Auditing and Assurance

As per new B Com CBCS syllabus 2017 for CU

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Features of

Learning Objectives

- Evolution of Auditing
- Definition
- Nature
- Scope
- Objectives
- Limitations
- Basic Principles
- Accounting & Auditing
- Accounting vs Auditing
- Auditing a dynamic science
- Errors and Fraud
- Independence of Auditor
- List of section under Companies Act
- Standards in Auditing
- Investigation
- Distinction between investigation & Audit

Learning Objectives Provide a broad overview of the chapters.

Tables Numerous tables are provided to support the text.

Table 1.2 Difference between errors and frauds

Points of Difference	Errors	Frauds
Definition	Errors are unintentional or careless mistakes made in the financial statements.	Fraud refers to false representation or entry made intentionally with a view to defraud somebody.
Intention	There is no intention behind errors.	There must be a deliberate intention behind the fraud.
Findings	Findings of errors are comparatively easy.	Findings of frauds are comparatively difficult.
Effects	Some errors cannot affect trial balance.	Frauds basically jeopardize the true and fair view objective of audits.
Example	Errors of omission, errors of commission, errors of principle, compensating errors, and duplication of errors.	Embezzlement of cash, misappropriation of goods, falsification or manipulation of accounts, and Teeming and Lading.

Case on Window Dressing

Case: City Equitable Fire Insurance Co. Ltd.
Year of Judgement: 1925, England
Content: Window dressing of Balance sheet, Verification of Investment and Auditor's liabilities
Decision of the Case: Auditor was not liable for misrepresentation of accounts and window dressing. However, auditor was held liable for not taking certificate of investment from appropriate authority. Lord Justice L
posit
5.

Case: London Oil Storage Co. Ltd. vs Seear Hasluck and Co.
Year of judgement: 1904
Content: Negligence on the part of the auditor
Decision of the case: Judge opined that due to negligence of the auditor if the concern bears any loss he has to be penalized for that.

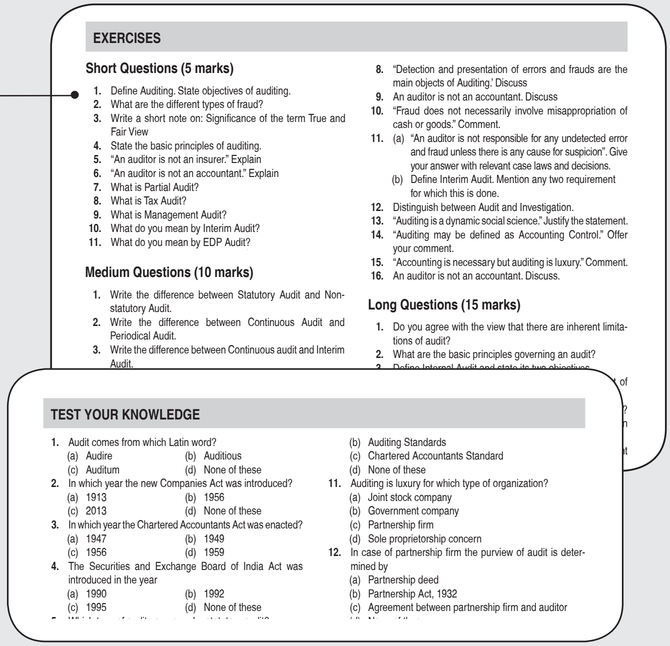
Verification of assets and liabilities may be made in the presence of the auditor. However, it is not possible for the auditor to be present in the case of verification of all tangible assets. However, in the case of intangible assets (intellectual property rights) it is not possible for the auditor to be physically present as he is not an expert in this field.

1. In case of tangible assets such as land, buildings, plant and machinery, the certificate has to be received from the board of directors and related documents have to be the supporting documents in this regard.

Case Studies Provide numerous legal cases to highlight associated laws.

the Book

Exercises (Short, Medium & Long Questions and Test Your Knowledge) Exercises consist of multiple choice questions and review questions that follow the CBCS CU exam pattern to acclimatize students to the prevailing structure.


EXERCISES

Short Questions (5 marks)

1. Define Auditing. State objectives of auditing.
2. What are the different types of fraud?
3. Write a short note on: Significance of the term True and Fair View
4. State the basic principles of auditing.
5. "An auditor is not an insurer." Explain
6. "An auditor is not an accountant." Explain
7. What is Partial Audit?
8. What is Tax Audit?
9. What is Management Audit?
10. What do you mean by Interim Audit?
11. What do you mean by EDP Audit?

Medium Questions (10 marks)

1. Write the difference between Statutory Audit and Non-statutory Audit.
2. Write the difference between Continuous Audit and Periodical Audit.
3. Write the difference between Continuous audit and Interim Audit.

8. "Detection and presentation of errors and frauds are the main objects of Auditing.' Discuss
9. An auditor is not an accountant. Discuss
10. "Fraud does not necessarily involve misappropriation of cash or goods." Comment.
11. (a) "An auditor is not responsible for any undetected error and fraud unless there is any cause for suspicion". Give your answer with relevant case laws and decisions.
    (b) Define Interim Audit. Mention any two requirement for which this is done.
12. Distinguish between Audit and Investigation.
13. "Auditing is a dynamic social science." Justify the statement.
14. "Auditing may be defined as Accounting Control." Offer your comment.
15. "Accounting is necessary but auditing is luxury." Comment.
16. An auditor is not an accountant. Discuss.

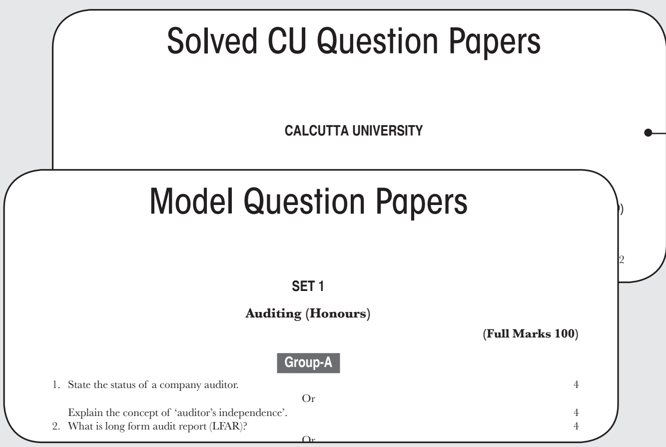
Long Questions (15 marks)

1. Do you agree with the view that there are inherent limitations of audit?
2. What are the basic principles governing an audit?

TEST YOUR KNOWLEDGE

1. Audit comes from which Latin word?
   (a) Audire (b) Auditious
   (c) Auditum (d) None of these
2. In which year the new Companies Act was introduced?
   (a) 1913 (b) 1956
   (c) 2013 (d) None of these
3. In which year the Chartered Accountants Act was enacted?
   (a) 1947 (b) 1949
   (c) 1956 (d) 1959
4. The Securities and Exchange Board of India Act was introduced in the year
   (a) 1990 (b) 1992
   (c) 1995 (d) None of these

   (b) Auditing Standards
   (c) Chartered Accountants Standard
   (d) None of these
11. Auditing is luxury for which type of organization?
    (a) Joint stock company
    (b) Government company
    (c) Partnership firm
    (d) Sole proprietorship concern
12. In case of partnership firm the purview of audit is determined by
    (a) Partnership deed
    (b) Partnership Act, 1932
    (c) Agreement between partnership firm and auditor


Solved CU Question Papers

CALCUTTA UNIVERSITY

Model Question Papers

SET 1

Auditing (Honours)

(Full Marks 100)

Group-A

1. State the status of a company auditor. 4

Or

Explain the concept of 'auditor's independence'. 4

2. What is long form audit report (LFAR)? 4

Solved CU QPs and Model QPs Provide last four years' solved question papers as well as two model question papers to help students prepare for examinations.

Preface

Auditing is the outcome of the work carried out by a professional auditor which he does on the basis of the prevailing Accounting Standards (AS), Standards on Auditing (SA), Generally Accepted Accounting Principles (GAAP), and the Companies Act, 2013 and its subsequent amendments in the Companies (Amendment) Act, 2015 and Companies (Amendment) Act, 2017 to find a true and fair view of the financial statements of an organization. Auditing is not only incorporated in the University of Calcutta syllabus as a subject but also lays down the foundation of financial transparency in the corporate sector in particular and society at large.

About the Book

The basic objective of the book is to motivate the students to read the textbook, to understand the technical subject in an easy way, and to secure good marks and grades in university examinations. Students will be able to write answers with an accounting flavour. The book contains all the related Sections and related case laws with facts and judgements with a large number of illustrations. Realistic illustrations give the book a different magnitude. The book is written as a textbook for university students and on the line of professional approach to cater to students pursuing professional courses like ICAI (both Chartered and Cost), CS as well as law, management, and engineering students. The book is completely updated with the Companies Act, 2013 with up-to-date amendment, Standard on Auditing, and Accounting Standard CARO, 2016. Although the book is primarily based on the University of Calcutta syllabus, it covers the syllabi of other leading universities of India. The book will be accepted equally well by the students and teachers for its lucid presentation covering a wide spectrum of course contents.

Key Features

Pictorial presentation Appropriate schematic diagrams are used for clear understanding of the subject.

Test of knowledge With the help of multiple choice questions (MCQs), students can check their knowledge base. This will not only serve the academic purpose but will also be helpful for competitive base examinations such as SET, NET, and SLST Audit and Account Service.

Question bank Questions are included in every chapter under 3 heads, namely short, medium, and long questions as per university question pattern.

Case study Case studies along with facts and decisions of the cases are given in sufficient numbers to enrich the book.

Structure of the Book

The book is broadly divided into two Modules as per the requirement of the syllabus.

MODULE I: Module I is sub-divided into four chapters (1–4).

MODULE II: Module II is sub-divided into three chapters (5–7).

Chapter 1, *Introduction to Auditing*, covers the evolution of auditing, Standards on Auditing (SA), and distinction between investigation and audit.

Chapter 2, *Audit Procedures and Techniques*, includes descriptions of audit file, audit note book, routine checking, test checking, audit of educational institutions, hospitals and more.

Chapter 3, *Internal Control and Internal Audit*, discusses the regulatory requirement of internal audit, relationship between materiality and audit risk, and statutory audit.

Chapter 4, *Vouching of Different Items*, covers Teeming and Lading and verification.

Chapter 5, *Company Audit*, includes statutory provision for appointment of an auditor in a company, rights and duties of a branch and a joint auditor, audit committee and its functions, and legal decisions and duties of an auditor.

Chapter 6, *Audit Report and Certificate*, covers the requirements of a good audit report, an independent auditor's report, auditor's certificate on compliance of conditions of corporate governance, and comparative view between CARO 2015 and CARO 2016.

Chapter 7, *Other Thrust Areas in Auditing*, discusses cost audit, management audit, tax audit, social audit, forensic audit, electronic data processing audit and more.

Acknowledgements

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- Literature such as books, periodicals, newspaper articles, and magazines
- Electronic data base such as Internet, different website related to the subject
- Academic lectures, seminars, conferences, and peer more review

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Pankaj Kumar Roy

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Detailed Contents

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6.	City Equitable Fire Insurance Co. Ltd. (England, 1925)
7.	The Commissioner of Income Tax vs B.M. Dandekar (India, 1952)
8.	Deputy Secretary, Department of Economic Affairs, Ministry of Finance, Government of India vs S.N. Dasgupta (India, 1955)
9.	Foster vs New Trinidad Lake Asphalte Co. Ltd. (England, 1901)
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17.	Newton vs Birmingham Small Arms Co. Ltd. (England, 1906)
18.	Registrar of Companies vs V.P. Bagathey (India, 1961)
19.	Registrar of Companies, West Bengal vs V.V. Bapat (India, 1974)
20.	Superintendent and Remembrancer of Legal Affairs, Bengal vs Akhil Bandhu Guha and Others (India,1936)
21.	Ultramares Corporation vs. Touche, Niven and Co.(New York, 1931)
22.	Union Bank of Allahabad Ltd. (India, 1925)
23.	Verner vs General and Commercial Investment Trust Ltd. (England, 1894)
24.	The West Minister Road Construction Company Limited (England, 1932)
25.	Wilmer vs McNamara and Co. Ltd (1895)

Road Map to Auditing and Assurance

Unit	Topic and Description	Chapter
Module I		
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2	**UNIT II: AUDIT PROCEDURES AND TECHNIQUES** • Auditing Engagement–Audit Planning–Audit Programme (Concept) • Documentation: Audit Working Paper, Ownership and Custody of Working Papers–Audit file (Permanent and Current)–Audit Note Book–Audit Memorandum • Audit Evidence—Concept, Need, Procedures to Obtain Audit Evidence • Routine Checking, Test Checking and Auditing in Depth • Concept of Analytical Procedure and Substantive Testing in Auditing • Audit of Educational Institutions, Hospitals and Hotels	2
3	**UNIT III: AUDIT RISK AND INTERNAL CONTROL SYSTEM** • Audit Risk—Concept and Types only • Internal Control—Definition, Objectives • Internal Check—Definition, Objectives • Internal Audit—Definition, Objectives, Regulatory Requirement, Reliance by Statutory Auditor on Internal Auditor's Work	3
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Module II		
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Module I

Introduction to Auditing

1 CHAPTER

Learning Objectives

- Evolution of Auditing
- Definition
- Nature
- Scope
- Objectives
- Limitations
- Basic Principles
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- Independence of Auditor
- List of section under Companies Act
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- Investigation
- Distinction between investigation & Audit

EVOLUTION OF AUDIT

Like any other social sciences, auditing too has a long history. In 100 Sarga of *Ramayana*, Rama ask Bharata "Is your income more than your expenditure or your expenditure is less than your income. "The very statement reviles the sense of audit of the kingdom Ayodhaya. In *Mahabharata*, Nakul was the accountant of Yudhisthir who maintained the accounts of the stable. Nakul and Sahadev also helped to maintain the accounts of the Kurukshetra War. In Maurya period, the Arthashastra of Kautilya categorically stated that all government transactions must pass through Treasury.

