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STUDY NOTES

SEM - VI

Paper code - C13T

AUDITING and CORPORATE
GOVERNANCE

ONLY AUDITING

By

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STUDY NOTES

C13T → AUDITING AND CORPORATE GOVERNANCE

UNIT - I

What do you mean by Auditing?

The word Audit is derived from Latin word "Audire" which means 'to hear'. Auditing is the ~~intellectual~~ intelligent and critical test of accuracy, adequacy and dependability of accounting data and accounting statements.

OBJECTIVES classified under two heads:-

i) MAIN OBJECTIVES:- to form an independent judgement and opinion about the reliability of the accounts and truth and fairness of financial state of affairs and working results.

ii) SUBSIDIARY OBJECTIVES

- a) Detection and prevention of fraud
- b) Detection and prevention of Errors.

BASIC PRINCIPLES

The basic principles of auditing are

- | | |
|-------------------------|----------------------|
| a) Confidentiality | b) Integrity |
| c) Objectivity | d) Independence |
| e) Skill and competence | f) Work performed |
| g) Documentation | h) Planning |
| i) Audit evidence | j) Accounting system |
| k) Internal control | l) Reporting |

TECHNIQUES

Audit techniques are

- | | |
|--------------------|--------------------------|
| i) Confirmation | iv) Physical Examination |
| ii) Reconciliation | v) Analysis |
| iii) Testing | vi) Scanning |

CLASSIFICATION

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(A) Based on ownership

- a) Audit Proprietorship
- b) Audit of Partnership.
- c) Audit of Companies
- d) Audit of Trust
- e) Audit of Co-operative Societies
- f) Government Audit

(B) BASED ON TIME

- i) Interim Audit
- ii) Continuous Audit
- iii) Final Audit
- iv) Balance Sheet Audit

(C) BASED ON OBJECTIVES

- i) Internal Audit
- ii) Cost Audit
- iii) Secretarial Audit
- iv) Independent Audit
- v) Tax Audit

(D) 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's plans to perform the audit in an efficient and timely manner.

AUDIT PROCEDURE

The step by step Audit process are:-

- Step 1 Define objectives
- Step 2 Audit Announcement
- Step 3 Audit Entrance meeting
- Step 4 Field work
- Step 5 Reviewing
- Step 6 Audit Exit meeting
- Step 7 Audit Report.

③ Difference between internal check and internal control.

	INTERNAL CHECK	INTERNAL CONTROL
Basic meaning	A system of allocation of responsibility, division of work and methods of recording transactions.	It consists of all the methods and procedures adopted to assist in achieving the objective of efficient conduct of business.
Scope	It operates in routine to double check every part of a transaction at the time of occurrence and recording of time the same.	In this system, work of one person is automatically checked by another.
Objective	to ensure that no one employee has exclusive control over any transaction recording in the books.	to ensure detection of frauds and errors, accuracy and completeness of accounting records.
Point of Time	Methods of recording transaction.	Every transaction is checked as soon as it is entered.
System	The thrust of internal check system to prevent errors.	Fixing of responsibility and division of work.
Report	The summary of day to day transactions work as report to the senior.	It provides for built-in MIS reports.

VOUCHING

Vouching includes routine checking which is a mechanical checking, whereas vouching is made on the basis of documentary evidence. Two types of vouching is there -

- i) Primary voucher
- ii) Secondary voucher

(A)

Verification of Assets and Liabilities

Verification means proving the truth or confirmation of the truth.

Verification of Assets and Liabilities means proving the truth about the existence and the correctness of the money value of the assets and liabilities appearing in the balance sheet of the business.

How to you vouching the following

1. CASH SALES

- i) Cash register should be fully checked with carbon copies of cash memos.
- ii) verify the daily deposits of cash received in the bank dates of the cash and the date on which the receipts are recorded in cash book must be same.
- iii) where the cash memos are cancelled, all copies including the original copies duly cancelled should be kept in the book.
- iv) where a company has discount policy, if more discount is allowed in a transaction it must be approved by a responsible officer.

