

The background features abstract, overlapping geometric shapes in various shades of blue, ranging from light sky blue to deep navy blue. These shapes are primarily located on the right side and bottom of the frame, creating a modern, dynamic feel. The main text is centered on a white background.

TYBBI

SEMESTER -V

AUDITING-I

SYLLABUS

MODULES AT A GLANCE

1. **Introduction to Auditing**
2. **Audit Planning, Procedures and Documentation**
3. Audit Techniques and Internal Audit Introduction
4. Audit Techniques : Vouching
5. Audit Techniques : Verification

Paper Pattern (75 Marks)

Q1) Objectives

a) MCQ/TRUE OR FALSE/FILL IN THE BLANKS

AND (7M & 8M)

b) MCQ/TRUE OR FALSE/FILL IN THE BLANKS

15M

Q2) Full length Question

OR

Q2) Full length Question

15M

15M

Q3) Full length Question
OR

15M

Q3) Full length Question

15M

Q4) Full length Question
OR

15M

Q4) Full length Question

15M

Q3) Full length Question 15M

OR

Q3) Full length Question 15M

Q4) Full length Question 15M

OR

Q4) Full length Question 15M

Q5)

A) Theory Question 8M

B) Theory Question 7M

OR

Q5)

Short Notes (Any 3 out of 5) 15M

1 INTRODUCTION TO AUDITING

1 Defination of Auditing

Spicer and Pegler: "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."

2

Prof. L.R.Dicksee. "auditing is an examination of accounting records undertaken with a view to establish whether they correctly and completely reflect the transactions to which they relate.

FEATURES OF AUDITING

- a) Systematic
- b) Independent person
- c) Verification
- d) Critical review
- e) Vouchers, documents, information and explanations received from the authorities.
- f) Inspect, compare, check, review, scrutinize the vouchers ,examine correspondence, minute books of share holders, directors, Memorandum of Association and Articles of association etc.,

OBJECTIVES OF AUDITING

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graph TD; A[OBJECTIVES OF AUDITING] --> B[PRIMARY OBJECTIVE]; A --> C[SECONDARY OBJECTIVE]; B --> B1[1. To Examine the Accuracy of Books of Accounts]; B --> B2[2. To Express Opinion on Financial Statements]; C --> C1[1. Detection and Prevention of Errors]; C --> C2[2. Detection and Prevention of Frauds];
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PRIMARY OBJECTIVE

1. To Examine the Accuracy of Books of Accounts
2. To Express Opinion on Financial Statements

SECONDARY OBJECTIVE

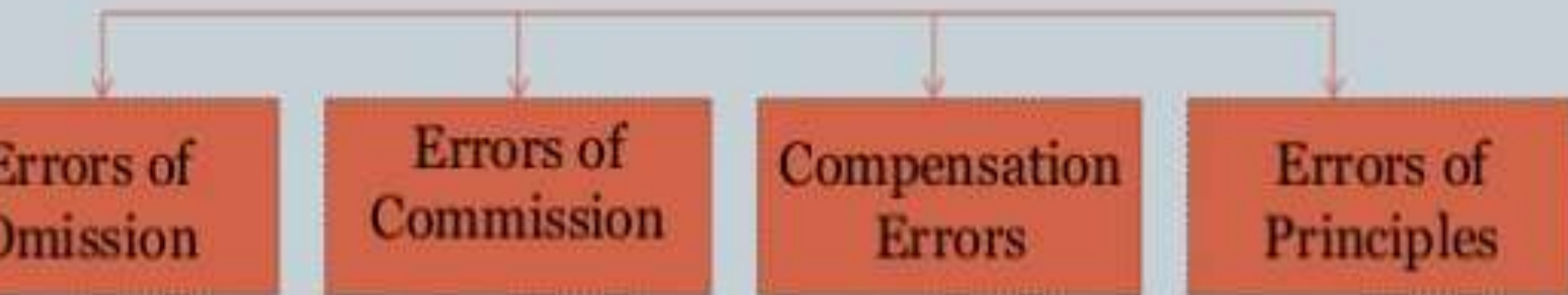
1. Detection and Prevention of Errors
2. Detection and Prevention of Frauds

Primary objective

- ▶ – the primary duty (objective) of the auditor is to report to the owners whether the balance sheet gives a true and fair view of the Company's state of affairs and the profit and loss A/c gives a correct figure of profit or loss for the financial year.

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

of Errors:



Detection & Prevention of Errors

Error of Omission

- transaction is to be left out to register, partial entry of one transaction

Error of Commission

- Rs. 1500 recorded as Rs. 5100

Clerical Error

- omission to post, posting wrong side & amount to an a/c, double posting, totalling mistake, balance b/d & c/f

