B. Com (Hons)

Auditing(204)

Unit - I

Auditing: Meaning, definition, Importance, Accounting and Auditing, Limitations ,Concept of Auditing & Standards, Detection and Prevention of Frauds and Errors, Basic principles governing an audit, Types of audit; Internal Control, Internal Check and Internal Audit, Evaluation of Internal Control System, Internal Control System regarding purchases, sales, salaries and wages.

Unit- II

Audit Procedure: Audit planning, Audit Programme, Audit working papers, Audit files; Audit Evidence: Methods of obtaining audit evidence; Special auditing techniques.

Unit III

Vouching-Meaning, Importance, Vouching of cash and trading transactions, Routine Checking and Test Checking; Company Auditors; Appointment, Removal, Rights, Duties, and Liabilities. Auditor's Report. Cost Audit, Social Audit

Unit – IV

Verification and valuation of Assets and Liabilities; Auditors' Report: Clean and Qualified Audit Report, Disclaimer of opinion, Audit Certificate, Company Auditor Report

Unit –I

Meaning, Definition, Importance

Meaning:

Auditing means the examination or checking of books of accounts and related documents of an organization in order to know the accuracy, completeness and regularity. Such a checking is done by a competent and unbiased person with the help of evidence, documents, information and explanation provided to him known as auditor.

Example can be given the doctor Can give his report only by after examining the patient. In the some way auditor gives his report regarding books of accounts after checking the accounts books whether or not they give a true and far view.

Company act 1956 made it compulsory to get the Accounts of all public as well as private companies Audited.

Definition of Auditing: J. R. Batliboi - "Auditing may be defined as an intelligent and critical scrutiny of the books of Accounts of a business with documents and vouchers from which they are written up, for the purpose of ascertaining whether the working Result for a particular period as shown by the Profit & Loss Accounts as also the exact financial condition of the business as reflected in the Balance Sheet are truly determined and presented by those responsible for the completion."

L. R. Dickee - "An audit is an examination of accounting records under taken with a view to establishing whether they correctly and completely reflect the transactions to which they relate. In some instances it may be necessary to a certain whether the transaction themselves are supported by authority."

In simple word we can define Auditing as under:-

Auditing is a special and critical examination of the books of Accounts of a business organization coordinated by a competent and unbiased person with the help of voucher, documents, information and explanation provided by the organization on the basis of which he can report on the books of for a specific time as to -

a. Whether the Accounts are complete and drawn up according to convention or not.
b. Whether the Accounts gives a true and fair as the financial position of the organization.
c. Whether the Profit & Loss Account give the true profit or losses of the organization or not.

Importance of the Audit:- Today business and industry are operating as such a large scale, it is clear that the importance of Audit has increased. The audit of the accounts of a company has been making mandatory by law. In business, auditing is equally important for every kind

of business. All big business whether they are sole proprietorship concerns, a partnership firms, get the accounts audited. Importance of audit can be examined from the following facts.

General importance or Advantages:

1. Knowledge of the actual position of the business.
2. Detection of fraud and errors
3. Moral pressure on employees
4. Proper valuation of business
5. Increase in goodwill.
6. Helps in declaring dividend and bonus.
7. Helpful in calculating compression.
8. Helpful in calculation tax.
9. Advantage of valuable suggestions.

Importance of Auditing to various organizations:

Sole- Proprietorship Concerns:

Proof in court – when Accounts certified by an auditor are provided in court then the judge is assured that the accounts are true.

- Help in conversion of business in to partnership.
- Comparison is result is possible
- Helps in assessment of wealth tax, income tax & sale tax.

To Partnership firms:

1. Mutual confidence among partners.
2. Helpful in valuation of business and goodwill.
3. Helpful in settlement of account between partners.

Joint stock Companies:

- Help in creating better relationship among shareholder and management.
- Help in wining public confidence.
- Help in declaring dividend
- Helps in amalgamation, absorption and reconstruction of companies.

Other Parties:

a. Business and other financial institution at the time of sectioning loan
b. Audit accounts are very helpful for government employees- calculating sales tax, income tax, wealth tax, and expenditure tax.
c. The court can also rely upon audited accounts as evidence.

Limitation of Audit:

The work of the auditor is to certify the accounts prepared by the owner of the business concern. Despite the exercise of utmost diligence and competence on the part of the auditor, some frauds and errors in the books of accounts may escapes getting detected. Keeping this point in mind the following limits of audit must be kept in mind.

1. Auditing does not guarantee cent per cent accuracy.
2. Auditor nearly expresses his opinion.
3. Auditor does not enjoy practical freedom.
4. Auditor does not understand the nature of the business transaction.
5. Minor things are not paid attention.
6. Certain frauds may remain undetected.

Book-Keeping, Accountancy, Auditing

Book-Keeping:

Book keeping is the art of recording business transaction in the books of accounts. It is mainly concerned with the primary books of a accounts and the ledger. Such type of work is done by junior clerks.

Accountancy:

It is said that "accountancy begins where book keeping ends" accountancy includes activities such as examination of primary books of accounts, preparation of T/B, Profit and Loss accounts and B/S, passing adjustment entries, rectification of errors etc. the work of accountancy require greater competence, intelligence and responsibilities This work should be given to a qualified and responsible person known as the accountant.

Auditing:

Work of auditing begin when the work of accountancy come to an end. Where accountancy ends auditing begins. Auditing is a critical examination of the books of accounts on the basis of vouchers, documents, information and explanations. After conducting, the audit the auditor has to give a report.

Investigation:

Investigation is an in depth examination and inspection of the final accounts, books of accounts and other affairs of business with a predetermine objective. While conducting an investigation it is assumed that the books have already been audited.

Difference between Book-Keeping, Accountancy & Auditing:

Basis of Difference	Book-Keeping	Accountancy	Auditing
Beginning	Only recording of business transaction in the primary book of accounts and posting them in the ledge	Accountancy begins where book-keeping ends.	Work of Auditing begins where the work of a/cs ends.
Object	------do-----	Examine the entries of transaction in the primary books of accounts and their positing in the ledger	The aim of auditing is to certify the correctness and truthfulness of the accounts.
Designation	Book Keeper	Accountant.	Auditor
Responsibility	Book Keeper is not responsible for the work of the accountant	Accountant can be held responsible for the work of book keeping since book keeping is a part of accounting.	The Auditor has to submit a report to the person appointed him.
Qualification	Book keeping work done by junior Clark it does not require in depth knowledge of accountancy.	Any person knowing the work of accountancy can be appointed as the accountant.	For Auditing work a person to be charted - accountant.

Auditing Principles:

The principles of Auditing are the basic rules which tells us about the objective of the audit as well as the ways to achieve there objectives. In the words of Arthur W. Homes "Audit principles are basic truths which are indicative of the objectives of Auditing. The audit principles are suggesting the manner in which the objectives of the audit are to be accomplished.

Main principles of auditing are as under:-

Principal of independence: - In the audit the accounts should be examined in an independent and unbiased manner.

1. **Principal of objectivity**: - The work of auditing should be based on the related evidence.
2. **Principal of materiality**: - Auditor should examine material transactions as well as possible frauds and errors in depth.

3. **Principal of full disclosure**: - The audit should also declare the results of his examination in a clear and unbiased manner.

Detection and prevention of frauds and errors:-

Object of auditing:-

1. **Main objects**: - The main object of auditing is to know about the correctness, fairness and truthiness of the accounts.
2. **Subsidiary object**:-
   (A) **Detection of errors**: - The majority of errors are committed due to negligence or lack of knowledge. Some errors have been committed deliberately with the intention of committing fraud; such errors affect the truth fullness and accuracy of the profit & loss accounts and balance sheet, which is one of the main objects of auditing. The auditor should examine the following errors in Depth:-
   (a) **Errors of o mission**: - When any transaction is completely omitted from being recorded in primary books of accounts the error is known as an error of omission. This type of error of omission has no effect on the T/B as the entry does not appear in the books of accounts.
   (b) **Errors of Commission**: - Such errors occur when a transaction is wholly or partially recorded wrongly in the books of accounts. Examples are wrong entries, wrong totaling, wrong posting, errors in carrying over balances or totals from one Page to another. Such errors may also be complete or partial. A complete error is more difficult to detect as the T/B remain tallied.
   (c) **Compensatory errors**: - When the error in one account balances out errors in another account, then such errors is known to as compensatory errors. Such errors do not have any effect on the T/B. compensatory errors can be deducted only through an in depth examination by the auditor.

Errors of Principal:- These errors relates to wrong classification between income and capital, Entering item of income and expenditure in personal accounts, and wrong valuation of assets etc. such errors have no effect on the T/B even though they may affect the P & L accounts.

Errors of duplication: - Such errors usually occur when the same transaction is entered twice in the primary books of Accounts and is also posted twice in the ledger.

Detectors of the above errors:-

1. **Location Errors**:-
   (a) Checking the total of the T/B
   (b) Finding the amount of difference
   (c) Halving the amount of difference
   (d) Checking of journal.
   (e) Checking of subsidiary books
   (f) Checking of posting of subsidiary books
   (g) Checking the balance of ledger
   (h) Checking of opening entries
   (i) Comparison with last year balance

Detection of frauds: - Frauds are those inaccuracies and errors which are committed intentionally and with the aim of harming the organization.

Frauds can be divided into the following categories:-

1. **Misappropriation or embezzlement of cash** – It is much easy to misappropriate cash as compared to goods due to the quality of cash being high in value and law in volume. It is very easy to smuggle cash out of the business and it cannot be detected even by the watchman at the gate.

Cash can be embezzled or misappropriated in the following ways:-

(a) Not recording extra ordinary receipts of cash in the books.
(b) Embezzling cash by not recording cash sales
(c) Showing the goods sent on sale or return basis or through VPP, as returned and embezzling the cash received.
(d) Making fictitious entries in the customer's accounts relating to discount, returns, bed debts.
(e) Stealing cheques and other negotiable instruments.
(f) Embezzling the income earned by the organization and showing the same as still receivable.
(g) Making entries for false donation and charity.
(h) Not recording the receipt from sale of old and not usable goods in the books of accounts.
(i) Not showing a loan received in the books of accounts.
(j) Making false bills for purchase of goods and other exp. and embezzling cash
(k) Embezzling the amount of wages by entering the maximum possible fictitious names in the wage sheets in order to detect embezzlement of cash, the auditor showed examine every receipt of cash and the voucher of every cash payment in details.

