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(Auditing)

For

M. Com. Part-I

Semester - II

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Preface

We are glad to place the SLM on Advanced Accountancy Paper VII which is written considering the revised syllabus of Shivaji University, Kolhapur for the M. Com. I, Semester II to be implemented from the academic year 2023-24 in line with the National Education Policy.

This study material concentrates on audit which is an important aspect in case of every commercial organisation. The first unit of the book auditing and assurance standards. There are selected 6 standards which are extensively discussed in this unit. The second unit is consists of details of internal control system. The unit starts with meaning, need of the system and also elaborated evaluation of internal control system through various techniques. The third unit consists of different types of audit. Specifically, this unit given the detailed account of cost audit, management audit, tax audit, social audit and audit of computerize accounting. The fourth unit presents the discussion audit of public sector undertakings as well as audit of educational institutions. The unit also describes the procedure of audit in case of PSUs and educational institutions.

The prescribed matter in the curriculum is presented in this book in such a way that students can understand the concept easily. We strongly believe that this book would prove highly useful to the students. The book is written for the students of distance education, but the students of the same programme as well as students of professional programmes can also find this useful.

We are thankful to the authors for providing the needed inputs. The efforts taken by the authors are commendable and due to those efforts, this book is being completed in time. We are indebted to the authorities of Shivaji, Kolhapur for giving us this opportunity to present this SLM for the students of M.Com. We express our sincere thanks to all those who have helped and supported us in writing the book. We also welcome the suggestions from the readers of the book for further improvement in the quality of the book in future. We are confident that the students and teachers will definitely welcome this book.

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M. Com. Part-I

SIM IN ADVANCED ACCOUNTANCY PAPER VII (AUDITING)

INDEX

Each Unit begins with the section objectives -

Objectives are directive and indicative of :

1. what has been presented in the unit and
2. what is expected from you
3. what you are expected to know pertaining to the specific unit, once you have completed working on the unit.

The self check exercises with possible answers will help you understand the unit in the right perspective. Go through the possible answers only after you write your answers. These exercises are not to be submitted to us for evaluation. They have been provided to you as study tools to keep you in the right track as you study the unit.

Dear Students

The SIM is simply a supporting material for the study of this paper. It is also advised to see the new syllabus 2023-24 and study the reference books & other related material for the detailed study of the paper.

Unit-1

Auditing and Assurance Standards

Index

4.0 Objectives:

After studying this unit, students shall be able to-

- Understand the concept of Auditing and Assurance Standards
- Demonstrate the importance of some important standards in the process of audit

4.1 Introduction :

In 1977, the International Federation of Accountants (IFAC) was set up with a view to bringing harmony in the profession of accountancy on an international scale.

In pursuing this mission, the IFAC Board has established the International Auditing and Assurance Standards Board (IAASB) to develop and issue, in the public interest and under its own authority, high quality auditing and assurance standards for use around the world. The IFAC Board has determined that designation of the IAASB as the responsible body, under its own authority and within its stated terms of reference, best serves the public interest in achieving this aspect of its mission. The IAASB functions as an independent standard-setting body under the auspices of IFAC. The objective of the IAASB is to serve the public interest by setting high quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession. The IAASB achieves this objective by:

a) Establishing high quality auditing standards and guidance for financial statement audits that are generally accepted and recognized by investors, auditors, governments, banking regulators, securities regulators and other key stakeholders across the world;

b) Establishing high quality standards and guidance for other types of assurance services on both financial and non-financial matters;

c) Establishing high quality standards and guidance for other related services;

d) Establishing high quality standards for quality control covering the scope of services addressed by the IAASB; and publishing other pronouncements on auditing and assurance matters, thereby advancing public understanding of the roles and responsibility of professional auditors and assurance service providers.

The IAASB's pronouncements govern audit, review, other assurance and related services engagements that are conducted in accordance with international standards. They do not override the local laws or regulations that govern the audit of historical financial statements or assurance engagements on other information in a particular country required to be followed in accordance with that country's national standards. In the event that local laws or regulations differ from, or conflict with, the IAASB's Standards on a particular subject, an engagement conducted in accordance with local laws or regulations will not automatically comply with the IAASB's Standards. A professional accountant should not represent compliance with the IAASB's

Standards unless the professional accountant has complied fully with all of those relevant to the engagement.

Auditing and Assurance Standards Board: The Institute of Chartered Accountants of India is a member of the IFAC and is committed to work towards the implementation of the guidelines issued by the IFAC. The Institute of Chartered Accountants of India constituted the Auditing Practices Committee (APC) in 1982. The main function of the APC is to review the existing auditing practices in India and to develop Statements on Standard Auditing Practices (SAPs) so that these may be issued by the Council of the Institute. While formulating the SAPs in India, the APC gives due consideration to the international auditing guidelines issued by the IAPC and then tries to integrate them to the extent possible in the light of the conditions and practices prevailing in India. While formulating the SAPs, the APC takes into consideration the applicable laws, customs, usages and business environment in India. In July, 2002, the Auditing Practices Committee has been converted into an Auditing and Assurance Standards Board (AASB) by the Council of the Institute, to be in line with the international trend. A significant step has been taken aimed at bringing in the desired transparency in the working of the Auditing and Assurance Standards Board, through participation of representatives of various segments of the society and interest groups, such as, regulators, industry and academics. The nomenclature of SAPs has also been changed to Auditing and Assurance Standards (AASs). The AASs will apply whenever an independent audit is carried out; that is, in the independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size, or legal form (unless specified otherwise) when such an examination is conducted with a view to expressing an opinion thereon. While discharging their attest function, it will be the duty of members of the Institute to ensure that the AASs are followed in the audit of financial information covered by their audit reports. If for any reason a member has not been able to perform an audit in accordance with the AASs, his report should draw attention to the material departures there from, auditors will be expected to follow AASs in the audits commencing on or after the date specified in the statement. Remember all AASs are mandatory from the date mentioned herein and it is obligatory upon members of Institute to adhere to these whenever an audit is carried out.

4.2 Presentation of Subject Matter

4.2.1 Evolution of Auditing and Assurance Standards-

When we look at the evolution of standards, broadly, there are three types of standards which the accounting profession should talk about - accounting standards, auditing standards, and naturally the quality control standards, which are considered as a part of auditing standards. If you look at the past, there used to be national standards, international accounting standards, and US-GAAP. Over a period of time, it was found that the international standards and USGAAP were going in different directions. So, it was felt appropriate to start with IFRS (International Financial Reporting Standards). Every country in the world which has got its own regulatory body would normally evolve its own standards, like we have done in India. These were accounting standards, and the auditing standards. In India, it is the Institute of Chartered Accountants of India (ICAI) which is standard setting body and the Companies Act has adopted those standards, initially through NACAS (National Advisory Committee on Accounting Standards) and now NFRA (National Financial Reporting Authority). They have the authority to formulate the standards, but the basic standards come from the ICAI. ICAI is a member of the international bodies, and therefore, by and large, we adopt the international standards. As a country, long time back, we decided to adopt IFRS, but with suitable modifications. So, most of the IFRS have been adopted, converged into India, which are now called IND-AS, making them suitable to the local needs of the legal requirements. The Accounting Standards have become a part of the Companies Act; even the auditing standards have become a part of the Companies Act. While the standards are set, the drafts are issued, various components of the society give their response, those responses are considered, and then it becomes a standard, which is final. It is sent to the specific bodies, like NACAS earlier, now NFRA, and they will issue the standards. When we say evolution of standard, that is how they have evolved.

4.2.2 List of Auditing and Assurance Standards

(AAS 1) Basic Principles Governing an Audit

(AAS 2) Objective and Scope of the Audit of Financial Statements

(AAS 3) Documentation

(AAS 4 Revised) The Auditor's Responsibility to Consider Fraud and Error in an

Audit of Financial Statements

(AAS 5) Audit Evidence

(AAS 6 Revised) Risk Assessment and Internal Control

(AAS 7) Relying Upon the Work of an Internal Auditor

(AAS 8) Audit Planning

(AAS 9) Using the Work of an Expert

(AAS 10) Using the Work of Another Auditor

(AAS 11) Representations by Management

(AAS 12) Responsibility of Joint Auditors

(AAS 13) Audit Materiality

(AAS 14) Analytical Procedures

(AAS 15) Audit Sampling

(AAS 16) Going Concern

(AAS 17) Quality Control for Audit Work

(AAS 18) Audit of Accounting Estimates

(AAS 19)Subsequent Events

(AAS 20) Knowledge of the business

(AAS 21) Consideration of Laws and Regulations in an Audit of Financial Statements

(AAS 22) Initial Engagements - Opening Balances

(AAS 23) Related Parties

(AAS 24) Audit Consideration relating to Entities Using Service Organisations

(AAS 25) Comparatives

(AAS 26) Terms of Audit Engagement's

(AAS 27) Communications of Audit Matters with those Charged with Governance

(AAS 28) The Auditor's Report on Financial Statements

(AAS 29) Auditing in a Computer Information Systems Environment

(AAS 30) External Confrmation

(AAS 31) Engagements to Compile Financial Information

(AAS 32) Engagements to Perform Agreed Upon Procedures regarding Financial Information

(AAS 33) Engagement to Review Financial Statements

(AAS 34) Audit Evidence – Additional Consideration for Specific Items

(AAS 35) The Examination of Prospective Financial Information

Specific Study of following AAS:

4.2.2 AAS-1: Basic Principles of Governing an Audit

This Auditing and Assurance Standard was the first standard on auditing issued by the Institute. This Standard describes the basic principles which govern the auditor's professional responsibilities and which should be complied with whenever an audit is carried out. 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. Other Auditing and Assurance Standards to be issued by the Institute (taken in other unit) will elaborate on the principles set out herein to give guidance on auditing procedures and reporting practices. Compliance with the basic principles requires the application of auditing procedures and reporting practices appropriate to the particular circumstances.

These principles are, namely, integrity, objectivity and independence, confidentiality, skills and competence, work performed by others, documentation, planning, audit evidence, accounting system and internal control, and, finally, audit conclusions and reporting.

1. ***Integrity, Objectivity and Independence:***

The auditor should be straightforward, honest and sincere in his approach to his professional work. He must be fair and must not allow prejudice or bias to override his objectivity. He should maintain an impartial attitude and both be and appear to be free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity.

2. ***Confidentiality:***

The auditor should respect the confidentiality of information acquired in the course of his work and should not disclose any such information to a third party without specific authority or unless there is a legal or professional duty to disclose.

3. ***Skills and Competence:***

The audit should be performed and the report should be prepared with due professional care by persons who have adequate training, experience and competence in auditing. The auditor requires specialized skills and competence which are acquired through a combination of general education, technical knowledge obtained through study and formal courses concluded by a qualifying examination recognized for this purpose and practical experience under proper supervision. In addition, the auditor requires a continuing awareness of developments including pronouncements of ICAI on accounting and auditing matters, and relevant regulations and statutory requirements.

4. ***Work Performed by Others:***

When the auditor delegates work to assistants or uses work performed by other auditors and experts, he will continue to be responsible for forming and expressing his opinion on the financial information. However, he will be entitled to rely on work performed by others, provided he exercises adequate skill and care and is not aware of any reason to believe that he should not have so relied. In the case of any independent statutory appointment to perform the work on which the auditor has to rely in forming his opinion, such as in the case of the work of branch auditors appointed under the Companies Act, 1956, the auditor's report should expressly state the fact of such reliance. The auditor should carefully direct, supervise and review work delegated to assistants. The auditor should obtain reasonable assurance that work performed by other auditors or experts is adequate for his purpose.

5. ***Documentation:***

The auditor should document matters which are important in providing evidence that the audit was carried out in accordance with the basic principles.

6. ***Planning***:

The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Plans should be based on a knowledge of the client's business. Plans should be made to cover, among other things:

(a) acquiring knowledge of the client's accounting system, policies and internal control procedures;

(b) establishing the expected degree of reliance to be placed on internal control;

(c) determining and programming the nature, timing, and extent of the audit procedures to be performed; and

(d) coordinating the work to be performed.

Plans should be further developed and revised as necessary during the course of the audit.

7. ***Audit Evidence:***

The auditor should obtain sufficient appropriate audit evidence through the performance of compliance and substantive procedures to enable him to draw reasonable conclusions there from on which to base his opinion on the financial information. Compliance procedures are tests designed to obtain reasonable assurance that those internal controls on which audit reliance is to be placed are in effect. Substantive procedures are designed to obtain evidence as to the completeness, accuracy and validity of the data produced by the accounting system. They are of two types:

a) tests of details of transactions and balances;

b) analysis of significant ratios and trends including the resulting enquiry of unusual fluctuations and items.

8. ***Accounting System and Internal Control:***

Management is responsible for maintaining an adequate accounting system incorporating various internal controls to the extent appropriate to the size and nature of the business. The auditor should reasonably assure himself that the accounting system is adequate and that all the accounting information which should be recorded has in fact been recorded. Internal controls normally contribute to such assurance. The auditor should gain an understanding of the accounting system and related internal controls and should study and evaluate the operation of those internal controls upon which he wishes to rely in determining the nature, timing and extent of other audit procedures. Where the auditor concludes that he can rely on certain internal controls, his substantive procedures would normally be less extensive than would otherwise be required and may also differ as to their nature and timing.

9. ***Audit Conclusions and Reporting***

The auditor should review and assess the conclusions drawn from the audit evidence obtained and from his knowledge of business of the entity as the basis for the expression of his opinion on the financial information. This review and assessment involves forming an overall conclusion as to whether:

(a) the financial information has been prepared using acceptable accounting policies, which have been consistently applied;

(b) the financial information complies with relevant regulations and statutory requirements;

(c) there is adequate disclosure of all material matters relevant to the proper presentation of the financial information, subject to statutory requirements, where applicable.

The audit report should contain a clear written expression of opinion on the financial information and if the form or content of the report is laid down in or prescribed under any agreement or statute or regulation, the audit report should comply with such requirements. An unqualified opinion indicates the auditor's satisfaction in all material respects with the matters dealt with in paragraph 21 or as may be laid down or prescribed under the relevant agreement or statute or regulation, as the case may be.

When a qualified opinion, adverse opinion or a disclaimer of opinion is to be given or reservation of opinion on any matter is to be made, the audit report should state the reasons therefore.

(Effective Date: This Auditing and Assurance Standard becomes operative for all audits relating to accounting periods beginning on or after April 1, 1985).

4.2.3 AAS 2 : Objectives and Scope of Audit of Financial Statements

This Standard describes the overall objective and scope of the audit of general-purpose financial statements of an enterprise by an independent auditor. The Standard deals with the following important aspects of an audit:

a) Objective of an Audit: expression of opinion, the concept of true and fair view

b) Responsibility for Financial Statements: responsibility of the management vis-a-vis auditor

c) Scope of Audit: factors determining scope, reliability and sufficiency of audit evidence, disclosure aspects, undiscovered material misstatements etc.

The objective of an audit of financial statements, prepared within a framework of recognised accounting policies and practices and relevant statutory requirements, if any, is to enable an auditor to express an opinion on such financial statements. The auditor's opinion helps determination of the true and fair view of the financial position and operating results of an enterprise. The user, however, should not assume that the auditor's opinion is an assurance as to the future viability of the enterprise or the efficiency or effectiveness with which management has conducted the affairs of the enterprise. Auditor should review and assess the conclusions drawn from the audit evidence.

The main objective of the auditing is to find reliability of financial position and profit and loss statements. The objective is to ensure that the accounts reveal a true and fair view of the business and its transactions. That is to verify and establish that at a given date balance sheet presents true and fair view of financial position of the business and the profit and loss account gives the true and fair view of profit or loss for the accounting period. It is to be established that accounting statements satisfy certain degree of reliability. Thus, the main objective of auditing is to form an independent judgement and opinion about the reliability of accounts and truth and fairness of financial state of affairs and working results.

The subsidiary objectives of the auditing are:

1. Detection and prevention of fraud: One of the important subsidiary objective of auditing is the detection and prevention of fraud. Fraud refers to intentional misrepresentation of financial information. Fraud may involve: a. Manipulation, falsification or alteration of records or documents b. Misappropriation of assets.

c. Suppression of effect of transactions from records or documents. d. Recording of transactions without substance. e. Misapplication of accounting policies

2. Detection and prevention of errors: This is another important objective of auditing. Auditing ensures that there is no mis-statement in the financial statements. Errors can be detected through checking and vouching thoroughly books of accounts, ledger accounts, vouchers and other relevant information.

The scope of audit is determined by the auditor having regard to following: (a) Terms of the Audit Engagement, (b) requirement of relevant Statute, (c) pronouncements of the ICAI. However, the terms of engagement cannot supersede the prevailing laws. The scope of audit naturally should cover the following points.

- Audit should cover the examination of all aspects of an entity relevant to financial statements.
- Auditor should assess the sufficiency and appropriateness of the information contained in the accounting records and other source data. For this purpose, auditor should (a) evaluate accounting systems and internal controls (b) perform necessary tests, enquiries and other verification procedure of accounting transactions and account balances.
- To determine whether the information is properly disclosed in the financial statements, audit may involve (a) comparing the financial statements with the underlying records (b) considering the judgements used by management in preparing the financial statements.
- Auditor is not expected to perform duties which fall outside the scope of his competence.

Limitations, if any, on the scope of audit that impair the auditor's ability to express an unmodified opinion should be specified in the report.

Check your progress-I

A) Choose the correct alternative from the alternatives given below-

1. Scope of audit is governed by …………….

   a) terms of audit　　b) requirement of statute

   c) pronouncement of ICAI　　d) all of the above

2. Expression of opinion is ………… Objective of audit.

a) Primary b) Secondary c) subsidiary d) none of the above

3. …………….. is manipulation of records.

a) Error b) Fraud c) Accounting d) Audit

B) State whether the following statement are true or false.

1. Auditing and Assurance Standards are issued by the ICAI.
2. Auditing starts when accounting ends.
3. Scope of audit is independent of types of audit.

4.2.4 AAS 3: Documentation

Auditor should document matters which are important in providing evidence that the audit was carried out in accordance with the generally accepted auditing standards in India. The Standard explains as to what constitute working papers as well as need for working papers. The Standard also touches upon:

Form and Content: This includes factors affecting form and content, quantum of working papers, permanent audit file, and current audit file.

