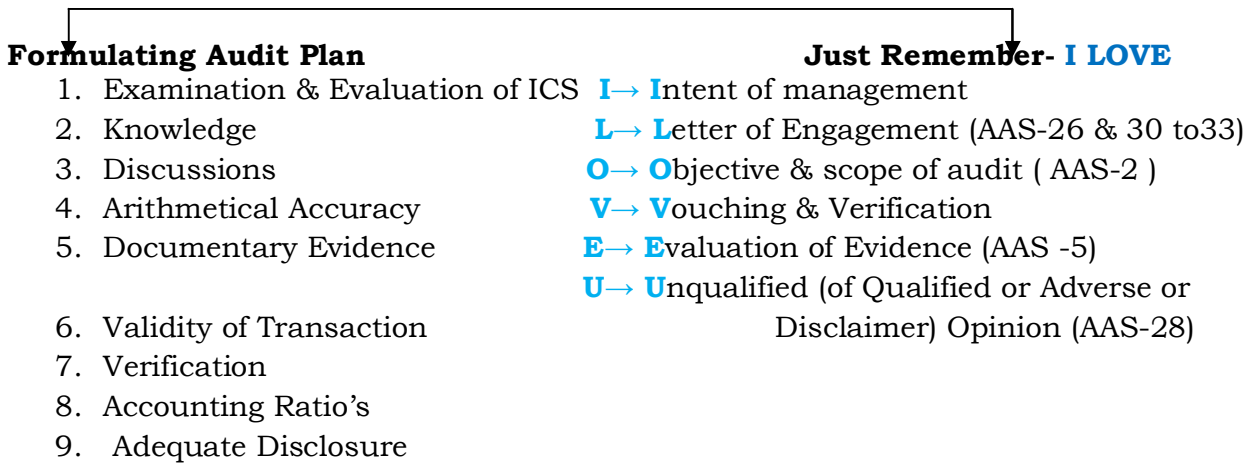


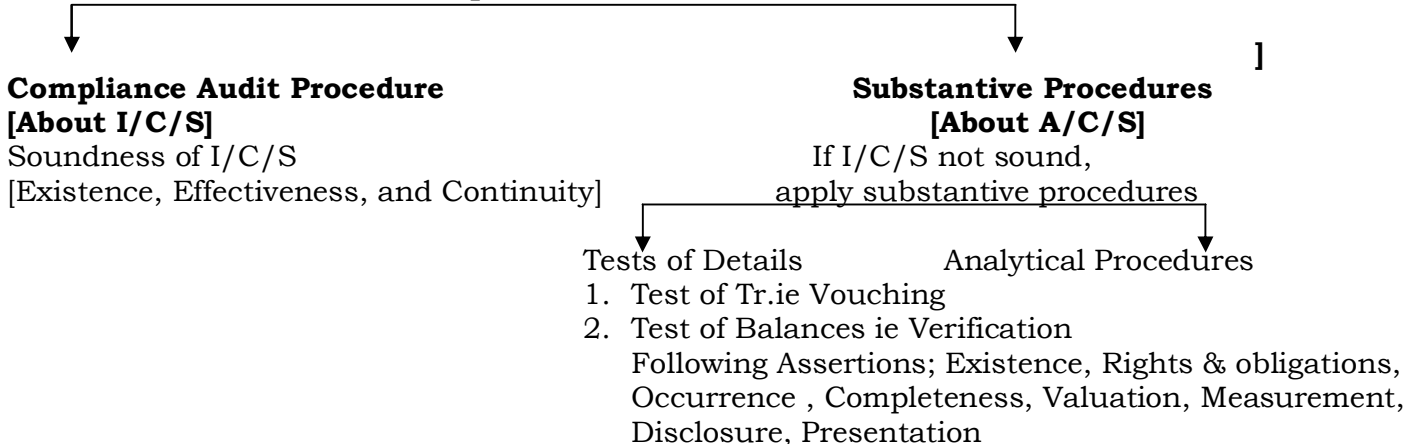
Audit Process

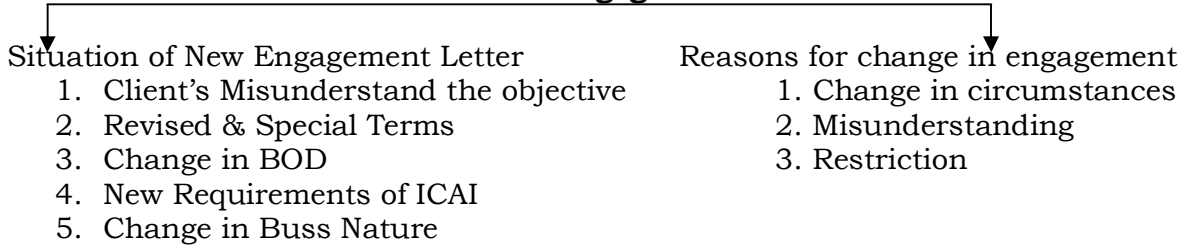
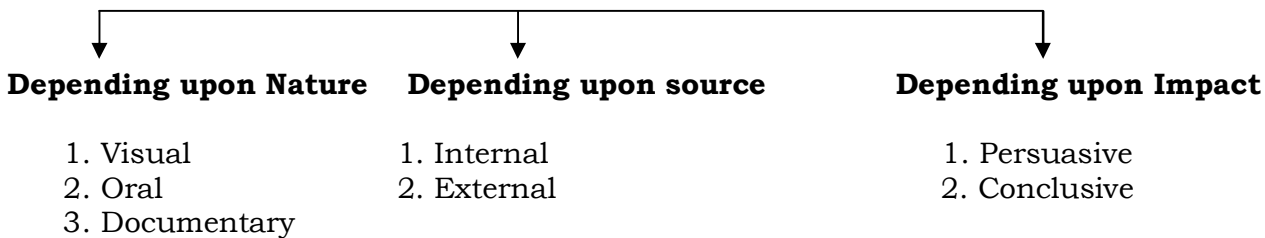


Audit Process

1. Audit Planning
2. I/C Evaluation
3. Examination of Books of A/C'S
4. Vouching]
5. Compliance verification
6. Assets & liabilities verification
7. Overall Tests & analytical review
8. F/S Scrutiny

Audit procedures



Auditor's Engagement**Types of Audit Evidence;**

Reliability of Audit Evidence; Source, Nature, Circumstances, Obtain and Materiality

Audit Evidence; Sufficient Appropriate Audit Evidence

1. Nature of Item;
2. Internal Controls;
3. Nature & Size of buss.
4. Materiality;
5. Type of Information available;
6. Previous audits' experience;
7. Trends;
8. Risk;
9. Knowledge of the client's business.

Fundamental Accounting Assumption; Going Concern , Consistency , Accrual Basis

Materiality-The concept of Materiality is fundamental to the process of

1. Recognition
2. Classification
3. Aggregation
4. Presentation of Financial Information

Whether the particular information item is material can be judged from

1. Its Size/ amount
2. Its Nature
3. Its contractual violation
4. Its legality
5. Its Quantitative Materiality

Considered when:

1. Determining the NTE of audit procedures
2. Evaluating the effect of misstatement.

List a few indicators of Materiality

