



**SHIVAJI UNIVERSITY, KOLHAPUR**

**CENTRE FOR DISTANCE EDUCATION**

**B. Com. Part-III**

# **Advanced Accountancy**

**Semester-V Paper-II**

**(From Academic Year 2015-16 onwards)**

## Unit - 1

# Auditing

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Structure

- 1.0 Objectives
- 1.1 Introduction
- 1.2 Meaning and definitions
- 1.3 Scope of auditing
- 1.4 Advantages / Necessity of auditing
- 1.5 Basic general principles of auditing
- 1.6 Objectives of auditing
- 1.7 Types of audit
- 1.8 Internal check
- 1.9 Key words
- 1.10 Self assessment questions
- 1.11 Further Readings

### **1.0 Objectives**

After studying this unit you will understand :-

- Meaning of Auditing
- Scope of Auditing
- General principles of auditing
- Objectives of auditing
- Types of audit
- Importance of Internal check

## **1.1 Introduction**

The Industrial Revolution in 1860 has changed the nature of business from small scale industry to large industries. It increased the volume of trading operations necessitating the use of more capital. The required capital was collected from various scattered share holders. The management of business is being done by employed (salaried) persons. Therefore the owner (shareholders) wants to know the financial positions of their business. It necessitated the use of proper checking of accounts.

In the early stage of civilisation, the size of business houses were very small. The amount invested were also very less. A businessman himself records the transactions. Therefore there was no need to check the transactions by some other person. The transactions of public companies have to be checked by a third party. There were no special staff to check these transactions. The accounts were read before some impartial and experienced persons, ordinarily 'Judges' known as 'auditors'. They hear the accounts written by accountants and express their opinion about the correctness of the accounts. Thus the term 'auditor' literally means 'hearer' i.e one who hears the accounts. The word 'audit' is derived from the 'Latin' word 'audire' which means to hear.

In the last decade of 15<sup>th</sup> Century Luca Paciolo, an Italian published the book 'Principles of double entry book - keeping' in 1494. This was only system of recording all types of business transactions. The history of auditing in India dates back to April 1914, when Indian Company Act 1913 was passed. This Act made it obligatory to every Company registered under this Act; to have the accounts audited at least once in a year. In the initial stage Bombay Government was conducting Government Diploma In Accountancy examinations. Thereafter under the Auditors Certificate Rules 1932 allowed to work as auditor. The Central Government established an Indian Accountancy Board under which Registered Accountants were allowed to work as an auditor.

In 1949 The Chartered Accountants Act came into force. It granted autonomy to the accountancy profession. In order to obtain it's certificates of Chartered Accountant a person has to follow the rules and regulations made by the institution.

## **1.2 Meaning and Definitions**

Auditing is a scientific and systematic examination of books, vouchers and other financial and legal records in order to verify and report upon the facts regarding the financial condition disclosed by the balance sheet and profit revealed by profit and loss

account. The person who does the work of examination of books of accounts is called as an auditor.

### **1.2.1 Definitions :**

In the initial stage audit included only the ascertainment of the fact whether the accountant has properly recorded the receipts and payments of cash i. e. it was merely a cash audit. But today the scope of audit has much wider than that of previous. Following are some important definitions of auditing.

**1. Spicer and Pegler :** An audit is "such an examination of the books of accounts and vouchers of a business, as will enable the auditor to satisfy himself that the Balance Sheet is properly drawn up, so as to give a true and fair view of state of the affairs of the business and whether the Profit and Loss Account gives a true and fair view of the profit or loss for the financial period according to the best of his information and the explanations given to him and as shown by the books, and if not, in what respect he is not satisfied."

**2. L. R. Dickesee :** "An audit is an examination of accounting records undertaken 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 ascertain whether the transactions themselves are supported by proper authority."

**3.** "Audit is an instrument of financial control. It acts as a safeguard on behalf of the proprietors agents or servants in realisation and utilisation of money or other assets. It also assures the proprietor that the expenditure and outgoing have been incurred with due regularity and propriety. The agency employed for this purpose is called an 'Auditor' " – Comptroller and Auditor General of India.

From the above definitions it is clear that the audit means –

- (a) Examination of books of accounts with help of vouchers, evidences, information and explanations.
- (b) The audit work is carried out by an independent person who is not connected with writing of books of accounts.
- (c) To state whether the Profit and Loss Account and Balance Sheet show true and fair position of the state of affairs.

### 1.3 Scope of Auditing –

The scope and dimension of auditing greatly increased in severities. The evolution of new concept such as tax audit, management audit and operational audit. The primary audit objective of detection of the errors and frauds now shifted to the determination of the fairness and authenticity of reported financial position together with the detection and prevention of errors and frauds. This vastly enhanced the scope of auditing exhaustive rules and regulations were framed in all the countries of the world for conduct of independent professional audit.

An auditor certifies the correctness of the books of accounts and detects errors committed by the accounting clerk in the preparation of financial statements. If the verification is not conducted in proper and satisfactory manner, the result would be unreliable. There are various reasons due to which the financial books may be incorrect. The auditor should bring them to light and report to the owners of the business.

Thus as stated by shri A. K. Chanda, former Comptroller and Auditor General of India, “audit is not an inquisition and it’s aim is not one of fault finding. Its purpose is to bring to notice of the administration lacuna in the rules and regulations and lapses, and to suggest possible ways and means for the execution of plans and projects with greater expedition, efficiency and economy.”

#### **Book Keeping, Accountancy and Auditing –**

Book – Keeping, accountancy and auditing are the three aspects of Accountancy. The first part is a practical, second is theoretical and last one is analytical. Initially there was no difference in duties of book keeper and accountant. With the development industry and trade, book – keeping and accountancy have become separate functions. The following description makes this distinction clear.

**Book – Keeping :** It is the art of recording the daily transactions in the set of financial book. The book – keeper is mainly concerned with journalising, posting, totaling and balancing the various accounts in the ledger. This work is a mechanical work and does not require any special skill.

**Accountancy :** Accountancy begins where Book – Keeping ends. The work of Accountant, start when the job of book – keeper is completed. The accountant has to satisfy himself that the transaction have been properly recorded and posted in the books of accounts. He makes the trial balance agree. Then he prepares the final accounts after making necessary adjustments. He should have knowledge of accounting principles and basic skill of preparing the final accounts.

**Auditing** : Where accountancy ends, auditing begins. It involves verification of the entries passed by accountant and final accounts prepared by him. It is a work of scrutiny with the help of vouchers, documents and the information supplied him. The auditor has to satisfy himself about the authenticity of transactions. The auditor is required to submit his report to the effect whether or not the Balance Sheet is true and fair representation of the state of affairs of the business. Thus an auditor must be well – versed in accounting. The person having passed the examination of Chartered – Accountant (C. A) is qualified to work as an auditor.

**Difference between Accounting and Auditing –**

<b>Point of Difference</b>	<b>Accounting</b>	<b>Auditing</b>
<b>Meaning</b>	Accounting is recording of all day to day transactions in the books of accounts.	Auditing is a critical examination of the transaction recorded in the books of accounts.
<b>Nature</b>	It is concerned with finalisation of final trading result.	It is concerned with establishment of reliability of financial statement.
<b>Object</b>	The object of accountancy is to ascertain the trading result.	The object of auditing is to certify the correctness of financial statement.
<b>Scope</b>	Accounting limited to books of accounts only.	The scope of auditing is beyond the books of accounts.
<b>By whom</b>	Accounting work is done by employed persons of enterprise they do not need any special qualification.	Auditing is done by an independent person. The person doing the work of auditing must be a chartered accountant.

<b>Point of Difference</b>	<b>Accounting</b>	<b>Auditing</b>
<b>Report</b>	The accountant need not to submit his report.	The auditor has to submit his report to the appointing authority.
<b>Responsibility</b>	Accountant is responsible to management.	Auditor is appointed by owners / shareholders therefore he is responsible to shareholders.

#### **1.4 Advantages / Necessity of auditing**

Irrespective of the fact whether auditing is compulsorily or voluntarily or statutorily, there are numerous advantages of audit. These are grouped as follows :-

1. **Punctuality in accounting department** : The employee who records, maintains the books are always punctual, careful and systematic in their work.
2. **Moral check an employees** : Errors and frauds if any committed by employees are properly detected by auditor. Therefore there is a moral check on every employee.
3. **Determination of liability** : Liability of an enterprise regarding income tax, sales tax, wealth tax etc can be easily determined on the basis of audited statements of accounts.
4. **Credit facilitates** : Loans and credit may be obtained easily on the basis of audited statements. Because these audited statements are more reliable about the state of affairs of the institution.
5. **Comparison of accounts** : Audit enables comparison of accounts between two departments, companies or periods. It is useful for management analysis.
6. **Useful for partnership firm** : Partners can utilise the audited statements to settle their dispute regarding valuation of goodwill, adjustment in capital, at the time of admission / retirement of partner.
7. **Detection of weaknesses of control** : If there are any drawbacks & weaknesses of present internal control system it can be detected by auditor. He also suggests remedies to improve the internal control system.
8. Shareholders who resides at different statement from Head office reply on the

audited statements and can be sure about their investments.

9. Insurance companies also rely upon the audited statements of accounts for settlement of claims in respects of fire insurance etc.
10. The audited statements of a business are readily accepted as evidence in trade disputes.

### **Is auditing a Luxury ?**

The following points have been given to prove that auditing is a luxury.

1. The remuneration paid to the auditor is a charge on profit and mere wastage of funds.
2. Auditing creates a lot of obstructions in daily routine of work and hence it is an unnecessary waste of time.
3. As auditing can not detect and prevent all the errors and frauds & it is of no use.

The above arguments are not sound and are based on illusory grounds. If accounting is a necessity, auditing is still more important. Auditing may not be necessity and legally compulsory in the case of small business houses where only small amounts of capital are invested and accounts are maintained in a very crude form. But for big business audit has a great practical utility. Every firm must maintain proper accounts and get them audited by some independent and qualified auditor. Hence, it is wrong to say that auditing is a luxury, while accounting is a necessity.

## **1.5 Basic General Principles of Auditing**

Dictionary meaning of the word 'principle' is fundamental truth, a primary or basic law or doctrine; a settled rule of action. Though the principles of auditing are not as finely developed as the principles of accounting, the following fundamental principles of auditing have evolved over the years.

1. **Principles of Independence** : Independence is a basic need of auditing, without it objectives of auditing cannot be obtained with all fairness.
2. **Principles of objectivity** : Auditing must be conducted objectively. The auditor must be free from bias, emotions and whims; while auditing.
3. **Principles of full disclosure** : The client should provide to the auditor all possible evidence, explanation and records. The principle implies that the auditor should make full disclosure of his findings.



4. **Principles of materiality** : This principles indicates that more attention must be paid to those items which are materially important and in the areas where the risk of error / fraud is relatively more.

## 1.6 Objectives of Auditing

As stated by L. R. Dicksee, initially the object of audit was to detect errors and frauds. For this purpose an auditor has to do detailed checking of transactions. But with fast changes in the volume and size of business, this object becomes a subsidiary. Now the **primary object** is to verify the accounts and statements with the view to confirm their accuracy and ascertain whether the final statement shows true and fair view of the state of affairs of the concern. The **primary object** of the audit is to examine the system of internal control and internal checks. The auditor must satisfy himself that no fraud or error has been committed by management, partners or employees.

### Secondary Objects of Audit –

- A) Detection and prevention of errors and
- B) Detection and prevention of frauds

### A] **Detection and prevention of errors** :

Errors means human mistakes in recording, posting, calculating. Such mistakes / errors takes place due to ignorance or negligence on the part of clerical staff.

#### **Types of errors** :

1. Errors of omission.
2. Errors of commission.
3. Errors of principles.
4. Compensating errors.

**1. Errors of omission** : When a transaction remains to be recorded in the books of accounts wholly or partially, it is error of omission. If it is omitted wholly it does not affect the agreement of trial balance. Such errors cannot be detected easily. But if the transaction is recorded partially, it will affect the agreement of trial balance.

**2. Errors of commission** : When entries are wrongly entered in the books of account, wrong casting, wrong calculations, then it is known as errors of commission. These errors can be easily detected as they affect the agreement of trial balance.

**3. Errors of principles :** Such errors takes place when proper allocation of expenditure / income is not made according to the fundamental principles of accountancy. When capital expenditure / income is treated as revenue expenditure / income & vice-versa. Then it is said to be errors of principles. This types of errors cannot be detected easily, as they do not affect the agreement of trial balance.

**4. Compensating Error :** When an error is made for counterbalance of any other error or series of error it is said to be compensating error. When trial balance does not agree, the difference is adjusted by showing more or less amount on debit / credit side of trial balance. Such errors do not affect the agreement of trial balance.

#### **B] Detection and prevention of frauds :**

Fraud means intentionally making a wrong entry or false representation with a view to deceive others. Frauds are done by top management with planned manner. Following types of frauds are usually made in accounts.

- (i) Misappropriation of cash or goods or
- (ii) Defalcation of accounts

**(i) Misappropriation of cash or goods :** This may committed either by omitting to enter receipts or by entering fictitious payments. Misappropriation of goods is more difficult to detect, unless accurate stock records are kept.

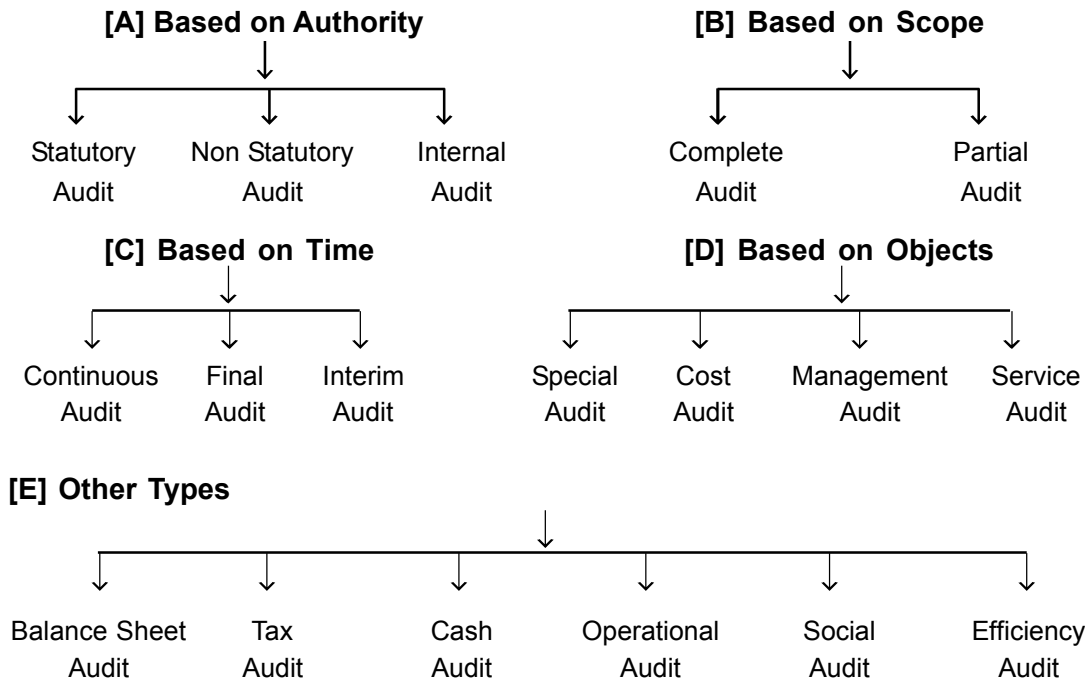
#### **Teaming and Lading -**

This is one type of fraud prepared by cashier. Cash received from a debtor is neither recorded in cash book nor to that debtors account but it is appropriated by cashier. On receipt of cash from another debtor; account of first debtor is credited and on receipt of cash from third debtor, second debtors account is credited and so on. This process goes on till the fraud is detected. Thus under this method past defalcations are covered up by the present receipt. Such frauds are very difficult to discover. The auditor should check the internal check system and use his professional skill to detect such appropriations.

**(ii) Defalcation of accounts :** It is generally done by people at the top, such as directors or manager to boost the image of the company by showing fictitious profit or show less profit to avoid tax liability or to create secret reserves.

## 1.7 Types of Audit

### Chart Showing Different Classes of Audit



#### Internal Audit :

“In its narrow sense, such an audit is one that is carried out by the specialist staff of the organisation being audited, and concern itself mainly with the routine checking of accounting transactions on a daily basis, with the object of quickly locating irregularities thus making it more difficult to perpetrate a fraud, because of the constant nature of checking”  
– H. Washerbrook.

This type of audit is optional. It is conducted by the internal auditor who is appointed to the proprietor. Even the employee of the organisation may be appointed as an internal auditor to examine the books of accounts. All the terms & conditions of audit work are determined by the agreement. The basic purpose of internal audit is not only to examine the books of accounts but also to review the present working and make valuable suggestions to improve it.

The purpose behind internal audit is to assure the management that the accounts are being properly maintained and the system provides adequate safeguards for detection and prevention of any fraud. The scope and objective of internal audit vary from business to business. It may even extend to accounting aspect. It is a part of the system of internal control.

### **Objectives of Internal Audit –**

1. To verify the accuracy of the records
2. To ensure that the transactions have a proper authority
3. To facilitate prevention and detection of frauds and errors
4. To ensure that purchase and sale of fixed assets is authorised
5. To improve the system of internal check.
6. To examine the protection given to fixed assets.
7. To make investigations for management
8. To review the entire system of working and make it more effective.

### **External / Statutory Audit –**

Statutory audit is compulsory under an statute or law. It can be conducted by a qualified chartered Accountant, whose rights, duties and liabilities are determined by the concern statute. The duties and rights may be extended by an agreement between the auditor and concerned institution. This audit is compulsory under statute in the following cases.

**(a) Companies :** The companies Act 1913, made audit of companies registered under the Act, compulsory for the first time in India. The companies Act 1956 as amended upto date has made significant changes in rights, duties and powers etc, of an auditor. Qualification of an auditor have been laid down in section 226 of the Act.

**(b) Other institutions :** Audit is compulsory in case of the following institutions.

- (i) Banking companies governed by Banking Companies (Regulation) Act 1949
- (ii) Insurance companies governed by the respective Insurance Acts.
- (iii) Co-operative societies registered under the Co-operative Societies Act.
- (iv) Public and charitable trusts registered under various concerned Acts.
- (v) Local authorities, Government undertakings and departments.
- (vi) All business organisations having annual sales over prescribed limit.

