# Qualification & qualities of an auditor

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## Qualification & qualities of an auditor:

### Qualification of an auditor:

An auditor should be a chartered accountant, without obtaining the certificate of chartered account any person cannot be appointed as an auditor of a public company. For this purpose the person is required to pass the examination conducted by the institution of chartered accountant.

### Quality of an auditor:

Now a day an auditor must have some qualities for his efficient work. Some of the qualities for inherent, and rest of other quality acquired from other. The qualities of an auditor are mainly classified into two types. Namely

1. Professional qualities
2. General qualities

### Professional qualities:-

The important professional qualities of successful auditor are

* 1. **Knowledge of accounting**: the auditor should have the accounting knowledge among various system of accounting and its function for the purpose of proper checking of a financial statement.
  2. **Knowledge of principles of accounting**: the auditor should be familiar with the various accounting concept and convention, income & expenditure, revenue and capital etc.
  3. **Knowledge of cost accounting:** the auditor should have a knowledge of cost accounting regarding direct and indirect cost, cost and budgetary control etc. because this knowledge will be helpful to conduct a cost audit.
  4. **Knowledge of management accounting**: the auditor should have knowledge of management accounting for the purpose of providing advices to the budgetary control & for the purpose of conducting mgt audit.
  5. **Knowledge Of management System: -** The auditor must have the knowledge of management information system. It helps him to understand the internal set up of the business concern and its operation.
  6. **Knowledge of Business Law:-**An auditor must possess a considerable knowledge of business law. He must be aware about his duties and rights given by law.
  7. **Knowledge of Taxation Law:-**Various types ‘of taxes are imposed by the government on the business. For example in some countries Income tax, sales tax, gift tax is imposed. So if auditor has not a considerable knowledge about the taxation. He cannot perform his services properly.
  8. **Knowledge of Auditing**:-An auditor's knowledge of auditing must be up to date. He must know the techniques of auditing. He must have the knowledge of other subjects relating to auditing.
  9. **Computer Expert**:-The auditor must be able to operate the computer. Today the business organizations are using computers. If auditor does not know to use computer, he cannot work efficiently.
  10. **Preparation of Budget**:-The auditor must know that how the organization prepares the budget. If he does not know then it will be not possible for him to audit the various heads of the budget.

## General Qualities of an auditor:

In addition to the profession qualities the successful auditor should have some general qualities to the following ways.

1. **Honest and integrity**:-It is also very important quality of an auditor. Justice Hindley says "An auditor must be honest. He must not certify what he does not believe to be true and he must take a reasonable care and skill before he believes that what he certifies is true.
2. **Intelligent**:-It is also important quality of an auditor that he should be intelligent. He must be able to understand the technical details of any business.
3. **Tactful**:-In a particular situation auditor should deal tactfully. He should ask the questions in such a manner that it does not show about his ignorance or weakness
4. **Maintain Secrecy**:-The auditor’s nature of work is confidential. He should maintain secrecy from others about the affairs of his client.
5. **Patience:**-There should be a quality of patience in the auditor. Before signing on any paper he should check the evidence and then sign it. He never checks the papers in hurry
6. **Critical Attitude**:-It is also very essential quality of the auditor. He should examine the statements critically. He should ask the various questions from the client and try to find contradictions.
7. **Independent:-**The auditor should be impartial. He should not have such relations with the organization which may affect his independence. He should give his opinion independently
8. **Common Sense**:-The auditor must have the quality of common sense and judgement. He may be able to assess the value of depreciation and bad debt.
9. **Bold And Courageous**:-Auditor should be bold and courageous person. He should not be influenced by any authority. He should possess the courage to face the difference of opinion between him and client on any issue.
10. **Communication**: the auditor should communicate the actual fact to his client through the audit report, if he fails to communicate the actual fact, the auditor is fully responsible for that remarks.
11. **Objective of Auditing:**

The objectives of an audit may broadly be classified as

* 1. Primary Objectives
  2. Secondary objectives.
  3. Specific object

## Primary Objectives:

The main purpose of audit is to judge the reliability of the financial statements and the supporting accounting records for a particular financial period. The Companies Act, 1956 requires that the auditor of a company has to state whether in his opinion the accounts disclose a true and fair view of the state of company's affairs, profit and Loss Account and Balance Sheet of the state of affairs of a business, the auditor carries out a process of examination and verification of books of accounts and relevant documents. Such an examination will enable the auditor to report to his client on the financial

condition and working results of the organization. While carrying out the examination of the various books of accounts, relevant documents and evidences, the auditor may came across certain errors and frauds. Despite such a possibility the detecting of errors and frauds is an incidental object.

### Secondary Objectives:

As stated above, an auditor has to examine the books of accounts and the relevant documents in order to report on the financial condition of the business. In the process of such an investigation of accounts certain errors and frauds may be detected. These are discussed under the following two heads:

* 1. Detection of Errors
  2. Detection of Frauds
  3. Prevention errors and frauds

1. **Detection of Errors**: Various types of errors are mentioned below:
   1. **Clerical Errors**: Such an error arises on account of wrong posting. For example, an amount received from Thomas is credited to Sunny. Though there is wrong posting still the trial balance will agree. Clerical errors are of three types as follows:
2. **Errors of Commission**: When the transaction is recorded but incorrectly we say that error of commission is committed.

