

1.2.2 Auditing- Introduction and Planning - Paper I

Modules at a Glance

Sr. No.	Modules	No. of Lectures
1	Introduction to Auditing	14
2	Audit Planning, Procedures and Documentation	12
3	Auditing Techniques	12
4	Internal Audit	12
Total		50

Sr. No.	Modules / Units
1	Introduction to Auditing
1.1	Basics
	Financial Statements, Users of Financial Information, Definition of Auditing, Objectives of Auditing - Primary and Secondary, Expression of Opinion, Detection of Frauds and Errors, Inherent Limitations of Audit
1.2	Errors and Frauds
	Concepts, Reasons and Circumstances, Types of Errors -Commission, Omission, Principle and Compensating, Types of Frauds, Risk of Fraud and Error in Audit, Auditor's Duties and Responsibilities in Respect of Fraud
1.3	Principles of Audit
	Integrity, Objectivity, Independence, Confidentiality, Skills and Competence, Materiality and Work Performed by Others, Documentation, Planning, Audit Evidence, Accounting System and Internal Control, Audit Conclusions and Reporting
1.4	Types of Audit
	Meaning, Advantages and Disadvantages of Balance Sheet Audit, Interim Audit, Continuous Audit, Concurrent Audit, Annual Audit
1.5	Miscellaneous

	Advantages of Independent Audit, Qualities of Auditors, Auditing Vs Accounting, Auditing Vs Investigation, View the Concept True and Fair
1.6	Accounting Concepts Relevant to Auditing
	Materiality, Going Concern
2	Audit Planning, Procedures and Documentation
2.1	Audit Planning
	Meaning, Objectives, Factors to be Considered, Sources of Obtaining Information, Discussions with Client, Overall Audit Plan
2.2	Audit Programme
	Meaning, Factors to be Considered, Advantages, Disadvantages, Overcoming Disadvantages, Methods of Work, Instruction before Commencing Works of Audit, Overall Audit Approach
2.3	Audit working Papers
	Meaning, Importance, Factors Determining Form and Contents, Main Functions / Importance, Features, Contents of Permanent Audit File, Temporary Audit File, Ownership, Custody, Access of Other Parties to Audit Working Papers, Auditors Lien on Working Papers, Auditors Lien on Client's Books
2.4	Audit Notebook
	Meaning, Structure, Contents, General Information, Current Information and Importance
3	Auditing Techniques
3.1	Test Check
	Test Checking Vs Routing Checking, Test Check Meaning, Features, Factors to be Considered, When Test Checks can be Used, Advantages, Disadvantages and Precautions.

3.2	Audit Sampling
	Audit Sampling, Meaning, Purpose, Factors in Determining Sample Size -Sampling Risk, Tolerable Error and Expected Error, Methods of Selecting Sample Items Evaluation of Sample Results Auditors Liability in Conducting Audit based on Sample
3.3	Internal Control
	Meaning and Purpose, Review of Internal Control, Advantages, Auditors Duties, Review of Internal Control, Inherent Limitations of Internal Control, Internal Control Samples for Sales and Debtors, Purchases and Creditors, Wages and Salaries
3.4	Internal Checks Vs Internal Control, Internal Checks Vs Test Checks
4	Internal Audit
4.1	Meaning, Basic Principles of Establishing Internal Audit, Objectives, Evaluation of Internal Audit by Statutory Auditor, Usefulness of Internal Audit
4.2	Internal Audit Vs External Audit, Internal Checks Vs Internal Audit

Question Paper Pattern

Maximum Marks: 60

Questions to be Set: 04

Duration: 2 Hrs.

All Questions are Compulsory Carrying 15 Marks each.

Q-1	Full Length Question	15 Marks
Q-1	OR Full Length Question	15 Marks
Q-2	Full Length Question	15 Marks
Q-2	OR Full Length Question	15 Marks
Q-3	Full Length Question	15 Marks
Q-3	OR Full Length Question	15 Marks
Q-4	Objective Questions*	15 Marks
Q-4	(*Multiple Choice / True or False / Match the Columns / Fill in the Blanks) OR Short Questions / Short Notes)	15 Marks

Note: Full Length Question of 15 Marks may be Divided into Two Sub Questions of 08 and 07 Marks.

