



SRI AKILANDESWARI WOMEN'S COLLEGE, WANDIWASH

PRACTICAL AUDITING

Class : III UG Commerce

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Meaning of Auditing

- The origin of auditing may be traced back to the 18th century when the practice of large-scale production was developed as a result of Industrial Revolution.
- It is found that some systems of checks and counter-checks were applied for the purpose of maintaining public accounts, rather accounts of public institutions as early as the days of the ancient Egyptians, the Greeks and the Romans.
- The history of auditing in India dates back to April 1, 1914 when the Indian Companies Act, 1913 came into force.
- The act for the first time prescribed the qualifications for an auditor.

Definition of Auditing

- **As per Spicer and Pegler:** “Audit” it may be said to be such an examination of the books, accounts and vouchers of a business as will enable the auditor to satisfy that the Balance Sheet is properly drawn up, so as to give a true and fair view of the profit or loss for the financial period according to the best of his information and the explanation given to him and as shown by the books, and if not, in what respects he is not satisfied.”

- **Statement on Standard Auditing Practices (SAP) 1 by ICAI**

“Auditing is the independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion there on.”

Therefore, audit may be defined as:

1. Systematic and Scientific examination of the books of accounts of a business, which
2. Is done by an independent person or body of persons qualified for the job,
3. With the help of vouchers, documents, information and explanation received from the authorities, so that

The auditor may satisfy himself with the authenticity of financial accounts prepared for a fixed term and ultimately report that

- ✓ Balance Sheet exhibits the true and fair view of the state of affairs.
- ✓ Profit and Loss accounts reveals the true and fair view of the profit or loss for the financial period; and
- ✓ The accounts have been prepared in conformity with the law.



Duties of an Auditor

- To check the arithmetical accuracy of the accounts.
- To check the books of accounts with the help of all the relevant vouchers, invoices, correspondence, minute books etc.
- To report to the client on the basis of his findings.

Features/Characteristics of Auditing

- It is the systematic and scientific examination of the accounts of a business.
- It is an intelligent and critical examination of the accounts of a business.
- It is done by an independent person or body of persons qualified for the job.
- It is a verification of result shown by profit and Loss Account and the state of affairs shown by Balance Sheet.
- It is a critical review of the system of accounting and internal control.
- It is done with the help of vouchers, documents, information and explanations received from the authorities.

Book-Keeping, Accountancy and Auditing

1. Journalizing
 2. Posting in to Ledger
 3. Totaling of different accounts in the ledger
 4. Balancing
 5. Checking the work of the Book-keeper
 6. Preparation of Trial Balance
 7. Preparation of Trading and Profit & Loss A/c
 8. Preparation of Balance Sheet
 9. Passing entries for rectification of errors and making adjustments.
 10. Checking the work done by Accountant.
 11. Audit Reporting
- Book-Keeping**
- Accountancy**
- Auditing**

Objectives of Audit

Primary Objective

1. The *primary* objective of audit is to find out whether the accounts of a particular concern exhibit a true and fair view of the earnings and financial state of affairs.
2. The primary objective of audit helps to see whether the accounts are complete correct and in conformity with the law

The *Secondary objective* of audit:-

1. Detection or errors and fraud, and
2. Prevention of the recurrence of the errors and of fraud.

Secondary Objectives of Audit

● Detection of Errors

The errors may occur because of the carelessness of the staff or their ignorance of the principles of accounts. These errors, may be of the following types:-

(a) **Clerical or Technical Errors**

- ✓ Error of omission (when any transaction is omitted wholly or partly)
- ✓ Error of Duplication (when same transaction has been recorded twice)
- ✓ Error of Commission (because of incorrect records in books of accounts)
- ✓ Compensating error (when error counteract each other)

(b) **Error of Principle**

These arise when transactions are not recorded in books according to fundamental and accepted principles of accountancy.

Secondary Objectives of Audit Cont...

- Prevention of errors and frauds

- ✓ Prevention of errors and frauds is possible only by the application of sound system of internal check and efficient management of the concern.
- ✓ Such moral check is imposed on the employees of the client automatically since they would be always a lertand would not carry on any dishonest transactions.
- ✓ He should make the detailed study, analysis and evaluation of the internal control system of the enterprise and find out its weakness.