Misappropriation or embezzlement of goods: - Some employees consider the misappropriation of goods to be safer then misappropriation of cash. In misappropriation of goods is more prevalent is organization where goods are smaller in size but more expensive. It is also very prevalent in government organization.

Ways of misappropriation of goods:-

1. Stealing goods from store.
2. Issuing fictions credit notes in their names, but embezzling the related goods.
3. After entering purchases embezzling the goods before the goods before the same reach the godown.
4. Using the organization goods for personal purpose.
5. Not entering the goods received as sales return in the books of accounts and embezzling the same.

In order to detect the misappropriation of goods he has to exercise an appropriate control technique on the movement of goods. In misappropriation of goods can be checked through adequate Control on purchase and sales and adoption of system of periodic inspection of goods.

(3) **Manipulation of accounts**: - Manipulation of accounts is usually done on the behest of the manager, owners or other responsible officer of the organization:-

Objectives of accounts manipulation:-

- Saving on income tax and sale tax
- Hiding the true picture of the business from competitors.
- Enhancing profit with the aim of earning a higher amount of commission payable on the basis of profit.

(IV) Maintaining the rate of dividend.

(V) Obtaining the Loans.

- **Ways of manipulation**: - Not claiming depreciation or claiming depreciation at lower or higher rates.
- Under valuing and over valuing the assets and liabilities.
- Showing fictitious exp. Or not showing actual exp.

(VI) Not showing the item in the books of accounts.

(V) Treating capital expenditure as revenue and revenue expenditure as capital.

(VIII) Showing false sales and purchase.

(VIII) Not showing the earned income.

(IX) Creating secret reserve.

(X) Window dressing the books.

In order to detect such frauds the auditor should duly vouch and verify all the assets. Vouchering and verification are the blood hounds of the auditor with the help of which he can detect frauds.

Other Objects:-

- Moral pressure on employees.
- Satisfying government official
- Fulfilling legal requirements.

Cost Audit: -

Cost audit is the auditing of the costing system and accounts to insure that they confirm to the objective of the cost accountancy. The accounting start from the purchase of the raw material and cover the cost of manufacturing process and other cost till the end product is ready to be marketed.

Auditing technique:-

Following are the audit techniques adopted by the auditors:-

(a) Physical verification
(b) Physical inventory
(c) Verification of available evidence
(d) Review of the work of book keeping
(e) Examination of source of documents
(f) Examination of accounts
(g) Conducting enquiries
(h) Examination of subsidiary books
(i) Analysis of financial statement

UNIT- II

Audit procedure, Audit planning, audit program

In modern age before beginning any task one has to make proper preparation it means Make a plan. Before commencing the audit work the auditor has to clarify certain basic facts. If the auditor has been auditing the accounts of the organization over a number of years, and then he becomes aware of a number of facts relating to the business. But if he is auditing the accounts of the organization for the first time, then before commencing his work he has to receive much information from the management stated as under.

Preparation before audit or planning of audit:-

1. Scope and nature of work assigned: - The auditor should determine the scope of the audit whether only a part of the books of accounts is to audit or the complete books of accounts are to be audited.
2. Objective of the audit.
3. Nature and technical features of business.
4. Knowledge of accounting system.
5. Study of various documents
6. List of books of accounts.
7. Study of system of internal check.
8. Knowledge of previous year's final accounts.
9. Period of audit.
10. Instruction to employer.
11. Division and distribution of audit work.
12. Audit program.

Audit Program: - An audit program is a detailed plan of work prepared by the auditor for the supervision plan of work prepared by the auditor for the supervision and control of his assistant, before actually beginning the audit the main objective of preparing an audit plan is to maintain a link between the various tasks involved in the audit work.

Definitions:-

W.W. Bigges – An audit program is a detailed plan of the auditing work to be performed, specifying the procedure to be followed in verification of each item in the financial settlements and giving the estimate time required.

Spicer and peglor- In order to bring in uniformly and to ensure that all that which needs to be done has been done, it becomes necessary to prepare a program. In the program the clerk responsible for a particulars part of the works, signs against the same upon Completion. In this manner the employer can also get information about the progress of works and work still incomplete.

Objective of preparing audit program:-

1. Preparing a specific framework for the audit work to complete the audit work within a specified period.
2. Division of work among the assistants
3. To know the progress work done by employees.

4. Fixing the responsibility of employees.

Types of audit programs:-

1. **Standard program**: - Audit program based on a standard format is known as standard auditing program. This standard is used uniformly is account audits, and there is no need for the auditor to prepare a separate audit program for each audit such a program is also known as a planed program.
2. **Tailor made program**:- A tailor made program is one which is prepared separately for each organization considering the nature of business, nature of transaction, method of accounting and internal control system.

Essentials of a good audit programs

Or

Factor keep in mind at the time of preparation of audit program the success of an efficient auditor depends largely upon the audit program very carefully. While preparing an audit program the following point must be kept in mind:-

1. In writing
2. clarity
3. Division of work
4. Flexibility: - The audit program should be flexible so that in case of a change in circumstances, there is no problem in altering the program.
5. Policies and provision: - while preparing the audit program, the relevant policies and provisions should be kept in mind such as memorandum and article of associate in case of company and partnership deed in case of partnership firm.
6. Object of the organization.
7. Previous report of the auditor
8. Audit program should be preparing department wise specimen of an audit program.

Specimen of an audit program:-

Financial Books	Signature of assistant	Time taken on the job	Auditor's … at hourly rate of the employees
(a) Cash book, posting vouching …….statement			
(b)Sales day book cash, posting, is vouchering.			
(c) Bill register, cash, posting, vouchering			
(d) Purchase day book, cash, posting, vouchering			
(e) Journal:- cash, posting, vouchering			
(f) Verification of final accounts.			
(g) Verification of schedules.			

Advantages of an audit program:-

1. Distribution or division of work according to ability.
2. Fixing the responsibility.
3. To know the progress of work.
4. To bring uniformity in work.
5. Proof in court
6. helpful To new employees
7. Take lesser time.
8. Helpful to control over the audit work.
9. Complete checking of accounts book possible.

Disadvantages of an audit program

1. Work become mechanical: -The staff becomes negligent and inefficient in doing their work because the audit work is fully based upon audit program more or less Work becomes mechanical.
2. Lack of initiative.
3. Lack of moral influence.
4. Lack of elasticity.
5. Difficult to detect frauds.
6. Uniformity is not possible: - the same kind of programmed cannot apply to every business.

Audit note book or Audit file: - Every auditor, while conducting the audit, keeps a notebook in which he records important. Information relating to the audit: - The book is known as audit notebook. It is always better to maintain the information in a notebook.

Contents of audit notebook:-

(a) A brief description of all legal documents.
(b) A copy of the audit program.
(c) A list of the books of accounts being maintained.
(d) A list of all principal officers along with their duties and responsibilities
(e) A list of vouchers, bills and other documents which have been lost.
(f) A brief description of all known fraud and errors.
(g) The total of all important amounts and the balances of important accounts.
(h) Detail about guarantees and other important facts.
(i) The date of the commencement and completion of the audit.
(j) Comments on the nature of the business and the method of accounts being used.
(k) The system of internal control being followed or not.
(l) All suspicious which need to be solved or explained in the future?
(m) Explanation of all technical aspect and terminology used in the business.

Advantages of audit note book or importance:-

1. Helpful in case of any dispute between the auditor and the client.

2. It helps in the audit work because all the important points are noted at one place.
3. The progress of the audit work can be clearly assessed.
4. For next year Audit of the same organization, the audit note book proves to be very valuable.
5. It helps in preparing audit program in future.
6. The note book is much helpful in preparing audit report.

Disadvantage of audit note book:-

Harmful to auditor: - The audit notebook can prove very damaging for negligent auditors because the entries in the note book may prove that he has not done his work diligently and hence may be held for damages. This is more a fault of the auditor rather than disadvantage of maintaining an audit notebook.

Audit working papers: - All documents, certificates and confirmation letters, which are used by the auditor while doing the audit works are known as audit working papers. These are prepared by the auditor and are His personal property. They include the analysis, critical description and correspondence files made by the auditor while conducting the audit.

Arnold W Johnson: - Audit working papers are the written private materials, which an auditor prepares for each audit. They describe the accounting information which he received from the client; the methods of examination used his conclusion and the financial statements.

Various types of audit papers:-

1. Audit program
2. Audit notebook
3. Audit appointment letter
4. List of debtors and creditors.
5. Opening and closing trial balance
6. A copy of the audit report
7. Correspondence done in relation to the audit program.
8. Other correspondence done in relation to audit.
9. Rules of the organization
10. List of cash vouchers
11. Adjustment journal entries.
12. List of investment
13. Summary of mints books.
14. Documents relating to depreciation
15. Working paper relating to totals balances
16. Explanation received during the course of the audit.

Ownership of audit working papers:-

The question of ownership of audit papers can be viewed in the following ways:-

Those working papers which are prepared in accordance with the instruction and order of the client and for the preparation of which the necessary fees have been paid are considered as belong to the client. Ownership of these types of paper vests with the client.

Other papers, such as the audit notebook, comments on documents, addition and division of number, balance derived etc, which have been prepared by the auditor himself are considered to be his property hence The client cannot compel the auditor to return the same.

Confidential nature of working papers: - The audit working paper are highly confidential documents they should not disclosed to any third party as they can be easily misused. The auditor in no circumstances has the right to disclose confidential information of the client.

Method or procedure of audit work or special audit techniques: - Every auditor has his own style of doing auditing but below are given a few rules which are used by all auditors.

Use of special ticks: - The following precautions should be taken.