Documentation is considered the backbone of an audit. The work that the auditor performs, the explanations given to the auditor, the conclusions arrived at, are all evidenced by documentation. Poor documentation may depict poor performance in an audit. The auditor may have executed appropriate audit procedures, however, if there is no documentation to prove, it may put question on the work done, in case any material misstatement is reported. Improper and incomplete documentation, at times, may put the auditor in embarrassing situations. Documentation is essential because:

- It supports the auditor's basis for a conclusion about achieving the auditor's objectives.
- Provides evidence that audit was planned and performed.
- It assists supervision and review.
- It results in better conceptual clarity, clarity of thought and expression.
- It facilitates better understanding and helps avoid
- It supports and evidences compliance with standards, applicable legal and regulatory requirements.

Form and Content of Documentation

The form and content of audit documentation should be designed to meet the circumstances as necessary for the particular audit. It should satisfy the requirements of the governing standards and substantiate the conclusions arrived at by the auditor. The form and content of documentation depends on various factors such as:

- The size and complexity of the entity.
- The nature of the audit procedures to be performed.
- The identified risks of material misstatement.
- The significance of the audit evidence obtained.
- The nature and extent of exceptions revealed.
- The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
- The audit methodology and tools used.

Documents are segregated into those forming part of the Permanent Audit File and Current Audit File. Permanent audit file contains those documents, the use of which is not restricted to one time period, and extends to subsequent audits also. E.g. Engagement letter, Communication with previous auditor, Memorandum of Association, Articles of Association, Organization structure, List of directors / partners / trustees / bankers / lawyers, etc. On the other hand, a current audit file contains those documents relevant for that time period of audit. Documentation includes the following:

- Understanding the entity.
- Time and cost constraints.
- Audit programme.
- Risk assessment.
- Team discussion.
- Working papers pertaining to significant areas.
- Review points.

- Communication with those charged with governance.
- Basis for conclusions.
- Reporting and completion.
- Quality/Engagement quality control review.

In general, a working paper may contain the following:

- Risk and controls relevant to the area.
- Assertions to be tested and satisfied.
- Substantive and analytical procedures performed.
- Persons performing/reviewing the work.
- Dates on which the work was performed/reviewed.
- Extent of review.
- Documents prepared by client.
- Nature, type and size of the entity.

Audit documentation provides evidence that the audit complies with standard. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file. The auditor should ensure the following points while conducting the audit.

- The existence of an adequately documented audit plan demonstrates that the auditor has planned the audit.
- The existence of a signed engagement letter in the audit file demonstrates that the auditor has agreed the terms of the audit engagement with management, or where appropriate, those charged with governance.
- Auditors report containing an appropriately qualified opinion demonstrates that the auditor has complied with the requirement to express a qualified opinion under the circumstances specified.

- In relation to requirements that apply generally throughout the audit, there may be a number of ways in which compliance with them may be demonstrated within the audit file:

For example, there may be no single way in which the auditor's professional skeptic is documented. But the audit documentation may nevertheless provide evidence. Such evidence may include specific procedures performed to corroborate management's responses to the auditor's inquiries.

Similarly, that the engagement partner has taken responsibility for the direction, supervision and performance of the audit in compliance with the standard may be evidenced in a number of ways within the audit documentation. This may include documentation of the engagement partner's timely involvement in aspects of the audit, such as participation in the team discussion.

4.2.5 AAS 5: Audit Evidence

The purpose of this AAS is to establish standards on the basic principle that the auditor should obtain sufficient appropriate audit evidence through compliance and substantive procedures to enable him to draw reasonable conclusions there from on which to base his opinion on the financial information. The AAS also explains the concept of sufficient appropriate audit evidence, factors affecting it as also the various types of assertions, internal vis-a-vis external evidence. The Standard also deals with the methods of obtaining evidence, namely, inspection, observation, inquiry and confirmation, computation and analytical review

Audit evidence is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based and includes the information contained in the accounting records underlying the financial statements and other information. Auditors are not expected to examine all information that may exist. Audit evidence, which is cumulative in nature, includes audit evidence obtained from audit procedures performed during the course of the audit and may include audit evidence obtained from other sources, such as previous audits and a firm's quality control procedures for client acceptance and continuance."

If it is the duty of an auditor to express his independent opinion on the financial statement furnished to him, the data produced by the accounting system alone (e.g., journals, ledger, manuals, worksheets) are not sufficient to base his opinion. The accounting system itself may be defective and hence the results produced by such accounting system shall also be defective. Therefore, before making any such opinion he should ensure the accuracy and authenticity of the information furnished to him. The auditor should, therefore, gather all valid evidences and verify them. The evidence should also be complete and competent to give an idea, about the fairness of the accounting data.

It has also become a universally accepted standard for auditing to collect sufficient, appropriate, competent and valid evidence before expressing an opinion about the fairness of the financial statements of his client. The characteristic features of audit evidence as follows:

- Evidence should be the reflection of the realities of the situation and should not be fictitious based on imagination.
- Evidence should be capable of creating a definite impact on the opinion of the auditor regarding the truthfulness of the financial data.
- Evidence may be direct or indirect

Audit evidence has assumed much importance in the company audits all over the world. Not only the shareholders but also even others can place reliance on the audited financial statements. Banks and other financial institutions have recognized the auditor's opinion as true and fair. In India, the auditor of a company should make a statement in his report whether he has obtained all the information and explanation, which in his opinion are necessary for the conduct of the audit, and the financial statements give a true and fair view of the state of affairs.

The auditor can form an opinion or come to a conclusion only after verifying all the competent evidences collected by him. All firms, irrespective of their organizational form, should get their accounts audited by a qualified Chartered Accountant, if the annual turnover of such firms exceeds ₹ 1 crore. Hence, the auditing profession has become more and more responsible.

Failure to get enough evidence before expressing any audit opinion shall be considered as a professional misconduct and such auditors shall also be debarred from practicing the profession. Therefore, to be on the safer side, the auditor should obtain sufficient evidence. This will certainly give him a confidence sufficient enough to enable him to be convinced of the basic truth or falsity of the financial data.

4.2.6 AAS 8 : Audit Planning

The basic objective of this AAS is to establish standards on the principle that the auditor should plan his work to enable him to conduct an effective audit in an efficient manner and that the plan should be based on the knowledge of the client's business. The AAS covers topics such as advantages of audit planning, sources of obtaining knowledge of the client's business, topics on which discussion with client might be useful, factors to consider in development of an overall plan, developing an audit Programme etc.

In almost every branch of modern economic activity, there is a need for planning. Planning in audit operations too has been considered as an essential step to a productive utilisation of efforts. This gives an opportunity to organise the different aspects of audit work including vouching, verification, valuation, expression of opinion on financial statements and submission of auditor's report.

Process of Planning

Planning is a process of doing a job in a systematic and methodical manner. Planning defines: (a) What to do? (b) How to do? (c) When to do? and (d) Who will do? Planning is an organised approach to complete a task in minimum time at minimum cost and with maximum efficiency. Planning is needed to coordinate the work and complete the assignment effectively. It is schedule of activity prepared in advance so that significant areas receive the required attend or the job' is completed speedily, the work is allocated among the available staff properly. It ensures that something which is relevant does not get neglected. Planning, therefore, controls progress and assists in achieving the target on time. It also helps in enhancing the quality of output. It is thus the way to promptness and perfection in performance.

Considerations in Audit Planning

The Auditing Standards and Guidelines have placed considerable emphasis on audit planning. It states that the auditor should adequately plan, control and record his work at each stage of its progress. This is mainly to ensure that the audit is carried out effectively and efficiently. The aim is to provide an efficient and economic service within an appropriate time scale. The exact form and nature of audit planning, however; should be governed by the following considerations:

1. size and complexity of the company;

2. the commercial environment in which it operates;
3. the method of recording transactions; and
4. the reporting requirements to which it is subject to.

Importance of Audit Planning

Planning is an aid to good management. Adequate audit planning establishes the intended means of achieving the objectives of the audit. It assists in the direction and control of the work. It ensures that attention is devoted to critical aspects of the audit. It also ensures that the work is completed expeditiously. Thus the auditor, before taking final decisions about the manner in which a particular audit is to be conducted, should consider the audit approach proposed to be adopted. He has to estimate the extent to which reliance may be placed on internal controls of the company. He has to identify any aspects of the audit which need special attention and take note of any additional work which has been agreed to be undertaken.

Preparatory Procedures

The procedures preparatory to an audit are as follows :

a) Review matters missed in the audit of the previous year which may have continuing relevance in the current year.

b) Assess the effects of any changes in legislation or accounting practice affecting the financial statements of the company.

c) Study interim or management accounts where these are available.

d) Consult the management and staff of the company about the trading circumstances, and significant changes in the business, or its management.

e) Identify any significant changes in the accounung procedures of the company (i.e. a new computer-based system)

f) Ascertain the timing of significant phases of the preparation of the financial statements.

g) See the extent to which analyses and summaries can be prepared by the employees of the company.

h) Estimate the relevance of any work to be done by the internal auditors of the company.

i) Determine the number of audit staff required, the experience and special skills they need to possess and the timing of their audit visits.

j) Allocate the work to be undertaken and the procedures to be followed between the joint auditors, if any.

Considerations Prior to Commencement

The major considerations before the commencement of audit are as follows:

a) Ensure that the appointment is in order under the provisions of law.

b) Enquire from the retiring auditors the reasons for the changes, if the appointment is in place of another auditor.

c) Obtain necessary information and instructions about the nature of work, scope of duties, expected date of completion of audit, audit fee, etc.

d) Examine the accounting system followed by the company and identify the weaknesses, if any.

e) Get a list of various books maintained, those who maintain them and their specimen signatures.

f) Ascertain the system of internal control from the company and evaluate its . effectiveness.

Audit Planning must consider the following activities as part of comprehensive plan.

- To collect the list of different officers of the company, their duties and powers and their specimen signatures.
- To understand the work and acquire some technical knowledge to develop familiarity with the nature of the operation.
- Ask the company to balance the books, prepare the final accounts, arrange the vouchers in order to finalise the debtors' and creditors' schedules and file important legal contracts, list of securities, etc.
- To procure a copy of the audited balance sheet of the previous year and ensure that the opening balances of the current year tally with the closing balances of the last year.
- To See the auditor's report of the previous year and take note of the state of affairs or the points raised by the previous auditor.

- To refer to the accounting and financial provisions of the Article and Memorandum of Association of the company and of its prospectus.
- To find out-if some important resolutions have been passed at the meetings of the Board of Directors.

Check your progress-II

A) Choose the correct alternative from the alternatives given below.

1. ………….. is the first step in audit.

   a) Audit sampling b) Audit planning

   c) Documentation d) Audit evidence

2. ……………. Is information use by auditor to arrive at conclusion.

   a) Documentation b) Planning

   c) Sampling d) Audit evidence

3. There is …………. Relationship between audit materiality and risk.

   a) straight b) inverse c) positive d) no

B) State whether the following statements are true or false.

1. Auditor should document only important matters.
2. Auditor has to collect valid evidence before expression opinion.

4.2.7 AAS 28 : Auditor's Report on Financial Statements

The purpose of this AAS is to establish standards on the form and content of the auditor's report issued as a result of an audit performed by an auditor of the financial statements of an entity. Much of the standards laid down by this AAS can be adapted to auditor's reports on financial information other than financial statements. The AAS deals extensively with the concepts such as the basic elements of an auditor's report, what is an unqualified opinion, the concept of modified audit report - qualified opinion, adverse opinion, disclaimer opinion, matters that affect the auditor's opinion and matters that do not affect the auditor's opinion, emphasis of matter paragraphs, illustrative audit reports in each case.

An auditor conducts an independent examination of the accounting information presented by the business and issues a report thereon. An auditor's report is the formal statement of the auditor's opinion of the financial statements after conducting an audit. Audit opinions are classified as follows:

1. Unqualified opinion : This opinion states that the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the entity, in conformity with generally accepted accounting principles.
2. Qualified opinion : A qualified opinion states that, except for the effects of the matter(s) to which the qualification relates, the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the entity, in conformity with generally accepted accounting principles.
3. Adverse opinion : This opinion states that the financial statements do *not* present fairly the financial position, results of operations, and cash flows of the entity, in conformity with generally accepted accounting principles.
4. Disclaimer of opinion : A disclaimer of opinion states that the auditor does not express opinion on the financial statements. A disclaimer of opinion is rendered when the auditor has not performed an audit sufficient in scope to form an opinion.

The typical unqualified (or clean) opinion has three paragraphs. The first paragraph indicates the financial statements that have been audited and states that these statements are the responsibility of the company's management. This paragraph indicates that the auditors have the responsibility to express an opinion on these statements based on the audit or to disclaim an opinion.

The second paragraph indicates that the audit has been conducted in accordance with generally accepted auditing standards. Auditing standards define the required level of audit quality. These standards are classified as to "general standards," "field work standards," and "reporting standards." The paragraph goes on to state that these standards require the audit or to plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The second paragraph also includes a brief description of what is included in an audit. Further, following description should be given as per the sequence.

Heading	Brief of contents
Title	Title should mention that it is an 'Auditor's Report'.
Addressee	Should mention clearly as to whom the report is being given to. For example 'Members'/ Shareholders of …..Ltd.
Management's Responsibility for Financial Statements	It should be clearly mentioned that it is the Management's responsibility to Prepare the Financial Statements of the company and auditors duty is to give his opinion on these statement.
Auditor's Responsibility	Mention that responsibility of the Auditor is to express an unbiased opinion on the financial statements and issue an audit report.
Opinion	Should mention the overall impression obtained from the audit of financial statements of the organisation where audit is conducted.
Basis of the Opinion	State the basis on which the opinion as reported has been achieved. Facts of the basis should be mentioned.
Other Reporting Responsibility	If any other reporting responsibility exists, the same should be mentioned. For example Report on Legal or Regulatory requirements
Signature of the Auditor	The auditor shall sign the audit report. In case of firm of auditors, working partner has to sing the report. The seal and membership number shall also be part of the report just below the signature.
Place of Signature	The city in which audit report is signed.
Date of Audit Report	Date on which the audit report is signed.

The third paragraph gives an opinion on the statements - that they are in conformity with GAAP. In certain circumstances, an unqualified opinion on the financial statements may require that the auditor add an explanatory paragraph after the opinion paragraph. In this paragraph, the auditor may express agreement with a departure from a designated principle, describe a material uncertainty, describe a change in accounting principle, or express doubt as to the ability of the entity to continue as a going concern. An explanatory paragraph may also be added to emphasize a matter.

Audit Report is a document used by the Auditors to express their opinion on the financial statements they have audited. Auditors' opinion is that financial statements give (or do not give) true and fair view at a specific date

For any enterprise, the audit report is a key deliverable which shows the end results of the entire audit process. The users of financial statements like Investors, Lenders, Customers, and others base their decisions and plans on audit reports of any enterprise. An audit report is always critical to influencing the perceived value of any financial statement's audit.

The auditor should be careful in issuing the audit report as there is a large number of people placing reliance on such report and taking decisions accordingly. The report should be issued by being unbiased and objective in discharging the functions.

4.3 Summary

This unit describes some of the Auditing and Assurance Standards which are useful for conducting the audit. These standards are issued by the Institute of Chartered Accountants of India. These are mandatory standards issued by the institute. It is possible that there is subjectivity in certain matters during the conduct of audit. Therefore, there can be different opinions by the auditor on similar organisations having similar accounting practices. Hence, it is important for auditors to go through the standards before starting an audit so that the subjectivity is removed and auditing becomes a professional exercise. Auditor must be clear about objectives and scope of audit. He must have adequate knowledge about audit documentation and audit planning. The reporting of financial statements is the task which is looked from various stakeholders of the organisation from various perspectives. Therefore, it is important to understand and apply the standards.

4.4 Terms to Remember :

Audit – An independent examination of books of accounts and financial statements with a view to express opinion thereon.

Reporting – An opinion of the auditor in the prescribed manner conveying 'true and fair' view of financial statements.

Audit Planning – An activity concerned with the important questions viz. what to do? how to do? when to do? and who will do it?

Audit Evidence – The information used by the auditor in arriving at the conclusions on which the audit opinion is based.

Documentation – A process of keeping important matters separately and providing them whenever necessary.

Check your progress-III

A) Choose the correct alternative from the alternatives given below

i) Primary objective of an audit is …………….

a) Detection of frauds and errors c) Expression of opinion

b) Report the irregularities d) All of the above

ii) Audit planning is an activity associated with…………

a) Planning various tasks of audit c) Planning important activities

b) Planning activities before starting audit d) all of the above

iii) ………………may provide audit evidence in case of dispute.

a) Documentation b) Sampling

c) Audit planning d) Materiality

B) State whether the following statements are true or false

i) Audit is done only for detection of frauds and errors in accounts and financial statements.

ii) Audit planning is important aspect to be considered before commencement of the audit.

iii) Current file and permanent file are important parts of documentation.

4.5 Answers to check your progress

Check your progress-1

A) 1. All of the above 2. Primary 3. Fraud

B) 1. True 2. True 3. False

Check your progress-II

A) 1. Audit planning, 2. Audit evidence, 3. inverse

B) 1. True, 2. True,

Check your progress-III

A) i. Expression of opinion, ii. All of the above

iii. documentation

B) i. False, ii. True, iii. True

4.6 Exercise

1. Explain the process of issue of Auditing and Assurance Standards (AAS) in India.
2. What are the objectives of audit?
3. Explain the scope of audit.
4. Discuss the important of audit planning.
5. Explain the concept of audit evidence.
6. What is documentation in audit? What is its importance in audit?
8. Explain the types of audit report. What are contents of audit report?

4.7 References for Further Study

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Unit-2

Internal Control System

Index

2.0 Objectives:

After Studying this unit, students shall be able to-

1. Understand the concept of Internal Control
2. Explain the Internal Control System and its techniques of evaluation.
3. Find relationship between the internal control and audit.

2.1 Introduction

Internal control is a mechanism, set of rules and procedures imparted by company or organization to make sure that the integrity of financial and accounting information promotes accountability and prevents fraudulent activities.

Internal control is extremely important for the organization because it reduces errors, brings efficiency in the operations of the organization. It also improves reliability of accounting information and financial information. Internal control is a process which is effected by the entities board of directors, management and other personnel, designed to provide reasonable assurance regarding, achievement of entities objectives on efficiency of operations, reliability of financial reporting and compliance with various legal requirements of the organization.

Internal control system is the set of all policies and procedures of internal controls adopted by the organization and its management of the entity. Internal control means controlling the organization internally not externally. Management has to decide strategic plan to be implemented to achieve organizational objectives to have success with less error and no frauds or less frauds at least. From management point of view internal control is essential because it reduces errors, frauds, increases efficiency and productivity.

From Auditors point of view internal control is essential because internal control reduces the number of errors at the time of occurrence or immediately after the occurrences and it also have control over fraudulent activities. Hence the auditor can easily achieve the objective of the audit to express 'True and Fair' view from financial state of affairs. Internal control system can be monetary or non monetary. It can be finance related or non finance related.