Error of Principle

- fundamental principle of Accountancy & Auditing

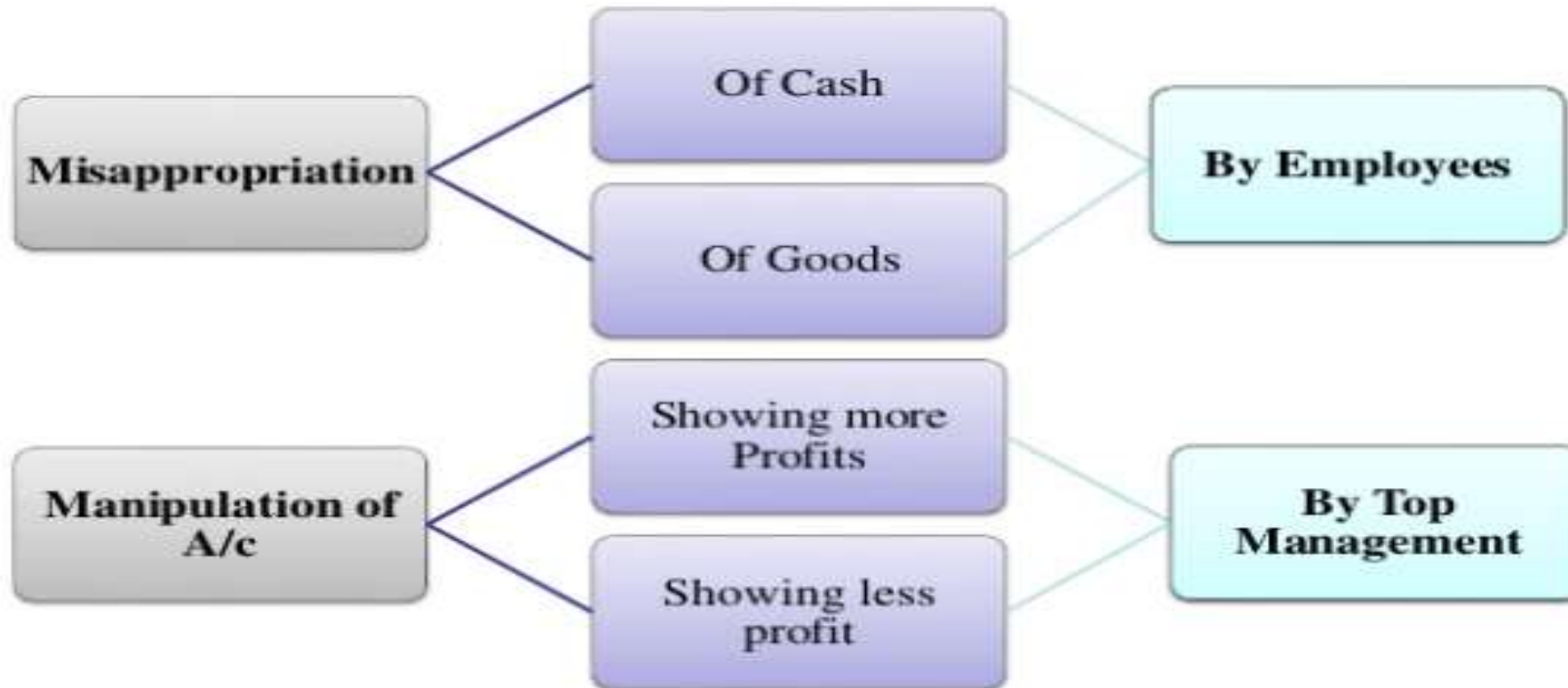
Compensating Error

- two errors together which will be resulted in trial balance sheet will agree

FRAUDS:

The term fraud means the willful misrepresentation made with an intention of deceiving others. It is a deliberate mistake committed in the accounts with a view to get personal gain. In accounting, fraud means two things •

Detection & Prevention of Frauds



ADVANTAGES OF AUDIT

A. Businessman's point of view	B. Investor's point of view	C. Other Advantages.
1 Detecting of errors and frauds	1. Protects interest	1. Evaluate financial status
2 Loan from banks	2. Moral check	2. Usting of shares
3 Builds reputation	3. Proper valuation of investments	3. Settlements of claims
4 Proper valuation of assets	4 Good security	4 Evidence in court
5. Government acceptance		5. Settlement of accounts
6. Update accounts		5. Facilitates calculation of Purchase. Consideration.
7 Suggestions for improvement		7 Facilitates taxation
8. Useful for agency		

LIMITATIONS OF AUDIT

- 1) It involves Exercise and judgement
- 2) Audit cannot be relied upon to discover all frauds
- 3) Auditor is not a technical expert
- 4) Absolute certainty not attainable
- 5) Internal Control

Principles of Auditing

Fundamental principles of Auditing

1. Integrity, Objectivity and Independence
2. Confidentiality
3. Skill & Competence
4. Responsibility of work performed by others
5. Documentation
6. Planning
7. Audit Evidence
8. Accounting system & Internal Control
9. Audit Conclusions
10. Audit Report

WINDOW DRESSING

Definition: Window dressing is a technique used by companies and financial managers to **manipulate financial statements** and reports to show more **favorable results** for a period. Although window dressing is illegal or **fraudulent**, it is slightly dishonest and is usually done to **mislead investors**.

Window dressing is a short-term strategy used by companies and funds to make their financial reports and portfolios look more appealing to clients, consumers, and investors. The goal is to attract more people and more money, which hopefully boosts the bottom line for the next reporting period.

Auditor's Duties Regarding Window Dressing

- 1) Audit Report
- 2) Income
- 3) Verification of Assets and liabilities
- 4) Adequacy of Provisions
- 5) Valuation of closing stock
- 6) Method of Accounting
- 7) Supression of Liabilities
- 8) Report to Central Government.

SECRET RESERVE

Secret reserve

It is the amount by which the assets of an organization are understated or its liabilities are overstated. An entity might establish a **secret reserve** for competitive reasons, to hide from other businesses that it is in a better financial position than appears in its financial statements

Difference	Accounting	Auditing
	It is recording of all the day to day transactions in the books of accounts leading to preparation of financial statements.	It is the critical examination of the transactions recorded in the books of accounts.
	It is concerned with finalisation of accounts.	It is concerned with establishment of reliability of financial statements
	The object is to ascertain the trading results.	The object is to certify the correctness of financial statements.
Point	Accounting commences when book keeping ends.	Auditing begins when accounting ends
	It involves various financial statements. It involves maintenance of books of accounts. It does not go beyond books of accounts.	It depends upon the agreement or upon the provisions of law. It goes beyond books of accounts.

2 TYPES OF AUDIT

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graph TD; A[2 TYPES OF AUDIT] --> B[Based on Authority]; A --> C[Based on Time]; B --> B1[1) Statutory Audit]; B --> B2[2) Non Statutory Audit]; C --> C1[1) Continuous Audit]; C --> C2[2) Concurrent Audit]; C --> C3[3) Interim Audit]; C --> C4[4) Balance Sheet Audit];
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▶ Based on Authority

- 1) Statutory Audit
- 2) Non Statutory Audit

Based on Time

- 1) Continuous Audit
- 2) Concurrent Audit
- 3) Interim Audit
- 4) Balance Sheet Audit

Statutory & Non Statutory

1) Statutory audit is authorised and governed by law or a statute.

2) Eg : audits of companies, banks, insurance, charitable trusts, corporate bodies and co-operative societies.

1) The audit got done voluntarily and without any legal or statutory force is non-statutory.

2) Eg: audits of partnership firms and individual proprietary concerns.

Audit based on Time

Continuous Audit

- ▶ **Meaning:**
- ▶ **The audit that remains continue throughout the financial year is called continuous audit.**
- ▶ **Continuous audit or a detailed audit is an audit which involves a detailed examination of books of account at regular intervals i.e. one month or three months. The auditor visits clients at regular intervals during the financial year and checks each and every transaction. At the end of the year auditor checks the profit and loss account and the balance sheet. A continuous audit is not of much use to small firm as its accounts can be audited at the end of the financial year without much loss of time.**

Characteristics / Features of Continuous Audit

- ▶ • The auditor visits the business regularly.
- ▶ • It is conducted in the large business concern.
- ▶ • It is conducted through the year.
- ▶ • Throughout checking is possible.
- ▶ • It is an expensive audit.
- ▶ • Audit report is not prerequisite.
- ▶ • It is used to cover the deficiencies of the business.
- ▶ • Surprise visits are also possible by the auditor.
- ▶ • The manager can fix the time.

Advantages of Continuous Audit

1. Early Location of Errors and Frauds
2. Check on Frauds
3. Quick Rectification
4. Moral Check
5. Audit Staff kept busy
6. No Missing Entries
7. Early Correction of Errors
8. Quick Presentation of Accounts

Disadvantages of Continuous Audit

- ▶ **Expensive**
- ▶ **Inconvenience**
- ▶ **Mechanical Work**
- ▶ **Wastage of Time**
- ▶ **Mechanical Work**
- ▶ **Small Business**

CONCURRENT AUDIT

Concurrent audit is a systematic and timely examination of financial transactions on a regular basis to ensure accuracy, authenticity, compliance with procedures and guidelines. The emphasis under **concurrent audit** is not on test checking but on substantial checking of transactions.