(i). Wrong posting from original books to ledger. (ii). Incorrect entries in the original records.

**Effect On Trial Balance** :- (a). In the invoice if transaction is recorded incorrectly, the effect on the trial balance will be nil.

(b). If a part of transaction is recorded incorrectly then the trial balance will be not balanced.

**Detection of Errors**: - Such errors can be detected by checking the arithmetical accuracy of the original books. It can also be discovered when somebody challenges the transaction.

1. **Errors of Omission:** When any transaction is not recorded in the books of accounts, it is called an error of omission. So transaction is absolutely omitted from the record.

**Effect on Trail Balance: -** Now this error will not be detected by the trial balance. The trial balance will agree even this error is committed. So the error willing to be disclosed by the trial balance. It will be very difficult to locate the error.

**Example: -** Suppose some purchase was not recorded in the books. The total purchase recorded in the books will be less than actual purchase. This error will not be disclosed by the trial balance.

**Detection of Error: -** An auditor may detect the error by comparing the data of previous with this item. We may say that critical analysis of the auditor locate such type of errors.

1. **Compensating Errors:** When two or more errors are committed in such a way that the result of these errors on the debits and credits is nil, they are referred to as a compensating errors. For example, Anil's account which was to be debited for Rs. 500 was credited for Rs. 500 and similarly, Sunil's account which was to be credited for Rs. 500 was debited for Rs.500. These two mistakes will nullify the effect of each other. Both the sides of the trial balance are equally affected. As such, these errors are difficult to locate unless detailed investigation is undertaken.
2. Errors of duplication: this errors occurs if the same transaction has been recorded twice in the books of original entry and also posted twice in the ledger a/c . it is very difficult to trace.
   1. **Errors of Principle**: Such errors are committed when some fundamental principle of accounting is not properly observed in recording transaction. For example, if there is incorrect allocation of expenditure or receipt between capital and revenue or when closing stock is over-valued. Though trial balance will not disagree, the Profit and Loss Account may be very much affected. Sometimes, such errors are committed deliberately to falsify the accounts or unintentionally due to lack of knowledge or sound principles of accounting. Thus, a thorough examination is to be done to locate such errors.

## Detection of fraud:

**The fraud** connected with the accounting in the following ways.

##### Misappropriation of cash :

In this types of errors take place by omission of receipt regarding to the payment, receipts of cash vouchers. it means misutilization of cash by without showing the cash book .

In this type of fraud may be done by an employee or cashier of the business concern. This method is called by the name of “teaming and lading or lapping”

**Teaming and lading:**

It is a method of committing fraud by an employee or cahier of the business concern.

**Teeming means** misappropriation or misuse of cash.

**Lading means** shortage of cash **by the cashier.** Totally it is a method of cheating to the business owner by the way of continuous cash shortage.

##### Misappropriation of goods :

It refers to fraudulent application of goods by those who handle them. It can be done by recording sales of larger quantities and misappropriating the balance or by recording purchase of large quantities receiving less quantity and then receiving the balance amount privately

##### Manipulation of accounts :

Manipulation of accounts is said to be committed when a person makes a false entry in the books of accounts knowing it to be wrong, alters or destroys a true entry in the business records or prevents the making of a true entry in the business records. Normally it is done by people at the top management level. It is done to overstate or understate the profits and the financial conditions of the business so as to serve their purpose.

Manipulation may be done in any of the following ways:

1. Non provisions of depreciation on fixed assets
2. Overvaluation or undervaluation of assets
3. Recording revenue expenditure as capital expenditure
4. Showing expenses of the next year in the current year’s profit and loss account
5. Not recording currents year’s accrued expenses etc

## prevention of error and fraud:

Frauds are always committed deliberately and intentionally to defraud the proprietors of the organization. If the frauds remain undetected, they may affect the opinion of the auditor on the financial condition and the working results of the organization. It is, therefore, necessary that the auditor should exercise utmost care to detect such frauds.

# 3. Type or classification of audit:

The audit can be classified into different types such as

##### From the point of organizational structure

* + 1. statutory audit
    2. private audit
    3. government audit

##### From the point of time and scope of auditing procedure

* + 1. continuous audit
    2. internal audit
    3. interim audit
    4. final audit

##### From the point legality

* + 1. voluntary audit
    2. compulsory audit

##### from the point of specific objectives

* + 1. cost auditing
    2. special audit
    3. tax audit
    4. management audit
    5. operational audit
    6. cash auditing
    7. marketing audit
    8. environment audit
    9. social audit
    10. property audit

1. **statutory audit :**

The term statutory audit refers to the review or the record of the company of the government organization which is required by the law or the municipal authority of any particular region. This is done to monitor the performance of the firm or the government organization. The company here the auditors who provide the auditing report and submit those reports annually or semiannually to the law or the concerned authority. The statutory auditors become elected when the board of directors vote them, those auditor before being elected to this job must have some top position in the hierarchy level of that government organization. Its required for company, co-operative societies, trust , banking , insurance company etc.