There are three types of internal control. First is physical or visible Control. It means control over physical things like land, building, machinery and cash etc.

Second one is administrative control means taking care of all transaction, finding truth, efficiency of workers or employees. Third one is Accounting control means how the work is divided, entry of amount, transfer of amount, balance, Trial Balance, Financial statements etc. Internal control is essential because it helps to ensure that the company's financial statements are accurate and free from material misstatements and also helps to prevent and detect fraud and protects the organizations assets.

2.2 Presentation of the Subject Matter

2.2.1 Nature of Internal Control

Internal control is a system established by the management for proper conduct of various activities of the organization. It is not only a internal check or internal audit but also a system of control financially and otherwise in order to carry out business in efficient manner. It is useful for the organization to safeguard the business and serve the accounting purpose more efficiently and reliably.

Internal control is the overall control environment established by management of an enterprise for effective and efficient monitoring and control of its operations. It aims at adherence to management policies, safeguarding of assets of the enterprise, proper accounting and record of the business transactions. Internal check and internal control are vital components of the control system.

The auditor should properly understand and assess the internal control system to determine the degree of reliance to be placed on it and accordingly to plan the nature, timing and extent of audit procedures to be performed by him. If the internal control is found to be effective, the auditor may resort to selective verification. However, when internal control system is weak auditor has to verify the transactions in detail.

Internal Control refers to the process of control exercised by the management either financial or non-financial to ensure proper accounting of business transaction and reliability of records. Internal control has a wide coverage which includes checks and controls exercised to ensure efficient and effective functioning of the business organisation. In other words, it is a process implemented by the management to provide the following:

- Proper accounting and reliability of records,
- Effectiveness and efficiency of business operations, and

- Compliance with laws and regulations.

Auditing Practices of Institute of Chartered Accountants of India:

"Internal control system refers to the whole system of controls, financial or otherwise, established by the management in the conduct of a business including internal check, internal audit and other forms of control." The scope of internal control system is vast. It comprises both administrative control as well as accounting control.

- Internal control is a system of control or practice put in place by management.
- Controls are established over financial and non-financial areas of business.
- Controls take the forms like internal audit and internal check.

2.2.2 Features of Internal Control:

At a minimum, an entity should consider how its internal controls program should be : assess activity and process-level risk, design and implement internal controls, monitor whether controls are operating as designed, and evaluate control efficacy. These program elements are the four pillars of internal controls. Some of the other characteristics of internal control are:

- Guard against the frauds
- Communicating managements integrity
- Competent and trustworthy personnel
- Proper separation of duties
- Supervision
- Good records maintenance
- Accounting control

2.2.3 Scope of Internal Control

The scope of internal control in auditing is vast and covers various aspects of an organization's operations. It includes the control environment, risk assessment, control activities, information and communication, and monitoring activities. In India Internal control in auditing is influenced by the rules and regulations and Auditing and Assurance Standards issued by the Institute of Chartered Accountants of India (ICAI). The key aspects of the internal control are as follows:

1. Applicable Standards:

Auditors in India follow the Auditing and Assurance Standards issued by ICAI. AAS 6, "Risk Assessment and Internal Control"; as per this standard the auditor has to identify and assess the risks to the material misstatement by understanding the organization and its environment.

2. Risk Assessment:

Auditor assesses the risks of material misstatement in the financial statements due to errors and frauds this involves understanding of the business, industry, internal control environment and identifying areas where internal controls are important for mitigating risks.

❖ **Audit Risks:**

Audit risk is the risk when auditor gives wrong opinion on the basis of wrong financial statements. It is very necessary that financial statements should free from material misstatements. If there is material misstatement, there may be inappropriate audit opinion. On this opinion, there may be big loss of interested parties of audited financial statements.

a) Inherent Risk

Inherent risk is the chance of future loss because there is not any internal control system or there is fault in internal control system. At that time, auditor may give wrong audit opinion. Inherent risk may happen on the basis of nature of business or transactions. For example, if there are millions of cash transactions in a day in any business, there is chance of fraud or mistake. So, inherent risk may happen.

b) Control Risk

Control risk is the audit risk which happens when fraud or error is not deducted by internal control system. Whether a good internal control system but cheater is may take the benefit of small weakness of this internal control system. Due to this, control risk may happen.

c) Detection Risk

Detection risk happens when auditor uses wrong or incorrect audit procedure. In above two risks happen due to the fraud or mistake or misstatement by company. But detection risk happens due to mistake of auditor and his auditing procedure.

3. Testing Internal Controls:

Auditor test the design and operating effectiveness of internal controls to ensure they are appropriate and functional. This includes evaluating control activities, segregation of duties, authorization processes and information system controls.

4. Material Weaknesses and Significant Deficiencies:

Auditors identify and report material weaknesses and significant deficiencies in internal controls. Material weaknesses are matters that could lead to material misstatements in the financial statements, while significant deficiencies are control issues of lesser level.

5. Compliance with Regulatory Requirements:

Indian Auditing and Assurance Standards have impact on the scope of internal control assessment including the companies and the SEBI regulations for listed companies. These regulations may require additional internal control reporting and disclosure.

6. Documentation and Reporting:

Auditors are required to document their understanding of internal controls, the assessment of risks, and the testing procedures performed. This documentation forms a basis for their audit findings and conclusion.

2.2.4 Types of Internal Control System:

The type of internal control system to be employed in an organization depends upon the requirements and nature of the business. Generally, there are three types of Internal Control in an organisation preventive control, detective control and corrective control. These types of controls are essential for an effective internal control system. From a quality perspective, preventive controls are essential because they are positive and give emphasis to quality. However, detective controls play a essential role by providing evidence that the preventive controls are functioning as proposed.

1. **Preventive Controls:** Preventive controls are intended to discourage errors or irregularities from occurring. They are proactive controls that help to ensure departmental objectives are being achieved. Examples of preventive controls are:

   - **Segregation of Duties:** Duties are segregated among different people to reduce the risk of error or inappropriate action. Normally, responsibilities for authorizing transactions (approval), recording transactions (accounting) and handling the related asset (custody) are divided.
   - **Approvals, Authorizations, and Verifications:** Management authorizes employees to perform certain activities and to execute certain transactions within limited parameters. In addition, management specifies those activities or transactions that need supervisory approval before they are performed or executed by employees. A supervisor's approval (manual or electronic) implies that he or she has verified and validated that the activity or transaction conforms to established policies and procedures.
   - **Security of Assets (Preventive and Detective):** Access to equipment, inventories, securities, cash and other assets is restricted; assets are periodically counted and compared to amounts shown on control records.

2. **Detective Controls:** They are designed to find errors or irregularities after they have occurred. Examples of detective controls are:

   - **Reviews of Performance:** Management compares information about current performance to budgets, forecasts, prior periods, or other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up.
   - **Reconciliations:** An employee relates different sets of data to one another, identifies and investigates differences, and takes corrective action, when necessary.
   - Physical Inventories
   - Audits

3. **Corrective Controls:** Corrective controls target at the correction of errors and irregularities as soon as they are detected.

2.2.5 Objectives of Internal Control:

Each organization must have a system of internal control in place for achieving the preset goals. Other than accomplishing the desired goals and objectives of the organization, this system plays a very important role in any organization. The objectives of internal control are as follows:

a) To encourage adherence to approved policies:

The system of internal control is introduced to endow with reasonable assurance that the various plans, policies and procedures laid down by the entity are being followed.

b) To avoid frauds and errors:

The main objective of any internal control system is to detect and prevent frauds and errors by keeping an inherent check.

c) To promote operational efficiency:

The internal controls within an organization are meant to prevent unnecessary duplication of efforts, protect against waste and discourage any inefficient use of resources of the organization.

d) To safeguard assets and records:

The other important objective of internal control system is to safeguard the assets and records from unauthorized access, use and disposition.

e) To provide accurate and reliable data:

The internal control system ensures that all the transactions are recorded in the correct amount, in the appropriate account and in the accounting period to which they relate.

f) To assist in timely preparation of financial information:

Information is of no use if it is not provided in time. Internal control system facilitates timely preparation of financial statements.

g) To have compliance with law and accounting practices:

To have compliance with law and accounting practices that is generally accepted and followed in the country. The accounting process also needs to be in compliance with these.

h) To increase the reliance on the internal systems:

To increase the reliance on the internal systems, accounting practices should be followed by the organization, so that the chances of frauds are reduced.

i) To safeguard the organization's accounts:

Internal Control is essential to safeguard the organization's accounts, employees and assets by formation of fool-proof policies, rules and regulations.

j) To provide security to customers, employees and property:

Internal control provides the security to customers, employees and property of the organization. Physical security systems like security guards, locks and anti-theft devices are used for providing protection.

k) To evaluate the accounting system:

Internal control evaluates the accounting system for proper authorization of transactions.

l) To assist in human resource and performance management:

Internal control assists in human resource and performance management, and keeps proper control over business activities for achieving maximum levels of efficiency.

m) To review the working of the business:

Internal control system reviews the working of the business, locates weak points in operations and to helps take corrective measures for proper working.

n) Authorization of various activities and operations:

Internal Control provides proper authority for purchase, sale, valuation, verification and possession of assets.

o) Delegation:

Internal Control system provides for proper division of duties among the employees where all staff members work cohesively.

p) Accurate Planning:

Internal Control system ensures that the auditor's and the accountants of the organization make all the financial reports correctly and that the financial planning is done accurately.

q) Resource Utilization:

Internal control ensures that all the resources, i.e., man, material, money and machines of the organization are optimally used.

r) Safeguarding of Resources:

Internal control protects the resources of the organization against mismanagement or fraud and ensures that the company's activities are in accordance with laws and regulations.

s) Setting future Corporate Goals:

An efficient system of internal control helps the organization in goal setting. However, the organization should have certain policies, rules and regulations in place to achieve the preset goals.

2.2.6 Limitations of Internal Control:

a) Internal Control System involves expenditure of time and money. Management's consideration that internal control system should be cost-effective weakens the effectiveness of the system.

b) Internal control is more concerned with the transactions of routine nature, so unusual and irregular transactions may be overlooked.

c) It has the potential for human error especially when a new employee is involved in the internal control system without proper orientation.

d) Possible collusion may circumvent internal control system Internal Control system involves division of duties between employees of the organization. Collusions among employees may perpetuate the frauds within an organization.

e) There is always a possibility that a person responsible for exercising control may abuse his authority *e.g.,* embezzlement of cash by cashier, misappropriation of goods by store keeper etc.

f) The changes in conditions may make the procedures ineffective and it may deteriorate the internal control system.

g) The manipulations by the management may defeat the objectives of internal control.

2.2.7 Disadvantages of Internal Control:

a) Organizational Structure: Deficiencies in organizational structure make internal control ineffective.

b) Size of the Organization: Small organizations have very low levels of internal control, which are almost negligible due to more interference by owners and management.

c) Unusual Transactions: The internal control procedures normally fail to keep a check on unusual transactions.

d) Costly: The implementation of internal control procedures and processes involves incurring costs in terms of time, effort and resources.

e) Abuse of Power: Members at the top-level management may override or interfere with control.

f) Collusion of two or more People: It may lead to internal controls being over-ridden.

g) Obsolescence: Control system may become redundant with passage of time if not updated with change in the size and nature of business.

h) Human Error: Internal control fails as there is possibility of human errors.

i) Frequent follow-up measures: Follow-up procedures need to be frequent to ensure its effectiveness, which is extremely time-consuming.

2.2.8 Principles of Effective System of Internal Control:

a) **Well-designed Accounting System:** Internal control should provide for a well designed accounting system. The financial and accounting activities must be separated. For example, person who is responsible in handling cash (cashier) and the person who accounts cash (accountant) should be done by two different persons.

b) **Competent Personnel:** In any internal control system, personnel are the most important element. When the employees are competent and efficient in their assigned work, the internal control system can be worked and operated efficiently and effectively even if some of the other elements of the internal control system are absent.

c) **Division of Work:** This refers to the procedure of division of work properly among the employees of the organization. Each and every work of the organization should be divided in different stages and should be allocated to the employees in accordance with their skill and expertise.

d) **Separation of operational responsibility from record keeping:** If each department of an organization is being assigned to prepare its own records and reports, there may be a tendency to manipulate results for showing better performance. In order to ensure reliable records and information, record-keeping function is separated from the operational responsibility of the concerned department.

e) **Separation of the custody of assets from accounting:** To protect against misuse of assets and their misappropriation, it is required that the custody of assets and their accounting should be done by separate persons. When a particular person performs both the functions, there is a chance of utilizing the organisation's assets for his personal interest and adjusting the records to relieve himself from the responsibility of the assets.

f) **Supervision:** Directors should review the company's financial operations and position at regular and frequent intervals. Comparison with results for previous periods indicates discrepancies that call for further examination. Where budgetary control is in use, attention will be drawn to material variances and explanations required. From time to time, special reviews of particular items such as stocks, or the operation of the wages department, should be undertaken.

g) **Sound Practice:** Sound practices of administration require that established procedures, policies and delegation of responsibility should be open to all employees of the organisation. This helps in avoiding questions, attempts to shift responsibility for unsatisfactory performance etc.

h) **Internal Audit:** Internal audit is a part of the whole system of internal control. It should operate independently of the internal check and in no circumstances; it should divert any one of responsibilities placed on him. It is the examination of accounts of a business concern by its employees specially appointed for the purpose. It is an independent appraisal of activity within an organization for the review of accounting, financial and other business practices.

2.2.9 Internal Check vs. Internal Control

Internal control system consists of various controls set up by the management for conducting business. It includes internal check, internal audit and other forms of control. The distinction between internal check and internal control is summarized below:

❖ **Difference between Internal Control and Internal Check**

a) Internal Control consists of the whole system of controls, financial or otherwise, established by the management to ensure smooth functioning of business of the company. And Internal Check is an arrangement of duties among the employees in such a manner that the work done by one employee is automatically checked by other employee.

b) Internal Control is wider in scope and application. It includes internal check and Internal Check is a narrower in scope and application.

c) The main objective of Internal Control is safeguarding of assets, accuracy of records and adherence to management policies. And the main objective of internal check is prevention of errors and frauds and fixation of responsibilities.

d) Internal control system is more flexible as it is reviewed for the change in circumstances and internal check is less flexible, it more or less remains stable.

2.2.10 Internal Audit vs. Internal Check

a) Internal Audit is an independent review of internal controls, accounting record and actual performance. And Internal Check is an arrangement of duties among the employees in such a manner that the work done by one employee is automatically checked by other employee.

b) An objective of the audit is to detect errors and frauds and objective of internal check is prevention of errors and frauds and fixation of responsibilities.

c) Internal Audit is devise of checking work and Internal check is arrangement of checking of work.

d) Internal Audit starts after the transaction is recorded and internal check starts during the transaction recording process.

e) Internal Audit is a post mortem check and Internal check is current check.

f) Internal audit is done by the staff specially appointed for this purpose. And Internal check is naturally by arrangement of work.

g) Scope of Internal Audit may vary from business to business and from organization to organization and scope of Internal Checks scope is narrow.

2.4.3 Internal Audit vs. Internal Control

a) Internal Audit is an independent review of internal controls, accounting record and actual performance. And Internal Control is an arrangement of duties allocated in such a way that the work of one employee is automatically checked by another.

b) An objective of the audit is to detect errors and frauds already committed are discovered and objective of internal control is devised in such manner that errors and frauds are minimized.

c) In internal audit the work of a clerk is checked by an internal auditor only after the former has completed his work and In internal control the work is allocated to different employees in such a way that one person is independently checked by other,

d) In internal audit a separate staff is specially engaged for carrying out the work and in Internal control there is no such separate staff engaged to carry out system.

e) Internal audit checks the work done in the light of policies and procedures laid down by the management and internal control is device for doing work.

2.2.11 Need for Evaluation Internal Control System:

(Auditor's Duty in Evaluating the System of Internal Control)

a) **To Understand the System:** The auditor should understand the control system by discussing with personnel at various levels in the organisation. He should also refer to organisation charts and manuals for this purpose.

b) **For Determining the Reliability:** The management installs and maintains an adequate internal control system taking into account the nature and size of the business. It is the duty of an auditor to establish a basis or degree of reliance on the system of control.

c) **For Determining the Adequacy:** The auditor should apply various compliance tests in order to determine the adequacy of internal control system.

d) **To Review and Evaluation:** Auditor should critically review and evaluate the internal control system to determine the efficiency of its operations. If there is a good system of internal control the work of an auditor becomes easy.

2.2.12 Techniques of Evaluation of Internal Control System:

The following are the methods/tools/techniques of evaluating internal control system:

a) **Narrative Record or Memorandum Approach:** It is a complete and exhaustive description of the system. It is appropriate in circumstances where a formal control system is lacking, like in case of small businesses. Gaps in the control system are difficult to identify using a narrative record. It is the complete written description of internal control system being actually used in the organization. This method is usually followed by small business as it requires actual testing to keep such a comprehensive record.

b) **Check List:** It is a series of instructions that a member of the audit staff is required to follows or answers. They have to be signed initialled by the audit assistant as proof for having followed the instructions given. A specific statement is required for every weakness area. Answer to a checklist instruction may be yes, no or not applicable. Whenever a checklist is completed by the auditor/his staff, it is studied by the management to ascertain the existence and efficiency of control system.

c) **Flow Chart:** It is a pictorial representation of the internal control system depicting its various elements such as operations, processes and controls, which help in giving a concise and comprehensive view of the organization's working to the auditor. It is graphic presentation of the internal control system. With the help of symbols, it depicts the various controls being employed in the organization. A complete flow chart would depict the process of raising documents, personnel involved in doing so, the flow of documents through various departments, maintenance of records, flow of goods and consideration, and dealing with results. The internal control evaluation process becomes easier through a flow chart as a broad picture of all the controls involved can be gauged in a glimpse.

d) **Internal Control Questionnaire (I.C.Q.):** It is a comprehensive series of questions which are prepared by the auditor to test the adequacy of internal control system. The I.C.Q. is so framed that it may be answered into yes, no, or not applicable. The questions are formed in a manner that would facilitate obtaining full information through answers in "Yes" or "No''. The client has to get the I.C.Q. filled from the employee concerned. Afterwards, the auditor prepares a report indicating deficiencies and recommending the suggestions for the improvement.This is the most widely used method for collecting information regarding the internal control system and involves asking questions to various people at different levels in the organization. The questionnaire is in a pre-designed format to ensure collection of complete and all relevant information.