Test of Materiality

1. Facts and circumstances of each case
2. No hard & fast rules

3. Use of Judgement**Indicators of Materiality**

1. Value or amt of transaction – relative context
2. Percentage Analysis
3. Impact on the overall figure of P&L
4. Previous year's figures comparisons
5. Estimation errors in determinable amounts
6. Minor Deviations from statutory requirements
7. Substantial effect of small inaccuracies
8. Cumulative effect of small and insignificant items
9. Efficacy of Internal Control

Significance of Surprise Check

1. Audit effectiveness
2. Review of Internal control
3. Detection of Errors and Frauds
4. Moral check
5. Suitability-Where auditor is not satisfied with I/C/S, Co. is very large or has a diversified activities
6. Areas-Cash , investments, stores and stocks, statutory registers
7. Upto – date records
8. EDP Audit
9. Frequency-at least once
10. Communication any weakness to management
11. Follow up action-satisfy himself that adequate action is taken by Mgt.
12. Reporting

Audit Risk & Components

Audit risk is the probability/ chance that an auditor may give an inappropriate opinion on F/S that is materially misstated.

Components-3 components

1. Inherent Risk-Risk that error will occur
2. Control Risk-Risk that the client's I/C/S may not prevent or correct such a risk
3. Detection Risk- Risk of non-detection of errors.