Concurrent audit means doing the examination of the financial transactions at the time of happening or parallel with the transaction. It is part of a bank's early warning system to ensure timely detection of irregularities and lapses. It helps in preventing fraudulent transactions at branches.

Concurrent Audit is an audit which is conducted on concurrent basis, means no specific time period of Audit is defined particularly. In more simpler terms, usually an statutory or internal audit is conducted for a specified period say 1 year or 3 months. But, in concurrent audit no such Audit period is defined. It is conducted to check the daily transactions and ensure whether organisation is ensuring operational, regulatory compliance.

Objectives of Concurrent Audit

- Ensure voucher/ evidence based payments to improve transparency
 - Ensure accuracy and timeliness in maintenance of books of accounts
 - Ensure timeliness and accuracy of periodical financial statements
 - Improve accuracy and timeliness of financial reporting especially at sub-district levels
 - Ensure compliance with laid down systems, procedures and policies
 - Regularly track, follow up and settle advances on a priority basis .
- Assess & improve overall internal control systems

Features

1. It carried out throughout the year .
2. It is conducted at regular or irregular intervals .
3. The accounts are subject to scrutiny as & when prepared .
4. Full verification of assets & liabilities is left until the balance sheet is prepared .
5. Trial balance , profit & loss account & balance sheet are audited at the end of the year .

Advantages of Continuous Audit

- Quick Discovery of Errors
- Quick Preparation of Accounts
 - Division of Labiur
 - Moral Check on Staff
- Knowledge of Technical Details
 - Quality of Works
- Preparation of Interim Accounts
- Effectiveness of Internal Check
 - Audit Staff Kept Busy

Disadvantages of Continuous Audit

1. Alteration of Figures
2. Costly
3. Dislocation of Clients Staff
4. Tedious
5. Absence of Link
6. Conflict
7. Dependence of Staff on Auditor
8. Likely Collusion between Clients Staff & Audit Staff

INTERIM AUDIT

Introduction

An audit conducted in between two annual audits with a view to find out interim profit for declaring interim dividends is called an interim audit. In order to know the reliable trading results of the business for a part of year, the proprietor may arrange interim audit monthly, quarterly or half yearly. It is also called

- Optional Audit
- Temporary Audit

3) Interim Audit – It is kind of audit which is conducted between two annual completed or final audits . It is conducted to find out the interim profit & know the financial position at the end of a part of the accounting year .

Interim audit should not be confused with continuous audit . The scope of interim audit falls within the purview of final audit or the annual audit which is carried out later .

Advantages

Timely completion of final audit

The greatest advantage of interim audit is that burden is divided. The auditor examines information for a part of year so all work is carried out once in the end of the year.

Moral check on fraud

Interim audit is useful to improve the moral standard. An auditor checks the work of every person. There is moral check on each employee to complete his record as per role.

Easy settlement of insurance claim

Insurance claims can easily be settled as net loss will be supported by the auditor's report.

Quick Findings

Errors are found and corrected in each interim period. So the level of error is reduced. So client staff learns a lesson and avoid errors for next period.

Making Investments

The interim audit is useful for the investors. They can rely on audited accounts for making investments. The investors can buy and sell shares on the basis of interim audit.

Up to date Record

The benefit of such audit is that accounting record is kept up to date. The accounting staff has duty to complete their work for interim audit. Thus delay in accounts is not possible.

Disadvantages

Alteration in Figures

The limitation of interim audit is that accounting staff can alter the figures after completion of audit. It creates confusion in the minds of audit staff at the time of final audit.

Increase Business Expense

Interim audit results in increased business expenses. Such audit is not compulsory. It is optional for management, so such audit fee is an expense for business

Limited Scope

Small business cannot enjoy the comfort of interim audit. Due to limited scale and profits are not handsome to bear the cost of unnecessary audit.

Duplication of Work

As the interim audit is not final, therefore, at the end of year, the auditor, on the information of earlier periods, may again perform same procedures. Therefore, interim audit may involve duplication of work.

Extensive Notes Taking

Possible alterations after audit can be avoided by taking notes regarding interim audit and then notes taking is an extra work for auditor to help final audit.

Interruption in Work

The thread of accounting work may be lost due to continuous visits of audit staff because accountant has to cooperate with them by leaving in routine work.

BALANCE SHEET AUDIT

Balance Sheet Audit

- It is an **evaluation of the accuracy of information** found in a company's balance sheet.
- It involves a **number of checks as auditors conduct this evaluation** based on supporting documents.
- Involves **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.
- It is a **condensed statement that shows the financial position** of an entity on a specified date, usually the last day of an accounting period.
- It is **used to detect irregularities or weaknesses** in a company's accounting system.



- **ADVANTAGES:**

- Errors and frauds are discovered and rectified quickly.
- The chances of fraud are reduced.
- The workers will be careful in their work.
- Continuous audit acts as a valuable morale check on the staff.
- Final audit becomes easier and faster.
- If the company wants to declare interim dividend its easier to prepare interim account.
- It increases the efficiency and accuracy in the accounts.

- **DISADVANTAGES:**

- After the auditor's visit is over, alternative may be made.
- It affects the regular work.
- Its not suitable for small organizations.
- The auditor may loose the line of work if he does not complete his work in a visit.

Going Concern Concept:

Going Concern Concept: Accounting assumes that a business entity will continue its operation for the foreseeable future. The business will continue for the long time unless there is good evidence to the contrary. It is assumed that there is intention of the management to liquidate its business within a predictable future.

Materiality Concept:

Materiality therefore relates to the significance of transactions, balances and errors contained in the financial statements. Materiality defines the threshold or cutoff point after which financial information becomes relevant to the decision making needs of the users. Information contained in the financial statements must therefore be complete in all material respects in order for them to present a true and fair view of the affairs of the entity.

Materiality is relative to the size and particular circumstances of individual companies.

