COURSE : **II B.COM (CA)**

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SYLLABUS

Various types of audit and advantages – Continuous Audit – Final Audit – Interim Audit – Balance Sheet Audit – advantages of Continuous Audit – Audit Procedure _ Planning of Audit – Audit Program - Audit Notebook – Audit Working Papers – Internal Control – Internal Check – Internal Check as regards Cash, Wages and Sales – Position of External Auditors as to Internal Audit

Classification of audit or types of audit

Audit can be classified on different types:

1. Classification of Audit on the basis of Organization structure.
2. Classification of audit on the basis of Degree of independence of the auditor
3. Classification of Audit on the basis of method or approach to audit work or on the basis of extent of work to be performed or on the basis of conduct of audit.
4. Classification of audit on the basis specific objectives

Classification on the basis of organization or organization structure:

On the basis of organization structure, audit may be classified into three types. They are:

1. Statutory audit
2. Government audit
3. Private Audit

Statutory Audit: Statutory audit refers to the audit of accounts of a business enterprise carried out compulsorily under the provisions of a statute or law. It is is the audit carried out compulsorily under any statute any law.

Features of statutory audit are:

1. Statutory audit is compulsory under law.
2. Statutory audit is required to be conducted by a qualified auditor.
3. In the case of Statutory audit, the rights, duties and liabilities of the auditor are governed by the statute or law applicable to the undertaking.
4. Statutory audit is an independent audit.
5. Statutory audit is an external audit.
6. Statutory audit must be a complete or full audit. It cannot be partial. Statutory audit is

carried out in a number of Organizations, such as

1. Joint stock Companies governed by the Companies Act of 1956.
2. Banking companies governed by the Banking Regulation Act of 1949.
3. Insurance companies governed by the Insurance Act of 1938.
4. Electricity supply companies governed by the electricity supply Act of 1948.
5. Co – operative societies registered under the Co –operative Societies Act.
6. Public and charitable trusts registered under Religious and Endowment Acts

Government audit: Government audit refers to the audit of accounts of Government departments and offices, Government companies and statutory or public corporations.

The features of government audit are:

1. Government audit is prescribed for by law.
2. It is conducted either by the comptroller and Auditor General of India and his staff or professional chartered accountant approved by the Comptroller and Auditor General of India.
3. It is internal audit.
4. A government audit is a continuous audit.

Objectives of Government audit

1. To ensure that all payment has been sanctioned by the competent authority.
2. To ensure that every payments is made as per the rules and regulations.
3. To see that the payments have been made to the right persons.
4. To ensure that the expenditure is not excessive.
5. To see that payments are properly classified as capital and revenue.
6. To verify the existence of stocks and stores.
7. To ensure that a proper system of stock taking has been adopted.

Government audit may be classified into three types. They are:

1. Audit of government departments and offices.
2. Audit of Government Companies.
3. Audit of Statutory Corporations registered as statutory corporations.

Private audit or Voluntary audit: Where an audit is not compulsory under any statute, but is undertaken by the owners voluntarily to get the benefit of audit, the audit is called private audit. In other words , private audit refers to the audit of accounts of private enterprises such as a sole trading concerns, partnership firms and other individuals and institutions.

Advantages of private audit

1. Audit assures to the owners that the accounts of the business are properly maintained and there are no irregularities.
2. It provides a moral check on the employees.
3. It helps the owners of the business to know the real profitability and the state of affairs of their business.
4. Audited accounts serve as a basis for assessment of tax liability.
5. Audited accounts facilitate the process of raising loans from banks and other financial institutions.
6. Audited accounts help in the settlement of dispute and claims between the partners of a firm.

Classification of audit on the basis of Degree of Independence:-

1. Internal audit
2. External audit

Internal audit: Internal audit is a continuous and systematic review of the accounting, financial and other operations of a concern by the staff specially appointed for the purpose. In other words, it is the audit of accounts by the staff specially appointed for the purpose.