### Essential characteristics of statutory audit

- (i) It is mandatory in nature
- (ii) The auditor must be a qualified chartered Accountant or a cost and works accountants for permitted audit only.
- (iii) The auditor must not — any prescribed disqualification during the course of audit
- (iv) Appointment of auditor is made as per the provisions of the relevant Acts.
- (v) It is always a complete audit
- (vi) It enables the appointing authority to get full disclosure of all material facts

### Difference between Internal and External Audit

Internal Audit	External Audit
Internal auditor is appointed by the management.	External auditor is appointed by shareholders.
There is no any specific qualification for internal auditor.	External auditor must possess the qualification of Chartered Accountant.
Internal audit may be for any period.	External audit generally covers one accounting year.
Internal auditor is responsible to management.	External audit is responsible to shareholders
Scope of internal audit is determined by the management.	Scope of external audit is determined by law.
Internal auditor can not apply test check.	External auditor can apply test check if the internal control system is effective.
Remuneration of internal auditor is fixed by management.	Remuneration external auditor is fixed by shareholders.

## 1.8 Internal Check

**Meaning of Internal Check:** The internal check is a part of the whole system of internal control and is best regarded as the checks on the day-to-day transactions. The term '*internal check*' implies organization of the system of accounts of an office or factory and an arrangement by which the duties of the various members of the staff of a business are allocated in such a way that the work done by one person is automatically checked by another and thus the possibility of fraud, or error, or irregularity is minimized. In internal check, no one person is made responsible for all phases of a transaction.

**L.R. Dicksee** defines Internal Check as "such an arrangement of book-keeping routine that errors and frauds are likely to be prevented or discovered by the very operation of the book-keeping itself".

**De Paula** defines it as "Internal Check means practically a continuous internal audit carried on by the staff itself, by means of which the work of each individual is independently checked by other members of the staff".

**According to Professor Arnold W. Johnson**, "Internal Control System and verified by the work of another employee- both employees, working independently and without duplication of each other's work".

From above discussion and definitions it can be observed that:

- i. The internal check is an integral part of the whole system of internal control.
- ii. Internal check means the check imposed on day-to-day transactions.
- iii. Internal check includes matters such as allocation of authorities, division of work and proper methods of recording transactions, etc.
- iv. No single employee is allowed to carry out himself complete work from start to finish. And work is divided among more persons. Thus, the system is based on the principle of division of labour.
- v. An arrangement of work is made in that order that the work of one employee is automatically checked by the another employee. It means, the work of one person is complementary to that of another.
- vi. There is no duplication of work.
- vii. Errors, frauds and misappropriations are detected at early stage.

The main objective of internal check is to prevent and alternatively make early detection of frauds, errors, waste and misappropriation.

It is also noted that, the internal check system is more useful to big concerns. And in a small concern, this system is not practicable. In internal check system, one person should not be in charge of any one important aspect of business. The work of each employee should change from time to time without prior notice. One person should not be in charge of one aspect for a long time. Accounting procedures must be reviewed periodically. There must be regular stock-taking of inventory and discrepancies must be looked into. There must be physically verification of various assets.

**Importance of Internal Check for Audit:** The soundness of the system of internal check and the manner it is carried out are the matters of fundamental importance to the auditor. The internal check system largely determines the nature and extent of the scope of auditor's work. If there is an efficient system of internal check, the work of an auditor becomes quite easy. A good and effective system of internal check relieves the auditor of a large part of detailed checking of the transactions and he may give his attention to more important sections of his audit work.

In order to know effectiveness of internal check system, the auditor should carefully study the system in force in the organization. He should apply few test checks and if results are satisfactory, he may safely rely on it. In case he finds that internal check system is not satisfactory, then it would be necessary to him to check all the transactions from the beginning to the end. Thus, existence of a good internal check system helps an auditor to a great extent in the conduct of his work but does not reduce his legal liability. The better the system of internal check in an organization, the larger can be the extent of test check by the auditor, e.g. in case of payment of wages, he should compare the attendance of the workers with the gate keeper's record, foreman's record, the wages sheet and the cash book. But wherever the auditor feels that there are weak centres of loopholes, he should exhaustively check all the records.

The auditor is the best outside agency to properly evaluate the internal check system within the organization. He should thoroughly go into the system of internal check. He should, in such circumstances, bring this fact to the notice of the management and shareholders also. He should also suggest the changes he feels necessary to strengthen the system of internal check.

Due to internal check system, it is possible to get the auditing work done from the employees. Internal check system can be applied for Cash Receipts and Payment, Credit Purchase and Sales, Payment of Wages, Cash Sales, Stores of a large manufacturing concern, etc. If the internal check system is efficient, it minimizes work load of an auditor. Internal check system creates sense of responsibility among the

employees, therefore employees are performing their operations carefully, so audit work is becoming easy and will complete within stipulated time. Because of internal check system the volume of auditor's work is reduced. It saves time of the auditor. Internal check system is a good substitute for detailed checking for those business houses where it is impracticable to check each transaction.

## 1.9 Key words

1. **Final Accounts** : The accounts which are prepared at the end of Accounting year
2. **True and Fair view** : Real and factual financial position of company's state of affairs
3. **Frauds** : Misappropriation of cash or goods and manipulation of accounts to deceive others

## 1.10 Self Assessment Questions

- Q. 1 : State meaning and scope of auditing ?
- Q. 2 : Explain the advantages of auditing ?
- Q. 3 : What are the general principles of auditing ?
- Q. 4 : State the difference between accountancy and auditing ?
- Q. 5 : Explain the necessity of auditing ?
- Q. 6 : State and explain the types of errors ?
- Q. 7 : What is internal audit ? Give it's objects ?
- Q. 8 : What is external audit? Explain the characteristics of statutory audit ?
- Q. 9 : What is auditing ? Explain it's objectives ?
- Q. 10 : What is internal check? State it's importance for audit.
- Q. 11 : Write short notes on the following :-
  - (a) Teaming and Lading.
  - (b) Objects of Internal Check.
  - (c) Internal Audit.
  - (d) Statutory Audit.
  - (e) Internal Check.
  - (f) Principles of Auditing.



### **1.11 References for further study**

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Unit - 2  
**Vouching**

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**Structure**

- 2.0 Objectives
- 2.1 Introduction
- 2.2 Characteristics of Vouching
- 2.3 Objectives of Vouching
- 2.4 Significance of Vouching
- 2.5 Important points to be considered while vouching transactions.
- 2.6 Vouching and Auditor
- 2.7 Vouching of Cash Transactions
- 2.8 Vouching of Credit Purchases and Credit Sales
- 2.9 Investigation
- 2.10 Introduction of verification
- 2.11 Meaning of Valuation
  - 2.11.1 The basis for Valuation
  - 2.11.2 Valuation of Assets
  - 2.11.3 Difference between Verification and Valuation
  - 2.11.4 Auditor's Duties in Connection with Valuation
  - 2.11.5 Principles of Verification and Valuation of Assets
  - 2.11.6 Verification and Valuation of Assets and Liabilities
- 2.12 Self Assessment Questions
- 2.13 Further Readings

## 2.0 Objectives

After going through this unit you would be able to understand -

- The meaning and nature of vouching.
- The importance of vouching and auditors duty in relation thereto.
- The important points of vouching.
- The vouching of cash transactions.
- The vouching of credit purchases and sales.
- The meaning and need of investigation.
- The meaning and nature of Verification and Valuation of assets and liabilities.
- The difference between Vouching & Verification and Verification & Valuation.
- The basis of valuation of various assets and how they are valued.
- The position of auditor in connection with verification & valuation.
- The Principles of Verification and Valuation of Assets.
- Verification and valuation of some common assets and liabilities.

## 2.1 Introduction

It is one of the major responsibilities of the auditor to see all the transactions are properly accounted for and these are supported and substantiated by authentic documentary evidences. Every transaction must be supported by proper written evidences which could prove that the transaction has actually taken place. *A documentary proof or evidence in support of a transaction is called a voucher.* It may be any of the following forms -

<b>Receipts</b>	<b>Counterfoils</b>	<b>Carbon copies</b>	<b>Cash/Credit Memo</b>
Pay Sheets	Bills	Bank Challans	Bills Receivables
Bills Payables	Letter of Collection	Purchase Order	Invoice
Dividend Warrant	Bank Pass Book	Material Requisition	Delivery Note
Account Sales	Purchase Note	Sales Note	Attendance Register
Wage Records	Minute	Resolution	Goods Received Note

Gate Keeper's Book	Order Book	Store Keeper's Book	Correspondence
Inward/Outward Register		Agreement / Deed / Contract	
Bank Pass Book	Interest Warrant	Bank Advice	Broker's Note
Statement of Accounts (Confirmation) from Debtors & Creditors, Certificate from Architect, Engineer, Solicitor, Valuer etc.,			Job Cards etc.

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Vouching means examination of the entries in the books of accounts with sufficient written evidences to satisfy the auditor himself about the authenticity, accuracy, validity and authority of the records. The following definitions explain the meaning of vouching.

'Vouching means verification of authoritative and authenticity of the transactions recorded in the books of accounts'. - **R. B. Bose.**

'Vouching is a technical term which refers to the inspection of documentary evidence supporting and substantiating a transaction by the auditor'. - **R. A. Irish.**

'Vouching does not mean merely the inspection of receipts with the transactions of a business together with documentary and other evidence of sufficient validity to satisfy an auditor that such transactions are in order, have been properly authorized and are correctly recorded in the books.' - **De Paula.**

## 2.2 Characteristics of Vouching

From the above discussion and definitions we can know that vouching is not merely to check the records in the books of accounts but to verify the proofs of the transactions recorded. The main characteristics of vouching can be stated as below-

1. It is an examination and verification of entries recorded in the books of accounts with supportive documentary and related evidences.
2. It is an examination of vouchers.
3. It is a process of ascertaining corrections and authenticity of the transactions.
4. It ascertains that whether all the transactions are related to the business and there is no omission in recording the transactions and at the same time no fraudulent entries are passed in the books of accounts.

5. It ascertains that the transactions have actually taken place and it is within the limit of authority.
6. It is the first step in auditing because it is related to the prime document of evidence and entries in the primary books.

### **2.3 Objectives of Vouching**

1. To see whether the transactions which are recorded are related to the business.
2. To see that the transactions are actually taken place.
3. To verify authority and authenticity of every transaction.
4. To find whether any transactions has left off to be recorded.
5. To see that all the transactions are properly accounted for in the books of accounts.
6. To see that no fraudulent transactions are recorded.
7. To see that for all the transactions there are supporting documentary evidence.

### **2.4 Significance of Vouching**

While auditing the books of accounts it is expected that an auditor should not satisfy himself with the results of records but he has to go beyond the books of accounts and verify the existence and correctness of records. The degree of quality of auditing mainly depends upon the quality of vouching. *Audit starts with vouching and so all the subsequent steps in auditing and the success or failure of audit work are mainly depend on vouching.* De Paula has rightly said that 'Vouching is the essence of auditing.'

Vouching reveals the truth of entries in the books of accounts. *The validity, authenticity and correctness of the vouchers i.e. prime evidences and its proper accounting is being checked by the way of vouching.*

One of the objectives of audit is detection of errors and frauds. In this regard vouching is of great help to an auditor. It points out errors and frauds in the books of primary entries and hence, its reflection in further accounting can be easily detected. *It means vouching is a base of auditing with the help of which auditor can proceed well further and can certify the accounts.*

Vouching proves whether the final accounts reflect true and fair view of the state of affairs of the business. Vouching is the process of checking entries in the books of original records on which entire accounting of the business is based upon. *Vouching ensures original entries by checking genuineness and authenticity of transactions and their postings in the books of accounts are made as per the principles of accounting.*

Vouching verifies first the documentary and other related evidences which are the basis of entries. *It points out the fraudulent and wrong vouchers and thus helps an auditor to find out errors and frauds at the initial stage of auditing.*

*Vouching alerts an auditor by pointing out errors and frauds at the beginning of auditing.* If there are some mistakes in vouchers and original entries or there are some fraudulent vouchers, auditor will become alert and he will exercise careful complete checking and would not resort on test checking.

From all the discussion we can conclude that *vouching is not merely checking the documentary evidences but the auditor should satisfy himself that the transactions or entries are in order, they are properly authorized and correctly recorded in the books of accounts following the accounting principles.* For example, the auditor should not rely only on the receipt of the creditor for the payment made to him but he has to confirm that the goods are purchased from him on credit, of the given value after proper sanction from the competent authority and as per the agreement the payment is made by cheque. If the payment is made in cash, he should enquire why the payment is made in cash. He should also verify the accounting entry passed in the books of accounts.

## **2.5 Important points to be considered while vouching transactions.**

Let us study the main points which will make vouching effective and efficient.

**1. Serial :** All the vouchers must be serially arranged and numbered according to date and entries in the books of accounts. The entries in the books of accounts should also bear the serial number of vouchers that will be easy to correlate the voucher with the particular entry.

All the vouchers should also be filed serially and properly. The files should be given serial numbers and the period should be mentioned clearly at the front of the file. These are also to be arranged serially, otherwise the auditor will lose his valuable time in searching the right vouchers.

**2. Date, Amount and Name :** There is a chance that the voucher of the same date of the last month or year may be produced again so, auditor should check the date

of voucher carefully.

The voucher should contain the amount both in figure as well as in words. The auditor should see that the amount tally with the amount entered in the books of accounts.

Each voucher should be in the name of the business concern and not in the name of any individual i.e. official or partner or director. The vouchers of personal name should be rejected or should check other relevant documents to confirm that the voucher is related to the business. He should also confirm the name of the party issuing the voucher.

**3. Particulars :** The nature of item matters. If the capital item recorded as revenue or vice versa, it affects greatly final statements of the concern. So, the auditor should read particulars column on the voucher carefully and ascertain the nature of item. Check the postings made accordingly. Besides from the particulars the auditor can ascertain head of account, title of the account, debit or credit effect of the transaction etc.

**4. Validity of Voucher :** As far as possible the vouchers should be in printed form and wherever necessary it should bear revenue stamp also. At least the voucher should bear stamp of the receiving party. For petty expenses there may not be such vouchers so, auditor should take more regarding these vouchers because chances of fraud can not be denied.

**5. Period :** The period of the item is much important. Receipts and payments may relate to the previous year, current year or next year. Entries are passed taking into account the period to which it relates. Prepaid or pre-received items as well as received in advance and paid in advance items should be properly accounted for taking into account any provisions or reserves made. The auditor should pay careful attention towards this.

**6. Other Precautions :**

- (a) As far as possible vouching of a particular period should be made at a stretch.
- (b) Checked vouchers and related documents should be marked with stamp, signature or both so that they can not be reproduced.
- (c) List of rejected vouchers should be made and they should be kept away from the particular voucher file or in a separate file.

- (d) List of missing vouchers is also to be prepared and the relevant documents must be checked more carefully.
- (e) In the case of duplicate vouchers, auditor should be more alert and get information till he satisfies regarding why there is duplicate voucher. All the relevant documents must be checked more carefully.
- (f) Auditor should satisfy himself that entries are passed correctly in the books of accounts. Checked entries should be marked with particular sign or tick mark. Explanation should be collected regarding unticked items and these items be compared with missing vouchers for confirmation.
- (g) Doubtful and torned or spoiled vouchers should be checked carefully. These are to be consulted with responsible officer.
- (h) In any case help should not be taken from the employee of the concern in respect of vouching.
- (i) All his experiences and observations should clearly be noted down which will become part of his report.

## **2.6 Vouching and Auditor**

Auditor will be held responsible for any loss to his client due to negligence or carelessness of auditor in respect of vouching. So he should exercise his skills, knowledge and techniques to his best while vouching.

It is expected that the auditor should not mere compare the figures from vouchers and the entries in the books. He should go beyond the books and found that –

- the transaction has taken place,
- the transaction has related to the business,
- the transaction has effected under proper authority,
- the transaction is recorded correctly in the books of accounts,
- there are sufficient primary and collateral documentary evidences which proves the transaction is authorized, authenticated and approved.

## **2.7 Vouching of Cash Transactions**

Cash Book is prime important book. It consist entries of all cash receipts and payments. As the cash is more important and sensitive item, auditor should be very careful while carrying on vouching in respect of cash transactions. The auditor should



see that –

- all the receipts and payments are recorded in the cash book with right figures,
- all the receipts and payments are recorded under proper headings,
- all the payments are approved by responsible officer,
- no receipt is omitted to record,
- no fictitious or fraudulent or unauthorized payment is recorded and
- all the calculations are made correctly.

Before starting vouching of a cash book, internal check system must be examined carefully. If the internal check system is doubtful or suspicious the auditor should follow hundred percent vouching. The auditor should ascertain whether a rough cash book or diary has been maintained, process of receiving cash and making payments in respect of various types of transactions, process of banking and withdrawing cash from banks, authority approving the payments and signing cheques etc.

He should confirm that – a) all unused books of accounts and books of receipts and other vouchers are kept in custody of a responsible officer, b) there are specific rules regarding allowing cash and trade discount, c) spoilt or torned vouchers are not destroyed but are attached with marking as 'Cancelled'

We can divide the process of vouching of cash book in two parts – Vouching of Receipts and Vouching of Payments

### **2.7.1 Vouching of Receipts**

In general receipts side of cash book includes the following items –

1. Opening Balance
2. Cash Sales
3. Cash from Debtors
4. Bills Receivables Discounted and Matured
5. Non-operating Income
6. Other Income
7. Sale of Investments and Fixed Assets
8. Claims Recovered

9. Subscriptions
10. Other Receipts
11. Loans Taken
12. Issue of Debentures
13. Issue of Shares

**1. Opening Balance :** The auditor can verify it by comparing the figure mentioned in the audited balance sheet of the last year and the closing balance of the cash book of the last year.

**2. Cash Sales :** The auditor should examine fully the (a) Cash Memo, (b) Summary Sheets of Salesman, Cashier, and Delivery Clerk, (c) Daily Cash Register, (d) Abstract of Discount and the Rate of Discount. Then he should compare the amount, date and particulars with the entries made in the cash book.

**3. Cash from Debtors :** First the auditor should examine the following thoroughly–

- (a) Carbon copies of the Receipts issued by the business concern,
- (b) Correspondence with the debtors such as demand letter, reminder letter etc.,
- (c) Rate of Discount and the sanctioning authority,
- (d) Amount of Bad Debts and approving authority,
- (e) Daily list of Debtors from whom cash or cheques are received,
- (f) Statements of Confirmation of balance from debtors.

Then he should verify there details such as date, name, particulars, amount etc. with the entries made in the cash book. There is chance of making fraud by –

- recording less amount to the debtors account,
- recording the amount after few days,
- showing part amount as discount which is not allowed or showing more amount of discount than allowed,
- recording the amount received as bad debt,
- teaming and lading – embezzling cash received from one debtor and recording cash received from another debtor to the account of first debtor,

from next debtor to the account of second debtor and so on. This process is carried till making any adjustment of that much amount or redepositing the remaining amount.

To detect such type of frauds auditor should verify accounts of debtors simultaneously and insist that debtors should send their confirmation of balance directly to him.

**4. Bills Receivables discounted and matured :** The auditor should examine Bills Receivable Book, Bills Discounted Book and Bank Pass Book. He should also confirm the name of the drawee, date of drawing the bill, period, endorsement of the bill, rate of discount etc. He should make enquiry about the bills dishonoured and steps taken for recovery of the amount i.e. whether the bill is renewed or recovered by other way. If the bills are honoured before the due date (retirement) and discount is allowed, he should check the rate and amount of discount and the authority deciding the rate of discount.

