Introduction

Economic decisions in every society must be based upon the information available at the time the decision is made. Unreliable information can cause inefficient use of resources to the detriment of the society and to the decision makers themselves.

As society become more complex, there is an increase likelihood that unreliable information will be provided to decision makers.

Introduction

There are several reasons for this:

1. Remoteness of information.
2. voluminous data and the existence of complex exchange transactions.

As a means of overcoming the problem of unreliable information, the decision-maker must develop a method of assuring him that the information is sufficiently reliable for these decisions. In doing this he must weigh the cost of obtaining more reliable information against the expected benefits.

Introduction

A common way to obtain such reliable information is to have some type of verification (audit) performed by independent persons. The audited information is then used in the decision making process on the assumption that it is reasonably complete, accurate and unbiased.

Origin And Development

- The Word Audit is derived from the Latin word "Audire" which means to hear.
- In Olden days, some experienced people ordinarily judges the accounts of business people for the purpose of the correctness of accounts.
- In olden days whenever proprietors suspected a fraud or error, certain people were appointed to hear verbal evidence of transaction. (in barter system)

Origin And Development

Auditing evolved and grew rapidly after the industrial revolution in the 18th century with the growth of the joint stock companies the ownership and management became separate. The shareholders who were the owners needed a report from an independent expert on the accounts of the company managed by the board of directors who were the employees.

The original objective of auditing was to detect and prevent errors and frauds.

Origin And Development

In India the companies Act 1913 made audit of company accounts compulsory. With the increase in the size of the companies and the volume of transactions the objective of audit shifted and audit was expected to ascertain whether the accounts were true and fair rather than detection of errors and frauds.

Hence the emphasis was not on arithmetical accuracy but on a fair representation of the financial efforts the companies Act 1913 also prescribed for the first time the qualification of auditors.

Auditing *Meaning*

The general meaning of an audit is a planned and documented activity performed by qualified personnel to determine by investigation, examination, or evaluation of objective evidence, the adequacy and compliance with established procedures, or applicable documents, and the effectiveness of implementation.

I ♥ AUDIT

Definition

Simple Definition:- Spicer & Pegler

"Audit is an examination of accounts & records which is carried out by vouching the evidences, supporting various transactions; by such an examination it is ascertained that the Balance Sheet gives a true & fair view of the state of affairs of business & the Profit & Loss Account gives a true & fair view of the profit or loss of business.

Definition

- An **unbiased** examination and evaluation of the financial statements of an organization. It can be done internally (by employees of the organization) or externally (by an outside firm).

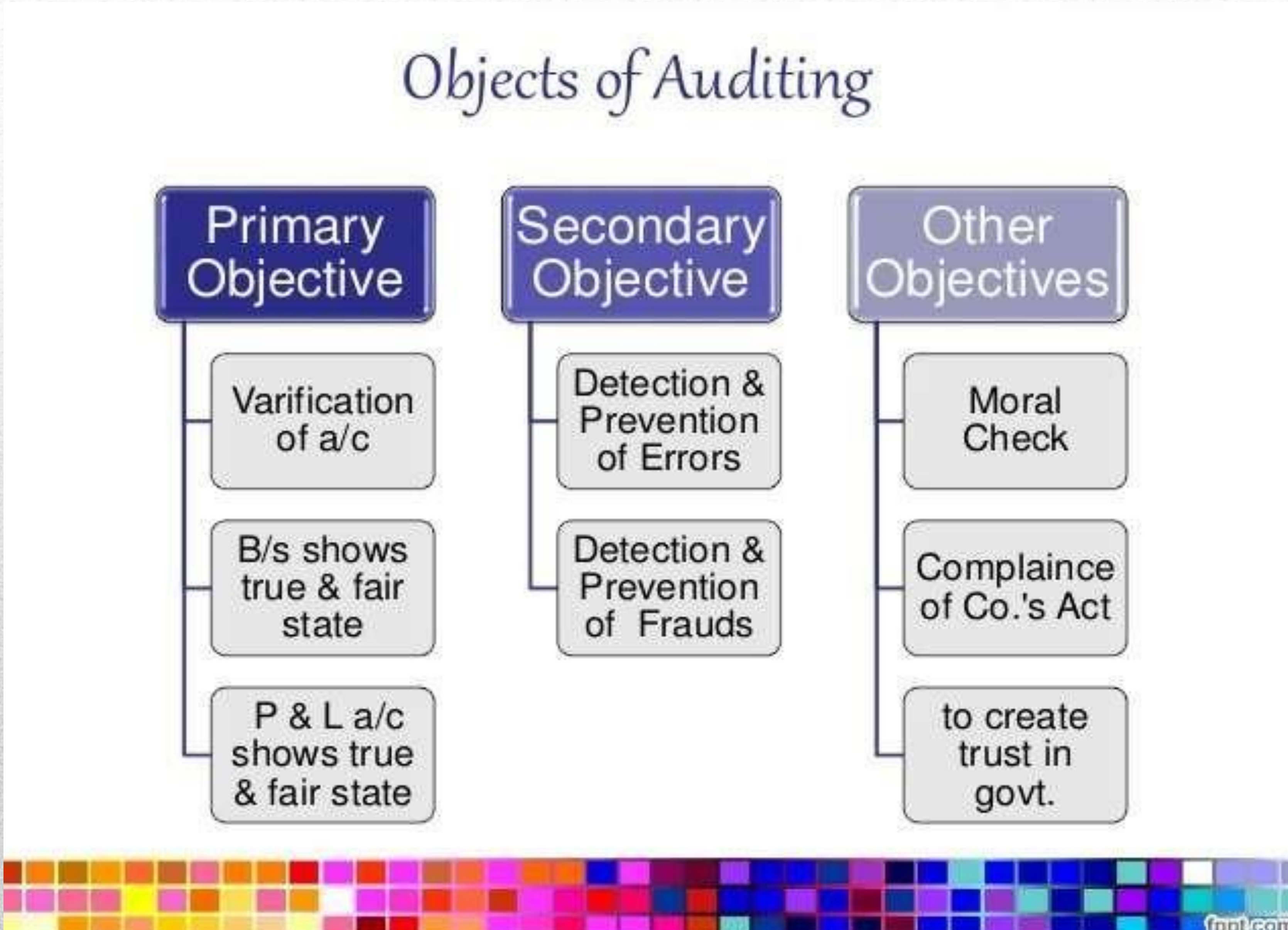
Definition

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

Definition

- ISA (International Standard of Auditing)

“ An Audit is the independent examination of financial statement or related information of an 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 thereon”


Objects of Auditing
Primary Objective
Varification of a/c
B/s shows true & fair state
P & L a/c shows true & fair state
Secondary Objective
Detection & Prevention of Errors
Detection & Prevention of Frauds
Other Objectives
Moral Check
Complaince of Co.'s Act
to create trust in govt.
fppt.com

Objectives of Auditing.

