

AUDITING

Revised Edition

: May, 2022

Price : Rs. 180.00

ISBN : " 978-93-93169-28-0 "

Publishers

: **EDWISE PUBLISHERS**

Ganesh Mahal Complex
Kodialbail, K.S Rao Road,
Mangalore - 575 001
Mob.: 7483113097

Printer

: **Sri Prema Sai Printers**

Industrial Area
Yeyyadi, Mangalore.

Type Set

: **EDWISE DIGITALS**

Mangalore - 575001

AUDITING

For Undergraduate Classes

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SYLLABUS

AUDITING

UNIT - I: INTRODUCTION TO AUDITING

Meaning and Definition of Auditing, Objects of Auditing, Differences between Accounting and Auditing, Advantages and Limitations of Auditing. Classification of Audit - Statutory Audit, Government Audit, Internal Audit, Continuous Audit, and Annual Audit. **12 Hours**

UNIT - II: AUDIT PROGRAMME

Audit Programme - Advantages, and Disadvantages. Audit Notebook and Audit Working Papers. Audit of Computerised Accounts - Auditing in an EDP Environment. General EDP Controls. EDP Application Controls and Computer Assisted Audit Techniques (CAAT). **12 Hours**

UNIT - III: INTERNAL CHECK

Meaning, Definition, Objects, and Merits of Internal Check. Internal Check Regarding Cash Sales, Cash Purchases, Payment of Wages and Stores. **12 Hours**

UNIT - IV: VOUCHING

Meaning, Definition, and Objects of Vouching - Vouching of Cash Transactions, Cash Receipts and Cash Payments, Credit Purchases and Credit Sales. Verification - Meaning and Definition - Verification of Land and Buildings, Plant and Machinery, Stock-in-trade, Debtors, Goodwill, and Creditors. **12 Hours**

UNIT - V: COMPANY AUDIT

Qualifications and Disqualifications, Appointment and Removal of an Auditor. Rights, Duties, and Liabilities of Company Auditor. Audit Report - Meaning and Types, CARO Report. **12 Hours**

UNIT- VI: CORPORATE GOVERNANCE AND SOCIAL AUDIT

Meaning, Definition, Nature and Factors Influencing Corporate Governance, Mechanisms, 4 P's of Corporate Governance and Benefits. Social Audit - Meaning, Features, Organisation for Social Audit, Audit Programme and Benefits.

12 Hours

PREFACE

I have great pleasure in presenting the revised edition of the textbook on Auditing which was first published in 2018. This book covers the syllabus as prescribed by Mangalore University and serves as a textbook for students studying in the Sixth Semester of the B.Com. course. The book is also useful for those students who would like to pursue other professional courses after their graduation.

Every possible effort has been made in this revised edition to give comprehensive coverage to various aspects included in the new syllabus. All changes prescribed in the syllabus are reflected in the pertinent places in the present reprint. The important feature of the current edition is that it has been made concise and simplified for a better understanding of the principles and concepts of Auditing. For meticulously dealing with each aspect of Auditing, the whole subject has been segregated into six units. The synopsis of significant issues discussed in each unit has been given at the beginning of unit itself for quick and easy reference. Similarly, emerging areas relating to Auditing such as Corporate Governance and Social Audit have been discussed in the last unit. While every care has been taken to update this reprint, any omissions, and errors, if crept in, may please be excused and I stand apologetic for the same.

I acknowledge with a deep sense of gratitude, the encouragement, and inspiration received from my students, readers, and beloved teachers. My family members infused into me the spirit and enthusiasm and provided me with a very congenial environment at home to write this little creative contribution to the academic domain. I ever remain grateful to them. I am immensely thankful to Edwise Publishers for bringing out this edition quickly. I would very much love to receive suggestions and constructive criticisms for the improvement of the work from the readers without any reservation.

Mangalore

May, 2022

Dr. B. Vamana Baliga

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INTRODUCTION TO AUDITING

Synopsis

- A *Meaning and Definitions of Auditing*
- B *Differences between Accounting and Auditing*
- C *Objects of Auditing*
- D *Advantages and Limitations of Auditing*
- E *Whether Auditing is a Necessity or a Luxury*
- F *Meaning, Features, Merits, and Demerits of Statutory Audit*
- G *Meaning, Features, and Objectives of Government Audit*
- H *Meaning, Features, Merits, and Demerits of Internal Audit*
- I *Meaning of External Audit and Differences between Internal Audit and External Audit*
- J *Meaning, Features, Merits, and Demerits of Continuous Audit and Differences between Continuous Audit and Final Audit.*

INTRODUCTION

The quantum jumps in the volume of trade, commercial and industrial activities owing to the industrial revolution resulted in the emergence of the company form of business organisations in which there is a possibility of misappropriation of valuable funds of innocent shareholders by the directors, who are their legal representatives in managing the affairs of the company. Some sort of moral check was considered necessary on the people who manage the affairs and prepare the books of accounts of such huge business units. This had made the regulatory body (government) issue orders to joint stock companies to get their books of accounts compulsorily examined by an independent and professionally qualified auditor.

Initially, the basic objective of auditing was to ensure that all cash transactions have been properly recorded

by the employees of the concern on behalf of the owners of the business. Over the years, detection and prevention of errors and frauds committed by the employees and managers of the business units became the prime objective of the audit. However, due to the rapid technological developments and substantial growth in the size and complexities of business transactions and the consequent changes in the nature and scope of auditing, today, the audit function is mainly to provide credibility to the financial statements prepared by company managers. Hence, the function of auditing has been shifted to adding credibility to the financial statements from checking the correctness of recording of cash transactions, and the detection and prevention of errors and frauds.

Meaning of Auditing:

Auditing is a systematic examination of the books of accounts of a business by a professionally qualified auditor appointed by the client to satisfy himself that the trading results and the financial position as disclosed by the Profit and Loss Account and Balance Sheet are correct and report on the truthfulness of the transactions carried on by the business during the financial period. This scrutiny is done to confirm the fact that the books of accounts maintained are correct, complete, and in conformity with the law. If he finds the books of accounts incorrect and inaccurate, he must bring them to light and to report them to the client (owner) of the business. In a nutshell, auditing implies a complete inspection of books of accounts and reporting on its genuineness and authenticity.