(a) Different symbols should be used for different tasks such as totaling, posting etc.
(b) These symbols should not be permitted to use the symbols that are being used by the auditor.
(c) In employees should not be permitted to use the symbols that are being used by the auditor.
(d) Auditor should keep pens or pencils of different colors with him.
(e) Every year change in the colors of pencils must be.
(f) Accounts book have been written in ink.
(g) The alteration of number with knives or safety razors should not be accepted under any case.
(h) For numbers which are not clear or which have been tampered with - a special symbol should be used.

1. To complete one part or one portion in one sitting.
2. In case of change in figures if it comes to the picture that after the examination figures have been altered – in this case related posting should also be checked.
3. **Help of vouchers: -** In work of vouching should be given to two employees. Account should be examined with the help of the concerned vouchers
4. **Method of checking:-** Various method of checking are as under:-
   (a) **Routine checking**: - Routine checking means checking of arithmetical accuracy of books of original entry and ledger with a view to detect frauds and errors.

   Routine checking includes the following:-

   (a) Checking the calculations such as totals subtotals balances carried forward etc.
   (b) Checking the entries in the ledger with those in the books of original entry.
   (c) Checking the balances of various accounts.
   (d) Checking the balances carried from the ledger into trial balance the main objects of routine checking is to know the asthmatically accuracy of the books of accounts.

Advantages of routine checking:-

(a) Simple
(b) Detection of errors and frauds.
(c) Helpful in checking of final accounts.
(d) Change in figures can be traced out.
(e) Accuracy of posting can be judged.

- **Disadvantages: -** Work become mechanical, errors of principle cannot be trace and carelessness in work, planned frauds cannot traceable, fall in the quality. Of work.
  (B) **Test checking: -** When only few chosen transaction are examined in detail, it known as test checking. In test checking the auditor check a few representative transaction of very

category and gives his opinion on the complete accounts. In large business organization test checking is more suitable.

Elements or characteristics of test checking

Sampling: Representative: Scope: Standard.

Internal check, object

Advantages of test checking:-

- Results are reliable,
- Saving of time.
- Audit of many institutions possible.
- Dependence on internal check.
- Quick finishing of audit work.

Disadvantages of test checking:-

- Carelessness of employee.
- Unsatisfactory report.
- Increase in auditor's responsibility.
- Frauds and errors may remain undected.

Audit in depth: - The detailed examination of any transaction is known as audit in depth.

Under audit in depth a few selected transactions are examined and verified in all its respects. Auditing in depth is based upon the technique of test checking.

Over all check: - A Comprehensive examination of the accounts is known as over all check. Over all check includes all those procedures used by the auditor to detect the inaccuracies in the books of accounts which were not detected during routine checking.

Types of audit:-

(a) Internal control: - Evolution of internal control system, internal control system regarding purchases, sales, salaries and wages.
(b) Internal check,
(c) Internal audit

Internal control: - Internal control includes control of accounts aspects of the business and its transaction. In simple word internal control means controlling the internal work of the business in such a manner that profit are maximized and the possibility of manipulation, fraud, forgery etc are minimized the word internal control is used in the wider sense and includes all other controls such as internal audit internal check etc.

Definition Spicer and Pegler: - Internal control is best regarded as indicating the whole system of control financial and otherwise, established by the management in the conduct of business, including internal check, internal audit and other forms of control.

Internal control can be divided into three parts

1. Organizational control
2. Accounting control
3. Administrative control

Evolution of internal control:-

If the internal control system has been implemented successfully it means the work of the auditor a lot easier and the need for routine checking is reduced. Through internal control adequate emphasis is laid on the assets of the business, the accounts of the business management policies, etc. and this increases the efficiency of the business.

Principal of internal control

- Accounting of assets
- Division of work

Internal control and auditor:- For exercising internal control, auditor should acquaint himself with the organization chart of the organization, the performance manual, the plan of work allocation and the actual physical handling of work.

A good and effective system can reduce the work load of the auditor but it does not reduce his responsibility in any way.

Internal check:-

Internal check is a system in which work is divided among the employees in such a way that the work done by one employee is examined independently by other employees. According to internal check system the work is divided among the employees according to their capabilities and in such a manner that no single employees do any task from the start to the end.

Definition: - Spicer and Pegler: A system of internal check is an arrangement of staff duties when by no one person is allowed to carry through and record every transaction, so that without collusion between two or more persons, fraud is prevented and at the same time the possibilities of errors are reduced to a minimum.

Advantage of internal check:-

1. Moral influence on employees
2. Prevention of frauds and errors.
3. Increase in efficiency of employees
4. Ease in audit.
5. Early preparation of final accounts
6. Benefits to employer.

Disadvantages of internal check:-

1. Negligence by auditor
2. Negligence by employer

3. Possibilities of errors due to haste (quickness).
4. groupism among employees
5. Unsuitable for small concern.

Purchase and internal check:-

The main aim of an internal check system for purchase should be to prevent the occurrence of the following frauds:-

1. Recording false purchase in the purchase book so to deflate the profits of an organization.
2. To record an invoice twice to show excess cash payment.
3. Not to record certain purchase so as to show higher profit.
4. To record a purchase for materials not yet received so as to deflate profits.

Internal check for purchase should require following techniques:-

- Estimation of demand.
- Trade enquiry
- Placing order for purchase.
- Receipt of goods and its checking.
- Checking of invoice and other documents.
- Payment of invoice and entry in the books.
- Purchase return and internal check.
- Preparation of rejection NOTE.
- Preparation of advice note.
- Entry in purchase return book.
- Return of goods.

Sales and internal check:-

1. Record of order received.
2. execution of order
3. Preparation of invoice.
4. Entry in sales book.
5. Entry in to goods out ward book.

Wages and internal check:-

The process of internal check for wages should be divided into the following there functions:-

1. Maintenance of wages records.
2. Preparation of wages sheet.
3. Payment of wages.

Maintenance of wages records:- More than one person should be appointed to keep a record of the time spent and work done by the Laborers along with such records the leave taken and over time done by the Laborers should also be noted for. Normally work is done by laborers on the basis of the following.

- According to time
- According to piece- work

Record of wages according to time:-

- Time recording clock
- Use of token
- Use of attendance card
- Over time record
- Pass out record.

Record of wages according to Piece work:-

- Waiting card

2. **Preparation of wage sheet:-** Once the time taken and work done by Laborer is recorded the wages department prepare wage sheets on the basis of which wages are paid

Wages are computed on the basis of the attendance cords, over time slips; pass out slips for giving out, job cards and the details received from the foreman about attendance and work done.

3. **Payment of Wages: -** Once to wage sheets are prepared the question of payments of wages arises.

Following points should keep in mind while payment of wages:-

- Payments of wages should be made by the cashier only.
- Forman of the department should be Present When laborers are paid their wages.
- Signature of the laborers should be obtained
- Special arrangement of wage payment should be made laborers who have given on leave.
- Casual laborers should be given wages every day.

UNIT – III

VOUCHING

Meaning:-

As a rule, whenever any goods are bought, the seller of goods issues a receipt to the buyer the gives a description of the goods purchased, the price and other relevant details. In auditing, such receipt is called a voucher. An individual buyer may not attach any importance to such receipt and may even throw it in a dustbin, but a voucher is an important document for a business organization and is carefully filed. All transactions in the books of account are based on such receipts which vouch for the authenticity of the transaction. As such, there should be no entry in the books of accounts without its voucher, and there should be no voucher without its entry. This is meant to examine the results of give- and – take transactions recorded in the books of accounts.

Definitions:-

Some leading authorities have defined vouching as under:

(a) According to **Lawerence R. Dicksee:**- Vouching refers to the examination of entries made in the account books, with the documents, on the basis of which the accounts have been written.
(b) **Joseph Lancaster** has his to say about vouching: It is often thought that vouching consists of the mere examination of the vouchers or documentary evidence with the book entries. This, however, is quite wrong, for vouching comprises such examination of the ledger entries as will satisfy the auditor that not only the entry is supported by documentary evidence, but it has been properly made in the books of accounts.

On the basis of the above , vouching may be defined as an examination of the entries made in the books of accounts on the basis of vouchers and check the authenticity of the vouchers. The purpose of such examination is to ensure that entries made in the books of accounts are correct, reasonable and authorized.

Objects of Vouching:-

Following are the main objects of vouching:

(a) To ascertain that all transaction connected with the business have been recorded in the books of accounts, and that nothing has been left unrecorded.
(b) To ensure that no transaction has been recorded which is not connected with the business of the enterprise, and that no extra item having no concern with the business has been recorded, and
(c) To examine that all entries for transaction which are authorized are genuine and supported by documentary evidence available in the business.

In this regard, Spicer and Pegler have observed that "One of the principal objects of vouching is to ascertain not only that money has actually been paid away by the business but that the payment has been made in respect of a transaction related to the business."

Importance of Vouching:-

Vouching is the first step in auditing because the authentic of the entries made in the account books is verified by it. A routine check only reveals the arithmetical accuracy – it does not shed any light on whether the entries in the account books are relevant to the business and are made by the authorized person. Vouching certifies that all transaction pertaining to the financial year have been recorded and nothing has been left out. In other words, it ensures that the transactions recorded in the books of accounts are relevant, correct and are made by the authorized persons. Vouching helps the auditor to reach the source and certify whether or not the recorded entry is correct and relevant, which helps in pinpointing malpractice and fraud. To assert the importance of vouching, **De Paula** has said, "Vouching is the very essence of auditing, and the whole success of an audit depends upon the intelligence and thoroughness with which this part of the work is done."

The above statement throws light on the importance of vouching. The maintain of auditing is to report to the client whether the Profit and Loss Account shows the true Profits or losses for the year or not; and in the same manner, whether the Balance Sheet depicts the true financial state of the business or not.

Voucher

Meaning:-

Voucher is the documentary evidence that authenticates the transaction entered in the books of accounts. Whenever somebody buys anything from the market, the seller gives him a receipt or cash memo, which is a proof of the transaction that is made, and on the basis of which both the buyer and the seller make an entry in their books of accounts. Thus, the documents that are used to record a transaction in the account books are called vouchers. A voucher is the documentary evidence of a transaction. It can be a receipt, an invoice, a bill or any other documentary evidence.