Auditors are basically concerned with verifying whether the account exhibit true and fair view of the business. The objectives of auditing depends upon the purpose of his appointment.

- **Primary Objective**.
- The primary objective of an auditor is to respect to the owners of his business expressing his opinion whether account exhibits true and fair view of the state of affairs of the business. It should be remembered that in case of a company, he reports to the shareholders who are the owners of the company and not tot the director. The auditor is also concerned with verifying how far the accounting system is successful in correctly recording transactions. He had to see whether accounts are prepared in accordance with recognized accounting policies and practices and as per statutory requirements.

Objectives

- **Secondary Objective:**

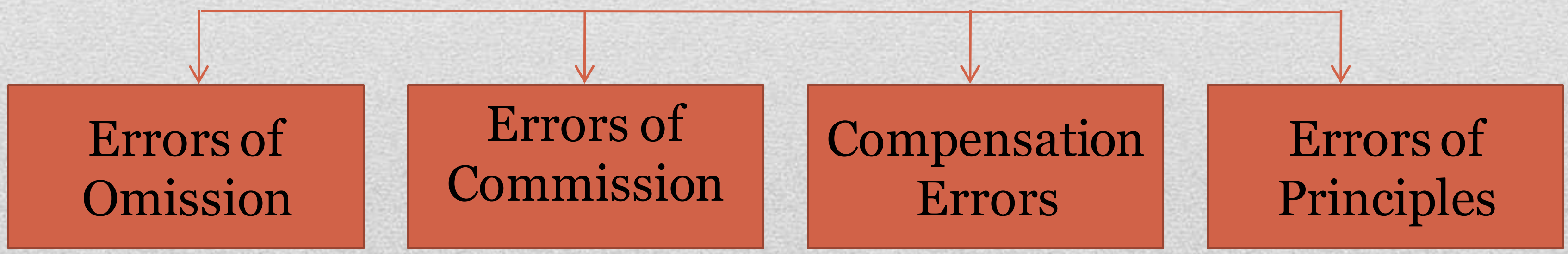
Detection and prevention of errors:

Errors are mistakes committed unintentionally because of ignorance, carelessness. Errors are of many types:

ERRORS

Errors are mistakes committed unintentionally because of ignorance, carelessness on the part of those responsible for the preparations of the accounts, while fraud involves some intention to gain out of manipulating records. .

Types of Errors:



Errors of Omission

- Errors of omission generally arise due to the mistake of a clerk.
- **<u>Errors of Omission:</u>** These are the errors which arise on account of transaction into being recorded in the books of accounts either wholly partially. If a transaction has been totally omitted it will not affect trial balance and hence it is more difficult to detect. On the other hand if a transaction is partially recorded, the trial balance will not agree and hence it can be easily detected.
- Example: If a transaction has been omitted from being entered in the books of accounts, wholly or partially.

Goods sold worth Rs.500 to Mr.X was not recorded in sales book in Mr. X's account. It is complete omission.

Errors of Commission

- **<u>Errors of Commission:</u>** When incorrect entries are made in the books of accounts either wholly, partially such errors are known as errors of commission.

<u>Eg</u>: wrong entries, wrong Calculations, postings, carry forwards etc such errors can be located while verifying.

- When the amount of transaction is incorrectly recorded in books, it is known as error of commission.
- Examples

a. Recording of less or more amount than actual in journal
b. Recording one transaction twice
c. Errors of addition or subtraction

Compensation Errors

- When two or more errors conceal (hide) the mutual effects from disclosed in Trail Balance.

Example: A's account which was to be debited for Rs.200 was credited for Rs.200

Compensation errors will not affect the trail balance and such will not be detected easily. Hence their detection requires a complete and exhaustive preparation on the part of an auditor

- **Compensating Errors:** when two/more mistakes are committed which counter balances each other. Such an error is know an Compensating Error. Eg: if the amount is wrongly debited by Rs 100 less and Wrongly Credited by Rs 100 such a mistake is known as compensating error.

Errors of Principles

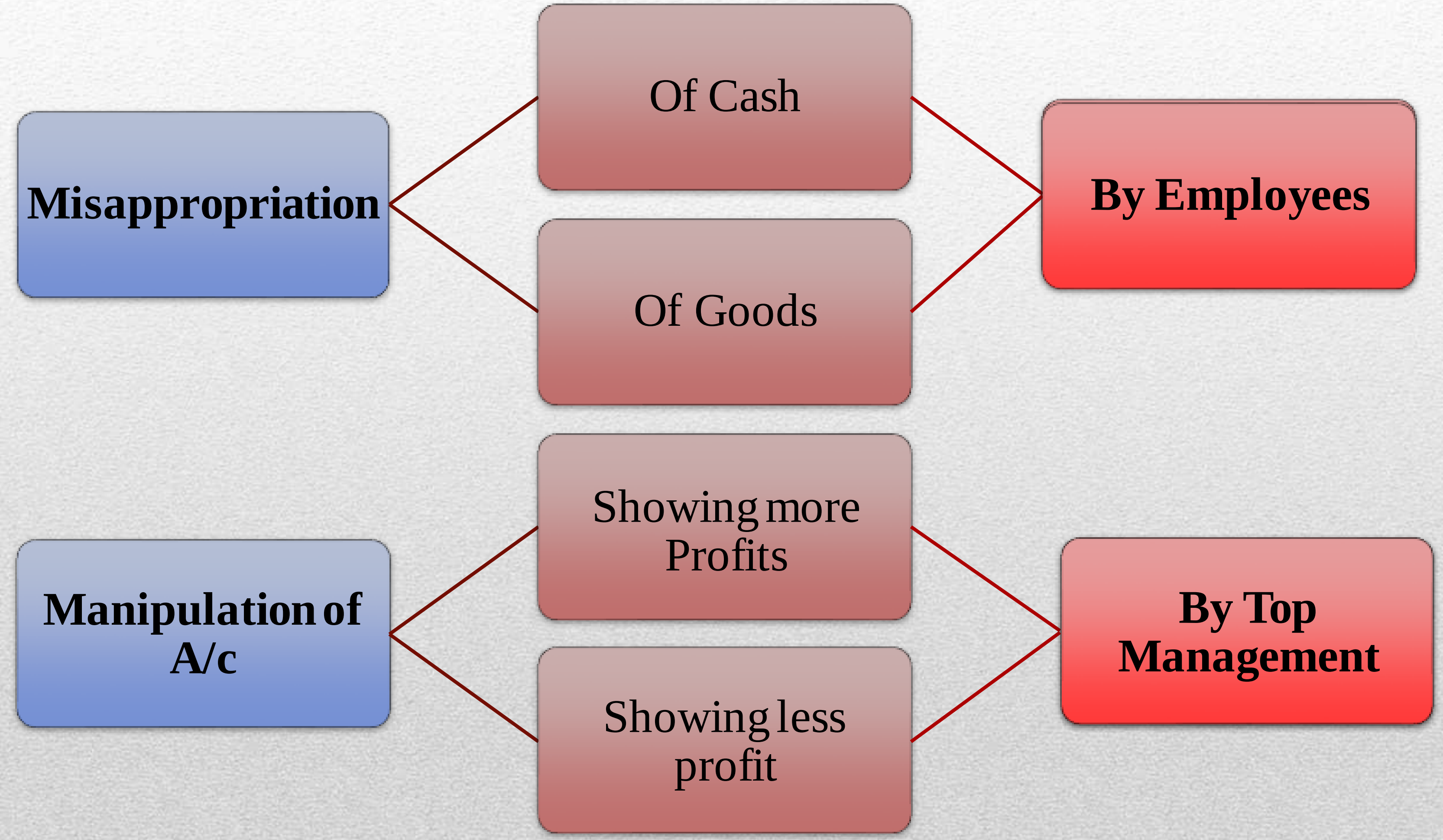
- There are certain definite principles of recording and posting of business transactions in the books of accounts. If something is recorded in violations of these principles , it is called as Errors of principles.
- Example: Recording a capital expenditure as a revenue expenditure.