Chapter no. 1 Introduction to Auditing

1.1 Basic

1. Financial statement:

It is said that Auditing begins where Accountancy ends. As a student of Finance, you know that every economic unit, with or without profit motive, maintains Books of Accounts to record the financial transactions and prepare financial statements. The International Accounting Standards committee has defined the term “Financial Statements” to cover Balance Sheets, Profit and Loss Accounts or income statements, statements of changes in financial position, notes and other statements and explanatory material which are identified as part of the financial statement. Financial Statements reflect the financial position and performance of any organization. Generally, users of accounting information through Financial Statement fall into two categories:

(a) Internal managers who use the information for day-to-day operating decisions.

(b) External parties, such as investors, banks, suppliers, and Government authorities etc, who use the information for making decisions about the company. Keeping in view, the significance of various accounting information and Financial Statements the reliability and authenticity of the Accounts must be ensured. Auditing plays an important role in ensuring the authenticity of accounting data. A person who conducts audit is called auditor. The Auditor expresses his opinion about truthfulness and fairness of the Financial Statements through an audit report

2. Evolution

The word “audit” has been derived from the Latin word “audire” meaning “to hear”, “listen” or “give credence to”. In ancient days an Auditor used to listen to the accounts read out by the accountant in order to check them.

Auditing was used in all countries such as Mesopotamia, Egypt, Greece, Rome, U.K. and India. The Egyptians, the Greek and the Romans used to get their public

accounts audited. Audit of accounts of private house was rare. Even in India Auditing from the times of Vedas, Ramayana, and Mahabharata. Basically accounting and auditing had their origin in the need for the government to control the income and expenditure of the state and the army.

The industrial revolution in the 18th century and also advent of joint stock companies increased the number and complexity of business transactions. In these companies management and ownership was different. The director manages these companies but the real owners were the shareholders. This gave stimulus to the development of auditing process.

Due to increase in the number of companies, companies act made it compulsory to audit the book of accounts and give report to the real owner i.e shareholders. In India, companies act 1913 made it compulsory of audit of accounts. After independence the companies act 1956 enlarge the scope of auditors work and a power transferred to the Institute of Chartered Accountants of India through Chartered Accountants 1949. Presently only a practicing Chartered Accountant can act company auditor.

3. Definitions

Different experts and association have defined Auditing varyingly. Let us discuss and understand some of the important definitions:

The International Auditing Practices Committee defines Auditing as “The independent examination of financial information of any entity, whether profit oriented or not and irrespective of its size, or legal form, when such an examination is conducted with a view to expressing an opinion thereon.”

Auditing and Assurance Standard (AAS1) by ICAI:

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

According to Ronald Irish

“Auditing in its modern concept, is a scientific and systematic examination of books, vouchers and other financial and legal records in order to verify and report

upon the facts regarding the financial condition disclosed by the balance sheet and the net income revealed by the profit and loss account.”

4. Objective of Auditing

“The main object of an audit is to ascertain that the Balance Sheet and Profit & Loss Account of an undertaking is showing true and fair view of its financial positions and earnings.” However objectives of audit can be divided into two different parts:

1. Primary objectives
2. Secondary objectives

1 Primary objectives / Basic objectives

The main or primary objective of Auditing is to find out the reliability and validity of the financial statements so as to render opinion on the truthfulness and fairness of the presentations in those statements. The auditor has to give an opinion on financial statements whether they are True and Fair view i.e whether a) Balance sheet shows true and fair view of the concern, b)the profit and loss accounts give a true and fair view of the profit or loss of the concern, c)all the material facts has been disclosed, d) the organization has followed all the compliance with regarding to legal requirement and e) Final accounts are made according to the recognized accounting principles and auditing standards laid down by professional bodies, like ICAI.

2. Secondary objectives / Incidental objectives

The secondary objective of audit is to detect and prevent the errors and frauds. An error is generally taken to be innocent and not deliberate. Where it appears to be willfully made, it assumes the character of a fraud.