### Private audit:

When the audit is not a statutory requirement, but is conducted at the desire of owners , such an audit is private audit . The audit is conducted primarily for their own interest. At times the private audit may become a requirement under tax laws, if the turnover exceeds a specified limit. Private audit is of the following types:

1 audit of sole proprietorship 2 audit partnership firms

1. audit individuals’ accounts
2. audit institutions not covered by statutory audit

### government audit :

Audit forms an indispensable part of the financial administration and is one of the important organs necessary to ensure the sound functioning of a Parliamentary Democracy. It is the main instrument to secure accountability of the Executive to the Legislature. Audit assists Parliament/Legislature in

exercising its financial control over the Executive, to ensure that funds voted by the Parliament/Legislature have been utilized for the purpose intended and the funds authorized to be raised through taxation and other measures have been assessed, collected and credited to the Government properly.

1. **continuous audit :**

Continuous audit or a detailed audit is an audit which involves a detailed examination of books of account at regular intervals i.e. one month or three months. The auditor visits clients at regular intervals during the financial year and checks each and every transaction. At the end of the year auditor checks the profit and loss account and the balance sheet. A continuous audit is not of much use to small firm as its accounts can be audited at the end of the financial year without much loss of time.

### Business where continuous audit is applicable:

* Where it is desired to present the account just after the close of the financial year, as in the case of a bank.
* Where the volume of the transactions is very large.
* Where the statements of accounts is required to be presented to the management after every month or quarter.
* Where no satisfactory system of internal check is in operation.

### Advantages of Continuous Audit

##### Easy to quick discovery of errors

Errors and frauds can be discovered easily and quickly as the auditor checks the accounts at regular intervals and in detail. As a auditor visits the client after a month or two or so on, the number of transactions will be small and hence, the errors will be detected easily and quickly.

##### Knowledge of technical details

Since the auditor remains more in touch with the business, s/he is in a position to know its technical details and hence can be of great help to her/his clients by making valuable suggestions.

##### Quick presentation of accounts

As most of the checking works are already performed during the year, the final audited accounts can be presented to the shareholders soon after the close of the financial year at annual general meeting.

##### Keeps the client's staff alert

As the auditor visits the clients at regular intervals, the clerks are very regular in keeping the accounts up-to-date. They will see that there is no in accuracy or frauds as it would be detected by the auditor at the next visit.

##### Moral check on the client's staff

If the auditor pays surprise visit, it will have a considerable moral check on the clerks preparing the accounts as they do not know when the auditor may pay a visit to check. Moral check will be more valuable to make staff alert and careful.

### Disadvantages of Continuous Audit

In spite of the above-mentioned advantages of a continuous audit, there are certain drawbacks of such and audit which are as follows:

##### Alteration of figures

Figures in the books of account which have already been checked by the auditor at previous visit, may be altered by a dishonest clerk and the frauds may be committed.

##### Disturbance of client's work

The frequent visits by the auditor may disturb the work if the client and cause inconvenience to the latter.

##### Expensive

Continuous audit is an expensive system of audit because an auditor devote more time. So, company needs to pay more amount as the remunerations of an auditor.

##### Queries may remain outstanding

The audit clerk may lose the thread of work and the queries which s/he wanted to make may remain outstanding as there might be a long interval between two visits.

##### Extensive note taking

Extensive note taking may be necessary in order to avoid any alteration in the figures after the audit.

1. **Internal audit:** Internal Auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist management and the Board in the effective discharge of their duties. It is the Board's responsibility to set policies, and the auditor's role to independently and objectively analyze, review, and evaluate existing procedures and activities, to report on conditions, and to recommend changes for consideration. To this end, internal auditing furnishes analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed.

### Interim audit:

An audit which conducted in between the two annual audits with a view to find out interim profits to enable the company to declare an interim dividend is known as Interim Audit. It is a kind of audit which is conducted between the two periodical or balance sheet audits.

##### Objectives of Interim Audit

* 1. To know profit or loss of interim period.
  2. To distribute interim dividend.
  3. To get loan on the basis of interim account.
  4. To get information about the financial position of interim period.

1. **FINAL AUDIT or COMPLETE AUDIT or BALANCE SHEET AUDIT:-**

Definition: - According to W.W.Bigg "Final audit is not commenced until after the end of the financial period and is then carried on until completed."

An audit which is started at the end of financial year when financial statements are finalized and it is carried out until completion. In case of Joint Stock Company it is compulsory by law. It is also known as "Balance Sheet Audit."

**ADVANTAGES OF FINAL AUDIT**:-

1. **Alteration Chances Limited:-**

After the final audit it becomes very difficult for any one to change the figures of accounts for his benefit.

##### Checking Of Complete Record:-

In case of final audit, whole the record is supplied to the auditor for checking. So all the facts about the financial year's are before the auditor.

##### Advantages for the Shareholders:-

Final account is very useful for the shareholders to know the real position of the company. Due to final accounts they feel more satisfaction.

##### Advantage for the Owner:-

Sometimes the business is so large that even one owner don't know the real position about the business. So final audit throws light on the business position and provides him satisfaction.

##### Suitable:-

Final audit is very suitable for the auditor and client staff. It saves both the parties from continuous disturbance.

