

GOVERNMENT POLYTECHNIC BHUBANESWAR -2023



DEPARTMENT OF MODERN OFFICE MANAGEMENT

LECTURE NOTES

SEMESTER- 5TH

PAPER- AUDITING

PREPARED BY-BARSA PATTNAYAK

& SWAGATIKA PRADHAN

LACTURE NOTE

AUDITING

FACULTY NAME- BARSAPATTNAYAK AND SWAGATIKA PRADHAN

5TH SEMESTER /TH3

SUMMER 2024

INTRODUCTION

The term audit is derived from the Latin term 'audire,' which means to hear. In early days an auditor used to listen to the accounts read over by an accountant in order to check them. Auditing is as old as accounting. It was in use in all ancient countries such as Mesopotamia, Greece, Egypt, Rome, U.K. and India. The Vedas contain reference to accounts and auditing. Arthasashthra by Kautilya detailed rules for accounting and auditing of public finances. The original objective of auditing was to detect and prevent errors and frauds. 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 objective of audit shifted and audit was expected to ascertain whether the accounts were true and fair rather than detection of errors and frauds.

DEFINITION

"Auditing is such an examination of books of accounts and vouchers of business, as will enable the auditors to satisfy himself that the balance sheet is properly drawn up, so as to give a true and fair view of the state of affairs of the business and that the profit and loss account gives true and fair view of the profit/loss for the financial period, according to the best of information and explanation given to him and as shown by the books; and if not, in what respect he is not satisfied."

TYPES OF AUDITING

Independent Audit "The independent audit is conducted by professionally qualified persons who are independent of organization and do not have any interest in the organization. According to the Section 24 of the Companies Act, 1956 only qualified Chartered Accountant can be appointed as auditor of the company. The auditor examines the truth and fairness of the financial statements prepared by the accountants of the company and gives us his own opinion on it. The auditor's opinion on gives a

sense of credibility to the financial statements in the eyes of those for whom these statements are meant e.g. owners, creditors, investors, governmental agencies and so on.

GOVERNMENT AUDIT :

The Government as a body incurs the large amount of expenditure in the economy. In a mixed economy like ours where some of the major manufacturing activities are undertaken by the Government needs no further elaboration. The Government audit may be broadly classified into

- (i) audit of Government department
- (ii) audit of statutory corporation
- (iii) audit of Government companies.

Audit of Government Departments " The audit of the accounts of the various government departments which are not registered as companies are done by the Comptroller and Auditor General of India, who is appointed by the President of India. The Comptroller and Auditor General besides auditing the accounts of various State and Central Government departments, also prescribe the various forms and other procedures in which the accounts should be maintained. The Comptroller and Auditor General after auditing the accounts submits this report to the President of India in case of the Union Government, who shall cause them to be placed before the Parliament. In the case of State Government departments, the report is submitted to the Governor of the 'respective States, who shall cause these to be placed before the state Legislature.

STATUTORY AUDIT:

Audit is made compulsory for undertakings formed under the statute or laws. Under the Indian Companies Act, 2013 joint stock companies in India have to get their accounts audited by an independent professional accountant. Shareholders are the real owners of the company. Directors are elected from among shareholders to supervise the overall affairs of a company. Day -to -day working is entrusted to managerial personnel appointed for the purpose. Shareholders want the financial statements to exhibit true and fair view of company's state of affairs. People invest money in the shares on the basis of the financial position and profitability of the company. Moreover, financial institutions, banks, trade creditors, tax authorities, etc., do rely on the financial statements of the company. Considering all these factors, the Companies Act requires companies to undergo audit legally.

PRIVATE AUDIT:

The private audit is not mandatory under any statute or law. Individuals, sole trading concerns, partnership firms and other private institutions like clubs, libraries, hospitals, schools, colleges and other educational institutions may get their accounts audited in view of several benefits resulting from it.

INTERNAL AUDIT:

An audit is conducted within the organisation by an internal auditor appointed by the management of an enterprise. Salaried officials of a firm known as internal auditors conduct audit throughout the year. Large business organization set up an internal audit department to exercise an independent appraisal function within the organization. The department undertakes examination and evaluation of various accounting, financial and operating activities of the business enterprise. It highlights the weak areas in the organization besides assisting the management to discharge its responsibility effectively. It also assists the external auditor in fixing the extent of necessary tests.

INTERNAL CHECK

Internal check is a system enforced in business under which the recording of business transactions is arranged in such a manner that the work of one staff member will automatically be checked by others in the course of recording of transaction itself. Spicer and Pegler have defined a system of internal check as "an arrangement of staff duties whereby no one person is allowed to carry through and record every aspect of a transaction such that without collusion between two or more persons., fraud is prevented and at the same time possibilities of errors are reduced to a minimum". De Paula has defined internal check as "a continuous internal audit carried on by the staff itself by means of which the work of each individual is independently checked by other member of the staff." Thus, under internal check system the staff duties are so arranged that no one person is allowed to record every aspect of the transactions and the entire work is distributed among the various members of the staff in such a manner that the work of one person is automatically checked by others.

The essential elements of internal check are as under:

- Existence of checks on day to day transactions.
- The check is to be carried out continuously as a part of the routine system.
- The work is divided among the staff and each staff is assigned a specific task.
- The work of each staff though independent is complementary to the work of another.

VOUCHING

Vouching is the essence of auditing. An independent audit aims at determining whether the financial statements fairly represent the actual financial position and the working results of the organisation. This is known as expression of expert opinion on accounts. To express such opinion, the auditor has to ensure the accuracy and authenticity of all the transactions recorded in the books of account. For this purpose, the truth of all the entries passed in the books is tested. Meaning and Definitions of Vouching A voucher is a documentary evidence in support of entries made in the records. Vouching is the examination of documentary evidence supporting and substantiating a transaction. Thus, vouching is a method of examination with the help of documentary evidence in order to ascertain the accuracy of the transaction recorded in the books of account. A few definitions of vouching follow:

1. By vouching is meant the verification of the accuracy and authenticity of transactions as recorded in the books of account. - B.Bose
2. Vouching is a technical term, which refers to the inspection by the auditors of documentary evidence supporting and substantiating a transaction. - Ronald A.Irish
3. The examination of documentary evidence in support of entries is often referred to as vouching. -R.K.Mautz
4. Vouching does not mean merely the inspection of receipts with the cash book, but includes the examination of receipts with the transactions of a business, together with documentary and other evidence of sufficient validity to satisfy an auditor that such transactions are in order, have been properly authorized and are correctly recorded in the books. -F.R.M.De Paula

CHARACTERISTICS OF AUDITING

1. Audit is an independent, scientific, intelligent and critical examination of the books of account or accounting records of a business.
2. Such an examination enables the auditor to satisfy himself that the financial statements have been properly drawn up, and exhibit a true and fair view of the financial state of affairs of the business for the accounting period.
3. Its important part is detection of errors and frauds.
4. The audit or goes through vouchers and other related documentary evidence in order to report on the financial health of the business.