2.3 Summary

Internal Control is a system of control financially and otherwise in order to carry out business in efficient manner. It is useful for the organization to safeguard the business and serve the accounting purpose more efficiently and reliably. Internal control is a system of control or practice put in place by management. Internal Controls are established over financial and non-financial areas of business.

2.4 Terms to Remember

Internal Control: Internal control is a system established by the management for proper conduct of various activities of the organization.

Internal Check: Internal Check is the arrangement of duties of staff in such a manner that the work of one person is automatically checked by another which minimizes the chances of errors and frauds.

Internal Audit: Internal audit is review of operations and records undertaken within a business by internal staff or outside agency

2.5 Check your progress

Check your progress-I

A) Choose the correct alternative from the alternatives given below

1. Internal Control includes------------

   a) Internal Audit b) Internal Check

   c) Both Internal Audit and Internal Check

   d) Both Internal Check and External Audit

2. Internal control is extremely important for the organization because it------------- , brings efficiency in the operations of the organization.

   a) reduces Errors b) reduces Cost

   c) reduces burden d) increases profitability.

3. Internal control is the overall control environment established ----------- of an enterprise for effective and efficient monitoring and control of its operations.

   a) By Administration b) By Government

   c) By Management d) None of theses.

B) State whether the following statements are true or false

1. Internal control is a system established by the management for proper conduct of various activities of the organization.
2. Internal Control not improves reliability of accounting information and financial information.
3. Internal control has a wide coverage which includes checks.

Check your progress-II

A) Choose the correct alternative from the alternatives given below

1. ------------is a system established by the management for conduct of various activities of organisation.

   a) Internal Audit b) Internal Check

   c) Internal Control d) External Audit

2. Internal Control System can be evaluated with the help of ....

   a) flowchart b) Questionnaire c) checklist d)All of the above

3. Internal Control ensures the reliability and ----------- of information provided by accounting system.

   a) Accuracy b) Correctness c) Fruitfulness d) None of these.

B) State whether the following statements are true or false

1. Internal Control is a system which detects frauds.
2. The concept of internal Control is wider than internal check.
3. The system of internal check should at frequent intervals and should be frequently reviewed.

Check your progress-III

A) Choose the correct alternative from the alternatives given below

1. ------------- is review of operations and records undertaken within a business by internal staff or outside agency specially deputed for this purpose.

   a) Internal Audit b) Internal Check

   c) Final Audit d) External Audit

2. The objective of Internal audit is to take ------------the compliance with plans, policies, procedures and regulations

   a) Investigation b) Check c) Review d) None of these.

3. ------------ is a series of instructions that a member of the audit staff is required to follows or answers.

a) Audit Note b) Audit Check c) Check list d) Flow Chart.

B) State whether the following statements are true or false

1. I.C.Q. is a comprehensive series of questions which are prepared by the auditor to test the adequacy of internal control system.
2. In internal audit the auditor should critically review and evaluate the internal control system to determine the efficiency of its operations.
3. In internal audit no separate staff is specially engaged for carrying out the work.

2.6 Answers to check Your Progress

Check your progress-I

A) 1. Both Internal Audit and Internal Check

2. Reduces Errors 3. By Management

B) 1. True, 2.False, 3.True.

Check your progress-II

A) 1. Internal Control 2. All of the above 3. Accuracy

B) 1. False 2. True, 3. True.

Check your progress-III

A) 1.Internal Audit, 2.Review 3. Check List

B) 1.True, 2.True, 3.False.

2.7 Exercise

1. What is meant by Internal Control and explain its features.
2. Explain Internal Control System and its scope.
3. Describe Internal control and explain it importance.
4. Write in details need for evaluation for internal control system.
5. Describe Techniques for evaluation of Internal control system.
6. Write on Difference between Internal control and Internal Check.
7. Explain the difference between Internal Audit and Internal Control.

8. What are the objectives of Internal control system?

2.8 References for Further study

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Unit-3

Specific Types of Audit

Index

3.0 Objectives

After studying this unit, students shall be able to:-

- Understand various types of audit such as cost audit, tax audit, management audit, audit of companies.
- Understand the audit of computerized accounting

3.1 Introduction

At operational level, scope of audit largely depends on types of audit as well as type of entities for which audit is conducted. The present unit deals with various types of audit.

Cost audit is prescribed for the companies engaged in production, processing, manufacturing or mining activities. Similarly it is expected to verify the utilization of material, labour and overheads. In the earlier companies Act, 1956, section 233 B was introduced for governing cost audit. As per the companies Act, 2013, section 148 provides the areas of maintenance of cost records.

Tax audit is conducted in respect of business or profession from the point of view of income tax. Section 44AB of Income Tax Act, 1961 gives the provisions pertaining to tax audit. Particularly this type of audit is for ascertaining correctness of taxes paid and returns field by the assesses.

Management audit is conducted with a view to check the adherence to the policies of management. This is internally conducted and does not have any legal requirement. This audit assesses methods and policies of an organization and use of its resources.

Social audit is generally conducted to verify the social performance of an organizations. This is also a review of company's code of conduct regarding corporate social responsibility. Corporates are also subject to the principle of public disclosure which is also assessed in social audit.

Audit of educational institutions is generally concerned with audit of books of accounts of schools, colleges, universities, research institutes etc. Most of these entities are run as societies or trusts. Hence, verification of truth and fairness of their accounts is an important activity. Societies Registration Act, 1860 and Bombay Public Trust Act are the two important acts which are followed for verifying performance of educational institutes.

In the recent development, most of the organizations are using computerized systems for following methods/procedures as well as for maintaining books of accounts. Therefore, risk in computerized accounting as well as knowledge of CAAT (Computer Assisted Auditing Techniques) has become important. This has largely changed the way in which audit has been conducted traditionally. More and more use of technology is being made in audit now a days.

3.2.1 Cost Audit

Cost audit, as a statutory provision was introduced in 1965 by an amendment to the Companies Act 1956, which empowered the Central Government to direct any company to maintain proper cost records in the prescribed manner. In 1968, the Companies Act was again amended empowering the government to order for a cost audit. The Companies Act, 1956 was further amended by the Companies Amendment Act, 1974 introducing section 233B empowering the Central Government to order audit of cost accounts for which maintenance of Cost Accounts was prescribed relating to utilization of material, labour or other items of cost in respect of companies engaged in production, processing, manufacturing or mining activities under section 209(1) (d).

The Companies Act, 2013 empowers the Central Government to make rules in the areas of maintenance of cost records by the companies engaged in specified industries, manufacturing of goods or providing services and for getting such records audited under section 148 of Companies Act, 2013.

3.2.1.1 Meaning of Cost Audit

The cost audit is conducted in addition to the financial audit. The Cost Audit represents the verification of cost accounts and a check on the adherence of Cost Accounting Standards. Cost audit is concerned with the verification of the correctness of the cost records maintained in a business concern.

The terminology issued by the CIMA defines Cost Audit as “the verification of the correctness of cost accounts and of the adherence to the cost accounting plan”.

The Institute of Cost & Works Accountants of India defines cost audit as “an audit of efficiency of minute details of expenditure, while work is in progress and not a post-mortem examination. Cost Audit is mainly a preventive measure, a guide for management policy and decision, in addition to being a barometer of performance”.

The Institute of Cost and Management U K has defined Cost Audits as “the verification of the correctness of cost accounts and a check on the adherence to the cost accounting plan”.

According to Smith and Day, Cost-Audit is detailed checking of the costing system, techniques and accounts to verify their correctness and to ensure adherence to the objective of cost accounting”.

Cost Audit is a system of audit for the review, examination and appraisal of the cost accounting records and added information required to be maintained by the specified industries.

Cost audit is the detailed checking as well as the verification of the correctness of costing techniques, systems and cost accounts in any manufacturing concern or in a service organisation, to compute the correct cost to be charged to the customers.

In short, Cost Audit is a critical review undertaken for the purpose of verification of the correctness of cost accounting records, such as cost accounts, cost reports, cost statements, cost data and costing techniques and examining these records to ensure that they adhere to the cost accounting principles, plans, procedures and objectives.

The cost audit is conducted in addition to the financial audit and only if the Central Government makes an order for a particular year and for a specified company. It provides useful information to the management regarding regulating production, economical method of operations, reducing cost of operations and reformulating Cost accounting plans.

3.2.1.2 Objectives of Cost Audit

The principal object of the audit is to see that the cost data placed before the management are verified and reliable and they are prepared in such detail as will serve the purpose of the management in taking appropriate decisions. It aims to identify the undue wastage or losses and ensure that costing system determines the correct and realistic cost of production. The subsidiary objectives are-

1. Verification of the arithmetical accuracy of cost books.
2. Ensuring that the cost accounts are maintained as per costing principles, pre-determined norms and concepts of Cost Accounting.
3. Confirming that the management is using all cost data for decision-making.
4. Detection of errors and frauds.
5. Making internal control more effective.
6. Verification of the adequacy of the books of accounts and the accounting system.
7. Correct valuation of work-in-progress and finished goods.
8. Verification of the total cost of each product, process, operation and job.
9. Verification of inter-company and intra-company transactions and transfers.

10. Verification of statistical statements and other records to be submitted to the Directorate General of Technical Development and Central Excise.
11. Providing assistance to the management by bringing out the deficiencies to its notice and advising on the alternative courses of action.
12. Ensuring efficient utilization of resources.
13. Protection of the interest of the investors and shareholders.
14. Overall improvement in the quality of the functioning of the concern.

3.2.1.3 Scope of Cost Audit

From the practical point of view, the scope of cost audit is much wider than the financial audit. The cost audit includes verification and checking of the following -

1. Utilization of materials, power, fuel, water, steam, electricity etc.
2. Employment records such as wages and salaries, allocation of work, attendance, overtime, idle time etc.
3. Works overheads, office & administration overheads and selling & distribution overheads, allocation of joint overheads, reconciliation of the cost records with that of financial records, overhead recovery rates, basis for allocation of cost between fixed and variable etc.
4. Fixed assets register with quantitative details, physical existence, method of calculating depreciation, allocation of depreciation in respect of the common assets etc.
5. Production reports, comparison with past records and budgeted targets, normal and abnormal losses, work in-progress etc.
6. Work records such as job cards, work order, cost ledger, valuation of materials, work-in-progress, finished goods etc.
7. Inventory records of stock of materials, work-in-progress, finished goods, spares and stores, tools, etc. and their values, issue procedure and balances.
8. Utilization of Capacity - standard capacity, expected capacity and actual capacity utilized, available hours, standards hours, planned hours and actual hours worked etc.

9. Other Records such as company policies, productivity, bottlenecks in the production process, internal control, internal audit, cost control techniques, inter-company and intra-company transactions, royalty payments, inventory management, etc.

3.2.1.4 Types of Cost Audit –

Cost Audit is classified on the basis of appointment of cost auditor

i) Cost Audit on behalf of Management **-** The main object of this type of cost audit is to make available accurate, relevant and prompt information to management to assist it in taking managerial decisions. A cost auditor suggests ways to control the cost of production and to make an improvement in the cost accounting plan.

ii) Cost Audit on behalf of the Government – A cost auditor may be appointed to ascertain correct cost of certain units when Government has to protect or providing financial assistance, and to fix reasonable prices of certain items of production so as to prevent undue profiteering.

iii) Cost Audit on behalf of a Customer - Cost audit may be conducted on behalf of a customer to establish correct cost so that the price will be charged on the basis of agreed margin of profit.

iv) Cost Audit on behalf of Trade Association - A cost audit may be conducted to ascertain comparative profitability, to determine minimum price to avoid cut throat competition among its members and to maintain prices at a certain level so as to prevent undue profiteering.

v) Cost Audit on behalf of Tribunals - Labour Tribunals may direct the cost audit to settle trade disputes. Income-Tax Tribunals may also direct the audit to assess correct profit for assessment purposes.

vi) Cost Audit under Statute **-** The Central Government may, under the Companies Act, 2013, order to certain classes of companies which are required to maintain proper records regarding materials consumed, labour and other expenses to ascertain the relationship of costs and prices.

3.2.1.5 Appointment of Cost Auditor

3.2.1.5.1 Qualifications and Disqualifications of Cost Auditor

Qualifications of Cost Auditor - The Cost Auditor can be appointed from the following.

(i) Any person who is according to Cost and Works Accountant Act is a Cost Accountant and whole time practicing.

(ii) Any person who is a Charted Accountant according to Charted Accountants Act and is a whole time practicing.

(iii) A firm of Cost Accountants or Chartered Accountants can be appointed as a cost auditor.

Disqualifications of Cost Auditor

(i) A person cannot be appointed as Cost Auditor who according to any provisions of Company's Act 2013 is not qualified to be appointed as Cost Auditor.

(ii) Any person who is appointed as Auditor of a company cannot be appointed as Cost Auditor of the same company.

3.2.1.6 Important Points regarding Appointment of Cost Auditor

- Who can appoint the Cost Auditor and fix the Remuneration – Board of Directors makes an appointment and fixes the remuneration on the recommendation of Audit Committee. Later, this remuneration shall be approved by shareholders.

- Information to Cost Auditor **-** Cost Auditor shall inform of his appointment within 30 days of Board Meeting in which resolution for appointment has passed and his / its written consent to such appointment and a certificate from him or it, as provided in sub-rule (1A), shall be obtained

- Information to Registrar of Companies **-** The Company should inform to the Registrar of Companies regarding the appointment of cost auditor within 30 days of passing of resolution in Board Meeting OR within 180 days of the commencement of financial year, whichever is earlier.

- Appointment of Cost Auditor in case of Casual Vacancy **-** Any casual vacancy in the office of a cost auditor whether due to resignation, death or removal, shall be filed by the Board of Directors within 30 days of such vacancy.

- Rights, Duties and obligations of Cost Auditor **-** The rights, duties and obligations of Cost Auditor / Firm of Cost Auditor are same as applicable to Statutory Auditors.

- Removal of Cost Auditor **-** The cost auditor may be removed from his office before the expiry of his term, through a resolution in board meeting after giving a reasonable opportunity of being heard to the Cost Auditor and recording the reasons for such removal in writing.

3.2.1.7 Applicability of Cost Audit -

For the purpose of cost audit, the companies are classified into two categories, Item A and Item B. Applicability of cost audit is determined according to the class of company.

Item A - i. Every company having annual turnover from all its products and services in the immediately preceding financial year of ₹ 50 Crore or more and

ii. The aggregate turnover of the individual product or products or service or services of ₹ 25 Crore or more.

Item B - i. Every company having annual turnover from all its products and services in the immediately preceding financial year of ₹ 100 Crore or more and

ii. The aggregate turnover of the individual product or products or service or services of ₹ 35 Crore or more.

However the requirement of Cost Audit shall not apply to a company in the following circumstances:-

i. If whole revenue of the company from exports, in foreign exchange, exceeds 75% of its total revenue, or

ii. If the company is operating from a special economic zone, or

iii. If the company is engaged in generation of electricity for captive consumption through Captive Generating Plant.

3.2.1.8 Cost Audit Report Rules 1996

3.1.8.1 The important provisions of the Rules

- The company shall make available the Cost Accounting records to the Cost Auditor for the purpose of Cost Audit within 90 days from the end of the financial year.
- Cost Auditor is required to report whether he has obtained all information and explanation, whether proper Cost Accounting Records are kept by the company, whether in his opinion the cost records give true and fair view of the cost etc.
- An annexure to the Cost Audit Report is to be given containing report on cost accounting system, financial position, production, each elements of cost etc.
- The important points that Cost Audit Report shall include **-**

(a) Matters which appear to be clearly wrong in principle or apparently unjustifiable,

(b) Cases where the company's funds have been used in a negligent or inefficient manner,

(c) Factors which could have been controlled but have not been done,

(d) Peculiar features or undue benefits in contracts or agreements and

(e) The adequacy of budgetary control system.

- The Cost Auditor shall suggest measures for improvements in performance
- If the Cost Auditor qualifies his report, he should indicate the extent to which he has qualified the report and the reasons there for.
- The Cost Auditor shall submit the Cost Audit Report along with his or its reservations or qualifications, if any, in Form CRA-3 to the Board of Directors of the company within a period of 180 days from the closure of the financial year. The cost statements and other necessary statements, approved by the Board of Directors, are to be annexed to the cost audit report.
- The Board of Directors shall consider and examine such report, particularly any reservation or qualification contained therein.

- The company shall forward a copy of Audit Report to the Registrar of Companies within 30 days of receipt of the Audit Report along with the full information and explanation on every qualification or reservation, if any, in Form CRA-4 with specified fees.

According to Section 143(12) of the Act, if the Cost Auditor, during the course of his duties as Cost Auditor, has reason to believe that, an offence involving fraud has been or is being committed against the Company by its officers or employees, he shall immediately report the matter to the Central Government.

3.2.1.9 Punishment on contravention of the Rules

If company contravenes any of the above mentioned provisions then company shall be punishable with fine of ₹ 25,000 to ₹ 5,00,000 and every officer of the company who is in default shall be liable for fine of ₹ 10,000 to ₹ 1,00,000 or imprisonment for a term which may extend to 1 year.

If Cost Auditor contravenes any of the above mentioned provisions unknowingly then he shall be punishable with fine of ₹ 25,000 to ₹ 5,00,000. Whereas, he contravenes any of the above mentioned provisions knowingly then he shall be punishable with fine of ₹ 1,00,000 to ₹ 25,00,000 along with imprisonment for a term which may extend to 1 year. Further, he shall be liable to refund the remuneration and pay damages to company. In case of an audit firm, the criminal liability other than fine shall devolve only on the concerned partner who acted in fraudulent manner.

3.2.1.10 Advantages of a Cost Audit

The main advantage of cost audit is that, it ensures the accuracy of cost accounting, on the basis of which management takes major decisions.

- It ensures that the organization keeps a close check on wastages and misuses of materials, labour, stores etc. as well as, points out such wastages if any. When such wastages are discovered the company can take corrective steps.
- It helps in pointing out inefficiencies in every cost centre and uneconomic activities.
- It reveals irregularities and frauds in cost records.

- Comparison of actual expenditures with the standards enables to know favourable and unfavourable variances. This helps management to know reasons behind these variances and can take appropriate actions.
- A cost audit actually helps the statutory auditor. A statutory auditor can rely on audited costing data.
- Helps in fixing individual responsibility of higher or lower performance.
- Provides all necessary information for immediate actions and decisions, especially in respect of manufacturing.
- Facilitate Budgetary Control and Standard Costing technique.
- Ensures valuation of inventory, work-in-progress and finished goods.
- Useful for cordial relation between employees and top management.
- It recommends a reasonable price to the consumers.
- Highlights the good as well as the week points of organisation and suggest corrective actions

3.2.1.11 Difference between cost audit and financial audit - The main differences between cost audit and financial audit are as below.