**5. Non Operating Income :** Interest on fixed deposits should be verified with the fixed deposit receipt and bank pass book.

Interest on loan advanced could be verified with the agreement of loan with the borrower and receipt issued for interest.

Interest on investment could be examined with the bonds or certificates of investment, interest warrants and bank pass book.

Dividend could be verified with the dividend warrants and with the share certificates.

The auditor should confirm himself that interest and dividends are received in time or whether there is any outstanding portion. He should make actual calculations of interest.

For checking the rent, along with the receipt he should go through the lease agreement and verify the amount of rent, period (monthly, yearly etc.) and mode of payment etc. He should see that rent is received in time and if there is any rent received in advance it is properly recorded. If the rent is collected through agent, agent's register should also be checked and if tenant is paying rent by depositing cash or cheque directly in the bank account of the client, cross checking with the bank pass book should also be exercised.

**6. Other Income :** Commission received should be checked with the carbon copy or counterfoil of the receipts issued. In addition to this he should go through the commission agreement to know the rate of commission and period of payment. He should calculate practically the amount of commission by taking sales figures from statement of sales.

For checking commission on consignment, he should verify account sales and statement of accounts. Confirm the rate of commission and del-creder commission by reading the agreement and make actual calculation of commission. Also check outstanding commission has rightly accounted or not.

Receipt issued for royalty received and the lease agreement are the vouchers which can be examined for confirming amount of royalty. He should go through the lease agreement to know the rate of royalty, minimum rent, recovery of short workings etc. Actual calculations should be made based on the statement of production or output or sales. Special enquiry should be made if minimum rent is revised to know under which circumstances it is revised and how long it was continued or will continue.

Other income will be verified with the help of receipts, related documents, correspondence in this regard, related books of accounts or registers, bank pass book etc.

**7. Sale of Fixed Assets and Investments :** While vouching sale of fixed assets the auditor should examine receipt issued, resolution passed or minute book, tender notice, broker's or auctioneer's note and related correspondence. Then he should compare the figures and particulars with the entries in the cash book. As well he should examine whether the profit or loss on sale is correctly calculated and transferred to capital reserve account. If any asset is sold as scrap, loss is transferred to profit and loss account.

While vouching sale of investments along with the above vouchers (related to sale of fixed assets), he should also enquire whether sales is made ex-dividend or cum-dividend and see the profit or loss is properly accounted for. If investments are matured (e.g. bonds), he should ask for the correspondence in this regard and compare the amount and particulars with the certificates of investments, maturity value, letters and bank pass book.

**8. Claims Recovered :** If the client has recovered and claim against any insurance such as fire insurance, marine insurance or miscellaneous insurance, the auditor should carefully examine the statement of loss and claim. Receipt, insurance

policy, correspondence, bank pass book etc. are the vouchers that will confirm the figures and particulars.

If claim is recovered from railway or any transportation company the auditor should check the statement of goods or materials sent for transportation, acceptance letter of transportation company or railway receipt, statement of goods or materials destroyed or lost, statement of claim, correspondence and bank pass book. In both the cases he should check that the loss is properly accounted for.

**9. Subscription :** If the client is non-trading organization, the auditor should examine subscriptions received carefully because it is a main source of income of such organizations. For vouching of this item an auditor should examine the carbon copies or counterfoils of receipts issued and list of members.

He should check carefully – (a) subscriptions received in advance, (b) subscriptions outstanding for the year, (c) subscriptions received in the previous year for current year (paid in advance in last year), subscriptions received in the current year for last year (outstanding of the last year received in the current year) and subscriptions for last year still outstanding.

All these should be properly recorded in the books otherwise the income and expenditure account and balance sheet will not show true and fair view.

**10. Other Receipts :**

**(a) The Bad Debts Recovery :** The amount received from any debtor or liquidator or the Official Receiver which is written off as bad debts in earlier years, should be credited to the bad debts recovered account and not to the debtor's account. The auditor should see whether it is properly accounted and vouch this item with the help of receipts issued, dividend warrant from the Official Receiver and the related correspondence.

**(b) Refund of Income Tax :** if the tax deducted at source and tax paid in advance is more than the actual tax, the income tax authority refund the excess tax paid together with interest. The auditor can verify the amount of refund with the help of assessment order and refund order by income tax authority, return filed by the client and bank pass book. He should also check that proper entries are passed in the books of accounts.

**(c) Receipts from Hire Purchase :** The auditor should first go through the Hire Purchase Agreement to understand the hire purchase price, mode of

payment, period of payment (monthly, yearly etc.) etc. He can vouch it with the help of receipt issued and actual calculation of interest.

If any goods are reposed then he should check carefully the value of goods repossessed, profit or loss on repossession, expenditure incurred for repairs and resale of goods reposed and the accounting entries passed in this respect.

According to nature and type of business there may be some other miscellaneous receipts. The auditor can check receipts, agreements, correspondence and other related documents and can make calculations wherever necessary to verify their correctness.

**11. Loans Taken :** Generally business concerns borrow from banks and financial institutions or from some other lenders. In such case the auditor should not check only the receipts but verify resolution passed and the agreement to know the total amount of loan, mode of disbursement, rate of interest, repayment conditions, securities given etc.

If the loan is taken from government authority and if there is any subsidy, he should also check the conditions, rate and amount of subsidy and whether it is properly recorded in the books of accounts.

**12. Issue of Debentures :** The auditor should go through first the resolution passed for issue of debentures to know the quantum, nature, rate of interest, face value, discount / premium etc. He should examine thoroughly list of applicant and the number of debentures demanded, statement of allotment, counterfoil of certificates of debentures issued and bank pass book.

He should also examine the premium or discount on debentures, forfeiture of debentures (if any) are properly accounted for.

**13. Issue of Shares :** The auditor should examine first the resolution passed for issue of shares so that he can know the number, type, face value, discount or premium, installments etc. In addition to this he should check -

- (a) Prospectus issued by the company,
- (b) Share Application Sheet,
- (c) Share Allotment Sheet,
- (d) Board's Resolution regarding allotment of shares,

- (e) Adjustment of excess money received with application,
- (f) Underwriting Contract,
- (g) Provision of Article regarding issue of shares,
- (h) Bank Pass Book,
- (i) Counterfoils of Share Certificates etc.

He has to check whether any shares are forfeited and reissued and these are properly accounted for.

### **2.7.2 Vouching of Payments**

Generally payment side of Cash Book includes –

1. Cash purchases
2. Payment to creditors
3. Payment of wages
4. Payment of salaries
5. Other expenses
6. Bills Payable honoured and retired
7. Payment against loans and advances
8. Purchase of investments
9. Purchase of fixed assets
10. Other payments and expenses

**1. Cash Purchases :** While vouching cash purchases the auditor should verify cash memos, goods inward register, counterfoils of cheques issued, bank pass book, receipts from suppliers etc. He should compare the figures and particulars from the above vouchers with the cash book entries. Entries in the cash memo or inward invoice should tally with the entries in the goods inward book. He should see that all purchases are recorded to the purchases account and not to any other account.

**2. Payment to Creditors :** It should be vouched with the receipts issued by creditors and bills. The auditor should see the contract and correspondence also. To verify that receipts are original and not the dummy he has to check the posting made to creditors account and wherever doubt he should have the confirmation from the respective creditors. Generally the payment is made by cheques so, counterfoils of cheque book should also be checked. If discount is allowed see that it is approved by

the authority and it is properly accounted for.

**3. Payment of Wages :** While vouching payment of wages, an auditor should take utmost care and exercise all his skills and techniques because it is the item where chances of frauds are higher. Where number of employees particularly low grade workers, casual workers and workers on daily wages are higher, the chances of frauds are considerable. An auditor should verify that –

- the number of workers are correct,
- the rate of wages are correct,
- the calculations of wages are correct and the wage sheet is properly signed by the employee who has prepared, who has checked and who has sanctioned with the stamps of their designations.

As far as possible separate wage sheets should be prepared for those workers who are working on time basis and who are working on job or piece work basis. The auditor should examine attendance register and statement of allotment of piece work or job cards.

If the wages are paid on pay scale basis he should check the calculation of wages and deductions and see they are properly recorded in the books. He should discuss with the competent authority regarding the procedure of appointing casual and daily wages workers. Wage sheets, bank pass book, counterfoils of cheques issued etc. should be checked carefully and compare the figures with the entries in the cash book.

**4. Payment of Salaries :** The payment made to officers and employees of office for services rendered on monthly basis is called as salary. The auditor should check that the amount of salary sheet tallies with the amount shown in the cash book and with cheque drawn for this purpose. He should see that the gross salary is entered on the payment side and all deductions are entered on the receipts side.

He should also verify – a) increments given and increments stopped, b) payments made other than salary are not included in salary sheet, c) deductions are properly recorded to respective accounts and their payments are made in time, d) total amount of salary of every employee tallies with the amount shown in the Form No. 16 of Income Tax and e) if the salary is paid on package basis, proportionate amount is entered in the salary sheet and the total amount is equal to the amount as per the agreement.

He should also check overtime pay, remuneration for extra work, honorarium etc. carefully. All the calculations, castings and totals should be confirmed.



## 5. Other Expenses :

- (A) **Commission** : Commission paid to agents, travelling salesmen, dealer and consignee can be verified with the help of receipts, agreements, account sales, counterfoils of cheques, bank pass book, statements of sales & orders received and other correspondence.

The auditor should check the rate of commission and actual calculations should be done to verify the figures of commission. If del credere or incentive commission is given, see whether it is as per the agreement.

- (B) **Travelling Expenses and Allowances** : The auditor should first go through the rules regarding the travelling expenses and allowances. He should see that the voucher is supported by all the evidences regarding the purpose, place, travelling expenses, local conveyance, lodging & boarding charges etc. and all these are approved or sanctioned by the authority. If any advance is given for the purpose see that it is adjusted to the advance account and remaining amount is paid to or received from the employee and it is properly accounted for. If travelling allowance is given irrespective to the actual expenditure, see that it is within the prescribed limit and sanctioned by the authority. Travelling expenses and allowance paid to directors and extraordinary type of travelling be checked very carefully.

For vouching this item an auditor can verify receipts, tickets, bill of hotels, vouchers for other conveyances, attendance or participation certificate from the authority, prescribed rules etc.

- (C) **Insurance Premium** : The auditor should examine the policy or cover note and the receipt for the first or renewal premium. He should also check the period to which it relates. If part of the premium is related to the next year see that it is debited to prepaid insurance account.

- (D) **Freight, Carriage, Octroi and Custom** : The auditor should examine the bill and receipt of shipping company, the bill of shipping agent, railway receipt, receipt for octroi, receipt for custom duty paid, bill of entry, counterfoils of cheques etc. He should also enquire for goods received note and goods cleared note. Evidences for other expenses such as port trust charges, weightmen expenses etc. are also be verified. See that rebate and refund (if any) are properly adjusted and accounted for. If expenses are related to fixed assets see that these are debited to respective asset account.

- (E) **Bank Charges** : It means amount charged by bank for rendering services such as issuing demand drafts, collecting bills and cheques, discounting bill, collecting other income or making payments of any expenses etc. It should vouch with the help of bank pass book, bank statement and bank advice.
- (F) **Postage** : While vouching postage, an auditor should examine postage (outward) register and franking pass book (where franking machine is used) and the figures should be compared with cash and petty cash book entries. If advance is given for postage expenses, see that expenses against this are properly accounted for. Postal stamps in hand should also be checked. He should also verify that all the expenses are related to business.
- (G) **Petty Cash Expenses** : An auditor should verify the receipts, vouchers, cash memos, bills etc. and these are to be compared with the petty cash book. He has to check the balance on petty cash book with actual cash on hand and compare the amounts recorded in petty cash book as amount given for petty expenses and the amount recorded in petty cash book. He should see that petty cash book is checked periodically by the authority. If it is maintained on imprest system he has to check that the particular amount is kept as opening balance by giving amount equal to the expenditure of the last month.
- (H) **Directors' Fees, Allowances and Remuneration** : For vouching the item the auditor should first examine the amount of fees, allowances and remuneration as mentioned in the article of association or as decided by the resolution passed in the meeting of board of directors or shareholders or as sanctioned by the government or as prescribed by the Companies Act. Then he should vouch the payment with the minute book of board of directors, directors' attendance register and receipts. He should confirm that the ceiling limit under the act is not crossed.
- (I) **Rent, Rates and Taxes** : For vouching rent the auditor should examine agreement and the receipts. He should verify outstanding balance of last year paid in the current year and amount paid in advance and see that these are properly accounted for. For rates and taxes he should verify the bills and receipts and the period to which it relates. Outstanding amount paid and advance payment made should also be checked.

**(J) Advertisement :** Now a day huge amount is being spent on advertisement. First the auditor should examine the resolutions passed for advertisement containing the decisions regarding media, form, frequency, agency, ceiling limit of expenditure etc. He should vouch the bills and receipts of the advertising agency or of the press or of the office of the company working in particular media. If there is contract with a particular advertising agency he should go through the agreement.

**(K) Income Tax :** The auditor should verify challans of payment of tax, certificate of tax deducted at source given by the authorities, returns filed by the client, assessment order, counterfoils of cheques issued, bank pass book etc. If tax is deducted at source from the salaries of employees or payment to contractors etc. he should see that it is paid within the time limit.

**(L) Sales Tax :** Sales tax can be verified with the challans of sales tax, returns filed by the client, assessment order, counterfoils of cheques, bank pass book etc.

**(M) Interest Paid :** The auditor should verify first the amount of loan outstanding, rate of interest, period etc. from the loan agreement and bank pass book of loan account. Receipts for interest given by the bank or the financial institution should be compared with the entries in the cash book.

In the case of interest on debentures the auditor should verify the rate of interest and the period. He should make actual calculations and verify it with the debenture interest ledger, bank pass book and counterfoils of cheques.

In both the cases, he should see that last year's outstanding interest paid during the year and current years outstanding are rightly recorded in the books.

**(N) Legal Expenses :** The expenses incurred for filing suits, claims or other legal matters including fees of lawyers or solicitors are called as legal expenses. For vouching of this item, an auditor should verify bills, receipts, counterfoils of cheques issued, bank pass book, correspondence etc. If solicitor is on retainship basis, he should verify the resolution passed in this respect and see his remuneration is properly recorded.

**(O) Audit Fees :** An auditor should verify the resolution for appointment and remuneration of the auditor or order of the Central Government if he is appointed by the government. He should check the receipt of the auditor,

counterfoil of cheque issued, bank pass book and compare the figure with the entry in the cash book.

**(P) Repairs :** The auditor should check first whether repairs are done departmentally or a contract is given for particular repairs or there is permanent contract for repairs on annual basis. He has to see that the repairs are authorized by the authority and all the formal procedure is completed. He should check the bills of stores and materials purchased, labour charges, engineer's remuneration etc. Compare the figures of receipts and bills and counterfoils of cheques issued with the entries in the cash book. He has to see that any capital expenditure is not shown as revenue expenditure and vice versa.

**(Q) Other Expenses :** Any other expenses can be vouched with the help of bills, receipts, counterfoils of cheques, bank pass book, correspondence etc. The auditor should take care that the expenditure is related to business and they are properly accounted for.

**6. Bills Payables Honoured and Retired :** It can be verified with the bills payables, bills payable book, bank pass book, counterfoils of cheques issued and other correspondence. An auditor should see that the honoured bills are cancelled and proper entries are passed in bills payable book.

**7. Repayment of Loans and Advances :** The auditor should verify the receipts, counterfoils of cheques and bank pass book. It should be confirmed that the payment is as per the agreement, interest element is recorded to interest account and if it is final payment, documents of mortgage and securities are returned by the lender with certificates or letters in this respect.

**8. Purchase of Investments :** First the auditor should go through the resolution passed in this respect to know the decisions made regarding nature, type amount, period etc. He should see that the investment is as per rules and regulations and it is within the limit. He should check the receipts, counterfoils of cheques, bank pass book, brokers note, allotment letters and other correspondence. He should also check actual investments (share certificates, bonds etc.) and see proper entries (considering ex-dividend / cum-dividend) are passed in the books of accounts.

**9. Purchase of Fixed Assets :** The auditor should check –

(a) Whether the asset is purchased by executing deed or by lease agreement

or by auction or by making direct payment.

- (b) Whether all the formal procedures such as registration, paying court fees, preparing ownership papers, affixing stamps and other legal formalities have been completed.
- (c) Whether all the expenses related to purchase, acquisition, construction or establishment are treated as capital expenditure.
- (d) Agreement / Deed / Contract, Engineers Certificate, Architects Certificate, Auctioneers Certificate, Registration Book (in the case of vehicles), documents of Patents and Copyrights etc.
- (e) Receipts, counterfoils of cheques, bank pass book, invoice, insurance policy, challans of taxes paid, bills, correspondence etc. and confirm with the figures and particulars in the cash book.

If the asset is purchased on hire purchase or installment, the auditor should verify the agreement to know the installments, rate of interest, cash price etc. and see that installment and interest are correctly calculated and accounted for. Also see that interest is treated as revenue expenditure.

**10. Other Payments and Expenses :** According to type of business organization, and nature of business there may be some other payments and expenses such as dividend in the case of company, partners drawings in the case of partnership firm, excise duty & research expenditure in the case of manufacturing concern, preliminary expenses in the case of newly established concern, brokerage or underwriting commission when the company issues shares or debentures so on and so forth. These items can be vouched with the help of receipts, bills, counterfoils of cheques, bank pass book, challans, resolutions passed, agreements, correspondence, dividend warrants issued, brokers note, promoters note, solicitors bills etc. The auditor should not only see that the figures and particulars are correct but also that these are correctly bifurcated in revenue and capital expenditure and properly accounted for.

## **2.8 Vouching of Credit Purchases and Credit Sales**

Vouching of cash transaction is obviously most important one. After completing this auditor should proceed on to audit of credit transactions. These transactions mainly related to credit purchases and credit sales which are recorded in purchase book and sales book. The return of goods is recorded in purchase return book and

sales return book.

Purchases and sales are the main activities of any business. So, there is ample number of transactions relating to these. Obviously, chances of misappropriation increases. The main aim of vouching these books is to see that all the goods are recorded and correctly recorded, there is no omission or duplication as well no fraudulent entries are passed.

Before proceeding for vouching of these books, an auditor should examine internal check system regarding credit purchases and sales. If it is defective, he should be more careful.

### **2.8.1 Vouching of Purchases Book**

Before starting the work of vouching an auditor should study the process of credit purchases i.e. how the requisitions are collected, how the supplier is fixed and orders are placed, who signs the order, what are the stages of recording the goods received etc.