Objectives of Internal audit:

1. To ascertain whether internal check and accounting systems are adequate and effective.
2. To ascertain whether predetermined policies, plans and procedures have been complied with.
3. To ascertain the reliability of the accounting and other data.
4. To evaluate the performance of the personnel.
5. To ascertain whether the properties of the concern are safeguarded.
6. To suggest to the management the improvements desired in the internal check systems, accounting system etc.

Features of Internal audit: -

1. It is generally undertaken by large concerns.
2. It is not compulsory.
3. The scope of internal audit may vary, depending upon the nature and size of the concern.
4. It may be in addition to external audit.
5. It is conducted by the staff of the concern.
6. The techniques and methods of auditing employed in internal audit are the same as those in external audit.
7. It is an integral part of internal control.
8. The staff engaged in internal audit is appointed by the management. They are responsible to the management.

Importance and advantages of internal audit

1. It is helpful to the management to ascertain whether the internal check and accounting systems are adequate and effective to prevent errors and frauds.
2. It helps the management to ascertain whether the predetermined policies, plans and procedures have been complied with.
3. It is helpful to ascertain the reliability of the accounting and other data complied within the organization.
4. It is helpful to evaluate the performance of the personnel.
5. It helps to ascertain whether the properties of the concern are safeguarded.
6. It covers the review of accounting and non accounting matters.

Disadvantages

It is conducted by staff who may not be a qualified one.

1) It is optional.
2) Quality depends upon the decisions of management.

External Audit: Audit conducted by independent qualified person and examines the books of accounts and report to the management.

Difference between Government Audit and Commercial Audit

Government Audit	Commercial Audit
1. It is adopted in government departments, government offices and Government Company.	1. It is conducted in private enterprise.
2. It is compulsory.	2. It is optional.
3. It is conducted by CAGI and his staff and qualified staff.	3. It is conducted by professionally qualified persons.
4. Continuous audit.	4. Periodical audit.
5. Disbursing officer is responsible for the work of audit.	5. Disbursing officer is not responsible.
6. Treasury officer undertake preliminary audit.	6. There is no preliminary audit.

3. On the basis of Conduct of audit or methods or approach to audit work 1.

Continuous Audit.

Continuous audit is one where the auditor's staff is occupied continuously on the accounts whole the year round and performs interim audit. It is an audit under which detailed examination of the books of accounts is conducted continuously throughout the year. It is **c**ontinuous review of the accounts of the organization. It is generally applicable to banking company and insurance company.

Advantages.

1. Easy and quick discover of errors and frauds.
2. Technical knowledge.
3. Quick presentation of accounts.
4. Keep the client staff regular.
5. Moral check on the client's staff.
6. Efficient audit.
7. Preparation of interim accounts is very easy.
8. Audit staff can be kept busy.

Limitations.

1) Alteration of figures.
2) Dislocation of the work of the client staff.
3) Expensive.
4) Queries may remain outstanding
5) Extensive note taking may be necessary.
6) Chance for collusion between client staff and audit staff.
7) Mechanical and monotonous.

Precautions or steps to be taken to overcome the drawbacks:

1) Well dream up audit program should be followed by the auditor.
2) No alterations to be allowed after the accounts are audited.
3) If any alterations are made, it should be made in the rectification entries in the journal.
4) A note should be made in respect of queries asked.
5) If any alterations are made in figures before auditing, a special tick mark must be made.
6) Recommend surprise visit.
7) Rotate the audit work among auditors.

2. Final Audit or Annual or periodical audit

It is an audit carried out after the preparation of financial statement. It is an audit where the auditor takes up his work of checking the books of accounts only at the end of the accounting year. In this case, the audit work is commenced and completed in a single uninterrupted session.

Advantages:

1) Cost of audit is less than that of continuous audit.
2) Audit work is completed in one continuous sitting.
3) Not causing any dislocation of client work.
4) No possibility of alteration of figures.
5) It is not mechanical and monotonous.
6) Less chance for collusion between client staff and audit staff.
7) There is no lose the thread of the work.

