UDHNA COLLEGE

TYBCOM SEM-V

ADVANCED ACCOUNTING & AUDITING-V

	Auditing	
2	**Introduction to Auditing:** **1.1 Introduction to Auditing** Introduction Meaning of Auditing Scope and Principles of Auditing Difference between Auditing and Accountancy Advantages and Limitations of Auditing. **1.2 Objectives of Auditing** Introduction Objects of Auditing Detection and prevention of errors Effects of an errors on agreement of a trial balance Detection of errors when trial balance does not agree Embezzlement of cash Misappropriation of goods Manipulation of accounts Position of Auditor Modern view on position of auditor regarding fraud. Other objects of Audit. **1.3 Types of Audit** Introduction Types of Audit Other audits	**20%**

Ch. 2 Introduction to Audit (20%)

2.1 Introduction and Meaning:

The word Audit is derived from Latin word “Audire” which means ‘to hear’. Auditing is the verification of financial position as disclosed by the financial statements. It is an examination of accounts to ascertain whether the financial statements give a true and fair view financial position and profit or loss of the business. Auditing is the intelligent and critical test of accuracy, adequacy and dependability of accounting data and accounting statements.

Spicer and Peglar defined audit as: “Audit is such an examination of the books, accounts and vouchers of a business, as shall enable the auditor to satisfy himself whether or not the balance sheet is properly drawn up, so as to exhibit a true and correct view of the state of the affairs of the business according to the best of his information and explanations given to him and as shown by the books ; and if not, in what respects it is untrue or incorrect.”

Characteristics of Audit.

1. Audit is systematic and scientific examination of the books of account.

2. Audit is a verification of the results shown by the Profit & Loss Account and the state of affairs as shown by the Balance Sheet

3. Audit is a critical review of the system of accounting and Internal control.

4. Audit is on-site verification activity, such as Inspection or examination of process or quality system, to ensure compliance to regulatory and other laid down requirements.

5. Audit is undertaken by an independent person or body of persons who are duly qualified.

6. Auditing is an Art & Science

Scope of Audit.

The scope of an audit refers to the areas under which the auditor will focus his attention during the process. This scope is determined by the nature, size, and complexity of the business and by the terms of engagement by the auditor. These often comprise:

1. Verification of Transactions

2. Review of Financial Statements

3. Review of Internal Controls

4. Legal and regulatory compliance

5 . To verify proper allocation of capital and revenue incomes & expenses

Principles of Audit.

AAS-1 describes the basic principles, which govern the auditor's professional responsibilities and which should be complied with whenever an audit is carried out. These are:-

1. Integrity, objectivity and independence:

2. Confidentiality:

3. Skill and competence:

4. The auditor should carefully direct, supervise & review work delegated to assistants. 5. Documentation:

6. Planning:

7. Audit evidence:

8. Accounting system & internal control:

9. Audit conclusions and reporting:

Difference between Accountancy and Auditing.

Points of difference:

1. Meaning
2. Objective
3. Scope
4. Person Known as
5. Qualification
6. Appointment
7. Principles
8. Report
9. Order

Qualities of an Auditor.

Qualities that are needed for an auditor are as follows:

1. Honesty

2. Tactful

3. Ability to Work Hard

4. Impartial

5. Cautious and Vigilant

6. Methodical

7. Ability to Trace out Facts and Figures (Realistic Attitude)

8. Always Inquisitive (not having an attitude of suspicion)

9. Courage

10. Ability to Maintain Secrets

11. Good communication skill

12. Common Sense

13. Competent to adopt challenges (New digital business world of E-Governance)

14. Thorough knowledge of the techniques of auditing

15. Knowledge of the technical details of business

16. Knowledge of various provisions and laws of accounts, audit and other related subjects

Advantages & limitations of Auditing.

Advantages of Auditing:

1. To ascertain the correctness of accounts
2. To find errors & frauds at early stage
3. Moral check on employees
4. Create confidence in the partners
5. Create confidence in the shareholders
6. Help in fixation of purchase price
7. Help management in decision making
8. Helpful to decide tax liability
9. Credit facilities easily available
10. Helpful in settlement of insurance claim
11. Helpful in settlement of employees disputes

12. Helpful to Legal authorities

Disadvantages of Auditing:

1. Not useful for small Business Units
2. Lack of Assurance of completely Correct Accounts
3. Possibility of errors & frauds
4. Possibility of incomplete information & explanation
5. Disturbance in regular work
6. Expensive
7. Dependence on Expert's Opinions
8. Post-mortem of figures
9. Auditor's Prejudice
10. Influence of Managerial Personnel

