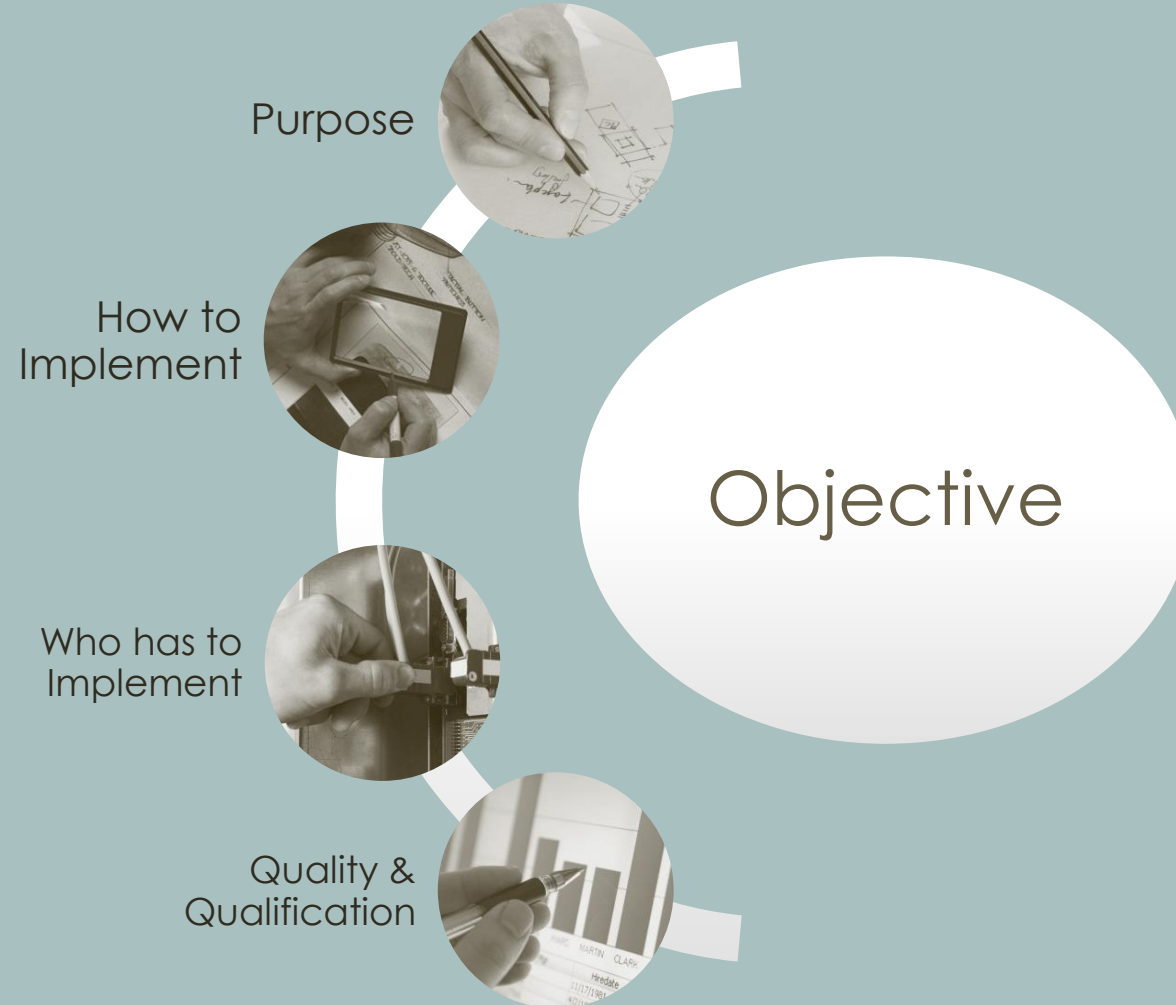


AUDITING



Understanding Objective through definition:-

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

Examination

- Checking
- Verification
- Vouching
- Genuineness

Financial Information

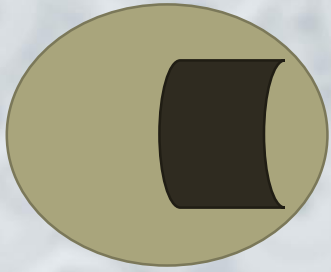
- Revenue Statement –Manufacturing / Trading / Profit & Loss / Income & Expenditure
- Balance Sheet
- Cash Flow Statement

Any Entity

- Proprietorship
- Partnership
- Companies
- Trust / Societies / Joint Venture

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OBTAINED





- 1) Examination of system of accounting and internal control for ascertaining if it is appropriate for the business and helps in proper recording of transactions.
- 2) Reviewing the systems and procedures,
- 3) To ascertain proper distinction between items of revenue and capital nature,
- 4) Verification of authenticity and validity of financial transactions,
- 5) To check the arithmetical accuracy of the books of accounts,
- 6) Comparison of Balance Sheet, Statement of Profit & Loss or other statements with the underlying records