1. Provision for inadequate or excess depreciation.
2. Non-provision of depreciation.
3. Under and over valuation of stock.

- **Error of Principle:** These are the errors committed by not properly following the accounting principles. These arise mainly due to the lack of knowledge of accounting. Eg: Revenue expenditure may be treated as Capital Expenditure.

- **Clerical Errors;** A clerical error is one which arises on account of ignorance, carelessness, negligence etc.

Detection & Prevention of Frauds



Frauds

Fraud is really a false representation or entry which is made always intentionally with some mischievous objectives.

FRAUDS

- Fraud of cash
- Fraud of goods
- Fraud of assets
- Misappropriation of amenities
- Fraud of labour
- Manipulation of accounts

Types of Audit (Practical view)

1. Complete Audit
2. Partial Audit
3. Continuous Audit
4. Periodical Audit
5. Interim Audit
6. Efficiency Audit
7. Proprietary Audit
8. Performance Audit

Complete Audit

When the accounts of a business are examined fully, it is called Complete audit.

If the organisation prepares Final Accounts annually, auditing is also performed once in a year and in case of half yearly Accounts, they are examined accordingly .

Partial Audit

- If only a part of the accounts of a business are examined, it is termed as partial audit.

It may be partial

1. period-wise
2. Work-wise

Period wise implies, of a particular period, say a month, two months or more.

Work wise implies examination of one portion of accounts. Example: only cash transaction may be examined.

Continuous Audit

- When the auditor visits the client at certain or uncertain intervals and examines the accounts up to the date of visit during the financial period, it is called continuous audit.

  in this system audit continuous to follow accounting without any long gap. In case of heavy-work, the auditor deploys some of the staff on permanent basis. But it is unusual. The usual practice is the frequent visits of the auditor and his team from time to time to examine the accounts of a particular period. Also known as running audit

Periodic Audit

- When auditing is performed at the end of the financial period after the final accounts are ready and the process of auditing continues without stop till it is called periodic Audit.
- Definition :The periodical or completed audit is one which is begun only after the close of the financial period to which it relates.

Interim Audit (Temporary)

- The enterprise, which do not have continuous audit but have the periodical audit, sometimes feel the necessity of preparing Balance sheet and P&L account in between the year and getting them audited accordingly say six months or quarterly due to certain reasons.

Efficiency Audit

- The modern age is characterized by tough competition and, therefore, every business wants to increase its efficiency by way of reduction in cost and enhancement of profit. It includes

1. Have technical estimates and detailed programmes being made regarding the project and have cost schedules been prepared.
2. Has there been inordinate delay in the program of the project due to which cost overrun has occurred.

Internal Audit

Internal audit comprises all the measures whereby every aspect business is controlled. A businessman wants to control the internal functions of the business in such a way as to maximise profits and reduce to minimal level the possibilities of errors, frauds.

- Internal auditing is best regarded as indicating the whole system of controls, financial or otherwise established for the conduct of business including inter check, internal audit and other forms of control.

Advantages of Auditing

A. Businessman's point of view:-

1. Detection of errors and frauds
2. Loan from banks
3. Proper valuation of investments
4. Proper valuation of assets
5. Government acceptance
6. Suggestions for improvement
7. Better Reputation
8. Uniformity in accounts

B. Investor's point of view

1. Protects interest
2. Moral check
3. Builds reputation
4. Good security

Cont.

C. Other Advantages

1. Audited account are detected as an authentic record of transaction.
2. Errors and frauds are detected and rectified.
3. It increases the morale of the staff and thus it prevents frauds and errors.
4. Because of his expertise the auditor may advise on various matters to his clients.
5. An auditor acts as a trustee of his shareholders. Hence he safeguards their financial interest.
6. For taxation purpose auditing of account is a must.

Cont.

7. In case of any claim is to be made from the insurance company only audited account should be submitted.
8. Even in case of partnership firm auditing of accounts helps in the settlement of claim at the time of retirement/death of a partner.
9. Auditor account helps in managerial decisions.
10. They are useful to secure loan at the of amalgamation, absorption, reconstruction etc.
11. Auditing safeguards the interest of owners, creditors, investors, and workers.
12. It is useful to take certain financial decisions like issuing of shares, payment of dividend etc.

Limitations of Auditing

Truly speaking, an audit should have no limitations of its own. It is designed to protect the interest of all parties who are interested in the affairs of the business. If there be any shortcoming arising there from, it may be due to its narrow scope of application in its related field of operation and unextended definition of the concept.

Auditing suffers from the following shortcomings:

1. Want of complete picture

The audit may not give complete picture. If the accounts are prepared with the intention to defraud others, auditor may not be able to detect them.

Cont.

2. Problems of dependence:

Sometimes the auditor has to depend on explanations, clarification and information from staff and the client. He may or may not get correct or complete information.

3. Post-mortem examination:

Auditing is a post-mortem examination. There is no use of such examination when events have already been occurred.

4. Existence of errors in the audited accounts:

It is not possible for the auditor in all cases, to check each and every transaction of an organization. As a result, there may be error in the audited accounts even after the checking by the auditor.

Cont.

5. Lack of expertise:

Auditor has to seek opinion of experts on certain matters on which he may not have experts knowledge. The auditor has to depend upon such reports which may not always be correct.

6. Diversified situations:

Auditing is considered to be a mechanical work. Auditors may not be in a position to frame audit programme, which can be followed in all situations.

7. Quality of the auditor:

Success of audit depends on the sincerity with which the auditor has performed his duties. The same audit work can be done by two different auditors with difference in sincerity.

