

GOVERNMENT POLYTECHNIC BHUBNESWAR-2026

summer



DEPARTMENT OF MODERN OFFICE MANAGEMENT
LECTURER NOTES

SEMESTER-5th, PAPER- Auditing
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Unit-1

Introduction

Economic decisions in every society must be based upon the information available at the time the decisions are made. For example, the decision of a bank to sanction a loan to a business is based upon the previous financial relationships with that business, the financial condition of the company as reflected by its financial statements and other factors.

If the decisions are to be consistent with the intention of the decision makers, the information used in the Decision Process must be reliable. Unreliable information can cause inefficient use of resources to the detriment of the society and to the decision makers themselves. In the lending decision, for example, assume that the bank sanctions the loan on the basis of misleading financial statements and the borrowing company is ultimately unable to repay. As a result, the bank will lose both the principle and the interest. In addition, another company that could have used the funds effectively would be deprived of the money and opportunity.

MEANING

Auditing is the systematic examination and verification of a company's financial and operational records by a qualified professional, typically an auditor. The process aims to ensure the accuracy, completeness, and compliance of financial statements and operations with applicable standards and regulations. Auditing helps to enhance the credibility of financial reports, providing assurance to stakeholders such as investors, creditors, and regulators that the statements present a true and fair view of the company's financial position and performance.

OBJECTIVES

The primary and secondary objectives of an audit are crucial for understanding its comprehensive role in business governance.

Primary Objectives

1. **True and Fair Representation:** The fundamental objective of an audit is that financial statements report on an organization's financial activities or position with a true and fair view.
2. **Fraud Detection:** The auditor attempts to detect fraud by looking into the financial statements along with the internal controls.
3. **Detection of Errors:** This objective relates to establishing whether any possible material misstatement has occurred due to error or fraud.

Secondary Objectives

1. **Adherence to Accounting Standards:** Auditors examine whether the statements conform to appropriate accounting standards, such as International Financial Reporting Standards or Generally Accepted Accounting Principles.
2. **Performance Review:** An audit might provide details about the efficiency of a company's financial management and working practices.
3. **Recommendations for Improvement:** After reviewing the internal controls and processes, auditors provide recommendations for efficiency with minimum risk.

TYPES OF AUDITS

Audits can be classified based on their purpose or the entity performing them:

- **External Audit:** Conducted by an independent, qualified third party (e.g., a Certified Public Accountant or Chartered Accountant) to provide an unbiased opinion on financial statements for external users. This is legally required for public companies.
- **Internal Audit:** Performed by employees within the organization to evaluate and improve the effectiveness of internal controls, risk management, and governance processes for management use.
- **Government Audit:** Conducted by government entities (like the IRS in the US) to ensure compliance with tax laws and proper handling of public funds.
- **Operational Audit:** Focuses on the efficiency and effectiveness of an organization's operations and management practices.

INTERNAL AUDIT

An internal audit is a methodical and independent review of an organisation's operations, processes, and internal controls. It determines whether the corporation is managing risk, creating a profit, and complying with felony rules. Internal audits provide valuable records to enhance general commercial enterprise governance, identify fraud, and enhance overall performance.

AUDIT PROCESS

A typical audit is comprised of four stages: planning, fieldwork, reporting, and follow-up.

Planning

During the planning phase, we notify you of the audit through an announcement letter. An auditor will contact you to set up an audit planning meeting. The purpose of the meeting is to discuss the audit process and review the scope and objectives of the audit, discuss any concerns or suggested scope items, and discuss risks inherent to the unit.

Fieldwork

In this phase the auditor gathers relevant information about the unit in order to obtain a general overview of operations and internal controls and performs transaction testing. It is during this phase that the auditor determines whether the controls identified during the preliminary review are operating properly and in the manner described by the client. These procedures usually test the major internal controls and the accuracy and propriety of the transactions.

As the fieldwork progresses, the auditor will discuss any significant findings with our audit customer. Hopefully, the audit customer can offer insights and work with the auditor to determine the best method of resolving the finding. Upon completion of the fieldwork, the lead auditor will summarize the audit findings, conclusions, and recommendations and review them with our audit contact.

Reporting

Our principal product is the final report in which we express our opinions, present the audit findings, and discuss recommendations for improvements. After the fieldwork is completed, Internal Audit will meet with the unit's management team to discuss the findings, conclusions, and recommendations. The auditor prepares a draft report, taking into account any revisions resulting from the closing meeting and other discussions. The report consists of several sections and includes: the distribution list, scope and objectives, overall assessment, and our findings and recommendations. We issue the draft report to unit management only, along with a management memorandum detailing any less significant findings.