Objects of Audit

Objects of Audit are classified in three parts:

1. Principal Objects:

1. Verify accounts are correctly written
2. P & L A/c shows true & fair profit or loss of business
3. B/S shows true & fair state of affairs of business
4. Proper accounting method is followed

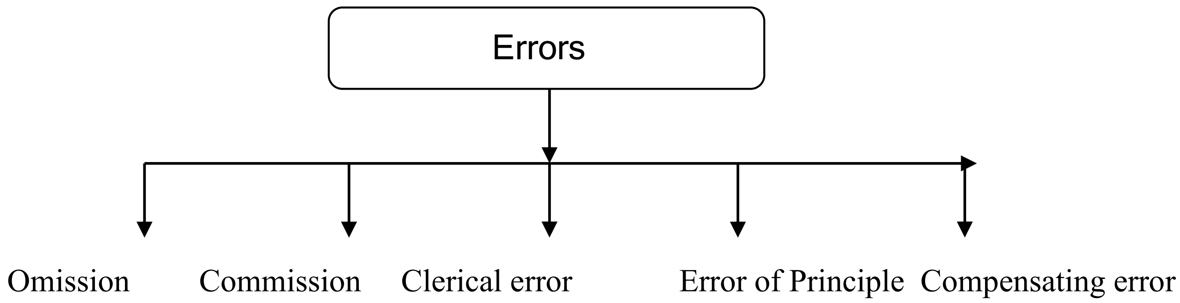
2. Subsidiary Objects:

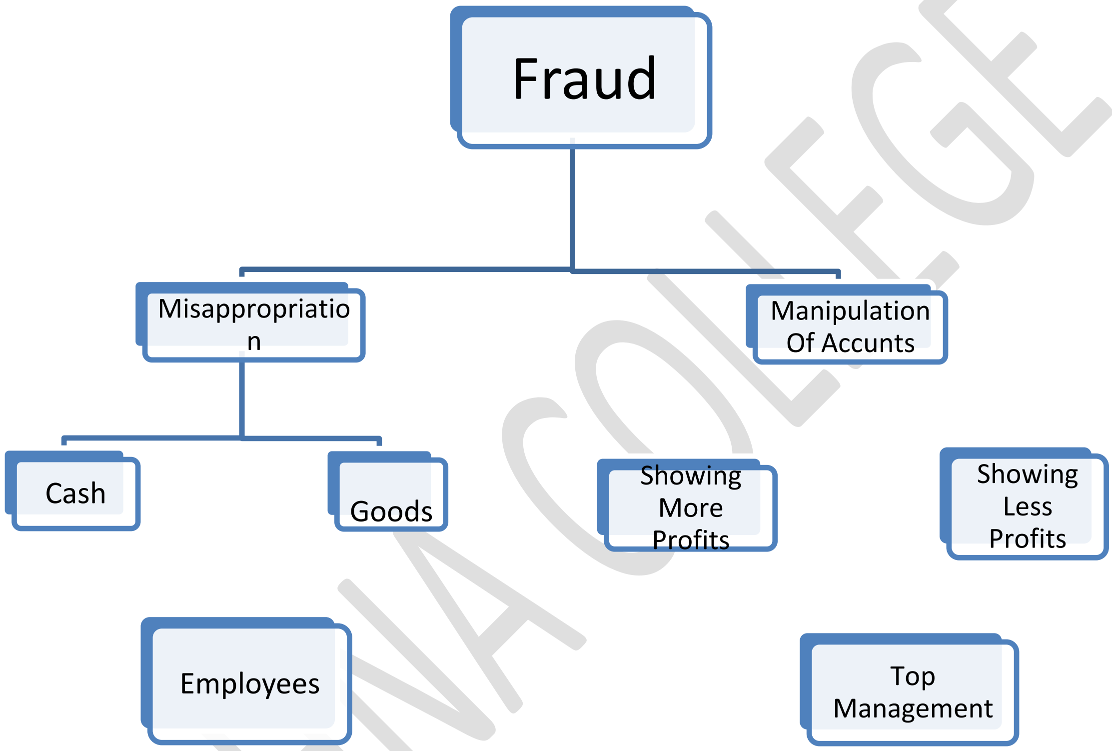
1. Detection & prevention of errors
2. Detection & prevention of frauds

3 . Other Objectives :

1. Moral check on employees
2. To comply with requirements of companies Act
3. To decide objectives of special audit & audit accordingly
4. To create trust in Government official

Types of Errors:





Errors affecting to Trial Balance and not affecting to Trial Balance.