Choose the correct answer

1) The main object of an audit is _____

- a) Expression of an opinion
- b) Detection and prevention of Errors & Frauds
- c) Both (a) & (b)**

2) A sale to Mr X of Rs 100000 is recorded as Sale to Mr Y Rs 100000. This is an example of

- _____
- a) Error of Commission**
 - b) Error of Omission
 - c) Error of Principle

Choose the correct answer

3) Misappropriation of goods is conducted by _____

- a) Auditors
- b) **employees**
- c) Management

4) The error of omission is _____

- a) Wages paid to Suresh, Debited to Naresh
- b) Total of purchase journal is not posted to purchase a/c
- c) None of the above

Choose the correct answer

5) _____ is compulsory by law

a) Continuous Audit

b) **Statutory Audit**

c) Balance Sheet Audits

6) Audit in Depth is synonymous for _____

a) Complete audit

b) Final Audit

c) **Detailed Audit**

Match the following

Column A	ANS	COLUMN B
1) Final Audit	b	a) done by frequent visit to the organisation
2) Statutory Audit	c	b) done at the end of the year
3) Continuous Audit	a	c) mandatory
4) Concurrent Audit	d	d) done at the occurrence of the transaction

Match the following

Column A	ANS	COLUMN B
verification	c	Added to cost of machinery
Techniques of verification	d	To know correct financial position
Carriage on machinery	a	Existence ownership and possession
Objects id valuation	b	Inspection observation confirmation

3

AUDIT PLANNING

- ▶ **"Audit planning"** means developing a general strategy and a detailed approach for the expected nature, timing and extent of the **audit**. The **auditor plans** to perform the **audit** in an efficient and timely manner.

INTRODUCTION

- Audit planning is an important and essential process of systematic verification and organised examination.
- Planning is a process of doing a job in a systematic and methodical manner. It is being defines:
 - (a) What to do?
 - (b) How to do?
 - (c) When to do?
 - (d) Who will do?
- Planning is an organised approach to complete a task in minimum time at minimum cost and with maximum efficiency

Objectives of Audit planning


- ▶ The main objective of audit planning is to ensure appropriate attention is given to all areas of the audit.
- ▶ More attention should be devoted in auditing high risk of the entity.
- ▶ Low risk areas should be given less time to conserve resources.

Factors to be considered while audit Planning

- ▶ **Factors Affecting Audit Planning**
- ▶ **Size of the company and nature of its operations.**
- ▶ **Accounting system**
- ▶ **Internal control and adherence to standard.**
- ▶ **Environment in which the company operates.**
- ▶ **Knowledge of client's business.**

SOURCES OF OBTAINING INFORMATION

- ▶ **Prior year's working papers.**
- ▶ **Predecessor auditor's working papers.**
- ▶ **Articles and memorandum of association.**
- ▶ **Minutes of directors and shareholders.**
- ▶ **Significant contracts such as loan agreements, leases and labor agreements.**
- ▶ **Trade and industry journals relating to client's industry.**

- 
- ▶ **Tour the factory and offices of client.**
 - ▶ **Discussion of audit matters with internal auditor.**
 - ▶ **Inquires from management.**
 - ▶ **Management accounts.**
 - ▶ **Cash flows, budgets, and other management reports.**
 - ▶ **Discussions with client's lawyers.**

AUDIT PROGRAMME

An audit program is a set of directions that the auditor and its team members need to follow for the proper execution of the audit. After preparing an audit plan, the auditor allocates the work and prepares a program which contains steps that the audit team needs to follow while conducting an audit. Thus, an auditor prepares a program that contains detailed information about various steps and audit procedures to be followed by the audit.

An audit program provides a basic plan for the audit team regarding the entity's business, its size, how to conduct the audit, allocation of work among team members and the estimation of time within which it should complete the work.

MEANING

- An Audit Programme is conducted at the beginning of Audit process. An Audit Programme/Plan is the specific guideline to be followed when conducting an Audit.



AUDIT PROGRAMME SPECIFICS CERTAIN THINGS

1. what are the audit objectives?
2. Where will the audit be done?
3. When will the audit occur?
4. How will the Audit be done?



ADVANTAGES OF AUDIT PROGRAMME

1. Instructions
2. Check List
3. Division of Work
4. Supervision
5. Fixing responsibilities
6. Acts as evidence
7. Future planning



DISADVANTAGES OF AUDIT PROGRAMME

1. Rigidity
2. Mechanical work
3. Lack of initiative
4. False sense of security
5. Lack of suitability



AUDIT WORKING PAPERS

Audit working papers are used to document the information gathered during an audit. They provide evidence that sufficient information was obtained by an auditor to support his or her opinion regarding the underlying financial statements.

CONTENTS OF AUDIT WORKING PAPER

- 1) **Audit documents on client nature of business**
- 2) **Audit documents of team meeting**
- 3) **Evidence of the planning process including audit programs and any changes thereto**
- 4) **Evidence of the auditor's consideration of the work of internal audit and conclusions reached**
- 5) **Analyses of transactions and balances**
- 6) **Analyses of significant ratios and trends**

6) Identified and assessed risks of material misstatements

7) A record of the nature, timing, extent, and results of audit procedures

8) Evidence that the work performed was supervised and reviewed

9) An indication as to who performed the audit procedures and when they were performed

10) Details of audit procedures applied regarding components whose financial statements are audited

11) Result of audit testing on depreciation expenses

12) Result of audit testing on salaries expenses

OWNERSHIP, AND CUSTODY OF WORKING PAPERS

- ❑ Working papers are the property of the auditor.**
- ❑ The auditor may, at his discretion may, at his discretion, make portions of or extracts from his working papers available to his client.**
- ❑ Audit working papers are the property of the auditor and he is entitled to retain them.**

Types of AUDIT Working Papers

- 1) CURRENT FILE/ TEMPORARY AUDIT FILE
- 2) PERMANENT AUDIT FILE

Current audit files

Current audit files are the files that keep all information related to **current year auditing**.

Those documents include the **current year financial statements**,
general ledger,
management accounts,
and supporting documents.

PERMANENT AUDIT FILE

PERMANENT AUDIT FILE

The permanent file usually contains documents and matters of continuing importance of clients' businesses which will be required for more than one audit.

Below are some of the documents and records auditors would keep in:

- ⦿ Minute of board meeting
- ⦿ Lease agreement
- ⦿ Schedule of capital asset and capital stock
- ⦿ The charted of corporation
- ⦿ Description of the accounting method, policy and internal control system of the company

- ❖ Copy of articles of association
- ❖ Copy of memorandum of association
- ❖ Letter of engagement
- ❖ Types of Bankers
- ❖ Types of Legal adviser

Auditor's lien on Working Papers

The auditor can exercise his lien on client's books and records subject to the following conditions:

- (a) Document retained must belong to the client who owes the money.
- (b) Some work must have been done and fees for work performed must be outstanding.

AUDIT NOTE BOOK

Audit notebook is a diary on which **auditor** scribble down all important inquiries to avoid the possibility of unquestioned material facts. ... **Audit notebook** contains information regarding day-to-day work performed by the **audit** staff on any particular date.

Audit note book is nothing but a dairy, maintained by the audit staff for the purpose of recording certain points which require further clarification, explanation and investigation. This book generally includes the errors found out during the course of audit, difficulties observed and doubtful queries of various accounting records, etc. This note book usually forms a part of the permanent audit file.