The term audit is derived from the Latin word *audire,* which means to hear. In Ancient times, an independent person used to be appointed by the king to examine the accounts of the concern and after examination announce the results to the owner of the concern. This practice was mostly found in ancient India, Egypt, Greek or in the Roman civilisation.

In 1494, Luca Pacioli in his famous book *Summa de Arithmetica Geometrica Proportioni et Proportionalita* incorporated a chapter on **double–entry book keeping** that elaborates on the task of auditor.

Industrial Revolution (1750-1850) saw the centre of trade being shifted from Venice to London (Small trader's city). British Companies Act, 1862 was introduced for ascertaining the actual financial condition and earning of an enterprise, and the Indian Companies Act, 1857 introduced the concept of optional annual audit. Up to 1850, task of auditing was confined with detection of fraud. From 1850 to 1905 the objective got extended to detection of fraud and detection of clerical errors.

1905 -1940 witnessed starting of detection of frauds and errors. 1940 onwards the objective extended to determination of fairness of reported financial position with the implementation of test checking as a principle on the basis of statistical sampling. During the post Second World War era, many countries were declared independent; India also got dominion status on 15th August,1947. In the post independent period, with the enactment of Chartered Accounts Act,1949, auditing became a profession in India on the basis of recommendation of the Bhabha Committee. Report was submitted in March, 1952. On the basis of the report the then Finance Minister, C D Deshmukh placed the ever largest bill in the Parliamentary history of India containing 658 sections and 14 schedules and Companies Act, 1956 came into force. The concept of cost audit came into surface and The Institute of Cost and Works Accounts of India (ICWAI) was enacted in the year 1959.

In due course of time, Income Tax Act 1961 audit of accounts of certain assesses were made compulsory. There by optional audit become compulsory. The Companies Act, 1956 has been amended 24 times since then. The term audit risk also got introduced in the auditing literature in the early 70's. 80's onwards the wave of liberazitaion was gaining the ground throughout the world the risk based approach has become more curtail. Indian Parliament passed the Companies Bill Act 2013 on 8th August, 2013 and received the assent of the President of India on 29 August, 2013.

The Companies Act, 2013 has 470 Sections and 7 Schedules against 658 Sections and 14 Schedules in the erstwhile Companies Act, 1956. The evolution of audit has taken place with the continuous evolution of Companies Act, Standards on Auditing (SA) by replacing the erstwhile Auditing and Assurance Standards (AAS) and judgement of the cases. SA 200 stated 'Overall Objectives of the Independent Auditor and Conduct of an Audit in Accordance with Standards on Auditing', SA 600 'Using the Work of another Auditor' and SA 620 'Using the Work of an Auditor's Expert' has been issued by the ICAI, which indicate the auditor has to depend on the performance of the other.

Meaning and Definition of Audit

The very word 'Audit 'comes from the Latin word 'audire', which means 'to hear'. In earlier days, an auditor would check the accounts of the organization only by hearing and identifing the errors and frauds. Accountants would read out the accounts and the auditor would identify the errors and/or frauds as the case may be. As the number of transactions in those days were were small, this was possible.

In 1494, Luca Pacioli (an Italian) re-described the duties and responsibilities of an auditor after which the scope and orbit of audit also changed.

Traditional View

According to A.W. Hanson, "An audit is an examination of records to establish their reliability and reliability of statements drawn from them. In the words of Lawrence R. Dicksee, "An audit is an examination of accounting records undertaken with a view to establishing whether they correctly and completely reflect the transactions to which they purport to relate." The scope of audit is restricted to authenticate the accounting records and judge the reliability and accuracy of financial statements. In short, it should judge true and correct views only.

Modern View

Meanwhile, during the passage of time the concept of audit has undergone a sea change. General Guidelines on Internal Auditing as issued by Institute of Chartered Accountants of India (ICAI) says that auditing is a systematic and independent examination of data, statements, records, operations and performance (financial and otherwise) of an enterprise for the stated purpose. "Standard on Auditing (SA) 200 (Revised) on overall objectives of the independent auditor and conduct of an audit in accordance with standards on Auditing issued by the Institute of Chartered Accountants of India has categorically stated that," An audit is the independent examination of financial information of any entity, whether profit oriented or not, are irrespective of the size or legal form, when such an examination is conducted with a view to expressing an opinion thereon. "In short, an audit judges the true and fair view of the financial statements of the organisation with a specific purpose.

Nature of Audit

The basic task of accounting is to record the financial transactions that change the financial position of the organization at a particular point of time and evaluate the financial performance of the organization over a period of time. The stakeholders of the financial statements means upholding everyone right from shareholders, management, debtors, creditors, investors, banks and financial institutions, governments and the entire society at large.

The real financial status and performance is prepared by the accountant and primarily judged by the internal auditor. However, financial statements should be judged by independent auditors to get wide acceptability inside and outside stakeholders irrespective of wide spectrum. In audit report, the auditor has to depict the true and fair view regarding financial statements of the organization.

In this light we can state that auditing is a technique of accounting control which is free from errors and frauds, exhibits true and fair views and is widely accepted within and outside the organization by following Accounting Standards, Standards on Auditing and GAAP (both Accounting and Auditing).

Scope of Audit

Earlier auditing was involved in verifying if the preparation of Income Statement and Balance Sheet on the basis of recording, classifying, and summarizing exhibits the actual profit or loss of the organization and if it exhibits the true and fair financial status of the organization. With the passage of time, auditing now is not confined to financial audit alone. The auditor also has to see whether accounting principles, postulates, doctrines, GAAP, IFRS alone with Income Tax Act, 1961, Banking Regulation Act, 1949, SEBI Act,1992 are properly followed or not. Now, the purview of auditing is not confined to financial audit alone. It has spread across cost, tax, management, social, environment and Electronic Data Processing (EDP) audits. Bedsides statutory audit, non-statutory audit has taken ground on the plea that partnership firms and sole proprietorship organization derive the benefit of audit. Auditing is not only confined to statutory and non–statutory organization but also gained popularity with in non-profit making organization as well. Efficiency, compliance, performance, energy, environment audits will widen its base beyond statutory and non-statutory horizon of audit.

Objective of Auditing

The principal objective of modern audit is to see whether profit or loss determined by Profit and Loss Statement and the Balance Sheet exhibits the true and fair situation of the concern or not and in conformity of Companies Act, 2013 or not. Detection of fraud is an incidental object of modern audit. **The Institute of Chartered Accountants of India (ICAI)** describe audit as “the independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such examination is conducted with a view to express an opinion thereon.” Spicer and Pegler opined that, “An audit may be said to be an examination of books, accounts and vouchers of a business, a process where the Balance Sheet is properly drawn up so as to give a true and fair view of the state of affairs of business and whether the profit and loss account gives a true and fair view of the profit or loss for the financial period. “ SA 200 states the overall objectives in the following manner, “While conducting an audit of financial statements, the overall objectives of the auditor are:

a. To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement; whether due to fraud or error.

b. To enable the auditor to express an opinion on whether the financial statements are prepared, in all material respects in accordance with an applicable financial reporting framework; and

c. To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor’s findings.”

The scope of Auditing is now shifted from verification to independent examination.

Basic Objective of Audit

The task of auditing starts where the accounting ends. The task of the auditor is to see accounting is made as per norms and forms. On this plea, the basic objectives of auditing are to see that:

1. All accounts are free from frauds
2. All accounts are free from errors
3. All accounts exhibit true and fair view and are prepared as per accounting standards
4. All accounts inculcate financial culture for the organization in particular and society at large.

By considering the case of Royal mail, Steam Packet Company's case inter alia with the Companies Act, 1956 and its amendments 1960, the true and correct view has been shifted to true and fair view. That is from mere arithmetical accuracy to financial reliability. As arithmetical accuracy does not indicate full proof system or chance of errors minimised. In this connection, it is to be stated that Companies Act, 1956 stated the word, "true and correct view". Companies (Amendment) Act, 1960 refil "true and correct view" by the word "true and fair view" Companies Act, 2013 gave the concurrence of 1999's amendments.

By considering the century old case of Kingston Cotton Mills Co (1896), if an auditor performs his duties with prudent and diligence and even after that the fraud cannot be detected, it should not be considered as failure of audit or auditor. Another renounced case, The London and General Bank Ltd. (1895) reminds the duty of auditor by stating, "His business is to ascertain and state the true financial position of the company at the time of the audit and his duty is confirmed to that."

SA 200 (Standard on Auditing) states that the objective of an audit of financial statement is prepared within a framework of recognized auditing policies and practices that also follows the relevant statutory requirements.

The principal objective of auditing is to see whether or not the financial statements (both income statement and balance sheet) exhibit the true and fair view and prepared as per prevailing accounting standards.

Standards on Auditing 200 stated the 'Overall Objectives of the Independent Auditor and the Conduct of an audit in Accordance with Standards on auditing 'give an outline of overall objective of Auditing in present context. The financial reporting framework for presentation and preparation are to be adopted by the management for the governance as required by laws and regulations. The Institute of Chartered Accountants of India specifies that the objectives of an audit are to express an opinion on financial statements. The auditor examines the financial statements to satisfy him about the true and fairness of financial position and operating results of the enterprise. But there are certain inherent limitations of audit. Since, the auditor cannot detect all the frauds and errors in the financial statements due to limitation of his checking based on test checking on sampling method. In this light, the objective of audit can be categorised as:

1. **Detection and prevention of errors**: Errors are generally innocent but errors which may appear as innocent sometimes are treated as frauds due to fraudulent manipulation and hence the auditor must pay attention to every error. Errors are of five types viz. Errors of omission (transaction is omitted either partly or fully from books of accounts), errors of commission (transaction is partly or fully incorrect but trial balance are not been affected), errors of principles (accounting principles are not been followed like revenue expenditure may be treated as capital expenditure or vice versa), compensatory errors (One error is being compensated by another error) and errors of duplication (same transaction is being recorded twice in the books of original entry) .
2. **Detection and prevention of frauds**: Detection of fraud is considered to be one of the most important duties of an auditor. The system of internal check aims at the prevention of fraud but if the auditor feels that the inherent checking system is defective and it will not prevent frauds, he may suggest a better system. Fraud may be perpetrated by a) Embezzlement of cash (fraudulent appropriation of

other's property by entrusted person), b) Misappropriation of goods (false recording for personal gain) and c) fraudulent manipulation of accounts (make false entry or tamper entry or omission of entry or prevent true entry).

3. **Giving opinion regarding Financial Statement**: Another objective of audit is to express expert opinion on financial statements. The Income Statement and Balance Sheet are being prepared to ascertain the financial performance of an organization over a period of time and to exhibit the snap short of the financial position of a concern at a particular moment of time. Financial statements are being prepared as per accounting standards in conformity with prevailing Companies Act, 2013.

4. **Ascertain transparency and reliability of financial statements:** As per Section 143 (2) and (3) of the Companies Act, 2013 the audit report must comply the accounting and auditing standards. To the best of the information knowledge of the auditor, the financial statements give true and fair view of the state of affairs of the company at the end of the financial year and profit and loss and cash flow for the years and the matters as prescribed in the relevant act. As per Section 10(9) of the Companies Act, 2013 auditor shall comply with the auditing standards. Detection and prevention of errors are the main objectives of Auditing."

5. **To record financial transactions in conformity with Generally Accepted Accounting Standards (GAAP) along with accounting standards**: The end result of accounting is to ascertain the financial result over a period of time, estimates the financial state of affairs at the end of the financial year and also to forecast the inflow and out flow of cash to avoid the cash crunch situation in the financial year. Accounting is not excess but just. The outcome of accounting result is useful for the management for the purpose of decision making.

   Now, the question arises whether the accounting result has any acceptability or reliability in the eyes of management. "Accounting is necessary but auditing is a luxury." Auditing is useful to the owner of the concern for sole proprietorship concern and partnership firm, management of the company, government for tax and grants and financial organisation for sectioning loans, investors for assessing the financial state of affairs, employees for service and bargaining, related parties for decision making and also to third parties for research and future decisions.

Advantages of Audit

Following are the advantages of audit:

1. Errors and Frauds are located at an early date and in future no attempt is made to commit such frauds. One is rather careful not to commit an error or a fraud as the accounts are subject to regular audit.
2. The auditing of accounts keeps the account clerks regular and vigilant as they know that the auditors would complain against them if the accounts are not prepared up to date or if there is any irregularity.
3. In case of a fire, the insurance company may settle the claim basis of audited accounts of the previous years.
4. Money can be borrowed easily on the basis of previous audited balance sheet.
5. If the business is to be sold as a going concern, there will not be much difficulty regarding the valuation of assets and goodwill. Since the accounts have already been subject to audit by an independent person.
6. Income tax, value added tax authorities generally accept the profit and loss account which has been prepared by a qualified auditor.
7. The management may consult the auditor and seek his advice on certain technical points although it is not the duty of the auditor to give advice.

