"Standards on Auditing"

Meaning:

Auditing Standards prescribe the fundamental audit principles to be followed by auditors while conducting different audit engagements. They are useful tools for auditors to understand and implement the specific requirements of the Auditing Standards.

Generally Accepted Auditing Standards (GAAS) or Auditing Standards are a set of systematic guidelines used by auditors when they conduct audits on Companies' financial records. They help to ensure the accuracy, consistency and verifiability of auditors' action & reports.

Objectives:

→ To review the existing and emerging auditing practices worldwide & identify areas in which Standards on Quality Control, Engagement Standards, & Statement on Auditing need to be developed.

→ To formulate Engagement Standards, Standards on Quality Control & Statement on Auditing so that these may be issued under the Authority of the Council of the Institute.

→ To review the existing Standards & Statements on Auditing to assess their relevance in changed conditions & undertake necessary revision.

→ To formulate & Issue Technical guides, Practical Manuals, Studies & other papers under its own Authority for the guidance of professional accountants in cases felt appropriate by the Board.

10 Generally Accepted Auditing Standards approved by the members of AICPA are:-

(a) Adequate technical Training and Proficiency: The competency of the Auditor is determined by the following:
- Formal University education for entry in the profession.
- Practical Training & experience in auditing and
- Continous professional education during the auditor's professional career.

(b) Independence in mental attitude: The auditor must be free of client influence in performing audit & in reporting the findings.

(c) Due respect to profession: Auditor should be diligent & careful in performing an audit and issuing a report on the findings. Auditor cannot afford to be negligiant in performance of Audit

(d) Adequate planning & proper Supervision: The audit to be undertaken be adequately planned & assistants be properly supervised.

(e) Understanding the internal control structure: Full knowledge of internal control system should be acquired.

(f) Obtaining Sufficient competent evidential matter: it should be done through inspection, observation, inquiries & confirmation to frame a reasonable opinion.

(g) Financial Statements presented in accordance with GAAP: as established criteria & use it to evaluate management's financial statements' assertions

(h) Consistency in the Application of GAAP: The report shall identify circumstances observed in current period in contrast to preceding period

(i) Adequacy of Informative disclosure:- Disclosures in financial statement be regarded as correct or otherwise stated in the report.

(j) Expression of opinion: Auditors are required to express an opinion on analysis taken as a whole & state opinion cannot be expressed

"Audit of Educational Institutions - Schools, Colleges, Universities etc"

This audit comes under the category of special audit
Steps followed for audit of educational institutions are as follows:

- Study of the trust deed or regulations
- Examination of the previous financial statements
- Noting of provisions applicable.
- Evaluation of Internal Control system.
- Examination of the minutes of the meeting & resolution.
- Verification of students' fee register
- Authorisations for fee concessions.
- Verification of cash book with respect of counterfoils of receipts & payments.
- Examination of capital fund regarding admission fee.
- Verify free studentship & concessions.
- Confirmation of fines for late payment or absence.
- Check hostel dues recovery.
- Verification of investment register & enquire about any interest & dividend from investment if any.
- Verify grants from any local bodies or Government with reference to memo or sanction letter.
- Reporting of any arrears.
- Vouch counterfoils of receipts taken from donors.
- Confirmation of any deposits & caution money & its treatment
- Examination of expenses for library books & sports equipment
- Checking of acknowledge letter if any with regards to Scholarship
- Examination of payments with respect to prizes if any.
- Examine the salary register.

- Verify the Provident fund register.
- Check annual report with accurate supporting documents
- Vouching of all establishment expenses.
- Vouch payment for electricity & water bill.
- Examination of payment for hostel maintenance & any other miscellaneous expenses.
- Inspection of facilities given to students under any scheme / schemes associated with government.
- Verification of Fixed Assets Register
- Verify ownership & existence of Fixed Assets.
- Confirmation of statutory compliance i.e. P.F, Income Tax etc
- Verification of Seperate statements of accounts for different funds.
- checking of calculation of Salary payable & deductions
- Cross checking of all proceedure.
- Presentation of Audit Report on findings.

Auditing of clubs

A club is generally registered as a company limited by guarantee or as a Society under the Societies Registration Act.

The Sources of Income for the club are:

→ Entrance fees
→ Subscription
→ Charges for the facilities provided & Services rendered to its members.
→ Income from investments.