Types of Audit

There are various types of Audit which are mentioned below:-

Based on Organizational Structure

- Statutory Audit
- Non-Statutory Audit
- Govt. Audit

Non-Statutory Audit is further classified as:-

- Private Audit which includes Sole Proprietorship ,Partnership firm and Non- Profit Organization.

Based on Scope

- Complete Audit
- Partial Audit
- Detailed Audit



Types of Audit Cont..

Based On Time

- Continuous Audit
- Final Audit
- Interim Audit

Based on Object

- Cost Audit
- Management Audit
- Internal Audit
- Social Audit
- Tax Audit
- Proprietary Audit
- Environmental Audit

Audit based on Object

- Tax Audit

The new concept of tax audit has been evolved lately under the Income Tax Act, 1961. In India, the Indian Income Tax Act, 1961, provides for compulsory audit of accounts of certain assesses whose turnover or receipts exceed the specified limit. The accounts are required to be audited for determination of tax payable by an individual assess or organization.

Audit Procedure

The Procedure of audit can be classified as:

1.Preparation before audit

Involves the following steps:-

- ***Scope of work to be determined*** :Before determining exactly the scope of his duties, the auditor should discuss the nature, purpose etc of audit.
- ***Knowledge about business: It includes:-***
 - ✓ Go through rules and regulations
 - ✓ Examine the methods of maintaining accounts.
 - ✓ Ask for a list of books of accounts maintained.
 - ✓ Examine the system of internal check in operation.
 - ✓ Technical details about the business.
 - ✓ Go through the Profit and loss account and Balance Sheet of the previous year.

Procedure of Audit during work

It includes following steps:-

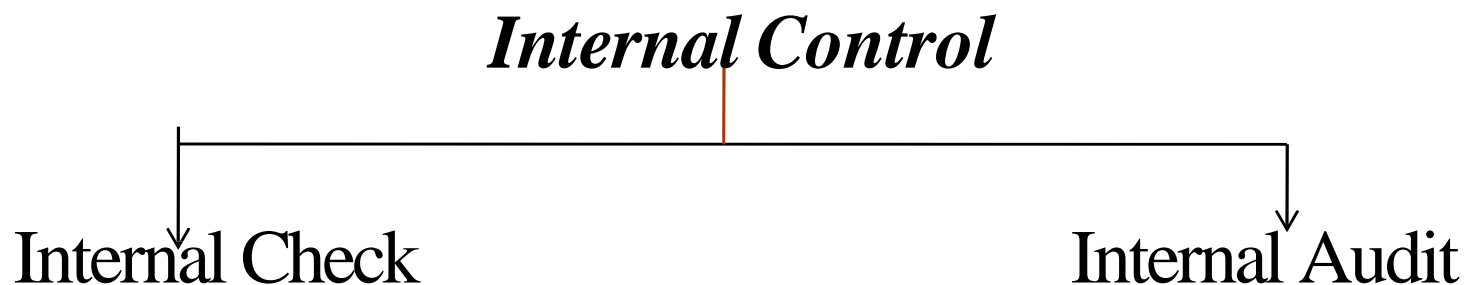
1. ***Adoption of distinctiveticks.*** Auditor must should used is tinctive ticks of various colours while auditing the books.
2. ***Routine checking*** :it involves checking of casts, sub-casts, carry- forward and other calculations. Checking of posting into ledger, checking of casts and balances of various accounts in the ledger and checking of transfer of balances from the ledger to the trial balance.
3. ***Test checking (or selective verification)***:here the auditor through the process of sampling, selects the few items and if they are found correct, presumes that remaining are also correct.
4. ***Audit in-depth***: In this the auditor examines thoroughly selected transactions right from the ironing in to the conclusions. The basic purpose of this type of audit is to see whet her the system internal check or control system is effective.



Internal Control

“Internal control is best regarded as indicating the whole system of controls, financial and other wise, established by the management in the conduct of a business, including internal check, internal audit and other forms of control”

W. W. Bigg



Investigation and Audit

Investigation

1. Carried on behalf of Proprietor or third parties.
2. Not legally compulsory.
3. Usually carried when books of accounts are already subjected to regular audit.
4. Certain adjustments are made in annual accounts.
5. An investigating auditor must not be C.A.

Audit

1. Carried on behalf of proprietor.
2. Compulsory
3. Not required.
4. Not Required.
5. Must be conducted by practising C.A.