8. The audit of counts of a firm by an independent person minimises the chances of dispute among the partners.
9. If the accounts have been audited on a uniform basis then accounts of one year can be compared with other years and if there is any discrepancy, the case may be enquired into.

In short, it can be said like accounting, auditing is necessary not luxury.

Limitations of Audit

1. Conceptual Framework
   In the opinion of Mautz and Sharaf, the auditing philosophy is based on evidence, due care, fair presentation, independence and ethical conduct. This be called conceptual framework of auditing. Auditing cannot go beyond the limit.
2. Post-mortem Study
   Accounting is the recording of past financial events. In that sense accounting is a post –mortem study. On the other side it is said that auditing begins where accounting ends. In that sense auditing is also a post –mortem study.
3. Based on internal Information
   Auditing is done based on accounting records. Auditor needs clarification, explanation, records, additional information and certificates for doing audit and preparing audit report. Although it is not a full proof system and it does not reveal the verbatim picture of the state of affairs of the concern.
4. Based on External Information
   Auditor does his work not only based on internal information and records but also based on external information which is sometime not correct and could lead to unreliable audit report.
5. Improper Judgement
   The auditor is an independent person and his report possess some sort of trust worthiness. But due to some faulty technique and faulty judgement based on wrongful internal and external information the basic reliability on audit can be jeopardised. In some cases, audit report does not reflect the true and fair view rather window dressing of the state of affairs of the organisation.
   Auditing has a lot of advantages and is necessary for all organizations. However, we must not forget the basic limitations of audit.

BASIC PRINCIPLES OF AUDITING

Like other social sciences, auditing is guided by a principle or philosophy. According to Mautz and Sharaf, auditing is based on the following principles:

1. *Evidence*: According to SA 500, the auditor has sufficient appropriate evidence in support of the concluding report. Sufficient appropriate evidence does not indicate absolute proof, rather helps the independent person to come to a conclusion that the financial statements reveal the true and fair view.
2. *Diligent care*: Diligent care means the audit is reliable on the basis of adequate evidence or documentation.
3. *Recognized generally accepted accounting principles*: Auditing starts where accounting ends. However, accounting encompasses GAAP, the underlying guideline to prepare accounts for getting a true and fair view of the organization. Thus, both the income statement and balance sheet show the actual profit and actual financial situation of the organization. GAAS has to be followed.

4. *Adequate disclosure*: Auditing not only considers accounting to be free from errors, but also to be free from frauds, and exhibits a true and fair view. It has also restored financial discipline within the organization.
5. *Independency*: Howard Settler reminds us, 'Independence is also an attitude of mind, and independent thought and action are equally as important as the independent relationship between accountant and his client.' Everyone trusts the auditing report because of its independent character. The audited financial report is accepted by the income tax department for the purpose of tax implication, banks for sanctioning loans, and is accredited by the Companies Act, 2013.
6. *Ethical manner*: The auditor is an independent person guided by the Companies Act, 2013, Income Tax Act, 1961, Banking Regulation Act, 1949, Securities and Exchange Board of India Act, 1992, GAAP, AS and above all, the IFRS. Ethics or morality is a basic instinct of a human being. Above all, an auditor is a responsible statutory or non-statutory person who is committed to giving an independent report based on ethics.

Auditing—A Dynamic Social Science

The 20th century and the dawn of the 21st century has witnessed a major development in the horizon of audit. The changes are earmarked as dynamism of auditing. Like other social sciences, auditing deals with social problems either directly or indirectly. The primary purpose of an audit is to report that it is prepared as per the accounting standards to reflect the true and fair situation of the financial state of affairs of the concern.

Auditing has originated from accounting. Auditing primarily means financial auditing. However, with the passage of time, cost audit, management audit, tax audit, environmental audit, social audit, and performance audit are gradually gaining momentum, and have further established the concept of dynamism.

Keeping in view the concept of dynamism, the erstwhile Companies Act was amended in 1965 to introduce cost audit and Manufacturing and Other Companies Auditor's Report Order (MAOCARO) in 1974 and Companies Auditor's Report Order (CARO) in 1988 and 2003. After 24 amendments the Companies Act, 1956 was replaced by the new Companies Act, 2013 and the new Companies Act, 2013 has already recorded 14 amendments and many more changes are yet to come. CARO, 2016 is applicable for specific types of companies. The Institute of Chartered Accountants of India and The Institute of Cost Accounts of India have come up with several IFRS (earlier, Accounting Standards and International Accounting standards) and new Standards on quality control (Auditing and Assurance Standards) respectively for strengthening the financial, cost, and other segments of audit.

Dynamism is the lifeline of social science. Auditing also follows that principle, and is considered to be a dynamic social science, not a sclerotic one.

ACCOUNTING AND AUDITING

Accounting is the art and science of recording transactions. Art refers to a systematic way of recording, whereas the science of recording refers to the following of not only the double entry concept but also on GAAP that includes Indian Accounting Standards (IASs) and IFRS. Along with GAAP, GAAS is strictly being introduced to derive the best results from auditing.

Auditing involves critical examination and analysis of books of accounts based on vouching and verification and valuation to judge the authenticity of financial statements (both income statement and balance sheet). The auditor finally provides a report on the financial statements, ensuring it provides a true and fair view.

Accounting

Accounting involves the preparation of the final accounts to show the financial outcome of the business at the end of the financial period. In the words of American Accounting Association, 'Accounting refers to the process of indentifying, measuring and communicating economic information to permit informed judgement and decision by the user of the information.' The man entrusted with this work is the accountant. This work not only involves supervising the work of book-keeping but also analysing, reviewing, and drawing the conclusion in the form of final accounts (income statement and balance sheet). This work is of specialized nature and must be well-integrated with the framework of accounting. By following the Generally Accepted Accounting Standards, the gap between the Indian GAAP and US GAAP is minimized. We can thus understand the implementation of IFRS in the Indian context.

Auditing

Auditing is quite different from book-keeping and accounting. It has nothing to do with the writing of the books of accounts or the preparation of final accounts. In the words of Robert E. Schlosser, 'Auditing is a systematic examination of financial statements, records and related operations to determine adherence to stated requirements.' Auditing is a careful and critical examination of the books of accounts to check for accuracy and to see whether the profit and loss accounts reflect the actual financial result or not, and if the balance sheet exhibits the snapshot of the financial position at a particular point of time—in short, if a true and fair view of the financial position is prepared as per the accounting standard. 'Auditing has its principal roots not in accounting which it reviews, but logic on which it leans heavily on for ideas and methods.' 'Accounting is necessary but auditing is a luxury.' 'Auditing may be defined as accounting Control.' 'Where accounting ends, auditing begins.'

Accounting is Necessary but Auditing is a Luxury

Accounting maintains a faithful recording of the transactions of an organization. The outcome of recording is to prepare the financial performance of the organization at the end of the year and exhibit the financial situation of the organization based on going concern concept. By using the accounting information, the management imposes accounting control and financial control as far as is practical. Accounting is a necessary exercise from the part of the organization.

Table 1.1 Difference between accounting and auditing

Points of Difference	Accounting	Auditing
Definition	Accounting is the recording of a financial transaction in a systematic manner to show the financial result over a period of time and to show the financial position of an organization at a particular moment of time.	Auditing is the verification of financial recording to check if it is free from fraud and errors, and has been prepared as per accounting standards.
Objective	Used by the stakeholders for the purpose of decision-making.	Reflects the true and fair view of the financial position of the organization.
Scope	Confined to financial data for preparing the financial result.	Not only confined to financial data but also deals with non-financial data.
Authorized person	Any person having financial knowledge is entitled to do so.	Any independent person having the qualification of Chartered Accountant may do so.

Points of Difference	Accounting	Auditing
Qualification	The accountant must possess financial knowledge but he/she may or may not be a Chartered Accountant.	Auditor must be a Chartered Accountant, have completed Articleship and come across General Management and Communication Skill (GMCS).
Accountability	The accountant is accountable to the management.	The auditor is accountable to the appointing authority, mainly to the shareholders.
Responsibility	To prepare financial statements: both income statement and balance sheet.	To assess the financial statement and judge whether it will reflect the true and fair view or not.
Timeframe	Accounting is a process carried out throughout the year.	Auditing is done when the task of accounts ends, i.e., the end of the financial year.

On the contrary, auditing checks if accounting records are free from errors and frauds, and if accounting records are being maintained as per the prevailing accounting standards to reflect the true and fair view of the financial status of the organization. Auditing of accounts by an independent qualified auditor has increased the acceptability of the accounts both internally and externally. Companies, both private and public, government organizations, and partnership firms often go for an audit to get a clear financial picture of the concern. However, sole proprietorship concerns avoid the task of audit due to financial burden on the company.

Accounting is considered necessary both by law and customs. As auditing justifies the accounts, it is also necessary like accounting.

The relationship of auditing to accountancy is close; yet their natures are different. They are business associates, not father and son.

ERRORS

Error is an unintentional or careless mistake made in the financial statements. Errors include clerical mistakes, mistakes on principles, and misinterpretation of data at the time of preparing financial statements.

Errors in Accounting

At the time of examination of accounts, errors are identified. Literally, errors refer to an unintentional mistake of recording. Errors are of many types:

1. *Errors of omission:* These types of errors occur when transactions are partly or fully not recorded. Detection or identification of such errors is very difficult as it does not affect trial balance. A careful check by the auditor can unveil such errors (e.g., Received from Swapnil ₹5000 is omitted in the entry of the cash book, or goods sale on credit to Sayan has been omitted from the entry of the sales day book.
2. *Errors of commission:* Error of commission is the sum total of incorrect and wrong postings and entries. These types of errors certainly affect the trial balance. Checking the books of original entries and respective posting of original entries may reveal such errors. (e.g., ₹5000 received by Ram but credited to Rahim's account instead of Ram's account).
3. *Compensating errors:* These types of errors counterbalance in such a manner that the arithmetical accuracy of accounts is not hampered. Meticulous checking of the arithmetical accuracy prevents such errors. Extra debit of rent of ₹500 may be compensated by extra credit of sales of ₹500 or cash sales of ₹500 is recorded as ₹5000, and again cash sales of ₹5000 is recorded as ₹500.

4. *Errors of principle:* When accounting principles are overlooked, such errors may occur. Not following the GAAP may result in errors (e.g., Wages paid ₹5000, for installation of machinery; the wages account was debited instead of crediting to the wages account).
5. *Errors of duplication:* An error of duplication arises when the same transaction is recorded twice in the books of the original entry and subsequently posted in the respective ledger accounts. Careful vouching is the only remedy to prevent such types of errors (e.g.,The same entry of cash purchase of ₹10,000 may be recorded twice as Purchase Account Debit to Cash and Trial Balance not having been able to identify the mistake).

Detection and Prevention of Errors

The auditor's duty regarding detection of frauds and errors is largely based on legal decisions and professional guidelines.

1. *Legal decisions:* The auditor's duty regarding frauds and errors was first mentioned by Justice Lord Lindley in the judgement of London and General Bank Ltd. In the words of Justice Lindley, the auditor is not bound to exercise more than reasonable care and skill in course of audit. He is not an insurer; he does not guarantee that books do correctly show the true position of the company.

   In the case of Kingston Cotton Mills Co. Justice Lopes made historical remarks by stating, 'An auditor is not bound to be detective and to work with their suspicion, that there is something wrong. He is a watchdog not a blood hound. He is justified in believing tried servant of the company and is entitled to rely upon their representation provides he takes reasonable care.'

   Irish Woollen Co. Ltd. vs Tyson and Others case frauds were committed through falsification of accounts by suppression of purchase invoices. At the same time purchased goods was taken into stock to enhance profit. The auditor was held guilty, not for taking reasonable care and skill for the purpose of vouching.
2. *Professional guidelines:* As per the guidelines of ISA 240: the Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements 'has clearly mentioned the auditor's responsibility in this regard.'

RESPONSIBILITIES OF AUDITORS REGARDING ERRORS

1. *Obtaining reasonable assurance*: An auditor conducting an audit is responsible for obtaining reasonable assurance that financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.
2. *Risk greater in case of fraud*: The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error.
3. *Risk of management fraud greater*: Furthermore, the risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud, because the management is frequently in a position to directly or indirectly manipulate accounting records, present fraudulent financial information, or override control procedures designed to prevent similar frauds by other employees.
4. *Assisting in identifying and assessing risk*: When obtaining reasonable assurance, the auditor is responsible for maintaining an attitude of professional scepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective for detecting fraud.

FRAUD

Fraud refers to a false representation or entry made intentionally with the view to defraud somebody. Detection of fraud is considered to be one of the important duties of the auditor. SA 4 discusses the auditor's responsibility for detection of fraud and error at the time of carrying out the audit of any organization. The system of internal check aims to prevent fraud.

Purpose of Fraud

Errors involve unintentional mistakes. The purpose of fraud is to deceive someone deliberately for deriving personal benefit. This involves punishment by criminal prosecution. The Harshad Mehta share scam is a real-life example of fraud. The Satyam scam is a ₹7000-crore fraud in the corporate arena. Fraud may occur by embezzlement of cash, misappropriation of goods, falsification or manipulation of accounts, and by Teeming and Lading.

Types of Frauds and Role of Auditors

The types of frauds include the following:

1. Embezzlement of cash
2. Misappropriation of goods
3. Falsification or manipulation of accounts
4. Window-dressing
5. Teeming and Lading

1. *Embezzlement of cash*: There is a greater possibility of deflection of money in a big business house than in a small proprietary concern where the proprietor has direct control over the receipts and payments of cash. It is easy to misappropriate cash and therefore, the auditor will do well to pay specific attention towards cash transitions.