Qualities required in an Auditor

1. Professionally Competent :-

It is a basic quality of an auditor. He must have a complete and thorough knowledge of the accountancy. To understand the accounting details he can apply his knowledge and skill. It is only possible if he has a sound background in accountancy and he is professionally competent.

2. Honest :-

It is also very important quality of an auditor. Justice Hindley says "An auditor must be honest. He must not certify what he does not believe to be true and he must take a reasonable care and skill before he believes that what he certifies is true.

3. Auditing :-

An auditor's knowledge of auditing must be upto date. He must know the techniques of auditing. He must have the knowledge of other subjects relating to auditing.

4. Accounting Knowledge :-

The auditor should be at home in all the management accounting cost accounting and general accounting.

Qualities required in an Auditor

5. Knowledge Of Business Law :-

6. Knowledge Of Taxation Law :-

7. Computer Expert :-

8. Knowledge Of management System

9. Preparation Of Budget

10. Intelligent

Qualities required in an Auditor

11. Qualification :-

For a professional auditor it is necessary that he should be charted accountant.

According to companies ordinance it is essential qualification for auditor.

12. Tactful :-

In a particular situation auditor should deal tactfully. He should ask the questions in such a manner that it does not show about his ignorance or weakness.

13. Maintain Secrecy :-

The auditors nature of work is confidential. He should maintain secrecy from others about the affairs of his client.

14. Patience :-

There should be a quality of patience in the auditor. Before signing on any paper he should check the evidence and then sign it. He never checks the papers in hurry.

15. Critical Attitude :-

It is also very essential quality of the auditor. He should examine the statements critically.

He should ask the various questions from the client and try to find contradictions.

Qualities required in an Auditor

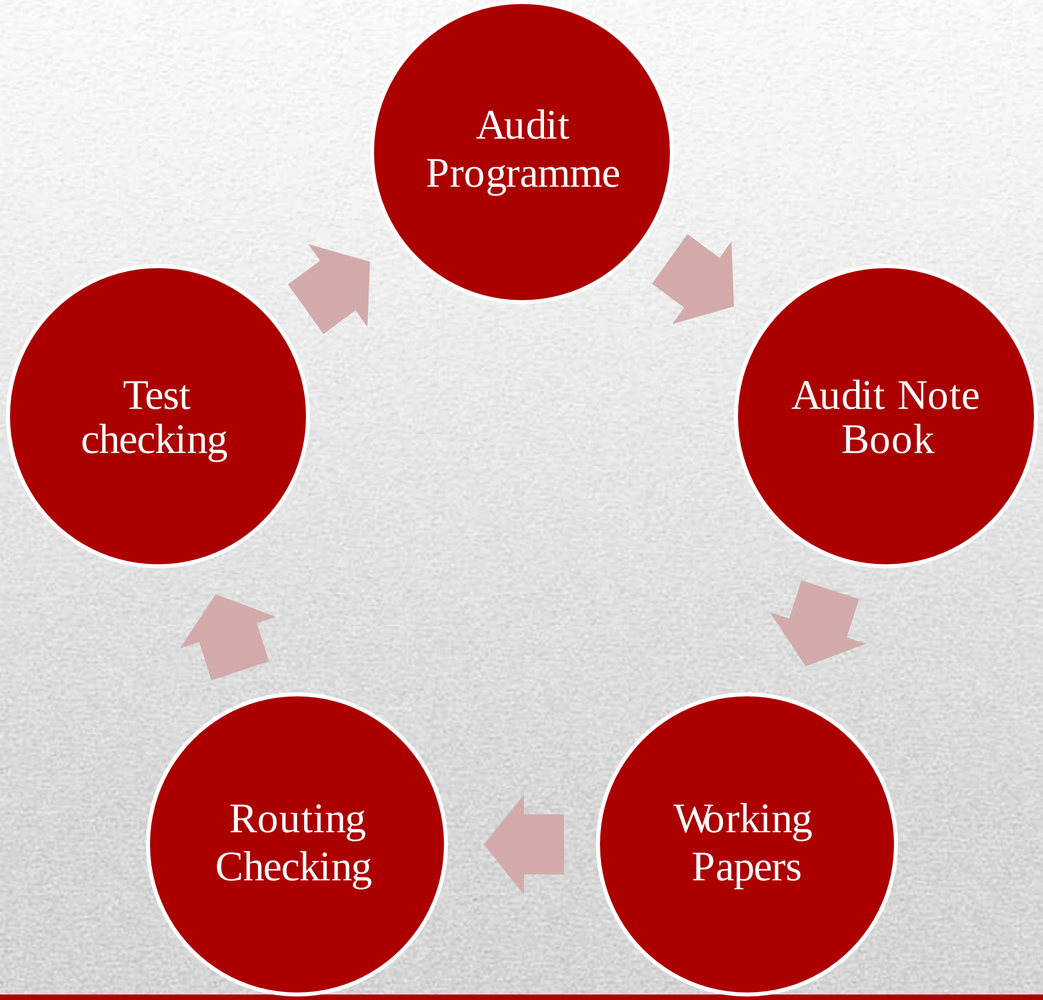
16. Bold And Courageous :-
Auditor should be bold and courageous person. He should not be influenced by any authority. He should possess the courage to face the difference of opinion between him and client on any issue.

17. Polite :-
It is an important quality which the auditor should possess. His attitude towards the staff of client should be very humble and polite. He should also stress on his own staff to be courteous with the client.

18. Independent :-
The auditor should be impartial. He should not have such relations with the organization which may affect his independence. He should give his opinion independently.

19. Common Sense :-
The auditor must have the quality of common sense and judgement. He may be able to assess the value of depreciation and bad debts.

Audit Procedure



Audit Programme

- "An Audit programme is an outline of all procedures to be followed in order to arrive at an opinion concerning a clients financial statement.

- An audit programme is a written scheme prepared by the auditor to distribute the work to be followed during audit;

i. How much work is to be done?
ii. Who is going to do a particular portion of work?
iii. What is the duration of the time?

Types of Audit Working Programme

Specimen of Audit Programme

M/s.M.BalaMurugan Ltd.,

For the year ended on 31.3.2015

Particulars of Work	Extent of Work to be Done	Actual Work Completed	Time Taken to Complete	Completed by (Signature)
A.Cash Book: 1. Posting 2. Costing 3. Vouching	 1 month Full 3 months	June Full July, November		
B.Debtor's Legder: 1.Posting 2. Costing 3. Vouching	 1 month 1 month 3 month	 April March May, October		
Physical verification 1. Cash 2. Fixed assets 3. Stock	As on 31.3.20 As on 31.3.20 .	As on 31.3.20 As on 31.3.20		

Advantages of Audit Programme

1. Audit programme is prepared to locate exactly the responsibility of every clerk.
2. Auditor can know about the progress.
3. No work is left from checking.
4. It increases the efficiency of his staff.
5. Minimizes the possibility of errors.
6. In case a clerk goes on leave, the portion of the work where he has left can easily be located and assigned to another clerk.
7. Work can be completed in time.