#### **While vouching purchase book –**

1. An auditor should verify the goods requisition slips, purchase orders, purchase invoices or bills, goods inward notes and goods inward book and verify the figures & particulars with the purchase book.
2. He has to see that only credit purchases are recorded in the purchase book.
3. While verifying purchase invoices he should check that –
  - they are in the name of the client,
  - the date of invoice and date of entry in the purchase book is same and it is related to the period under audit,
  - the goods are not capital goods (assets),
  - the goods are purchased for the business purpose and are dealt with the business of the client,
  - the quantities and their qualities mentioned in the invoices are as per the order placed,
  - the prices mentioned in the invoices are as per the orders or as per the amendments made thereafter having authentic evidences,
  - duties, octroi, freight, carriage, sales tax etc. are charged as per the

orders placed,

- the officer who has checked the invoices has put his full signature marking as 'Checked'.
4. The procedure of purchases is followed and the responsible officer has authorized the purchase.
  5. The amount entered in the purchase book is after adjusting incidental expenses and the trade discount.
  6. Purchase order, invoice, goods received note and goods inward register show the same figures and particulars and it tallies with the entries in the purchase book.
  7. If columnar purchase book has been maintained, he should also check the entries passed in this book are correct.
  8. The auditor should examine carefully that there is no manipulation of account through showing more or less purchase and more or less stock.
  9. When the duplicate invoice is produced, he should take careful enquiry about the original invoice and see that it is not produced elsewhere.
  10. When officials of the company purchases in the name of the client company for availing the benefits of higher trade discount, see that such purchases are debited to their personal accounts and not to the purchases accounts. Such practice should be discouraged.
  11. Purchases of first and last month of a year should be vouched carefully because there is a chance to manipulate accounts by transferring purchase of last year to the current year or vice versa and purchase of current year to next year or vice versa.
  12. After checking an invoice, an auditor should tick mark, put initial or put stamp so that it can not be reproduced.
  13. He should check the totals and casting of purchase book and related registers.
  14. He should prepare a list of missing invoices and call for explanation. If the client failed to produce original or duplicate invoice, he should make a clear note in this regard in his final report

15. Wherever he feels necessary, he should call for confirmation from suppliers directly.
16. He should verify that goods received on consignment or sale or return basis are not recorded in the purchase book.

If the goods received are defective or it is received late or if it is of different quality or type or for any other reasons goods may be returned back to supplier. The auditor should verify that the debit note is prepared accordingly and sent along with the goods returned as well as proper entries are passed in the goods outward register and purchase return book.

### **2.8.2 Vouching of Sales Book**

It is a practice of all business concerns to sale the goods not only for cash but also on credit. Selling the goods on credit is a need of any business; even most of the sales are on credit basis. The main evidence of credit sale is the sales invoices which are prepared by the client himself. So, an auditor should very careful while vouching the credit sales. Before starting vouching he should understand the process of credit sales and who is empowered to make credit sales.

While vouching the sales book an auditor should proceed on the following line.

1. He should first verify date, name of customer, quantity and quality / type of goods, amount of incidental expenses such as duties, taxes, freight, octroi etc. and the total amount from the sales invoice etc. and compare these with the entries in the sales register.
2. He should check calculations, totals and castings of the sales register and daily or weekly or monthly summary.
3. See that the incidental expenses are recorded to respective account. If these are paid on behalf of customers and they will be recovered, they are recorded to customers account.
4. Confirm that only credit sales are recorded in sales register. Sale of assets, investments or other items is not recorded.
5. See that for every sale during the period under audit, invoice is prepared and all invoices are recorded in the sales register. There is no omission or duplication.



6. See that goods sold but not dispatched are not included in closing stock.
7. Verify that there is no fictitious sales are recorded and as well no sales are left unrecorded.
8. Examine that there is no manipulation of accounts through showing higher or less sales and showing higher or less closing stock.
9. Check carefully sales at the beginning and at the end of the year because, there is a chance of manipulation of accounts e.g. to increase profit, fictitious sales may be recorded at the end of a year and they are reversed at the beginning of the next year showing as sales returns.
10. See that the invoices cancelled are not thrown out or destroyed but they are kept marking as 'Cancelled'.
11. Verify that rate of trade discount is as per the policy of the business. He should enquire in detail if high or low rate of discount is allowed to particular customers.
12. Sales to sister concerns and the companies where the directors are interested should be checked very carefully.
13. Verify all the vouchers related to the credit sales such as orders received, correspondence, sales invoice, goods outward & package register, transport receipts for expenses etc. with the sales book.
14. Wherever necessary he should call for confirmation of debtors directly to him.
15. See that goods sent on consignment and on sale or return basis are not included in credit sales.
16. If there are any alterations or erasures, see that they are initialed and authenticated by the responsible officer.

The auditor should verify also the goods returned by customers for one or other reasons. He should examine the credit note sent to customer by checking name, particulars of goods returned, amount and calculations, signature etc. He should also compare credit notes issued and debit notes received with the entries passed in sales return book. He should verify correspondence in this regard and also check entries in the gate keeper's book, goods inward register and stock book.

As the vouching is the backbone of auditing, an auditor should take utmost care while vouching the transactions. He should verify as much documents of evidence as possible and exercise his all skills, techniques and knowledge for the purpose.

## **2.9 Investigation**

### **2.9.1 Meaning of Investigation:**

Investigation is a systematic examination and an in-depth inquiry into the accounts and records of an organization for a special purpose. It is an examination of the books of accounts of a business to know its financial position, earning capacity or ascertaining the reasons for losses etc. An investigation implies something more than the verification of the accuracy of figures of the balance sheet. In an investigation, examination is intensive as well as exhaustive so far as the activities or area of accounting under investigation is concerned. In short, the term investigation may be described as *special audit* with a limited or extended scope according to the purpose for which it is conducted. It is always carried out with the object of establishing a fact or obtaining information of a particular nature required by a client.

**Eric Kohler** in “**A Dictionary for Accountants**” defines investigation as “An examination of books and records preliminary to financing or for any specified purpose, sometimes differing in scope from the ordinary audit”.

**Taylor and Perry** have defined “Investigation involves inquiry into facts behind the books and accounts, into the technical, financial and the economic position of the business or organization”.

The scope of investigation is quite different from that of audit. It is, therefore, an inquiry which may go beyond the books of account of the concern. It may involve an inquiry into technical and financial spheres. Investigation is carried out with the main objective of ascertaining some specific information concerning some or all the phases of business activities. Though, the investigation is mainly concerned with the accounting records of the business, yet other areas are not outside the scope.

Investigation is neither accounting nor auditing but a special inquiry with certain objectives. Investigation is thus different from audit. It is a kind of special examination not for the purpose of audit but for some other specified purpose. The auditor conducting an investigation may have to take the help of engineers, lawyers, etc., so that there is an effective investigation. As a matter of fact, an investigation means to inquiry into details and then relates the causes with findings.

Investigation may be carried out on behalf of the proprietors where they suspect any fraud, or by the Central Government at the instance of the shareholders or court.

Accounts of a Joint Stock Company must be audited according to law while investigation is not compulsory.

The investigator should obtain in writing from his client, clear instructions in respect of object of investigation, period to be covered for which investigation is to be made, scope or limits to the extent of inquiry of investigation. The investigator must take due care the interest of his client on whose behalf he has undertaken the work of investigation. The investigator should immediately prepare his report in clear language. It is noted that, there is no specific or prescribed form for the report of an investigation. The report of the investigator is sent to the party which appointed him for the purpose of investigation. The report of investigator is in detail and refers to the instructions given to him, the method of approach, the work carried out, the documents relied upon, and his findings and often his recommendations to the client.

The purpose of investigation may be anything and may vary case to case. There is no fixed objective of an investigation in general. Hence, the scope and objectives of investigation differ from the scope and objectives of auditing. Investigation is carried out not in substitution of audit, but in addition to audit. The investigator may even have to investigate the audited accounts.

### **2.9.2 Need of Investigation:**

Following are the certain circumstances for which investigations are needed:

1. Investigation is needed to an incoming partner, who wants to know the earning capacity of the firm, the financial position of the concern and whether it is advisable to become a partner.
2. Investigation is needed to an individual, partnership firm or a Joint Stock Company which wishes to purchase a private running business in order to ascertain the financial position and the earning capacity of the concern proposed to be taken over.
3. Investigation is to be carried out on behalf of a client who wishes to lend money to a concern to know its financial position.
4. Investigation is needed where fraud is suspected by the proprietor.
5. Need of investigation arises to a prospective shareholder who wishes to purchase shares of a company.
6. Investigation is to be conducted on behalf of the company or an individual for alleged negligence or lack of skill by the auditor, managing director or manager etc.

7. Investigation is needed for ascertaining the reasons for a considerable fall in the gross profit of a manufacturing company.
8. Investigation is to be carried out on behalf of the liquidator of a company where the directors are suspected of fraud or misfeasance.
9. Investigations under the Companies Act- There are provisions in law where the shareholders, creditors, registrar of Joint Stock Companies and Central Government may get the affairs of the companies investigated.
10. Investigation is needed for the sale of business or merger of the business.
11. Investigation is carried out for claims under an insurance policy covering consequential losses.
12. Investigation is needed to ascertain the amount of compensation payable on the compulsory removal of business.
13. Investigation is helpful to beneficiaries where trustees are suspected of fraud or misappropriation.
14. Investigation ordered by the Central Government for various reasons and investigator appointed by the Central Government to investigate related matter.
15. Investigation is needed to Income Tax Authorities for tax liability or detection of undisclosed income.

## **2.10 Introduction of Verification**

Vouching examine correctness of the entries passed in the books of accounts by verifying documentary evidences available in support of the transactions. But this is not sufficient for assets and liabilities. Because vouching does not prove that the asset or liability was actually exist on the date of balance sheet and the valuation shown was correct. For example, vouchers can prove that a car is purchased on a particular date during the year but they can not prove that the car was in existence and in the possession of the client on the date of balance sheet with the given value. It may break, it may lose, it may not have the same value, so on and so forth. Existence of the car can be proved only by physical check up and verifying its value.

Unless checking physical existence and values of assets and liabilities, an auditor can not certify that the balance sheet is showing true and fair view of its state of affairs.

### 2.10.1 Meaning of Verification

Verification means to confirm or substantiate the truth or accuracy by competent examination. An auditor satisfy himself by documentary evidence or by physical check that the asset is in existence, it is in the possession of the client and the value shown in the balance sheet is proper. This work of auditor is called as verification of assets.

#### Definitions :

**1. Spicer and Pegler :** 'The verification of assets implies and inquiry into the value, ownership and title, existence and possession, the presence of any charge on the asset'.

**2. J. R. Botliboi :** ' In verification of assets the auditor must satisfy himself that they really existed on the date of balance sheet and were free from any charge and they have been properly valued. In verifying the liabilities, he has to see that all liabilities have been inserted at their proper figures and that no liability has been omitted'.

From the above discussion and definitions, we can say that verification involves the following considerations –

- (i) that each asset or liability is clearly and properly disclosed and described,
- (ii) that the assets and liabilities were actually exist on the date of balance sheet,
- (iii) that the ownership and possession of the assets are of the business,
- (iv) that the assets are free from any charge and if there is any charge it is specifically mentioned,
- (v) that the assets and liabilities are correctly valued and recorded with proper figures.

### 2.10.2 Objectives of Verification

1. To see that assets and liabilities are valued on the basis of generally accepted accounting principles and the principles are applied consistently.
2. To verify that all the business assets and liabilities are shown in the balance sheet at their right value.
3. To check that the assets and liabilities shown are actually exist.

4. To check that the ownership and possession of the assets are with the organization. If there is any charge, it is shown clearly.
5. To verify that all the assets and liabilities are properly shown in the balance sheet according to the provisions of the respective act, rules and requirements of the business organization.
6. To verify that balance sheet shows true and fair view of the state of affairs of the business.

### **2.10.3 Significance of Verification**

1. It verifies physical existence of the assets and genuineness of liabilities.
2. Any fraud or irregularity regarding assets or liabilities can be detected by verification.
3. Any mortgage, pledge, hypothecation or floating charge on any asset comes to light by verification.
4. Share holders can know the true and fair value of assets and liabilities.
5. Third parties such as creditors, financier, investors etc. can know the real worth of the business.
6. The auditor can state confidently in his report that the balance sheet shows true & fair view of the state of affairs of the business.

### **2.10.4 Auditor's Position Regarding Verification**

Verification is very important duty of an auditor. When an auditor has to report whether the balance sheet shows a true and fair view of the state of affairs of the business concern, he is supposed to take verification of the assets and liabilities. If he proved negligent in this respect, he will be held guilty and responsible for damages.

In the case of London Oil Storage Co. Ltd. Vs. Seear, Hasluck & co., it is stated – 'It is the duty of the auditor to verify the existence of assets stated in the balance sheet and he will be liable for any damage suffered by the client if he fails in his duty'.

In the case of the Kingstone Cotton Mill Co. Ltd., it was held that, it was not the duty of the auditor to take stock. It was also held that if he accepted the certificate of a responsible official in the absence of suspicious circumstances, he was not guilty of negligence.

The judgments observed- 'It is no part of the auditor's duty to take stock. No one contends that it is. He must rely on other people for details of the stock-in-trade in hand'.

‘He is a watchdog, but not a bloodhound. He is justified in believing tried servants of the company in whom confidence is placed by the company. He is entitled to assume that they are honest and to rely upon their representations, provided he takes responsible care. If there is anything calculated to excite suspicious he should probe into the bottom, but in the absence of anything of that kind he is only bound to be reasonably cautious and careful’.

In short, an auditor can rely on other’s certificate only in the healthy environment and not in suspicious circumstances. He should be cautious and careful and exercise reasonable skill. Otherwise it will be held that it is the negligence of the duty.

### 2.10.5 Difference between Vouching and Verification

Vouching and verification, both are important tools of auditing, but not one and the same. Verification is wide term and it is totally different from vouching. The difference between these two can be briefed as below –

<b>Vouching</b>	<b>Verification</b>
It means verifying the correctness of entries with the help of documentary evidences.	It means examining the existence, ownership, possession and valuation of the assets.
It is carried out with the help of vouchers.	It is carried out with the help of vouchers as well as valuation by experts and physical check up.
It is possible any time during the year.	It is possible only after preparing the balance sheet.
Vouching of asset is done for two times– when it is purchased and when it is sold.	Verification is done every year.
It does not include verification and valuation of assets.	It includes vouching as well as valuation of assets.
It comes before verification. It is the first step in checking the assets.	It comes after the vouching. It is the next step in checking assets.

## 2.11 Meaning of Valuation

Valuation is not merely the determination of the values of the assets as appearing in the balance sheet but is also the critical examination of these values on the basis of normally accepted accounting principles. (V H Kishnadwala, N H Kishnadwala and M V Shetti)

The balance sheet will show true and fair view if the assets and liabilities are shown with proper values. But the question is which value is proper one. The valuation and the basis of valuation differ according to nature and type of asset and purpose of valuation. An auditor should try to get the answer of the following questions –

- (a) What is and what should be the value?,
- (b) What is and what should be the basis of valuation?,
- (c) What method of valuation is applied and should be applied?,
- (d) Whether generally accepted accounting principle are applied or not?,
- (e) Whether the valuation is based on established practices of business or not?,
- (f) Whether the business is applying the same method and basis for valuation from earlier years or it is changing its policy year to year, etc.

### 2.11.1 The basis for Valuation

The various values used for the valuation of various assets are –

**1. Cost Price** : The price which is paid for acquiring the asset including incidental and installation charges.

**2. Market Price** : The current market price of the particular asset on the date of valuation (the date of balance sheet).

**3. Replacement Value** : The value which would be necessary to acquire of the same type of asset to replace the existing asset. It also includes incidental and installation charges.

**4. Realisable Value** : The price which the existing asset, in the existing conditions, would fetch if sold on the date of valuation, excluding charges for realization.



**5. Break up Value / Scrap Value :** The price which would be realized if the asset is sold as scrap.

**6. Book Value :** The value at which the asset appears in the balance sheet *i. e.* cost price minus depreciation.

### **2.11.2 Valuation of Assets**

Valuation of assets depends upon the nature of the asset. Different methods of valuation are used for valuation of different types of assets.

#### **2.11.2.1 Valuation of Fixed Assets**

Institute of Chartered Accounts of India stated that 'fixed assets are those which are acquired for the purpose of use in the business with the object of earning revenue and which are not intended for resale at a profit and conversion into cash in the ordinary course of business'.

According to De Paula 'fixed assets are those assets of a permanent nature which are acquired by an undertaking with a view to earning profits for a period of years by the use of them and such assets are not held for the purpose of resale'.

These assets can be classified in four categories –

- (a) Fixed assets which may be written off over a period of time *e. g.* Patents,
- (b) Fixed assets which are not subject to depreciation or depletion *e.g.* Land,
- (c) Fixed assets which are subject to depreciation *e.g.* Building, Plant & Machinery,
- (d) Fixed assets which are subject to depletion *e.g.* Mines, Coalfields, Oil wells.

#### **2.11.2.2 Valuation of Intangible Fixed Assets**

The assets which can neither be seen nor touched but they are valuable to the business and which can be bought or sold are called as Intangible Fixed Asset. For example goodwill, patents and trade marks, copyrights, technical know-how, tenancy rights etc.

These assets are attached to the business and they go with the business. If

there is no business they will have no value. The benefits of such assets are spread over a period of time.

Normally intangible assets are valued at cost. (a) If the asset is self generating, the expenditure incurred for bringing the asset into existence would be considered as cost. (b) If the asset is purchased, expenditure incurred for the acquisition of the asset would be considered as cost.

Generally, proper amount is written off every year. If the asset is having particular legal term or validity period or a period of lease, the value of such asset should be written off by spreading the amount over the period.

### **2.11.2.3 Valuation of Wasting Fixed Assets**

The value of such asset goes on decreasing (depletion) due to extraction of materials there from e.g. mines, quarries, coalfields, oil wells etc. Extracting minerals from mine, stones from quarry, oils from well etc. reduce the quantities in the mine, quarry, well etc. So, it is called as wasting assets. In other words, continuous operation of extracting materials leads to gradual decrease in the value. If there is no extraction, there will be no depletion.

Generally such assets are valued at original cost less depletion on the basis of estimated exhaustion or extraction from such assets. However, it is not easy to estimate correctly that to what extent the material is extracted and to what extent it is still left in that.

### **2.11.2.4 Valuation of Tangible Fixed Assets**

There are two methods regarding valuation of tangible fixed assets.

**(a) Book Value Method :** It is a traditional method. The justification or arguments in favour of book value are -

- (i) Any change in the value of the fixed assets does not directly benefit or loss the business.
- (ii) Any change in the value of the assets does not increase or decrease the earning capacity of the asset.
- (iii) These assets are not meant for resale.
- (iv) It is very difficult to determine replacement value of each of the fixed assets.

- (v) If the assets are revalued every year by replacement value method, there will be problem for charging depreciation.
- (vi) According to 'going concern concept' book value is the most suitable value.
- (vii) Increase in the value of asset may unduly inflate the profit and vice versa (if it is shown as profit or loss on revaluation). There will be problem of recording increase or decrease in the value of asset because it is not actual profit or loss.