Contents of Audit Note Book

- A list of books of accounts maintained
- The name duties and responsibilities of principal officers
- The particulars of missing receipts and vouchers
- Mistakes and errors detected
- The points calling for clarifications and explanations

- The points deserving the attention of the auditor
- Various total and balances
- Extracts from the minutes and contracts
- The points to be part of the Auditor's report
- Date of commencement and completion of Audit

Choose the correct answer

1) Auditor will examine sales invoice for Vouching_____

- a) CASH SALES
- b) **CREDIT SALES**
- c) **CREDIT PURCHASE**

2) Working papers are _____

- a) Owned by the clients
- b) Owned by the Auditor
- c) None of the above

3) Audit programme should be _____

- a) Oral b) Rigid c) Flexible

4) Ownership of working papers is with _____

- a) Assistant b) Auditor c) Client d) Government

5) Current file contains _____

- a) Audit notes b) List of directors c) Details of holding company

1) VOUCHING enables to detect errors and frauds

2)THE OBJECTIVE OF VOUCHING IS TO authenticate THE TRANSACTION

3) **CASH SALES IS SUPPORTED BY CASH MEMO**

4) VOUCHING is inspection of transaction with documentary evidence

Match the following

Column A	ANS	COLUMN B
1) SALARIES AND WAGES	A	a) ATTENDANCE RECORDS
2) TRAVELLING EXPENSE		b) COST SHEET
3) WIP		c) TICKETS

Match the following

Column A	ANS	COLUMN B
Vouching is done	c	Auditor
Auditors duty	b	To verify ownership of assets
Verification is done by	a	During the year
Inventory consists of	d	Tangible items

**State Whether following are True/False
Give reason if False**

- 1) Valuation is not part of auditors duty true**
- 2) Verification has wider scope thn vouching true**
- 3)Vouching includes valuation false**
- 4) Vouching includes verification false**
- 5) Verification includes valuation true**

**State Whether following are True/False
Give reason if False**

1) TEST CHECK REDUCES LIABILITY OF AUDITOR FALSE

2) CHANCES OF BIAS IS MORE IN RANDOM SAMPLING TRUE

**3) NO QUALIFICATION IS REQUIRED IN INTERNAL AUDITOR
TRUE**

4) VOUCHING INCLUDES VALUATION FALSE

5) Statutory audit is voluntary.

4 AUDIT TECHNIQUES

INTRODUCTION

Audit techniques are tools, methods or processes by means of which an auditor collects necessary evidence to support his opinion in respect of the propositions or assertions submitted by the client to him for his examination.

KINDS OF AUDIT TECHNIQUES

Kinds of audit techniques

- Posting verification
- Extension verification
- Vouching
- Confirmations
- Physical examination
- Reconciliation
- Testing

Kinds of audit techniques

- Analysis of financial statements
- Scanning
- Documentary examination
- Flow charting
- Electronic data processing
- Inspection
- Observation

ROUTINE CHECKING

Routine checking is the regular monitoring of business accounts, books and ledgers to determine how the business is functioning and to detect any errors that may have occurred, either accidentally or fraudulently.

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Routine checking is the regular monitoring of business accounts, books and ledgers to determine how the business is functioning and to detect any errors that may have occurred, either accidentally or fraudulently.

FEATURES OF ROUTINE CHECKING

- 1) To ensure the correctness of posting to ledger accounts.
- 2) To ensure the accuracy of casting and balancing in ledger.
- 3) To ensure the correct transfer of balances to the trial balance and the correctness of the trial balance.
- 4) Prevention and alteration of figures after the records have been checked.

Advantages of Routine Checking

- ▶ All the original entries will be checked; so all the errors and frauds can be detected easily.
- ▶ All the entries and posting will be tested. It ensures the accuracy of books to a large extent.
- ▶ Routine checking helps to conduct a final audit because all the balancing and totals have already been checked. The system is helpful in encouraging internal control.

- ▶ **Separate and specific staffs are not needed because it is a regular process. It helps the auditor in completing audit work in a short period and thus is cost-effective.**
- ▶ **It saves time and energy of the auditor and thus enables him to devote more time and energy on important matters.**

Disadvantages of Routine Checking

1 Carelessness in Work

2 Errors of Principle remain Undetected

Persons doing routine checking are not much qualified, thus they do not have full knowledge of the Principles of Accounting. Thus, the errors of principle of accounting remain undetected.

3 Monotonous Work

4 Cleverly done Frauds remain Undetected

- ▶ Small mathematical and other inaccuracies can be known through this technique, but cleverly and intelligently planned big frauds cannot be known.

TEST CHECKING

Test checking is a process of selecting and checking of a few transactions from a large volume of transactions. If the entries checked are found to be correct then the auditor assumes that the remaining entries are also correct.

Applicability of Test Checking

Test checking can be applied in the following situations:

- 1. When there are large volumes of identical or routine transactions.**
- 2. When transactions are large.**
- 3. When the auditor has to certify the accounts quickly after the close of the accounting period.**
- 4. When the auditor has past experience about the nature of transactions of the clients organisation.**
- 5. When a satisfactory system of internal control and check system exist.**

ADVANTAGES OF TEST CHECK

1. It saves time and energy.
2. If the selection of transactions is done intelligently, test checking is useful and purposeful.
3. The volume of work is reduced. So the auditor can carry on many audit simultaneously.
4. It helps the auditor to arrive at a definite conclusion in regard to the true and fair view of the state of affairs of the concern.
5. It helps in reducing the cost of audit.

DISADVANTAGES OF TEST CHECKING

1. It is not possible to detect all the errors and [fraud](#).
2. The clerks of the client may become careless because they know that their work will not be checked in detail.
3. Under test checking, although the auditor checks the whole of the work through test checking, suspicion and doubt will remain in his mind.
4. It is of no use if proper and effective systems of internal checks and controls are not being adopted in business.
5. It is not suitable for small business concerns.

AUDIT SAMPLING

As per **SA 530**

Audit sampling is an application of audits in which less than 100% of the total items within the population of items are selected to be audited. It is an auditing technique that allows auditors to issue audit opinions without having to audit every single item and transaction.

PURPOSE OF AUDIT SAMPLING

No matter what kind of audit is being performed -audit sampling needs to be used so that auditors can complete their audits without wasting resources in checking every single item.

The objectives of audit sampling are as follows:

- ▶ Gather enough evidence to conclude an audit opinion
- ▶ Reduce the number of resources used
- ▶ Provide the basis for auditors to issue a conclusive audit opinion
- ▶ Detect any errors or fraud that can occur
- ▶ Prove that auditors have completed their audit fully in accordance with auditing standards
- ▶ Used as a tool for investigating

IMPORTANCE OF AUDIT SAMPLING

- ▶ When auditing financial statements, it is not feasible to audit and check every single item within the financial statements. It is because it will be very costly and will take a lot of resources and time to do so.
- ▶ Audit sampling enables auditors to make conclusions and express fair opinions based on predetermined objectives without having to check all of the items within financial statements. The auditors will only verify selected items, and through sampling, can infer their opinion on the entire population of items.