Disadvantages of Audit programme

1. A written audit programme leaves no scope for creativity.
2. Different audit programme is needed for different companies.
3. Inefficient audit staff may try to hide their incompetence behind rigid/fixed audit programme.

Audit Note Book

- During the course of an audit, the audit staff makes a note of the points that require clarification, explanation or investigation.
- **Contents of the Audit Note Book;**
  - ✓ Technical Details about the Business
  - ✓ Missing Vouchers
  - ✓ Frauds and Errors found in the book
  - ✓ Suggestions made by audit staff
  - ✓ Queries for which explanation and information have to be demanded.
  - ✓ Details which are to be included in the audit report

Audit Note-Book

During the course of an audit, the audit staff makes a note of the points that require clarification, explanation or investigation.

- **Contents of the Audit Note Book;**

It is maintained by audit clerk. It contains

1. Technical details about the business.
2. Queries for which explanation and information have to be demanded.
3. Fraud and errors found in the books during the course of audit.
4. Details which are to be included in the audit report.
5. Notes regarding the system of maintaining the accounts.
6. Information to be needed in future.

Audit- Books Contd...

7. Names of officials who certify bad debts.
8. Record of all important correspondence.
9. Totals of important ledger accounts.
10. Progress of audit report.
11. Record of suggestions made by the audit staff.

Advantages of Audit-Book

1. The auditor is enable to record important points.
2. Auditor can produce this book as documentary evidence in a suit filed against him.
3. A note book makes the work of audit convenient as all the important details about audit can be recorded.
4. Such a book can help in making an assessment of the knowledge, efficiency and audit clerks.
5. It makes the procedure of subsequent audit more easy.
6. It provides the key to evaluate the efficiency of the audit staff.

Disadvantages

- It develops a fault finding attitude in the minds of the audit staff.
- It places too much reliance on the staff of the client for its preparation.
- If an audit note book is prepared negligently, the auditor can use it as an evidence of negligence in the courts of law.
- Very often, it creates misunderstanding between the clients staff and the auditing staff.

Audit Working Papers

- Audit working papers are those papers and documents which consists of details about accounts which are under audit. Such details may be

1. Schedules of debtors and creditors.
2. Certificates of officials in regard to such important matters as bad debts, unpaid expenses etc.
3. Certificates issued by banks in regard to bank balance.
4. Correspondence between the auditor and debtors, creditors.

Audit working Papers

5. Rough trail balance.
6. Important extracts from minute book.
7. Particulars of investment.
8. Draft final accounts.
9. A copy of auditor's book.

Purpose of working Papers

1. Represents the volume of work which has been performed by the auditor and his staff.
2. The various minute details and aspects of the audit report can be well sustained on the basis of findings summarized in the report.
3. The working paper become an asset for the auditor on the occasions when he has to defend himself against the charges.
4. The auditor can co-ordinate and organize the work of audit clerks with the help of working papers.

Purpose of working Papers

5. The auditor’s detailed advice to his client in regard to improving the system of internal check and efficiency of the accounting system.
6. The working papers act as a guide to the auditor in subsequent examinations.

Internal Control

Internal Control constitutes “Accounting Control” and “Administrative Control”

“Accounting Control”

1. Prevention and detection of frauds and error
2. Safeguarding of assets
3. Accuracy of completeness of accounting records.
4. Preparation of financial information in time

“Administrative Control”

1. Budgetary control
2. Qualitative control etc.,

Internal Check

- A System of Internal check is an arrangement of duties where by no one person is allowed to carry through and to record every aspect of a transaction.
- **Objectives**

✓ To allocate the duties & responsibilities of clerk

✓ To minimize the Errors & Frauds

✓ To detect error of fraud easily it is committed

✓ To prepare final a/c

✓ To exercise moral pressure over staff

Advantages – Disadvantages Internal Check

- **Advantages**

✓ Proper distribution of work

✓ Detection of errors and frauds

✓ Minimization of errors and frauds

✓ Increase the deficiency

Disadvantages

✓ No Seriousness

✓ Carelessness

✓ Expensive

Vouching

- Vouching means checking of entries with the help of documentary evidences. For each entry it is to be ascertained which is properly authorized

- A voucher is a documentary evidence in support of a transactions.

Company
Logo

Tel : +971 4 123 1234, Fax : +971 4 123 1234, P.O. Box : 126534, Dubai - U.A.E.
www.yourcompany.com

PETTY CASH VOUCHER No.

Name: .... **Date:** ....

Item No.	Particulars	Amount	
	Total		

.... approved by

.... prepared by

.... received by

Vouching of Cash Transactions

Debit Side of Cash Book (Receipts Side)

- Opening Balance
- Cash sales
- Receipts from debtors
- Income from investment
- Commission received
- Sale of investment
- Sale of fixed assets
- Bad debts recovered

Credit Side of Cash Book (Payments Side)

- Payments to creditors
- Wages
- Capital expenditure
- Loans
- Salaries
- Commission paid
- Travelling allowance
- Postage
- Petty cash

Vouching of Trading Transactions

- Purchases
- Purchases Returns
- Sales
- Sales Returns

Purchase Order	Sales Order
Goods Inward Book	Goods Outward Book
Stock Register	Stock Register
Purchase Book	Sales Book

Vouching of Impersonal Ledger

Impersonal ledger has two kinds of accounts

1. Nominal Accounts – relate to trading and P&L a/c
2. Real Accounts - relate to recording of assets

Outstanding Assets

- Income receivable
- Prepaid expenses
- Deferred revenue expenditure

Outstanding Liabilities

- Unearned income (income received in advance)
- Unpaid expenses

Precautions to be taken by the auditor while examining vouchers

- ✓ Each voucher should be consecutively numbered
- ✓ Voucher should be inspected and cancelled by the auditor
- ✓ Voucher name should be correctly mentioned
- ✓ Auditor verify the voucher date and time
- ✓ Auditor verify the official seal & Authorized sign
- ✓ When voucher is missing, the auditor should satisfy himself with regard to the reason of its being lost and demand for duplicate copy

Verification - Meaning

- One of most important duties of an Auditor is audit of accounts of a concern, to verify the assets & liabilities appearing in the balance sheet of business concern.

- Verification means truth proving or confirming the Truth. Verification signifies “Proving the truth or Confirmation”.