##### Saving Of Time:-

The auditor visits the clients’ office once a year and goes on checking until the audit is completed. In this way time of both the parties is saved.

##### Legal Demands:-

For the joint stock companies audit is compulsory. So final audit has an advantage that it fulfills the requirement of law.

##### Economical:-

As compared to the continuous audit it is less expensive. Because in case of final audit auditor has to spend less time.

##### Improves the Efficiency:-

All the financial year client staff remains vigilant and efficient due to the fear of final audit.

##### Importance of Goodwill:-

About the fairness and correctness of accounts final report is very important for the goodwill of the company.

##### Seasonal Business:-

In such cases the managers are free in the off season. So in that period they can pay proper attention to the auditors. Final audit is the most suitable for such business.

##### Continuous Process:-

Final audit is continuous process without any break from start to end. It becomes very easy for the auditors and managers.

##### Effective:-

If in control system is strong then chances of fraud are low and final audit is sufficient to carry out at the end of the year.

**DISADVANTAGES OF FINAL AUDIT**:-

Following are the main disadvantages of final audit:

##### Shortage of Time:-

The auditor has many clients and their financial year ends on the same date. So it becomes very difficult for the auditor to finish the work in time.

##### Delay in Report:-

When the work of audit will not be controlled in time. Audit report can not be presented to the shareholders. So it creates many problems for the company's business and goodwill.

##### Complete Checking Not Possible:-

It is very difficult for the auditor to check the each and every made in the books of account. He applies only test check to save the time. So many mistakes remain untouched.

##### May Misrepresent:-

There may be also a chance that audit report may not represent the correctness of accounts because each and every transaction is not checked.

##### No Moral Influence:-

The auditor visits once years so he has no moral influence on the client stay to maintain the books correctly.

##### Record Of Past:-

Final audit relates the past data. If there were frauds and errors these have no concern with the present and future.

##### Time for Fraud:-

If staff is dishonest then it has enough time to plan fraud. Because staff knows that audit will be made at the end of the year.

## 4. Steps or procedure or method of pre plan audit:

The audit of accounts of a business concern involves the sound planning for the purpose of conduct audit work efficiently & effectively.

Because auditor has to face many problems at the time of preparing audit reports. Therefore an auditor determine future course of action and frame the policies, programs & procedures for the purpose of audit work.

The audit work involves the consideration of the following steps.

* 1. arrangement with the client
  2. audit of memorandum
  3. instruction to client
  4. audit program
  5. audit notebook
  6. division of work between the junior & senior clerk
  7. audit report

**Arrangement with the client**: an auditor should contact the client about the following aspect of audit of that concern before finalizing any agreement are as follows.

1. The remuneration of the auditor
2. The nature or type of the audit work
3. The time period of audit report should be submitted to the client.

**Audit of memorandum:** after having the proper arrangement with the ckient an auditor should prepare the memorandum containing all useful information about the business of the client. It contain following point

1. ownership and control of the organization
2. a details of the accounts related to business concern
3. the important product of the company
4. the nature of market
5. the pricing condition of the product
6. the source of the product
7. the location of the business
8. Overall asset and liability and financial records of a business.

**5. AUDIT PROGRAMME**

It is a written scheme of the exact details of the work done by the auditor and his staff in connection with the particular work. All the work which is assigned to each member of the audit team is written in the audit programme. Audit programme guides the audit personal in work to audit be done.

While construction an audit programme, the Auditor should keep the following points in his mind-

1. To operate within the scope and limitations of the assignment.
2. To determine the avidence reasonably available and identify the best avidence for deriving the necessary satisfaction.
3. To apply only those steps and procedures, which are useful in accomplishing the verification purpose in the specific situation.
4. To consider all possibilities of error.
5. To co-ordinate the procedures to be applied to related items.

##### METHODS OF AUDIT PROGRAMME

1. **Complete Programme :-**

Complete programme is on the file. Completed items are ticked off by the particular assistant. Assistant knows what he has to do. He also knows that by which date each item is to be completed.

##### Individual Programme :-

According to the nature of the business auditor prepares the programme for each assistant in such cases.

##### No Any Advance Programme:-

In this case auditor never prepares the programme in advance but according the progress of the work he allows to go.

**ADVANTAGES OF AUDIT PROGRAMME**

1. **Supervision of Work:-**

The auditor can judge the efficiency of his audit team by holding of an audit programme. He is in a position to know the progress of the work. He can see at any time that what part of the work has been completed and what remains to be done.

##### Distribution of Work:-

Audit programme is very useful in distributing the audit work properly among the members f the audit team according to their talent.

##### Uniformity of Work:-

Audit programme helps in settling all the things in advance, so the uniformity of work can be achieved.

##### Basic Instrument for Training:-

Audit programme is very useful for the new auditor. It provides training and guidance to him. So it is rightly called the basic instrument for training.

##### Legal Evidence:-

Audit programme is a legal evidence of work done by every assistant of the audit team. It can be presented in the court of law if any client is taken against the auditor for negligence.

##### Fixation of Responsibility:-

If any error or fraud remains undetected the responsibility of negligence will fall on the particular assistant who has performed that job.