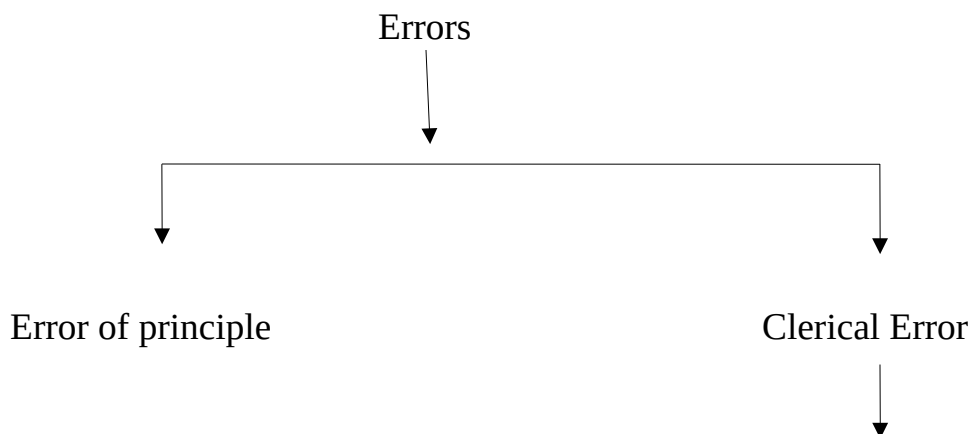
The term “fraud” refers to an intentional act by one or more individuals of management, employees or outsiders, severally or jointly, involving the use of deception to obtain an unjust or illegal advantage.

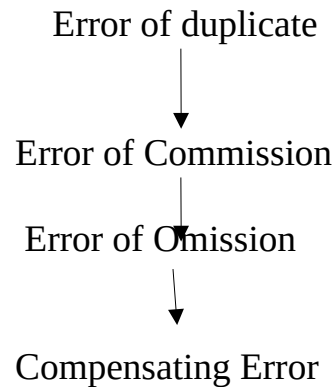
It’s not an objective of an audit to give a guarantee that all is well with the concern. A clean audit report does not imply that the management has efficient.

5. Inherent Limitation of Auditing

1. **Test check:** Due to test check all the transaction are not checked because of this many errors and fraud are not detected.
2. **An auditor has to depend on the expert:** in many circumstances auditors has to depend on the experts like lawyers, valuers, engineers. Circumstances may be like estimation of contingent liabilities, valuation of fixed assets ets...
3. **No future assurance:** audit is basically concern with past it never predict anything on future or never give any assurance on efficiency of the management.
4. **Postmortem of accounts:** Auditing begins where accounting ends. The job of an auditor starts where an accountant finishes his task of preparation of accounts. Naturally, the auditor has to rely on different information and explanations given to him by the Accountant. In the process many times, misstatement of facts remain undiscovered even after the accounts have been audited.
5. **Inherent limitations of internal control system:** An auditor before expressing his opinion mostly relies on the internal control system of the enterprise. Internal control is the overall control environment established by Management of an enterprise for effective and efficient monitoring and control of its operation. Internal control goes beyond the accounting functions of the organization and incorporates both accounting and administrative controls.

1.2 Errors and Fraud





The accounting errors based on their nature can be of the following types:

1. Clerical Errors
2. Errors of Principle

1. Clerical Errors

The errors which are committed by accounting clerks are called clerical errors. These errors are committed in the process of recording financial transactions. These take place due to the carelessness of the clerk responsible for recording financial transactions. Clerical errors are also called technical errors. The principal types of clerical errors are as follows:

a) Errors Of Omission

The errors committed by not recording a transaction either in the book of original entry or in the ledger book are errors of omission. Such an omission may be either complete or partial.

Complete Omission

Complete omission takes place if a transaction is not recorded in the journal at all. For example, goods sold to Mr. A for Rs . 10,000 were not recorded in the sales book at all. A complete omission of transaction may occur due to many reasons such as sales invoice misplaced or lost.

Partial Omission

Partial omission occurs if a financial transaction is recorded only partially. For example, partial error of omission occurs if goods sold to Mr. A for Rs. 4000 is recorded in sales book but failed to be posted in John's account.

b) Errors of Commission

The errors which are committed while recording or posting a transaction are called errors of commission. Errors of commission may take place either in the journal or

in the subsidiary books, or in the ledger. Such errors include posting wrong amounts, posting on wrong side of accounts, wrong totaling or carrying forward, and wrong balancing. For example, if purchase of goods for Rs.10,000 is entered as Rs.1000 in the journal or in the ledger, such error is called errors of commission.

c) Compensating Errors

compensating errors refer to two or more errors which mutually compensate the effects of one another. If one error balances the effect of another error, then the two errors are called compensating errors. For example, goods sold for Rs. 5000, but wrongly posted to the customer's account as Rs. 500. Similarly, goods purchased for Rs.5000, but by chance, wrongly posted to the supplier's account as Rs. 500 . The errors in the personal account are compensated by each other, as Rs.4500 short on the debit side of the customer's account and on the credit side of the supplier's account.

d) Errors of Duplication

Errors of duplication are those errors which arise because of double recording. Double posting of a transaction from journal or subsidiary books to ledger also create such errors. For example, goods sold to Mr. A, but this transaction is wrongly entered twice or more in the sales book or wrongly posted twice or more in John's account then it is called the errors of duplication.