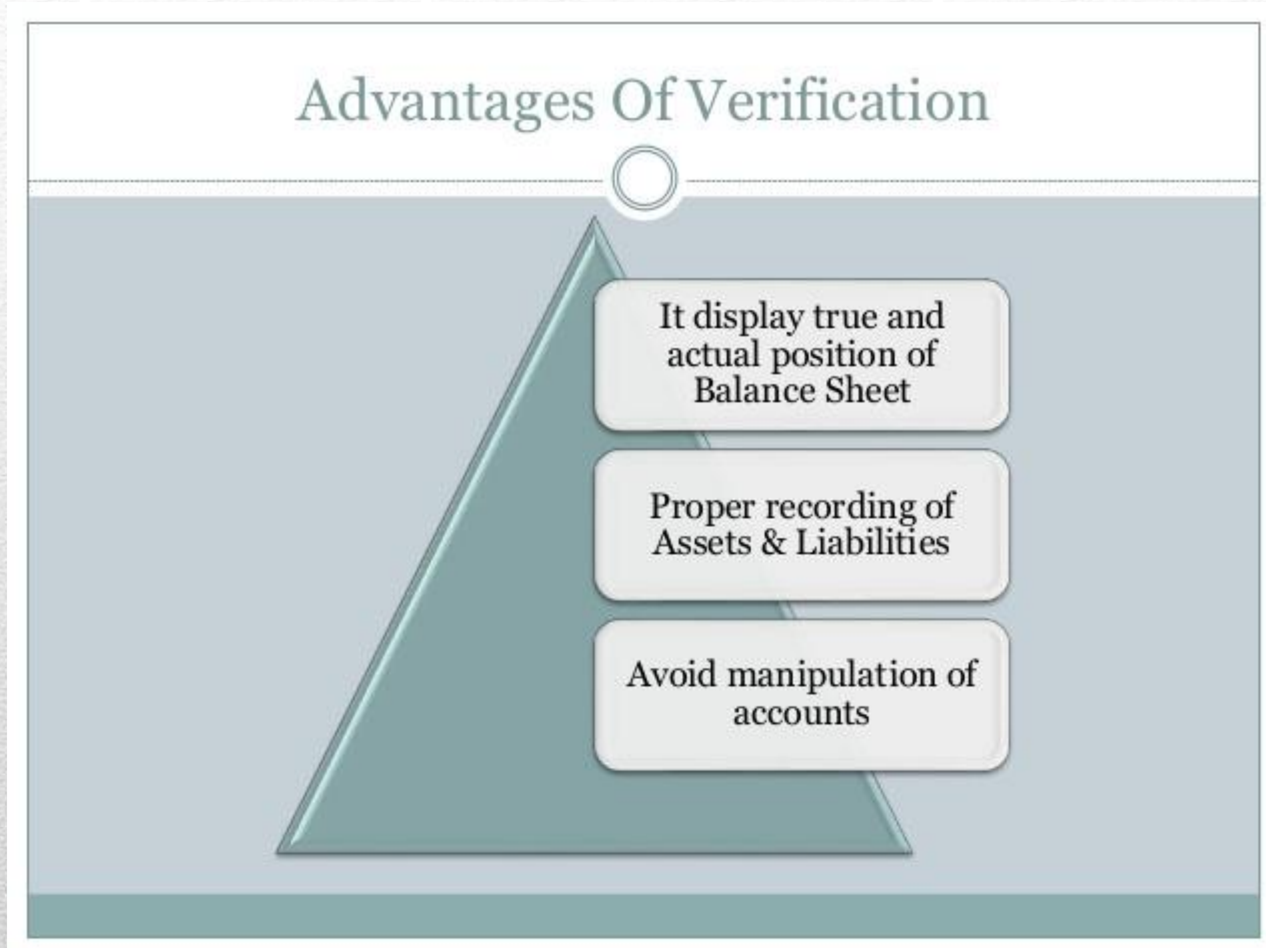
- Verification includes the following,

✓ Existence

✓ Valuation

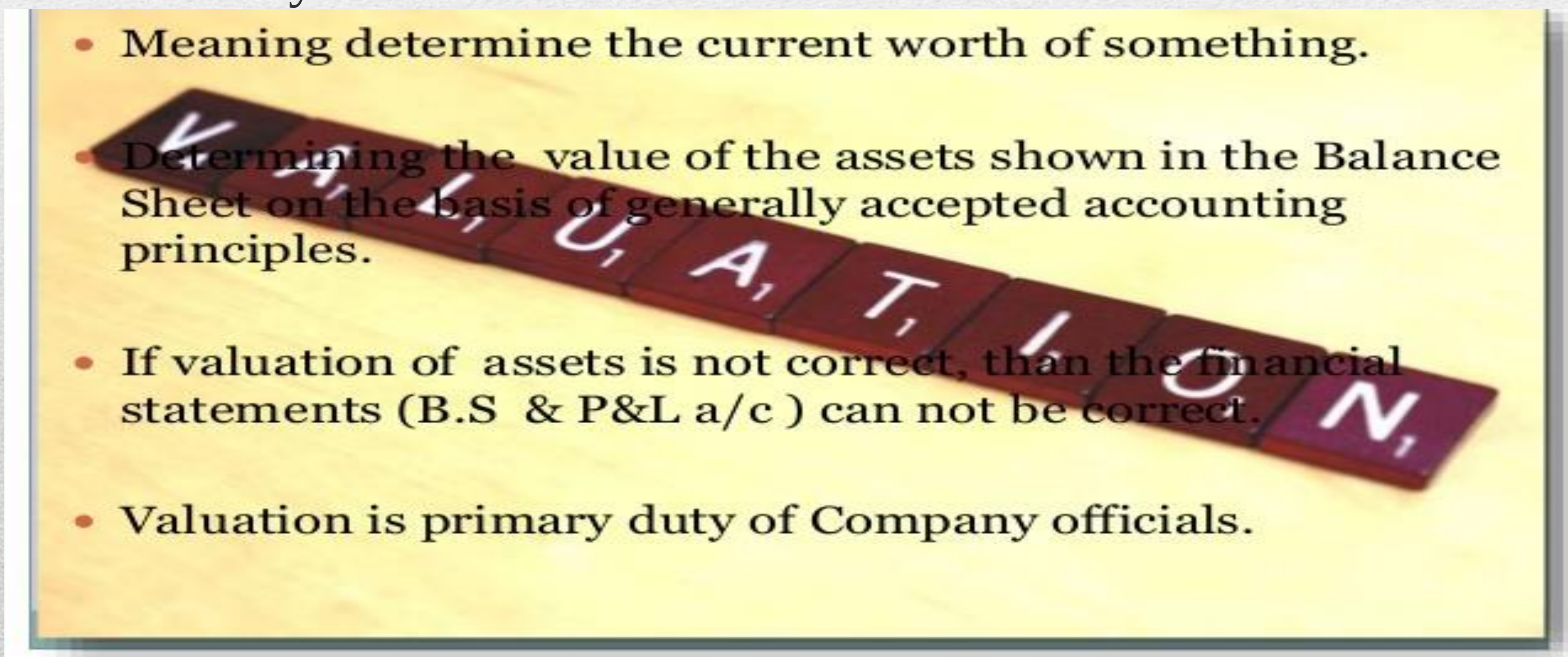
✓ Ownership

✓ Possession


Advantages Of Verification
It display true and actual position of Balance Sheet
Proper recording of Assets & Liabilities
Avoid manipulation of accounts

Valuation - Meaning

- Valuation of assets is an important part of their verification. Valuation means to test exact value of an asset on the basis of its Utility.