   Cash may be misappropriated by

   (a) omitting the entry of cash which has already been received;
   (b) making an entry for a lesser amount than what has been actually received;
   (c) making a fictitious entry on the payment-side of the cash book;
   (d) making an entry for an amount greater than what has actually been received.

   In order to detect fraud under (i) and (ii), the auditor should check the debit side of the cash book with the draft cash book, salesman report, counter foil of the receipts book, and other original records. Frauds under (iii) and (iv) can be discoursed by reference to the vouchers, wage sheets, salary register, invoice receipts, etc.

2. *Misappropriation of goods*: Misappropriation of goods means recording in the purchase ledger the receiving of goods or making an issue on the record, even though it has not actually happened. Misappropriation in the case of highly priced goods with lower quantities is a regular phenomenon. This type of fraud can be detected by proper maintenance of accounts, proper recording of purchase and sales ledger, regular stock-taking, and imposing strong vigil on stores and the store ledger.

3. *Fraudulent manipulation of accounts*: Manipulation or falsification of accounts refers to changing the profit or loss figure with a specific intention. Such frauds are difficult to detect as they are committed by the people at the helm of affairs who are presumed to be trustworthy, honest, and responsible and hence no suspicion falls on them. Such frauds are cleverly committed and so the auditor must be very careful in detecting them. He/She should carry out routine checking and vouching more carefully and make necessary searches and enquiry intellectually and tactfully.

4. *Window-dressing*: Window-dressing is the diametrically opposite concept of true and fair view. It is the outcome of cosmetics accounting. The basic purpose of window-dressing is to exhibit what it is actually not. Window-dressing may occur in the following ways:
   (a) Undercharging depreciation
   (b) Making less amount of provision for bad debts;
   (c) Charging revenue expenditure as capital expenditure
   (d) Over-valuation of closing stock

   As window-dressing is contrary to the concept of true and fair view and not as per accounting standards, the auditor has to adopt sufficient skill and care to uphold the basic principle of auditing and make the effort audit a successful one.

Case on Window Dressing

Case: City Equitable Fire Insurance Co. Ltd.

Year of Judgement: 1925, England

Content: Window dressing of Balance sheet, Verification of Investment and Auditor's liabilities

Decision of the Case: Auditor was not liable for misrepresentation of accounts and window dressing. However, auditor was held liable for not taking certificate of investment from appropriate authority. Lord Justice Lindley opined that, "He is not an insurer; he does not guarantee the books correctly show the true position of the company's affairs."

5. *Teeming and Lading*: Teeming and Lading is a fine art of misappropriating cash. This is done by making a false entry and is adjusted by another false entry by using the duration of time and benefit derived. This is also known as 'delayed accounting of money received' by concealing the actual cash received and cash payment.

   Example 1: Suppose Rohit took a loan of ₹1,00,000 from the organization and repays the money in 12 instalments of ₹10,000. Instead of ₹10,000 every month, the cashier deposits ₹30,000 in a quarter and deposits the whole amount of ₹1,20,000 in the same year but derives the benefit of cash during the passage of time.

   Example 2: The cashier of a school withdrawing ₹5,00,000 from the bank, the scholarship amount, and retaining the entire amount in the cash box and distributing it among 100 students throughout the month is an example of Teeming and Lading. The cashier has extracted the benefit of cash over the month.

Guidelines of SA 240 (Revised)

An auditor's responsibilities relating to fraud in an audit of financial statement as per guideline of SA 240 (Revised)

1. **Effective Date:** Beginning on or after 1st April, 2009.
2. **Scope:** This Standard on Auditing (SA) deals with the auditor's responsibilities relating to fraud in an audit of financial statements. It specifically expands on SA 315 i.e., identifying and assessing the risks of material misstatement through understanding the entity and its environment and SA330.

An auditor's responses to assess risks are to be applied in relation to risks of material misstatement due to fraud.

1. **Characteristics of Fraud:** Misstatements in financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.

2. **Responsibility for Prevention and Detection of Fraud:** The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.
3. **Responsibilities of auditor regarding frauds**
   a. An auditor conducting an audit in accordance with SA is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.
   b. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. This is because fraud may involve sophisticated and carefully organized scams designed to conceal it, such as forgery, deliberate failure to record transactions, or international misrepresentations being made to the auditor.
   c. The auditor's ability to detect a fraud depends on factors such as skillfulness of the perpetrator the frequency and extent of manipulation the degree of conclusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. While the auditor may be able to identify potential opportunities for fraud to be perpetrated, it is difficult for the auditor to determine whether misstatements in judgment areas such as accounting estimates are caused fraud or error.
   d. The risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud, because management is frequently in a position directly or indirectly manipulating accounting records, present fraudulent financial information or override control procedures designed to prevent similar frauds by other employees.

When obtaining reasonable assurance the auditor is responsible for maintaining professional skepticism throughout the audit, consider the potential for management override of controls and recognize the fact that audit procedures are effective for detecting error.

Role of Auditor in Case of Teeming and Lading

To check the practice of Teeming and Lading, the auditor has to undertake certain steps:

1. Reconcile the cash book and pass book
2. Reconcile the petty cash book with vouchers
3. Check the cash balance
4. Scrutinize the date of withdrawal of cash and disbursement of cash
5. Judge the limit of cash balance

Factors Leading to Increase in Risk of Errors and Frauds

The risk of errors and frauds is increased by the following factors:

1. Non-development and non-compliance with the internal control system
2. Lack of evidence due to lack of documents, records, and vouchers
3. Unscientific internal control mechanism
4. Lack of competence, integrity, efficiency, and honesty of management
5. Unusual transactions at the fag end of the financial year

Auditor's Duties Regarding Errors and Frauds

1. Detection and prevention of errors and frauds is the main object of auditing.
2. Principle objective of audit is that accounts must be free from errors and frauds.
3. It not only indicates arithmetical accuracy but also shows true and fair view of the financial situation of the organization in the light of Accounting Standards.
4. As per Section 163(2) and (3) of the Companies Act, 2013, accounting and auditing standards and matters are required to be included in the audit report.
5. In addition, every auditor must comply with the auditing standards as per Section 143(9) of the Companies Act, 2013.
6. According to SA 200, the Overall Objectives of Independent Auditors is to provide reasonable assurance regarding the matter that financial statements are free from material misstatement.

Table 1.2 Difference between errors and frauds

Points of Difference	Errors	Frauds
Definition	Errors are unintentional or careless mistakes made in the financial statements.	Fraud refers to false representation or entry made intentionally with a view to defraud somebody.
Intention	There is no intention behind errors.	There must be a deliberate intention behind the fraud.
Findings	Findings of errors are comparatively easy.	Findings of frauds are comparatively difficult.
Effects	Some errors cannot affect trial balance.	Frauds basically jeopardize the true and fair view objective of audits.
Example	Errors of omission, errors of commission, errors of principle, compensating errors, and duplication of errors.	Embezzlement of cash, misappropriation of goods, falsification or manipulation of accounts, and Teeming and Lading.

Table 1.3 Difference between misappropriation of goods and manipulation of accounts

Points of Difference	Misappropriation of Goods	Manipulation of Accounts
Definition	Misappropriation of goods means fraudulent appropriation of goods in connivance with others.	Accounts are manipulated by passing false entries with the motive of misrepresenting the financial position of the organization.
Identification	Very difficult to identify.	Only an expert can identify these.
Involvement	Generally more than one person is involved.	An expert with an unethical intention is generally involved in the process.
Control	Effective internal control may prevent this.	Sometimes managements are involved in this practice.
Fraud	Fraud does not indicate misappropriation of cash or goods.	Manipulation of accounts has now become an art.

INDEPENDENT FINANCIAL AUDIT OR EXTERNAL AUDIT

The term 'audit' comes from the Latin word *audire* which means 'to hear'. Earlier, accounts were getting checked by others. Nowadays, every organization checks the accounts with the help of an external agency for independent judgement. For the purpose of statutory audit, a qualified Chartered Accountant with completion of Articleship is essential to conduct the audit. In the case of non-statutory audits as well, qualified Chartered Accountants are being appointed to derive the best benefits from the audit. Auditing has now become the culture of an organization in particular and the society at large. The Indian Companies Act, 2013 lays down the guidelines for an audit. Chartered Accountants Act, 1949 also mentions the code of conduct of the auditor for smooth functioning of the audit.

The principal objective of a financial audit is to report the financial position of the organization considering the financial statements, both the income statement and the balance sheet, along with the cash flow statement. Financial statement must be free from errors and frauds inter alia; the true and fair view must be exhibited in view of the Accounting and Auditing Standards being followed—International Financial Reporting Standards (IFRS) and Standards on Auditing (SA).

Objectives

1. Transparency of accounting
2. Universal acceptability of accounts
3. Reduction in the coherence between the internal user and external user of the accounts
4. Exhibition of error-free and fraud-free accounts
5. Demonstration of the true and fair view, as per the accounting standards

INDEPENDENCE OF AUDITOR

The very concept of 'independence of auditor' reflects the underlying concept that auditing is not influenced by the appointing authority. Independent opinions passed by the appointed auditor makes the process transparent and widely accepted in all parts of the society. An audited financial statement is accepted by the Income Tax department, banks or financial institutions, local authorities (corporation, municipality, or a notified area authority) or any other purpose deemed to be fit for the purpose of clarification, explanation, and support.

In the case of London and General Bank, Lord Justice Lindley has opined, 'An auditor must be honest, that is, he must not certify what he does not believe to be true and he must take reasonable care and skill before he believes what he certifies is true.'

Section 144 of the Companies Act, 2013 also upholds the independent character of the auditor. He/She must not render the following services directly or indirectly to the company, its holding company, or a subsidiary company:

(a) Accounting and book-keeping
(b) Internal audit
(c) Design and implementation of any financial information system
(d) Actuarial services
(e) Investment advisory services
(f) Investment banking services

(g) Rendering of outsourced financial services

(h) Management services

(i) Any other kind of services as may be prescribed

It is clear that the auditor must not render any sort of services that will hamper his/her honesty, integrity, and independence. He/She will perform his/her statutory obligation and no way deviate from the ethical code of conduct, as laid down in the Chartered Accountants Act, 1949.

Companies Act, 2013 and Standards on Auditing (SAs) uphold the nature of auditors independence.

Provisions of the Companies Act regarding Auditors independence:

Sections	Focus Area
Section 132 (1)	The Central Government is empowered to constitute a National Financial Reporting Authority (NFRA) relating to Accounting and Auditing standards.
Section 139 (1)	Appointment of Individual or Firm as Auditor in the First AGM and continued up to the conclusion of the sixth AGM.
Section 139 (7)	Appointment of First Auditor in the Government Company on the recommendation of CAG (Comptroller and Auditor General of India).
Section 140 (4)	Restriction on the Appointment of the Retiring Auditor
Section 141(1)	Who can be appointed as an Auditor (on the basis of qualification)
Section 141 (3)	Who cannot be appointed as an Auditor (on the basis of disqualification)
Section 143 (2) and (3)	Duty to make a Report and comply Companies (Auditors' Report) Order 2016
Section 144	Auditor not to render certain services
Section 177	Constitute Audit Committee by the Board of Directors

Provisions of the Companies Act regarding Auditors independence:

No of Standards	Title of the Standards
SA 200	Overall objectives of the independent auditor and the conduct of an Audit in Accordance with Standards of Auditing
SA 705	Modifications to the Option in the Independent Auditor's Report
SA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditors Rapport
SA2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity

1. **SA 200 (Revised):** Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing
2. **Effective Date**: beginning on or after April 1, 2010.
3. **Scope of SA 200**: This Standard on Auditing establishes the independent auditor's overall responsibilities when conducting an audit of financial statements in accordance with SAs.

Overall Objective of an independent Auditor as per AS 200: In conducting an audit of financial statements, the overall objectives of the auditor are:

(i) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, or whether due to fraud or error.

(ii) To enable the auditor to express an opinion on whether the financial statements are prepared, in all material respects in accordance with an applicable financial reporting framework; and

(iii) To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor's findings.

Definition of Investigation

Investigation means an enquiry into the financial accounts of the concern with special objective. In the words of Myles E. Taylor and Charies E. Perry, "Investigation involves enquiry into facts behind the books and accounts, into the technical, financial and economic position of the business or organization."

Purpose of Investigation

In some special situation investigation may occur:

1. **For Purchase of Business:** Prospective buyer may investigate the earning capacity of the business and valued the assets and liabilities to assess the value of the firm;
2. **For Sanctioning of loan:** At the time of providing loan, investigation is required to judge credit worthiness i.e., repayment capacity of the borrower;
3. **For Investment:** Investment decision is based on value of the concern and dividend decision of the concern. Investigators judge the situation in true way.
4. **For Suspected Fraud:** Fraud may occur by the employee and investigator could be the person who unearthed the fraud;
5. **Admission or Retirement of Partner:** Valuation is made by the investigator at the time of entry or exit i.e., admission of new partner or retirement of existing partner;
6. **Judge Sickness or Weakness of the concern:** Any concern may be healthy, weak or sick: For the purpose of turnaround proposal or takeover proposal by the government concerns financial health has to be judge by the investigator ;
7. **For the Merger of the Concerns:** For the purpose of merger or takeover the firm, techno-economic viability has to be judge by the investigator;
8. **Compliance of Companies Act, 2013:** The central Government may give the order for investigation
9. **Abnormal Situation:** If any abnormal situation arises the investigator may be appointed to judge the real thing.