SAMPLING RISK

Sampling risk is the possibility that the items selected in a sample are not truly representative of the population being tested. This is a major issue, since an auditor does not have the time to examine an entire population and so must rely upon a sample.

Sampling Risks

- **Sampling risk** is the risk that an auditor reaches an incorrect conclusion because the sample is not representative of the population (**inherent part of audit sampling**).
 - Controlled by:
 - Determining an appropriate sample size
 - Ensuring that all items have an equal opportunity of selection
 - Mathematically evaluating sample results
- **Non sampling risk** is the risk that audit tests do not uncover existing exceptions in the sample.
Results from:
 - **The auditor's failure to recognize exceptions**
 - **Inappropriate or ineffective audit procedures.**
- Controlled by
 - Training and supervision
 - Reasonable working conditions
 - Effort

METHODS OF SELECTING SAMPLES

- Random **selection.**
- Systematic **selection.**
- Haphazard **selection**

1) RANDOM SAMPLING

Definition: Random sampling is a part of the sampling technique in which each sample has an equal probability of being chosen. A sample chosen randomly is meant to be an unbiased representation of the total population. If for some reasons, the sample does not represent the population, the variation is called a sampling error.

2) SYSTEMATIC SAMPLING

Systematic sampling is a type of probability sampling method in which sample members from a larger population are selected according to a random starting point but with a fixed, periodic interval. This interval, called the sampling interval, is calculated by dividing the population size by the desired sample size.

3) Haphazard sampling

Haphazard sampling is a **sampling** method that does not follow any systematic way of selecting participants.

meaning

- **Internal control**, as defined in accounting and auditing, is a process for assuring achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies.
- It is a means by which an organization's resources are directed, monitored, and measured. It plays an important role in detecting and preventing fraud and protecting the organization's resources, both physical (e.g., machinery and property) and intangible (e.g., reputation or intellectual property such as trademarks).

Objectives of internal control

- To evaluate the efficiency of performance in the various of the business.
- To ensure orderly, efficient and economic conduct of the business
- To see that access to and use of assets are made only with proper authorization.
- To safe guard the assets of the organization by preventing frauds wastes and inefficiency
- To ensure that there is periodical verification and comparison of assets in existence with those of accounting records and appropriate action taken.
- To ensure that transactions are recorded in the proper books of accounts regularly, correctly and systematically.

Objectives Of Internal Check

Objectives Of Internal Check

Following are the objectives of internal check system:

- 1. To eliminate the frauds and errors which may be committed by the staffs.
- 2. To prevent misappropriation of cash or stock.
- 3. To ensure the reliability of information produced by the accounting system.
- 4. To detect errors and frauds promptly which helps to minimize their effects in long term.
- 5. To exercise moral pressure over the staffs.

ADVANTAGES OF INTERNAL CHECK

- 1. Division Of Work**
- 2. Easy Location Of Errors**
- 3. Greater Efficiency**
- 4. Preparation Of Final Accounts**
- 5. Helpful For Auditor**
- 6. Suitable For Large Business**

DISADVANTAGES OF INTERNAL CHECK

- 1. Not Suitable For Small Firms**
- 2. Creates Confusion**
- 3. Decrease In Work Quality**

Internal Check for Credit Sales

- i) Accepting customer order
- ii) Credit approval
- iii) Issue of merchandise
- iv) Despatch of goods
- v) Billing customer
- vi) Recording the sales invoice and sending statements to customers
- vii) Granting of write offs and credits

Internal Check with regard to payment of wages and salaries

- 1- Personnel hiring
- 2-Time-keeping
- 3-Preparing the payroll
- 4-Distribution of wages and salaries
- 5-Preparation of returns



S.No	Basis	Internal Check	Internal Control
1.	Meaning	A system of allocation of responsibility, division of work, and methods of recording transactions, whereby the work of an employee is checked continuously by another.	It consists of all the methods and procedures adopted to assist in achieving the objective of efficient conduct of business. It includes internal check and internal audit.
2.	Scope	It operates in routine to double check every part of a transaction at the time of occurrence and recording of the same.	In internal control systems, work of one person is automatically checked by another.
3.	Objective	Its objective is to ensure that no one employee has exclusive control over any transaction or group of transactions and their recording in the books.	Its object is to ensure adherence to management policies, safeguarding of assets, prevention and detection of frauds and errors, accuracy and completeness of accounting records.

4.	Point of Time	Methods of recording transactions are devised where work of an employee is checked continuously by correlating it with the work of others.	In internal control system, checking is done simultaneously with the conduct of work. Every transaction is checked as soon as it is entered.
5.	Thrust of System	The thrust of internal check system is to prevent errors.	The thrust of internal control lies in fixing of responsibility and division of work to avoid duplication.
6.	Cost Involved	It is a part of internal control and a method of division of work, therefore does not add to the cost.	The system proves to be costly in case of small businesses because more number of employees are engaged.
7.	Report	The summary of day to day transactions work as report to the senior.	Internal control provide for built in MIS reports.

Objectives

COLUMN A		COLUMN B
1. Test Checking		a) Decides Sample Size
1. Audit History		a) Audit sampling
1. Audit objective		a) Audit of less than 100%
1. Audit Sampling		a) To form an opinion about financial statements
1. SA 530		a) Saves Time
1. Random Selection		a) Method of selecting sample

Choose the correct answer

1) Routine Checking is _____

- a) Verification of books of Original entry
- b) Verification of sample transactions.
- c) Examination of trial balance.

2) Test checking is _____

- a) Checking the selected transactions
- b) Checking vouchers only
- c) Checking the transactions which are tested

3) Size of Sample depends on

a) Test checking

b) Internal control system

c) Routine checking

4) The objective of internal control is to

a) Select right people

b) **To prevent frauds**

c) Prevent inefficiency

VOUCHING

DEFINITION OF VOUCHING

According to Spicer and Pegler,

“Vouching is the examination by the auditor of all documentary evidences, which are available to support the authenticity of the transaction entered in the client’s record.”

MEANING OF VOUCHING

- Vouching is defined as the verification of entries in the books of account by examination of documentary evidence or vouchers, such as invoices, debit and credit notes, statements, receipts, etc.
- It means to test the truth of items appearing in the books of original entry.

TECHNIQUES OF VOUCHING

- Documentary evidence
- Correct Accounts
- Agreements
- By-Laws
- Mortgage Deeds
- Minutes Books

Importance of Vouching

Auditing – Vouching is the only way of detecting all sorts of unapproved frauds. Hence it is the backbone of auditing.

Auditing – Auditing checks if transactions are related to the business or not. It checks for **fictitious transactions created for committing frauds.** These facts can be found with the help of vouching. So, **vouching is an important part of auditing.**

Whether evidences are correct or not – Frauds may be committed by duplicating vouchers. **Evidential documents or records are to be checked thoroughly** which is the scope of vouching.