Cost Audit	Financial Audit
It is used mostly in manufacturing organisations	It is used in all types of organisations
The primary object is to control the cost of output.	The primary object is to find whether the final accounts show true and fair view.
It is verification of total cost, cost per unit of output, cost of each process etc.	It is verification of Profit & Loss Account and Balance Sheet
It is mainly related to cost of output, process, department etc.	It is related to all income and expenditures as well as assets and liabilities
The main purpose is to test working efficiency of the organisation.	The purpose is to see whether concerned laws and principles are followed or not.
This audit can be done by external parties such as Government, Customer, Trade Associations, Tribunals etc.	This audit is done by owners of the organisation.

Cost Audit sees that the stock is not more than the required quantum and it is valued at cost.	Financial Auditor sees whether the proper valuation of the stock is done or not.
The report is submitted to the Government / Owner / Company Law Board by whom the appointment is made	The report is submitted to Shareholders.
The Cost Audit is confined primarily to Factory / Works.	The Financial Audit is primarily confined to the office.
It protects the interest of Government and Producers.	It protects the interest of Shareholders.
Its report not confined to any specific period but related to objectives.	It is generally confined to financial year or related to some specific period of time.
The Cost Auditor is appointed with the prior permission of the Central Government or by the Board of Directors.	The Financial Auditor is appointed in General meeting of the company.

Check your Progress-I

A) Fill in the blanks in the following sentences by choosing the **most correct** alternative given below.

1. The Companies Act, 2013 empowers the _______________ to make rules in the areas of maintenance of cost records by the companies engaged in specified industries, manufacturing of goods or providing services and for getting such records audited

   a) Registrar of Companies   b) Board of Directors

   c) State Government   d) Central Government

2. According to Cost Audit Report Rules 1996, the company shall make available the Cost Accounting Records to the Cost Auditor for the purpose of Cost Audit within ___ days from the end of the financial year.

   a) 14   b) 30   c) 60   d) 90

3. If company contravenes any of the provisions of Cost Audit ReportRules 1996, then company shall be punishable with fine of ________________.

   a) ₹ 10,000 to ₹ 1,00,000   b) ₹ 1,00,000 to ₹ 25,00,000

c) ₹ 2,50,000 to ₹ 5,00,000 d) ₹ 25,000 to ₹ 5,00,000

B) Fill in the blanks in the following sentences

1. According to Section ________ of the Companies Act 2013, if the Cost Auditor, during the course of his duties as Cost Auditor, has reason to believe that, an offence involving fraud has been or is being committed against the Company by its officers or employees, he shall immediately report the matter to the Central Government.
2. According to the classification of companies for the purpose of cost audit, under Item A cost audit is applicable for every company having annual turnover from all its products and services in the immediately preceding financial year of _______ or more

C) State the following statements are True or False

1. Any person who is appointed as Auditor of a company cannot be appointed as Cost Auditor of the same company.
2. A partnership firm of Cost Accountants or Chartered Accountants can be appointed as a Cost Auditor.

3.2.2 Tax Audit

There are various laws in India that govern different kinds of audit. The Income Tax Law requires the taxpayer to get the the accounts audited of their business or profession from the view point of Income-tax. The provisions for an Income Tax audit are covered under section 44AB of the Income Tax Act of 1961. This section gives the provisions concerned to the class of taxpayers who are required to get their accounts audited. Tax audit aims to ascertain the factual veracity of returns filed and the accomplishment of other requirements as per applicable rules. The auditor performing the tax audit has to submit all the findings and observations in the prescribed form of an audit report to the Income Tax Authority.

3.2.2.1 Definitions of Tax Audit

Tax Audit is the official examination of the tax department to the tax return that declares by taxpayers as required by law.

The audit conducted by the chartered accountant of the accounts of the taxpayer in pursuance of the requirement of section 44AB of the Income Tax Act 1961 is called as Tax Audit.

As the name itself suggests, Tax Audit is an examination or review of accounts of any business or profession carried out by taxpayers from an income tax viewpoint and evaluation of the income tax returns filed by the assessee for the concerned assessment year.

Tax Audit is an examination of an individual's or organisation's tax returns by any outside agency to verify that all the information regarding income, expenditure and deductions are filed correctly and as per the rules as mentioned by the Income Tax Act, 1961..

3.2.2.2 Objectives of Tax Audit

Tax Audit is conducted to achieve the following objectives:

- To ensure proper maintenance and correctness of books of accounts and certification of the same by a tax auditor.
- To ensure that the total income and the claims for deduction are correctly and accurately entered by the businessperson.
- To report findings, observations and discrepancies noted by tax auditor
- To report required information and compliance of various provisions of income tax law.
- To verify the correctness of income tax returns filed by the taxpayer.
- To check frauds and malpractices in filing income tax returns
- To restricts the chance of fraudulent practices.
- To ascertain / derive / report the requirements of Form No. 3CA or 3CB and 3CD.

3.2.2.3 Applicability of Tax Audit

Tax audit is not compulsory to all types of assesses but, it is applicable to certain classes of assesses. Section 44AB of the Income Tax Act, 1961, specifies the classes of assesses who have to follow compulsorily the income tax audit procedures and get their accounts audited.

1. A businessperson whose gross receipts / turnover / sales for the previous financial year are ₹ 1 crore or more.
2. A professional whose gross receipts for the previous financial year is ₹ 50 lakh or more.
3. Assessees qualify to choose the presumptive taxation scheme under Sections 44AD, 44AE, 44AF, 44BB and 44BBB, but claims that the profit for such business is lower than the profits calculated in accordance with the presumptive taxation scheme under the concerned section
4. Professionals eligible under Section 44ADA claims income lower than the prescribed limit or income exceeds the maximum amount not chargeable to income tax

3.2.2.4 Appointment of Tax Auditor

Any practicing Chartered Accountant or firm of Chartered Accountants or any other person who can be appointed as an Auditor u/s 141 of the Companies Act, 2013, can be appointed as Tax Auditor.

The Board of Directors in case of Company, Partner in the case of partnership firm and proprietor of the business can appoint Tax Auditor.

3.2.2.5 Forms required for Tax Audit:

Rule 6G of the Income Tax Act lists the forms that need to be used to submit income tax audit of business / profession under Section 44AB. The Income Tax (7th Amendment) Rules 2014 has amended the forms required for income tax audit submission.

- If a businessperson or professional has to audit their accounts under any law other than the Income Tax Act, then **Form 3CA** (Audit Form) is to be filled and submitted.
- If a businessperson or professional has to audit their accounts only under the Income Tax Act, then they need to use **Form 3CB** (Audit Form).

In case of either of the aforementioned audit reports, tax auditor must furnish the prescribed particulars in Form No. 3CD, which forms part of audit report.

3.2.2.6 Tax Audit Report

Any person/persons covered under the section 44AB should get their accounts audited and should also obtain the audit reports on or before 30th September of subsequent financial year.

If a tax payer is mandated to conduct an audit of his business under more than one law, for example, under both the Companies Act and Income Tax Act, then the tax payer need not perform the audit twice for the same financial year separately under each Act. Audit is conducted for single time and the same audit report is submitted for the relevant scrutiny under different Acts. However, if the audit is done for different Acts in different accounting years, then a tax audit has to be conducted again for the relevant year under the Income Tax Act.

Those who are mandated for tax audit have to file their Income Tax Return (ITR) until September 30. It is compulsory to e-file the Tax Audit report while e-filing I-T Return.

3.2.2.7 Penalty for Not Auditing:

If audit is not conducted as per Section 44AB, then the assessee has to pay penalty as per Section 271B of the Income Tax Act. The penalty for delay in completing audit and submitting the report is 0.5% of Total Sales / Turnover / Gross Receipts or ₹ 1.5 lakh, whichever is less. However, if there is a genuine reason for delay or non-filing of audit report, then as per Section 273B, no penalty will be applicable. Genuine reasons include –

Resignation of the tax auditor

Death or physical inability of the partner responsible for accounts

Labour issues such as strikes or lock-outs

Loss of accounts due to theft or fire or incidents that are not under the assessee's control

Natural calamities

3.2.2.8 Procedure for filing Tax Audit Report:

- The Chartered Accountant assigned for conducting tax audit of an individual or an organisation has to present the tax audit report online, using his/her official login credentials.
- The taxpayer also has to mention the relevant information about their Chartered Accountant in their login platform.
- Once the tax audit report is uploaded by the auditor, it has to be either accepted or rejected by the taxpayer on his login portal. If the taxpayer rejects the tax audit report, the entire process has to be repeated until the tax audit report is accepted by the tax payer.
- Tax audit report has to be filed on or before the pre-determined due date of filing income return, i.e., 30th November of the subsequent assessment year for taxpayers who were engaged in international transactions and 30th September of the subsequent assessment year for other taxpayers.

3.2.2.9 Rules Governing Tax Audit

- A tax audit is conducted only for business or profession and not for individual income.
- If an assessee is involved in more than one business, tax audit is compulsory if the total turnover of all businesses in aggregate is more than ₹ 1 crore.
- If an assessee operates more than 1 profession, tax audit is required in case if the gross receipts of all the professions in aggregate cross ₹ 50 lakh.
- If an assessee runs a business as well as a profession, the need of tax audit is decided separately. It means, If turnover of business is more than ₹ 1 crore then tax audit is required for the business accounts, and if the gross receipts from the profession is more than ₹ 50 lakh then tax audit of the profession is needed. But, if turnover of business is less than ₹ 1crore and receipts from profession are less than ₹ 50 lakh, no tax audit is required for either accounts, even though the total of both (turnover + receipts) cross ₹1 crore.
- Sale of fixed assets and investments as well as rental income, income from interest that is not part of the business income and any reimbursement of

expense by the client are excluded from calculation of total turnover of a business / gross receipts of professional

- Once the tax audit report is filed online, it cannot be revised. But if the accounts have been revised, the audit report that has been filed can also be changed. Reasons for change in audit report have to be explicitly mentioned while filing the revised report.

Check your Progress-II

A) Choose **most correct** alternative given below for filling the blanks in the following sentences.

1. The provisions for an Income Tax audit are covered under section _____ of the Income Tax Act 1961.

   a) 44BA   b) 44AB   c) 48AB   d) 48BA

2. Tax audit is not compulsory to ________________ but, it is applicable to certain classes of assessees.

   a) Individuals   b) all types of assessees

   c) Partnership Firms   d) Indian Companies

3. Tax Audit is compulsory for a professional whose gross receipts for the previous financial year are ₹ ________ or more.

   a) 1 crore   b) 50 lakh

   c) 1crore 50 lakh   d) 25 lakh

4. Tax audit report has to be filed on or before _______________ of the subsequent assessment year for taxpayers who were engaged in international transactions and

   a) 30th September   b) 30th November

   c) 30th June   d) 31st March

B) Fill in the blanks in the following sentences

1. Tax Audit is compulsory for a businessperson whose _________________ for the previous financial year are ₹ 1 crore or more.

2. Once the tax audit report is uploaded by the auditor, it has to be either accepted or rejected by the _____________ on his login portal.

C) State the following statements are True or False

1. Once the tax audit report is filed online, it cannot be revised. But if the accounts have been revised, the audit report that has been filed can also be changed.

2. The penalty for delay in completing audit and submitting the report is 0.5% of Total Sales / Turnover / Gross Receipts or ₹ 1.5 lakh, whichever is less.

3.2.3 Management Audit

Management audit is a new concept in auditing. It is different from the conventional audit. It is an audit of overall performance of management. It covers all functions of management like planning, organizing, co-ordination, control, etc. It aims to find out inefficiencies and weaknesses of the management as well as to detect and diagnose the problems in the governance of an organization and suggests various means to avoid and solve these problems. It assesses methods and policies of an organization and the use of resources including human resources, strategic planning, and organizational improvement. Thus, Management audit is audit of the management of a business organisation.

Management Audit does not appraise performance of individual employees but, it critically evaluates the senior executives as a management team in its effectiveness to work in the interests of shareholder, employees and other stakeholders and uphold reputational standards. It is generally conducted by the independent consultant.

3.2.3.1 Definitions of Management Audit

"Management Audit can be defined as an objective and independent appraisal of the effectiveness of managers and the effectiveness of the corporate structure in the achievement of company objectives and policies. Its aim is to identify existing and potential management weaknesses within an organization and to recommend ways to rectify these weaknesses". CIMA Official Terminology.

Management Audit is the systematic and dispassionate examination, analysis and appraisal of management's overall performance. It is a form of appraisal of the total performance of the management by means of an objective and comprehensive examination of the organization structure, its components such as department, its plans and policies, methods of process or operation and controls, and its use of physical facilities and human resources.

Management Audit refers to the careful examination of decisions and actions of the management in order to analyze the performance. This also involves the review of managerial aspects like goals, objective, policies, procedures, structure, control and other management activities of the Company.

The management audit may be defined as a comprehensive and constructive examination of an organizational structure of a company, its plans, objectives and operations and use of human resources and physical facilities.

Thus, management audit is an analysis and assessment of the competencies and capabilities of a company's management in carrying out corporate objectives. It is concerned with the evaluation and appraisal of the management system of the entire organization or its segments.

3.2.3.2 Key Takeaways

1. Management Audit is an important tool for the continuous appraisal and evaluation of the methods and performance of an enterprise.
2. It assists the management in managing the operations of an undertaking in the most efficient manner practicable.
3. It is a systematic examination of decisions and actions of the management to analyse the performance.
4. It reviews managerial aspects like organizational objective, policies, procedures, structure, control and system in order to check the efficiency of the management.
5. It stresses on results, evaluates the effectiveness and suitability of rules, procedures and methods.
6. It is an assessment of how well an organization's management team is applying its strategies and resources.
7. It evaluates whether the management team is working in the interests of shareholders, employees, and other stakeholders.
8. Generally, the board of directors hires an independent consultant to conduct the management audit.

3.2.3.3 Objective of Management Audit

The prime objective of Management Audit is to locate defects or irregularities in management of the organisation and to suggest possible improvements. The other objectives of are,

1. To identify the weaknesses and inefficiencies of management in different functional areas, such as production, sales, finance etc.
2. To analyse the different ways to overcome the inefficiencies and weaknesses.
3. To review critically the organization structure.
4. To evaluate the ways for improving the management efficiency.
5. To ensure optimum utilization of human resources and available physical facilities.
6. To point out deficiencies in objectives, policies, procedures and planning.
7. To suggest improved methods of operations.
8. To point out weak links in organizational structure and in internal control system and suggesting improvements.
9. To help management by providing early signals of sickness, ways and means to avoid the same
10. To anticipate problems and suggest remedies to solve them in time.
11. To ensure optimum utilization of human resources & available physical facilities.
12. To suggest improved method of operation.
13. To help management in setting sound and effective targets.
14. To help management in co-ordination of various departments.
15. To help in training of personnel.
16. To ensure strong relations with outsiders.

3.2.3.4 Scope of Management Audit

The scope of Management Audit has no limitations. It includes everything which comes under the broad purview of management such as evaluation of policies and procedures, adequacy of the organization structure, reliability of the system of control, adequate protective methods, causes of variances, effective utilization of manpower and equipment, efficiency of the method of operation, weaknesses or inefficiencies or irregularities in management system etc. The areas of review depend on the objectives of the audit. In general, the scope of Management Audit includes -

- The suitability, practicability and present compliance of the organization with its objects and aims.
- The current reputation of the organization in relation to the general public and within its own particular industrial or commercial field.
- Profitability and the rate of return on capital.
- Relationship of the business with its own shareholders, investors, customers, suppliers and public in general.
- Operating efficiency.
- The relationship between management and staff within the business.
- The effectiveness of management at its various levels.
- Financial policies and control relating to production, sales and distribution and in other functions of the organization.

In general, a management audit addresses the following questions –

- Has the organization achieved its main objectives?
- What organizational structure has been set up by management?
- What is the management information system (MIS)?
- What are the policies and procedures of the finance?
- How effective are current risk management measures?
- How does management put together its annual budget?
- Is management strategically guiding the company toward its financial targets?
- Is the return on capital employed reasonable?
- Is the management responsive to shareholders?
- How effectively human resources are used?
- How effective the system of recruitment, selection, training, retention and development of human resources?

- What is the state of relations among the employees of the organization?
- Is the morale of employees high?
- Is the communication system effective?
- Are the company's IT systems kept up-to-date?
- Has the organization followed properly all the concerned Laws and Acts?
- What is the total share of the organization in market?
- What is the relationship of the organization with external sources? etc.

3.2.3.5 Advantages of Management Audit

- It helps management in framing basic policies for the organizations and to define objectives.
- Helps in setting up an organizational framework to implement the plans.
- Assists in designing system and procedures for smooth operation of the organization.
- Helps in designing and reviewing Management Information System (MIS) for decision making and coordinating.
- It helps in decision making areas such as make or buy, to close or continue, merger etc.
- Assess the efficiency of the executives and serves as a moral check on the executives.
- Suggests ways to utilize the resources of the organization effectively.
- Helps in rehabilitation of sick units.
- Gives expert advice on various areas of management and functioning of the organization.
- Helpful in achieving efficiently the set objectives of the management by coordinating with the personnel and various departments.
- Helpful in creating strong communication system with outsiders and healthy relations with the stakeholders.

- Evaluate the performance of management in each area including resource management and market strategies.
- Elaborate duties, rights and liabilities of staff members.
- Evaluate Budgetary Control etc.

3.2.3.6 Limitations of Management Audit

1. Lack of awareness among directors and managers of the objectives of the organization and the extent to which these are being achieved,
2. Failure to define clearly the objectives and responsibilities of individual managers.
3. Inadequate steps taken to provide adequate finance.
4. Lack of technical competence of managers.
5. Retaining authority by managers for matters which ought to have been delegated.
6. Lack of clear and identifiable management style in the organization.
7. Lack of proper staff / management training.
8. Failure on the part of managers to measure and assess the performance of their subordinates.
9. Inadequacy of the management information system.
10. Lack of enforcement of procedures or too much wastage of time in enforcing such procedures.
11. High cost and so suitable only to big organizations.
12. May create a fear in the minds of the executives and may curb their initiative and innovation.
13. If management auditor has no total freedom and independence then it is worthless.
14. As it usually pin point shortcomings of managers in action, they hesitate to take initiative.

However, it is possible to overcome these limitations. Weaknesses revealed by Management Audit can be studied in detail to ascertain the real causes and proper remedial action may be taken and organization can utilize it effectively to improve its various functional areas.