Provisions of the Companies Act, 2013 regarding Investigation
As per Section 210 of the Companies Act, 2013 the Central Government may give the order of investigation to judge the affairs of the company. In the following circumstances;

1. On the receipt of the report of the Registrar or inspector as per Section 208; .On intimation of a special resolution passed by the company that the affairs of the company ought to be investigated ;
2. Investigation for public interest;

3. As per Section 210(2) of the Companies Act, 2013 the Central Government may give the order for investigation ;
4. As per Section 213 of the Companies Act, 2013 the Central Government may give the order by appointing one or more investigator;
5. As per Section 216 of the Companies Act, 2013 the Central Government may give the order to protect the interest of the investor and to judge who will have the controlling power.

Rights and Duties of the Auditor regarding Investigation as per Companies Act, 2013

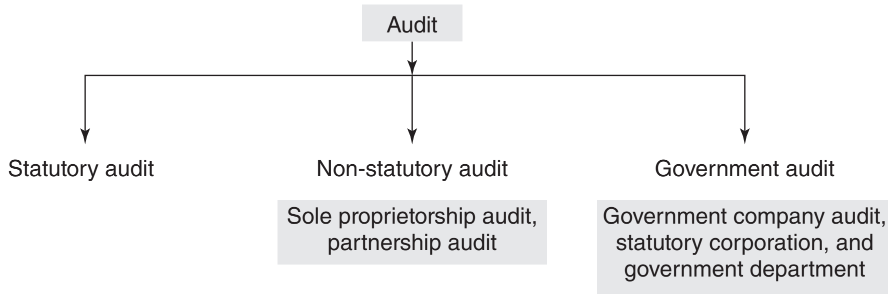
1. As per Section 217 of the Companies Act, 2013 the investigator may keep the books of accounts in his custody up to 6 months;
2. As per Section 219 of the Companies Act, 2013 the investigator may enquire into the matter of other company or companies related with investigating company;
3. As per Section 220 of the Companies Act, 2013 the investigator may cease the documents as per order of the court; if these is a chance of tampering or destroying or hiding or changing the document or accounts;
4. As per Section 223 of the Companies Act, 2013 the investigator have to submit the interim report to the Central Government as per order or it may have to submit at the end of enquiry;
5. As per Section 217(8) of the Companies Act, 2013 if any officer be reluctant to provide information or be unable to submit books of accounts with relevant vouchers, he will be penalised with a fine of Rs 25,000 along with 6 months jail and that may go up to Rs 1,00,000 . In addition to that per day penalty will be Rs 20,000 till the date of non-compliance with the requirement of investigator.

Distinction between Investigation and Auditing

Points of Difference	Investigation	Audit
Definition	Investigation means an enquiry into the financial accounts of the concern with special objective.	Audit means examination of accounts of the concern exhibits true and fair view.
Objective	Objective of investigation is to judge whether the investment or buy of the concern is feasible or not.	Objective of the audit is to see whether the accounts is free from errors, frauds and also give true and fair view of the concern
Legal Mandate	Investigation is not mandatory as per Companies Act, 2013 or by any other Act.	Audit is mandatory as per Companies Act, 2013
Report	Report is to be submitted to the appointing authority.	Report is to be submitted to the shareholders or proprietors.
Qualification	It is not mandatory that investigator is a Chartered Accountant.	Practicing Chartered Accountant or firm is appointed as auditor.
Time Span	Investigation covers a long period.	Audit at best covers one year.
Sequence	Audit is done earlier.	Investigation follows audit.
Checking	Based on through checking.	Based on test checking.

ORGANIZATION STRUCTURE-WISE AUDIT

On the basis of organizational structure, audits are classified as follows:



Statutory Audit

When audit is done as per the statute or when it is mandatory, it is called statutory audit. Audit of the joint stock companies, banking companies, insurance companies, electric supply companies, and registered societies are mandatory or statutory as per their respective statutes. Companies Act, 2013, Banking Regulation Act, 1949, Life Insurance Corporation of India Act, 1956, Societies Registration Act, 1960, and Income Tax Act, 1961 have prescribed statutory audits.

Area of Application

1. Joint Stock Company as per Companies Act, 2013
2. Banking Companies as per Banking Regulation Act, 1949
3. Co-operative Societies as per Co-operatives Act, 1912
4. Societies as per Society Registration Act, 1860
5. Trust as per Religious and Endowment Trust Act,1863
6. Statutory Corporation (Life Insurance Corporation of India, Unit Trust of India etc.)

Objectives

1. Scope of independent audit can be explored and that can't be limited or restricted.
2. Statutory audit can be done by an independent auditor.
3. The qualification, disqualification, remuneration, rights, duties, and liabilities of an independent auditor are to be governed by law.
4. The report prepared by the independent auditor is for stakeholders.
5. It will uphold the financial culture of the organization and acceptability of the organization to the society at large.

Advantages

1. Statutory audit serves the statutory obligation.
2. Stakeholders will be more satisfied.
3. It safeguards the interest of the creditors, banks, financial institutions, government, and the society at large.
4. The trustees will be more satisfied with the financial operations of the organization.
5. The management can prove its efficiency and honesty.

Non-statutory Audit

When auditing is not mandatory or statutory as per the respective statute but is done to derive the benefit of audit, it is called non-statutory audit. The auditing of sole proprietorship firms, partnership firms and clubs are the brightest examples of non-statutory audit.

Area of Application

1. Sole Proprietorship
2. Partnership
3. Professionals
4. Non-Profit making Organization
5. Club, Charitable Institutions

Objectives

1. To derive the benefit of audit.
2. To maintain a healthy relationship among the persons involved in the organization.
3. To ensure financial transparency among the stakeholders.
4. To increase social acceptance of the organization.
5. Sole proprietorship organizations, partnership firms, and individuals can derive benefits from non-statutory audits.

Advantages of Non-statutory Audit

1. Derive the benefit of audit where it is not mandatory
2. Detection and rectification of errors
3. Detection and Prevention of fraud
4. Compliance of tax as per law of the land
5. Dependable document for getting loans
6. Helping documents for settlement of disputes

Government Audit

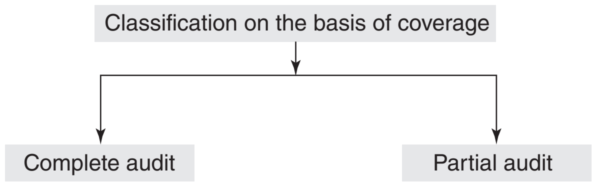
The audit of government companies, public sector undertakings (PSUs), and both central and state government departments has to be conducted by the Comptroller and Auditor General of India (CAG). The appointment, remuneration, duties, and powers of the CAG have to be stated in Articles 148 to 151 of the Constitution of India.

The objectives of the government audit are as follows:

1. To ensure that the financial transactions of government companies, public sector undertakings, and government departments are made in conformity with financial rules.
2. To ensure that expenses are made within the purview of the budget.
3. To ensure that all the activities of the government companies, government undertakings, and government departments are made for public interest.
4. To generate maximum output against minimum input.
5. To ensure that all the activities are made for public interest and funds are not misused.

COVERAGE-WISE CLASSIFICATION OF AUDIT

On the basis of coverage, audits are classified as follows:



Complete Audit or Detailed Audit

In case of complete audit, the auditor has to check all the transactions irrespective of nature and importance. In such a case, the auditor has to operate without any restriction on the scope of the audit. Nothing is untouched or unchecked. All records, vouchers, and supporting documents have to be scrutinized in the interest of the concern.

Objectives

1. Audit starts after the completion of the accounting work.
2. Auditors take up the process of auditing and hand over the accounts back to the organization after completion.
3. Uninterrupted auditing can be carried out.
4. Irrespective of the size of the organization, the auditing has to be carried out completely.

Advantages

1. Smooth functioning of work is possible.
2. It is efficient and economic for small organizations.
3. A comprehensive report of the organization's accounts can be prepared.
4. There is less chance of errors or frauds.
5. There is no hurry to complete the audit work and there is lesser chance of mistakes.

Partial Audit

When the audit is conducted on partial records of the books of accounts or over a partial period of the whole year, it is called partial audit. The scope of partial audit is very limited. In the case of partial audit, the auditor must specify the scope of audit to avoid future liability.

Objectives

1. The scope of the partial audit is limited.
2. The scope has to be mentioned to avoid liability of errors or frauds.
3. It involves lesser time and cost.

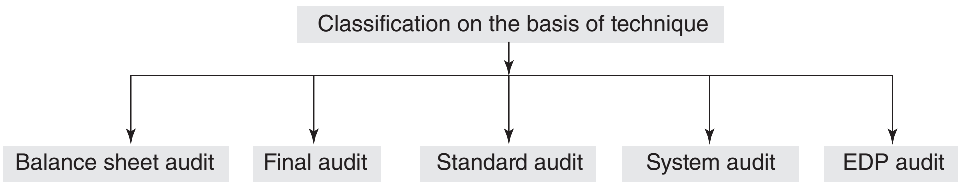
Advantages

1. In-depth study is possible.
2. It takes lesser time.

3. It involves lesser cost.
4. It is generally undertaken by sole proprietorship or partnership organizations.

TECHNIQUE-WISE CLASSIFICATION OF AUDIT

On the basis of technique, audits can be classified as follows:



Balance Sheet Audit

A balance sheet audit is an evaluation of the accuracy of information derived from a company's balance sheet. In the words of B.N. Tandon, 'The term balance sheet audit means verification of the value of assets, liabilities, the balances of reserves and provisions and the amount of profit earned, or loss suffered by a firm during the year.' Balance sheet audit involves transactions related to balance sheets and especially, items related to assets and liabilities. By way of balance sheet audit, the weakness in the accounting system is identified and appropriate action is taken. Balance sheet audit is a very recent origin and popular in the USA.

Role of auditor

1. A good and effective internal control system has to be developed to derive the best benefit of the balance sheet audit.
2. Balance sheet audit is closely associated with balance sheet items and associated items of Profit and Loss Account cross-related with the balance sheet.
3. The accounts and finance department has to be professionally managed to derive the best benefits of a balance sheet audit.

Advantages

1. Balance sheet audit strengthens internal control systems.
2. EDP audit will be realistic if balance sheet audits prevail.
3. A qualified accountant and auditor can make and derive the best benefit of the balance sheet audit.
4. In case of too many transactions, the balance sheet audit will be more effective.
5. A comparative and comprehensive study will be more realistic.

Final Audit

Standard audit may be defined as 'complete check and analysis of certain items and contingent upon effective internal check, appropriate test checks on remaining items, the whole of work being in accordance with general auditing standards.'

Standard is a comprehensive audit based on test checking provided that internal control exists. Standard audit is based on the guidelines of New Standards on Quality Control (SQCs); earlier it was based on Auditing and Assurance Standards (AAS) and International Financial Reporting Standards (IFRS), along with the

Accounting Standards, New Companies Act, 2013, and the judgement from cases. Standard audit or final audit is very popular in India, along with most other countries in the world.

Objectives

1. To protect the interest of the owner
2. To protect the interest of the stakeholders
3. To revive the true and fair view of the organization as per Accounting Standards
4. To generate independent view regarding the organization
5. To make report as per compliance of law

Advantages

1. Full-year audit has to be done based on the financial year's data, information, and fact.
2. Chance of manipulation is less as it is done at the end of the financial year.
3. Both statutory and non-statutory audit can be done.
4. Satisfies the stakeholders in all respects.
5. Mitigates statutory obligation.

Table 1.5 depicts the differences between balance sheet audit and final audit.

Table 1.5 Difference between balance sheet audit and final audit

Points of Difference	Balance Sheet Audit	Final Audit
Definition	It is only based on the balance sheet.	It is based on complete books of accounts.
Scope	Scope of balance sheet audit is limited.	Scope of final audit is wide.
Statutory	Balance sheet audit is not statutory.	Final audit is statutory.
Acceptability	Balance sheet audit is very popular in USA.	Final audit is well accepted throughout the globe.

Standard Audit

Standard audit refers to audit based on test checking. In this type of audit, detailed checking of certain items is made. Sampling and statistical sampling methods are widely used in this regard. The entire task is based on auditing standards to prepare an unqualified audit report.

System Audit

System audit judges if the various systems of accounting and control mechanisms are efficiently followed in the organization or not. Financial statements are the outcome of the prevailing system. The auditor has to judge if the systems are being properly followed or not.

Objectives

1. There is no stress to judge transactions.
2. More emphasis is laid on internal control and internal check.
3. In the prevailing internal control system, the auditor has to judge whether financial statements are free from errors and frauds.

Advantages

1. The outcome of the system audit is more transparent.
2. System audit expedites the audit functioning.
3. It justifies the accounting system.
4. Internal control will be imposed strongly.

Electronic Data Processing (EDP) Audit

Electronic Data Processing Audit (EDP Audit) is a type of audit carried out in a computerized environment. Despite change in the environment, the dimension of audit has not yet changed. In EDP audit, the methods of evidence collection and evaluation have changed substantially. The auditor has to keep pace with the current changes in technology and audit software has to be installed in this regard.

Objectives

1. Introduction of technology to safeguard data.
2. Achievement of organizational goal efficiently.
3. Maintenance of resource efficiency.
4. Whether overall objective of audit has been violated or not.