**(b) Replacement Value Method :** It is modern trend. Because of general inflationary trend, it is contended that fixed assets should be valued at replacement value. The justification given in support of this is –

- (i) Due to inflationary trend book value will not show the true value of the asset. Ultimately balance sheet will not reflect true and fair view of the financial position.
- (ii) Replacement value will give the correct idea about the true worth of the investment in fixed assets.
- (iii) If the assets are valued on the basis of book value and charged depreciation accordingly, the funds from depreciation may not be adequate to replace the asset when the old asset will become obsolete.
- (iv) In the inflationary state, if depreciation is charged on original cost of the asset, due to lower depreciation, the profit will show unduly inflated amount, which may create unrest in the minds of consumers, labour and even the government.

On this ground of difference of opinions the council of the Institute of Chartered Accounts in England and Wales, has recommended that –

- (i) The historical cost (book value) should continue to be used for the valuation of fixed assets.
- (ii) Any additional amount set aside considering the change in the purchasing power of money (generally inflationary trend) should be treated as a capital reserve and it should not be made available for distribution.
- (iii) Fixed assets should not be written up in the balance sheet even though the replacement value is higher than the book value.

- (iv) There should clear mention in the final accounts and report of directors that due to inflationary trend, current depreciation fund is inadequate and hence additional amount is set aside for replacement of assets.

### 2.11.2.5 Valuation of Current/Floating/Circulating Assets

The assets which are produced or created in the normal course of business or which are purchased for resale are called as current assets. Such assets are held temporarily and they can be converted into cash readily and easily. The amount and quantity of these assets change frequently in the normal day to day operations of the business. Stock, cash and bank balance, debtors, stores, bills receivables etc. are the illustrations of floating assets.

Different current assets are valued by different ways as indicated in the chart given below.

To follow one of the basic principles i.e. principle of conservatism, some current assets are valued at cost or market value whichever is lower. Auditor should be alert while valuing current assets because there is higher chance of manipulation of accounts.

<b>Asset</b>	<b>Value</b>
Cash and bank balance	Actual amount
Debtors and bills receivables	Realisable value
Stock of raw materials, work in progress and stores	Cost price
Stock of finished goods, bearer securities and short term investments	Cost or market value whichever is lower
Prepaid expenses	Book value

### 2.11.2.6 Valuation of Fictitious Assets

In fact fictitious assets are not the assets but they are deferred revenue expenses, to be written off during a particular period of time. For example, preliminary expenses, discount on issue of shares and debentures, expenses on advertisement campaign etc. As these accounts have unwritten debit balances, they are shown as assets under the heading 'Miscellaneous Expenditures' on the asset side of the balance sheet. A

portion of such expenditure is written off by debiting to the profit & loss account and the balance is shown as asset. Thus, the value of such assets is equal to total expenditure incurred minus amount written off.

### 2.11.3 Difference between Verification and Valuation

Verification includes valuation of assets but there is difference between these two which can be stated in brief as under –

<b>Verification</b>	<b>Valuation</b>
It means checking existence, ownership, possession, valuation and charge on the assets.	It means determining the proper value of assets and liabilities.
There is no fixed method for verification. It changes according to nature and type of assets and liabilities.	There is some basis for valuation. Different assets are valued on suitable basis.
It is not possible to get a certificate of verification from any authority. It should be done by the auditor himself.	The auditor can get and rely on the certificate of valuation from the responsible officer or authority.
It is a wide term. It includes vouching.	It is related only to the value of assets and liabilities and does not include verification.
It is not possible without valuation.	It precedes the verification. In general it is the first step in verification.
It is a guard against improper valuation.	It provides one basis for verification.

### 2.11.4 Auditor's Duties in Connection with Valuation

The auditor has to report that the final account gives true & fair views of the profit or loss and state of affairs of the business. Correctness of the final accounts are largely depends upon the correctness of values of assets and liabilities. It means that an auditor should verify the values of assets and liabilities shown in the balance sheet.

The auditor is responsible for valuation of assets and liabilities not only to his client but to the third parties also. In respect of auditors position regarding valuation of assets and liabilities the following important points be noted.

1. The auditor is not a valuer. He is not an expert for valuation of all types of assets and liabilities.
2. He has to verify the value shown in the balance sheet and ascertain that these are fair, reasonable and in accordance with accepted commercial principles.
3. He has to satisfy himself that the assets and liabilities are valued on the basis of normally accepted accounting principles.
4. He can obtain a certificate of valuation from the experts, surveyors, valuers, directors or any other responsible officer wherever necessary. But there also he has to take utmost care and see that the values referred are reasonable, practical and as per accounting principles. He should not accept the valuation blindly but check the valuation with the available documents and evidences.
5. He should examine that principle and basis of valuation of assets are followed consistently for years.
6. He is not expected to give assurance to repay all the losses to the client and to the third parties who relies on the balance sheet certified by him and suffered a loss. However he bound to exercise reasonable care and skill before certify the balance sheet. Where he finds doubts, he should make his own inquires and whatever his observations should be clearly stated in the report.

In short, he should take every care that will absolve him from the charge of negligence.

### **2.11.5 Principles of Verification and Valuation of Assets**

For the purpose of verification and valuation of assets an auditor should follow the following principles.

1. Verify the internal control system regarding the acquisition, utilization and disposal of the assets.
2. Verify the record (account / ledger / register) maintained by the client for the assets showing quantitative details and situation of the asset.
3. Verify the values of assets shown in the balance sheet as per the ledger accounts / registers.

4. Verify that the accepted accounting principles are followed consistently.
5. Verify the physical existence of the asset.
6. Verify the ownership and title documents of the asset.
7. Verify that the assets are in the possession of the client.
8. Verify the mortgage or lien or charge or encumbrances on the assets.
9. Verify the values of the assets shown in the balance sheet.
10. Verify that the assets are shown properly (under proper heading) in the balance sheet.
11. Verify that assets are acquired for the purpose of business.
12. Verify whether the management has verified the assets and noted accordingly.
13. Verify whether the assets are revalued during the year and the reasons for revaluation.
14. Note down all the observations and findings which should be mention in the report.

## **2.11.6 Verification and Valuation of Assets and Liabilities**

### **2.11.6.1 Fixed Assets**

#### **2.11.6.1.1 Intangible Fixed Assets**

These assets can not be seen or touched hence they can not be physically verified. They are inseparable from the business hence can not be mortgaged or hypothecated or will not have any charge.

**(A) Goodwill** : E L Kohler defined goodwill as –

- (a) ‘The present value of the expected future income in excess of a normal return on the investment in tangible assets; not a recorded amount unless paid for’.
- (b) “The excess of the price paid for business as a whole over the book / computed / agreed value of all tangible net assets purchased’. Normally this type of goodwill appears in the books of accounts.

As the goodwill is an intangible asset, its existence can not be physically examined. An auditor should verify the vending contract, in the case of purchase of business and the basis of calculation and actual computation of goodwill, when it is generated by book entries. In the case of partnership firm when the goodwill is created due to admission or retirement of partner, resolution passed by partners should be checked.

The value of goodwill may change year to year. It is not the duty of the auditor to check whether it is shown with smaller or greater value. But he has to see that any heavy revenue expenditure is not capitalized as goodwill. As it is intangible one, there is no question of any charge on the asset. It can not be mortgaged or hypothecated.

Goodwill is not depreciated but it can be amortized or written off gradually from the profit. The auditor should examine whether it is disclosed clearly and adequately in the books of accounts and shown in the balance sheet at cost less amounts written off.

**(B) Copyrights** : Copyrights are the property of either an author or a publisher in respect of producing or reproducing books or articles. Its value depends upon merit of the book or article. The asset is shown in the balance sheet at cost less amounts written off.

The auditor should examine original document i.e. written agreement as well as the related correspondence. The expenses incurred should be vouched with the help of supporting evidences. If copyrights are more in number, a schedule should be prepared and verify all these one by one.

**(C) Patents and Trade Marks** : The auditor should verify –

- (i) Certificates of Registration, if it is registered in the name of the client,
- (ii) A letter of acknowledgement, if it is registered in the name of the nominee,
- (iii) Assignment Deed and registration of Assignment Deed, if it is purchased from another person,
- (iv) Patents and Trade Mark Register,
- (v) The resolution passed and other relevant documents.

He should confirm that these rights are the property of the client and they are not lapsed due to non payment of renewal fees or expiry of term or for any other reason.



The cost of patents can be examined with the help of the invoices and other documents. The entire expenses incidental to purchase of rights, the initial fees for registration, all expenses of creation, generation and registration and all research expenses are capitalized. But renewal fees are treated as revenue expenditure. The auditor should examine all the vouchers in respect of these expenses. If the client is having number of or series of patents & trade marks, the auditor should call for a schedule which will provide all the details.

This asset should be disclosed in the balance sheet at the original cost less depreciation. See that the depreciation provided is adequate. Verify that lapsed rights are not included and the rights are reviewed and revalued wherever necessary.

#### **2.11.6.1.2 Wasting Fixed Assets**

Coal mines, stone quarries etc. – Normally such assets are taken as a lease from the government or local authorities. These assets can be verified with the original lease deeds, related documents and the correspondence. If the lease is in the name of a partner, director or any other nominee, a letter of acknowledgement should be verified.

The asset is shown in the balance sheet at its original cost less the total depletion to date. Cost includes all the cost of exploitation, cost of original developments, additional expenses in respect of extension, additional truckage, equipments etc.

#### **2.11.6.1.3 Tangible Fixed Assets**

**(A) Freehold Land :** The auditor should examine- (a) the title deed and purchase deed, b) certificate of the solicitor for the title of the client, (c) if the title deed is with the solicitor or banker, certificate in this respect from them, (d) if the deed is sent for registration a certificate from solicitor or legal advisor in this respect, (e) related documents and correspondence.

He should also call from the management clarification regarding whether the land is mortgaged or any other charge is created. If it is so, he should verify all the documents and correspondence in respect of mortgage or any other charge.

Land is shown to the assets side of the balance sheet under the heading fixed assets with its cost. Cost include the total price paid and incidental expenses such as legal charges, stamp duty etc. The auditor should verify value of the asset shown in the balance sheet with the audited ledger and /or documents of acquisition. No depreciation is charged on such land.

**(B) Leasehold Land :** The auditor should verify - (a) original lease, (b) certificate of registration, if it is registered, (c) letter of solicitor or the legal advisor in respect of cost and other documents. He should inspect the clauses regarding installments, repairs and insurance. Because for non payment of installment or breaching the clause regarding repairs, the lease may stand cancelled. If the lease is in the name of nominee, he should verify the letter confirming the arrangement.

Though it is a land, it is taken on lease for a specified period hence, the depreciation is charged on such land. The total depreciation is spread over the period of lease and charged every year accordingly. Cost includes original cost and all incidental expenses.

**(C) Buildings :** For verification of buildings the auditor should verify –

- (a) Bills of contractors, architects and others, certificate of architect and related documents if building is constructed,
- (b) Title deed and registration certificate of title deed, receipts for payments etc. if the building is purchased,
- (c) Certificate from the solicitor or legal advisor regarding title and validity of title deed,
- (d) If the title deeds are in the custody of solicitor or legal advisor or banker, certificate from them in this respect,
- (e) If the building is mortgaged, certificate of mortgage and possession of title deed,
- (f) Lease agreement if the building is taken on lease, a letter of acknowledgement if the lease is in the name of partner / director / nominee, Certificate of registration of lease.

Confirm that there is no breach of contract or clause. For valuation of buildings the auditor should –

- (a) See that all expenses on materials, wages, transport etc. have been capitalized when building is constructed.
- (b) Vouch the payment made to vendor if the building is purchased.
- (c) Check that legal charges, stamp duty, registration charges and all other incidental expenses are capitalized.

- (d) Confirm that adequate depreciation is charged. If consolidated value of land & buildings is shown, adequate depreciation is provided on building portion of this consolidated value. The separate values of land and buildings can be verified from certificate from authorized valuer or architect.
- (e) See that building is shown in the balance sheet at cost less depreciation.

**(D) Plant and Machinery :** An auditor should verify the balance of plant and machinery from the ledger accounts. He should examine that a separate account is maintained for each item or part of the machinery in a register which provides all the details such as date of purchase, cost price, incidental charges, additions to & sale out, etc. He should conduct physical verification and check contracts, invoices and other documents for verifying the ownership. He should also check that the plant & machinery is in the possession of the client. If it is in transit or at any other place other than the ordinary place in the prior erection period, obtain the related certificates and documents. He should confirm that whether there is any charge for the purpose of loan. If it is so, all the papers in relation there to should be checked.

The plant & machinery is shown in the balance sheet at cost less depreciation. Cost includes original cost plus all direct and incidental expenses such as transportation, wages, octroi, custom duty, erection charges etc. Erection charges include salary, wages, professional charges, stores, materials, insurance premium paid for the period of erection, interest on borrowed capital for the period till the commencement of production, lodging & boarding, remuneration, traveling and other expenses of foreign technicians and experts etc. The auditor should see that these expenses are capitalized and no revenue expenses are capitalized. Confirm also the addition to and sale of machinery are clearly disclosed and adequate depreciation is charged. When plant & machinery is revalued, he should obtain the certificate and the report of the valuer and check the reasons for revaluation as well as whether the revaluation is correct.

**(E) Furniture and Fixtures :** The auditor should first check the furniture & fixture register and see that separate accounts are maintained for each item of furniture and it gives full details such as date of purchase, cost, incidental expenses etc. He can verify some of the furniture physically.

When part of the furniture is sold out or discarded, see that it is authorized by responsible officer. Particularly when the furniture is written off on the reason that it was damaged or unrepairable or unserviceable, he should satisfy himself that the situation was such. See that depreciation is charged adequately considering the purchase and sales of furniture during the year and it is valued at original cost less depreciation.

**(F) Vehicles** : The auditor can verify the vehicles such as motor cars, motor trucks, motor lorries etc. by checking purchase invoices, registers, R T O certificates, insurance policies etc. See that the expenditures on body building of trucks, transport buses, accessories of cars etc. which are of non-recurring nature are capitalized. Adequate depreciation is provided and shown in the balance sheet at cost less depreciation.

If the number of vehicles is more, he should call for a schedule of motor vehicles and check accordingly. If any vehicle is scrapped or sold out during the year, he should check it very carefully and see that it was done only with the authority of a responsible official. Also check that formal procedure is followed and due care is taken before scrapping or disposing.

In case of all other fixed assets verify the registers, invoices and other ownership documents for verification and for valuation see that it is shown at cost less depreciation and adequate depreciation is provided for. Check the assets physically wherever possible.

#### **2.11.6.2 Investments**

Generally, the investments are in the form of Government & Trust securities, shares, debentures, bonds, share warrants, bearer bonds etc. To verify the investments an auditor should take the following care.

1. See that they are properly stated and classified in the balance sheet.
2. Determine that they are valued as per normally accepted accounting principles and the valuation is consistent.
3. See that it is the property of the client i.e. securities are in the name of the client. If it is in the name of the nominee, a letter of acknowledgement is available.
4. Verify physically or with evidences the actual existence of the investments. If securities are in the safe custody of bank, certificate from the bank in this respect be verified.
5. See that there is an adequate internal control regarding acquisition, disposal and for accounting the income arising from the investments.
6. Confirm that all the purchase and sale of investments during the year are with the prior permission of the responsible official or authority. Besides he should check brokers note, the bills, receipts etc.

7. Check that bonus shares received are properly accounted for.
8. Ascertain whether there is any charge on the investments for the purpose of loan.
9. Check carefully investments in the shares or debentures of a subsidiary company.
10. See that general investments and investments for particular purpose such as Provident Fund Investments, Debenture Redemption Fund Investments etc. are separately and properly recorded.

There should be a separate register for investments containing separate accounts for each type of investments showing all the details such as cost, market value, rate of interest, dividend, date on which interest or dividend falls due, date of maturity, maturity value etc. The auditor should call for a schedule of investments as on the date of balance sheet giving full details and check one by one. He should also check whether all income arising from the investments is properly accounted or not.

If moneys are paid but scrips are not received, all the evidences and correspondence should be checked very carefully. As the same if the client has applied for the shares and waiting for allotment of shares, he should check all the details regarding the payment. if allotment letter is received but actual shares are not received, he should verify the details from allotment letter and the related correspondence. Confirm that partly paid shares or debentures (if any) are properly accounted for.

Bearer securities such as share warrants, bearer bonds etc. are to be examined physically and if they are deposited in bank for safe custody, certificate from bank giving full particulars should be examined.

Investments are normally shown in the balance sheet at cost and not at market value. Cost includes cost of acquisition, brokerage and other incidental expenses. The purpose for which the investment was made and nature of the business decide the basis for valuation. When the investments are held as fixed assets, they are valued at cost price and when the investments are held as current assets, they are valued at cost price or market price whichever is lower. The auditor can verify the cost price from the broker's note and the amount paid for acquiring the securities. The market value can be verified from the official list published by Stock Exchange, if they are quoted. If the securities are unquoted, the market value should be computed on the basis of balance sheets of companies of which securities are purchased and the rates of dividend of these companies during the last few years.

### 2.11.6.3 Current Assets

**(A) Closing Stock or Inventory** : An auditor should be very careful, alert and exercise all his skills and techniques while verifying closing stock because –

- (a) There are more chances of frauds. By using accounting techniques and methods, management can easily manipulate the accounts.
- (b) Generally stock includes number of items and sub-items and auditor has no technical knowledge of the goods.
- (c) Due to lack of time, it is very difficult to count physically and value the stock on hand.

Auditor can not avoid the duty of verifying closing stock. He would be held responsible for errors and frauds if discovered later on. His duties in this regard are –

1. At first he should examine the method of stock taking and method of valuation of stock and see that whether these methods are consistently used or not.
2. Call for list of items in stock and see that they pertain to the business of the client. Confirm that consumable stores, spare parts, loose tools, dead stock items etc. are not included in stock.
3. Check that quality and quantity as per stock sheet tallies with that of as per book records. Also check all the calculations.
4. If the goods are in warehouse check the warehouse certificate in this respect carefully.
5. Check that goods sold but not dispatched are not included in stock and goods purchased but not received are not excluded from the stock.
6. See that goods with consignee, branches and goods sent on sale or return basis are properly valued and included in the closing stock.
7. Check that the goods damaged and destroyed are approved by the responsible official and valued properly.
8. Compare the value and quantity of closing stock with the same figures of the last few years. As the same, compare the amount and rate of gross profit with the same figures of the last few years. Enquiry should be made if the difference is considerable.

9. Obtain a certificate of closing stock duly signed by the general manager / chief executive / managing director.

The closing stock should be valued correctly. Overvaluation of the stock results in the artificial profit and undervaluation results in less profit. Generally the stock is valued at cost price or market price whichever is lower. Cost price includes purchase price and all incidental expenses such as carriage, cartage, octroi, freight etc. If the client is manufacturing concern, closing stock is divided in three categories i.e. stock of raw materials, semi finished goods and finished goods.