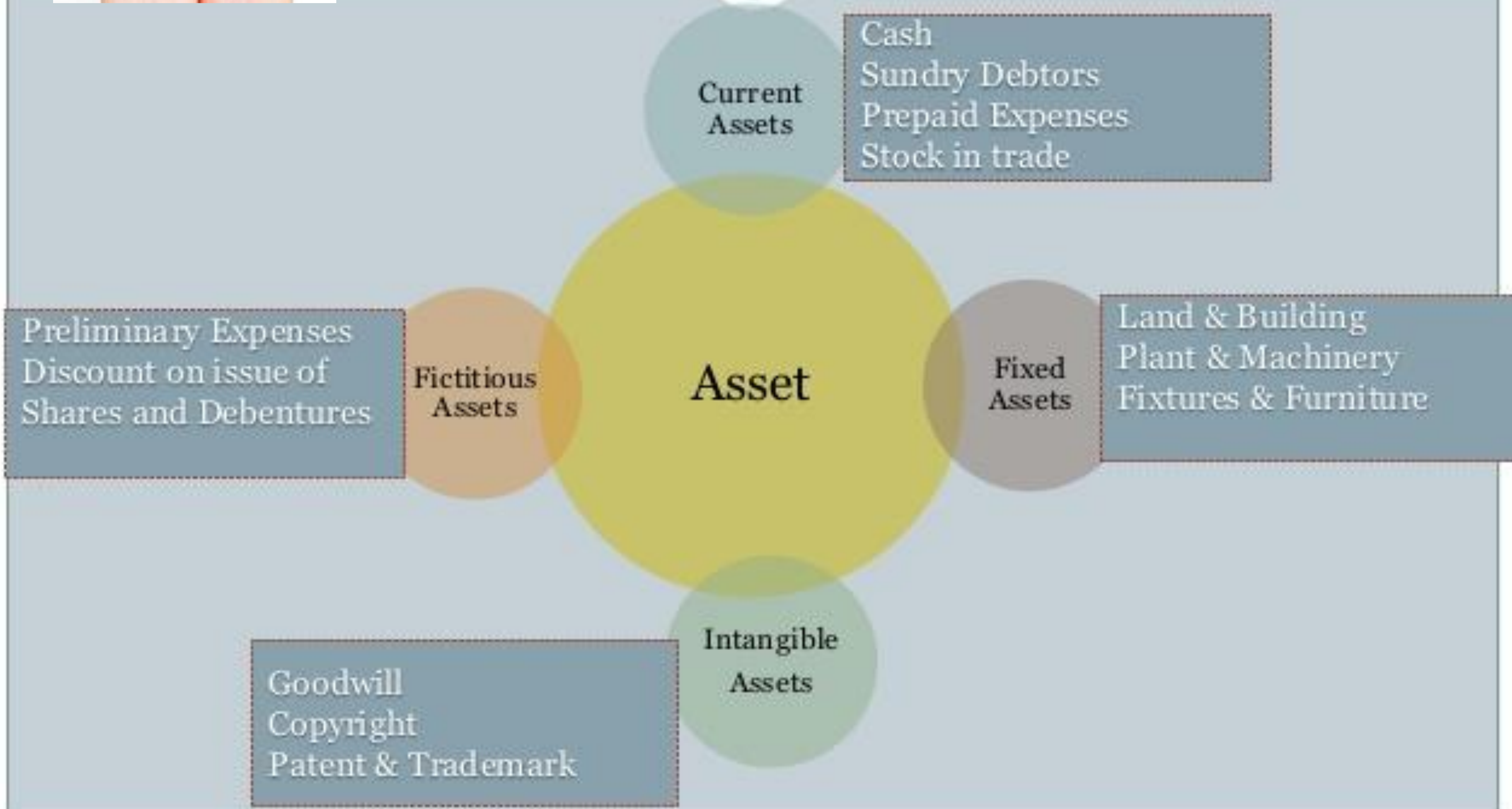


Difference Between Verification & Valuation

- Verification is a final work.
- Verification is the work of Auditor.
- Verification is made at the end of the year.

- Valuation is the initial work and it need to verification.
- Valuation is the work of concerned authority or board (Company)
- Valuation is made throughout the year

Classification of Assets



Auditor’s position regarding verification and valuation of assets and liabilities

- He must see that assets and liabilities are valued according to certain accounting principles.
- He should probe into the matter of valuation.

Depreciation

Depreciation has been defined as the decrease in the value of asset on account of natural wear and tear or effluxion of time.

The Factors that determine the quantum of depreciable amount for any accounting year:

- Original cost of the assets
- Expected useful life of the depreciable assets
- Estimated residual value of the depreciable assets
- Methods of providing depreciation
- Requirement of statutes

Reserves

"Reserve" means that part of the profits which is set aside for any known or unknown contingency, liability, diminution in the value of assets, etc.,

Classification of Reserve

1. General Reserve
2. Specific Reserve (depreciation, heavy repairs, etc.,)
3. Sinking fund
4. Reserve or development fund
5. Capital reserve
6. Secret reserve (Banking, insurance and financial concerns)

- Secret reserves are under statement of assets or overstatement of liabilities
- Secret reserve may be used in future to meet any extraordinary loss without disclosing this fact to the shareholders or the outsiders.

Company Audit

- Company audit is conducted is accordance with the provisions of the Companies Act,1956.

- To Conduct a Company audit, a company must appoint qualified Auditor.

Qualification of Auditor

The Institute of Chartered Accountants of India
(Setup by an Act of Parliament)

- A person shall not be qualified for appointment as auditor unless he is Charted Accountant within the Meaning of CA Act, 1949
- A Person who holds restricted Auditors Certificate (Part –B) 1956

An Auditor must possess adequate educational qualification

He is independent of all influences

A Charted Accountant means a person who is a member of the Institute of Charted Accountants of India.

RIGHTS & POWERS OF AN AUDITOR

- Right of access at all times to books, accounts, and vouchers of the company
- Right to receive notice and to attend general meetings
- Right to obtain information and explanations
- Right to visit branches
- Right to sign audit report
- Right to receive remuneration

DUTIES OF AN AUDITOR

1) Compliance with Audit Standard
2) Duty to Report Fraud
3) Duty not to render certain services

He can not render "consulting and specialized services" which means any one or combination of-

- Accounting and Book keeping services
- Internal Audit
- Design and implementation of any financial information system
- actuarial services
- investment advisory services
- investment banking services
- management services
- any other kind of consultancy services

4) Duty to sign audit reports etc.