Chapter -3

Errors affecting to Trial Balance

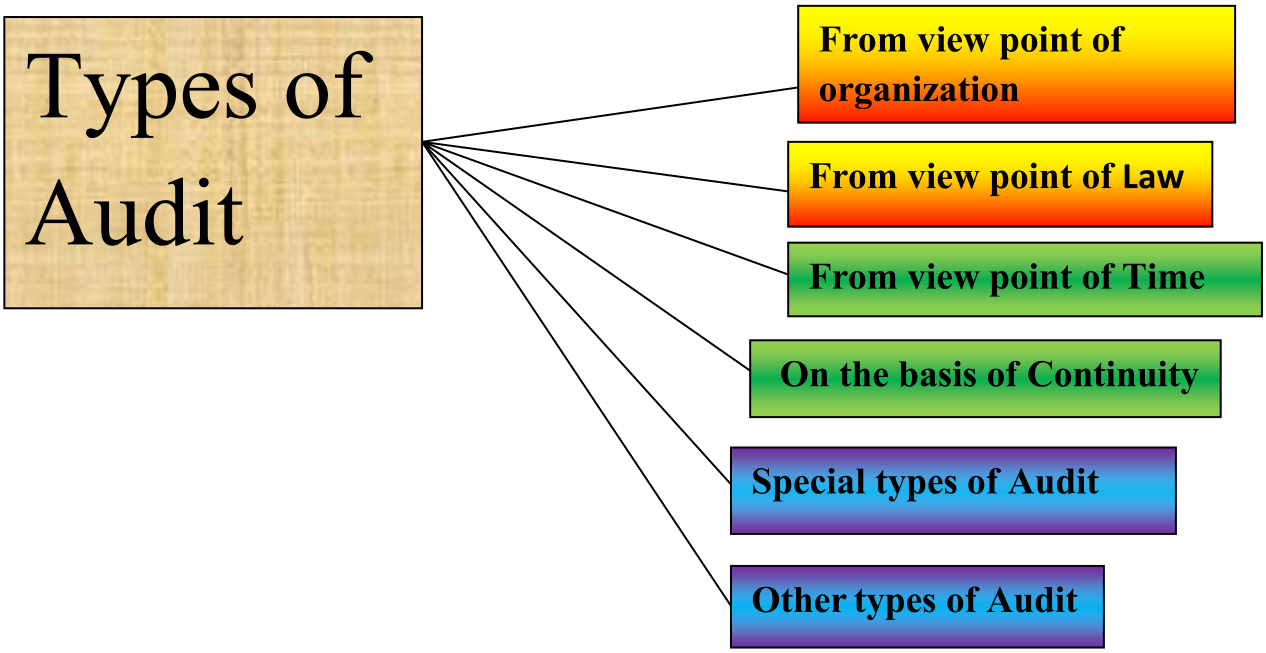
- ost to an account (Partially omitted transaction)
- 2. Posting wrong amount to an account
- 3. Posting on wrong side of an account
- 4. Double posting
- 5. Finding wrong balance of an account
- 6. Carry forward the wrong balance of an account
- 7. Recording incorrect balance in trial balance
- 8. Recording the balance on wrong side of trial balance
- 9. Mistake in totalling of subsidiary books

Errors not affecting to Trial Balance

- 1. Error of Omission
- २. Error of Principle
- 3. Compensating Error
- 4. Errors committed while writing books of original entry
- 5. Posting of correct amount on correct side but to a wrong ledger account

Liability of an Auditor for detection of errors & frauds:

1. Exercise Reasonable care & skill: case of - The Kingston cotton mills & Armitage Vs. Brewer and knott
2. Work honestly: case of – London & General Bank
3. Not to be Suspicious: case of - The Kingston cotton mills- Remarks given by judge- An Auditor is a watch dog and not a blood hound
4. Not liable for detecting carefully laid frauds:
5. No guarantee for correctness of accounts: case of – London & General Bank


Types of Audit
From view point of organization
From view point of Law
From view point of Time
On the basis of Continuity
Special types of Audit
Other types of Audit

From view point of organization	Audit of sole trader Audit of partnership Audit of joint stock company Audit of trust Audit of co-opraetive socetity
From view point of law	Statutory Audit Voluntary Audit Special Audit
On the basis of Time	Interim Audit Continuous Audit Annual Audit
On the basis of Continuity	Partial Audit Complete Audit Auditing in depth
Special Types of Audit	Cost Audit, Tax Audit, EDP Audit Govenment Audit, Secretarial Audit, Management Audit Environment Audit, Social Audit, Internal Audit
Other Audits	Proprietary Audit, Efficiency Audit, Branch Audit