

SES'S L.S.RAHEJA COLLEGE OF ARTS AND COMMERCE

Course: Auditing

Unit: 1

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Questions Covered

1. Meaning and Definition of Audit
2. Objectives of Audit
3. Distinguish Between Auditing and Accounting
4. Distinguish between Auditing and Investigation

Meaning and Definition of Auditing

The word Audit is derived from Latin word "Audire" which means 'to hear. Auditing is the verification of financial position as disclosed by the financial statements. It is an examination of accounts to ascertain whether the financial statements give a true and fair view financial position and profit or loss of the business.

Definition

"Auditing is an examination of accounting records undertaken with a view to establishment whether they correctly and completely reflect the transactions to which they purport to relate." -L.R.Dicksee

"Auditing is concerned with the verification of accounting data determining the accuracy and reliability of accounting statements and reports." - R.K. Mautz

Objectives of Auditing

The objectives of auditing are changing with the advancement of business techniques. Earlier it was only to check the correctness of receipts and payments. The objectives of the auditing have been classified under two heads:

- 1) Primary objective
- 2) Secondary objectives

Primary objective: 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. 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.

Secondary objectives

The Secondary objectives of the auditing are:

1. Detection and prevention of **fraud**: The one of the important secondary objective of auditing is the detection and prevention of fraud. Fraud refers to intentional misrepresentation of financial information.

Fraud may involve:

- Manipulation falsification or alteration of records or documents
- Misappropriation of assets.
- Suppression of effect of transactions from records or documents.
- Recording of transactions without substance.
- Misapplication of accounting policies

2. Detection and prevention of **errors**: It 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.

Distinguish Between Auditing and Accounting

	BASIS FOR COMPARISON	ACCOUNTING	AUDITING
1	Meaning	Accounting means systematically keeping the records of the accounts of an organization and preparation of financial statements at the end of the financial year.	Auditing means inspection of the books of account and financial statements of an organization.
2	Governed By	Accounting Standards	Standards on Auditing
3	Work performed by	Accountant	Auditor
4	Purpose	To show the performance, profitability and financial position of an organization.	To reveal the fact, that to which extent financial statement of an organization gives true and fair view.
5	Start	Accounting starts where bookkeeping ends.	Auditing starts where accounting ends.
6	Period	Accounting is a continuous process, i.e. day to day recording of transactions are done.	Auditing is a periodic process.
7	Educational Qualification	Practical Knowledge of Accounting	Should have passed the examination of Chartered Accountant

8	Appointment & Reporting	By/to the management	By/to the shareholders
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Auditing and Investigation

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