Limitations

1) Errors and frauds remains in the accounts for long period of time.
2) Postmortem examination of accounts.
3) Little time for checking.
4) Rely upon test checking.
5) Not suitable for imposing moral check on the client staff.
6) Not helpful for preparing interim accounts.
7) Not suitable for large size organizations.

3.Interim Audit.

_ It is an audit conducted between two annual audits. In other words, it is the audit conducted in the middle of the financial year. It is carried out for some specific purpose for declaring interim dividend, ascertaining interim profit.

Advantages.

1) Quick discovery of errors and frauds.
2) Imposes moral check on client staff.
3) Helpful for speedup the final audit.
4) Useful for publication of interim figures.
5) Audit becomes easy and can be completed without lapse of time.

4. **Balance sheet audit: -** Balance sheet audit is a type audit which concentrates mainly on the verification of the items in the balance sheet such as capital, reserves, profit and loss account balance, liabilities and provisions and all the assets of the business.

5. **Occasional Audit:-** An occasional audit is an audit which is conducted once a while, whenever the need arises. In other words , it is a kind of audit which is not conducted on regular basis, but is conducted for a special event, time or purpose.

6. **Complete Audit : -** Complete audit is a kind of audit under which all the records and books of accounts are audited by an auditor.

7. ~~**Partial Audit: -** It is~~ a kind of audit the scope of which is limited one. It is carried out in respect of only a part of the books of accounts of a business, for a part of whole of the period.

Classification of audit on the basis of specific objectives: -

1. **Cash Audit: -** It is a type of partial audit which is undertaken for only cash receipts and cash payment.

2. **Special Audit: -** It is a kind of audit with some special object in view. It is a fact finding enquiry.

3. **Operational Audit:** - It is an efficient examination of the various operations of the different functional area of business.

4. **Proprietary Audit:** - It is an audit in which various actions and decisions are examined to find out whether in public interest and whether they meet the standard of conduct.

5. **Efficient Audit:** - It is an evaluation of overall efficiency and performance of an organization.

6. **Tax Audit:** - It means audit for tax purpose. Audit required to be carried out of income tax act of 1961. It is conducted by certified Chartered Accountant.

There are certain circumstances in which tax audit is necessary.

1. Compulsory tax audit under section 44 AB of the Income tax Act 1961
2. Tax audit for claiming deductions and Reliefs under the Income Tax Act.
3. Tax audit for Tax Consultancy and Representation.

7. Cost Audit.

It is a thorough examination of the cost accounting records of a company by a cost auditor to ensure that they are accurate and they also follow to the cost accounting principles, procedures and plans.

Objectives.

1) Verifying the accounting entries related in the cost books.
2) To find out whether the cost records have been properly maintained.
3) To verify whether the cost accounting principles are complied with.
4) To find out whether the cost statements are properly dream up.
5) To verify the items of cost expenditure are correctly incurred.
6) To find out the efficiency and inefficiency of handling of material, labour and other expenses.
7) To check up the overall working of the cost accountant.
8) To reduce the volume of work of the external auditor.
9) To detect errors and frauds.

8**. Management Audit.**

It is the critical examination, scrutiny and appraisal of plans, policies, procedures, objectives, means and operational area of the organization.

It is the audit of managerial actions and decisions. It is the audit of activities of various level of the managers.

Objectives of Management audit: -

1. To identify the overall objectives of an organization.
2. To pinpoint the deficiencies and defects in functional areas and suggest remedies for improvement.
3. To assist the various level of management in discharge their duties.
4. To help the management in achieving co- ordination among the various departments.
5. To ensure that management objectives are achieved.

Advantages of Management Accounting: -

1. It identifies the overall objectives of the organization.
2. It reviews plans, policies, procedures and controls.
3. It assesses the performance in each functional area
4. It also ascertains the motivational system in operation in the business.
5. Suggesting ways and means for the attainment of management goals. Criticism against management audit: -

1. It is argued by some managers and accountant that management audit is a vague concept and so, it serves no material purpose.