Definition:-

Scholars have defined a voucher as follows:

(a) **Lancaster** defines a voucher "as documentary evidence by which the accuracy of the entries may be substantiated."
(b) In the words of **J.R. Batliboi**, "A voucher may be defined as a documentary evidence of an entry appearing in the books of accounts."

Vouching of Cash Book:-

Cash book is the most important financial book for a business concern, and as such, vouching of the cash book assumes added importance. Most errors and frauds are the result of misappropriation of cash which is done by manipulating the receipts and payments. The auditor, therefore, must be extra careful in checking the items of cash and ensure that no receipt or payment of cash is unrecorded in the cash book and that no fictitious payment has been entered in it.

In general, the audit of cash book is done with the following ends in view.

1. To ascertain whether or not all receipts and payments have been recorded in the cash book.
2. To ensure that no irrelevant or fraudulent payment has been made.
3. To ascertain whether or not the receipts and payments have been correctly recorded.

4. To verify whether or not the cash in hand and cash at bank are correct.

There are two columns in a cashbook: (a) Cash receipts and (b) Cash Payments.

Vouching of receipt side of cash book:

Vouching of the receipts side of a cash book is more complicated the vouching the payments side because the evidence of receipts is not direct since the payment of such receipts is made by other parties and entries in the cash book are made internally. **Spicer and Pegler** have explained this in the following words: " From the auditor's point of view the operation of vouching of receipts is more difficult than vouching of payments since only indirect evidence can, as a rule, be obtained."

The auditor therefore needs to be extra careful in checking receipts in a cash book. He must keep in mind the following:-

1. Internal checking
2. List of Receipts
3. Reconciliation of cash books
4. Receipt issue system
5. Bank deposit system
6. Abiding by the rules.

Appointment of Company Auditor

These rules are equally applicable for both Public and Private Companies. In the case of a Company, the auditor can be appointed:

(1) By the board of Directors,
(2) By the shareholders,
(3) By the central government.

(1) **By the board of directors**: In the following circumstances the auditor can be appointed by the Board of Directors:
   (a) **First Auditor**: The first auditor of the company is appointed by the board of directors within one month of its incorporation. Such an auditor holds office till the completion of the first annual general meeting.
   (b) **Casual Vacancy:** If the post of the auditor has become vacant due to a reason other than his resignation, (Such as death, disqualification, etc.) before the expiry of his tenure, then the position may be filled in by the Board of Directors. An auditor appointed in such a manner holds office only till the end of the next annual general meeting. However, if the vacancy has resulted due to the resignation of the auditor, then the same can be filled up by the company only in the next annual general meeting.

(2) **By the shareholders or members**: The following are the rules regarding the appointment of auditors by the members or share holders:
   (a) **First Auditor:** If the board of directors does not appoint the of first auditor, within the first month of incorporation, their right to do so comes to an end, and the company can appoint to first the auditor in its general meeting. Such an auditor holds office until the completion of the next annual general meeting.
   (b) **Appointment in annual general meeting:** Every Company appoints an auditor in each annual general meeting. Such an appointment is from the end of that annual general

meeting Upto the end of the next annual general meeting. The company has to inform the auditor of his appointment within 7 days of his appointment in the annual general meeting. However, if the old auditor (the one being retired) is being reappointed again, then no such notice is required. Apart from this, the auditor appointed no this manner has to give a written notice to the registrar of companies, informing him of his acceptance or non- acceptance, within 30 days of his receipt of notice from the company.

(c) **Appointment or reappointment through special resolution**: - Act 1956 was amended by the companies (Amendment) Act, 1974, in which a new section 224 A was added. This section specifies that the appointment or reappointment of the auditor can be effected only through a special resolution in the following circumstances:

1. If at least 25 recent of the total subscribed capital of the company is held singly or jointly by one or more of the following:
   (a) Public financial institutions or government company, or the central or any state government, or,
   (b) Any financial or other institution, established under any statute, or at least 51 percent of whose equity is held by any state government,
   (c) Any nationalized bank or insurance company engaged in the general insurance business.
2. If any company to whom the provisions of the above mentioned section 224A (i) one applicable, does not appoint an auditor by passing a special resolution in its general meeting, then in that case the provisions of section 224 A (3) shall become applicable, where under, the central government shall have the right to appoint the auditor.

Company Reappointment: According to sub – section 1B of section 224 of the companies (Amendment) Act, 1974, in the Annual General meeting the retiring auditor shall be reappointed regardless of whether he was appointed by the board of directors, or the shareholders or the central government. Only in the following circumstance shall the retiring auditor not be reappointed:

(a) If he is not qualified for re-appointment.
(b) If he has given a written notice to the company signifying his inability to be reappointed,
(c) If in the meeting, a resolution appointing another person as the auditor, or specifically against his reappointment has been passed, or
(d) If in place of the retiring auditor, the notice of the resolution appointing another person has been issued, and due to the death, incapability or disqualification of the proposed person the resolution could not be discussed.

Method of Appointing a new auditor in place of the retiring auditor: Normally, the company reappoints the retiring auditor only in its annual general meeting. However, sometimes the company may not want to reappoint the retiring auditor in such a case, the following procedure should be adopted for the removal of the retiring auditor:

(a) Special Notice to the company
(b) Notice by company to the auditor and shareholders
(c) Representation by the auditor
(d) Sending the copies of the representation to the shareholders
(e) Reading the representation at the meeting
(f) Restriction on sending and reading the reply
(g) Clarification in the meeting

3. **By the central government:** The following are the provisions relating to the appointment of the auditor by the central government:

    - **In Non- Government companies**: - If any annual general meeting the auditor is not appointed or re-appointed then the vacant position can be filled only by an appointment by the central government. For this purpose the company should give a notice to the central government relating to the same within 7 days of the annual general meeting. If this is not done then the company and each officer in default can be punished with a fine of upto Rs.500/-.
    - **In government companies:** In government companies, the appointment or reappointment of the auditor is done by the central government in consultation with auditor general.
    - **In other companies:** In the companies (Amendment) Act, 1974, a new section 619 B was inserted, according to which in case of a company where at least 51 percent of the issued capital is held by the central government, or any state government or any government company, whether singly or jointly, then the auditor of such a company shall be appointed in the same manner as that of a government company, by the central government. Appointment of special auditor by the central government: the central government can appoint a special auditor for a company in the following circumstances:

        (1) If any company is not conducting its business in accordance with sound business policies.
        (2) If the company is being managed in such a way that it is damaging the interests of the business or industry in which the company is operating.
        (3) If any company is in such a financial situation that its solvency is in danger.

The central government may appoint the company auditor or any other character accountant as the special auditor. The rights and duties of the special auditor one the same as that of the company auditor except for the following differences:

(a) The special auditor submits his report to the central government whereas the company auditor submits his report to the members of the company.
(b) The special auditor has to include in his report all those points which are included in the report of the company auditor as well as those specific points as have been specified by the central government.
(c) The central government can instruct any person to make available to the special auditor all information required by him for the purpose of the audit. If the person does not follow the order he is punishable with a five a upto Rs. 500/-
(d) Upon receiving the report of the special auditor, the central government may take such action on it, as it deems fit. If the central government takes no action within four months of receiving the report, then It may forward the report or parts of it, along with its comments as the same, and order that the same be circulate among the members or read at the next general meeting. The expenses of the special audit are also determined by the central government and are borne by the company. Provisions of the chartered Accountants act, 1949 relating to the appointment of auditor. The chartered accounts Act, 1949 has the following provision relating to the appointment of auditors:

(a) The auditor should ensure that his appointment is in accordance with the regulations and whether the provisions of the law relating to the removal of the previous auditor have been complied with. If the auditor accepts the position without ensuring that the provisions of the companies Act, relating to his appointment have been fully complied with, then he shall be guilty of professional-Misconduct.
(b) According to schedule I to the chartered Accountant act, if any chartered accountant accepts any position which was previously occupied by another chartered Accountant, without giving him written notice of the same then he shall be held guilty of professional misconduct.
(c) The auditor should not accept any post with a feeling of competition like knowingly accepting lower fees for the work, etc. if any auditor accepts any post which was previously held by another chartered accountant then he shall be held guilty of professional misconduct.
(d) The auditor should not exercise any direct or indirect influence in order to get the post, and should never request anybody for his appointment. If he makes any effort in this direction then he shall be held guilty of professional misconduct and may be held as disqualified for the membership of the institute of chartered accountants of India. On the basis of the above , Mr. B. K. Sen, chartered Accountant, was debarred for practicing for three months by the institute, since he had issued an application for his appointment as auditor, in which he had given the reasons for which he should be appointed.
(e) He should obtain a copy of the resolution relating to his appointment.
(f) Only an individual or a partnership firm can be appointed as the auditor. An incorporated organization (company) cannot be appointed as the auditor.

Qualifications the company Auditor:

According to sections 226 (1) and 226 (2) of the Indian companies Act, only a qualified auditor can be appointed as a company auditor. He must either be a chartered accountant or a certified Auditor.

(1) **Chartered accountant**: Any person who is a chartered Accountant can be appointed as a company auditor. A firm can also be appointed as the auditor when all its partners are chartered accountants, who are qualified to practice in India. In order to practice one must possess a certificate of practice from the institute of chartered accountants of India.
(2) **Certified auditor**: A person holding a certificate from any state belonging to the pre 1951 category can be appointed the statutory auditor of companies, anywhere in India. Such an auditor is known as a certified auditor. The right of farming the rules for renewal, suspension or cancellation of the certificate of such an auditor rests with the central government. Disqualification of company auditor: According to sections 226 (3) and 226 (4) of the Indian company Act. The following persons cannot be appointed as the statutory auditor of a company:
    (a) An incorporated organization,
    (b) An officer or employee of the company,
    (c) A partner or employee of an officer or employee of the company.
    (d) A Person who is indebted to the company for an amount exceeding Rs. 1000/- or who has given the guarantee of any debtor of the company for an amount exceeding Rs. 1000/-
    (e) A Person who is disqualified due to any of the above causes in relation to the subsidiary of the company.

