

# PRINCIPLES AND PRACTICE OF AUDITING

R.G. Saxena

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# PRINCIPLES AND PRACTICE OF AUDITING

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*Dedicated to  
My Parents  
Shri Hargopal & Smt. Kirpa Devi  
&  
Brother  
Shri Sartaj Gopal*



## **PREFACE TO THE SEVENTH REVISED EDITION**

I am grateful to the teachers and students of 'Auditing' for their appreciation of my work. It has provided me an opportunity to bring out the revised edition of the book. In this book, the latest provisions of the Companies Act 2013 and other Acts relating to auditor and auditing and the views and guidelines expressed time to time by the ICAI have been incorporated.

The book is intended to meet the requirements of students preparing for B.Com. (Honours), B.Com. (Pass) and M.Com., MBA examinations of the Indian Universities as well as the candidates taking professional examinations conducted by the Institute of Chartered Accountants of India and similar professional Institutes as well as for those who are preparing for Civil Services examinations conducted by the UPSC, State Services Recruitment Boards/Commissions.

The efforts have been made to present the basic principles of auditing in lucid, systematic and logical manner.

A word of thanks to my publishers specially Shri Anuj Pandey, Shri Neeraj Pandey and to Shri K.N. Pandey, Himalaya Publishing House Pvt. Ltd. for their cooperation.

Suggestions for the improvement of the book will be grateful acknowledged and incorporated in the next edition.

*New Delhi: 2018*

**Prof. (Dr.) Raj Gopal Saxena**  
***Principal (Retd.)***

## **PREFACE TO THE FIRST EDITION**

Auditing is essentially a practical subject but the knowledge of its principles is equally important. An attempt has been made to acquaint the readers not only with the practical aspects of auditing but also with a theoretical background to the subject. With this end in view, the basic principles of auditing have been explained in an easily understandable way in leading cases with relevant facts have also been discussed.

The latest provisions of the Company Law, 2013 other Acts relating to the auditor and auditing and the various views expressed and the recommendations of professional bodies on certain aspects of auditing such as internal audit, independent auditor, stock-in-trade and liabilities of joint auditors, have been incorporated and discussed where appropriate. Special attention has been given to the audit of Banking, Insurance and Cooperative Societies.

Tutorial assignments drawn from the question papers of various university examinations have been given at the end of each chapter with a view to acquaint the readers with the typical questions pertaining to each topic.

The book is intended to meet the requirements of the students preparing for the B.Com. (Honours), B.Com. (Pass) and M.Com. examinations of Indian universities as well as the candidates taking professional examinations conducted by the Institute of Chartered Accountants of India and similar professional Institutes.

In writing this book, I had to refer to and draw from other standard publications on the subject. I gratefully acknowledge my thanks to the authors of those publications.

I also express my appreciation for my wife Asha for her enduring patience in making this effort a success.

I have spared no efforts to make the book useful to the student community and shall consider my efforts amply rewarded if it serves the needs.

Suggestions for the improvement of the book will be gratefully acknowledged and incorporated in the next edition.

*New Delhi: 1979*

**R.G. SAXENA**

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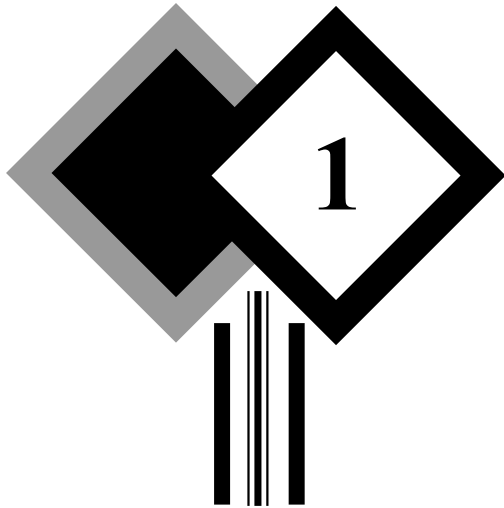
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# INTRODUCTION

## ❖ The Origin of Auditing

The practice of auditing accounts may be traced back to the early stages of civilisation. In those days, audit was undertaken mainly for State or Public accounts. The historical records of auditing show that ancient Egyptians, Greeks and the Romans used to get their public accounts scrutinised and audited by an independent official. Pre-vedic and vedic literature also show that accountancy existed in developed form and an elaborate system of check and counter checks within the financial administration existed. However, the audit of accounts of private business houses was rare as the size of business houses was small and the management and ownership were joint.

Individual business houses with limited capital resources used to carry on the business on a small scale. Production was limited and the number of transactions to be recorded was also small in number. The methods of recording these transactions were simple and usually maintained and checked by the owners themselves. In short, audit in those days was simply a comparison of the records of cash payment and vouchers therefore.