3.2.3.7 Difference between Financial Audit and Management Audit

	Financial Audit	**Management Audit**
1. Meaning	Financial Audit means verification of true and fair view of financial statements.	Management Audit means evaluation of managerial performance in establishing and executing of procedures, policies and objectives.
2. Period	Conducted generally for a year	No time limit
3. Scope	Examination of financial and related records and reporting as it is.	Evaluation of the performance of management and reporting the defects and suggestions for improvement.
4. Compulsion	It is compulsory for certain types of organisations.	No such compulsion
5. To whom report is submitted	Audit Report is submitted to owners (shareholders)	Report is submitted to management
6. Who can Audit	A Chartered Accountant	Any independent person

3.2.3.8 Difference between Cost Audit and Management Audit

	Cost Audit	**Management Audit**
1. Meaning	It is the verification of cost accounts and a check on the adherence of Cost Accounting Standards.	It is an analysis and assessment of the competencies and capabilities of a company's management in carrying out corporate objectives.
2. Compulsion	It is compulsory in certain cases and products.	It is not compulsory for any organization

3. Period	It is generally done for the accounting year	No specific period. Period is fixed as per convenience
4. Who can Audit	A Charted Accountant or a firm of them can do cost audit	Any independent person need not be Charted Accountant.
5. To whom the report is submitted	The report is submitted to the Central Government and its copy to the company	The report is submitted to the management
6. Period of Report	The report must be submitted within a specific period	No time limit for report submission

Check your Progress-III

A) Choose most correct alternative given below for filling the blanks in the following sentences.

1. The report of management audit is submitted to the ____________.

   a) shareholders in general meeting b) Central Government

   c) management d) statutory auditor

2. Management Audit is generally conducted by the _______________ .

   a) Chartered Accountant b) Managing Director

   c) independent consultant d) Government Auditor

B) Fill in the blanks in the following sentences

1. Management Audit is not ___________ for any organization

2. The prime objective of ____________________ is to locate defects or irregularities in management of the organisation and to suggest possible improvements.

C) State the following statements are True or False

1. Management Audit does not appraise performance of individual employees

2. Generally, the board of directors hires an independent consultant to conduct the management audit.

3.2.4 Social Audit

The social audit movement was first started in U.S.A. in the middle of the last century i.e. in 1950s. Later it gathered momentum in U.K., Japan and in other western countries. In India, it attracted the interest of public and government in the beginning of this decade and found a place in company legislation.

There is difference of opinions among the experts as to the exact meaning and components of this concept. According to some authors, it means the public disclosure of a company's social performance while, some others says that it is internal evaluation of a company's social responsibility performance and some authors are of the opinion that it is a comprehensive evaluation of the way a company discharges all its responsibilities to its shareholders, customers, employees, other stakeholders and to the community at large. However, all are of the opinion that it is an evaluation of company's performance for the benefit of its own and of the society at large.

3.2.4.1 Meaning and Definition of Social Audit

Today, corporations are often expected to deliver value to consumers and shareholders as well as meet environmental and social standards. Social audits can help companies to create, improve, and maintain a positive public image.

Social Audit is a technique to understand, measure, verify, report on and to improve the social performance of the organization. It values the voice of stakeholders and is taken up for the purpose of enhancing governance, particularly for strengthening accountability and transparency.

"Social Audit is a commitment to systematic assessment of and reporting on some meaningful, definable domain of a company's activities that have a social impact". Boweni

Social audit is an extension of the principle of public disclosure to which corporations are subject.

A social audit is a way of measuring, understanding, reporting and ultimately improving an organization's social and ethical performance.

A social audit is a formal review of a company's endeavors, procedures, and code of conduct regarding social responsibility and the company's impact on society.

It is an assessment of how well the company is achieving its goals or benchmarks for social responsibility.

A social audit is an internal examination of how a particular business is affecting society. It helps to fill narrow gaps between vision or goal and reality as well as, between efficiency and effectiveness. It focuses on the neglected issue of social impacts including environmental issues.

3.2.4.2 Social Accounting and Social Audit

Social Accounting is a systematic accounting and reporting on those parts of a company's activities, which have a social impact. It refers to the identification, measurement, recording and reporting the information as to social activities of the concern to its internal and external users.

On the other hand, Social Audit refers to the systematic evaluation of an organization's social performance. It discloses the company's involvement in socially oriented activities, activities taken for the well-being of the employees of the concern and activities for prevention of environment from pollution.

3.2.4.3 Objectives of Social Audit

Objectives of social audit can be divided into two broad categories namely, Principal objectives, and Secondary objectives.

A) Principal Objectives

1. Making the company's business financially sound and progressive.
2. Payment of a fair and regular dividend to the shareholders.
3. Payment of fair wages under the best possible working conditions to the worker.
4. Offer best reasonable prices to the consumers.

B) Secondary Objectives

1. Provision of bonus to the workers.
2. Assist in promoting the amenities of the locality.
3. Assist in developing the industry in which the firm is a member.

4. Promote education, research and development in the techniques of the industry.

3.2.4.4 Need for Social Audit

Each business enterprise is set up in the society and for the society, so, it is intimately connected with external public. The modern corporations are more powerful and command huge resources. Its activities impact largely over society. Its performance can develop the society or affects the society badly. It can support to the government in social development or may create problems to the Government. It is necessary to see that the power of corporations should not be used indifferently, irresponsibly or in an antisocial way. Thus, social audit has become the need of the day. Prof. Galbraith says, “This is not a matter of ambition, but of necessity”.

3.2.4.5 The Scope of a Social Audit

There is no standard for the items included in a social audit. The scope of a social audit can vary and be wide-ranging. The assessment includes social and public responsibilities as well as employee treatment. Some of the topics that comprise a social audit include the following,

- Environmental impact resulting from the company's operations
- Transparency in reporting any issues regarding the effect on the public or environment.
- Accounting and financial transparency
- Financial contributions for community development and charity
- Activities for employees, work environment including safety, free from harassment and equal opportunity in addition to pay and benefits
- Energy use
- Nondiscriminatory practices etc.

Social audit is optional. It means companies can choose whether to disclose the results publicly or not. The scope of social audit is based on the company’s goals. The impact on a particular town to entire state, country, or throughout the globe can be assessed.

3.2.4.6 Information to be disclosed during Social Audit

It is now widely accepted that social audit must be taken in all organizations. Prof. Robert says, ‘it should be remembered that mere undertaking of social audit is not sufficient but what is needed is a frank and full disclosure of its working’.

In this connection Dahl has rightly remarked that, “A major corporation can influence control and even coerce people and sometimes even the nation. Hence, the need for wide disclosure becomes inevitable”.

Both financial and non-financial information should be disclosed.

The financial information can be disclosed through profit and loss account, balance sheet etc. The financial information reveals the true financial position, liquidity, solvency, profitability etc. of a company.

Non-financial information can be expressed both in qualitative and quantitative data. National Association of Accountants, Committee on Accounting for Corporate Social performance, Canada divided all such information into four broad categories.

1. Community Involvement- Under this category, socially oriented activities that are primarily of benefit to the general public are included.
2. Human Resources- Under this category, activities directed to the well-being of the employees are included.
3. Physical Resources and Environmental Contribution- This category includes the activities directed towards alleviating or preventing environmental deterioration. It also includes the adherence to the law, conservation of scarce resources and the disposal of waste.
4. Production or Service Contribution- It is mainly concerned with the impact of company’s product or service on society. This includes product quality, packaging, advertising, warranty provisions and product safety.

The information disclosed by a company under social audit can benefit to all its stakeholders as well as Financial Institutions, Academic Institutions and Consultants, Trade Unions and Political leaders, Environmentalists and more importantly to the Government.

Check your progress-IV

A) Choose most appropriate option

1. The social audit movement was first started in _________.

   a) U.S.A., b) U.K. c) U.S.S.R. d) U.A.E.

2. “Social Audit is a commitment to systematic assessment of and reporting on some meaningful, definable domain of a company’s activities that have a social impact”. This definition is given by _______.

   a) Boweni b) Bewoni c) Beniwo d) Boniwe

3. The scope of a social audit is _____________.

   a) wide b) narrow c) limited d) restricted

4. Under social audit _____________ information should be disclosed.

   a) both financial and non-financial b) only financial

   c) only non-financial d) neither financial nor non-financial

B) Fill in the blanks

1. Under _________ category, socially oriented activities that are primarily of benefit to the general public are included.

2. _____________ is a systematic accounting and reporting on those parts of a company’s activities, which have a social impact.

C) State whether the following sentences are True or False

1. Social audit is optional.

2. The information disclosed by a company under social audit can benefit to all.

3.2.5 Audit of Computerised Accounting

Electronic devices, particularly Computers, Laptop, Tab, Mobile, etc. are now being used in every sector. Computer Information System (CIS) or Electronic Data Processing System (EDPS) is established in almost all the business and service organizations. A large number of enterprises have switched over to computerized accounting and the trend is continuously on. Today, even tiny business organizations are using computerized accounting software like Tally.

When computer is involved in the recording and processing of financial and accounting information, it is called as Computerized Accounting. There may be one or more computers of different types and sizes operated by the entity itself or outside service providers.

The use of computers changes the processing, storage, retrieval and communication of financial information as well as accounting system. Use of computers increased the capacity of accounting facet to receive, store, retrieve, control, correlate, compare, modify and analyse large volume of data to suit different requirements. It increased the speed of processing financial data with the highest arithmetical and technical accuracy and getting results thereof which would be very difficult to process manually. With the help of computers, any type of statements or analytical review or any financial result can be obtained easily, quickly and accurately.

The adoption of computer for accounting and administration lent new dimensions to the approach of auditing. Now auditor should have sufficient knowledge of CIS or EDPS. The computer based accounting system requires an auditor to employ computer assisted audit technique which comprise audit software and test data. The basic objectives and scope of an audit do not change in computer accounting. Further, it requires more skill and competencies as it involves more risk.

3.2.9.1 Nature of Risk in Computer Accounting

1. Absence of vouchers and authorisation – In a computerised accounting many transactions may be fed directly without authorisation record in the conventional form of vouchers. Contra entries, transfer entries, self evident entries, etc. (automatic transactions) are directly processed, without making hard copies, with the help of programmes set in the software.
2. Manipulations – Computers obey the orders of the operators without thinking whether it is right or wrong. In feeding the data there is possibility of manipulation of record. Besides, manipulation may be done in arithmetical calculations with the help of parameters of such arithmetic already set in the programme.
3. Repetition of errors – Due to uniform processing, an error in programme or hardware will result in errors in all such transactions.

4. No audit trail – In manual accounting, transactions are recorded at various stages, creating records and the documents at each stage till the final accounts. While auditing, it facilitates visible audit trail. The computer environment may not allow intermediary stages of recording. Feeding of basic transactions directly results in final output. Understandable and visible audit trail may not be available.

5. Storage Risk – The programme and recorded data is saved in hard disk, in discs and USBs (Pen Drives). If these are not carefully stored and guarded, there is a possibility of loss of such physical devices and manipulations of the recorded data.

6. Computer frauds – Computer frauds are of different types, such as, unauthorised use of computers, physical manipulation of framework of the system, theft of confidential output, taping, intercepting and edition of final output, etc. It is very difficult to search for such frauds because, these are committed very intelligently.

7. Computer virus – Computer virus is programme that affects badly the working of target area of the computer. Due to this, the computer become sick and gives different or absurd results or sometime becomes dead.

3.2.9.2 Audit of Computerised Accounting

1. **Audit Approach** - The computerisation of accounting does not give any relaxation from the duties and responsibilities of the auditor. The auditor has to exercise his skill, competence and knowledge to ensure that the picture presented through output of the computer accounting does not show any distorted version of the transactions and events of the entity and is true and fair representation of the financial results of the period under audit.

2. **Primary work** – Auditor should evaluate the computerised accounting system and internal control system very carefully and check that whether the system –

   a) ensures correct and complete inputs, processing and output.

   b) provides for timely detection of errors and frauds and data security.

   c) prevents unauthorised changes to programme, data, reports, etc.

3. **Audit Procedure** – The auditor would need to readjust his audit procedures, approach and technical capabilities so as to be able to form an opinion on the accounts processed through computerisation. Auditing may be carried out by ***auditing around the computers or auditing through the computers.***

a) Auditing around the computers

When the auditor follows a substantive audit procedure, it is called as auditing around the computers. It involves arriving at conclusion through examining the internal control system and input and output for application system. Auditor gives opinion about the quality of the processing carried out on the basis of the input and output of the application system. In this method, application system processing is not examined directly. In other words, it means carrying out the audit in a traditional manner by comparing the printouts generated in the system.

Suitability of the auditing around the computers

- When the installed application system is simple, batch oriented and uses generalised software that is well tested and used widely by many institutions.
- The system logic is straight forward and there are no special routines.
- Input transactions are batched and control can be exercised through the normal methods.
- Processing mainly consists of sorting the input data and updating the master file sequentially.
- There is clear audit trail and detailed reports are prepared at key processing points within the system.
- The environment is more or less constant.

Advantages of the auditing around the computers

- It is very simple and
- Requires little technical knowledge of computers to perform the audit.

Disadvantages of the auditing around the computers

- It has restricted suitability. It should not be used for systems having any complexity in terms of size or type of processing.

- The auditor cannot audit well if the environment changes.

b) Auditing through the computers

The auditing through computer makes use of computer in auditing. It involves audit of systems and programmes used by the concern. In this procedure, the auditor reviews and tests general and application controls and determines their effectiveness.

Duties of an auditor

- Gather evidences about the general control through inquiry, observation and documentation.
- Test application control by using Computer Assisted Audit Techniques (CAAT)
- Test the logic and controls existing within the system and the records produced by the system by using computer.

Need of the Auditing through Computers – In the following circumstances the procedure of auditing through computers must be followed.

- The application system processes large volumes of input and produces large volumes of output.
- Significant parts of the internal control system are embodied in the computer system.
- The logic of the system is complex.
- There are large portions that facilitate use of the system for efficient processing.
- There are substantial gaps in the visible audit trail.

Advantages of the Auditing through Computers

- Computer system is effectively tested.
- Auditor gets confidence that the data processing is correct.
- Auditor can assess the system's ability to cope with the changes in environment.

Disadvantages of the Auditing through Computers

- It requires high cost.
- Generally it requires extensive technical expertise.

3.2.9.3 Computer Assisted Auditing Techniques (CAAT)

The techniques which make use of computer system in auditing are known as Computer Assisted Auditing Techniques (CAAT). The important techniques are –

1. **Test Data or Test Pack** – Through this test an auditor tests the effectiveness of the programme in use. Such test can be taken by three ways –

a) Contrived Test – Under this auditor prepares a set of input consisting different varieties of fictitious or imaginary transactions involving valid and invalid conditions with solutions. The results of the system are tested with the predetermined solutions. Effectiveness of the system is checked with the result of valid transactions and how it responds to the invalid transactions.

b) Real Test – Under this, an auditor picks up certain representative transactions from real situation of the client's business, process these transactions manually and then these transactions are processed through the computer system in use. The results are compared with the predetermined solutions and thus the effectiveness of the system is tested.

c) Controlled Test – Under this, an auditor remain presents personally in the system department of the client's business organisation and observes the processing of transactions. Sometime he asks to repeat the process and verify the results or output.

2. **Special Computer Programme for Audit –** Now specially devised computer programmes are available which can be used for the purpose of audit. By using such programmes, an auditor may obtain a print of any information, contained in the client's computerised accounting system, in the suitable form. Such programmes can be used to have a routine test, checking of calculations, verifying the results of process and also for reporting.

Advantages of CAAT

- It increases the effectiveness and efficiency of audit.
- Accounting process can be checked through repetition of the process.
- Unusual transactions or items can be reviewed.
- It saves time of the auditor.

- Effective test checking and detailed examination is possible.
- Reduces monotony of work.
- Enhances reliability of the audit.
- Reduces cost of audit.

Disadvantages of CAAT

- All the reports may not have in printed form. Part of the data may remain only in machine readable form and it may exist for a limited period of time.
- Computer programme and recorded data may be altered.
- Data may be entered directly into the computer system without documentary support. For example, online transactions may not have authorisation or documentary evidence.
- It requires expert knowledge of the computer system.

Though CAAT provide help to an auditor, be aware that, these are not substitute to the professional skill and judgement of the auditor.

Check your Progress-V

A) Choose most correct alternative to fill in the blanks in the following sentences.

1. When computer is involved in the recording and processing of ________________________, it is called as Computerized Accounting.

   a) Income and Expenditures,

   b) Assets and Liabilities

   c) Receipts and Payments

   d) financial and accounting information

2. The _______________ involves audit of systems and programmes used by the concern.

   a) auditing around computers b) auditing using computer

   c) auditing by computer d) auditing through computer

3. The audit of computerised accounting has ____ risk.

a) no b) low c) equal d) more

B) Fill in the blanks in the following sentences

1. Full form of EDPS is _____________

2. Full form of CAAT is ________________

C) State the following statements are True or False

1. The basic objectives and scope of an audit do not change in computer accounting.

2. The computerisation of accounting does not give any relaxation from the duties and responsibilities of the auditor.

3.3 Summary

The unit titled as 'Types of Audit and Audit of various Entities' is divided in 9 parts, which includes 4 types of audit, 3 entities and 2 important aspects of audit. The unit can be summarized as below.

Cost Audit - Cost Audit is a critical review undertaken for the purpose of verification of the correctness of cost accounting records, such as cost accounts, cost reports, cost statements, cost data and costing techniques and examining these records to ensure that they adhere to the cost accounting principles, plans, procedures and objectives.

The principal object of the cost audit is to see that the cost data placed before the management are verified and reliable and they are prepared in such detail as will serve the purpose of the management in taking appropriate decisions. It aims to identify the undue wastage or losses and ensure that costing system determines the correct and realistic cost of production.

Tax Audit - Tax Audit is an examination or review of accounts of any business or profession carried out by taxpayers from an income tax viewpoint and evaluation of the income tax returns filed by the assessee for the concerned assessment year.

Tax audit is not compulsory to all types of assessees but, it is applicable to certain classes of assessees. Section 44AB of the Income Tax Act, 1961, specifies the classes of assessees who have to follow compulsorily the income tax audit procedures and get their accounts audited

Management Audit - Management Audit is the systematic and dispassionate examination, analysis and appraisal of management's overall performance. It is a form of appraisal of the total performance of the management by means of an objective and comprehensive examination of the organization structure, its components such as department, its plans and policies, methods of process or operation and controls, and its use of physical facilities and human resources.

It covers all functions of management like planning, organizing, co-ordination, control, etc. It aims to find out inefficiencies and weaknesses of the management as well as to detect and diagnose the problems in the governance of an organization and suggests various means to avoid and solve these problems. It assesses methods and policies of an organization and the use of resources including human resources, strategic planning, and organizational improvement.