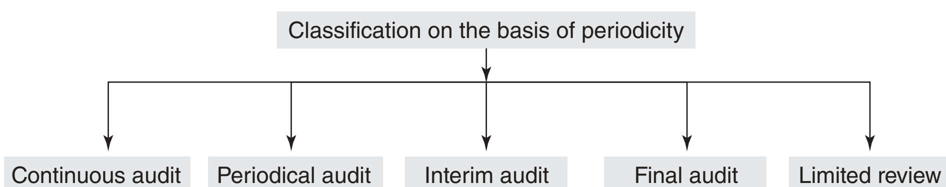
Advantages

1. Fast auditing can be done.
2. On-time audit is possible.
3. Outcome of modernization.

Disadvantages

1. End users can make unintentional errors.
2. There may be a mismatch between management information system (MIS) and decision support system (DSS).
3. Due to lack of overall modernization, the entire system could be jeopardized.

PERIODICITY-WISE CLASSIFICATION OF AUDIT



Continuous Audit

A continuous audit or a detailed audit is an audit which involves a detailed examination of the books of accounts at regular intervals, every month or every three months. In the words of R.C. Williams, '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 auditor visits his/her clients at regular or irregular intervals during the financial year and checks each and every transaction meticulously. Continuous audit is not of much use to a small concern as its accounts can be audited at the end of the financial year without much loss of time.

Objectives

This type of audit is especially applicable to the following businesses:

1. When the business is very large and the entire process of auditing cannot be completed in a short period of time
2. Where a good and efficient system of internal audit does not prevail
3. Where the volume of transaction is very large
4. Where the monthly results are required to ascertain the trend of the business
5. Where it is desired to prepare the final accounts just after the closing of the financial year

Advantages

1. *Easy and quick discovery of errors and frauds:* Errors and frauds can be discovered easily and quickly as the auditor checks the accounts at regular intervals and in detail. If the auditor checks the accounts after one year it would be difficult to locate an error and fraud. The auditor visits the organization every month or every two or three months. The number of transactions tends to be few, and errors and frauds can easily be detected.
2. *Quick presentation of accounts*: Since most of the checking has already been carried out during the financial year, the final audited accounts can be presented soon after the end of the financial year at the annual general meeting.
3. *Knowledge of technical details*: Since the auditor remains more in touch with the business, he/she is in a position to know the technical details and accordingly make suggestions.
4. *Ethical upgradation of staff*: Since the auditor visits the client at regular intervals, there is ethical pressure on the accounting staff to keep the accounts up-to-date on a true and fair basis. It is more than that for internal auditing.
5. *Efficient audit:* As the auditor has more time at his/her disposal, he/she can check the accounts with greater attention and work with considerably more efficiency.
6. *Preparation of interim audit*: When the director of a company has desire to declare an interim dividend, continuous audit will help to prepare the interim accounts without much delay.

Periodical Audit

Completed, final, or periodical audit is done at the end of an accounting period for the purpose of final or end-term audit. In the words of Spicer and Pegler, 'Periodical is commonly understood to be an audit which is not commenced until after the end of the financial period and is then carried on until completed.'

Objectives

1. *Time span*: Work will be carried out till the completion of the audit work task, stipulated time will be provided for that.
2. *Work plan*: Considering the volume of the audit, a plan will be laid down so that the task of auditing would become easier.
3. *Less monotony*: As audit work is done at the end of the financial year, repetition of work is not possible and chance of monotony will be minimized.
4. *Continuity restraint*: Periodical audit restrains the continuity of work.
5. *Cost effective*: As continuous audit is cost effective, it will be equally applicable to all concerns, irrespective of size.

Advantages

1. *Economics*: The cost of periodical audit is comparatively cheaper than that of continuous audit; hence any type of concern can adopt this irrespective of size.
2. *Comfortable*: As the audit starts at the end of the financial year, concerns are not affected in any way and it is a comfortable time to conduct the audit.
3. *Hassle-free*: As periodical audit is done at the end period, it will be hassle-free and regular work would not be affected.
4. *Time bound*: Periodical audit is a time-bound game and plans can be introduced smoothly.
5. *Continuity of work*: As the audit is completed in a single session, the loss of link is not possible.

Table 1.4 depicts the differences between continuous audit and periodical audit.

Table 1.4 Difference between continuous audit and periodical audit

Points of Difference	Continuous Audit	Periodical Audit
Definition	Financial position of the organization can be assessed on a monthly, quarterly, or half-yearly basis.	Financial position can be assessed at the end of the financial year.
Detection of errors and frauds	Errors and frauds can be detected early.	Errors and frauds remain unidentified till the completion of the periodical audit.
Cost	The system is very expensive and only medium and large concerns can bear the costs. Small concerns cannot afford that.	The system is mandatory and to derive the benefit of auditing, small, medium, and large concerns adopt this.
Dependence	Much dependence on the auditor make the staff inefficient.	Less dependence on the auditor make them keep the accounts ready at all times.
Monotony	An auditor's mechanical and monotonous attitude might make the whole process seem fishy.	Auditor takes a fresh look at the audit, and the values portrayed will be more realistic.
Frequent visit	Frequent visits by the auditor lay pressure on the accounts office of the concern.	As there are no frequent visits, accounts office will be less concerned.
System	An appropriate system has to be developed to make the auditing perfect.	An appropriate system forms a bridge between continuous audit and periodic audit.

Interim Audit

Interim audit is done in between two financial audits. In the words of B.N. Tandon, 'An audit which is conducted in between the two annual audits with a view to find out interim profits to enable the company to declare an interim dividend should be called Interim Audit.'

Objectives

1. For the purpose of declaration of interim dividend
2. For the purpose of transfer of ownership
3. For the purpose of takeover of the company
4. For the purpose of calculation of goodwill
5. For the purpose of investigation

Advantages

1. Preparation of interim financial result
2. Declaration of interim dividend
3. Taking mid-term preventive measures regarding errors and frauds
4. Urgent need for borrowing from banks/FIs
5. Urgent need for ownership change, merger or acquisition

Final Audit

This has been covered in detail under Technique wise classification of audit.

Limited Review

Under Limited Review the auditor has to submit a quick review report in an interim period. This type of review is not at all a full-fledged audit report and not based on the Generally Accepted Auditing Standards (GAAS). It may be called a narrow-ranged audit.

Objectives

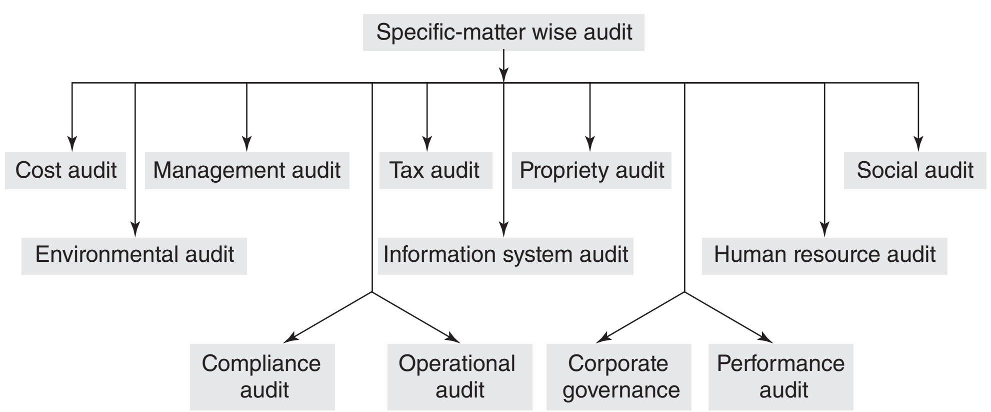
1. The scope of limited review is narrower in comparison to general audit.
2. Examination of books of accounts is made on a basic understanding.
3. It is assumed that accounts are free from errors and frauds.
4. Limited review is done in the limited speared.

Advantages

1. In-depth study is possible.
2. Quick report is generated.
3. Interim report is prepared as per the requirement.

SPECIFIC MATTER-WISE AUDIT

Audits can also be classified as follows:



Cost Audit

Cost audit may be defined as 'verification of correctness of cost accounts and of the adherence to the cost accounting plan.' In the words of Smith and Day it is 'the detailed checking of the costing system, techniques and accounts to verify their correctness and to ensure adherence to the objective of cost accounting.'

As per Section 148(1) of the Companies Act, 2013, the central government specifies audit of items of cost in respect of such class of companies engaged in the production of such goods or providing such services as may be prescribed, direct that particulars relating to the utilisation of material or labour or to other items of cost as may be prescribed shall also be included in the books of account kept by that class of companies.' Section 148(3) states that cost audit shall be conducted by the cost accountant in practice appointed by the Board of Directors.

As per the guideline issued by the Ministry of Corporate Affairs (MCA), applicability and maintenance of cost records is mandatory for two sectors, namely regulated sectors and non-regulated sectors laid down in the Companies (Cost Records and Audit) Amendment Rules, 2014.

Objectives

The objective of cost audit falls under two categories, namely general objectives and social objectives.

General objectives

1. Judge the accuracy of cost data and information.
2. Judge whether the recording of cost data is made in accordance with cost accounting standards.
3. Judge whether the determination of cost is made properly.
4. Judge whether the recording is free from errors and frauds as per cost accounting standards.

Social objectives

1. To help the consumers provide goods at least cost.
2. To help in the optimum utilization of resources.

Advantages

1. *Improves productivity*: As the cost audit highlights wastage and inefficiency, it will help to increase productivity.
2. *Helps in decision-making*: As the cost auditor provides extensive data, it will help in decision-making.
3. *Early signal for weakness and sickness*: Cost audit can give us early signals that the organization is weak.
4. *Cost competitiveness*: Cost audit helps in cost competitiveness. Better sustainability of the firm is possible.
5. *Benefit to the customer and society*: The customer and the society will ultimately be benefitted from cost audit.

Environmental Audit

The Confederation of British Industry has defined environmental auditing as the systematic examination of the interactions between any business operation and its surroundings.

Environmental auditing originated in the USA to check whether the company complies with the environmental laws of the country or not. In the year 1978, TISCO started an environmental audit.

As per the requirement of Water (Prevention and Control of Pollution) Act, 1974, Air (Prevention and Control of Pollution) Act, 1981, Environment (Protection) Act, 1986, and Wastes (Management and Handing) Rules, 1989, environmental audit report has to be submitted.

Objectives

1. To ensure that the environment is least affected.
2. To judge the risk factor included in the operation of the organization.
3. To judge if the operation of the organization conforms to sustainable economic development.
4. To ensure that environmental laws and regulations are followed.

Management Audit

In the words of 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 the outside world and the most efficient organization and smooth running of internal organizations.'

The American Institute of Management defines it as, 'Management auditing is a diagnostic appraisal process from analysing goals, plans, policies and activities in every phase of operation to turnover unsuspected witness and to develop ideas for improvement in areas that have escaped management attention.' Management audit assesses the performance or efficiency of management.

Objectives

1. It involves comprehensive examination of the organization or part.
2. It is undertaken to check the operation of the management and its effectiveness.
3. It involves analysing goals, plans, policies, and activities in every phase of management operation.

Advantages

1. Evaluates the performance of the management.
2. Reviews the plans and policies taken, and the execution of plans and policies.
3. Suggests necessary steps to mitigate the gap between plan and execution.
4. Guides the management to chart out future policies and plans.

Compliance Audit

Compliance refers to the test of control against a specific standard. Compliance audit measures the effectiveness of the internal system in the organization. It also checks whether or not internal audit is carried out in conformity with the prevailing system.

Objectives

1. The medium of transactions is tested with the help of compliance audit.
2. If it is found that compliance is not carried out, there is a need to revise the system.
3. It is used to check if the deviation from conformity is made in isolation or is symptomatic.

Advantages

1. It will help to increase the prevailing standards of audit.
2. The review of the standard of internal audit is the underlying mechanism.
3. It will help in the maintenance of a certain standard.

Operational Audit

All types of activities involved in the operation have to be examined by operational audit. Operational audit judges if the operation is to be made in conformity with the predetermined set of standards or not. Economic efficiency is the key factor in judging operational efficiency. One needs to check if the operational audit is made at an optimum level or not. The auditor has to highlight the causes of deviation and the steps that need to be taken in this regard.

Advantages

1. Reviews the organization's operating procedures and methods.
2. Improves the performance and efficiency of the organization.
3. Implements the 'plan, do, check, and act' (PDCA) model.
4. Implements the profitability objective.
5. Implements the non-profitability objective.

Tax Audit

According to Section 44AB of the Income Tax Act, 1961 tax audit is compulsory (w.e.f. assessment year 1985–86) in respect of a person carrying on a business or profession where the turnover exceeds ₹1 crore (w.e.f. assessment year 2013–14) and in the case of profession gross receipts exceeding ₹25 lakh (w.e.f assessment year 2013–14).

The tax auditor may be appointed by the management of the business or profession or by the person duly authorized to do so. The appointment letter should clearly specify that the tax audit is to be conducted as per the requirement of Section 44AB of the Income Tax Act, 1961. As Section 44AB is silent on the rights of the tax auditor, the appointment letter of the tax auditor clearly mentions the domain of the tax auditor.

As per Section 288 of the Income Tax Act, 1961 tax audit shall be conducted by the Chartered Accountant.

Information System Audit

In the words of Rob Weber, 'Information system audit is the process of collecting and evaluating evidence to determine whether computer system safeguards assets, maintains data integrity, achieves organizational goals effectively, and consumes resources efficiently.'