- (a) Stock of raw materials is valued at cost price. Cost price includes purchase price and all incidental expenses.
- (b) Semi finished goods or work in progress is valued at cost of raw materials used plus estimated cost of wages, direct overheads and works on cost. He should check costing records to verify the cost and obtain a certificate from works manager in this respect.
- (c) Finished goods are valued at total cost of production i.e. cost of materials plus cost of labour plus cost of overheads. The auditor should examine the cost records to verify the value.

Closing stock includes stock on hand, stock with agents & consignees, stock of goods sent on sale or return basis, stock with branches, goods in transit and goods purchased but not received. So while verifying the stock, he should also examine the statement of agents, consignees and branches regarding the stock. Goods in transit can be checked by verifying date of goods sent by supplier and date of actual receipt, the statement of transport authority giving details of goods accepted for transportation, delivery challans etc.

**(B) Sundry Debtors or Book Debts :** To verify the asset, an auditor should first verify the debtors' ledger and sales ledger and see that goods returned are properly adjusted. In addition he should examine the following –

1. All the debts are classified in three categories i.e. debts considered good, doubtful and bad. Adequate provision for doubtful debts is created. Bad debts written off are authentic and sanctioned by the responsible official.
2. Debts due by directors and officers of the company and debts due by the firms and companies where director of client company is partner or director.

He should confirm the balances of individual debtors by getting confirmation from the concerned debtors. As well as he should examine the internal control system in respect of collection from debtors.

**(C) Bills Receivable** : For the verification of bills receivables an auditor should first examine the bills receivable book and see that it is properly maintained, all the entries are passed in correct way and the balance tallies with the amount shown in the balance sheet. Bills receivables in hand should be verified physically and see the details such as name, date of the bill, date of maturity, stamp, amount etc. Also check the total amount of such bills tallies with the amount shown in the balance sheet.

He has to check that bills endorsed and discounted but not matured are properly accounted and contingent liability is shown in the balance sheet for the purpose. Also check doubtful bills, charge created if any and the statement of bills sent for collection. He should see that bills dishonoured are recorded correctly.

**(D) Bank Balance or Cash at Bank** : Generally bank balance as per cash book and pass book differs due to time lag in encashment of cheques issued & received and expenses & income directly charged or received by bank. An auditor should verify all the items of Bank Reconciliation Statement thoroughly because there are chances of misappropriation. Taking the support of the fact that the bank balance as per the cash book differs from the bank balance as per pass book or statement of bank, cash may be misappropriated skillfully. A fake Bank Reconciliation Statement may be prepared. So, the auditor should be very alert while checking Bank Reconciliation Statement. Make all the necessary enquiries and check all related documents and correspondence.

If there are more than one account with the same bank or more than one bank, all the accounts should be checked carefully and see that all the balances are taken properly. If any account shows overdraft see that it is not adjusted in the debit balance in other accounts but is shown as liability. Fixed deposits with the bank can be verified with the counterfoil of bank challans, certificate of deposit or from statement of bank.

**(E) Cash in Hand** : An auditor should visit the client on the date of year ending or on very next day or at the earliest and count physically cash in hand and compare it with the cash balance shown in cash book and balance sheet. If different cash books are maintained such as cash book for counter sales, cash book for sales through agents etc. all such cash books as well as petty cash book & main cash book should be verified simultaneously. So that deficit of one account can not be made up from the excess of other accounts. Counting of cash should be done in the presence of cashier and a responsible officer and a note should be prepared accordingly duly signed by all of them. Shortage or excess of cash should be taken seriously.

Generally a ceiling limit is prescribed for balance of cash in hand, the auditor should see that the limit is not crossed and if crossed what are the reasons. For



verification cash at branches, auditor should call certificates from auditors of the branches. Cash in transit can be verified with the record, documentary evidences and correspondences. If there are cheques & drafts received but not deposited into bank and cheques drawn but not issued, he should enquire for the same and if not satisfied mention in his report.

#### **2.11.6.4 Fictitious Assets**

**(A) Preliminary Expenses :** Expenses regarding preparation of and printing of the Memorandum and Articles of Association, legal charges, stamp duty, filing fees etc. in respect of registration or incorporation, printing of share certificates and other stationery required for long time, cost of company seal, cost of affixing stamp on share certificates, fees of solicitors etc. are called as preliminary expenses. They are heavy and incurred at the initial period so they are written off gradually from the future profit. Till then it is continued to be shown as an asset at the value to the extent not written off i.e. at cost less amount written off.

An auditor should verify all the expenditure by means of supporting evidences such as printing bills, bills of solicitors, stationery bills, traveling and related expenditure bills etc. He has to use vouching technique. He has to verify basis and amount written off during the year under audit.

**(B) Discount on Issue of Shares and Debentures –** When shares or debentures are issued at discount, the face value of shares or debentures is credited and discount is debited to Discount on Issue of Shares or Debentures Account. The amount so debited is treated as fictitious asset and written off gradually from future profits. It is shown in the balance sheet at total amount of discount less amount written off.

The auditor can verify the asset by examining prospectus, shares or debentures allotment notes and other relevant documents. He should also verify the basis, rate and amount written off during the year under audit from the resolutions and amount charged to the profit & loss account of this year and to the few previous years.

#### **2.11.6.5 Capital and Reserves**

Capital is the prime source of funds for any business concern. The following points are to be considered while verifying capital.

- (a) In the case of sole trader verify the amount brought in and the form in which it is brought in as well as his drawings.

- (b) In the case of partnership firm, examine partnership deed and verify amount of capital brought in, drawings, interest on capital and the profit sharing ratio.
- (c) In the case of limited company examine –
  - (i) Memorandum and Article of Association,
  - (ii) Prospectus for issue of shares,
  - (iii) Resolutions passed for issue of shares,
  - (iv) Applications, allotment and calls on shares,
  - (v) Calls-in-advance and Calls-in-arrears,
  - (vi) Issue of bonus shares and capitalization of reserves,
  - (vii) Forfeiture and reissue of shares,
  - (viii) Issue of shares for purchase of business and
  - (ix) Provision of the Companies Act 1956 in respect of all the above items.

He can verify the amount from the cash book, bank pass book and register of members. Check that proper accounting entries are passed.

Reserves are retained earnings transferred from the profits. Reserves may be of different types e.g. Statutory Reserves, Development Reserves, reserves for particular purpose etc. An auditor should see the Article of the Association to know what types of reserves are authorized to create. He should also check the resolution passed in respect of the reserves from minute book.

The amount can be verified from the account of the reserves and from profit & loss account. Verify additions to and withdrawals from the reserves particularly, creation of transfer to capital reserve and its application.

#### **2.11.6.6 Secured Loans**

**(A) Secured Loans from Banks and Financial Institutions :** The auditor should check the resolution passed for borrowing and agreement with the bank or financial institution. Examine which asset is given as security or whether it is having floating charge, period and mode of repayment, rate of interest etc.

The amount can be verified from the loan account but in addition he should get the confirmation from the concerned bank or financial institution. Verify also that the

interest is paid regularly, outstanding amount if any is shown as liability. Check that borrowings from different banks or financial institutions under different schemes giving different securities are shown separately in the balance sheet.

**(B) Debentures** : Generally debentures are secured. In addition to Article of Association and resolutions passed an auditor should examine prospectus for issue of debentures. Check the total amount, face value, discount or premium, rate of interest, securities offered etc. The amount due can be verified from the debenture register. Also check the procedure fixed for redemption and redemption made during the year. See that interest is paid regularly; provision is made for outstanding interest and shown as liability.

#### **2.11.6.7 Unsecured Loans**

For trading or other purposes a business concern may borrow some funds from banks or financial institutions or from others for a short period of time on personal guarantee. Auditor should check resolutions passed for taking loan, loan agreement and other documents. Examine the period, rate of interest, mode of repayment and other conditions. See that interest is paid regularly and if outstanding, shown as a liability. The amount of loan can be verified with the register. In addition he can get confirmation from banks or the lender. It is shown in the balance sheet to the extent it is outstanding.

#### **2.11.6.8 Current Liabilities and Provisions**

**(A) Trade Creditors** : Auditor should call for list of creditors and verify it with the creditors' ledger and purchase ledger. He should ask the client to send a statement of accounts to the creditors and get their confirmations. The amount pending for a long period of time and payment made to long outstanding should be enquired in detail.

**(B) Bills Payables** : Bills payables can be verified with the bills payables register and other records. If there are number of bills a schedule should be prepared. The total amount should tally with the amount shown in the balance sheet. He should ask to the client to get a certificate from the drawer confirming the amount, period and other conditions. See that bills payable retired and dishonoured are accounted properly.

**(C) Outstanding Expenses** : Revenue expenses such as rent, salaries, wages, interest etc. which have become due but not paid are called as outstanding expenses. Total recurring expenses must be considered for finding out net profit or loss but for one or the reason some portion of them may remain unpaid. The auditor should verify the particular expenditure account and cash book & pass book to find out the amount of total expenditure and the portion outstanding. Check carefully that the expenditure

paid entirely is not shown as outstanding as well as less amount is shown as outstanding than the actual one. He should obtain a certificate from the responsible officer regarding outstanding expenses giving full details such as nature or name of item of expenditure, total amount, unpaid amount, the authority or party to whom the payment is due etc. If there is doubt he can get confirmation from the parties to whom the payment is due.

**(D) Provision for Taxation :** Taxes on the profit earned by the business concern during the year is payable in that year. A fair estimate of the taxes must be made and provided for. A short or excess provision for taxes can be adjusted when the assessment is completed. An auditor should verify all the calculations regarding estimation of profit and provision for taxation considering the prevailing rates of taxes.

## 2.12 Self Assessment Questions

1. What is meant by Vouching? What points must be borne in mind while examining the voucher?
2. "Vouching is the essence of Audit". Explain the statement and give essentials of the valid vouchers.
3. "In vouching payments, the auditor does not merely seek proof that money has been paid away" Discuss.
4. What is vouching? Explain the characteristics and objectives of vouching.
5. What is voucher? Give the examples of voucher that you would reject explaining the reasons.
6. How would you vouch the following ?
  - (a) Credit purchase
  - (b) Dividend received on investment
  - (c) Insurance premium
  - (d) Payments to creditors
7. As an auditor how would you vouch the following ?
  - (a) Interest received on fixed deposits
  - (b) Dividend received
  - (c) Stock insurance claim received
  - (d) Repayments of debentures
  - (e) Payment of commission based on net profit
  - (f) Payment of salaries and wages

8. How would you vouch the following ?
  - (a) Cash sales
  - (b) Travelling expenses and allowances
  - (c) Receipts from debtors
9. How would you vouch Credit Purchases and Credit Sales?
10. Write Short Notes on
  - (a) Objectives of Vouching
  - (b) Vouchers
  - (c) Auditor and Vouching
  - (d) Weed of Investigation
11. What is the object of Verification of Assets? How would you verify the following?
  - (a) Cash in Hand.
  - (b) Goods sent on Consignment.
  - (c) Investments.
12. What is meant by 'Valuation of Assets'? How would you value the following?
  - (a) Work-in-progress.
  - (b) Sundry Debtors.
  - (c) Trade Marks and Patents.
13. How would you as an auditor verify the following? (*Any three*)
  - (a) Cash and bank balance.
  - (b) Sundry Debtors.
  - (c) Provision for Income Tax.
  - (d) Unsecured Loans.
14. Give the importance of valuation of Assets and state the accepted principles of valuation of Fixed Assets.
15. What is meant by 'Verification of Assets'? How does it differ from the term 'Valuation of Assets'? State the importance of verification of assets and liabilities.

16. What is meant by 'Verification of Assets and Liabilities ?' How far is an auditor responsible for verification of assets in the balance sheet ?

### **2.13 Further Readings**

1. Contemporary Auditing : Kamal Gupta, Tata McGraw-Hill Publishing Company Ltd., New Delhi.
2. The Principles of Auditing : F. Clive de Paula, Sir Isaac Pitman & Sons Ltd., London.
3. Spicer & Pegler's Practical Auditing by Walter W. Bigg : S. V. Ghatalia (Indian Edition) Allied Publishers Private Ltd., New Delhi.
4. A Handbook of Practical Auditing : B. N. Tandon, S. Chand & Co., New Delhi.
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8. Auditing Principles, Practices and Problems : Jagdish Prakash Kalyani Publishers, New Delhi.



## Unit - 3

# Special Features in respect of Audit of Co-operative Societies, Banks

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### Structure

- 3.0 Objectives
- 3.1 Introduction
- 3.2 Special features in respect of audit of Co-operative societies
- 3.3 Special features in respect of audit of banks
- 3.4 Summary
- 3.5 Key Terms
- 3.6 Self Assessment Questions
- 3.7 Further Readings

### 3.0 Objectives

The objectives of this unit are to familiarize you with :-

- The Special features in respect of audit of Co-operative societies
- The Special features in respect of audit of Co-operative banks

### 3.1 Introduction

Co-operation is an activity of the people. It is a self-generated, voluntary and self-sufficient activity. The governments had to pass legislation to monitor the activities of the co-operatives mainly with the purpose of safeguarding the interests of all the members.

In Maharashtra the Co-operatives are governed by the Maharashtra Co-operative Societies Act 1960 and supported by Maharashtra Co-operative Societies Rules, 1961. The Registrar of Co-operative Societies makes it compulsory for every Co-operative Society to audit its accounts.

The co-operative banks in India have been playing an important role in the Indian Financial System since last 100 years. Co-operative Banks in India are registered under the Co-operative Societies Act. The co-operative banks are regulated by the RBI and are governed by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1965.

## **3.2 Special Features in respect of Audit of Co-operative Societies**

### **3.2.1 Meaning & Nature**

In Maharashtra the Co-operatives are governed by the Maharashtra Co-operative Societies Act 1960 and supported by Maharashtra Co-operative Societies Rules, 1961. Each co-operative should have its own Bye-Laws which are the guiding principles of the co-operative. These Bye-laws have to be approved through a resolution of the Society. These bye-laws can be amended in the General body Meeting of the co-operative. The only condition on the bye-laws is that they should not be contrary to the Maharashtra Co-operative Societies Act, and have to be approved by the Registrar.

A group of ten persons, who reside in the area of operation of the proposed society and are from different families, can join in application for registration of a society. A society with the objects of promoting the economic interests or the general welfare of the members only can be registered. A member has voting rights in election of the Managing Committee and in general meeting of the members. Every member has one vote, irrespective of the total number of shares held by him .Proxy-voting is not allowed.A member can inspect the books of account of the society and obtain its copies.Every Society shall call Annual General Meeting within a period of three months after the date fixed for completing or drawing up of its accounts for the year. The final authority of the society vests in the general body of the society comprising of all the members.

### **3.2.2 Rules and regulation regarding auditor of Co-operative Society**

The audit of the co-operative societies is the statutory duty of the Registrar under section 81 of the Maharashtra Co-operative Societies Act and accordingly he, by himself or through the person authorised on his behalf (e.g. Chartered Accountant, Certified Auditor etc.), audits every society at least once a year. The audit staff of the district, which is now separate from the regular administrative wing, consists of one District Special Auditor, one Functional Special Auditor assisted by necessary number of auditors and sub-auditors. The audit staff in the district is under the administrative control of the Divisional Special Auditor who is a class I officer at the divisional level.



The District Special Auditor makes arrangement for audit of all societies in the district, for which purpose a list of societies at the end of the year is prepared and societies are allotted to different members of audit staff, according to the volume of business and size of the societies. The Act also provides for appointment of certified auditors with necessary qualifications. The societies which can get their accounts audited by certified auditors are notified in the Government Gazette and accordingly, these societies make arrangements to get their accounts audited through the certified auditors from approved panel.

According to Section 81(1)(a) the Registrar has the power to appoint an auditor by an order, only in case of such societies, which have been given financial assistance including guarantee by the State Government , Govt. Undertakings or Financial Institutions from time to time. Section 81(1)(b) of the amendment act provides that the societies other than the societies referred to in clause (a) shall arrange to get their accounts audited, at least once in a year, by an auditor form the panel of auditors maintained by the Registrar, or by a Chartered Accountant

### **3.2.3 Important Aspect of Co-operative Societies Audit relates to the following**

- (i) It has to be ascertained in general whether and if so; to what extent the objects for which the society was set up have been fulfilled. The assessment need not be only in terms of profit made. It could also be in terms of benefits given to members. The benefits could be in terms of sales effected at lower prices to members, economy achieved in operations, avoidance of wastage of funds, avoidance of middlemen in purchases etc.
- (ii) Infringement of the provisions of the Act and Rules and the bye-laws of the society, if any, should be pointed out in audit. Financial implications of the infringement should also be assessed and indicated.
- (iii) This is necessary in Co-operative Societies in order to ensure that books of accounts are free from manipulation, since in many Rural and Agricultural Societies a considerable number of members could be illiterate and as such personal verification provides a safeguard against any manipulation. Personal verification will however be on the basis of a test check.
- (iv) Examination of overdue debts, if any, verification of the cash balance and securities, a valuation of the assets and liabilities and an examination of the working and the other prescribed particulars of the society.

- (v) Verification of the balances at the credit of the depositors and creditors, and of the amounts due by the society's debtors, of such proportion thereof as may be fixed
- (vi) An examination of the transactions of the members of its committee.
- (vii) An examination of the statement of accounts of the society to be prepared by the committee in such form as may be determined
- (viii) Certification of the profits actually realised or loss actually incurred in accordance with the procedure prescribed
- (ix) Any other matter that may be directed by the Registrar.

### **3.2.4 Important points to be considered by co-operative auditor**

- (i) It is the duty of the auditor to verify the cash balance and securities, examine the overdue debts, if any, value assets and liabilities of the society, verify balances at the credit of the depositors and creditors and the amount due by the society's debtors
- (ii) The Auditor should satisfy himself that the Co-operative Society has kept all account books and registers (e.g. register of shares, register of members, minute books etc.) in connection with the business of the society as required by the Registrar
- (iii) The accounts have been prepared by the Co-operative Society for each separate year in such form as specified by the Act
- (iv) Verify whether the provisions of all the bye-laws have been strictly observed and the bye-laws are in accordance with the provisions of the Act and Rules framed there under.
- (v) Among other things he should verify for example:
  - (a) In respect of Credit Societies whether loans have been sanctioned for proper objects and periods and on adequate security as per conditions applicable to grant of such loans to proper persons. He has also to examine the repayments in order to ascertain book adjustments, improper renewals etc., and examine whether prompt action has been taken for recovery of dues and over dues.
  - (b) In respect of marketing societies whether the society has undertaken pooling and grading before sale of produce of members etc.