##### Several Audits may be Controlled:-

The auditor controls the audit of various companies at the same time. In the absence of audit programme he can not supervise them effectively.

##### Easy Transfer:-

If one assistant is unable to continue the work given to him, it can be given to another person. Audit programme guides him that what is done and what is remaining.

##### Final Review:-

Before signing the report, final review is made and for this purpose also auditing programme is very useful.

##### Useful for Future as a reference:-

On completion of an audit, it serves the purpose of audit record which may be useful for future reference.

**DISADVANTAGES OF AUDIT PROGRAMME**

##### Not Comprehensive:-

Auditors may have covered the whole field but it can not be said with certainty that all the necessary work have been done.

##### Rigidness:-

Audit programme looses its flexibility. While each business has separate problems. So audit programme can not be laid down for each type of business.

##### No Initiative:-

It kills the initiative of capable persons assistant can not suggest any improvement in the plan.

##### Too Mechanical:-

Such audit programme is mechanical that it ignores many other aspects like internal control.

##### Not Suitable For Small Audit:-

It has been proved that audit programme is not suitable for sail audits.

##### New Problems Over Looked:-

With the passage of time new problems arise which may be over looked.

## 6. Audit Note Book

A note book which is prepared by the audit staff to note down all the uncleared queries which s/he may find in the course of audit and requires further clarification and explanation is known as audit note book. Audit note book contains information regarding day-to-day work performed by the audit staff on any particular date. Notes about all types of errors, difficulties and uncleared queries or points to be discussed with the auditor or clients and the points which are to be incorporate in the report are noted down.

##### Contents of Audit Note Book:

1. A copy of audit program.
2. The nature of business and important documents relating to the business.
3. The name of the clients and audit year.
4. A list of books of accounts.
5. Name of principal officers, their duties and responsibilities.
6. Accounting and financial policies followed by the business.

##### Special Matters to Be Recorded In the Audit Note Book

1. Routine queries not cleared, i.e., missing receipts and vouchers etc.
2. Details of mistakes and errors discovered.
3. The points raised during the course of audit, to which the attention of the auditor must be drawn, i.e. failure of the company to comply with the provisions of the Companies Act or of the Memorandum of Association and other legal requirements.
4. Extracts from minutes books and contracts and other correspondence with various government agencies, financial institutions, debtors, creditors etc.
5. The points to be incorporate in the audit report.
6. The points which needs further explanation and clarification e.g., a change in the basis of valuation of finished stocks or in the computation of depreciation, etc.
7. Date of commencement and completion of the audit.

## 7. Audit Report:

The preparation of audit report is the last work of audit. An auditor presents weakness, strength and details of an organization by preparing audit report. Audit report accumulates all the facts of audit. So, it is the proof of conducting audit properly.

Audit is related with the examination of books of accounts on the basis of regularity, rationality, economy and efficiency. An auditor checks the books of accounts on the basis of evidential documents. So, a financial statement is prepared by the auditor on the basis of information collected from the examination of evidential documents and records. Audit report is an important document in which the auditor sets forth the scope and nature of the audit and also gives his impartial opinion regarding the client's financial statement. It is the last outcome of every audit. We can find vast difference in the reports which were prepared previously and the reports prepared nowadays because the responsibility of an auditor is increased highly. So, an auditor should prepare report considering the following facts:

1. Address should be made to the authority that has appointed him.
2. Auditor should express his opinion in connection to financial statements.
3. Auditor should prepare report based on the facts found after the examination of all the books of accounts.
4. Date must be written in report which shows the duration of audit.
5. Audit report may clean, qualified and adverse.
6. All the facts incorporated in report should be concise, clear and correct.

### Contents of Audit Report:

Auditor should check the books of accounts and balance sheet and need to prepare the audit report addressing to the shareholders and present it to the concerned department and to the company. Copy of such report should be sent to all the shareholders. Audit report should contain the following things.

1. Answer, clarification and explanation of furnished questions are given by the concerned authority satisfactory or not.
2. Income statement and balance sheet is prepared by the company in prescribed structure or not.
3. Accounts are maintained as per the provision of laid down rules and regulations or not.
4. Balance sheet of the company presents true and fair view of financial position or not.
5. High ranking official, representatives and staffs of the company have performed work as per the provision of rules and regulations or not; they have committed fraud or not.
6. Transactions of the company are satisfactory or not.
7. Auditor should provide suggestion if necessary.

## 8. ANNUAL REPORT:-

Annual report is required for every public company where audit is compulsory. In the annual general meeting of the company this report is presented. In the meeting profit and loss account and balance sheet duly verified by the auditors are require to be presented. It has two kinds:

#### Unqualified Report.

1. Qualified Report.

**UNQUALIFIED REPORT or CLEAN REPORT:-**

When auditor is fully satisfied about the account matters and legal requirements. He can issue the clean report. In other words it is a true and fair view of the financial statement. He may say that clean report is audit report which contains no objection.

##### FEATURES OF UNQUALIFIED REPORT:-

Following are the features of unqualified report:

##### All Information:-

In the report auditor declares that he has obtained all types of informations related to business which were needed for the purpose of audit.