Social Audit - Social Audit is a technique to understand, measure, verify, report on and to improve the social performance of the organization. It values the voice of stakeholders and is taken up for the purpose of enhancing governance, particularly for strengthening accountability and transparency.

The modern corporations are more powerful and command huge resources. Its activities impact largely over society. Its performance can develop the society or affects the society badly. It can support to the government in social development or may create problems to the Government. It is necessary to see that the power of corporations should not be used indifferently, irresponsibly or in an antisocial way.

Audit of Computerised Accounting - When one or more computers of different types and sizes operated by the entity itself or outside service providers are involved in the recording and processing of financial and accounting information, it is called as Computerized Accounting. The use of computers changed the processing, storage, retrieval and communication of financial information as well as accounting system. Use of computers increased the capacity of accounting facet to receive, store, retrieve, control, correlate, compare, modify and analyse large volume of data to suit different requirements with high speed of processing financial data and with the highest arithmetical and technical accuracy.

The adoption of computer for accounting and administration lent new dimensions to the approach of auditing. Now auditor should have sufficient knowledge of CIS or EDPS. The computer based accounting system requires an auditor to employ computer assisted audit technique which comprise audit software and test data. The basic process of an audit do not change in computer accounting, furthermore, it requires more skill and competencies as it involves more risk.

3.4 Terms to Remember

1. Cost Audit - It is the verification of the correctness of cost accounts and of the adherence to the cost accounting plan.
2. Tax Audit - The audit conducted by the chartered accountant of the accounts of the taxpayer in pursuance of the requirement of section 44AB of the Income Tax Act 1961 is called as tax audit.
3. Management Audit – It is an objective and independent appraisal of the effectiveness of managers and the effectiveness of the corporate structure in the achievement of company objectives and policies. Its aim is to identify existing and potential management weaknesses within an organization and to recommend ways to rectify these weaknesses.
4. Social Audit - Social Audit is a technique to understand, measure, verify, report on and to improve the social performance of the organization. It values the voice of stakeholders and is taken up for the purpose of enhancing governance, particularly for strengthening accountability and transparency.
5. Social Accounting - Social Accounting is a systematic accounting and reporting on those parts of a company's activities, which have a social impact. It refers to the identification, measurement, recording and reporting the information as to social activities of the concern to its internal and external users.
6. Computerised Accounting - When one or more computers of different types and sizes operated by the entity itself or outside service providers are involved in the recording and processing of financial and accounting information, it is called as Computerized Accounting.
7. Auditing around the computers - It involves arriving at conclusion through examining the internal control system and input - output for application system. Application system processing is not examined directly but, the audit is conducted in a traditional manner by comparing the printouts generated in the system.

8. Auditing through the computers - The auditing through computer makes use of computer in auditing. It involves audit of systems and programmes used by the concern through Computer Assisted Audit Techniques (CAAT). The auditor reviews and tests general and application controls and determines their effectiveness.

3.5 Answers to Check your Progress

Check your progress-I

A) 1. Central Government, 2. 90, 3. 1,00,000 to 25,00,000

B) 1. 143(12) 2. ₹ 50 Crore

C) Both the statements are True.

Check your progress-II

A) 1. 44 AB, 2. all types of assessecs, 3. 50 lakhs, 4. 30^{th} September

B) 1. gross receipts / turnover / sales 2. Taxpayer

C) Both the statements are True

Check your progress-III

A) 1. Management, 2. independent consultant

B) 1. compulsory 2. Management Audit

C) Both the statements are True

Check your progress-IV

A) 1. USA, 2. Beniwo, 3. Limited, 4. Non financial

B) 1. Community Involvement 2. Social Accounting

C) Both the statements are True

Check your progress-V

A) 1. financial and accounting information, 2. auditing around computers, 3. Law

B) 1. Electronic Data Processing System
2. Computer Assisted Auditing Techniques

C) both the statements are True.

3.6 Exercise

1. What is Cost Audit? State its objectives.
2. What do you mean by Cost Audit? What is the scope of Cost Audit?
3. Define Cost Audit and explain types of Cost Audit
4. What are the advantages of a Cost Audit?
5. What is the difference between Cost Audit and Financial Audit?
6. What is Tax Audit? Explain its objectives.
7. Explain in brief applicability of Tax Audit and Rules Governing Tax Audit
8. What is Management Audit? State its objectives.
9. Define Management Audit and give its features.
10. Differentiate between Financial Audit and Management Audit
11. Differentiate between Cost Audit and Management Audit
12. State advantages and limitations of Management Audit
13. What is meant by Social Audit? What are its objectives?
14. What do you mean by Social Accounting and Social Audit? Explain Need and Scope of Social Audit.
15. What information is to be disclosed in the social audit?
16. Explain Nature of Risk in Computer Accounting.
17. Explain in detail auditing around the computers
18. Explain in detail auditing through the computers.
19. Explain Computer Assisted Auditing Techniques (CAAT)
20. Write Short Notes
    (a) Cost Audit Report Rules 1996
    (b) Applicability of Cost Audit
    (c) Appointment of Cost Auditor

(d) Penalty for Not Auditing

(e) Tax Audit Report

(f) Procedure for filing Tax Audit Report

(g) Scope of Management Audit

3.7 References for further study

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Unit-4

Audit of Various Entities

4.0 Objectives

After studying this unit you will be able to –

- Understand meaning and nature of public sector undertakings
- Explain Features and Elements of Audit of Public Sector Undertakings
- Describe Principles and Types of Audit of Public Sector Undertakings
- Know which points are to be considered first while conducting audit of educational institutions.
- Understand audit of Income and Expenditure Account, Receipts and Payments Accounts and Balance Sheet of educational institutions.

4.1 Introduction

In this unit, we will study audit of Public Sector Undertakings and audit of Educational Institutions. Departmental Commercial Undertakings and Statutory Corporations are totally financed by Governments and Government subscribes more than 51% of equity capital of all Government Companies. Government provides grants to most of the educational institutions. It means all these undertakings and institutions are utilising public money. So, these organisations must be audited more carefully. As the nature of these organisations differs from other commercial organisations and the accounting systems of such organisations are different, the process of audit of such organisations is quite different. Audit reports of public sector undertakings are submitted to the Parliament by Comptroller and Auditor General of India. So, utmost care is to be taken while auditing such organisations. This unit provides you an opportunity to learn the audit of public sector undertakings and educational institutions.

4.2 Presentation of Subject Matter

4.2.1 Audit of Public Sector Undertakings

4.2.11 Introduction

Public Sector Undertakings (PSU) are the results of direct participation of government in industrial and commercial activities through government companies or statutory corporations. In India, public sector undertakings are owned or controlled by central government, or any one or more state governments, or partly by central government and partly by state governments. For most of the PSUs, the government has the power to lay down policies, issue directives, appoint or remove top officials and members of the board of directors, approve capital expenditures in case it exceeds a defined limit and sanction borrowings, investments and distribution of profits. As the PSUs are using huge public money, they have a high degree of public accountability. Their management are scrutinised by various agencies of the government and the legislatures.

The working and administration of public sector undertakings have many distinctive features which are necessarily be considered while conducting the audit of such undertakings. The auditor of such undertakings has to adopt certain techniques of government audit and at the same time the practices of commercial audit. Such undertakings have to undergo normal annual audit carried out by professional accountants. In addition, The Comptroller and Auditor General of India (C&AG) has the right to conduct an efficiency-cum-propriety audit of PSUs. Comments of C&AG on PSUs are presented in the Parliament every year. Annual Reports of various PSUs are submitted to the Parliament every year. The Parliament refers these reports to its Committee on Public Undertakings which examines whether or not these undertakings are being managed in accordance with sound business principles and prudent commercial policies.

4.2.1.2 Special Features or Scope of Audit of Public Sector Undertakings

1. Audit Board – Audit Boards are constituted for conducting comprehensive audit of appraisals of the working of public sector enterprises. These boards work under the supervision and control of the Comptroller and Auditor General of India. Experts in disciplines relevant to appraisals are appointed on these boards. They discuss their findings and conclusions with the managements of the enterprises, controlling ministries and departments of government. The results of appraisals of the boards are incorporated by the C&GA in his reports.

2. Committee on Public Undertakings (COPU) – to examine the reports and accounts of PSUs, to examine the reports of the C&AG on PSUs, to examine the autonomy efficiency of PSUs and to see whether they are being managed in accordance with sound business principles and prudent commercial practices and for such functions Committee on Public Undertakings (COPU) is appointed. The Committee evaluate the performance thoroughly including evaluation of the policies, programmes and financial working of PSUs.

3. Role of C&AG – The statutory basis of audit of public sector undertakings is provided in Constitution of India in Article 148 to 151, which empowers the Comptroller and Auditor General of India in respect of accounts and audit. The Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971 also prescribed the duties and powers of the Comptroller and Auditor General of India in respect of audit of public sector undertakings.

The C&AG of India is recognised as 'Friend, Philosopher and Guide' of financial committees of Parliament of India. His reports generally form the basis of the working of the Financial Committees. He scrutinises the notes which the Ministries submit to the committees and helps the committees to check the correctness of facts and figures in the submissions. In respect of the reports which could not be discussed by the committees, written answers are obtained from the concerned Ministries or Departments and are incorporated in the reports presented to the Parliament or State Legislature. It means that, the Audit Reports of Government Undertakings are not taken lightly by the Government.

4. Various Audits - Audit of PSUs includes Financial Audit, Compliance Audit, Performance Audit, Propriety Audit and Comprehensive Audit.

5. Assessment of decisions of management - Audit of PSUs examines the decisions of a management. The auditor examines that these were taken by the competent authority after examination of all aspects (economic, technological, public interest etc.) on the basis of all the relevant information available at that time and taking into consideration the different alternatives available to management and that the decisions were consistent with the aims and objectives of the enterprises.

6. Attempt to improve the efficiency – Audit of PSUs brings out financial and operational efficiencies, inadequacies or ineffectiveness of systems, shortfalls in performance etc. and analyse the causes of shortfall from acceptable standards of performance. It also highlights issues of efficient and economic operations and management resources. Thus, it helps to the Government as well as, the concerned enterprise management to improve the efficiency and effectiveness.

7. Fiscal and Managerial Accountability – In the broader sense, audit of government undertaking include fiscal accountability and managerial accountability. Fiscal accountability refers to audit of provisions of funds, sanctions, compliances and propriety, whereas, managerial accountability includes audit of efficiency, economy and effectiveness

4.2.1.3 Elements of Audit of Public Sector Undertakings

Audit of public sector undertakings exercises independent and objective assessment and points out concerning deviations from accepted standards or principles of good governance and also provides relevant information to the intended users.

Basic elements of audit of public sector undertakings

1. The Three Parties – Auditor, Responsible Party and Intended Users –

The role of auditor is defined by The Comptroller and Auditor General of India and Indian Audit and Accounts Department. Generally, the entities for which audit is conducted and those who are concerned with governance of such entities are responsible parties. The responsible parties are generally responsible for the information of subject matter, for managing the subject matter and for addressing recommendations. Intended users are individuals, organisations or classes thereof for whom the auditor prepares the audit report.

2. Subject Matter, Criteria and Subject Matter Information –The Subject Matter refers to the information, condition or activity that is measured or evaluated against certain criteria. Criteria are the benchmarks used to evaluate the subject matter. Subject matter information refers to the outcome of evaluating or measuring the subject matter against the criteria.

3. Engagement – Attestation Engagements (Financial Audit) and Direct Reporting Engagements (Performance and Compliance Audit) –

In attestation engagements, the responsible party measure the subject matter against the criteria and presents the subject matter information. Auditor gathers sufficient and appropriate audit evidences to provide reasonable basis for expressing a conclusion on such subject matter. In direct reporting engagements, auditor measures or evaluates the subject matter against the criteria.

4.2.1.4 Principles of Public Sector Undertakings

A) General Principles

1. Exercise professional ethics and independence
2. Exercise professional judgements and taking due care and scepticism.
3. Controlling the quality of audit
4. Right management of audit team and apply required audit skills
5. Understanding audit risk
6. Finding out materiality
7. Proper documentation and communication

B) Principles related to Audit Process

1. **Planning the audit –** establish the terms of audit, obtain understanding of the entity, conduct risk assessment of problem analysis, identify risks of fraud and accordingly develop an audit plan.

2. **Conducting the Audit –** perform the planned audit procedure to obtain audit evidences and evaluate audit evidences and draw conclusions.

3. **Reporting and Follow up –** prepare a report based on the conclusions reached and follow up on reported matters as relevant.

4.2.1.5 Audit of Commercial Undertakings of Government of India and State Governments

It can be divided in the following three categories.

a) Audit of Departmental Commercial Undertakings

b) Audit of Statutory Corporations

c) Audit of Government Companies registered under the Companies Act

a) Audit of Departmental Commercial Undertakings

Government run various commercial undertakings mainly to provide services or certain supplies. Such undertakings are directly under the concerned Ministry or Department and these are to follow strict government rules and prescribed procedure. Examples of such undertakings are India Security Press and Currency Note Press.

These undertakings maintain their accounts on the single entry system. However, they also prepare Proforma Trading and Profit and Loss Account and Proforma Balance Sheet annually.

The main objectives of audit of such public sector undertakings are –

1. To examine whether the commercial accounts present a full and true picture of the financial results of the undertakings in terms of concepts of liabilities and assets, debit and credit, profit and loss.

2. To ensure that the subsidiary accounts are prepared so as to render it possible to compare, as far as may be, the relative efficiency of government trading and manufacturing organisations with one another or with similar institutions not controlled by the government.

3. To verify the correctness of allocation of expenditures between capital and revenue, reason, ability of valuation of assets and adequacy of provisions for depreciation and bad debts.

b) Audit of Statutory Corporations

Government of India has set up number of Statutory Corporations by special Acts of the Legislature such as Damodar Valley Corporation, RBI, SBI, IDBI, Nationalised Banks, Export-Import Bank, NABARD, LIC etc. The provisions of audit of such organisations differ from one corporation to another according to the nature of the business of the undertakings. In some cases C&AG has statutory responsibility of audit whereas, in some cases, chartered accountants are appointed for the purpose. However, all the basic principles of audit of government undertakings discussed above are applicable to audit of such corporations

c) Audit of Government Companies

A large number of government companies are incorporated under the Companies Act. The audit of such government undertakings are conducted according to provisions of the Companies Act. The following are the important points in this regard.

1. Statutory auditors of Government Companies are appointed or reappointed by the C&AG (Comptroller and Auditor General of India) under section 139(5) and 139(7) read with section 143(5) of the Companies Act 2013.

2. The C&AG of India may direct the appointed auditor on how the accounts of the Government Company are required to be audited and may call for a copy of the audit report.

3. The C&AG of India shall within 60 days from the date of receipt of the audit report have a right to conduct a supplementary audit of the financial statements of the Government Company by such person or persons as he may authorise in this behalf and for the purposes as he deem fit under section 143(6)(a) of the Companies Act 2013.

4. Any comments upon or supplement to audit report under section 143(6)(b) of the Companies Act 2013, shall be sent by the Government Company to every person who have right to get audit report.

5. If C&AG of India considers necessary, by an order, can conduct test audit of a Government Company.

4.2.6 Types of Audit of Public Sector Undertakings

Audit of Public Sector Undertakings includes following types of audit.

1. Financial Audit
2. Compliance Audit
3. Performance Audit
4. Comprehensive Audit
5. Propriety Audit

1. Financial Audit – Financial audit of PSUs is mainly conducted to express an audit opinion on the financial statements and enhance the degree of confidence of intended users in the financial statements. The C&AG of India shall express an opinion as to whether the financial statements are prepared, in all material respects, in accordance with the applicable Financial Reporting Framework.

2. Compliance Audit – Compliance audit is an independent assessment of whether a given subject matter is in compliance with the applicable criteria. It is carried out by assessing whether all activities, financial transactions and related information comply in all material respects with the concerned laws governing the PSU. This audit verifies regularity i.e. whether the business of PSU is carried out according to the concerned laws, regulations and agreements and propriety i.e. observance of the general principles of financial management and ethical conduct of officials of PSUs.

3. Performance Audit - Performance Audit means the audit of efficiency, economy and effectiveness with which PSUs operate and fulfil their objectives and goals. A performance audit is an objective and systematic examination of evidences to verify the performance of PSUs in respect of any programme, activity or function in order to improve public accountability of PSU, facilitate better decision making and to initiate corrective action if it is deviating from principles.

This audit promotes accountability by assessing governance and responsibilities to improve the performance of PSUs. It examines whether decisions are taken efficiently and are implemented effectively and all the stakeholders and beneficiaries have received value for their money. The objectives of performance audit are evaluation of economy, efficiency and effectiveness of policy, programmes, organisation and management. It focuses on area in which it can add value which and have the great potential for development. It suggests constructive incentives to take appropriate actions.

4. Comprehensive Audit - Comprehensive Audit verifies whether the undertakings have fulfilled the objectives for which they have been established, whether value for money spent has been obtained, whether the targets have been achieved etc. It locates the areas of weakness including review of the decisions taken by the management and a comprehensive appraisal of the performance of the undertaking.

The areas covered in comprehensive audit vary from enterprise to enterprise depending on the nature, objectives and operations of PSUs. However, in general, it covers investment decisions, project formulation, organisational effectiveness, capacity utilisation, management of equipments, plant & machinery, production performance, material management, productivity of labour, costs and prices, budgetary control, internal control etc. The Bureau of Public Enterprises has issued guidelines to be followed by the PSUs in respect of general management, financial management, materials management, production management etc. In addition, some industrial and technical studies have provided standards. These guidelines and standards provide basis for appraising performance and systems of PSUs.

5. Propriety Audit - Propriety Audit is directed towards an examination of management decisions in sales, purchases, contracts etc. to see whether these have been taken in the best interests of the undertaking and conform to accepted principles of financial propriety.

E. L. Kohler defined propriety audit as "the audit which meets the tests of public interest, commonly accepted customs and standards of conduct, and particularly as applied to professional performance, requirements of law, government regulations and professional codes."

Propriety audit is concerned with scrutiny of executive actions and decisions bearing on financial and profit and loss situation. It confirms whether every officer has exercised the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money under similar circumstances. It points out case of improper, avoidable or infructuous expenditures even though these have been incurred in conformity with the existing rules and regulations.

The provisions under section 143(1), 143(6), 143(7), 143(8), 148 and in Part II of Schedule III of the Companies Act 2013 give directions for propriety audit. As well as, Clause (iii), Clause (iv), Clause (viii), Clause (ix), Clause (x), Clause (xi), Clause (xiii), Clause (xv), Clause (xviii) of the Companies (Auditor's Report) Order 2020 (CARO 2020) also contain significant elements of propriety audit.