- (c) In respect of other societies whether the business of the society has been conducted according to the Co-operative principles and sound business practices.
- (vi) The auditor should verify that at least 25% of the profit is transferred to reserve fund and 10% to welfare fund. The auditor should also see that the dividends paid to members do not exceed 9%.
- (vii) Verify genuineness and adequacy of securities, mortgage and other bonds, adequacy of provision made for depreciation of assets and other items of expenses including interest payable on borrowings and deposits.
- (viii) (a) Conduct personal verification of members accounts and examination of their pass books with a view to preventing manipulation of accounts by dishonest employees and office bearers.  
(b) Verify whether investments of funds made are in accordance with provisions of Act.
- (ix) Analyse the reasons for losses incurred by the society and assess after careful examination, deficiency or loss, if any, arising out of negligence or misconduct on the part of any employee or member of the committee, or of the society and after giving due opportunity to the persons whose actions are likely to be adversely commented upon in the Audit Report to explain why responsibility should not be fixed on them for the said deficiency or loss.
- (x) Certify the balance sheet subject to qualifications if any indicating the state of Accounts and Affairs of the society and award audit classification to the societies.
- (xi) It is the duty of the auditor to submit the audit report to the society and Registrar, expressing his opinion on the Profit & Loss Account, and Balance Sheet of the Society. On completion of audit the auditor shall discuss the report with the member of Managing Committee and may also give his explanatory observation in the General Meeting if he is invited to attend the General Meeting to offer his comments.

In general the Auditor's examination of accounts and affairs of the society should be such as to enable him to certify that the balance sheet of the society exhibits a true and fair view of the affairs of the society at the end of the year and the profit or loss for the financial year ended on that date. The auditor should always be kind and courteous in his relations with both officials and non-officials. His reports should be couched in polite, courteous and clear language. He should act without fear or favour.

### 3.3 Special Features in respect of Audit of Banks

Co-operative Banks are registered under the Co-operative Societies Act. The co-operative banks are regulated by the RBI and are governed by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1965.

#### I. Meaning and Nature

The Co-operative Societies Act define a Co-operative Bank as a society registered under the Act and doing the business of banking as defined in Clause (b) of Sub-Section (1) 5 of the Banking Regulation Act, 1949. It is a Co-operative, registered as a co-operative bank whose members are of similar occupation or profession or who are employed by a common employer or who are employed within the same business district; or have common membership in an association or organisation, including religious, social, co-operative, labour, business or educational groups; or resides within the same defined community or geographical area.

#### II. Objective & Coverage of Bank Audit

- (a) **Objective** : The main purpose of audit is to ensure that banks balance sheet and profit and loss account reflect a true and fair view of the state of its affairs and profit or loss for the period.
- (b) **Coverage** : The areas to be covered by the audit are as under
  - (i) Statements of accounts, Trial balance, Profit & Loss Accounts, Balance Sheet and other financial statements.
  - (ii) Balancing of books.
  - (iii) Inter-branch and inter-bank reconciliation.
  - (iv) Bills payable.
  - (v) Revenue expenditure audit.
  - (vi) Investment operations.
  - (vii) Lending and borrowings.
  - (viii) CRR/SLR compliance and correction & compilation of DTL (Demand & Time liabilities) for statutory purposes.

(ix) Monitoring of large advances.

(No advances should normally be sanctioned beyond the discretionary powers of the Officer concerned viz. Branch Manager. C.E.O., other Executives and Chairman and also without proper credit appraisal of the proposal. Board of Directors of Banks should fix limit to sanction of advances by the Officers of the Bank).

(x) Observances of income recognition, asset classification and provisioning norms.

(xi) Documentations.

(xii) Frauds, misappropriation, embezzlement, follow up advances in litigation.

(xiii) Profitability, loss incurring branches.

(xiv) Accuracy and timeliness in compilation of returns submitted to RBI, NABARD and Govt. directives/instructions.

The audit of Co-operative Bank is a much more detailed affair than a audit of a commercial bank, because the internal check system is not likely to be very efficient in case of the Co-operative Banks.

**III. The Auditor of the Co-operative Banks should consider the following aspects –**

1. The banks should introduce a sound system of internal audit. With a view to Strengthening the credibility of the inspection system in detecting cases of Frauds/malpractices.
2. Verify cash transactions with particular reference to any abnormal receipts and Payments. Vouching Cash in hand by actual counting and comparing with the cashbook Also see the accounting of inward and outward cash remittances. Verify certificates for cash with RBI.
3. Vouch the receipt of cash on account of deposits with the cash book, counterfoils of the receipt book and compare them with the relative accounts.

4. Ensure that in respect of purchase and sale of securities, the branch has acted within its delegated power having regard to its Head Office instructions.
5. Ensure that the securities held in the books of the branch are physically held by it. Also see that the branch is complying with the RBI/Head Office/ Board guidelines regarding documentation and accounting
6. Check the transactions about deposits received and repaid. Percentage check of interest paid on deposits may be made, including calculation of interest on large deposits.
7. Check new accounts opened. Operations in new Current/SB accounts may be verified in the initial period itself to see whether there are any unusual operations. Also examine whether the formalities connected with the opening of new accounts have been followed as per RBI instructions.
8. Ensure that loans and advances have been sanctioned properly (i.e. after due scrutiny and at the appropriate level). Verify whether the sanctions are in accordance with delegated authority.
9. The Auditor should examine the loan policy and procedure, system of credit appraisal, Post-credit supervision, documentation, concentration of loans and advances, advances to directors & their relatives
10. Ensure that securities and documents have been received and properly charged/registered. Also ensure the post disbursement, supervision and follow-up is proper, such as receipt of stock statement, installments, renewal of limits, etc.
11. Verify whether there is any misutilisation of the loans and advances and whether there are instances indicative of diversion of funds. Check whether the letters of credit issued by the branch are within the delegated power and ensure that they are for genuine trade transactions.
12. Check the bank guarantees issued, whether they have been properly and recorded in the register of the bank. Whether they have been promptly renewed on the due dates.
13. Ensure proper follow-up of overdue bills of exchange. Verify whether the classification of advances has been done as per RBI guidelines.

14. Ensure that the maintenance and balancing of accounts, Ledgers and registers Including cash book and general ledger
15. To see accounting of accrued interest is done as per RBI guidelines.
16. Vouch the money borrowed from the Central Co-operative Bank, NABARD/ Other agencies with the cashbook, correspondences and resolution passed by the Managing Committee.
17. Ensure prompt reconciliation of entries outstanding in the inter-branch and interbank Accounts, Suspense Accounts, Sundry Deposits Account, Drafts Accounts, etc
18. To see that accounts are maintained on prudent basis with due adherence to the norms of asset classification, income recognition and provisioning.
19. Carryout a percentage check of calculations of interest, discount, commission and exchange. Check whether debits in income account have been permitted by the competent authorities. Check the transactions of staff accounts. Check cheques returned/bills returned register and look into reasons for return of those instruments.
20. Auditors should examine whether the investments in Government and other approved securities, PSU bonds are as per R. B. I. guidelines.
21. Co-operative banks which have partially / fully computerized their operations should introduce EDP {Electronic Data Processing) audit system on perpetual basis. Duties of system programmer/designer should not be assigned to persons operating the system and there should be separate persons dedicated to system programming/design. System person would only make modifications /improvements to programs and the operating persons would only use such programs without having the right to make any modifications.

## **AUDITORS REPORT (Specimen)**

I/We, the undersigned, Auditor(s) of the \_\_\_\_\_  
Bank Ltd. Report on the Balance Sheet prepared according to Maharashtra Co-  
operative Societies Act and Banking Regulations Act 1949 as at 31st March, \_\_\_\_\_

I/We have examined the foregoing Balance Sheet of the \_\_\_\_\_  
Bank Ltd. as at 31st March, \_\_\_\_\_ and the profit and Loss Account for the period  
ended up on that date with the accounts relating thereto of Head of Office and with the  
returns submitted and certified by the Branch Manager, which returns have been  
incorporated in the foregoing Balance Sheet and Accounts.

### **I/We report that:-**

- i) In my/our opinion, the Balance Sheet is a full and fair one, containing all the necessary particulars and is properly drawn up so as to exhibit a true and correct view of the affairs of the Bank, according to the best of me/us and as shown by the books of the Bank;
- ii) where I/we have called for any explanation or information, such explanation and information has been given to me/us and have been found satisfactory;
- iii) the transactions of the Bank, which have come to my/our notice, have been within the competence of the Bank;
- v) the Returns received from the Branches of the Bank have been found to adequate for the purpose of my/our audit;
- v) the Profit & Loss Account shows a true balance of profit for the year covered by such account;
- vi) in my/our opinion, the Balance-sheet and the Profit & Loss Account are draw up in conformity with the law, and
- vii) in my/our opinion, books of account have been kept by the Bank as required by law.

Place :

Date :

Sd/-

**Dept. Auditor/Chartered Accountant.**



### 3.4 Summary

Co-operative Audit (Co-operative Society, Banks etc.) extends somewhat beyond the bare requirements of the Act and should embrace an enquiry into all the circumstances which determine the general position of the society. It is the duty of the Co-operative Auditor to notice any instance in which the Act, rules or byelaws have been infringed, to verify the cash balance and certify the correctness of the accounts, to ascertain that loans are made fairly for proper periods and objects and on adequate security to examine repayments in order to check book adjustments and improper extensions and generally to see that the society is working on sound lines and that the committee, the officers and the ordinary members understand their duties and responsibilities. Apart from the general processes of auditing like vouching, verification of assets and liabilities etc., Co-operative Auditor should see the aspects like Examination of overdue debts, Adherence to Co-operative Principles, Observance of provisions of Act, Rules and bye-laws etc. Co-operative Audit should include scrutiny of the extent of benefit accruing to the weaker sections of the society's members.

### 3.5 Key Terms

1. **Co-operative Society** : A society which is registered under Maharashtra Co-operative Societies Act 1960
2. **Co-operative Bank** : The Co-operative Societies Act define a Co-operative Bank as a society registered under the Act and doing the business of banking as defined in Clause (b) of Sub-Section (1) 5 of the Banking Regulation Act, 1949.

### 3.6 Self Assessment Questions

#### (A) Objective type questions

1. **Fill in the blanks**

- (a) Every Co-operative Society in Maharashtra is registered under .....
- (b) The audit of the co-operative societies is the statutory duty of the .....

under section 81 of the Maharashtra Co-operative Societies Act.

(c) Co-operative Banks are registered under .....

**Ans.:** (a) Maharashtra Co-operative Societies Act 1960 (b) Registrar (c) Co-operative Societies Act

2. State whether each of the following statement is True or False

- (a) The auditor of a Co-operative Society is appointed by the Registrar of Co-operative Societies.
- (b) The auditor should verify that at least 50% of the profit is transferred to reserve fund
- (c) The co-operative banks are regulated by the RBI and are governed by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1965.

Ans. : (a) True (b) False (c) True,

- (B) Explain the points to be considered while carrying out an audit of a Co-operative Banks?
- (C) What are the special points to be kept in view while conducting the audit of a Co-operative Society?

### 3.7 Further Readings

- 1. Contemporary Auditing : Kamal Gupta.
- 2. Practical Auditing : B.N.Tandon.
- 3. Principles & Practice of Auditing : Dinakar Pagare.



## Company Auditor

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### Structure

- 4.0 Objectives
- 4.1 Introduction
- 4.2 Qualification of an Auditor [Sec.226 (1); 226(2)]
- 4.3 Disqualification of an Auditor  
[Sec.226 (3) 226(4) and 226(5)]
- 4.4 Appointment of Auditors
- 4.5 Auditor's Remuneration [Sec. 224 (8)]
- 4.6 Removal of Auditor Section 224 (5 & 7)
- 4.7 Auditor's Report
- 4.8 Audit and Assurance Standards (AAS-28)
- 4.9 Self Assessment Questions
- 4.10 Further Readings

### 4.0 Objectives

After Studying this unit, you should be able -

- To understand the Role of Company Auditor.
- To know the qualification of an Auditor.
- To know the Disqualification of an Auditor.
- To explain how the appointment of an Auditor, is made ?
- To know the Remuneration of an Auditor.
- To Explain the Removal of an Auditor
- To know how the Auditor's Report are prepared
- To Explain Audit & Assurance Standards (AAS- 28)

## 4.1 Introduction

The business of a Sole trading concern or a Partnership firm is managed by the owners themselves, where as in case of a company the ownership and the management vest in different persons. The shareholders, who are the owners of the company, have no right to take part in the management of business. The affairs of joint stock companies are managed by directors. To ensure that the moneys invested by the shareholders are managed properly. The audit is compulsory under the Companies Act for all types of companies, whether public or private.

According to Sec. 224 of the Companies Act 1956, every company shall appoint an auditor to audit its books of accounts. After the completion of audit, the auditor has to submit his report to the shareholders of the company. The shareholders do not take part in the day to day management of the company. The auditor acts as an agent of the shareholders. The position of the auditor is therefore very vital. He reports to the shareholders about the finances of the company.

## 4.2 Qualification of an Auditor

### [Sec.226 (1); 226(2)]

**1. Chartered Accountant** : A person is qualified for appointment as the auditor of the company only if he is a Chartered Accountant within the meaning of the Chartered Accountants Act, 1949. Nationality is not important.

A firm where of all the partners practicing in India are qualified for appointment as auditors, it may be appointed by its firm name to be auditor of a company. In such case, any partner so practicing can act in the name of the firm. However, an individual Chartered Accountant, being sole proprietor (of say, A & Co.) can not be appointed auditor in the name of the firm.

**2. Certified Auditors** : The holder of a certificate under the Restricted Auditors Certificates (Part 'B' States) Rules 1956 shall be entitled to be appointed as an auditor of companies. Such Certified Auditors are subject to rules framed in this behalf by the Central Government.

## 4.3 Disqualification of an Auditor

### [Sec.226 (3) 226(4) and 226(5)]

The following persons shall not be qualified for appointment as

Auditor of a company.

(i) A body corporate.

(ii) An officer or employee of the company.

(iii) A person who is a partner, or who is in the employment, of an officer or employee of the company.

(iv) A person who is indebted to the company for an amount exceeding one thousand rupees, or who has given any guarantee or provided any security in connection with the indebtedness of any third person to the company for an amount exceeding one thousand rupees. Indebtedness of up to Rs. 1000 would not be a disqualification.

(v) A person holding any security of the Company which carries Voting rights.

Even if a single partner becomes disqualified under this ground the firm in which he is a partner also becomes disqualified.

Sec. 226(4) A person shall not be qualified for appointment as an auditor of the company if he is, by virtue of the above qualification, disqualified for appointment as an auditor of any other body corporate which is that company's subsidiary or a holding company or a subsidiary of that company's holding company or would be so disqualified if the body corporate were a company.

Sec.226 (5) an auditor, who after his appointment becomes subject to any of the above disqualification, shall be deemed to have vacated his office as an auditor.

The list of disqualification makes the positions of an auditor as in- dependent as possible.

According to second schedule of clause II of the Chartered Accountants Act a professional and practicing Chartered Accountant shall be guilty of a professional misconduct, if he expresses his opinion on the financial statement of any enterprise, in which he or his firm or a partner in his firm or any of his relative have a substantial interest, unless he discloses the interest also in his report.

## **4.4 Appointment of Auditors**

### **1. Appointment by Shareholders ..... Sec.224 (1)**

Every company in each Annual General Meeting shall appoint an auditor who shall hold office from the conclusion of that Annual General Meeting till the conclusion of next Annual General Meeting.

The Company has to give information of the appointment to the concerned auditor(s) within seven days of the appointment. The auditor, in turn, on receipt of intimation from the company about his appointment, is required to send a written communication to the concerned Registrar of Companies (ROC) within 30 days of the receipt of the intimation stating whether he has accepted or declined the appointment.

The appointment is valid only from the conclusion of one meeting up to the conclusion of the next meeting. Where an auditor is appointed for any other period, his functioning during the shortened period will not be lawful and he shall not be entitled to any remuneration for the same. But if the next Annual General Meeting is not held within the period prescribed by Section 166, the auditor(s) shall continue to hold office till such meeting is held and concluded. Where such meeting is adjourned to a later date, the auditor(s) shall hold office till the conclusion of the adjourned meeting.

## **2. Reappointment of Retiring auditor ..... [Sec. 224 (2)]**

According to Section 224 (2), at any general meeting, a retiring auditor, by whatsoever authority appointed, shall be reappointed unless—

(a) He is not qualified for reappointment.

(b) He has given the company a notice in writing of his unwillingness to be reappointed.

(c) A resolution has been passed at the meeting appointing somebody else instead of him or providing expressly that he shall not be reappointed; or

(d) Where notice has been given of an intended resolution to appoint some person or persons in place of a retiring auditor, and by reason of death, incapacity or disqualification of that person or of all persons, as the case may be, the resolution can not be proceeded with.

(e) No written certificate has been obtained from the proposed auditor to the effect that the appointment or reappointment, if made will be in according with the limits specified in sub-section (IB) of section 224.

## **3. Appointment by Central Government ..... [Sec. 224 (3) & (4)]**

Where at any Annual General Meeting, no auditors are appointed or reappointed then the power to appoint the auditor would go to Central Government.

Within 7 days of such a meeting where no auditor are appointed the company shall intimate the information to the Central Government who may appoint a person to fill the vacancy. If the company fails to give intimation to the Central Government, the company and every officer in default, shall be punishable with a fine which may extend to Rs. 5000/-

#### **4. Appointment of First Auditor [Sec. 224 (5)]**

The first auditors are appointed by the Board of Directors within one month from the date of registration of the company.

The auditor so appointed shall hold office until the conclusion of the first Annual General Meeting.

Appointment of the first auditor should be by valid resolution at the Board Meeting. Merely naming them in the articles of association will not be recognized as appointment under the act.

In case the board does not exercises its power in this regard, the first auditors shall be appointed by the company in its general meeting. But whether appointed by the board or by the company, information to the first auditors about the fact of his appointment as such is not a necessary condition.

The First auditors can be removed in General Meeting whether tenure completed or not but nomination notice should be given 14 days before the meeting.

If the board fails to exercise its powers under this subsection then the company in General Meeting shall appoint the first auditors.

#### **5. Appointment in case of casual vacancy [Sec. 224 (6)]**

Where a vacancy is caused by the resignation of an auditor, the vacancy shall only be filled by the **company in a General Meeting**.

The Board of Directors may fill any other casual vacancy in the office of an auditor, while any such vacancies continues the remaining auditor or auditors, if any, may continue to act the auditor or auditors. Any auditor appointed in a casual vacancy shall hold office until the conclusion of the next annual general meeting.

The term "Casual Vacancy" has not been defined in the Companies Act. In its natural sense, it means vacancy in the office of auditor resulting from accidental or fortuitous circumstances such as death, incapacity or disqualification of the auditor.

#### **6. Appointment by special resolution (Sec. 224 A)**

In case of a company in which **not less than 25% of the subscribed share capital** is held, whether singly or in any combination, by –

(a) A public financial institution, or a government company or the Central Government or any state government, or

(b) Any financial or other institution established by any provincial or State Act, in which a State Government holds not less than 51% of the subscribed share capital,

or

(c) A Nationalized bank or an insurance company carrying on general insurance business.