##### According To Company Ordinance:-

Auditor declares that balance sheet and profit and loss accounts have been draw in conformity with the above ordinance and these agree with the books of account.

##### Expenditure:-

Auditor has also to give his opinion that expenditure incurred during the year was for the purpose of company's business.

##### Proper Books:-

In this report auditor also declares that proper books of accounts as required by the company ordinance were kept by the company.

##### Investment:-

It is also declared by the auditor that investment made during the financial year was also made according the business object of the company.

##### Opinion about Balance Sheet:-

In the balance sheet auditor also declares that the balance sheet presents a true and fair view of the company's affair and financial position.

##### SPECIMEN OF UNQUALIFIED REPORT

To,

The share Holders. Vishwa’s Tax Company Ltd Hassan.

Gentleman ;

We have examined the balance sheet of vishwa’s Tax Company Ltd, as at December 31, 2012 and the profit and loss account and the statement of changes in financial position for the year ended. on that date.

We have obtained all the information to best of our knowledge for the audit purpose. In our opinion :

1. All the books of account required by the company ordinance have been kept by the company.
2. We have obtained all the necessary information and expenditure for the purpose of audit.
3. The balance sheet and profit and loss accounts have been drawn up in conformity with the companies’ ordinance and with the books of accounts.
4. Expenditure was incurred for the company's business purpose during the year.
5. Business conducted during the year was according the objects of the company.
6. According to the best of our knowledge, the said accounts of the company give the information required by the company’s ordinance. The said accounts give a true and fair view of the company's affairs as at December 31, 2012.

##### QUALIFIED REPORT:-

“Annual report of the auditors which contains previous discrepancies or errors discovered by the auditors during the audit is called Qualified Report."

In simple words we can say that audit report which contains objections is called qualified report.

##### SPECIMEN OF QUALIFIED REPORT

To,

The Shareholders, Kushi Company Ltd,

Hassan.

Gentleman!

We have examined the profit and loss accounts and the annexed balanced sheet of Kushi Mills Ltd for the year ended June30, 2009 and report that

1. Inadequate provision has been made for plant and machinery.
2. Investments have been valued cost price which is in excess of market price by Rs. 2,50,000/=
3. We have not seen the title deeds of land shown in these accounts at a total cost Rs. 90,000/- to depreciation, subject to the above:
4. We have obtained all the information and explanations which are required.
5. The profit and loss account and balance sheet are prepared in conformity with law.
6. The books of accounts have been kept report proper by the company according the companies act in our opinion.
7. Balance sheet exhibits the true and correct view of the state of the company's affairs according to the best of our information given to us and shown to us.
8. In our opinion expenditure was incurred for the company's business purpose.
9. Business conducted during the year was according the objects of the company.

## 9. RIGHTS OF AN AUDITOR:

Following are the important rights of the auditor:

##### Access to Books:-

It is a right of the auditor that at all the times he has to access to the books, accounts and vouchers of the company.

##### Right of Inspections:-

It is a right of the auditor that can inspect the record of the company at any time. He can visit without any notice and verify the cash or any document.

##### Right of Information:-

Auditor can demand any information which he needs for audit from the directors and officers. If they refuse to provide then he can report to the members.

##### Access to Branches:-

If the company has some branches, then auditor has a right to check the accounts books and vouchers of the branch. Even the branch account is audited by some other auditor.

##### Receiving Notices:-

It is the right of the auditor to receive the notices relating to the general meetings as these are sent to the shareholders.

##### Right Of Attending The Meeting:-

It is the right of the auditor that he should attend the general meeting of the shareholders. He can explain or make a statement about the accounts there. He can correct if directors gives wrong information in the meeting about the audited accounts.

##### Remuneration:-

It may be fixed by the management. The auditor has right to receive the remuneration of his auditor work.

##### Presentation in Meeting:-

The auditor has the right to attend the meeting and give presentation about the matters relating to accounts.

##### Right of Correction:-

In case of any mistake the auditor can make correction and issue the revised statement.

##### Seeks Experts Opinion:-

The auditor has right to consult with the experts and other persons to obtain their opinions about the matter related to the business.

## 10. DUTIES OF AN AUDITOR:-

Following are the important duties of an auditor:

##### To Certify the statutory Report:-

It is the duty of the auditor that he should certify that statutory report is correct regarding the shares allotted cash received and receipts and payment on capital account of the company.

##### To Certify The Performance Of The Company:-

When a company is already carrying the business it issues the prospectus and statements of profit and loss. Dividend paid during the previous years is included also in the prospectus. Such statements and clear position about the dividends paid verified by the auditor.

##### Submission of Report:-

The auditor of the company has to examine the accounts of the company. He has to report to the shareholders on the accounts. In the general meeting he submits his report regarding the accounts examined by him and every balance sheet and profit and loss account including notes or statements. His report can be inspected by any member of the company. If auditor is not satisfied he may report to the shareholders.

##### Assistance To Advocate General:-

In connection with the prosecution of the directors auditor of the company is bound to provide assistance in investigation to advocate general if his services are required.

##### Duty In Case Of Voluntary Winding:-

In the voluntary winding up, the auditor has to certify the profit and loss account. Balance sheet, assets and liabilities statements to show that company is in a position to pay the liabilities or not.