Role of Auditor in Club Audit:

The verification of the documents & income of the club is made by Auditors by examining:

1. The Register of Members
2. The counterfoils of receipts issued to the members.
3. Subsidiary Register related to the Services provided for indoor games, outdoor game facilities, restaurant, bar, pools, conference halls etc.
4. Auditors examine the following as well:

→ Constitution: The auditor should study the Constitution memorandum of Association & bye-laws to know the legal status of the club under audit.

→ Minute Book: It should be verified to know the financial powers of the Secretary.

→ Internal check system: Auditor should evaluate the internal check system in operation of the club.

→ Vouching of Receipts pertaining to

(a) Entrance Fee: Collections on account of entrance fee from members be verified with counterfoils of receipts

issued. Life membership fee be treated as capital income, Spread over a number of years.

(b) Subscriptions Received: they should be vouched with the counterfoils of receipts issued & it should be ensured that they are shown as income in the income expenditure Account.

(c) Advance & Arrears of Subscription :- Subscriptions received in advance should be carried forward to subsequent years. Arrears of Subscriptions should be adjusted properly.

(d) Dues from members: The auditor should vouch the dues from members with reference to member register. He should see that proper steps have been initiated to recover the dues from them

(e) Other receipts: Any special donation or grant if received by the club should be carefully verified. The auditors should see that they are properly utilized.

→ Vouching of Expenses: The expenditure of the club should be vouched as follows:

(a) Purchase of Sports Items :- The auditor should ensure that the purchase of sports items has been properly authorized, the quotations have been invited & order has been placed on most economical quotations & finally entries have been made in the stock register.

(b) Purchase of Consumable stores: Payments on account of food stuff, drinks, cigar, electricity, water etc should be verified. Entries for such purchase should be made in relevant stock register. Cash or bank passbook should be verified with the sale of items to calculate profit earned on each item.

(c) Salary & Other expenses: The auditor should verify the Salary register & compare with appointment letters issued to staff members. All other expenses should also be verified

(d) Capital & Revenue: The Auditor should see that proper

distinction has been made between capital & revenue items of expenditure.

→ Assets & liabilities :

(a) Physical verification of Assets : All the assets of the club should should be duly accounted for. They should be physically verified to conform their existence. All the assets should appear in the balance sheet at their true values.

(b) liabilities : The auditor should ensure that all the liabilities has been shown in the books of account at their true values & finally presented in the Balance sheet.

→ After the entire exercise of verification the auditor's need to submit a report on his findings.

Management Audit:

It is independent and systematic evaluation of the Management activities to establish efficiency, working & achievement of management reconcilling with standards of the Company.

According to Tokhe, "It is defined as a comprehensive critical review of all aspects or processes of management".

In short Management Audit is an attempt to evaluate performance of various processes & functions of management, examine & review the various policies & actions of management on the basis of objective standards.

Objectives of Management Audit:

→ To detect and reveal, defects & irregularities of management & suggest remedial measures.

→ To assist management to achieve optimal conditions in management & administration.

→ To generate a congenial relationship between staff & management

→ To compare actual performance with pre determined ~~Targets~~ targets inorder to judge the performance of management.

→ To review efficiency & effectiveness of the management.

Advantages of Management Audit:

→ It evaluates efficiency of Management by comparing actual performance with standards set by the company.

→ It scrutinizes plans, policies & procedures of management and compares it with organisational set goals.

→ It assesses the ability of Managers to undertake significant decisions

→ It helps management to revise or change plans, policies & procedures

→ Helps management to increase profitability by optimum use of resources.

Disadvantages of Management Audit

(a) Management audit is audit of the management by the management & for the management, hence auditors are selected by the management, hence they have a bias towards Mgt.

(b) The management auditors are more likely to take the facts for granted & donot make indepth investigation on even vital issues

(c) Time & cost constraints limit the scope, operations extent of such audits

(d) It discourages the initiative, innovative and dynamism of the efforts of talented Managers.

(e) Here the main focus is on productive activity rather than other aspects of management

(f) The Management audit team inorder to justify its engagement tries to finds faults on petty issues giving rise to controversies.

(g) It doesnot suit businesses where there is sole proprietorship or partnership.