    A chartered accountant is a person who is a member of the institute of chartered accountants of India. He should have completed the training passed the specified examination and

obtained fellowship of the institute. The chartered accountants Act, 1949 has authorized the central government and the central council of the institute to grant recognition even to a foreign individual or firm.

(f) A Person who is disqualified from holding the post of the auditor in the holding company of the subsidiary company or of the subsidiary company of the holding company.

For example, if 'A' is an incorporated company, 'B' is its subsidiary company, 'C' is its holding company, and 'D' is the subsidiary of 'C'. Any person who is disqualified from holding the post of auditor in the companies, 'C' and 'D', then he cannot be appointed as the auditor of 'A'.

If after appointment, the auditor becomes disqualified due to any of the above reason, then the post of the auditor shall be deemed to be vacant.

Removal of Company auditor: In the following circumstances the company auditor can be removed before the expiry of his term:

1. **Removal of first auditor**: If the first auditor has been appointed by the directors then his appointment comes to an end automatically on the day of the annual general meeting. However, if the company wants it may remove the first auditor by passing a resolution to that effect in the general meeting. For this purpose it does not need the approval of the central government.
2. **Removal of other auditor**: If it is thought necessary to remove any other auditor before the expiry of his term, then the company can do so by obtaining prior approval of the central government, and passing a resolution to that effect in the general meeting. In such a situation, a Copy of the resolution proposing to remove the auditor should also be sent by the company to the auditor. If the auditor feels that he is being unfairly removed from his post, he has a right to make a representation to the company.

If the Auditor reply is received by the company in time; the company should forward a copy of the same to every member. If the copies of the same could not be forwarded to the members (since it was not received on time), then the auditor has the right to have the same readout in the meeting of shareholders. In this context it must be mentioned, that the company Law board, upon the application by the company or any other person, if it is satisfied that circulation of copies of the representation or its being read out in the meeting could result in misuse of the subsidiary company of the holding company.

For example, if 'A' is an incorporated company, 'B' is its subsidiary company, 'c' is its holding company, and 'D' is the subsidiary of 'C'. Any person who is disqualified from holding the post of auditor in the companies 'B', 'C' and 'D', then he cannot be appointed as the auditor of 'A'.

If after appointment, the auditor becomes disqualified due to any of the above reason, then the post of the auditor shall be deemed to be vacant.

In the context it must be mentioned, the company Law Board, upon the application by the company or any other person, if it is satisfied that circulation of copies of the representation or its being readout in the meeting would result in misuse of the rights of the auditor and come undue loss goodwill to the company, it may prevent the copies of the same

form being circulated or being readout at the meeting. An auditor being removed in this manner has the right to be personally present in the general meeting and speak on the resolution for this removal and present the time picture in front of the shareholders.

Removal under provisions of chartered accounts act: The council of the institute of chartered Accountants of India can also remove a member from its membership due to certain reasons, and once a person is removed from membership, the company can also remove him from the post of the auditor. This institute can remove the name of a person firm its membership rolls due to the following reasons:

(a) Upon his death,
(b) If he has applied to the institute for surrender of his membership,
(c) If he has not paid the prescribe fees as specified by the institute, or
(d) If he has acquired any of the disqualification specified in the chartered accountants Act. If a person ceases to be a member of the institute then he cannot be appointed as an auditor.

545, 621, 625 and 633. Hence, the auditor has been considered as an officer of the company only to a certain extent.

Rights and Powers of the Auditor:-
The auditor is an independent person who does the work of the audit keeping the interests of various parties in mind. Hence, in order to be able to work independently the auditor also needs certain rights. In order to be able to complete his work smoothly, the auditor has been granted the following rights by the Indian companies Act, and the chartered Accountants Act.

1. **Right to access the Books; Accounts and Vouchers of the Company**:- Under section 227 (i) of the companies Act, 1956, the auditor has the right to access the books, accounts and Vouchers of the company at all times, whether the same are located at the head office of the company or any branch.

By 'books of the company' we mean those books which are being maintained by the company or those books which are required to be maintained by the company under any legal provision. 'At all times' means during the business hours of the company. Theoretically, the auditor can go to any office of the company at any time (during business hours) for conducting the audit, without any prior notice. However, in practice, the auditor turns up for conducting the audit only on a predetermined date. Random examinations are required only when cash is to be verified, or when the auditor has to examine any frauds or irregularities in suspicious circumstances.

If due to any reasons the directors prevent the auditor from accessing the books, then courts cannot order that the books be made available to the auditor but can call for a general meeting to find out the opinion of the members on the matter.

2. Right to receive necessary information and Explanations.
3. Right to receive the prepared final Accounts.
4. Right to visit the Branch offices.
5. Right to receive notice and attend the General meeting.
6. Right to make a statement in the General meeting.

Normally, it is not necessary for the auditor to be present in each annual general Meeting, but in the following circumstances the auditor should attend the annual general meeting:

(a) When the is suspicious that the directors of the company are trying to hide certain financial difficulties,
(b) If there are points contained in the auditor's report which we wants clarify.
(c) If he has received notice of a resolution proposing to appoint another person in his place.
(d) If the company has specially invited him, i.e. the directors have insisted that the auditor should be present.
(e) If the auditor's report contains certain points which may be misunderstood.

7. Right to have technical and legal advice.
8. Right to sign the audit report and to certify related documents.
9. Right to be indemnified.
10. Right to receive remuneration.

<u>Auditor's Lien on the books of accounts</u>: - The question that arises is if the auditor is not paid his remuneration, can be retain the books of accounts of the company in his custody until the same is paid to him? The companies Act, 1956 is silent on this aspect. However, section 209 of the companies act states that the books of accounts of the company should be kept at its registered office or at any other place in India as determined by the directors, and they should be available at all times, for inspection by the directors. Keeping the above provision of the act in mind, it is difficult to say whether the auditor has lien over the books of accounts or not.

Even though the auditor does not have lien over the books of accounts, in some situations it does seem as if the auditor has lien over the books of accounts. Actually, however, it is not so. It is compulsory for the company to keep all its books at the registered office, it is clear that he is trying to exercise lien upon them, which is wrong.

There are many clear court decisions in this regard that the auditor does not have the right to exercise lien with respect to the books of accounts. If the auditor has acted in the capacity of an accountant, then he does have right of lien over the books. In the case of Herbert Alfred Balef vs. Ingram Clarke Ltd., it was held that if the nature of work of the auditor is that of book-keeping, then he has the right to exercise lien over the books. This is so because since the books have been maintained by him he is entitled to remuneration for maintenance of the same. However, modern thinking on this matter is different.

In the case of **Sakakinaky vs. Brite** graham and Co., it was held that the auditor can exercise lien over the correspondence and other documents which were prepared by him. A similar decision was also given in the case of Holey, **smith and field vs. Valentine Tinzie**.

The gist of the discussion is that if the auditor has acted in the capacity of an account, he has the right to exercise lien over the books of accounts. However, if he has acted in the capacity of the auditor, then he does not have lieu only over the correspondence and other documents prepared by him during the course of the audit.

Duties of the Auditor:-

The duties of the auditor can be broadly divided into the following three categories:

(a) Duties under the Indian companies Act, 1956,
(b) Duties under the chartered Accountant Act, 1949, and
(c) Duties in accordance with decisions of courts.

Duties under the Indian companies Act 1956: According to the companies Act, a company auditor has the following duties:

(1) **To check certain special points:-** According to section 227(1)(a) of the companies Act, the auditor should specially to check the following Points:
   (a) Whether the loans and advances given by the company are adequately secured and whether the terms and conditions on which the same have been given are not unfavorable to the interests of the members of the company?
   (b) Whether transactions of the company represented only by entries in the books of accounts are prejudicial to the interests of the company?
   (c) If the company is an investment company as defined in section 372, then whether the part of the assets of the company held in shares, debentures and securities have been sold at a price below their purchase price?
   (d) Whether the loans that have been advanced by the company have been shown as deposits?
   (e) Whether personal expenses have been debited to the Profit and Loss Account?

(2) **To Issue a Report: -** The auditor is appointed in order to keep control over the working of the directors. The auditor has to issue his report to the shareholders since they are the owners of the business, and they are the ones who appoint him. Hence, whether the auditor has been appointed by the central government or by the board of directors, or by the company in a general meeting, in every situation he will issue his report to the shareholders only. Here, it should be classified that it is not the duty of the auditor to have the report personally delivered to all the members. He merely signs the report and hands it over to the company secretary and it is the duty of the company secretary to circulate copies of the report among the members. Hence, it is not the duty of the auditor to deliver the reports.

According to section 227(2, 3 &4) of the companies Act, the company auditor shall issue a report on the accounts audited by him, the Profit and Loss Account, the Balance Sheet, and other documents attached thereto, and shall state that in his opinion and according to the information and explanations given to him the books of accounts depict a 'true and fair' view of the books of accounts of the company. He shall state in his report.

(a) Whether the company has maintained all proper books of accounts or not and whether he has get appropriate reports from the branches of the company which he has not audited,
(b) Whether the profit and loss account and the balance sheet are in agreement with the books of accounts, and
(c) Whether or not has received all necessary information and explanations.

It is the duty of the auditor to keep the interest of the shareholders in mind while giving his report. If he is suspicious of any fraud or irregularity being committed in the company, then he should resort to in-depth examination and should present all the facts before the shareholders without bothering about

incurring the wrath of the directors. If the auditor has not got satisfactory answers to the questions raised by him during the course of the audit, he should mention the same in his report.

The auditor should not limit the scope of his examination merely to verifying the arithmetical accuracy of the accounts; he should look behind the business transactions to know the actual state of affairs.

It is also the duty of the auditor to sign the auditor's report and if the auditor is a firm then any partner of the firm has the right to sign the report.