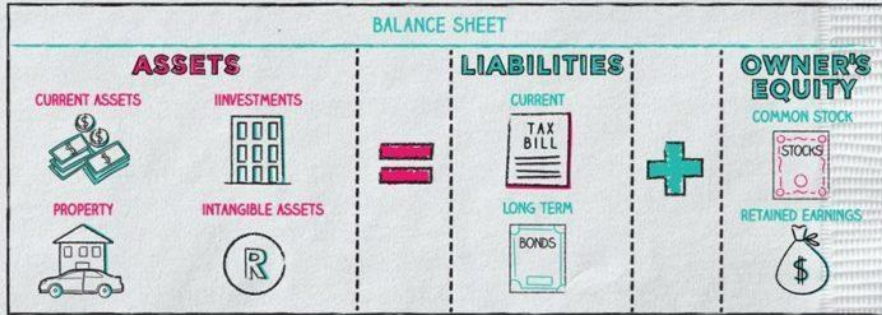


BALANCE SHEET



WHAT

WHAT A COMPANY OWNS AND OWES AT ONE TIME



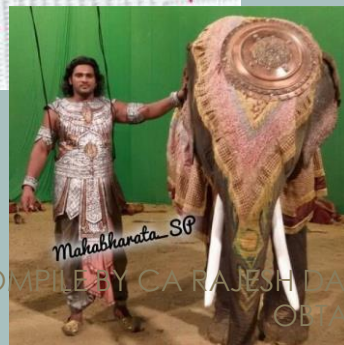
ASSETS = LIABILITIES + OWNER'S EQUITY

WHY IMPORTANT

- HELPS GET CREDIT
- SHOWS PERFORMANCE OVER TIME
- HOW MUCH EARNED
- HOW MUCH OWNED

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- 7) Verification of Assets appearing in Financial Statements (**it's Title, Existence & Value**),
- 8) Verification of Liabilities stated in the Balance Sheet,
- 9) Checking the results shown by the Financial Statements to ascertain whether they are true & fair,
- 10) Conformance with the statutory requirements,
- 11) Reporting to the appropriate person/authority.
- 12) Absence of Fraud –Enhance the confidence.



COMPILED BY CA RAJESH DALAL-NO MONETARY BENEFIT OBTAINED



Basic Principles governing an Audit-SA-200



1. Integrity, Objectivity & Independence
2. Confidentiality
3. Skills & Competence
4. Professionalism-Scepticism / Judgement
5. Work performed by others—SA 600
6. Documentation---SA 230
7. Planning---SA 300
8. Audit Evidence—SA 500
9. Accounting system & Internal Control—SA 220 & 265
10. Audit conclusions & Reporting—SA 700



OBJECTIVITY

- ? Is the content biased?
- ? Are opinions balanced or does the author have an agenda?
- ? How does the bias influence the information?

In the case of an audit engagement it is in the public interest and, therefore, required by the Code of Ethics, that the auditor be independent of the entity subject to the audit. The Code describes independence as comprising both independence of mind and independence in appearance. The auditor's independence from the entity safeguards the auditor's ability to form an audit opinion without being affected by influences that might compromise that opinion. Independence enhances the auditor's ability to act with integrity, to be objective and to maintain an attitude of professional scepticism.



BASIS FOR COMPARISON	AUDITING	INVESTIGATION
Meaning	The process of inspecting the books of accounts of an entity and reporting on it, is known as Auditing.	An inquiry conducted, for establishing a specific fact or truth is known as Investigation.
Nature	General Examination	Critical and in depth examination.
Evidences	The evidences are persuasive in nature.	The evidences are unquestionable, therefore, its nature is decisive.
Time Horizon	Annually	As per requirement
Performed by	Chartered Accountant	Experts
Reporting	General Purpose	Confidential
Obligatory	Yes	No
Appointment	an auditor is appointed by the shareholders of the company.	The management or shareholders or one-third party can appoint investigator.
Scope	Seeks to form an opinion on financial statement.	Seeks to answer the questions, that are asked in the engagement letter.

	Audit	Inspection
Description	Audit means the inspection, examination or verification of a person, organization, system, process, enterprise, project or product.	Inspection indicates that the regulatory authorities are checking documents, records, facilities and any other resources to verify a certain set of standards.
Owners	Audit is conducted on behalf of owners only and they make the appointment.	Inspection is conducted by any person or owner according to one's need of a particular thing.
Purpose	To determine the true and fair view.	To determine the true and fair view.
Process	Routine process	Frequent/Routine process
Period	Once a year	Weekly or monthly
Employees	Does not examine personally	May examine personally
Types	<ul style="list-style-type: none"> •Legal Compliance Audit * Internal Standards Audit * System Audit * Statutory Audit *Internal Audit * Tax Audit* Cost Audit * VAT Audit * Integrated Audit * Operational Audit * Follow-up Audit * Propriety Audit 	<p style="text-align: center;">Onsite inspections:</p> <ul style="list-style-type: none"> •Announced Inspection * Unannounced Inspection * Targeted Inspected •General Inspection * In-depth Inspection * Scheduled Inspection •Occasional Inspection * National Inspections * Pre-license Inspection •Facility Inspection * Routine Inspection * Challenge Inspections

Quality of Auditor– Dealt Separately.

Qualification of Auditor :-

- 1) For Internal Auditor no qualification is prescribed but should possess the quality of Auditor
- 2) For Statutory Audit – a) Government Audit as prescribed by the Government
 - b) For Other Statutory Audit of financial Statement a person should be qualified Chartered Accountant.