##### Signature's Duty:-

It is also duty of the auditor that he should sign on the report which is submitted in the annual general meeting of the shareholders.

##### Helps Inspectors:-

The govt. can appoint inspectors to collect the information about matters. It is the legal duty of the auditor that he should help the inspectors and provide true information's.

##### Performance of Job:-

The auditor is bound to perform all jobs according the terms and conditions of employment. The duties mentioned in agreement can not change.

##### Verify Securities:-

It is the duty of the auditor that he should verify the securities of the company and also check that these are in the safe custody.

##### Verify Assets:-

It is the duty of the auditor that he should verify the existence of assets which are given in balance sheet. If he does not certify then he will be held responsible.

##### Verify the Payments:-

It is the duty of the auditor that payments made by the company are according the articles of association or not. He should also verify that payments are made for the business purpose.

# 11. Liabilities of an auditor

##### LIABILITY OF NEGLIGENCE:-

A person who is appointed auditor, he should perform his duties by using the reasonable skill and diligence. If auditor is found negligent in performing his duty then he may be sued in the Civil Court for damages.

Negligent liability arises when auditor has been negligent in examining the book of account. He is also liable if he fails to detect deflections or does not discover the errors which he should discover. Because he fails to exercise a reasonable care and skill in the performance of his duties.

1. **Liability In Case Of Loss**: - Auditor will be liable to compensate the loss which is suffered by client due to his negligence.
2. **Liability Case of No Loss: -** The auditor will not be held liable if no loss is suffered by the client even auditor is proved to be negligent.

##### Legal Case:-

Leeds Estate Building Society vs Sphephered 1887 : In this case auditor did not care to see the provisions of carried out articles. Profits were inflated by including the fictitious terns. Due to the auditors negligence dividends were paid out of capital. Action was taken by the company and auditor was held liable for damages.

##### LIABILITY FOR MISFEASANCE:-

Misfeasance means the breach of duty breach of trust involving the company in loss. The company may proceed against the auditors by way of regular suit in case of misfeasance. Company can claim damages suffered. Misfeasing proceedings can be taken against die auditor by the directors. Promoters, managing agents when company is in liquidation.

Generally misfeasance liability arises in the case of winding up a company.

##### CRIMINAL LIABILITY:-

During the course of audit, auditor may commit various offenses and he becomes criminally liable. Offenses Criminally Liable:-

1. If auditor's report does not comply with the requirements of law.
2. If the default was done knowingly and willfully by the auditor.
3. If it is proved that auditor has falsified the accounts or made any report, statement, balance sheet or any document false he will be held criminally liable.

##### LIABILITY OF HONORARY AUDITOR:-

Liabilities of paid and honorary auditors are same. In case of negligence or misfeasance honorary auditor can not relieve himself from the liability. If the negligence is proved then auditor will be held responsible and he has no excuse to say that he is not being paid or receiving less amount.

##### LIABILITY FOR LIABLE:-

Sometimes auditor criticises the officers of the company in his audit report. His report should be such type that it may not defame or disgrace any person. On the other hand if the report of the auditor

injures the good will and reputation of any person then he will be held responsible on the grounds of the defamation. Auditor is not liable.

If the criticism is based on facts audit report is considered a privileged document. It should contain only facts otherwise auditor will be held responsible. Auditor's report should contain the following qualities:

1. It does not miss state the facts.
2. It is not actuated malice.
3. It does not go beyond what is relevant to its subject.
4. Statement should be bonafide.

##### 6. LIABILITY TO THE THIRD PARTY:-

Auditor has no contract with the third parties. He is not employed by the third party so he has no duty to them. But the point is that as the accounts are audited by the audit, third party may also see the report, third party rely the report without the further inquiry. For example bank only study the certified balance sheet and lends the money to the company. Tax department and others also rely on the audited statements. "Now the question is that whether the auditor is liable if they rely on the accounts certified by him and suffered a loss should he compensate the loss.

The following cases auditor will be responsible to the third party.

1. If the statement signed by the auditor was not true infect.
2. It was known to the auditor that statement was not true infected.
3. Third party suffered a loss by relying on the statement of auditor.
4. If the statement was made with the intention that the other party should act on it.
5. If auditor gave his consent for the inclusion of such statements in the prospectus.

##### INVESTIGATION:

**Meaning:** - When for a special purpose an inquiry is made into the accounts of the business it is called investigation.

In other words, we may say that audit which is conducted for a particular object is called investigation. To know the actual financial position of the business it is used to examine the books of accounts. We may say that investigation is a kind of special audit.

##### 12. DIFFERENCE BETWEEN AUDIT AND INVESTIGATION:-

Following are the important distinctive features in both the term.