Table 1.5 shows the differences between internal and statutory audits, and Table 1.6 depicts the differences between statutory and non-statutory audits.

Table 1.5 Difference between internal audit and statutory audit

Points of Difference	Internal Audit	Statutory Audit
Stage	Internal audit is a mid-term audit to face the final or statutory audit.	Statutory audit is a final audit done to submit the audit report.
Scope	The scope of internal audit is determined by the management.	The scope of statutory audit is vast and in no circumstances can it be limited.
Appointment and remuneration	Appointment along with the remuneration of the internal auditor is fixed by the management.	Appointment of statutory auditor is either made by the shareholders in the Annual General Meeting, or by the Board of Directors, or by the CAG as the case may be. Remuneration is also fixed by the respective appointing authority.

Points of Difference	Internal Audit	Statutory Audit
Qualification	Internal auditor may or may not be a Chartered Accountant.	Statutory auditor must be a Chartered Accountant.
Rights and duties	The management pre-determines the rights of the internal auditor. The internal auditor performs his/her duties accordingly.	The rights of the statutory auditor cannot be curtailed and it is just to perform his/her duties. The ultimate task of the statutory auditor is to submit an audit report to the appointing authority.

Table 1.6 Difference between statutory and non-statutory audit

Points of Difference	Statutory Audit	Non-statutory Audit
Definition	Statutory audit is mandatory or compulsory as per statute or respective law.	Non-statutory audit is not mandatory or compulsory as respective statute or law but it is done to derive the benefit of audit.
Organization covered	Joint stock companies, banking companies, and insurance companies along with others.	Sole proprietorship firms, partnership firms, etc.
Qualification of the auditor	Auditor must possess the requisite qualification as per the statute: Chartered Accountant with completion of Articleship.	Auditor qualification is not mandatory as per the statute but should preferably be a Chartered Accountant with completion of Articleship.
Appointment	In case of a joint stock company, appointment is made by the shareholders in the Annual General Meeting and in some cases by the Board of Directors or by the Central Government.	In case of sole proprietorship firms, appointment is made by the owner and in case of the partnership firms, appointment is made by the firm.
Remuneration	Remuneration is fixed by the appointing authority.	Remuneration is fixed as an agreement between the auditor and appointing authority.
Covered area	The purview of the audit covers the entire organization.	The purview of the audit covers the desired area as deserved by the appointing authority.
Liability	Liability of the auditor is fixed by the respective statue and law of the country.	Liability of the auditor is fixed by the law of the country.
Report submission	A report has to be submitted to the shareholder in the AGM.	A report has to be submitted to the owner or to the firm.
Scope	Scope of the statutory audit is widened.	Scope of the non-statutory audit is limited.

Propriety Audit

Propriety audit measures the rightness of policy and procedure. It also measures the decisions and actions made in public interest and mitigates the standard code of conduct. Propriety audit involves checking if transactions have been made in conformity with the principles, rules, regulations, guidelines, and standards which are in the best interest of the public.

Objectives

1. To ensure operation is being conducted in conformity with rules and regulations.
2. To check that books of accounts are being maintained properly.
3. To see that funds are being utilized in the best interest of the concern.
4. To work towards the desired results of the concern.

Advantages

1. Ensures that public money is not being misused from the point of view of propriety.
2. Ensures that policies and procedure are being followed accordingly.
3. Ensures that public interest is being safeguarded.

Table 1.7 highlights the differences between traditional audit and propriety audit.

Table 1.7 Difference between traditional audit and propriety audit

Points of Difference	Traditional Audit	Propriety Audit
Objective	Measures the true and fair view of the financial position	Measures the rightness of financial position
Verification and valuation	Based on verification and valuation of financial transaction	Goes beyond verification and valuation to judge greater interest in the company
Concern	Not the concern of the auditor whether it is run efficiently or inefficiently	It is the concern of the auditor whether it is run efficiently or inefficiently
Advisory	No room left for advisory work	Auditor also plays an advisory role
Compliance	Compliance with GAAP	Revenue expenditure for day-to-day running of the organization, capital expenditure for wealth generation, and ultimately wealth maximization

Human Resource Audit

Human resource audit reviews the policy, procedure, and practices related to human resource.

Advantages

1. Identifies the most important HR programme
2. Implements the most important HR programme
3. Identifies the deviations in HR policy and implementation
4. Measures the deviation from the benchmark HR achievement
5. Promotes innovative ideas with change and creativity

Social Audit

Social audit assesses the social, economic, and environmental benefits it derives from the society and gives to the society.

In the 1980s, the Union Carbide passed the statutory audit but did not qualify on the social audit parameter as it was blacklisted because of the Bhopal Gas massacre. In 1980, TISCO worked on the first social audit document. As per Section 135(1) of the Companies Act, 2013 in case of companies having net worth of rupees five hundred crore or more or turnover of rupees thousand crore or more or net profit of rupees five crore or more during any financial year they have to spend 2 per cent of the net profit on account of corporate social responsibility.

Objectives

1. To assess that the company has discharged its social responsibility towards stakeholders.
2. To assess that the company has discharged its social obligation towards shareholders, customers, debtors, creditors, and the government.
3. To ensure that the company discharges its statutory obligation.
4. To ensure that the company in no way violates its social obligation.
5. To ensure that economic sustainability is maintained.

Advantages

1. Fulfils social obligations.
2. Makes the society aware of the functioning of the organization.
3. Assesses the social performance of the organization.
4. Increases the accountability of the organization towards stakeholders.
5. Helps the management judge the organization.

Stock Audit

Stock or inventory maintenance is the stickiest issue among current assets. In a stock audit, the auditor indicates the quality, quantity, segmentation and value of the stock. Stock audit can be done by way of verification and valuation of stock. Stock audit is an important part of a statutory audit.

Objectives

1. To identify the volume of stock.
2. To ascertain the value of stock.
3. To ascertain the actual profit.
4. To justify the ownership of stock.
5. To verify the status of stock.

Advantages

1. High amount of stock involves blockage of funds, indicates poor cash flow, and high degree of cost and vice versa; stock audit gives caution in this regard.
2. As stock is vulnerable to pilferage, obsolesce, wastage, and damage, stock audit minimizes the situation.
3. Sock audit helps to determine the correct amount of profit and helps to take dividend decisions.

Public Deposit Audit

Banks usually raise public deposit. The audit of public deposit is made as per the Reserve Bank of India 1934, Banking Regulation Act, 1949, The State Bank of India Act, 1955, The State Bank of India (Subsidiary Bank) Act, 1959, The Regional Rural Bank Act,1976, and The Banking Companies (Acquisition and Transfer of Undertaking) Act, 1980. Demand deposit, savings bank deposit, term deposits, deposit of branches in India, and deposits of branches outside India are the types of deposit.

Objectives

1. Borrowing through deposit is one of the main functions of banks to be monitored.
2. To verify different types of deposits from different registers or ledgers.
3. To ensure that banking regulations are followed properly.
4. To check the interest paid or payable on public deposit regularly.
5. To follow statutory obligations regarding public deposits.

Advantages

1. The public deposit register or ledger is scrutinized to get a real picture of the accounts.
2. Borrowing is carried out as per banking regulations.
3. The interests credited are vividly made.
4. Test checking method of sampling has to be followed carefully to ascertain the interest paid or payable.
5. Internal control mechanisms are followed.

Corporate Governance

N. Narayana Murty, Chairman, Committee on Corporate Governance of SEBI, has made a remarkable statement by saying, 'Corporate governance is the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders.'

As per section 135(1) of the Companies Act, 2013, every company having net worth of ₹500 crore or more, or turnover of ₹1000 crore or more or a net profit of ₹5 crore or more during any financial year shall constitute a corporate social responsibility committee of the Board having three or more directors out of which one director shall be the independent director as a part of corporate governance.

Auditor's duty regarding corporate governance

The following points may be noted:

1. The auditor has to collect a board approved financial statement, draft report of the board of directors, and a report on corporate control.
2. The collection of document is as per AS 230.
3. The auditor has to judge if the conformity with guidance is maintained or not.

Performance Audit or Efficiency Audit

A performance audit ascertains if the internal activities of the organization are carried out efficiently or not. Performance audit has some sort of symmetry with internal audit. Performance audit studies the competence of achieving goals.

Objectives

1. To strengthen performance control and improve internal audit.
2. To study whether management controls are functioning effectively and efficiently.

3. To appraise and review efficiency.
4. To be obliged towards the attainment of organizational goals.

Advantages

1. Reduces the area of uncertainty in business.
2. Removes bottlenecks in achieving goals.
3. Removes inefficiencies and ineffectiveness.
4. Achieves operational goals smoothly.

DEFINITION OF STANDARDS ON AUDITING (SA)

Standards on Auditing refers to a set of guidelines for conducting audit in a scientific way. Standards incorporate techniques and principles to run the audit in an efficient and effective manner.

Purpose of SA

1. The task of the Auditing and Assurance Standards Board (AASB) is to review the prevailing guidelines and issue the new guidelines.
2. At the time of issuing standards, the International Accounting Standard (IAS), International Financial Reporting Standard (IFRS) has to be borne in mind.
3. The AASB has to issue a guidelines note if problems arise.
4. AASB reviews the situation after a certain interval and if required, modification and issue of new guidelines may be provided.

Importance of SA

1. Codification of auditing practice is possible through SA.
2. Professional pronouncement has to be maintained.
3. The importance of prescribing guidelines is to ensure sound auditing standards.
4. Auditing standards are considered to be the standard tools on auditing.
5. Auditing standards help in the prevention of errors and frauds.
6. Auditing standards make it easy to prepare the audit report and to show the true and fair view.

PRESENT POSITION AS TO NUMBER AND TITLE (AS ISSUED BY ICAI)

There are several standards that make the audit transparent (Table 1.8). SA 1–99 indicates the standards on quality control, SA 100–199 indicates the introductory matters, SA 200–299 indicates the general principles and responsibilities, SA 300–499 indicates the risk assessment and response to assessed risks, SA 500–599 indicates audit evidence, SA 600–699 indicates the using of others' works, SA 700–799 talks about audit conclusion and reporting, SA 800–899 focuses on specialized areas, SRE 2000–2699, SAE 3400, SAE 3402, SRS 4400, and SRS 4410 states the underlying mechanism for the standards on auditing to make it more reliable and transparent.

Table 1.8 List of mandatory standards on auditing

New Standard Number	New Standards on Quality Control (SQCs)	Old Auditing and Assurance Standards (AAS)	Effective Date
1–99 100–199 200–299	Standards on quality control Introductory matters General principles and responsibilities		
SA 200	Overall objectives of independent auditors and the conducting of an audit in accordance with the standards on auditing	AAS 1 Basic principles governing an audit and ASS 2 Objective and scope of the audit of financial statements	1 April, 2010
SA 210	Agreeing upon the terms of auditing engagements	AAS 26 Terms of audit engagements	1 April, 2010
SA 220	Quality control for an audit of financial statements	AAS 17 Quality control for audit work	1 April 2010
SA 230	Audit documentation	AAS 3 Documentation	1 April, 2009
SA 240	The auditor's responsibilities relating to fraud in an audit of financial statement	AAS 4 Auditor's responsibility to consider fraud and error in an audit of financial statements	1 April, 2009
SA 250	Consideration of laws and regulations in an audit of financial statements	AAS 21 Consideration of laws and regulations in an audit of financial statements	1 April, 2009
SA 260	Communication with those charged with governance	AAS 27 Communications of audit matters to those charged with governance	1 April, 2009
SA 265	Communicating deficiencies in internal control to those charged with the governance	–	1 April, 2010
SA 299	Responsibility of joint auditor	AAS 12 Responsibilities of joint auditors	1 April, 1996
SA 300	Planning an audit of financial statements	AAS 8 Audit planning	1 April, 2008
SA 315	Identifying and assessing the risks of material mis-statement through understanding the entity and its environment	–	1 April, 2008
SA 320	Materiality in planning and performing an audit	AAS 13 Audit materiality	1 April, 2010
SA 330	The auditor's responses to assessed risks	–	1 April, 2008

New Standard Number	New Standards on Quality Control (SQCs)	Old Auditing and Assurance Standards (AAS)	Effective Date
SA 402	Audit consideration relating to entities using a service organization	AAS 24 Audit consideration relating to entities using a service organization	1 April, 2010
SA 450	Evaluation of mis-statements identified during the audit	_	1 April, 2010
SA 500	Audit evidence	AAS 5 Audit evidence	1 April, 2009
SA 501	Audit evidence – specific consideration for selected items	AAS 34 Audit evidence – additional considerations for specific items	1 April, 2010
SA 505	External confirmations	External confirmations	1 April, 2010
SA 510	Initial audit engagements – opening balances	AAS 22 Initial engagements – opening balances	1 April, 2010
SA 520	Analytical procedures	AAS 14 Analytical procedures	1 April, 2010
SA 530	Audit sampling	AAS 15 Audit sampling	1 April, 2009
SA 540	Auditing accounting estimates including fair value accounting estimates and related disclosures	AAS 18 Audit of accounting estimates	1 April, 2009
SA 550	Related parties	AAS 23 Related parties	1 April, 2010
SA 560	Subsequent events	AAS 19 Subsequent events	1 April, 2009
SA 570	Going concern	AAS 16 Going concern	1 April, 2009
SA 580	Written reorientations	AAS 11 Representations by management	1 April, 2009
SA 600	Using the work of another auditor	AAS 10 Using the work of another auditor	1 April, 2002
SA 610	Using the work of internal auditors	AAS 7 Relying upon the work of internal auditors	1 April, 2010
SA 620	Using the work of an auditor's expert	AAS 9 Using the work of an expert	1 April, 2010
SA 700	Forming an opinion and reporting on financial statements	AAS 28 The auditor's report on financial statements	1 April, 2011
SA 705	Modifications to the opinion in the independent auditor's report	–	1 April, 2011
SA 706	Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report	_	1 April, 2011