2. CASH PURCHASE

- i) Goods purchased are actually received by storekeeper.
- ii) cash memos can be compared with goods inward book to verify the goods received.
- iii) only the net amount (after trade discount) should be entered in the books.

9) How to you verify the following Assets & Liabilities

① GOODWILL :-

- i) Where goodwill has been purchased along with a running business, the same should be verified from the agreement with the vendor showing the price paid for it.
- ii) But when the amount is not specifically fixed, the goodwill is the amount for the purchase of the business over the net assets taken over.
- iii) It should be verified that the goodwill has been recorded in the books of accounts only when some consideration in money or its equal has been paid for.
- iv) In case of partnership the auditor should verify the changes made in the goodwill account from time to time on the basis of provisions made in the partnership deed.

② DEBENTURE

- Auditor should note the following points -
- i) Debenture trust deed should be inspected and debenture ledger examined.
 - ii) A certificate from debenture holders.
 - iii) In case of redeemed debenture auditor see the agreements for their redemption.
 - iv) They debenture may be issued at par or premium.
 - v) Auditor should see the details as given in the Register of mortgages and charges.

UNIT-2

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APPOINTMENT OF COMPANIES AUDITORS

As per Companies Act 2013, Sec. 139

- a) Appointment of auditor by members [139(1)]
- b) Period for which the appointment is made [Sec. 139(2)]
- c) Appointment of auditor of Government Companies [Sec. 139(5)]
- d) Appointment of first auditor by Board of Directors. [Sec. 139(6)]
- e) Appointment of first Auditor of Government Companies [Sec. 139(7)]
- f) Casual vacancy of an Auditor 139(8)

Qualities of an Auditor

the qualifications and qualities are:-

- 1) qualified chartered Accountant
- 2) Knowledge of principles and practice of accountancy
- 3) Knowledge about financial management, industrial administration and business organisation
- 4) Knowledge of audit case laws
- 5) able to understand the technical details
- 6) must be an honest
- 7) act impartially and not influenced by others
- 8) he must have capacity to hear agreements of others.
- 9) He should be hard working, systematic
- 10) He should not disclose the secrets of his client.

RIGHTS OF AN AUDITOR (7)

1. Right to access books of accounts.
2. Right to obtain the information and explanation
3. Right to receive notice
4. Right to sign audit report
5. Right to seek legal and technical advice
6. Right to remuneration
7. Right to be indemnified.

DUTIES OF AN AUDITOR [Sec. 143 (a)]

a) Sec. 143 (1)

- i) enquire loan and advance
- ii) enquire Assets, share, Debenture
- iii) enquire share allotted for cash
- iv) Balance Sheet

b) Under Sec. 143 (2)

- i) to reports the members of the Company
- ii) accounts examined by him
- iii) State in his report to the best of his information and knowledge.

c) Under Sec. 143 (3)

- i) to sought and obtain all information and explanation
- ii) to ensure that the books of accounts as required by law have been kept by the Company
- iii) to see the adequate internal financial control system in place and their operative effectiveness
- iv) to ensure the Company's B/S and P/L A/c dealt within the report or in agreement with books of accounts and returns

LIABILITIES OF AN AUDITOR (8)

(A) CIVIL LIABILITIES:

- i) Liabilities for negligence
- ii) Liabilities for misfeasance

(B) CRIMINAL LIABILITIES:

- i) Mis-statements in prospectus (Sec. 34)
- ii) Non Compliance by auditor with Section 143 and 145
- iii) Failure to assist in the investigation Sec. 217 (6)
- iv) Penalty for falsification of books section 336
- v) Penalty for deliberate act of Commission or omission section 478

CONTENTS OF AUDITOR REPORT

FIRST CLAUSE :- Whether or not in their opinion proper books of accounts as required by the ordinance have been kept by the company.

SECOND CLAUSE :- B/S, P/L A/c and income and expenditure A/c have been up in conformity.

THIRD CLAUSE :- B/S, P/L A/c and cash flow statement confirm with the approved AS