2. Errors of Principle

Errors of principle are those errors which occur by violating the principles of accounting. Errors of principle may occur due to wrong allocation between capital and revenue expenditure, or wrong valuation of assets. For example, debiting the wage account instead of machinery account for the wage paid to the mechanics used for the installation of machine and debiting the customer's account instead of cash account for the cash sales made. Errors of principle may also occur due to wrong valuation of assets by higher level staff.

2. Procedure to detect Errors:

Following procedure the auditor should follow to detect errors:

1. First start with the checking of the opening balance with the last year audited balance sheet.
2. After checking of opening balance start verifying the journal entry and then checking of posting into respective ledger accounts.
3. Then verify the subsidiary books.
4. Verify all the casting and carry forwards.
5. After that verify trial balance.

6. Compare the current year trial balance with the last year trial balance.
7. Calculate the total of both the side of trial balance if difference found than divided the difference amount with 2 figure which you arrive start find the amount in the ledger. Take for example difference in the trial balance is Rs.20000 than divide the amount with 2 so amount you arrived is Rs.10000 start finding Rs.10000 in the ledger.

3.Frauds:

Fraud means intentional misrepresentation of financial information by management, employee or third parties.

Fraud may be of following types:

1. Fraud through defalcation.
 - a. Misappropriation of cash
 - b. Misappropriation of goods
2. Fraud through accounts
 - a. Not recording a transaction
 - b. Recording the dummy transaction
1. **Fraud through Defalcation:** following are the method of defalcation involving misappropriation of cash or goods:
 - A Misappropriation of cash**
 - a. Misappropriation of cash receipt by not recording the same,
 - b. By suppressing the cash either not recording the cash or showing them as credit sales,
 - c. Showing payment twice in the cash book
 - d. By teeming and lading procedure that is cash received from one debtor is appropriated and deficiency in that accounts of debtors is made good when cash received from second debtors and the deficiency in the second debtors is made good when cash received from third debtors and so on...
 - B Misappropriation of goods:**
 - a. Goods may be misappropriated by showing dummy sales,
 - b. Goods are actually received in the organization but are shown as not received and good are misappropriated.

2. Fraud through accounts

- Not recording a transaction: These types of errors are intentional like sales take place but not shown in the books of accounts.
- Recording Dummy transaction: examples of these types of errors are showing wages or salary in the dummy workers accounts.

4. Circumstances indicating Errors and Fraud

The circumstance indicates that there may exist errors or fraud:

1. Management is in the hand of single person
2. Internal control in the organization in either week or does not exist at all
3. Turnover of the accounting staff is very high,
4. Professionals in the organization like lawyers or auditors are changes very frequently,
5. Depending on the few product or few customers
6. Working capital in the organization is inadequate
7. In the need of issue of share financial picture is to be shown in the better position,
8. Investment in the product line which is subject to rapid obsolences,
9. There are many transaction with associates, related parties etc..
10. Organization is making excessive payment for services,
11. Vouchers which are available for audit is not duly authorized or supporting document for the same is not available.

5. Auditors responsibility for errors and fraud: ICAI has spelt out the responsibility of an audit for errors and fraud in ASS 4.

1. **Basic responsibility of Management:** It's basically responsibility of the management to detect and prevent fraud in the book of accounts. It is for the management to prevent and detect fraud and errors in the system.

2. **Incidental objective:** Basic objective of the audit is to state whether accounts are true and fair but with the basic objective the auditor incidental objective is to state that accounts are free from fraud and errors. While doing the audit the auditor should not only audit keep in mind books are true and fair but also free from major errors and fraud.

Basic idea behind is that auditor has taken a reasonable care for detecting errors and fraud. Though he is not responsible for errors and fraud but he should not fail in his duty to find out errors and fraud.

If during the audit auditor come to see that there exist errors and fraud in the book than he should take a reasonable step to rectify it. If there is error auditor should rectify it and confirm it. If there is fraud than if material he should state in the audit report.