(*continued*)

Table 1.8 (*Continued*)

New Standard Number	New Standards on Quality Control (SQCs)	Old Auditing and Assurance Standards (AAS)	Effective Date
SA 710	Comparative information – corresponding figures and comparative financial statements	AAS 25 Comparatives	1 April, 2011
SA 720	The auditor's responsibility in relation to other information in documents containing audited financial statements	_	1 April, 2010
SA 800	Special considerations _ audits of financial statements prepared in accordance with special purpose framework	_	1 April, 2011
SA 805	Special considerations _ audits of single purpose financial statements and specific elements, accounts or items of a financial statements	_	1 April, 2011
SA 810	Engagements to report on summery financial statements	_	1 April, 2011
Standards on Review Engagements (SRE) 2400	Engagements to review financial statements	AAS 33 Engagements to review financial statements	1 April, 2010
SRE 2410	Review of interim financial information performed by the independent auditor of the entity	_	1 April, 2010
Standard on Assurance Engagements (SAE) 3400 SAE 3402	The examination of prospective financial information Assurance report on controls at a service organization	AAS 35 Accounting for foreign currency transactions	1 April, 2007
Standard on Related Services (SRS) 4400	Engagements to perform agreed-upon procedures regarding financial information	AAS 32 Engagements to perform agreed-upon procedures regarding financial information	1 April, 2004
SRS 4410	Engagements to corporate financial information	AAS 31 Engagements to corporate financial information	1 April, 2004

(*continued*)

EXERCISES

Short Questions (5 marks)

1. Define Auditing. State objectives of auditing.
2. What are the different types of fraud?
3. Write a short note on: Significance of the term True and Fair View
4. State the basic principles of auditing.
5. "An auditor is not an insurer." Explain
6. "An auditor is not an accountant." Explain
7. What is Partial Audit?
8. What is Tax Audit?
9. What is Management Audit?
10. What do you mean by Interim Audit?
11. What do you mean by EDP Audit?
12. Write a short note on:
    (a) Social Audit
    (b) Environment Audit
    (c) Proprietary Audit
    (d) Performance Audit
    (e) Tax Audit
    (f) System Audit
    (g) EDP Audit
    (h) Cost Audit
    (i) Management Audit
    (j) Balance Sheet Audit
13. Name any four Standards on Auditing (SA) as prescribed by ICAI till date.

Medium Questions (10 marks)

1. Write the difference between Statutory Audit and Non-statutory Audit.
2. Write the difference between Continuous Audit and Periodical Audit.
3. Write the difference between Continuous audit and Interim Audit.
4. 'Auditing is a dynamic social science." Justify the statement.
5. "Auditing has its principal roots not in accounting which it reviews, but logic on which it leans heavily for ideas and methods ." State your comment.
6. "Accounting is necessary but auditing is luxury" – Comment.
7. "Auditing may be defined as an Accounting Control." Comment.
8. "Detection and presentation of errors and frauds are the main objects of Auditing.' Discuss
9. An auditor is not an accountant. Discuss
10. "Fraud does not necessarily involve misappropriation of cash or goods." Comment.
11. (a) "An auditor is not responsible for any undetected error and fraud unless there is any cause for suspicion". Give your answer with relevant case laws and decisions.
    (b) Define Interim Audit. Mention any two requirement for which this is done.
12. Distinguish between Audit and Investigation.

Long Questions (15 marks)

1. Do you agree with the view that there are inherent limitations of audit?
2. What are the basic principles governing an audit?
3. Define Internal Audit and state its two objectives.
4. Explain the concept of True and Fair View in respect of audit of a Joint Stock Company.
5. What are an auditor's duties relating to errors and frauds?
6. State an auditor's duties towards detection and prevention of errors and frauds.
7. What is Fraud? State the role of an auditor to prevent fraud.
8. Fraud does not necessarily mean misappropriation of cash or goods. Define Performance Audit. What are its objectives and importance?
9. Define Propriety Audit. Distinguish between Traditional Audit and Propriety Audit.
10. What is meant by Balance Sheet Audit? How is it conducted? Discuss the position of an auditor in connection with the Balance Sheet Audit.
11. What is interim audit? What are its advantages and disadvantages?
12. Internal Audit is not a substitute for statutory audit.
13. Explain internal audit, its nature and scope.
14. Show the points of distinction between independent financial audit or statutory audit and internal audit.
15. Discuss an auditor's duty with regard to detection and prevention of frauds and errors.
16. State the advantages and disadvantages of continuous audit.
17. What is Management Audit? Discuss its advantages and objectives.
18. What are the objectives of Cost Audit?
19. What is environment audit? What are its objectives?
20. What do you mean by EDP Audit? Mention the problems faced by these auditors.
21. Write a short note on "Auditor's Independence" with special reference to the provision of the Companies Act and SA, if any.
22. "Information and means of information are by no means equivalent terms." Discuss.

TEST YOUR KNOWLEDGE

1. Audit comes from which Latin word?
   (a) Audire (b) Auditious
   (c) Auditum (d) None of these
2. In which year the new Companies Act was introduced?
   (a) 1913 (b) 1956
   (c) 2013 (d) None of these
3. In which year the Chartered Accountants Act was enacted?
   (a) 1947 (b) 1949
   (c) 1956 (d) 1959
4. The Securities and Exchange Board of India Act was introduced in the year
   (a) 1990 (b) 1992
   (c) 1995 (d) None of these
5. Which type of audit comes under statutory audit?
   (a) Company audit
   (b) Partnership firm
   (c) Sole proprietorship concern
   (d) Club
6. The purpose of audit is to see that
   (a) Accounts are free from errors
   (b) Accounts are free from frauds
   (c) Accounts show a true and fair view
   (d) All of these
7. Which one does not fall under the category of errors?
   (a) Errors of omission
   (b) Compensating errors
   (c) Errors of principle
   (d) Teeming and lading
8. Following are the examples of:

   Embezzlement of cash, Misappropriation goods, Falsification or manipulation of accounts, Window-dressing, Teeming and Lading

   (a) Errors (b) Frauds
   (c) Both errors and frauds (d) None of these
9. "Every auditor shall comply with the auditing standards." This is true as per which section of the Companies Act, 2013?
   (a) Section 143(7) (b) Section 143(8)
   (c) Section 143(9) (d) None of these
10. SAP, AAS and AS are related with
    (a) Accounting Standards
    (b) Auditing Standards
    (c) Chartered Accountants Standard
    (d) None of these
11. Auditing is luxury for which type of organization?
    (a) Joint stock company
    (b) Government company
    (c) Partnership firm
    (d) Sole proprietorship concern
12. In case of partnership firm the purview of audit is determined by
    (a) Partnership deed
    (b) Partnership Act, 1932
    (c) Agreement between partnership firm and auditor
    (d) None of these
13. Limitation of audit is there as
    (a) Auditing is not a guarantee
    (b) Auditor may be biased
    (c) Auditor may not get all sorts of information
    (d) All of these
14. Which are the objectives of auditing?
    (a) Accounts must be free from errors
    (b) Accounts must be free from frauds
    (c) Accounts must exhibit a true and fair view
    (d) All of these
15. Transposition is which type of error?
    (a) Error of Omission (b) Error of Commission
    (c) Error of Principle (d) Compensating Error
16. Audit is carried on by independent persons as it is
    (a) Accepted by the shareholders
    (b) Accepted by the government
    (c) Accepted by the banks or financial institutions
    (d) Accepted by all
17. Which of the following cannot identify any type of errors?
    (a) Trial balance
    (b) Balance sheet
    (c) Both trial balance and balance sheet
    (d) None of these
18. The objective of GAAS is to see
    (a) Quality is observed
    (b) Quality of the audit performed by the auditing standards while conducting the audit is maintained
    (c) Quality of accounts is observed
    (d) None of these
19. CARO (Companies Auditor's Report Order) was not introduced or amended in which year?
    (a) 1988 (b) 2003
    (c) 2009 (d) 2015
20. Which one is a fine art of misappropriating cash by the process of 'delayed accounting of money received' by concealing the actual cash received and cash payment?
    (a) Teeming and lading
    (b) Window dressing
    (c) Cash embezzlement
    (d) None of these
21. Which of the following is the most expensive?
    (a) Continuous audit (b) Periodical audit
    (c) Final audit (d) None of these

22. In 1980 which company started social audit?
(a) IOL (b) Infosys
(c) TISCO (d) SAIL

23. As per structure audit which one is the right classification of audit?
(a) Statutory audit (b) Non-statutory audit
(c) Government audit (d) All of these

24. Audit of sole proprietorship or partnership firm is
(a) Statutory (b) Non-statutory
(c) Compulsory (d) None of these

25. Complete Audit, Detailed Audit, Partial Audit and Limited Review is the classification of audit on the basis of
(a) Coverage (b) Technique
(c) Structure (d) None of these

26. Verification of the correctness of cost accounts and of adherence to the cost accounting plan is known as
(a) Cost audit (b) Financial audit
(c) Management audit (d) Tax audit

27. Which audit facilitates the most effective relationship with the outside world and the most efficient organization and smooth running of internal organization?
(a) Financial audit (b) Management audit
(c) Cost audit (d) None of these

28. Which type of audit ascertains whether internal activities of an organization are carried out efficiently or not?
(a) Performance audit (b) Operational audit
(c) Management audit (d) None of these

29. Which one is part of the Annual Report of companies?
(a) Fund flow statement
(b) Cash flow statement
(c) Both fund flow and cash flow statement
(d) None of these

30. Government audit is done by
(a) Chartered accountants (b) Government officer
(c) CAG (d) None of these

31. Public deposit audit is made as per
(a) Reserve Bank of India 1934
(b) Banking Regulation Act, 1949
(c) The State Bank of India Act, 1955
(d) All of these

32. In 1978 which company started environmental audit?
(a) TISCO (b) SAIL
(c) BHEL (d) None of these

33. Which audit measures whether transactions have been made in conformity with principles, rules, regulations, guidelines and standards which will do the best for public interest?
(a) Management audit
(b) Propriety audit
(c) Performance audit
(d) None of these

34. In which type of audit economic efficiency is the key factor for judging efficiency?
(a) Operational audit
(b) Performance audit
(c) Management audit
(d) None of these

35. As per the Companies Act, 2013, every company having which of the following criteria must spend 2% of the net profit for CSR?
(a) Net worth of ₹500 crore or more
(b) Turnover of ₹1,000 crore or more
(c) A net profit of ₹5 crore or more
(d) All of these

36. As per Section 148(3) of the Companies Act, 2013, which audit is done by the cost accountant appointed by the Board of Directors?
(a) Cost audit
(b) Tax audit
(c) Both cost audit and tax audit
(d) None of these

37. Section 138 of the Companies Act, 2013 stated that such class or classes of companies as may be prescribed shall be required to appoint which type of auditor who shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company?
(a) An external auditor
(b) An internal auditor
(c) Both external auditor and internal auditor
(d) None of these

38. An independent appraisal function established within an organization to examine and evaluate the accounting and financial activities as service to the organization is called
(a) Statutory audit (b) External audit
(c) Internal auditing (d) None of these

39. Who can conduct tax audit?
(a) Commerce graduate
(b) M.Com
(c) Cost accountant
(d) Chartered accountant

40. Which audit assesses the performance of management?
(a) Management audit
(b) Performance audit
(c) Efficiency audit
(d) None of these

41. When two or more errors are committed but the resultant effect on debit or credit side is nil, then it is called
(a) Error of Omission
(b) Error of Commission
(c) Compensating error
(d) None of these

42. Which of the following are always committed intentionally and deliberately to siphon off the fund of the organization?
(a) Errors (b) Frauds
(c) Both errors and frauds (d) None of these

43. Which one is the primary objectives of audit?
(a) To determine and judge the reliability of the financial statements of a particular financial year
(b) To determine and judge the reliability of income statement
(c) To determine and judge the reliability of balance sheet
(d) None of these

44. As per Section 135 of the Companies Act, 2013, companies belonging to a specified class must constitute
(a) Corporate Social Responsibility Committee
(b) Corporate Social Responsibility Board
(c) Corporate Social Responsibility Committee of the Board
(d) None of these

Answers to Multiple-choice Questions

1. (a)	**2.** (c)	**3.** (b)	**4.** (b)	**5.** (a)	**6.** (d)	**7.** (d)	**8.** (d)	**9.** (c)	**10.** (b)
11. (d)	**12.** (d)	**13.** (d)	**14.** (d)	**15.** (b)	**16.** (d)	**17.** (a)	**18.** (b)	**19.** (d)	**20.** (a)
21. (a)	**22.** (c)	**23.** (d)	**24.** (b)	**25.** (a)	**26.** (a)	**27.** (b)	**28.** (a)	**29.** (b)	**30.** (c)
31. (d)	**32.** (a)	**33.** (b)	**34.** (a)	**35.** (d)	**36.** (a)	**37.** (b)	**38.** (c)	**39.** (d)	**40.** (a)
41. (c)	**42.** (b)	**43.** (a)	**44.** (c)						