2. Management audit may discourage the managers from undertaking tasks which are useful to the organization.
3. It is argued that it will adversely affect to the efficiency and production.

9. Social Audit: - Social audit is a systematic study and evaluation of a business enterprise's social performance as distinguished from its economic performance. Social audit is intended to evaluate the social performance or social contribution of a business organization. TISCO firstly adopted social audit.

Audit procedure

- Classification testing
- Completeness testing
- Cut off testing
- Occurrence testing
- Existence testing
- Rights and obligations testing
- Valuation testing

Planning of audit

It means developing a general strategy and a detailed approach for the expected nature, timing and extent of the audit. The auditor plans to perform the audit in an efficient and timely manner.

AUDIT PROGRAMME

An Audit program is a detailed plan of the auditing work to be performed, specifying the procedures to be followed in verification of each item and the financial statements and giving the estimated time required.

Audit notebook

It contains information regarding day-to-day work performed by the audit staff on any particular date. It is also called as a remembrance book.

WORKING PAPERS

- Working Papers are the material that auditors prepare or obtain and retain in connection with the performance of the audit.
- It may be in the form of data stored on paper, electronic media, or other media.
- They can also be used in court e.g. in case of negligent audit.

INTERNALCONTROL:

Internal control is a broad term which is normally used to control financial and non-financial activities. It involves a number of checks and controls exercised in a business to ensure efficient and economic working.

DEFINITION OF INTERNAL CONTROL:

Internal Control is defined as “the whole system of controls, financial and otherwise established by the management in the conduct of a business including internal check, internal audit and other forms of control.

INTERNAL CHECK

Internal check is a part of internal control. It is the arrangement of routine book-keeping, where the work of one person is automatically checked by another without any financial burden.

DEFINTION

“An internal check means practically a continuous internal audit carried on by the staff itself , by means of which the work each individual is independently check by the other members of the staff.”

INTERNAL CHECK AS REGARDS CASH RECEIPTS

In the business, there is a greater risk of cash misappropriation. So there is a need for safety measures.

Following system may be adopted to control over cash receipts.

- Cashier
- Presence of Responsible Officer
- Bank Reconciliation
- Counter Foil
- Issuance of Receipt
- Daily Deposit
- Debtors
- Spoiled Receipts
- Cash Sale
- Collection of Cash By Agents
- Confirmation Statement

INTERNAL CHECK AS REGARDS CASH PAYMENTS

1. Separate Cashier

2. Use of Cheque

3. Use of Crossed Cheque

4. Safety of Cheque Books

5. Checking Invoices:

6. Entry in Cash Book

7. Authorized Signature

9. Payments of Special Nature

10. Confirmation of Accounts

11. Bank Reconciliation Statements

12. Petty Cash Payments

13. Wages

INTERNAL CHECK AS WAGES

- Separation of main function
- Use of separate wages sheets
- Checking the time records
- Checking wages sheets by another staff
- Recording , computation and checking of each element
- Initialling by each clerk of thr work

INTERNAL CHECK AS SALES

CASH SALES

- Sales at the counter
- Sales by travelling
- Sales through post
- General checks

CREDIT SALES

- Separation of sales department
- Functional sub divisions
- Recording of all customers

- Endorsement of customer
- Verification of invoices
- Daily verifications of goods
- Maintenance
- Periodical measures

EXTERNAL AUDITOR

External auditors mostly provide assurance to the shareholders and investors. It is vital to the equality of their work that they focus on the customers group.

POSITION OF AN EXTERNAL AUDITOR

- Representative of the shareholder
- As on officer of the company
- As a servant of the company
- As agent of the company
- As an agent of outsiders

Books referred:

1.Practical Auditing by B.N.Tandon

2. Principles and practice of auditing by Saxena