1.3 Principles of Audit

The concept of separation of management from ownership fuelled the growth of this profession. The owners who could not participate in the day-to-day management of the enterprise wanted an assurance that the financial information prepared by the management is reliable. An audit provides such an assurance and enhances the credibility of the information. The role of audit can be depicted as follows.

1. **Integrity, Objectivity and Independences:** Integrity implies an attitude of straightforwardness, honesty, sincerity, uprightness and reliability.
2. **Confidentiality:** Auditor should not disclose the information acquired in the course of audit to any one, unless there is a legal or professional duty to do so and Consented by the client.
3. **Skills And Competence:** Audit should be conducted by persons
 - Who possess due professional care,
 - Who are adequately trained
 - With experience and competence
4. **Planning:** Planning helps an auditor to conduct an audit in an effective, efficient and timely manner. Planning includes: Acquiring knowledge about the client's business, gaining an understanding of the accounting system and revision of plan as and when required.
5. **Work Performed By Others:** An auditor cannot do all the work by himself. The work is done either through his assistants or other professionals, but he continues to be responsible for forming and expressing an opinion on the financial statements. While delegating the work to others, he will be entitled to rely on the work performed by them, provided he exercises adequate skill and care and is not aware of any reason to believe that he should not have so relied.
6. **Audit Evidences:** An auditor should obtain sufficient (quantum) appropriate (relevance and reliable) audit evidence through the performance of compliance and substantive procedures.

7. **Documentation:** An auditor should document matters, which are important in providing evidence that the audit was conducted in accordance with the basic principles governing an audit. The auditor should maintain the documents for a reasonable period of time to meet the demands of his practice
8. **Audit Conclusions and Reporting:** Auditor draws conclusions on the basis of Review and assessment of the audit evidence obtained; and his knowledge of the business, to form his opinion on the financial statements.
9. **Assessing the Accounting System and Internal Control:** An auditor should assess the accounting system to ensure that the system is adequate to record all the accounting information.

1.4

1.5 Types of Audit

1. Balance sheet audit:

A balance sheet audit is an audit of the accounts on the balance sheet. These audits usually focus heavily on the cash, accounts payable, accounts receivable and inventory. Land, buildings, intangible assets and long term investments are very difficult to misrepresent. Accounts payable and receivables, however, can be easily misstated in either direction. Inventory can easily be misstated either by mistake or on purpose. Fortunately, inventory figures are easily verified with a little leg work.

Procedure to conduct Balance sheet Audit:

1. First step to conduct the balance sheet audit is that to see the internal control of the organization. It must be evaluated in the following manner:
 - a. Whether internal control is effective
 - b. Whether the internal controls are in proper operation
2. Auditor should carry out verification of assets and liabilities on sample basis.
3. After verifying assets and liabilities auditor should inspect documents with regards to assets and liabilities.
4. Auditors should vouch such transactions which are important according to the auditor.
5. Auditors should himself satisfy about the valuation of assets and liabilities.
6. Proper presentation of assets and liabilities are made in the final accounts.
7. Auditors should physically verified assets and investment; he also has to examine addition or deduction in the fixed assets and investment.
8. Auditors should verify debtors and creditors balances by obtaining confirmation and statements of accounts, regarding debtors auditor has to verify how the provision has been made for doubtful debts, credit limit etc..
9. Auditor should physically verify the cash balance and stock.
10. A contingent liability has to be checked with the help of proper document.

11. After verifying items in the balance sheet start compare it with the previous year or start compare it with the ratio like current ratio, debtors ratio, debt equity ratio etc..

2. Interim audit

An interim audit is conducted in between two annual audits. The objective is to ascertain and declare interim figures, for some specific purpose like declaration of interim dividend. Interim audit helps in early completion of annual audit. However, it is expensive, because it involves additional work on the part of company's staff as well as auditor.

Interim audit being conducted:

1. **Quarterly results:** Public limited companies list on the stock exchange having declared their quarterly results. Before publishing the results interim audit is being conducted.
2. **Interim dividend:** Companies which declares interim dividend has to conduct interim audit.
3. **Sale or acquisition of business:** in case sole proprietor who proposed to sold the business has to conduct interim audit for the purchase consideration
4. **Changes in the firm:** In case of partnership firm audit is necessary in the case of retirement of the partner or admission of partner, sale of firm etc..