4.2.1.7 Check your Progress-I

A) Select the most appropriate answer from the alternatives given below and write the sentence again after filling the blanks.

1. Public Sector Undertakings (PSU) are the results of direct participation of ------- in industrial and commercial activities

   a) government　　b) industrialist

   c) business person　　d) NGO

2. ------ has the right to conduct an efficiency-cum-propriety audit of PSUs.

a) Finance Minister of India

b) Comptroller and Auditor General of India

c) Industry Minister of India

d) Speaker of the Parliament

3. The statutory basis of audit of public sector undertakings is provided in Constitution of India in Article --------- .

a) 158 to 161 b) 168 to 171 c) 148 to 151 d) 138 to 141

4. **-----------** means establishing the terms of audit, understanding the entity, conducting risk assessment of problem, identifying risks of fraud.

a) Conducting the audit b) Follow up of audit

c) Reporting of audit d) Planning the audit

5. ---------- is an example of Government commercial undertakings which are directly under the concerned Ministry or Department

a) Currency Note Press b) Bank of India

c) MSRTC d) Damodar Valley Corporation

6. Statutory auditors of Government Companies are appointed or reappointed by the ----------.

a) Finance Minister of India

b) Comptroller and Auditor General of India

c) Industry Minister of India

d) Speaker of the Parliament

7. The C&AG of India shall within --- days from the date of receipt of the audit report have a right to conduct a supplementary audit of the financial statements of the Government Co.

a) 30 b) 45 c) 60 d) 90

8. ----- audit is an objective and systematic examination of evidences to verify the performance of PSUs in respect of any programme, activity or function

in order to improve public accountability of PSU, facilitate better decision making and to initiate corrective action if it is deviating from principles.

a) Financial b) Comprehensive

c) Propriety d) Performance

9. ------ Audit verifies whether the undertakings have fulfilled the objectives for which they have been established, whether value for money spent has been obtained, whether the targets have been achieved etc.

   a) Comprehensive b) Financial

   c) Propriety d) Performance

10. ----- audit is concerned with scrutiny of executive actions and decisions bearing on financial and profit and loss situation.

    a) Comprehensive b) Propriety

    c) Financial d) Performance

B) State the following statements are True or False

1. Audit Boards are constituted for conducting comprehensive audit of appraisals of the working of public sector enterprises.
2. Committee on Public Undertakings (COPU) is appointed to examine the reports and accounts of PSUs, the reports of the C&AG on PSUs, the autonomy and efficiency of PSUs and to see whether they are being managed in accordance with sound business principles and prudent commercial practices.
3. Audit of PSUs brings out financial and operational efficiencies, inadequacies or ineffectiveness of systems, shortfalls in performance etc. and analyse the causes of shortfall from acceptable standards of performance.
4. Audit of government undertaking includes fiscal accountability and managerial accountability.
5. The Three Parties in the audit of PSUs are Auditor, Responsible Party and Intended Users.

6. In attestation engagements, the responsible party measure the subject matter against the criteria and presents the subject matter information.
7. Understanding audit risk and finding out materiality are the General Principles of Audit of PSUs.
8. Financial audit of PSUs is mainly conducted to express an audit opinion on the financial statements and enhance the degree of confidence of intended users in the financial statements.
9. Compliance audit is an independent assessment of whether a given subject matter is in compliance with the applicable criteria.
10. Performance Audit means the audit of efficiency, economy and effectiveness with which PSUs operate and fulfil their objectives and goals.

4.2.2Audit of Educational Institutions

4.2.2.1 Introduction

Audit of educational institutions means audit of books of accounts of schools, colleges, institutions of management education & research, institutions of professional education, universities or other such institutions which are engaged in the educational field. A large number of educational institutions are registered under in India under Society Registration Act, 1860. The purpose behind the formation of educational institutions is to spread education and not just earn profits.

Such institutions' Final Accounts include Receipts and Payments Account, Income and Expenditure Account and Balance Sheet. Auditor should check these accounts and balance sheet in order to verify and report the trueness and fairness of results presented by these accounts and balance sheet. Generally, the procedure for auditing is same. However, an auditor of educational institution should take into account the following important points.

4.2.2.2 Preliminary work –

Following points need to be considered by an Auditor before actual starting audit of educational institutions −

- Confirm whether the letter of appointment is in order.
- Obtain a list of books, documents, register and other records as maintained by the educational institutions.

- Examine the audit report of last year and should note down the observation and qualification, if any.
- Study the University Act – Universities, colleges and other institutes of higher education are governed by the concerned universities Act. Every State may have different Act, e.g. Maharashtra Public Universities Act 2016. Auditor should go through the Act and see carefully the provisions, rules and regulations relating to the maintenance of accounts.
- Study Trust Deeds – Generally, the governing body has its Memorandum and Article, which contains some regulations and directions regarding maintenance of accounts.
- Apex Bodies – University Grants Commission (UGC), All India Council for Technical Education (AICTE), National Council for Education, Research and Training (NCERT) are the apex bodies which make rules and regulations for governance of education and higher education in the country. The auditor should study the role of such apex bodies.
- Funding Bodies – The bodies at national level like UGC, AICTE, RUSA and ICSSR provides grants to the higher educational institutions for various purposes. The auditor should obtain necessary information about these funding bodies.

4.2.2.3 General Audit Points

- Resolutions passed in the meetings of governing body - It may pass resolutions from time to time in respect to accounts. The auditor should confirm whether the regulations and decisions of the governing body have been compiled with. He should examine the Minutes of Meetings of the Board of Trustee or the Governing Body for important decisions regarding the sale or purchase of fixed assets, investments, delegation of finance power etc
- Budgets - Auditor should obtain a copy of budgets to study different heads of income and expenditure. He should check budgets are prepared properly and the budgetary control technique is used properly.
- Internal Check System - If the institution is applying internal check, auditor should assess the strength and weaknesses of the system.

- Control System – It is to be verified how the authority is controlling the affairs, especially financial matters such as authorization of bills, process of purchase of materials, stationery and consumables, maintenance of accounts and record, system of receipts and payments, process of purchase of fixed assets and construction of buildings, management information system (MIS) etc.

4.2.2.4 Audit of Income

Main Sources of Income are -

- Grant-in-aid from Government – most of the schools, colleges and universities are receiving grant-in-aid from the Government, especially salary grant. Auditor should examine the receipt and expenditure against grant-in-aid from the government very carefully. Verify that the grants are properly utilized for the purpose for which it is received.

- Grants from Apex Bodies and Funding Bodies – Generally, such type of bodies provides following grants –

  a) Development Grants for construction of buildings and purchase of fixed assets.

  b) Maintenance Grants for maintenance of premises, laboratories, libraries etc.

  c) Seed Money to start various skill oriented or vocational courses

  d) Financial support for organization of conferences etc.

  e) Financial support for conducting research

  The Auditor should study all the conditions concerning grants and see very carefully that grants received are spent only for the purpose for which it is received as per the conditions laid down.

- Fees from Students – Various types of fees are paid by the students such as admission fee, library fee, laboratory fee, gymkhana fee etc. In general, about 20 types of fees are charged. Auditor should study the fees structure and see that it is properly authorized along with changes if any, verify receipts of fees from students, from counterfoils or carbon copy of the receipts and see whether cash received has been banked daily or not.

  It is necessary to verify recovery of outstanding fees of previous years and fees outstanding for current year, whether unrecovered balance is written off after authorization of competent authority and whether concession and exemption of fees are duly authorised by the authority.

- Deposits from Students – Educational institutions also collects various deposits from students such as laboratory deposit, library deposit etc. Auditor should check that these deposits are properly accounted for, refunded by proper way or transferred unclaimed deposits to reserves after proper authorization and as per rules.
- Donations from public – Verify the donations and other subscriptions from the various authorities have been properly accounted for and acknowledged. If the donations are given for particular purpose, see that it is utilized for that purpose only.
- Other Income - The income from property and investment, fines received, sale of scrap etc., should be properly verified from the vouchers.

4.2.2.5 Audit of Expenditures

Types of Expenses / Payments

- Salary, allowances and provident fund contribution for teaching and non-teaching staff.
- Expenses on sports and games
- Expenses on Programmes and Functions
- Expenses on Cultural Activities
- Hostel Expenses
- Library recurring expenses
- Laboratory consumables & maintenance
- Repairs and maintenance
- Office and administrative expenses

The following points need to be considered by an Auditor while conducting audit of Expenses of Educational Institutions −

1. Vouch the amount of salaries paid with the Salary Register, Salary Sheets, Bank Passbook, vouchers and other records. See that all the amounts deducted from

salaries such as Professional Tax, Income Tax, Provident Fund, Life Insurance Premiums, Bank Loan Repayments, etc. are deposited in appropriate Government accounts or paid to concerned authorities well within time without any default.

Increments, fixation in new scale, increase in salary due to promotions, increase in Dearness Allowances and its differences, medical reimbursements, fixation in new pay according to pay commission rules, arrears of salary received etc. are also to be checked.

2. Purchase of sports items, items required for cultural activities and trophy, medals and other prizes should be properly verified with quotations, invoice, purchase bills, cheque counterfoil, etc. All purchases should be authorized by appropriate person.

   Expenses regarding travelling, hire charges, daily allowances, registration fees, etc. in respect of sports and cultural activities are also to be checked carefully.

3. Hostel expenses such as purchase food items, provisions, groceries, clothing, etc. should be properly verified. Library and laboratory recurring expenses are also verified with as many vouchers as possible.

4. Library recurring expenses include expenditure on newspapers, journals, magazines, binding of journals and old books, protection from white aunts, internet charges and payments for e-journals and e-books, etc. Laboratory recurring expenses include expenditure on chemicals, glass wares, plants, various consumables required for experiments, etc.

   The auditor should examine such transactions right from the requirements from the departments, university rules and recommendations, government rules, purchase process and payment of bills, accounting and all records in this respect. He has to discuss with the librarian and heads of departments also if required.

5. Generally, educational institutions incurs considerable amount on repairs and maintenance as it uses large building, furniture & fixtures, computers, laboratory equipments etc. and these are used by students. Auditor has to see the policy of repairs and maintenance of all fixed assets and other items, whether the

institution has annual maintenance contracts or it is done as per the requirement, the decisions regarding major repairs, etc.

6. The office and administrative expenses such as stationery and printing, electricity, telephone, internet charges, etc. must be carefully vouched and it should be seen that capital expenditure has not been treated as revenue expenditure or vice versa.

The auditor has also to see that appropriate provision should be made on account of outstanding payments.

4.2.2.6 Audit of Receipts and Payments Account –

Auditor should check all receipts and payments very carefully with as many vouchers as possible. The auditor has to verify that –

- Daily collections are recorded properly in the daily collection register and resulting figure is taken to the cash book.
- All receipts are daily banked and no cash balance is kept for days together.
- Separate bank accounts are opened for Government Grants, Grants from Funding Agencies and other special items.
- Expenditure on specific items is made from the funds generated for the purpose and from the bank account opened for the purpose.
- All payments are made through bank. If payments are made in cash, these are properly authorized.
- No advance payments are made. If advance payment is made, check that whether it is justifiable and properly authorised or not. Also confirm that the completion in this regard is done in due time and no case is pending in this respect.
- Advances given to the staff for various activities such as sports tournaments, cultural competitions, laboratory experiment expenses, study tours, official outdoor duties, etc. Whether all accounting documents in respect of concerned activity are submitted and refunded remaining amount in the given time. No subsequent advance is given to the staff member who has not submitted the accounting documents of previous advance.

- Transfers from educational institution to governing body and vice versa are properly made and there are justifiable reasons for that.
- Whether bank reconciliation statement is prepared at regular intervals and what kind of action is taken for cheques issued or deposited but not cleared in due time.

4.2.2.7 Audit of Balance Sheet –

The following points need to be considered while conducting an audit of Assets and Liabilities of an educational institution –

- All the assets and liabilities are properly exhibited in the balance sheet.
- Verification of Assets register - Separate register or account should be maintained for the assets which are generated from grants received from State Government or any other funding agency. Physical verification of furniture and computers and laptops are very much essential. The stock of laboratory equipments, stationary and other small items are also to be counted physically. It is also necessary to see that obsolete and unusable items of assets which are discarded are shown as assets.
- Verification of depreciation - It should be calculated and charged considering the useful life of assets or as per the applicable Act.
- It is must for an auditor to check, where investments have been made, because as per the Indian Public Trust Act, investment can be made in specific securities only. In respect of higher educational institutions, university ask to keep specific amount as fixed deposit as security when new course or division is started. The auditor has to verify these fixed deposits physically and see no deposit is withdrawn without the permission of the university. If donation is received in the form of investment, an auditor has to check all related correspondence with the donor.
- All the assets are constructed or purchased as per the requirement and as per the concerned specifications.
- The reasons for outstanding expenses and amount payable to suppliers.
- Proper valuation of assets under construction

4.2.2.8 Check your Progress-II

A) Fill in the blanks in the following sentences by choosing the most correct alternative given below.

1. In India a large number of educational institutions are registered under _________.

   a) Society Registration Act, 1860

   b) Educational Institutions Act 1860

   c) Society Registration Act, 1864

   d) Maharashtra Society Registration Act 1862

2. Generally, the __________ has its Memorandum and Article, which contains some regulations and directions regarding maintenance of accounts.

   a) governing body | b) Principal / Head Master

   c) Government of Maharashtra | d) Director of Education

B) Fill in the blanks in the following sentences

1. __________ is the main source of income of aided schools, colleges and universities.

2. Before actual starting the work of audit, an auditor of colleges and universities must go through the Maharashtra Public Universities Act _____.

C) State the following statements are True or False

1. Salaries and allowances of teaching and non-teaching staff is the main item of expenses of any educational institution.

2. An auditor of an educational institution has right to study each and every resolution passed by the governing body in its various meetings having financial implications.

4.3 Summary

In India, public sector undertakings are owned or controlled by central government, or any one or more state governments, or partly by central government and partly by state governments. The auditor of such undertakings has to adopt certain techniques of government audit and at the same time the practices of commercial audit. Such undertakings have to undergo normal annual audit carried out by professional accountants. In addition, The Comptroller and Auditor General of India (C&AG) has the right to conduct an efficiency-cum-propriety audit of PSUs. Annual Reports of various PSUs are submitted to the Parliament every year. Audit Boards are constituted for conducting comprehensive audit of appraisals of the working of public sector enterprises. The Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971 prescribed the duties and powers of the Comptroller and Auditor General of India in respect of audit of public sector undertakings.

Audit of PSUs includes Financial Audit, Compliance Audit, Performance Audit, Propriety Audit and Comprehensive Audit. Audit of PSUs examines the decisions of a management and attempt to improve the efficiency. Audit of government undertaking include fiscal accountability and managerial accountability. Basic elements of audit of public sector undertakings are, Three Parties – Auditor, Responsible Party and Intended Users, Subject Matter, Criteria and Subject Matter Information and Engagements (Attestation and Direct Reporting Engagements).

Principles of Public Sector Undertakings include General Principles and Principles related to Audit Process. Audit of commercial undertakings of Government of India and State Governments can be a) Audit of Departmental Commercial Undertakings, b) Audit of Statutory Corporations, c) Audit of Government Companies registered under the Companies Act

Audit of educational institutions means audit of all types of institutions engaged in the field of educational right from pre-primary education to university level education and research. Auditor should check Receipts and Payments Account, Income and Expenditure Account and Balance Sheet of such institutions in order to verify and report the trueness and fairness of results presented by these accounts and balance sheet.

4.4 Terms to Remember:

1. Public Sector Undertakings (PSU) - Public Sector Undertakings are the results of direct participation of government in industrial and commercial activities through government companies or statutory corporations.

2. Audit Board – Audit Boards are constituted for conducting comprehensive audit of appraisals of the working of public sector enterprises. Experts in disciplines relevant to

3. Elements of Audit of Public Sector Undertakings – i) The Three Parties – Auditor, Responsible Party and Intended Users, ii) Subject Matter, Criteria and Subject Matter Information and iii) Engagement – Attestation Engagements and Direct Reporting Engagements.

4. Audit of commercial undertakings of Government of India and State Governments– It means a) Audit of Departmental Commercial Undertakings, b) Audit of Statutory Corporations and c) Audit of Government Companies registered under the Companies Act

5. Financial Audit – Financial audit of PSUs is mainly conducted to express an audit opinion on the financial statements and enhance the degree of confidence of intended users in the financial statements.

6. Compliance Audit – Compliance audit is an independent assessment of whether a given subject matter is in compliance with the applicable criteria.

7. Performance Audit - Performance Audit means the audit of efficiency, economy and effectiveness with which PSUs operate and fulfil their objectives and goals. A performance audit is an objective and systematic examination of evidences to verify the performance of PSUs in respect of any programme, activity or function in order to improve public accountability of PSU, facilitate better decision making and to initiate corrective action if it is deviating from principles.

8. Comprehensive Audit - Comprehensive Audit verifies whether the undertakings have fulfilled the objectives for which they have been established, whether value for money spent has been obtained, whether the targets have been achieved etc.

9. Propriety Audit - The audit which meets the tests of public interest, commonly accepted customs and standards of conduct, and particularly as applied to professional performance, requirements of law, government regulations and professional codes.

10. Audit of Educational Institutions – It means audit of books of accounts of schools, colleges, institutions of management education & research, institutions

of professional education, universities or other such institutions which are engaged in the educational field.

4.5 Answers to check your progress

Answers to check your progress-I

A) 1. a) government

2. b) Comptroller and Auditor General of India
3. c) 148 to 151
4. d) Planning the audit
5. a) Currency Note Press
6. b) Comptroller and Auditor General of India
7. c) 60
8. d) Performance
9. a) Comprehensive
10. b) Propriety

B) All the statements are True

Answers to check your progress-II

A) 1. a) Society Registration Act, 1860 2. a) governing body

B) 1. Grant-in-aid from Government 2. 2016

C) Both the statements are True

4.6 Exercise

Que. 1. What are the special features and elements of Audit of Public Sector Undertakings?

Que. 2. Explain various types of Audit of Public Sector Undertaking

Que. 3. Explain preliminary work of an auditor of an educational institution and general audit points.

Que. 4. As an auditor, how you will audit Receipts and Payments Account and Balance Sheet of an educational institution.

Que. 5. Describe audit of Income and Expenditures of an educational institution

Que. 6. Write short notes

1. Principles of Public Sector Undertakings
2. Audit of commercial undertakings of Government
3. Audit of Income of an educational institution
4. Audit of Expenditure of an educational institution

4.7 References for Further Study

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