The appointment or reappointment at each general meeting of the company, an auditor or auditors shall be made by a **special resolution**.

If the company fails to pass such a special resolution for making the appointment of an auditor or auditors, it shall be deemed that the auditor or auditors had not been appointed by the company at annual general meeting. In such a case, the Central Government may appoint a person to act as the auditor of the company.

## **7. Appointment of Auditors of Government Companies (Sec. 619)**

### **Definition of Government Company**

Sec. 617 of the Companies Act defines Government Company as a company in which not less than 51% of the paid-up share capital is held by

- Central Government or
- State Government or
- partly by CG and partly by SG and
- includes a company which is subsidiary of a government company

Appointment of auditors in case of a Government Company is subject to the provisions of Sec. 619 which overrides Sec. 224 to Sec. 233 dealing with appointment, etc. of the auditors in the case of non-government companies.

**The auditor of a Government Company shall be appointed or reappointed by the Comptroller and Auditor General of India.** However the appointment shall be subject to ceiling limits as per Sec. 224 (IB) and (IC).

### **CEILING ON NUMBER OF AUDITS [Sec. 224 (IB)]**

Sec. 224 (IB) introduces a ceiling on the number of companies of which a firm or a person could be the auditor. Accordingly, an auditor cannot hold the audit of companies in excess of the "specified number" of twenty companies, out of which not more than ten companies shall have a paid-up capital of rupees twenty five lakhs or more. In the case of a firm of Chartered Accountants having two or more partners, the specified number shall be counted per partner of the firm, if there are three partners, the firm can hold the audit of 60 companies of which not more than 30 companies shall have a paid-up capital of Rs. 25 lakhs or more. When one person is a partner in more than one firm that person shall be considered only once for the ceiling purposes. Just because he is in more than one firm, he will not be considered more than once. He



can hold only upto twenty audits.

No company or its Board of Directors shall appoint or reappoint any person or firm as its auditor if such a person or firm is, at the time of appointment or reappointment, holding appointment as an auditor equal to or more than the “specified number”.

**For this purpose**

<b>Following audits will not be counted</b>	<b>Following audits will be included</b>
1. Branch audit if doing the head office audit also.	1. Joint audit.
2. Audit of private companies.	2. Sec. 25 company (not for profit companies)
3. Audit of foreign companies.	3. Company Limited by guarantee and having share capital.
4. Special audit u/s 233A.	4. Govt. Company Audit (if appointed by Comptroller and Auditor General).
5. Company Limited by guarantee not having share capital.	5. Cost Audit.
6. Bank audits.	
7. Investigations.	
8. Audit of corporations which are not co. (i.e. Set up by a different act)	
9. Audit of non-corporate bodies.	

**Steps to be taken by the Auditor before Accepting the Appointment :-**

1. Issuing a certificate that on appointment by the company, the limit on holding of company audit as contemplated under section 224 (IB) will not be exceeded.

2. Ensuring that the requirements of the Section 224 and 225 of the Companies Act have been complied with as discussed below:

- (a) If the appointment of the auditor is made for the first time after the incorporation of the company, the auditor should verify whether the Board of Directors has

passed resolution for his appointment within one month of date of registration of company.

- (b) If the Board of Directors has not appointed the first auditor but the appointment is made by the company in general meeting, the auditor should verify as to whether a proper notice convening the general meeting has been issued by the company and whether the resolution has been validly passed at the general meeting of the company.
- (c) If the appointment is being made to fill a causal vacancy the incoming auditor should verify whether the Board of Directors have power to fill causal vacancy and whether Board of Directors have passed resolution filling the causal vacancy.
- (d) If the vacancy has arisen due to resignation of auditor, the incoming auditor should see as to whether a proper resolution filling the vacancy has been passed at the General Meeting of the Company.
- (e) If the vacancy has arisen as a result of removal of the auditor before the expiry of his term of office, the incoming auditor should see that the proper resolution has been obtained by the company.
- (f) If the provision of Section 224 A (Appointment by Special Resolution) apply to the company, the incoming auditor should verify as to whether a special resolution as required under the said Section has been passed.
- (g) Where the auditor other than the retiring auditor is proposed to be appointed, the incoming auditor should ascertain whether the provision of Section 225 have been complied with.

3. Communicating with the previous auditor, if any.

#### **4.5 Auditor's Remuneration [Sec. 224 (8)]**

Generally the authority appointing the auditor is authorized to fix his remuneration. There are three such authorities viz.

(1) The Board of Directors has a right to appoint the first auditors and also to fill up the casual vacancies.

(2) The members have a right to appoint auditor every year in the annual general meeting.

(3) If no auditor is appointed at an annual general meeting the Central Government may appoint a person to fill the vacancy.

Hence these authorities will fix up the auditors remuneration.

**a. Where appointed by the Board of Directors :-**

When an auditor is appointed by the Board of Directors, remuneration is also fixed by them; the resolution appointing the auditor should also prescribe the remuneration. Sometimes, the resolution may empower the Chairman or the Managing Director of the company to fix the remuneration of the auditor.

**b. Where appointed by shareholders :-**

In this case the remuneration is determined by the shareholders at the AGM. Sometimes, the shareholders may delegate the power of fixing remunerations to the Board of Directors or the Chairman, the Managing Director, etc.

Where a retiring auditor is reappointed and if the resolution does not re-fix his remuneration, the auditor would get the same remuneration as he was previously getting.

**c. If appointed by the Central Government :-**

In this case the remuneration is fixed by the Central Government

**d. If appointed by the Comptroller and Auditor General of India :-**

The remuneration shall be fixed by the company in general meeting or in such manner as the company in general meeting may determine.

**e. Remuneration other than audit fees :-**

Where an auditor is called upon to render service other than those as an auditor, he is entitled to get extra remuneration for such services, e.g. representing for tax matters, etc. Such remuneration may be fixed by mutual agreement between the auditor and the management.

## **4.6 REMOVAL OF AUDITOR [Section 224 (5 & 7)]**

**a) First Auditor(s) :**

The first auditor(s) of a company appointed by the Board of Directors prior to the Annual General Meeting may be removed by the members in general meeting. It is immaterial whether or not the auditor(s) has completed his term of appointment. The general meeting may also appoint in his place any other person nominated for the purpose by any member of the company.

**b) In other cases :**

Any auditor may be removed from office before expiry of his term. But this can be done by the general meeting after obtaining prior approval of the Central Government

in this behalf. In the case of the removal of an auditor before the expiry of his term, some provisions of Section 225 relating to the right of the auditor to make representations, to get the representation circulated among shareholders and the right of being orally heard at the general meeting.

#### **Appointment of a new Auditor in place of retiring Auditor :-**

According to section 225 (1), a special notice is required for a resolution at an Annual General Meeting appointing as an auditor a person other than a retiring auditor. A special notice is also required for a resolution providing expressly that a retiring auditor shall not be reappointed.

On receipt of such a special notice, the company shall forthwith send its copy to the retiring auditor.

The retiring auditor, on receipt of a copy of such special notice, may make representations in writing to the company. Such representations should not exceed a reasonable length. He may also request the company to circulate his representations to the members of the company. The company must circulate such representations to the members unless the representations are received by the company too late. A notice of the resolution should be given to the members stating also the fact of representations having been made. If a copy of the representation is not sent to the shareholders because they were received too late or because of the default of the company, the auditor may require that the representation shall be read out at the meeting. This will be without prejudice to his right to be heard orally. If the Company Law Board on application either of the company or of any person claiming to be aggrieved, is satisfied that this right has been abused to secured needless publicity for defamatory purposed, copies of representations need not be sent out or read out at the meeting. These provisions shall also apply to the removal of first auditors appointed by the Board of Directors.

When a new auditor is appointed in place of the retiring auditor, the company within seven days of the meeting should intimated to the new auditor about his appointment who in turn should inform the Registrar within one month of the receipt of the intimation, in writing that he has accepted or refused to accept appointment. The new auditor should also communicate in writing to the retiring auditor before accepting the audit. If an auditor accept a position as an auditor previously held by another Chartered Accountant, without first communicating with him in writing it amounts to breach of professional etiquette. Failure to do so constitute a misconduct leading to an enquiry into his conduct by the council of the Institute and,

if proved may result in the person declared unfit to continue to be a member of the Institute.

The objective of communicating with the previous auditor is that the member (the auditor) may have an opportunity to know the reasons for change, in order to be able to safeguard his own interest, the legitimate interest of the public and the independence of existing auditors.

#### **4.7 Auditor's Report**

Under the provisions of Companies Act (Section 227 (2), the auditor of a company has to examine the accounts and has to submit his report to the shareholders on the accounts audited by him. The auditor is required to report to them that (i) he has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and (ii) that the accounts are drawn up in accordance with the requirements of the Companies Act, and (iii) give the information required by the provisions of the Act, and that (iv) the accounts thus drawn up give a true and fair view of the state of affairs the company and they reflect true and fair view of the profit or loss of the company for its financial year.

It is a duty imposed upon the auditor by Section 227 (2) of the Companies Act, to submit such report to the shareholders. The auditor shall make a report to be members of the company on the accounts examined by him, and on every balance sheet and profit and loss account and on every other document declared by this Act to be part of or annexed to the balance sheet or profit and loss account, which are laid before the company in general meeting during his tenure of office.

#### **Meaning of Audit Report**

The report prepared by the auditor after examining the accounts of a company called Audit Report. **Joseph Lancaster** Says, "A report is a 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."

#### **Importance of Audit Report**

Auditor's report is a statement which is of great value to all those who are connected with the company. It is a summary of the work done by the auditor which may create a favourable or adverse impression on the reader of the account.

Audit Report is the conclusion reached by the auditor after having audited the accounts of a company, in which he concludes, whether in his opinion the accounts give a true and fair view of the state of affairs as well as of the results the company.

1. Importance of Audit Report to the Shareholders.
2. Importance of Audit Report for Directors.
3. Importance of Audit Report for Creditors of the Company.
4. Importance for Debentureholders of the Company.
5. Importance for Investors.
6. Importance for the Government.
7. Importance for Income-Tax Department.

### **Contents of Audit Report**

According to Section 227 (3) the auditor has to state in his report-

- Whether he has obtained all the information and explanation which to the best of his knowledge and belief were necessary for the purpose of audit; and whether according to the information and explanation given to him, the accounts give the information required by the Act.
- Whether in his opinion, proper books of accounts, as required by the law, have been kept by the company, so far as it appears from the examination of those books.
- Proper information for the purposes of audit have been received from the branches not visited by him.
- Whether the company's Balance Sheet and Profit and Loss Account dealt with by report are in agreement with the books of account and returns;
- Whether, in his opinion, Balance Sheet and Profit and Loss Account comply with the accounting standards referred to in subsection (3C) of section 211.
- Whether any director is disqualified from being appointed as director u/s 274 (i) (g).
- Whether any cess payable under section 441.

### **Types of Audit Reports :-**

There are two types of the Report-

(A) Clean Report and (B) Qualified Report.

#### **A] Clean Report**

Where the Balance Sheet of a company gives a true and fair view of the state of affairs of the company and Profit and Loss Account give a true and fair view of the

profit or loss of the company and where no defect or discrepancy has been found by the auditor during examination of accounts, the auditor gives a clean (unqualified) report.

### **B] Qualified Report**

During the course of auditing the books of account, the auditor requires several explanations in regard to the transactions of a company. Whenever the auditor is not satisfied with any explanation or information furnished to him, or if he otherwise feels that the Balance Sheet and the Profit and Loss Account do not exhibit a true and fair view of the state of affairs of the company and its financial results; he must mention the fact in his report. Such a report is called a “**Qualified Report**”. Also, when the auditor is of the opinion that the accounts presented by the directors with their elucidations are not supported by the information; he qualifies his report mentioning therein the factual position.

The auditor should boldly and clearly specify the qualifications in his report to the shareholders. If he fails to do so, he may be held liable for the breach of duty. [Leading case of London And General Bank Ltd. (1895)], the auditor in this case liable to pay damages, because the auditor is not mention the fact clearly about the insufficient securities. The auditor should in his report give a clear and unambiguous statement which can be understood even by a laymen or a casual reader.

#### **Circumstance under which Qualified Audit Report can be given :-**

Under the following circumstances, a qualified report can be given by the auditor.

(a) Where the examination of accounts could not be carried on in accordance with the accepted principles of auditing.

(b) Where the auditor is not furnished with the required books of account, vouchers and records or the necessary information for the purpose of audit and explanations are not satisfactorily furnished to him.

(c) Where the accounts and financial statements are not prepared according to generally accepted accounting principles.

(d) Where the profit and Loss Account and Balance Sheet are prepared in a manner which is not in accordance with the requirements of the Companies Act.

(e) Where the books of account are not maintained as required by law.

(f) Where the directors, or managing director work in violation of provisions of the Companies Act or of the regulation of Articles and Memorandum of Association.

(g) Where he is satisfied that the Balance Sheet and Profit and Loss Account fail to give a true and fair view of the state of affairs of the company and of its financial results.

### **Statutory Report :-**

According to section 165 of the Companies Act every company limited by shares, and every company limited by guarantee and having a share capital, shall hold a general meeting of the shareholders within six months but not before one month after the company is entitled to commence business. Such a first general meeting of the shareholders is called the Statutory Meeting.

The Companies Act further lays down in this section that the directors shall forward to the shareholders and the Registrar twenty one days before the holding of the Statutory Meeting, a report, called the **Statutory Report**. This must contain the following :-

- 1) The number of shares allotted as fully paid and partly paid.
- 2) The amount received in respect of such shares.
- 3) The number of shares which have been allotted for consideration other than cash and the consideration thereof.
- 4) An abstract of cash receipts in respect of shares, debentures and other sources and payments there out up to seven days before the submission of the Statutory Report and the balance in hand on that date.
- 5) The names and addresses and occupation of the directors, managing agents, auditors, managers and secretary of the company and any changes which might have occurred in the name, addresses etc. since the date of the incorporation of the company.
- 6) The particulars of contracts which are to be submitted to the shareholders at the meeting for their approval.
- 7) The extent, if any, to which each underwriting contract, if any, has not been carried out, and the reasons thereof.
- 8) An account of the commission and brokerage paid or to be paid to any manager, director or agents in connection with the sale or issue of shares or debentures.
- 9) An account of estimate of Preliminary Expenses.
- 10) Arrears of calls, if any, due from the directors, managing agents, every partner of the managing agents, the secretaries, treasurers, etc.

The report has to be certified by not less than two directors, one of whom shall be a managing director, if any, and the auditor has to certify as correct the report so far as it relates to the shares allotted by the company, the cash received in respect of such shares and the receipts and payments of the company. Such an audit is termed as Statutory Audit.



The auditor has to give a certificate in connection with the report as follows:

We hereby certify as correct so much of the report as relates to the shares allotted by the company and to the cash received in respect of such shares and to the receipts and payments of the company.

#### **4.8 Audit and Assurance Standards (AAS-28)**

##### **(The Auditor's Report on Financial Statements)**

##### **1. Objective :-**

To establish standards on the form and content of the auditor's report. The SA requires that the auditor should review and assess the conclusions drawn from the audit evidence obtained on the basis for the expression of an opinion in the financial statements.

##### **2. Basic elements of an Auditor's Report :-**

**(a) Title** : It may be appropriate to use the term "Auditor" to distinguish the auditor's report from report issued by others.

**(b) Addressee** : The auditor's report should be appropriately addressed as required by the circumstances of the engagement and applicable laws and regulations.

**(c) Opening or Introductory paragraph** : The report should identify the financial statements that have been audited including the data and period covered by the financial statements. The report should include a statement of responsibility of the entity's management and of the auditor.

**(d) Scope paragraph** : The report should describe the scope of the audit by stating that the audit was conducted in accordance with the auditing standards generally accepted in India. The report should describe the audit as including examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, as also assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The report should include a statement that the audit provides a reasonable basis for opinion.

**(e) Opinion paragraph** : The report should clearly indicate the financial reporting framework used to prepare the financial statements and express an opinion on the true and fair view in accordance with that financial reporting framework and where appropriate the compliance with the statutory and or regulatory requirements.

**(f) Date of the report** : The report should be dated as of the completion date of the audit, which should not be earlier than the date on which the financial statements are signed or approved by the management.

**(g) Place of signature :** The report should name the specific location, which is ordinarily the city where the audit report is signed.

**(h) Auditor's signature :** The report should be signed in the name of the firm, the personal name of the auditor or both as appropriate.

### **3. Auditor's Report :-**

The auditor should incorporate in his report, the matters specified by a statute or regulator and or report in the form prescribed by them in addition to the requirements prescribed above.

An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view in accordance with the financial reporting framework used for preparation and presentation of the financial statements.

The AAS list down the situations in which auditor's report may have to be modified:

- Matters that do not affect the auditor's opinion.
- Matters that do affect the auditor's opinion including qualified opinion, disclaimer of opinion or adverse opinion.

The AAS specifies that in respect of matters that do not affect the auditor's opinion, the auditor should modify the report by adding a paragraph to highlight a material matter regarding a going concern problem which is unresolved or a significant uncertainty the resolution of which is dependent on future events and which may significantly affect the financial statements. In such matters, the opinion paragraph would refer to the fact that the auditor's opinion is not qualified in this respect.

### **4. Matters that do affect the auditor's opinion :-**

The SA specifies that in respect of matters that do affect the auditor's opinion.

(a) A 'qualified opinion' should be expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with the management is not so material and pervasive as to require an adverse opinion, or limitation on scope is not material and pervasive as to require a disclaimer of opinion.

(b) A 'disclaimer of opinion' should be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor is unable to obtain sufficient appropriate audit evidence and is hence unable to express an opinion on the financial statements.

(c) An 'adverse opinion' should be expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is inadequate to disclose the misleading or incomplete nature of the financial statements.

#### **5. Opinion other than an unqualified opinion :-**

Whenever the auditor requires an opinion other than unqualified, a description of all the substantive reasons should be included in the report and quantification of the possible effect(s), individually and in aggregate, on the financial statements should be mentioned in the report.

#### **6. Limitation on Scope :-**

The AAS also requires that in case there is a limitation on scope that requires expression of a qualified opinion or a disclaimer of opinion, the auditor's report should describe the limitation and indicate the possible adjustments that might have been necessary had the limitations not existed.

### **4.9 Self Assessment Questions**

1. Describe qualification & disqualification of an auditor.
2. Explain how the appointment of an auditor is made.
3. Write short notes on the following
  - a) Auditor's Remuneration
  - b) Removal of Auditor
  - c) Statutory Audit Reporting

### **4.10 Further Readings**

1. Contemporary Auditing : Kamal Gupta.
2. Practical Auditing : B. W. Tondon.
2. Principles and Practice of Auditing : R. G. Saxena.
4. Auditing Principles, Practices and Problems : Jagdish Prakash.