Audit Follow-Up

Internal Audit will perform a follow-up review to verify the recommendations included in the final report have been implemented.

AUDITING PROGRAMME

An audit program, also called an audit plan, is an action plan that documents what procedures an auditor will follow to validate that an organization is in conformance with compliance regulations.

The goal of an audit program is to create a framework detailed enough for any outside auditor to understand. It should contain the following information:

the official examinations that have been completed;
conclusions reached; and
the reasoning behind each conclusion.

The framework explains the audit's objectives, scope and timeline. The audit program should also describe how working papers -- the documented audit evidence -- will be collected, reviewed and reported.

Audit and Books

Auditing is a systematic and independent examination of an organization's records and operations to provide an opinion on whether its financial statements present a true and fair view of its position. An Audit Note Book, conversely, is a simple internal working document used by audit staff to record queries and errors encountered during the audit process.

Working papers

Audit working papers are the documents which record during the course of audit evidence obtained during financial statements auditing, internal management auditing, information systems auditing, and investigations. Audit working papers are used to support the audit work done in order to provide the assurance that the audit was performed in accordance with the relevant auditing standards. They show the audit was:

Properly planned;

Carried out properly

There was adequate supervision;

That the appropriate review was undertaken; and

That the evidence is sufficient and appropriate to support the audit opinion

The Institute of Internal Auditors, a global professional audit standards body, has

issued practice advisory 2330-1 stating the goals of audit working papers are to:[1]

Document the planning, performance, and review of audit work;

Provide the principal support for audit communication such as observations, conclusions, and the final report;

Facilitate third-party reviews and re-performance requirements; and

Provide a basis for evaluating the internal audit activity's quality control program.

The audit working papers are divided into two parts: The first group consists of the current file and second group contains the permanent file.

The material relating to the current year only is placed in current file

The data to be used for a number of years placed in permanent file. The auditor can rely on the facts and figures recorded in permanent files.

Audit working papers are the property of the auditor. In order to keep professional ethic, it cannot reveal to third parties without client consent unless limited specified situations mentioned in ISA 230 Documentation and required by law, the examples are court order, for public interest and so on.

EVIDENCE

Auditing evidence provides essential information for reviewing a company's financial practices and ensuring compliance with financial standards like GAAP or IFRS. It plays a pivotal role in validating the accuracy and legal compliance of financial statements, using sufficient, reliable evidence from trustworthy sources. Examples include bank statements, invoices, and other original external documents, which auditors often prefer to ensure transparent and accurate financial reporting.

Considerations Before Commencing an Audit

Obtain a Formal Engagement Letter: This document is the audit contract and is crucial for outlining the scope of work, objectives, terms, and the responsibilities of both the auditor and management. It formalizes the relationship and helps manage expectations.

Understand the Nature and Scope of Duties: The auditor must clearly define the audit's purpose (e.g., financial, compliance, internal) and the specific legal or regulatory requirements that apply (e.g., GAAP, internal policies, specific statutes

like the Companies Act).

Assess Management's Integrity and Preconditions: The auditor must assess the integrity of management and obtain their agreement that they acknowledge and understand their responsibility for preparing the financial statements, maintaining internal controls, and providing full access to all relevant information.

Gain Knowledge of the Client's Business and Environment: Understanding the client's operations, industry, organizational structure, principal officers, and any technical details is essential for identifying potential risks and planning appropriate procedures.

Review the Accounting System and Internal Controls: The auditor needs to examine the existing accounting system and the internal control environment. The effectiveness of these controls directly impacts the nature and extent of the audit procedures the auditor will perform.

Study Previous Years' Financial Statements and Reports: Reviewing prior financial data and audit reports provides insight into trends, significant accounting policies, recurring issues, and areas that may require specific attention in the current audit.

Develop a Comprehensive Audit Plan: Based on the knowledge gathered, the auditor develops a flexible audit plan. This plan details the audit methodology, procedures, timelines, and resource allocation, ensuring that all important areas are covered efficiently.

Communicate with the Client: The auditor should have an opening meeting with the client's management and relevant personnel to discuss the plan, timeline, and logistics, ensuring a smooth process and coordination of effort.

Organize Documentation: Ensure all necessary financial records, contracts, and supporting documentation are organized and readily accessible to facilitate the fieldwork phase.