Inherent Limitations of I/C/S

1. Cost
2. Unusual Transactions
3. Error
4. Collusion
5. Abuse of authority
6. Inadequacy
7. Manipulations

Audit Techniques;

1. Posting Checking
2. Casting Checking
3. Physical Verification
4. Confirmation
5. Inquiry
6. Year & Scrunity
7. Re computation

8. BRS
9. Tracing

Basic Principal Governing an audit

1. Integrity, Objectivity and Independence:
2. Confidentiality:
3. Skills and Competence:
4. Work performed by others:
5. Documentation:
6. Planning:
7. Audit Evidence:
8. Accounting Systems and Internal Controls
9. Conclusion and Reporting:

Scope of an audit;

- a. The **terms** of the engagement
- b. The **requirements** of the relevant legislation
- c. The **pronouncements** of the Institute (ICAI)
- d. The **judgments** of various courts of law

Advantages of Audit;

1. Reliable F/S
2. Safeguard of Financial Interest
3. Moral Check
4. Settlement of accounts
5. Determine the weakness & inadequacy
6. Useful for gvt.
7. Borrowed from banks
8. Detection of Error and frauds
9. Detection of Wastage
10. Settling liability and trade disputes

Inherent Limitation of audit;

- a) Judgement
- b) **reasonable conclusions.**
- c) Depend upon **I/C/S**
- d) Audit evidence is **persuasive**, and not conclusive
- e) **F & E** not detected
- f) Lack of **audit programme**
- g) **Mechanical Work**
 - a. Depend upon **opinion of Experts**
 - b. Material misstatements resulting from frauds are **more difficult to detect** than those resulting from errors because frauds will usually involve acts with a view to conceal frauds.

Qualities of An Auditor;

1. Integrity
2. Objectivity
3. Independence
4. Logical Abilities
5. Awareness
6. Communication Abilities
7. Tactfulness
8. Technical competence
9. Confidentiality

EDP AUDIT

Design and procedural Aspects of EDP SYSTEM

1. Consistency of performance
2. Program control procedure
3. System generated transactions
4. Single point input
5. Data security problems

Benefit of EDP System

1. Increase in effectiveness & efficiency
2. Scientific Random sampling
3. Better Application of analytical review procedures

Problems Of EDP System

1. Audit trail disappearance
2. Lack of visual observation
3. Internal storage
4. Changes in programs
5. System jargon
6. Technical Expertise's
7. High cost

Features of EDP System

1. Absence of input documents
2. Lack of visible Transaction Trail
3. Lack of visible output
4. Ease of access to data and computer programs

Advantages of CAAT

1. Audit Effectiveness
2. Saving in time
3. Effective test checking
4. Examination in Depth

Reliability of Internal Control System on CIS evt.

1. Validity of Data
2. Error Detection
3. Rebooting
4. Accuracy of Output
5. Data security
6. Amendments
7. Safe custody

Government Audit

Duties of CAG

1. To compile and submit A/C'S
2. To audit receipts & expenditure
3. To audit grants & loans
4. To audit receipts of unions & states
5. To audit Stores & Stocks
6. To audit accounts of Gvt co & Corporations

Power of CAG

1. Inspection
2. Transmission
3. Inquiry & call for information
4. Sample Check

Expenditure Audit

1. Audit of Rules and orders (Regularity audit)
2. Audit of sanctions
3. Audit Against Provision of funds
4. Audit of propriety
5. Performance audit- Efficiency audit, economy audit, effectiveness audit

Propriety Audit

1. Requirement of situation
2. Proper Sanction (No sanction for own advantage)
3. Ordinary Prudence
4. Use for general benefit unless- the expenses is insignificant, enforced in a court of law, recognized policy and custom.

Procedures for conducting Performance audit

1. Identification of areas
2. Preliminary study
3. Planning & execution of audit
4. Reporting

Audit of Gvt Receipts

1. Assessment
2. Procedure for collection
3. Implementation
4. Monitor over irregularities & fraud
5. Review & suggestions

Audit of stores & stocks

1. Compliance with Rules& procedures (to ensure)
2. Certificate furnished (to see)
3. Detection of Uneconomical Purchase and defective (to be check)
4. Account of Receipt , issue , and balance (to be check)
5. Excess and Idle stock (detect and take action)
6. Physical verification & adjustments.

SPECIAL AUDIT

Common points to be considered in special audit

Legal status	Conditions Of License	Minutes book	Obtain list of books
P/Y AUDIT REPORT	Commission paid	I/C/S of purchase	Physical verification
Occupancy rate	Input output ratio	Register memorandam records	Grants received
Subscription & Donation received	Confirmation request	Borrowing Powers	Stock verification
Investments ver.	I/T exemptions	Terms of agreement	Authorised by competent authority
Compare with P/Y	Arithmetical accuracy	Outstanding & prepaid	TDS

Abbreviations used CAG-Comptroller and auditor general

- Evt-environment
- EDP-Electronic Data Processing
- I/C/S-Internal Control System
- I/T-income tax
- P/Y-Previous year
- C/Y-Current year
- Mgt-management F/S-Financial statements