Procedure:

An interim audit is conducted as part of an audit that is carried out while the accounting period of the full audit is still in process. Financial statements of this nature are in a time frame of less than a year. An interim account may occur quarterly, so it does not produce final results as the fiscal year end would but gives an ideal as to how things are going and where they are heading.

Advantages of Interim Audit

1. Interim audit is good where the publication of the interim figure is necessary.
2. Then final audit can be completed very soon, if there has been an interim audit.
3. Errors and frauds can be detected more quickly during the final audit.
4. There is moral check on the staff of the client as the accounts are checked, say after three or six months in the interim audit.

Disadvantages of Interim Audit

1. Figures may be altered in the accounts which have already been audited. It will mean that the audit staff will have to prepare notes when they finish the interim audit.
2. Interim audit is an additional work because final audit must be conducted after conducting this audit too.
3. Auditors does two audit during the year so audit becomes expensive.

3.Continuous audit:

Continuous auditing is the independent application of automated tools to provide assurance on financial, compliance, strategic and operational data within a company. Continuous auditing uses a set of tools to assure the internal control system is functioning to prevent fraud, errors and waste. The “continuous” aspect of continuous auditing and reporting refers to the near real-time capability for financial information to be checked and shared. Not only does it indicate that the integrity of information can be evaluated at any given point of time, it also means that the information is verified constantly for errors, fraud and inefficiencies.

Each instance of continuous auditing has its own pulse. The internal management chooses for evaluation depends on the frequency of updates within the accounting information systems. Analysis of the data may be performed hourly, daily, weekly, monthly, etc. depending on the application.

Business where continuous audit is applicable:

- Where no satisfactory system of internal check is in operation.
- Where the volume of the transactions is very large.
- Where it is desired to present the account just after the close of the financial year, as in the case of a bank.
- Where the statements of accounts is required to be presented to the management after every month or quarter.

Advantage:

2. **Easy to quick discovery of errors:** Errors and frauds can be discovered easily and quickly as the auditor checks the accounts at regular intervals and in detail. As a auditor visits the client after a month or two or so on,

the number of transactions will be small and hence, the errors will be detected easily and quickly.

3. **Knowledge of technical details:** Since the auditor remains more in touch with the business, s/he is in a position to know its technical details and hence can be of great help to her/his clients by making valuable suggestions.
4. **Quick presentation of accounts:** As most of the checking works are already performed during the year, the final audited accounts can be presented to the shareholders soon after the close of the financial year at annual general meeting.
5. **Keeps the client's staff alert:** As the auditor visits the clients at regular intervals, the clerks are very regular in keeping the accounts up-to-date. They will see that there is no inaccuracy or frauds as it would be detected by the auditor at the next visit.
6. **Moral check on the client's staff:** If the auditor pays surprise visit, it will have a considerable moral check on the clerks preparing the accounts as they do not know when the auditor may pay a visit to check. Moral check will be more valuable to make staff alert and careful.

Disadvantages of Continuous Audit

In spite of the above-mentioned advantages of a continuous audit, there are certain drawbacks of such and audit which are as follows:

1. Alteration of figures

Figures in the books of account which have already been checked by the auditor at previous visit, may be altered by a dishonest clerk and the frauds may be committed.

2. Disturbance of client's work

The frequent visits by the auditor may disturb the work of the client and cause inconvenience to the latter.

3. Expensive

Continuous audit is an expensive system of audit because an auditor devotes more time. So, company needs to pay more amount as the remunerations of an auditor.

4. Queries may remain outstanding

The audit clerk may lose the thread of work and the queries which s/he wanted to make may remain outstanding as there might be a long interval between two visits.

5. Extensive note taking

Extensive note taking may be necessary in order to avoid any alteration in the figures after the audit.

4. Concurrent Audit:

Concurrent audit is a systematic and timely examination of financial transaction 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. The concept of concurrent audit has been introduced to reduce the time gap between occurrences of transaction and is overview or checking. The concurrent audit serves the purpose of effective control as it is normally conducted by external agencies like chartered accountants firms.

The main objectives of concurrent audit include that any violation of procedure is brought to light. Ascertaining whether sanction for advances and expenditures is taken from competent authority. Examining books of accounts records and registers to ensure that they are maintained in accordance with the prescribed systems. Ensuring compliance of laid down systems, procedures and policies.