"Cost Audit & Management Audit Compared"

	Management Audit	Cost Audit
1	It is option	1 It is compulsory when directed by government.
2	It covers all aspect of Mgt planning organising & control	2 It covers all aspects of a particular product for which audit is ordered.
3	It is independent appraisal activity of Mgt to ensure compliance with organisational objectives	3 It depends on the directions of the Central Govt. to ensure Statutory Compliance
4	It aims at evaluating control system	4 It evaluates costing system of a project
5	It reviews efficiency of Mgt.	5 It aims to ensure true & correct cost of production.
6	Its scope is wide	6 Scope is narrow restricted to a product

Management Audit	Cost Audit
7 Can be conducted by any Suitable person appointed by Board of Directors, Share holders etc	7 Can be appointed by Board of Directors any person possessing qualifications prescribed in Sec. 148 of Companies Act 2013
8. Report needs to be Submitted to top Management or Owners	8. Report to be Submitted to Central govt. with copy to concerned Company.

"Tax Audit"

Concept:

Tax Audit is an examination or review of accounts of any business or profession carried out by Tax payers from an income tax point of view. It makes the process of income computation for filing of return of income easier.

Objectives:

(a) Ensure proper maintenance and correctness of book of accounts & certification of the same by a tax Auditor.

(b) Reporting observations / discrepancies noted by tax auditor after a methodical examination of the books of Accou

(c) To report prescribed information such as tax depreciation compliance of various provisions of income tax law etc.

(d) To detect frauds & malpractices in filing returns.

Threshold limit for mandatorily subject to tax audit?

A Taxpayer is required to have a tax Audit carried out if the Sales, turnover or gross receipts are ~~[illegible]~~ more than Rs 5 crores (FY 2019-20), if Taxpayer's cash receipts & payments are limited to 5% of gross receipts or turnover

Individuals Required To Perform Income Tax Audit as per Section 44AB:

- Any person or individual carrying on a business earns a total income or turnover exceeding threshold limit in previous year.
- Any person falling under the following sections of Income Tax Act:
  (a) 44AD (b) 44AE (c) 44AF (d) 44BB (e) 44BBB
- Any person or individual carrying on profession, earns gross income or receipts in excess of threshold limit
- 44AD: Any person who is enrolled under presumptive tax scheme & if his sales exceed Rs 2 crores then he shall also have to get his accounts audited

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Cost Audit:

"It is a systematic and accurate verification of the cost Accounts and records and checking of adherence to the objectives of the cost accounting."

According to ICWA London, "cost audit is the verification of the correctness of cost accounts and of the adherence to the cost accounting plan."

In a single sentence, it could be said that 'cost audit is a systematic examination of cost accounts to verify correctness of cost accounting records'.

Objectives : (A) Economic objectives :-

(a) To establish the accuracy of costing data by verifying arithmetic accuracy of cost accounting entries in the books of accounts.

(b) To ensure that cost accounting principles are governed by the management objectives & these are strictly adhered to in preparing cost accounts.

(c) To detect errors, frauds and wrong practice in the existing system.

(d) To check working of the costing department & suggest measures for improvement

(e) To help management in taking correct decisions in determining the actual cost of production when goods are ready.

(f) To assist in inventory valuation

(g) Draw periodic reconciliation between cost & financial accounts.

(h) Ensuring optimum utilisation of human, physical & financial resources.

(B) Social objectives :-

(a) Fixation of reasonable prices of goods & services manufactured by the firm

(b) Detection of areas of inefficiency & mismanagement & provide suggestive measures.

(c) Improve productivity of human & financial resources of the firm.

Advantages of Cost Audit

(A) To the Management:

→ Helps in detecting errors and frauds
→ Helps management to get accurate and reliable data on the basis of which they can make decisions pertaining to price fixation
→ Helps in cost control and cost reduction
→ Assists the system of standard costing & budgetary control - variance analysis
→ Helps the management to detect loss making propositions.

(B) To the Government:

→ Helps in identifying sick units & undertake appropriate decisions
→ Fixing prices of essential products thereby controlling profiteering.
→ Making decisions on grant of subsidies, incentives & protections to socially desirable industrial units.
→ Helps to decide levies, duties & taxes on various products of luxury

(C) To the Society:

→ Fixation of prices of essential products by Govt. safeguards interest of society
→ It helps Govt. to control monopolistic tendencies in an industry.

(D) To Share holders:

→ Helps in making cost-benefit analysis of certain loss making products of organisation & then take remedial action in time.
→ It ensures that shareholders get a fair return on their investments
→ Saves their company in falling into trap of undue litigations due to non compliance of rules & regulations.

Disadvantages:

→ Holding cost audit is an expensive affair & unsuitable for small firms
→ It unduly disturbs day to day functioning of the organisation.
→ It involves a good deal of estimation any incorrect estimation may hamper the progress of the organisation.
→ It at times generates arguments with management on which management is the best judge.