Auditing as it exists today can be associated with the introduction of large scale production following the *Industrial Revolution during the 18th century*. This revolution led to a great increase in the volume of trading operations which also required substantial capital investment. Individual business houses were not in a position to provide necessary finance because of their limited financial and credit resources. Further, the discovery of steam power, development in the means of transport and communications, the expansion of banking facilities and mechanical inventions also made it inevitable for businessmen to adopt some other forms of business organisations and management. This led to the formation of numerous joint stock companies and other corporate bodies.

The introduction of the joint stock form of organisation in the eighteenth century widened the scope of investment and business activities. The business community started raising money from public and also borrowed capital from various private and state financial institutions.

Under the company form of organisation, the investors (shareholders) as a body delegate the management of the undertaking, in which they have invested their money, to a Board of Directors but

they would be keenly interested in the safety of their investments. As the shareholders are drawn from far off places and are not at the helm of affairs of the company, they would also like to know whether their money is being properly utilised or not. They would also be interested in finding out a true and fair view of the financial position of the undertaking in which they have invested their money. In these circumstances, the need was felt for getting the accounts audited especially in case of joint stock enterprises, so the shareholders might be assured about the safety of their investment and accuracy of the accounts.

In the beginning, shareholders entrusted this task of checking the accounts to one of the shareholders of the company. But it could not serve any useful purpose as the shareholder lacked basic and technical knowledge of accounting and the ability for doing such type of work. Further, introduction of the *double entry system* of book-keeping also increased complications in the accounting system. Therefore, in order to have an effective check on the accounts of the company, the custom was developed to appoint a *professional auditor* to ensure that the audit could be done on right lines and in a systematic manner so that investors may put full confidence in his report. Audit now implies a written report about the accuracy and reliability of accounts by a qualified auditor. The Indian Companies Act 2013 had made it compulsory for all corporate bodies to get their accounts audited by a qualified professional accountant.

### ❖ Auditing in India

The system of accounting and auditing is believed to have existed in our country under the Mauryas, Chandragupta and other Hindu Kings. Kautilya, in his *Arthashastra* had mentioned about the accounting and auditing of state finances. He stated that, “*all undertakings depend on finance. Hence, foremost attention should be paid to the treasury.*” He also listed various kinds of frauds and embezzlements and prescribed punishments to deal with them. However, the growth of the Accounting Profession in India is a recent development.

The first company legislation in India, the Joint Stock Companies Act of 1857, contained regulations for the annual audit of company accounts. But adoption of these regulations were entirely optional as there was no legal obligation on the part of a company to have the *audit* of their annual accounts. It was the Companies Act of 1913, which made it compulsory for every company incorporated under it to have its accounts audited by professional accountants. This Act, for the first time, prescribed the qualifications of the auditor, made special mention of his powers and duties as well as laid down the procedure for his appointment. Under this Act, provincial governments were authorised to conduct examinations and to issue certificates to accountants entitling them to act as qualified auditors.

In 1918, the Government of Bombay started a Government Diploma in Accountancy (GDA). The Diploma was awarded to those who had completed three years articleship training and passed the necessary examination. These diploma holders were allowed to practice as qualified auditors in India.

In the beginning of 1930, the control over accountants in practice was shifted from the provincial governments to the Central Government, with a view to maintain uniformity in standards throughout the country. In the year 1932, the Central Government established an *Indian Accountancy Board* to advise on matters relating to professional accounting. Under the regulations of this Board, the Central Government used to issue certificates of Registered Accountant to those who wanted to work as qualified auditors.

## ❖ Development After Independence

Until 1949, the Central Government exercised full control over professional accounting. During all these years, professional accountants in the country grew in number and stature and with this, the demand for the establishment of an autonomous institute to regulate and control the profession grew. *In 1949, the Chartered Accountants Act* was passed according to which the responsibility to regulate, control and manage the affairs of the profession passed from the Central Government to the profession itself, *i.e.*, in the hands of the Institute of the Chartered Accountants. This institute works under the overall supervision of the Central Government but enjoys complete autonomy to evolve its own educational and training programme, ethics, discipline and professional expertise. The Institute of Chartered Accountants manages affairs of the profession through a Council comprising of the elected representatives of the chartered accountants and nominees of the Central Government.

The Companies Act of 2013 (replaced the Act of 1956) and its subsequent amendments further elaborated various provisions regarding the procedure of appointment of company auditors as well as their powers and duties. The Act also enlarged the scope of annual accounts and the audit report. The insertion of Section 148(1) in the Companies Act 2013 has empowered the Central Government to order compulsory cost audit in the case of specified companies. The Cost and Works Accountants Act of India (1959), now permits its practicing members to carry out Cost audit as contemplated by Section 148 of the Companies Act 2013.