5) Duty to attend General meeting

6) Duty to Report

Under section 143 of the Act the auditor has a duty to report to the members of the company on:

- accounts examined by him
- every financial statement laid before a general meeting during his tenure

7) Duty to Enquire-

- Secures loans and advances
- transactions represented merely by book entries
- personal expenses
- issue of shares for cash
- loans and advances made by the company etc.

APPOINTMENT OF AN AUDITOR

WHO CAN BECOME AN AUDITOR?

- Chartered Accountant in practice
- Partnership firm of CA's in practice
- Holder of a certificate in Part 'B' States

DISQUALIFICATIONS OF AN AUDITOR

- A body corporate
- An officer or employee of the company under audit
- A person who is a partner, or who is in the employment of an officer or employee of the company
- A person who is indebted to the company for an amount exceeding Rs.1000
- A person holding security of that company
- A person who has been disqualified for appointment as an auditor of a company on above mentioned grounds, shall also not be eligible for appointment with any other body corporate which may be that company's subsidiary or that company's holding company.

WHO CAN APPOINT AN AUDITOR?

- Appointment by directors
- Appointment by shareholders
- Appointment by the Central Government
- Appointment by the Comptroller and Auditor General

APPOINTMENT BY DIRECTORS

- **FIRST AUDITORS :**

  The board of directors shall appoint the first auditor(s) of the company within **One Month** of the **Date Of Registration** of the company.

- **CASUAL VACANCY**:

  The directors have been empowered to fill any casual vacancy in the office of an auditor, except which is caused by prior resignation of an auditor.

APPOINTMENT BY SHAREHOLDERS

- **FIRST AUDITORS** :

  In case the directors fail to appoint the first auditor(s), the shareholders shall do so at a general meeting by passing a resolution.

- **SUBSEQUENT AUDITORS**:

  (i) By Ordinary Resolution

  (ii) By Special Resolution

The company shall within 7 days give intimation to the auditor so appointed. The auditor shall inform in writing to the Registrar of Companies within 30 days of his appointment.

- **CASUAL VACANCY**:

  If a casual vacancy in the office of an auditor arises by his resignation, such vacancy should only be filled by the company in a general meeting.

APPOINTMENT BY CENTRAL GOVERNMENT

If a company, at an annual general meeting, fails to appoint or re-appoint an auditor, the Central Government may appoint a person to fill the vacancy.

- The company has to give notice of the above fact to the Government within 7 days of the Annual General Meeting.
- The appointment by the Central Government is made from the panel of names suggested by the applicant company.

APPOINTMENT BY THE COMPTROLLER AND AUDITOR GENERAL

In case of Government Companies, the Comptroller and Auditor General appoints or re-appoints the auditor.

RE-APPOINTMENT OF AN AUDITOR

The retiring auditor shall NOT be re-appointed in the following cases

1. Not qualified

2. Unwilling

3. Passing of a special resolution

4. Appointment of some other person

5. Unable to comply with the ceiling on no. of audits

E-Auditing

The later developments in auditing pertain to the use of computers in accounting and auditing.

In conclusion it can be said that auditing has come a long way from hearing of accounts to taking the help of computers to examine computerized accounts.

Audit Report

- A Report is a statement of collected and considered facts so drawn up as to give clear and concise information to persons who are not already in possession of the full facts.
- **Kinds of Audit Report**
  - Final Report
  - Interium Report
  - Partial Report

WHAT IS AUDITOR'S REPORT?

An auditor's report is a formal result of all the effort that goes into an audit. It presents the result of the examinations done by the auditor.

BASIC ELEMENTS OF AUDIT REPORT

- Title
- Addressee
- Opening or introductory paragraph
- Identification of financial statements audited
- Date and period covered
- Statements of responsibility:

BASIC ELEMENTS OF AUDIT REPORT (CONTD)

- *Scope* paragraph:
- Opinion paragraph:
- Date of completion of audit
- Auditor's address
- Auditor's signature
- Firm and / or personal name of auditor.

TYPES OF AUDIT REPORT

- **Unqualified Audit Report**

This type of report is issued by an auditor when the financial statements presented are free of material misstatements and are in accordance with GAAP, and the auditor does not detect any significant internal control breakdown during his examination.

- **Qualified Audit Report**

This type of opinion is very similar to an unqualified or "clean opinion", but the report states that the financial statements are fairly presented with a certain exception which is otherwise misstated.

Characteristics of a Good Audit Report

- It should be unbiased
- It should be expressed in clear
- It should be accurate
- It should be in simple style
- It should be brief
- It should be coherent

MOHAN SHEMBEKAR & ASSOCIATES. CHARTERED ACCOUNTANTS,
Chamber No. 1 & 2, First Floor, Bhaskar Sabhagruh, Amravati Road, Nagpur - 440033.

SHRIKRUSHNA SHARIRIK SHIKSHAN MAHAVIDYALAYA, MHASALA, WARDHA
(Run by : SHRIKRUSHNA SHIKSHAN SANSTHA, WARDHA)

Balance Sheet as on 31st March 2008

Liabilities	Amount	Amount	Assets	Amount	Amount
Building Fund :			**Fixed Assets :**		
Bal. as per last B/sheet		95500.00	As per Schedule " C "		625301.00
			Deposit & Advances :		
Loans & Advances :			Rent Deposit	5000.00	
Op.bal	1831573.00		NCTE Deposit	40000.00	45000.00
Add : Taken d/the year	734500.00		**Endowment Fund :**		
Less : Paid d/the year	698380.00	1867693.00	Op.bal.	500000.00	
			Less : W/drawl d/the year	500000.00	NIL
			Cash & Bank Balances :		
Liabilities :			Cash in hand	355.06	
Op. bal	41325.00		Punjab National Bank	869377.00	869732.06
Less : Paid d/the year	4525.00	36800.00			
			Income & Expend. A/c :		
			Op. bal	710367.44	
			Less : Surplus d/the year	250407.50	459959.94
TOTAL		1999993.00	TOTAL		1999993.00

As per the books of accounts maintained by the School & Audited by us

For, Mohan Shembekar & Associates
Chartered Accountants

Mohan Shembekar
(Partner)

Mohan Shembekar & Associates * Chartered Accountants * NAGPUR

SECRETARY,
ShreeKrushna Shikshan Sanstha
WARDHA.

Investigation

Investigation means an inquiry into the accounts of a business for a special purpose.

It is an examination of the books of accounts of a business to know its actual financial position or earning capacity, etc.,

Objects of investigation

1. On behalf of a purchaser to ascertain the earning capacity of the business
2. On behalf of incoming partner
3. On behalf of lender of money
4. When fraud is suspected
5. on behalf of client who wishes to purchase the shares of a company
6. Under the provisions of the Companies Act