5. Annual Audit :

Annual audit is done at the end of the financial year when finalization of accounts has been completed and books of accounts closed. After completion of accounts, the management of enterprise calls auditor to commence the audit. Generally annual audit is completed in one interrupted session.

Advantages

1. There is no loss of links in the audit work as entire audit is completed in a single session.

2. The audit work does not disturb the day to day accounting works of client because annual audit starts only after closing of accounts.
3. Annual audit is economical and suitable to small organizations.
4. As in the case of continuous audit, there is little scope of collusion between auditor's and client's staff members.

Disadvantages

1. Due to shortage of time, an in depth checking of accounts is not possible.
2. This audit is not suitable for large organizations where transactions are more and complicated

Miscellaneous

[Advantages of Independent Audit](#), [Qualities of Auditors](#), [Auditing Vs Accounting](#), [Auditing Vs Investigation](#), [View the Concept True and Fair](#)

1.5 Miscellaneous

Quality of auditors

To be successful, an auditor should possess certain desirable qualities, besides having his formal qualification. His qualification requires that he should be a qualified chartered accountant. Besides, he should possess the following qualities:

1. Tactfulness
2. Cautious approach
3. Firmness.
4. Good temperament
5. Integrity etc.

He should be tactful in doing the job of auditing. While doing auditing, he should be cautious. He should have integrity, and independence.

He should possess the knowledge of common business laws. Like mercantile law

partnership act, sale of goods act etc.

He should possess a through knowledge of taxation provisions prevalent in the country.

An auditor is required to critically comment upon the financial statements. He should possess requisite expert in that field. He should occupy the position of an expert in that field. He should have through knowledge of all accounting principles and procedures. He should also know the ways and means in which the business is being conducted.

By possessing these qualities, he can become a successful and effective auditor.

***DIFFERENCE BETWEEN AUDITING AND ACCOUNTING or
DIFFERENCE BETWEEN ACCOUNTANT AND AUDITOR :-***

Factor	Accounts	Auditing
1. Meaning	Accounting means the maintaining of the books of accounts.	Auditing means examining the books of accounts and reporting means to report about their accuracy.
2. Performance Of Work	Accountant job is performed by the accountant	Auditing job is performed by the auditor
3. Appointment :-	Accountant is appointed by the management	Auditor is appointed by the share holders, management and even government depend upon type of audit,
4. Qualification	For the accountant no specific qualification is required	For the auditor specific qualification is required.
5. Submission Of Report	Accountant is not required to submit any	:Auditor is required by law to submit the report.

	report.	
6. Fixation Of Rights	Rights and duties of accountant are fixed by the management	Rights and duties of an auditor are fixed by the law.
7. Purpose	Accounting purpose is to show the financial position of the business.	Auditing verifies the true picture of the financial statement.
8.Record / Data	Accounting is related with the present record.	Auditing is related with the past record

Difference between auditing and investigation

Purpose	Auditing	Investigation
1. Purpose	An audit is carried out for the purpose of ascertaining whether or not the balance sheet and profit and loss account show true and fair view of the state of company's affairs and its profit or loss	But an investigation aims at establishing a fact or is carried out for some particular purpose i.e. to know the financial position of the concern or the earning capacity of the concern etc.
2.On Behalf	An audit is carried out on behalf of the proprietor of the business,	while an investigation may be conducted on behalf proprietors when they suspect any fraud in their business or on behalf of outside parties who wish to lend money or intend to purchase business or at the instance

		of the government on the request of the shareholders.
3.Scope	An audit includes only an examination of the accounts of a business	An investigation covers not only an examination of the accounts but also an inquiry into other relevant matters connected with the purpose for which it is undertaken.
4. Use of Techniques	An audit is usually a test checking	An investigation is a much more thorough examination of the books of accounts. It goes into the depth of the problem and keeps on looking for far more definite evidence to arrive at a conclusion that it can firmly substantiate. Further, investigation may be conducted even after the audit of the accounts.
5.Period	An audit is related to only a year or six months	Investigation may cover several years.
6. Statutory Obligation	In the case of joint stock companies, audit is compulsory under law	There is no such statutory obligation with regard to investigation.

7. Examination Use Of Policies	In audit, an auditor has to see whether the methods of valuation and other accounting policies have been consistently followed or not and he has to ensure that all disclosures have been properly made in the financial statements	An investigation is not at all bound by accounting conventions, policies and disclosure requirements.