In the year 1985, the Reserve Bank of India (RBI) issued a circular to commercial banks advising them to ask their potential borrowers to get their accounts audited. The Income Tax Act, which was amended in 1984 also provided for the compulsory audit of accounts of certain assesses.

The globalisation, liberalisation and privatisation have also widened the scope of audit over the years. There is slight shift in the purpose of auditing of accounts. The new techniques of auditing have emerged, and there is growing use of computers in business organisations for storage and processing accounting records and other financial information. There are new legislature controls, guidelines and statements which are being issued time to time from the professional bodies and the role of professional accountants in the light of judicial pronouncements which has also enlarged the scope of liability of auditors.

### MAJOR INFLUENCE ON AUDITING

1. Industrial Revolution
2. Social changes
3. Economic events
  - (a) Public ownership
  - (b) Professional Managers
4. Pronouncement from courts of law
5. Computer Technology

All this show that the scope of audit has also changed. Besides, *traditional areas* of financial audit, now the auditors are also appointed to conduct tax audit, cost audit, management audit, operational audit and social audit etc.



## MEANING AND NATURE OF AUDITING

The word 'Audit' takes its origin from the Latin 'audire' which means 'to hear'. In the middle ages, the auditor was a person, appointed by the owners whenever they suspected fraud, to check accounts and to hear explanations given by persons responsible for financial transactions. Auditing at that time was carried out to locate frauds and errors. But in 1464, an Italian named Luca Paciolo, published his treatise on the *double entry system* of book-keeping for the first time and also described the duties and responsibilities of an auditor. Since then, there have been noticeable changes in the scope of audit and in the duties and responsibilities of an auditor.

Further, when corporate enterprises started to grow, the result was dispersed ownership and the distinct separation of management from ownership. At the same time, institutional loans and borrowings came to play a significant role in the running of industry and business. Also, the gradual expansion of the idea of social responsibility of the State led to the introduction of the regulatory enactment in the field of trade, industry and commerce. In short, diverse interests grew and developed and as a result, the objective of audit correspondingly changed in emphasis from time to time.

As mentioned above, originally a large majority of audit in the early days was confined to ascertain whether the accounting party had properly accounted for all receipts and payments on behalf of the owners. In other words, the original object of conducting audit was to find out whether cash has been embezzled and if so, who embezzled it and the amount of the embezzlement involved. It was merely a *cash audit*.

The main object of modern audit is to see whether the balance sheet of a firm or a joint stock company presents an authentic view of its financial state of affairs. This would show that funds of the shareholders and those who have given loans to the company have been employed by the management to carry further the objectives for which the company was formed and for no other purpose. The emphasis now is clearly on the verification of accounting data with a view to report on the reliability of the accounting statements.

### ❖ Definition of Auditing

*Auditing* means the scrutiny of accounts books and the relative documentary evidence by an independent qualified person in order to ascertain the accuracy of the figures appearing therein. Some of the definitions given by well-established writers are given below:

- Montgomery, a leading American accountant and author, has defined auditing as “*a systematic examination of the books and records of a business or other organisations in order to ascertain or verify and to report upon the facts regarding the financial operations and the results thereof.*”
- The same concept has been elaborated a little more by Spicer and Pegler, “*such an examination of the books, accounts and vouchers of a business, as shall enable the auditor to satisfy himself whether or not the balance sheet is properly drawn up, so as to exhibit a true and correct view of the state of affairs of the business, according to the best of his information and explanation given to him and as shown by the books; and if not, in what respect it is untrue or incorrect.*”
- According to Dickse, “*auditing can be understood as an examination of accounting records undertaken with a view to establishing whether they correctly and completely reflect the transactions to which they purport to relate. But this is not the end of the matter, in addition,*

*the auditor also expresses his opinion on the character of the statements of accounts prepared from the accounting records so examined whether they portray a true and fair picture.”*

- The International Auditing Practices Committee defines auditing as “*the independent examination of financial information of any entity, whether profit oriented or not, and irrespective of size, or legal form, when such an examination is conducted with a view to expressing an opinion thereon.*”
- Mautz defines auditing as being “*concerned with the verification of accounting data, with determining the accuracy and reliability of accounting statements and reports.*”
  1. It stands clear from the above definitions that *audit is the systematic and scientific examination of the accounts of a business.* An auditor has not merely to examine entries in the books of accounts or to see the numerical accuracy of the books but he has to find out whether transactions entered in the books of original entry are correct or not.
  2. To determine this accuracy and reliability, he will have to go through the relevant evidence (internal as well as external evidence) that is produced before him in the support of all these transactions. In some cases, he may even call for independent expert opinions regarding technical matters. He has to verify all evidences critically and not just mechanically.
  3. Auditing is a process of collecting, testing and weighing of evidence. It is “*analytical, it is critical, investigative, concerned with the basis for the accounting measurements and assertions — thus, auditing has its principal roots, not in accounting which it reviews, but in logic on which it leans heavily for ideas and methods.*” Thus, the auditor has to satisfy himself with the authenticity of the financial accounts of the business in order to give a honest report to his appointing authorities. With this end in view, he should carry on an audit as thoroughly as possible.