In the companies (Amendment) Act, 1965 a new subsection 4a was inserted in section 227(4) according to which the auditor will also have to report on certain matters as have been specified by the central government. The central government normally issues a special under this section to the effect that in relation in kind of companies specified in the order, the auditor's report should also contain a report on the matters which have been specified in the order. In such a situation, it becomes the duty of the auditor to include the specified matters in his report. While issuing such orders the central government may consult the institute of chartered Accountants of India. However, if the central government is satisfied that no such consultation is required, it may issue an order directly also.

(3) To Give a Report on the prospectus of the company.
(4) To certify the statutory Report.
(5) To help in investigation.
(6) To give report on solvency
(7) To help the advocate General.

<u>Duties under the chartered Accountants Act:-</u>

Apart from his legal duties, the auditor also has to dispense off the following duties under the chartered Accountants Act:

(a) The auditor should ensure that the provisions of section 226 of the companies Act, in relation to his employment have been properly compiled with.
(b) If the auditor is appointed to a post where another person was previously doing the audit work, then before accepting the post he should issue a notice to the previous auditor to the effect that he has been appointed to the post. This is done so that if the previous auditor has any objection to his appointment, the same will come to light.
(c) The auditor should not allow any unqualified person to practice in his name. He should not allow anybody who is not a practicing chartered accountant and who is not a partner in his firm to practice in his name.
(d) It is also the duty of the auditor not to make any officer or employee of the company a partner in his earnings.
(e) An auditor should not enter into partnership with an unqualified person who is not a chartered Accountant.
(f) An auditor should not resort to any kind of advertisement or references in order to get appointed as the auditor of a company.
(g) The auditor should not engage in any occupation other than those specified by the council of the chartered Accountants.
(h) The auditor should not accept his remuneration to be based on a percentage of the profits of the client company.

(i) The auditor should not accept any post which was previously held by another chartered accountant with a feeling of competition at lower remuneration etc.
(j) It is also the duty of the auditor that he should not disclose any fact which came to his knowledge during the course of his examination without the permission of the client unless he is legally bound to do so.
(k) The auditor should not accept the audits of organization over and above the specified limit.
(l) The auditor should not let anyone other than his partner to sign the profit and loss account and balance sheet.
(m) If, during the course of the audit, the auditor comes across any fact, for which it is necessary to be disclosed, then he must include the same in his report.
(n) The auditor should not do his work negligently.
(o) The auditor should not certify any financial statement (for example, Balance sheet, Profit and loss Account, etc.) without carefully examining the same.

If any chartered accountant does not dispense the above duties, he shall be guilty of professional misconduct.

Liabilities of the auditor in case of a company:-

The position of the auditor of a company having limited liability is different from that of the auditor of a sole proprietorship concern or a partnership firm. The company auditor is appointed in accordance with the provision of the companies Act, 1956. Hence, his liabilities are also determined in accordance with the provisions of the Act. The liabilities of the company can be divided into the following Parts:-

1. **Civil Liability**
   (a) Liability for negligence.
   (b) Liability for malfeasance.
   (c) Liability towards third parties.
   (d) Liability under the companies Act.
2. **Criminal Liability**

Civil Liability: - Criminal Liabilities are those liabilities are those liabilities for which, if the auditor is found guilty, he shall have to pay damages. The courts cannot fine or imprison the auditor in these cases. Such liabilities are the following:

Liability for negligence: - It is expected from the auditor that he will do his work due caution, diligence, efficiency and sincerity, and will abide by the provisions of his contract with the client and the provisions of the companies Act. Hence, it is clear that if the auditor does not abide by the above, he can be held guilty and can be held liable for his negligence. It is very difficult to clearly define the term negligence. In simple words, it means doing something that a prudent and reasonable person would not do, or not doing something that a prudent and reasonable person would do. Negligence includes all such errors which result in losses to others and it includes willful as well as involuntary mistakes committed due to lack of knowledge about one's duty. In order for an auditor to be held guilty for negligence, the following elements should be present:

(a) The auditor should have been negligent in doing his work.
(b) He did his work without exercising due caution, alertness and honesty.
(c) As a result of the auditor's negligence the client (in the case of a company, the shareholders and in case of a partnership firm, the partners) have suffered a loss.

This means, in order to hold the auditor liable for negligence, the existence of negligence, and a loss to the client as a result of the same, and both the factors have to be present. "Loss without negligence or negligence without loss is not capable of making the auditor liable.''

Liabilities for Malfeasance: - If any auditor does not do the duties entrusted to him, or which arise due to his position, then he shall be held guilty of malfeasance. On the other hand, doing prohibited tasks also amounts to malfeasance. There is a difference between negligence and malfeasance. If the auditor does not dispense his duties exercising full caution, intelligence and honesty, he shall be guilty of negligence. On the other hand malfeasance includes fully or partially not doing any task or fully or partially doing any prohibited task. In negligence the work is completed but not with due caution and honesty, whereas in the case of malfeasance the work is totally or partially not completed.

If the auditor is held guilty of malfeasance, breach of trust or other excesses, then he is liable to pay damages for the same and can be compelled to do so. The company can file a case against the auditor for malfeasance only during its lifetime, and if the company is being liquidated then the liquidator, or any creditor or member of the company can file a case against the auditor for malfeasance. If any auditor is guilty of malfeasance or breach of trust against the company, then in order to prove the same, the company will have to establish the following three facts against the auditor:

(a) The auditor had duty towards the plaintiff (client).
(b) The auditor did not perform his duty towards the plaintiff, and
(c) As a result of such misfeasance, the plaintiff suffered a loss.

In legal terminology, the person filing the case is referred to as the Plaintiff and the person against whom the case is filed is referred to as the respondent or the defendant.

Under section 633, of the companies Act, if the courts are convinced that the auditor has done his duty exercising due alertness, honesty and intelligence, then the auditor may be absolved of the changes of malfeasance of breach of trust filed against him, and relieved of his liability to pay damages. Usually, auditors resort to this section only in order to protect themselves.

Liability towards third parties: Here by third parties we are referring to individuals and organization such as the company's creditors, debenture holders, buyers, sellers, debtors, creditors, bank, etc. all of them usually enter into transactions with the company relying upon the audited accounts of the company. If due to any negligence or misfeasance on the part of the auditor, any of these parties suffers a loss, then the auditor cannot be held liable for the same, since there is no contract between the auditor and the third party. Hence, in the absence of a contract between the two, why should the auditor be liable towards the third parties. However, if the auditor commits any fraud, then he will be liable towards the third parties. Also from a moral point of view the auditor is liable towards third parties.

If any third party wants to hold the auditor liable for any damages that may have been suffered by it, it will have to prove the existence of the following facts:

(a) The balance sheet and profit and loss account certified by the auditor contained inaccurate information.
(b) The auditor was aware of the inaccuracies and irregularities contained therein.
(c) The third party had entered into the transaction relying upon the accounts certified by the auditor, and as a result, had suffered a loss.

The courts have given a number of decisions on whether the auditor is liable towards third parties of or not.

Not Liable for negligence: - If, due to negligence or malfeasance on part of the auditor, any third party suffers a loss, then the auditor cannot be held liable for the same since there is no contract between the auditor and the third party. In this case, the above mentioned three cases in courts are important.

Liable for Fraud: - The auditor cannot be held liable towards third parties for negligence or misfeasance. However, if he is found guilty of fraud and any third party has suffered any loss, then the auditor shall be liable to make good such loss. In this content the case of Deere vs. Peek is very relevant in which it was held that, in order to hold the auditor guilty of fraud, the following facts must be proved:

(a) The auditor had made an untrue statement,
(b) The auditor was aware that the statement he was making was not true.
(c) The statement was made with the aim that on the basis of the statement, third parties enter into transactions with the company, and,
(d) The third parties entered into the transaction relying upon the statement, and, as a result, suffered a loss.

Only if the above mentioned four facts are proved can the auditor be held guilty of fraud. If even one of the above facts cannot be proved, the possibility of the auditor being absolved by the courts is greatly increased.

Moral Liability: - Even though except for fraud, the auditor is not liable towards third parties even for negligence or misfeasance, the auditor should always maintain his professional honesty. The auditor should always keep in mind that even though he is mainly liable towards his client, his moral liability towards third parties is no less. Relying upon his report, people from various factions of the society enter into transactions with the organization. Hence, Even though he is not liable towards them legally, he is morally liable towards them.

In the case of **Hedley Beyren & Co. Ltd.**, the house of lords, supporting the above line of thinking observed, it cannot be denied that the auditor is mainly responsible towards his client however, the auditor cannot ignore his responsibility towards the many people and organizations such as customers, employees, bankers, lenders etc, who enter into transactions based on the reports or certificates issued by him.

Liability under the companies Act: - According to section 62 of the companies Act, if the auditor makes a wrong statement (untrue statement or misstatement) in the prospectus of the company, then he shall be liable for the same, and shall have to make good the damages suffered by all the people who invested in the shares or debentures of the company on the basis of the prospectus, and as a result suffered a loss. The auditor will be liable only when:

(a) When he has issued certain untrue statement which have been included in the prospectus of the company,
(b) The people purchasing the shares or debentures did so relying upon the said statements, and,
(c) As a result, the investors suffered a loss.

However, the auditor shall not be liable in the following circumstances:

(a) If the auditor had withdrawn his consent to the statements before the date of issue of the prospectus and the prospectus had been issued without his approval, or.
(b) If as soon as the auditor becomes aware that the untrue statements are contained in the prospectus, he immediately issues a withdrawal of the same, and declares the true facts publically or.
(c) If the auditor after the issue of the prospectus but before the allotment of shares or debentures, withdraws his consent and issues a public notice to the affect or,
(d) If the auditor had sufficient evidence to believe the untrue statements to be true and correct.

Under section 543 of the companies Act, in relation to a company that is being liquidated, if the courts hold the auditor guilty of breach of trust or malfeasance, then the courts can compel the auditor to pay the company damages.

Criminal Liability:-

If any auditor while conducting the audit, comments any act which is legally considered to be a crime then he is said to be indulging in criminal activities. For such activities the auditor is also perished just like other criminals. For indulging in such activities, the auditor can be fined and can also be sent to prison. A few important examples of criminal activities are as follows:

(a) Concealing fraud upon its detection in the books of accounts.
(b) Harming the property of the client.
(c) Issuing a fraudulent report knowingly.
(d) Aiding in falsifying the books of accounts.