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| **Basis** | **Investigation** | **Auditing** |
| **1.Interested Parties** | Investigation is carried out on behalf of  the outsiders who want to know the financial position of the business | audit is conducted on behalf of the share holders |
| **2. Nature Of**  **Work** | Investigation is not compulsory | Audit is compulsory in case of joint stock  company |
| **3. Nature Of**  **Report** | investigation report is positive | Audit reports have certain short comings. |
| **4.Submission Of Report** | The report of the investigation is submitted to the party appointed him for  investigation | The report of audit is submitted to the share holders |
| **5.Concern With Financial** | Investigation has no concern with the financial policy of the company whether it  is followed or not. | Auditor has to state the facts about it whether it was followed or not. |

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| **Policy** |  |  |
| **6. Net Profit Calculation** | Actual earning capacity r the net profit of the business is calculated in case of  investigation. | While it is not so in case of audit. |
| **7.Duplication** | Investigation may be conducted even the  accounts are audited. | Audited accounts are not audited again |
| **8. Checking Method** | Investigation is a thorough checking of the books of account for a particular or  number of years. | In case of audit test checks are applied |
| **9.Time**  **Duration** | Investigation may cover a period  extending over three to seven years | The audit of accounts usually covers the  period of one year. |
| **10. Nature Of Object** | Investigation is conducted for a particular purpose or object | The object of auditing is to find out the correctness of statements and exhibit a true and fair view about the affairs of the  business |

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| **Basis** | | **Accounting** | | | | | **Auditing** | | | |
| **1. Meaning** | | Accounting means the maintaining of the books of accounts | | | | | Auditing means examining the books  of accounts and reporting means to report about their accuracy. | | | |
| **2.Performance**  **Of Work** | | Accountant  accountant | job | is performed | by | the | Auditing  auditor | job is | performed | by the |
| **3.Appointment** | | Accountant  management | is | appointed | by | the | Auditor is appointed by the share  holders | | | |
| **4.Nature**  **Job** | **Of** | Accountant job is a mechanical nature | | | | | Auditor job is is not so mechanical in  that sense | | | |
| **5.Qualification** | | For the accountant no specific  qualification is required | | | | | For the auditor specific qualification is  required | | | |
| **6.Responsibility** | | Accountant responsibility is fixed by the  management | | | | | Auditor responsibility is fixed by law | | | |
| **7.Submission**  **Of Report** | | Accountant is not required to submit any  report | | | | | Auditor is required by law to submit  the report | | | |
| **8. Fixation Of**  **Rights** | | Rights and duties of accountant are fixed  by the management. | | | | | Rights and duties of an auditor are  fixed by the law | | | |
| **9. Time** | | In case of accounting, period is usually  one year | | | | | The period of auditing is usually less  than one year | | | |
| **10. Purpose** | | Accounting purpose is to show the  financial position of the business. | | | | | Auditing verifies the true picture of  the financial statement | | | |
| **11.Record/Data** | | Accounting is related with the present  record | | | | | Auditing verifies the true picture of  the financial statement. | | | |
| **12.Employment** | | Accountant is a permanent employee | | | | | Auditor is not a permanent employee | | | |
| **13. Liability** | | After preparing the final accounts  accountant has no liability | | | | | Auditor has liability after presenting  the audit report | | | |
| **14. Rules** | | Accounting is not governed by code of | | | | | : Auditing is governed by the charted | | | |

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|  | conduct laid down by the institute | accountant code of conduct |
| **15. Evaluation** | The accountant can not determine the efficiency of its own function | Auditor also cannot determine the efficiency of its own function but he can determine the efficiency of all the  business |
| **16. Methods** | Accounts uses the method of valuation  and depreciation | The auditor uses manual and  computerized method |
| **17.Knowledge** | Accountant must have the knowledge of accountancy | Auditor must have the knowledge of accounting as well as auditing. |
| **18. Removal** | Accountant can be removed from his job  at any time | Auditor can not be removed till the  completes his period of appointment |

**Appointment of Auditors**:

**Appointment of First Auditors:** u/s 224(5) first auditors shall be appointed by the BOD within 1 month from the date of registration of the company. These auditors will work until the conclusion of the First AGM.

**Appointment by the Shareholders: u/s 224(1)** every year in the AGM auditors are to be appointed by passing an ordinary resolution. Such auditors must accept within 30 days else another AGM must be called to appoint a auditor.

##### Reappointment of Auditor:

Appointment by Central Government: u/s 224(3) where no auditor is appointed, reappointed the central govt. will appoint a person to fill the vacancy.

**Appointment in case of Casual vacancy:** Casual vacancy arises due to death, insanity, disqualification or insolvency of the auditor. u/s 224(6) BOD has the power to fill the vacancy.

**Appointment by Special resolution**: u/s 224A where 25% or more share are with a) PFI or Govt. Coy or Central Govt. or State Govt. b) Nationalized Bank or Insurance Coy, the appointment of the Auditors will be by way of special resolution only.

**Appointment of auditors of Government Company:** u/s 619 auditors are appointed by the CAG. Ceiling on Number of Audits: u/s 224(1B) not more than 20 companies at a time out of this not more than 10 having Rs. 25 lakhs as capital. Private, foreign companies are not taken for the counting.

**Remuneration of Auditor:** u/s 224(8) if auditor is appointed by the BOD or CG they will fix his remuneration however for other services proved by the auditor he may be given extra remuneration.

##### Removal of Auditor:

Removal before the expiry of the Tenure

**First Auditor**: By the BOD by passing an ordinary resolution.

**Subsequent Auditor**: Before passing the ordinary resolution permission from the Central Government is required.