Importance of Vouching

- **Proper evidence** – It acts as an **evidence for the entries recorded in the books of accounts**. It is the work of vouching to **ensure that proper evidence is available for every entry**.
- **Proper authority** – To **verify proper authority behind every transaction**. Transaction is **not accepted without signature** of concerned manager.
- **Cash balance** – It is conducted to **check if the cash in hand is correct**. To **count cash and compare it with cash book**.

Objects of vouching

- Authenticity of transaction.
- To check transaction are genuinely connected with the business.
- To ascertain that transaction are supported by documentary evidence.
- To check vouchers pertain to the financial year under audit.
- Approval by competent authority.
- Proper identification of expenditure as capital or revenue.
- To verify arithmetical accuracy

Common points in vouching

- Serial number of vouchers and they are filed properly
- Date of voucher
- Addressed to the client and relate to business of client
- Amount shown in figure should match with words
- Signature of official authorizing officer
- Revenue stamp if amount is rupees 5000 and above
- Vouchers originating from outside the business are genuine

Common points in vouching

- Vouchers inspected should be cancelled or stamped
- Proper allocation between capital and revenue expenditure
- Clarification regarding missing voucher
- Should not seek help of the clients staff
- Pre-receipt vouchers should not be accepted
- Over writing or cancellation on a voucher should not be accepted.
- Alteration of any kind should be supported by the signature of the authority

Vouching of Cash Sales

- **Cash Sales** – Auditor should **evaluate the Internal Check System** and if it is proper then he should rely on it. He has to **check the cash sales memos** and **compare it with the daily summaries** of salesman and cashier. Also check the **figures of the salesman and cashier summaries** in the cash book.
- **Documents to be checked by the Auditor** – Sales Invoices, Cash Sales Summary and Copies of Cash Memo.

Methods in Vouching of Cash Sales

- **Internal Check** – Auditor should **evaluate the Internal Check System** and if it is proper then he should rely on it. He should examine the system of internal checks **pertaining to proceeds from cash sales** to ensure **no loop holes on omission of cash sales are existing** and **prompt banking into the bank**.
- **Checking of Memos** – Auditor should **check the cash sales memos** and compare it with the **daily summaries** of salesman and cashier. **Verify cash sales with carbon copies of cash memos**.
- **Entry in Cash Book** – Auditor should **check the figures of the salesman and cashier summaries entry in the cash book**. Ensure that the **dates of cash memos/cash sales bills tally** with those of their entry in the cash book.

Methods in Vouching of Cash Sales

- **Checking of Cash Book** – Auditor should **compare the cash book with the general ledger**. The **dates on the cash memos should tally** with those on which **cash collected** in respect thereof has been entered in the cash book.
- **Checking of Price Lists** – Auditor should **obtain and verify the price lists** and **compare the price list with cash sale memo**. If a cash memo has been cancelled, its original copy should be inspected because there could be a **possibility of misappropriation** of the amount thereof.
- **Checking the practice** – Auditor has to **ascertain the practice followed in the matter of issuing cash memos of cash sales bills**. Cash sales memo/cash bills must be in number and in sequence.

Methods in Vouching of Cash Sales

- **Guidance to client** – If internal check system is not effective then auditor should **inform the client about the dangers of frauds**. He may **suggest some measures**.
- **Checking of Cash Register** – Auditor should **check the total daily rolls with the entries in the cash book**. If **cash collections are made through automatic cash registers**, the daily totals entered in the cash book should be checked with the current rolls.

Steps in Vouching Receipts from Debtors

- **Receipts issued** – Auditor can **vouch the receipt issued to debtors for collection of money**. Counter foil or carbon copies to be compared with entries made in cash book.
- **Receipt date** – Auditor to **make note of the date of receipt and compare with date in the cash book**. There should be no difference in date on receipt and cash book.
- **Daily list** – Auditor can **vouch the daily list of cash collected from debtors in case of large scale business**. Receipt and amount to be recorded in it. Total must be shifted to the cash book on daily basis.
- **Salesmen collection** – Salesmen **may collect cash through sale of goods**. They **must not be allowed to keep cash**. It must be **collected and deposited** with the cashier.

Steps in Vouching Receipts from Debtors

- **Sales returns** – Sales returns **must be deducted from debtors** but in case of cash sales the amount of cash should be given to them.
- **Discount allowed** – It is a **deduction from debtors account**. Must be deducted in order **to find out the net amount receivable from debtors**. Should be seen that the **discount allowed to customers is authorized** by responsible officer. The **terms and conditions of discount** should be properly ascertained and **discount rates should be compared with prevailing rates in market**.
- **Salesmen commission** – It is **deducted from cash collected** by them. Commission on **monthly basis should be paid** to the salesmen. But total amount of cash sales should be collected from them.

Steps in Vouching Receipts from Debtors

- **Bad debts recovered** – Special attention to be given to the amount shown as bad debts written off as cash can be misappropriated by writing off the whole or a part of the debt balance as bad. He has to ascertain as to who is responsible for writing off debts as bad. With the permission of the client, he can directly contact the debtors to receive confirmation or verification of slips if required.
- **Teeming and lading** – Teeming and lading is a bookkeeping fraud also known as short banking, delayed accounting and lapping. It involves the allocation of one customer's payment to another in order to make the books balance and often in order to hide a shortfall or theft. With regard to receipts from debtors, fraud may be committed by the process of teeming and lading. That is not entering cash in the cash book received from a debtor and entering it only when a similar amount is received from another debtor and so on. No misappropriation is committed but the practice should be checked because there is the loss of interest for the period money is misappropriated and the cashier may be tempted to commit such a fraud of bigger amount and may not be able to replace the same.

Vouching of Payments

- Cash Payment is defined as a **form of liquid funds given by a consumer to a provider of goods or services** as compensation for receiving those products.
- In most **domestic business transactions**, a cash payment will typically be made in the **currency of the country** where the transaction takes place, either in **paper currency, in coins or in an appropriate combination**.
- **Terms used in Vouching of Payments** – Cheque, Cash in hand, Wages, Vouchers, Voucher Numbers, Bank Reconciliation, Blank Cheques, Monthly accounts, Discounts, Payment authorities.

Vouching of Cash Purchases

Documents to be checked in Cash Purchases:

1. Cash (cash collections)
2. Cash Memo
3. Cash Bill
4. Goods inward book
5. Payment Order
6. Original receipts from the payee

Auditor's Steps in Vouching the Cash Purchases

- **Proper Authorization** – Cash purchase is an important area where the misappropriation of cash is made possible. Hence Auditor should **examine if proper authorization is there for such purchase from appropriate authority.**
- **Situation of Purchase** – In case of emergency, **cash purchase of goods may be made.** So, the auditor should **evaluate the situation** under which cash purchase is made **to ascertain the emergence of such purchase.**
- **Internal Control System** – Usually purchase of stores and stationary items are made on cash basis. So the Auditor should **ensure that there is adequate ICS,** which will help in controlling manipulation of cash purchases.