Cost Audit: -

Cost audit is the auditing of the costing system and accounts to insure that they confirm to the objective of the cost accountancy. The accounting start from the purchase of the raw material and cover the cost of manufacturing process and other cost till the end product is ready to be marketed.

UNIT: - IV

AUDIT REPORT

Meaning and Definition of Audit Report: -

The auditor is appointed to verify the accounts of an organization. After verifying the accounts the auditor gives a brief summary of the work done by him, which is signed by him. This summary is known as the audit report.

According to section 227(2) of the companies Act, after the completion of an audit the auditor has to issue a report relating to the accounts, profits and loss account, balance sheet and relevant

documents, which is presented by the company in the general meeting. Therefore after the completion of the audit the auditor presents a report, in which he states his observations as a result of the verifications and his conclusions on the same. This report is only known as the audit report. In this way the audit report is the end product of each audit. It is the medium through which the auditor expresses his views on the yearly accounts and other details.

Jospeh Lancoster has defined audit report as follows, "Report is statement of collected and considered facts, so drawn up as to give clear and concise information to persons who are not already in possession of the full facts of the subject matter of the report."

From the above definition the following characteristics of an audit report are observed:-

1. Report is a summary of the verification conducted by the auditor.
2. The report also gives details of all the conclusions which the auditor concludes after the verification activities.
3. If required, the auditor also gives his views along with the issues in the report.
4. The report has to be signed by the auditor.
5. Concrete and brief information is received from the report.

Importance of report:-

Audit report is important for all those persons and parties which are related to the organization. The audit report gives a time picture of the state of the organization. The main parties which benefit from an audit report are as follows:-

1. Investor.
2. Shareholders.
3. Directors.
4. Creditors.
5. Government.
6. Taxation officer.

disclaimer of opinion:

Contents or Subject-matter of Audit Report and disclaimer of opinion:-

According to section 227(3) of the companies Act, 1956 the following points should be clearly defined in the audit report to be given to the members of the company.

1. (a) If according to his opinion and the information available to him and the clarification given the accounts give all the information as required by the company Act.
   (b) If according to his opinion the balance sheet and profit and loss account of the financial year give true and fair view of the state of affairs and financial position of a company?
2. If he has received all such information and clarification of according to his information and brief the necessary for the conducting the audit?
3. If according to his opinion adequate books of accounts, as is apparent from their verification, as required by the provisions of the companies Act are maintained by the company and adequate details have been obtained from those branches not verified by him?

4. If report of the branch accounts audited by a person apart from the company auditor has been sent to him and how he has utilized that report while preparing his own audit report?
5. If the profit and loss account, Balance sheet as according to the books of accounts of the company?

   If the auditor has any suspicions on any one of the above points he should state the same and also the reasons for such suspicions.
6. According to section 227 (4A) the companies Ac (Amendment), 1965 the central government can by an ordinary or special order direct the auditor to include his comments on certain points in the audit report. The auditor will have to include the above mentioned details in this audit report. The central government cannot issue such an order without obtaining the approval of the institute of chartered accounts of India. Such an order is applicable to the following companies:
   (a) Manufacturing, mining and processing companies.
   (b) Companies supplying and Rendering services.
   (c) Trading companies.
   (d) Companies engaged in the business of financing, investment, Chit fund and Mutual Benefit Companies.
7. As per section 619 of the comptroller and Auditor General has the right to issue an order directing the auditors of government companies to include certain points in their audit reports.

   According to section 211 the Balance Sheet and Profit and Loss Account of the company include all such notes and documents from which all the essential information can be obtained.
8. According to section 229 only the person who has been appointed the auditor or if as per section 226(1) a form has been appointed then any particular practicing in India, can sign the audit report or any other document and certify it. No other person can sign.
9. If after the balance sheet date but before issuing the audit report the auditor gets information of any abnormal profit or loss then he has to disclose the same in his report.

True and Fair:-

When the books of accounts were prepared as per the companies Act 1956 then the words 'True and Correct' were used, but now as per the companies Act, 1956 the words 'True and Fair' are used.

Matters to be considered while preparing report:-

A good report should include the following points:

(i) The report should be addressed to those people, for whom the audit is done for, e.g., the point of a company should be addressed to the members.

(ii) The language of the report should be easy and ordinary.

(iii) The report should be divided into paragraphs.

(iv) The auditor should not give any advice unless he has been asked for advice.

(v) The auditor should refer to all those documents, details and comments that were used by him during the audit.

(vi) In case of a qualified report, the qualifications should be mentioned very clearly.

(Vii) The report should be imparted and unbiased.

(VIII) The criticism stated in the report should not be such as to harm any particular person.

(ix) The report should be as brief as possible, without omitting any important fact.

(x) This not desirable to use words having more than one meaning, in the report.

(xi) At the end of the report the signature of the auditor should be on the left hand side and the word chartered accountant should be written below it.

(Xii) On the right hand side at the end of the report the place and date should be written.

(a) Clean Report:-

If the auditor after verifying the books of accounts comes to the conclusions that the books of accounts have been appropriately maintained, there are no mistakes, inadequacies and frauds, the profit or loss as shown by the profit and loss account and the financial position as per the balance sheet are correct which means that the auditor has no complaints or suspicions, then in such a situation the report issued by him is called a clean report. It is also known as an unqualified report. Every businessman tries to maintain the accounts in such a manner, so that a clean report can be obtained from the auditor. The goodwill of the organization increases with such a report.

(b) Qualified Report:-

If during the audit the audit find any discrepancies, irregularities, frauds or other deficiency in the books of accounts, i.e., He is not fully satisfied about the accuracy of the Profit and Loss Account and Balance sheet of the organization then he should write in his report the various points which make the accounts of the organization then he should write in his report the various points which make the accounts of the organization in accurate. The auditor writing this is a qualification in itself. A report which has such qualifications is known as a 'qualified Report'. A qualified report does not certify the truth and correctness of the accounts.

Difference between Clean and qualified Report:-

The difference between a clean and qualified report are as follows:

(a) A clean report increases the goodwill of a business and a qualified report decreases it.
(b) A clean report shows that there are no discrepancies and fraud in the books of account. A qualified report on the other hand shows that the books of accounts have discrepancies and fraud in them.
(c) A clean report shows that the Balance Sheet and Profit and Loss account shows a True and Fair view of the state of affairs of the business. A qualified report on the other hand states that the balance sheet and profit and loss account does not state a true and fair view of the state affairs.
(d) A clean report does not have the details any qualifications whereas a qualified report contains the details of all the qualification.
(e) From a clean report it can be found out if the auditor is satisfied about the correctness of the books but in a qualified report he is not satisfied with the accounts verified.

Specimen of Audit reports:-

The audit report of a company with branches is different from a company without branches. The audit reports for both companies are as follows:

1. **Specimen of clear or unqualified report.**

Delhi

April 30, 2014

The members,

ABC & Co.

Gentlemen,

We have audited the attached balance sheet of ABC & co. as at 31st March, 2014 and also the annexed Profit and Loss Account of the company for the year ended on that date and report that (i) we have obtained all the information and explanation which to the best of our knowledge and belief were necessary for the purpose of our audit.

(ii) In our opinion, proper books of account as required by law have been kept by the company so far as it appears from the examination of books.

(iii) The balance sheet and the Profit and Loss account dealt with by this report are in agreement with the books of accounts.

(iv) In our opinion and to the best of our information and according to the explanation given to us the accounts give the information required by the companies Act, 1956 in the manner so required and give a true and fair view.

(a) In the case of balance sheet of the state of affairs of the company as at 31st March,2014 and
(b) In the case of the Profit and Loss account of the profit for the year ended on that date.

Delhi

April 30, 2014, Chartered Accountant.

2. **Clean Report of a Company with Branches**

Delhi

30 April, 2014

The Members

ABC & Co.

Delhi

Gentlemen,

We have audited the attached balance sheet of ABC & Co. as at 31st March, 2014 and the annexed Profit and Loss account for the year ended on that date and report that:

(1) We have obtained all the informations and explanations which to the best of our knowledge and belief were necessary for the purposes our audit.
(2) In our opinion, proper books of account as required by law have been kept by the company so far as it appears from the examination of books and proper returns, adequate for the purpose of our audit, have been received from branches not inspected by us.
(3) The accounts of branches have been audited by their respective auditors under section 228(3) (c).
The reports of audited accounts have been received by us. They have been dealt with by us in the manner we considered necessary, while preparing this report.
(4) The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account.
(5) In our opinion and to the best of our information and explanation given to us, the said accounts provide the information required by the Companies Act,. 1956, in the manner so required and give a true and fair View:
    (a) In the case of balance sheet of the state of affairs of the company as 31st March 2014 and.
    (b) In the case of the Profit and Loss Account, of the profit for the year ended on that date.

Delhi

30th April, 2014. Chartered Accountant

3. Specimen of qualified Report

Delhi

30 April, 2014

The Members

ABC & Co.

Delhi

Gentlemen,

We have audited attached the Balance Sheet of ABC & Co. As at 31st March 2014 and also the annexed Profit and Loss Account of the company for the year ended on that date and we report that:

(1) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.
(2) In our opinion, proper books of account as required by law have been kept by the company as far as it appears from our examination of the books.
(3) The balance sheet and Profit and Loss Account dealt with in this report are in agreement with the books accounts.

(4) Subject to the qualification given below, in our opinion and to the best of our information and according to the explanations given to us, the accounts give the information required by the companies Act, 1956, in the manner so required and give a true and fair view:

(a) In the case of the Balance Sheet of the state of affairs of the company as at 31st March, 2014 and

(b) In the case of the Profit and Loss Account of the profit for the year ended on that date.

(c) The provision for depreciation on plant and machinery is inadequate.

(ii) Valuation of stock has been done on market price which is much more than cost price.

(iii) No Provision has been made for doubtful debts when some of them are very old (bad).

