

**COURSE** : II B.COM (CA)  
**SEMESTER** : IV  
**SUBJECT** : Auditing  
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**SYLLABUS:**

**Definition-general objectives of auditing-advantage and limitations of auditing-auditing and investigation-qualification of an auditor**

**Meaning**

An official inspection of an organization's accounts, typically by an independent body. "Audits can't be expected to detect every fraud" conduct an official financial inspection of (accompany or its accounts).

**Definition**

Auditing refers to a systematic examination of books, accounts, documents and vouchers of an organization to ascertain how far the financial statements present a true and fair view of the concern.

**Auditing and investigation**

It is a detailed examination of accounts and enquiry into the state of affairs of the business or for a specific purpose.

**FEATURES OF AUDITING**

- a. Audit is a systematic and scientific examination of the books of Accounts of a business;
- b. Audit is undertaken by an independent person or body of persons Who are duly qualified for the job.
- c. Audit is a verification of the results shown by the profit and loss Account and the state of affairs as shown by the balance sheet.

- d. Audit is a critical review of the system of accounting and internal Control.
- e. Audit is done with the help of vouchers, documents,
- f. Information and explanations received from the
- g. Authorities.
- h. f. The auditor has to satisfy himself with the authenticity
- i. of the financial statements and report that they exhibit
- j. a true and fair view of the state of affairs of the concern.
- k. g. The auditor has to inspect, compare, check, review,
- l. scrutinize the vouchers supporting the transactions
- m. and examine correspondence, minute books of share
- n. holders, directors, Memorandum of Association and
- o. Articles of association etc., in order to establish
- p. Correctness of the books of accounts.

### Accounting vs Auditing

Accounting	Auditing
It's a continuous process carried out throughout the year.	It's a onetime activity after the closure of accounting year.
No prescribed qualification is required to be an accountant.	He must be the member of Institute of Chartered Accountants of Pakistan to become an auditor.
An accountant is a employee of the company.	An auditor is an independent professional.
An accountant gets regular salary for his work.	He gets remuneration for his professional work. Audit fees.
Accounting is concerned with recording of Business transactions systematically. Accounting precedes, auditing	Its concerned with verification of accounts prepared by The accountant. Auditing succeeds accounting

## Difference between Accounting and Auditing

<b>BASIS FOR COMPARISON</b>	<b>BOOKKEEPING</b>	<b>ACCOUNTING</b>
Meaning	Bookkeeping is an activity of recording the financial transactions of the company in a systematic Manner.	Accounting is an orderly recording and reporting of the financial affairs of an organization for a particular Period.
What is it?	It is the subset of accounting.	It is regarded as the language of Business.
Decision Making	On the basis of bookkeeping Records, decisions cannot be taken.	Decisions can be taken on the basis of accounting records.
Preparation of Financial Statements	Not done in the bookkeeping process	Part of Accounting Process
Tools Journal and Ledgers	Balance Sheet, Profit & Loss	Account and Cash Flow Statement
Methods / Sub-fields	Single Entry System of Bookkeeping and Double Entry System of Bookkeeping	Financial Accounting, Cost Accounting, Management Accounting, Human Resource Accounting, Social Responsibility Accounting.
Determination of Financial Position	Bookkeeping does not reflect the financial position of an organization.	Accounting clearly shows the financial position of the entity.

## **ADVANTAGES OF AUDIT**

### **Advantages of Audit to the business enterprise and Management:**

- (1) Accuracy or correctness of the books of accounts
- (2) Authenticity and reliability of the financial statements.
- (3) Detection and rectification of errors and frauds.

### **Advantages of audit to the owners of the business:**

- In the case of a **sole trader**, auditing assures him that all business transactions have been duly accounted for and there are no errors or frauds.
- It also helps him to know the facts about the business.
- In the case of **partnership firm**, audited accounts serve as an **evidence** of proper management of the affairs of the business.
- Audited accounts help in the valuation of goodwill and settlement of accounts on the admission, retirement or death of a partner.
- Again, audited accounts minimize the chances of disputes among the partners.
- In the case of a **joint stock company**, auditor of accounts assures the shareholders that the affairs of their company are smoothly and their investment is safe.
- The shareholders of a company can value their shares on the basis of audited accounts.
- In the case of a co – operative society or a trust, audit assures the members or the beneficiaries that the affairs of the society or trust are conducted properly.

### **Advantages of Auditing to others**

- **Lenders** can depend on audited financial statements while taking a decision to **grant credit** to the business concern.
- **Tax authorities** can depend on audited statements in assessing sales tax, income tax and wealth tax of the business.
- Audit of accounts safeguards the interests of the **workers and** is helpful in the settlement of claim for higher wages and bonus.
- **Insurance company** can rely on audited accounts to settle claims in respect of damage or loss of any business asset by fire, theft etc.
- The **purchaser** of a business can calculate the amount of purchase consideration based on audited accounts with ease.

## **LIMITATIONS OF AUDITING**

- Extra Cost
- Dependence on opinions of others
- Conflict with others
- No assurance
- Detailed checking not possible

## **QUALITIES OF AN AUDITOR:**

1. Professionally Competent
2. Honest
3. Auditing Skills
4. Accounting Knowledge
5. Knowledge of Business Law
6. Knowledge of Taxation Law
7. Computer Expert
8. Knowledge Of management System
9. Preparation of Budget
10. Qualification
11. Intelligent
12. Tactful
13. Maintain Secrecy
14. Patience
15. Critical Attitude
16. Bold and Courageous
17. Courteous
18. Independent
19. Common Sense

## **OBJECTIVES OF AUDIT**

### **PRIMARY OBJECTIVES OF AUDIT**

1. Examining the system of internal check.
2. Checking arithmetical accuracy of books of accounts, verifying posting, casting, balancing etc.
3. Verifying the authenticity and validity of transactions.
4. Checking the proper distinction between capital and revenue nature of transactions.
5. Confirming the existence and value of assets and liabilities.
6. Verifying whether all the statutory requirements are fulfilled or not.
7. Proving true and fairness of operating results presented by income
8. Statement and financial position presented by the balance sheet.

### **SUBSIDIARY OBJECTIVES OF AUDIT**

#### **Detection and prevention of errors**

1. Errors of principle.
2. Errors of omission.
3. Errors of commission.
4. Compensating errors.

#### **Detection and prevention of frauds**

1. Misappropriation of cash.
2. Misappropriation of goods.
3. Manipulation of accounts or falsification of accounts without any misappropriation.
4. Under-or over-valuation of stock

#### **Other objectives**

1. To provide information to income tax authority.
2. To satisfy the provisions of Companies Act.
3. To have a moral effect

#### **Books referred:**

1. Practical Auditing by B.N.Tandon
2. Principles and practice of auditing by Saxena