Auditor's Steps in Vouching the Cash Purchases

- **Cash Memo** – It should be seen that the goods purchased are actually received by the storekeeper. Cash memos can be **compared with the entries in goods/purchase inward book to verify the actual goods received.**
- **Discount Facilities** – Auditor can check the discount facilities **provided by the suppliers and ensure that only net amount after deducting discount** availed have been entered in the books.
- **Net Amount** – Auditor has **to see that only net amounts, that is, purchases minus trade discount, has been carried to the books of account.**

Travelling Expenses

Travelling expenses are paid to the employees for official work . The auditor while vouching should :

- see the rules and conditions for granting travelling allowance and ensure that payment is passed under an order by a responsible official.
- see that these expenses are in connection with the business alone and have not been paid in excess.
- see that the directors have not been allowed travelling allowance unless authorized by the Article of Association .

Wages and Salaries

- See the internal check system in force for wages ;
- Check a proportion of addition and alteration;
- Check some of the calculations at random;
- Check the system of preparation of wage sheet and the payment of wages;
- Check that the wage sheet have been signed by a responsible official;
- Check by test check the totals and other calculations;

- See that only exact amount of wages to be paid has been withdrawn from the bank;
- Try to pay a surprise visit in person at the time of payment of wages;
- Check the system of calculating overtime wages- who authorize overtime and within what limits;
- See that overtime does not exceed any statutory limit;
- Suggest to prepare separate wage sheet for overtime wages;
- Check any abnormal increases or decreases in total salary bills from month to month;



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ADVERTISEMENT EXPENSES

- Verify whether capital, revenue or deferred
- Verify if regular contract with ad agency
- If advertisement is done, verify by checking newspapers, hoarding, magazines, TV ad and radio showing the date and exact location
- Check receipts for amounts paid for ads
- Outstanding expenses to be disclosed in liability side of balance sheet

INCOME FROM INTEREST AND DIVIDENDS

- Interest received from FD or RD in bank should be vouched with Bank Passbook
- Genuineness of Pass Book to be ascertained
- Dividends received checked from counterfoils of dividend warrants or letters covering cheques
- Interest received on securities vouched from securities or from the investment ledger

VERIFICATION



Verification



- Verification of Assets is an enquiry into title (ownership), existence, possession, Classification and verify that assets are free from charge or not.



MEANING

Physically examining assets and liabilities to check –

- Value
- Ownership
- Title
- Existence
- Possession
- Free from any charge

PLANT & MACHINERY

- Obtain detailed list of all P&M and asset-wise accumulated depreciation
- Check Opening Balance with last year's annual report
- For purchase of P&M, verify quotations, invoices, etc. Related expenses should be duly capitalised.
- For sale, verify relevant invoice. Check authorisation of sale and value report. Proper accounting of profit or loss due to sale of P&M
- Verify resolution regarding purchase and sales of P&M
- Self-constructed – verify amount of material, labour and other expenses are capitalised.
- Check rate and calculation of depreciation, as per Section 123 of Companies Act, 2013
- Physical verification by obtaining register and personal visit to workplace
- Check whether all disclosures made in balance sheet as per Companies Act
- P&M kept abroad – obtain certificate from a local auditor

FREEHOLD LAND & BUILDING

- Keep freehold separate from leasehold
- Balances shown in balance sheet should be easily traceable from those ledgers
- Title deed should be genuine, in name of the client and has free and fair possession of the client
- Building is constructed – Builder's certificate, contractor's certificate, architect's certificate, local authority certificate should be verified
- In case of sale – verify documents of sale
- Property under mortgage – obtain Certificate of Mortgage
- Land is not to be depreciated
- Building to be depreciated at proper rate
- Check physical existence of the asset

Valuation of assets and Liabilities

- Valuation means to conform that all assets are shown in the balance sheet with their proper book value. Proper book value means All assets should be shown with its cost price but estimated depreciation must be deducted from that. The accuracy of the balance sheet and the estimated profits of a concern depend upon the correct valuation of the assets and Liabilities and it is made by owner or accountant. Auditor has simply to apply test to prove the correctness of that valuation.

Finally valuation of assets and liabilities means to present actual figure after deducting all required.

Valuation



- Meaning determine the current worth of something.
- Determining the value of the assets shown in the Balance Sheet on the basis of generally accepted accounting principles.
- If valuation of assets is not correct, than the financial statements (B.S & P&L a/c) can not be correct.
- Valuation is primary duty of Company officials.

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



Cost of fixed assets

- The cost may change subsequent to acquisition or construction on account of exchange fluctuations, price adjustments, changes in duties etc.
- Administrative and other general overhead expenses, as are specifically attributable are included
- Cost of self constructed fixed asset – direct cost + allocation + other considerations as above
- Fixed assets acquired in exchange – fair market value or at net book value
- In exchange for securities – fair market value.
- Any subsequent expenditure that increases the future benefits beyond its previously assessed benefits.

Revaluation of fixed assets

- Required to accurately describe the true value of fixed assets
- Reasons
 - To show true rate of return on CE
 - Conserve adequate funds – depreciation – historical cost – inflated profits – excessive dividend
 - To show fair market value of assets
 - Negotiate fair price during merger or acquisition
 - Enable proper reconstruction
 - To issue shares / procure loan / sale

Auditors duty

- Verification of asset is primarily the reasonability of management.
- Auditor's duty is limited only to an appraisal of the evidence, their inspection and reporting on matters affecting their valuation, existence and title, observed in the course of such an examination.

Verification of plant and machinery

While verifying the plant and machinery auditor should follow the following procedure.

1. Check plant and machinery register

Auditor has to verify the plant and machinery register to see the following

- Name of the machinery
- Make of Machinery
- Date of purchase
- Cost of machinery
- Location of machinery

Why Inventory Valuation

- To know true and fair financial position
- Overvaluation or under valuation of inventory will have direct impact on profit/loss

Valuation and verification of inventory

- The responsibility for properly determining the quantity and value of inventory rests with the management of the entity.
- It is the responsibility of management to ensure that inventory included in financial statement is physically existent and represent all inventories owned by the entity.

Auditors Duty

Auditor is particularly concerned with

- *Existence* - that all recorded inventories exist as at the year end
- *Ownership*- all inventories owned are recorded and all recorded inventories are owned
- *Valuation*- basis of valuation is appropriate and properly applied and the condition of inventoried is recognized in their valuation

Auditors Duty

Following procedure should be followed for
Verification of inventories

- Internal control evaluation
- Examination of records
- Attendance at stocktaking
- Obtaining confirmation from third parties
- Examination of valuation and disclosure
- Analytical review procedure