Delhi

30th April, 2014 Chartered Accounts

Audit Certificates:-

A certificate is used in those situations where the auditor wants to show the existence and truthfulness of certain issues, i.e., a certificate is the evidence absolute truth of any issue. In some circumstances it is essential to issue an audit certificate. Such circumstances are as follows:

1. For Statutory Report.
2. For Prospectus.
3. For Liquidation.
4. For import License.
5. For other Purposes.

Difference between Audit Report and Audit Certificate:-

An audit report is, different from an audit certificate. An auditor issues a report on the financial accounts and details (profit and loss account and balance sheet), he does not certify them. In the true sense, certification means accepting the existence of certain facts.

When an auditor certifies any financial details, it means that the contents of the details can be measured and that the auditor has verified the accuracy of the figures.

In such a way, it is clear that the word certificate should be used only when the auditor certifies the truthfulness of certain issues, for example, to certify the sales of a particular book, to certify the value of imports or exports of a company etc.

On the other hand, a report is an expression of opinion. When an auditor issues a report on the financial accounts and details, it means that he is expressing his views on such accounts and details. This is the reason that the auditor expresses his views in the report that in his view the financial accounts and details have been made according to principles or not, as a result of which a correct position is presented or not.

S.No.	Basis of Difference	Audit certificate	Audit report
1.	Nature	In this specific	In this views are

		information is given by the auditor.	expressed by the auditor.
2.	Approach	In this the auditor makes a declaration regarding existing	In this the auditor presents his critical view points.
3.	Liability	The auditor has more liability in this regard.	In this the liability of the auditor is comparatively less.
4.	Purpose	It is required only for financial regarding, prospectus. Import license and liquidation of a company.	An audit report is presented at the end of each audit.
5.	Examples	Section 56 and 165 are the main examples.	Section 227(3) and 271 are the main examples.

Specimen of Audit Certificate

The Members,

ABC & Co.

Delhi Delhi

30th April, 2014

Gentlemen,

We certify as correct that part of our report so far as it relates to the shares allotted by the company, the cash received in respect of such shares and various receipts and payments of the company.

Delhi

30th April, 2014 Chartered Accountant

VERIFICATION OF ASSETS AND LIABILITIES

1. **Meaning of verification:-**

Verification is a procedure of auditing in which the auditors verify the assets and liabilities as shown in the balance sheet by actual checking or any other technique.

'Assets' means that, on the date of the balance sheet, such assets were present in the organization, the ownership of these assets was with the organization, they have been valued properly, they are free of any charge on the etc.

Definitions of verification:-

Various experts have defined verification in the following ways:

1. **According to Spicer and Pegler: -"**The verification of assets implies an enquiry into the value, ownership and title, existence and possession, the presence of any change on the assets."
2. **According to J.R. Batliboi: -** "The duty of an auditor in verifying the assets is two-fold. He must satisfy himself that they really existed at the date of the balance sheet and were free from any change and that they have been properly valued. In verifying the liability he has to see that all liabilities have been inserted at their proper figures and that is liability has been omitted.

   On the basis of the above definitions the following conclusions can be drawn in relation to verification

(i) The right and ownership of the assets was the organization.
(ii) The assets have been correctly valued keeping into mind their physical conditions.
(iii) The assets were acquired after due authorization for the purpose of carrying on the business.
(iv) The assets were actually present in the organization on the date of the balance sheet.
(v) No change exists on the assets and, if any change does exist, the same is mentioned in the balance sheet and that other than this no change exists on the date of the balance sheet.
(vi) The values of the assets mentioned in the balance sheet are correct.
(vii) All liabilities are shown at their amounts and all liabilities have been included.

Objects of Verification:-

- Checking of arithmetical accuracy.
- To ascertain the existence.
- Ownership and title.
- Knowledge of fraud and irregularity.
- Proper valuation.
- True and fair view of balance sheet
- Real position of assets and liabilities.

Importance and advantages of verification:-

Normally, it is believed that vouching is the basis for auditing, but by vouching only the fact that an asset can be purchased is established. On the other hand verification includes the existence of the asset and the right of ownership of the organization is established. Apart from this, the authority and responsibility for various assets is also verified. By vouching it cannot be establish that at the date of the balance sheet the assets were present in the business or organization because it is possible that an asset is purchased and proof for the same is available but at the date of the balance sheet it has either been sold or destroyed, or is given as a security or utilized for an illegal investment. Therefore, verification of assets is essential to establish that all the assets were existing with the organization on the date of the balance sheet; they were not subject to any charge and were properly valued. Verification cannot be considered to be less important than vouching.

Benefits available from verification are as follows:-

- The truth and fairness of assets and liabilities can be verified.
- Any fraud and embezzlement of assets can be found out.

- In case the assets have been over-Valued in the past, the same can be found out by verification.
- The correct value of work –in- progress and closing stock can be determined.
- Assurance for receipt of payment can be obtained by the creditors.

A proper verification of the business of the organization encourages the investors to invest money in it.

Difference between vouching and verification:-

After understanding the meaning and objective of verification the difference between vouching and verification should also be understood. Verification, like vouching, is also a technique of auditing but the main points of differences between the two are as follows:

- Verification of assets and liabilities

Difference between vouching, valuation and verification:-

The main points of distinction between vouching, valuation and verification are as follows:

1. **Meaning**: - Vouching involves the verification of the books of accounts with the help of the relevant vouchers.
   Valuation is used to determine whether the assets are shown at their actual value in the balance sheet or not.
   Verification involves vouching for the value, ownership, existence and right on the assets and liabilities.
2. **Subject matter**: - Vouching is done for the principal books of accounts. On the other hand, verification and valuation is done for the issues stated in the balance sheet.
3. **Performance**: - Vouching is done by a senior clerk because it is a part of the routine work in an audit. Valuation is normally done by the management or technical experts. Verification is done by the auditor himself.
4. **Time**: - Vouching is a basic function and is carried out throughout the year. Verification and valuation is done after the preparation of the balance sheet but some assets are valued on the last date of the financial year like cash, bills, securities, stock etc.
5. **Evidence**: - In vouching the direct or indirect proof is present on the basis of which the accounts are verified. The auditor has to rely on the certificate of the management for valuation of assets since not much proof for the same can be obtained. Proof can be obtained for verification also.
6. **Scope**: - The scope of vouching is limited because the verification of assets and liabilities is outside its scope. Valuation is influenced by the going concern value and is subject to certain principles. Valuation is a part of verification. In verification the physical existence of assets and liabilities is verified. Verification has a wider scope than valuation since valuation is a part of verification.

Auditor's duty:-

The duties of an auditor regarding verification can be divided into the following two parts:

1. In relation to assets, and
2. In relation to liabilities.

In relation to assets: - The auditor should verify the following points while conduction a verification of assets:

1. The assets actually exist on the date of the balance sheet.
2. The assets belong only to the organization and all the assets have been clearly mentioned in the balance sheet. There should be no assets which are not mentioned in the balance sheet.
3. The valuation of assets is appropriate.
4. The assets are in the name of the organization and the organization has a right on them.
5. The assets are free of any charge or lien on them, but in case there is a charge on them the same has been mentioned clearly.
6. Any addition made to any asset should be added to the value of the asset in the balance sheet.
7. Any expenditure incurred in the repairs and renewal of the asset should be debited to the profit and loss account.
8. Adequate and appropriate depreciation is charged on the assets.
9. In case a part of any asset is sold the auditor should verify the relevant sales, convenience copies of receipts and other evidence to in this respect
10. Moveable assets like cash, bills, stock and securities etc. this respect should be present in the organization on the date the balance sheet is made.
11. Other fictitious and intangible assets which need to be written off should be verified keeping in mind the principles applicable to them.

In relation to liabilities:-

The auditor verifies liabilities also along with assets and for doing so he has to keep the following points into consideration.

1. The liabilities shown in the balance sheet are of the organization only.
2. Personal liabilities of the employees should not be included in the liabilities of the organization.
3. The liabilities as shown in the balance sheet were actually liabilities on the date on which the balance sheet was made.
4. The liabilities are shown at their correct values.
5. Doubtful liabilities should not be included in the actual liabilities.

The auditor will be held liable for any loss incurred due to his being negligent in his duties. In the following judgments an auditor was held negligent.

Verification of Assets: - The procedure for verification of assets shown in the account is as under:-

Free hold land & buildings: free hold assets like land, building etc. are immovable assets of the business.

- Ownership
- Physical inspection
- Change in assets.
- charge
- New construction of building
- Revenue exp. valuation show in the Balance Sheet.

Lease hold Property: - Means that property which the lessee acquire under a lease agreement and exercise a right on it for a limited period.

Ownership, existence, Revenue exp, charge, valuation, increases or decrees, show in the balance sheet.

Plant & machinery: -

Ownership, existence, charges, capital and revenue exp. alternation, valuation, assembling of plant, checking of plant register and balance sheet.

Furniture fixture and fitting,

Car and other conveyance,

Livestock, investment,

Verification of liabilities: - The auditor should not only verify the identity of liability but also verify whether the liabilities have been disclosed. Appropriately in the balance sheet, are accurate and are related to and exist in the business.

Trade creditor:-

1. List of creditor should be obtained and this list should be verified with other reports.
2. Statement of account received from the creditor should be tallied with their individual account.
3. The invoices for the purchase received should be verified.
4. Cash & discount received should be verified.

Text Books:

1. Kumar, Ravinder, and Sharma, Virender, (2009), Auditing: Principles and Practices, PHI.
2. Jha, Aruna, (2010), Auditing, Taxmann Publishers.

Reference Books:

1. Meenakumari, S. and Nagarajan, I., (2010), Fundamentals of Auditing, APH Publishing Corporation.
2. Campbell, Moroney Fiona, Robyn & Hamilton, Jane (2007), Auditing: A Practical Approach. John Wiley & sons.
3. Tondon, B.N. (2010), A Hand Book of Practical Auditing, S. Chand & Co., Delhi
4. Colifford Gomez, (2011), Auditing and Assessment Theory & Practices, Prentice Hall International.