

Tutorial Notes

Class: B.Com (Hons.) Semester III (CC-5)

Subject: Auditing and corporate Governance

Topic: Introduction, meaning, definition & Objectives of Audit.

Prepared by: Dr. Aftab Alam

Faculty of Commerce, Karim City College, Jsr.

Introduction

The audit is an intelligent and critical examination of the books of accounts of the business.

Auditing is done by the independent person or body of persons qualified for the job with the help of statements, papers, information and comments received from the authorities so that the examiner can confirm the authenticity of financial accounts prepared for a fixed term and report that:

- The balance sheet exhibits an accurate and fair view of the state of affairs of concern;
- The profit and loss accounts reveal the right and balanced view of the profit and loss for the financial period;
- The accounts have been prepared in conformity with the law.

Thus, it will be seen that the duty of an auditor is much more than a mere comparison of the balance sheet and accounts with the books.

But, apart from doing this, he has to satisfy himself according to his information and the explanations given to him.

Meaning of Auditing:

The term audit is derived from a Latin word “audire” which means to hear. Authenticity of accounts is assured with the help of the independent review.

Auditing, therefore, is an examination of the books of accounts and vouchers of the business by an independent person who should be qualified for the job, in order to ascertain their accuracy.

Definition:

Audit is the examination or inspection of various books of accounts by an auditor followed by physical checking of inventory to make sure that all departments are following documented system of recording transactions. It is done to ascertain the accuracy of financial statements provided by the organization.

“Audit is defined as an investigation of some statements of figures involving examination of certain evidence, so as to enable an auditor to make a report on the statement.” –**Taylor and Perry**

“Audit may be said to be verification of the accuracy and correctness of the books of accounts by an independent person qualified for the job and not in any way connected with the preparation of such accounts.” –**J.B. Bose**

“Audit is not an inquisition and its mission is not one of fault finding. Its purpose is to bring to the notice of the administration lacunae in his rules, regulations and lapses, and to suggest possible ways and means for the execution of plans and projects with greater expedition, efficiency and economy.” –**A.K. Chandra**

Objectives of Audit

The 2 main categories of audit objectives are;

1. Primary objectives and
2. Subsidiary objectives.

Primary Objectives of Audit

The main objectives of the audit are known as the primary objectives of the audit. They are as follows:

1. Examining the system of internal check.
2. Checking arithmetical accuracy of books of accounts, verifying posting, casting, balancing, etc.
3. Verifying the authenticity and validity of transactions.
4. Checking the proper distinction between capital and revenue nature of transactions.
5. Confirming the existence and value of assets and liabilities.

Verifying whether all the statutory requirements are fulfilled or not.

Proving true and fairness of operating results presented by income statement and financial position presented by the balance sheet.

Subsidiary Objectives of Audit

These are such objectives that are set up to help in attaining primary objectives. They are as follows:

Detection and prevention of errors

Errors are those mistakes that are committed due to carelessness or negligence or lack of knowledge or without having vested interest.

Errors may be committed without or with any vested interest.

So, they are to be checked carefully. Errors are of various types. Some of them are:

- Errors of principle.
- Errors of omission.
- Errors of commission.
- Compensating errors.

Detection and prevention of frauds

Frauds are those mistakes that are committed knowingly with some vested interest in the direction of top-level management.

Management commits frauds to deceive tax, to **show the effectiveness of management**, to get more commission, to sell a share in the market or to maintain the market price of share, etc.

Detection of fraud is the main job of an auditor.

Such frauds are as follows:

- Misappropriation of cash.
- Misappropriation of goods.
- Manipulation of accounts or falsification of accounts without any misappropriation.

Under-or over-valuation of stock

Normally such frauds are committed by the top-level executives of the business. So, the explanation is given to the auditor also remains false.

So, an auditor should detect such frauds using skill, knowledge, and facts.

Other objectives

- To provide information to the income-tax authority.
- To satisfies the provisions of the Companies Act.
- To have a moral effect.