charges becoming irrecoverable should be written off only after proper authority has recommended.
9. Any grant-in-aid or funds received for a particular purpose must be utilised for the same.
10. The donations and other subscriptions from the various authorities have been accounted for and acknowledged.
11. The income from property, investment etc., should be properly verified from the vouchers.
12. Auditor should vouch the amount of salaries paid with the Salary Register. Any increment given to an employee shall be duly sanctioned.
13. The staff provident fund should be verified and it should be seen that it is invested as per the rules.
14. The establishment expenses must be carefully vouched and it should be seen that capital expenditure has not been treated as revenue expenditure or vice versa.
15. The payment of scholarship should be verified with the receipt from students and Scholarship Register.
16. All the assets and liabilities should be properly exhibited in the balance sheet.
17. The stock of equipment, stationary, furniture should be carefully verified.
18. While making payment of staff salaries, income tax should be deducted at source and shall be duly deposited with the Income Tax Department.

Audit of Non –Profit Institution

1. Examine the constitution, rules and regulations or the Trust Deed if any.
2. Examine that the fund for specific purpose have been used accordingly.
3. Vouch the donations and Receipts
4. Vouch the Income from Investments.
5. Vouch the Receipt of Rents
6. Vouch the payment with the minute book of the trustees or the managing committee regarding important payments.
7. Verify the purchase of Investments
8. Verify the cash and bank balance.
9. See the accounts are drawn up according to the regulations.
10. If any special Act has been passed by the State relating to the Charitable Institutions, see that the form of accounts and auditor’s report are drawn up according to the regulation.

Audit of Insurance Companies

1. Vouch the premiums received with the copies of insurance policies, cover notes or premium receipts.
2. Interest and dividends are to be checked.
3. The Claims paid or payable by the company to be checked.
4. Commission payments should be vouched.
5. Management Expenses should be examined.
6. All the reinsurance in detail should be checked.
7. All the investments made and cash balanced should be verified.
8. Scrutinize carefully the outstanding branch and agency balances to determine that they are recoverable.
9. See that the sufficient amount has been set aside as reserve for unexpired risks.
10. Make sure that all the contingent liabilities are ascertained and provided for.
11. Make sure that the code of conduct has been duly observed as it is required to be observed by the insurance companies in India.
12. See that the annual accounts of insurer have been prepared in accordance with the prescribed forms and regulations.

Social Audit

A social audit is a formal review of a company's endeavors, procedures, and code of conduct regarding social responsibility and the company's impact on society. A social audit is an assessment of how well the company is achieving its goals or benchmarks for social responsibility.

Ideally, companies aim to strike a balance between profitability and social responsibility. A social audit is an internal examination of how a particular business is affecting society. The audit helps companies to determine if they're meeting their objectives, which may include measurable goals and benchmarks. A social audit serves as a way for a business to see if the actions being taken are being positively or negatively received and relates that information to the company's overall public image.

In the era of corporate social responsibility, corporations are often expected to deliver value to consumers and shareholders as well as meet environmental and social standards. Social audits can help companies create, improve, and maintain a positive public relations image. For many companies, a good public perception helps foster a positive image of the company and ultimately reduce negative impacts on earnings from bad press.

Items Examined in a Social Audit

The scope of a social audit can vary and be wide-ranging. The assessment can include social and public responsibility but also employee treatment. Some of the guidelines and topics that comprise a social audit include the following:

- Environmental impact resulting from the company's operations
- Transparency in reporting any issues regarding the effect on the public or environment.
- Accounting and financial transparency
- Community development and financial contributions
- Charitable giving
- Volunteer activity of employees
- Energy use or impact on footprint
- Work environment including safety, free of harassment, and equal opportunity
- Worker pay and benefits
- Nondiscriminatory practices
- Diversity

Environmental Audit

An environmental Audit provides an assessment of the environmental performance of a business or organization. The audit reveals details about the activities of a company and its compliance with environmental regulations. Audit information is presented to the management team and employees.

An environmental audit evaluates and quantifies the environmental performance. It identifies compliance problems or management system implementation issues.

Scope of Environmental Audit:

The prime aim of audit is to analyze the performance of existing management system. It performs a fundamentally different role from the monitoring of environmental performance. Depending upon the scope, audits can address one issue or whole range of issues. The audit team size, time period and depth of investigation depend upon the scope of audit. If scope is greater, the size of audit team will be also be bigger with more time spent onsite as well as greater depth of investigation. The environmental auditing is applied not only to environmental, health and safety management in company's operations, but also to product safety, quality, management and to areas such as loss prevention.

Objectives of Environmental Audit:

The basic objectives of "environmental audit" are same all over the world as follows:

a. To determine the mass balance of various materials used and performance of various process/ process equipment to identify usage of materials in excess than required,

b. To review the conversion and accordingly fix up norms for equipment/operations performance and minimization of the waste.

c. To identify the areas of water usage and wastewater generation and determine the characters of wastewater.

d. To determine the air emissions, their sources, quantities and characteristics.

e. To determine the solid and hazardous wastes generated, their sources, quantities and characteristics.

f. The possibilities of waste minimization, recovery and recycling of wastes.

g. To determine the performance of the existing waste treatment/control systems so as to modify or install additional or alternative control equipment accordingly.

h. To determine the impact on surrounding environment like ground water, stream, residential area, agricultural area, sensitive zone etc

i. To verify compliance with the standards and conditions prescribed by different acts, notifications, amendments etc.

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