The Institute of Chartered Accountants of India has, described modern auditing as “*a systematic and independent examination of data, statements, records, operations and performance (financial and otherwise) of an enterprise for a stated purpose. In any auditing situation, the auditor perceives and recognises the propositions before him for examination, collects evidences, evaluates the same and on this basis, formulates his judgements which is communicated through his audit report.*”

#### BOX 1.1

The above definitions reveals the following points which are applied to the financial audit.

1. Systematic and independent examination of the transactions recorded in the books accounts by a qualified auditor.
2. Collection and evaluation of evidences, direct and indirect and through communication with the outsiders who have done business with the entity.
3. Understand the propositions to be examined and communicate in writing regarding the fairness and truthfulness of the financial statements.
4. Opinion on the assertions made by the organisation on the financial statements must be communicated through audit report by the auditor.

### ❖ Scope of Audit

From the above discussion it should be clear that the scope of audit is extending or enlarging day by day because of the changes in the economic conditions of the country. It is no more a ticking profession. As stated by Arther W. Holmes, “*Long-range objectives of an audit should be to serve as a guide to the management’s future decisions in all financial matters such as controlling, forecasting, analysing and reporting. These objectives have their purposes — the improvement of performance.*”

Shri Gian Prakash, formerly the Comptroller and Auditor General of India, remarked, “*Today, most of the economic activities are largely conducted through public finances. In a rapidly developing economy this has to be so. The companies which are in the public sector have also public finances invested in them to a very large extent. Whether these larger funds are properly used is the responsibility of the trustees of the nation’s finances.*”

From these two statements, it is apparent that not only the scope of auditing is widening but there is change in emphasis in audit objectives also. As a result of that, the society expects more from the auditor. As mentioned by Schlosser, “*Auditing is a systematic examination of financial statements, records and related operations to determine adherence to generally accepted accounting principles, management policies or stated requirements.*” This definition not only emphasises on the verification of accounting statements but extends the scope of auditing by including in it a thorough examination of allied operations any evaluation process carried out systematically for a specific purpose, communicate the findings in the form of a report to the interested parties. He further adds that audit now also covers cost audit, management audit, internal audit and governmental audit etc. It is not confined only to business houses but non-business organisations also avail services of qualified auditors to get their accounts audited.

### ❖ Book-keeping, Accountancy and Auditing

**Book Keeping:** The job of the book-keeper is to assist the accountant to record the transactions in the books of original entry and then posting to ledger. He should be conversant with the *double entry* system of book-keeping; only then he will understand system of book-keeping; only then he will understand the need of —

- Journalising
- Posting to respective ledger accounts
- Totalling and balancing the accounts.

### Accountancy

- Checking numerical accuracy of the books of accounts.
- Preparation of trial balance.
- Preparation of trading and profit and loss accounts.
- Preparation of balance sheet.

### Auditing

The work of an auditor begins when the accountant has completed his job.

1. Auditing involves a detailed analytical and critical examinations

2. Verification of all transactions recorded in the books of accounts with the relevant evidences and
3. To ascertain the financial status of the concern by Auditor.

Sometimes, the difference between *accountancy* and *auditing* is not clear to the students. Thus, the exact distinction between these two terms should be clearly understood.

### ❖ **Accountancy and Auditing**

Accountancy is the work of an accountant and is confined chiefly —

1. To check the numerical accuracy of the books of accounts, extraction of an agreed trial balance, preparation of the trading account, profit and loss account and balance sheet in such a way that one can clearly get an essence of the state of affairs of the business, making rectification and adjustment entries.
2. To examine the financial statements prepared by the account(s) to satisfy that the financial statement exhibits a true and fair, financial position of the organisation.
3. To be able to perform his work only if he possess adequate and sufficient knowledge of accounting concepts. Normally, the accountant is a regular employee of the enterprise.

The auditor is an independent professionally qualified person hired to render the specific services.

1. Auditing involves a detailed and critical examination and the verification of such accounts by an independent accountant, *i.e.*, auditor is engaged for the purpose of ascertaining the financial status of a concern.
2. An auditor undertakes a detailed examination of the financial statements prepared by the accountant.
3. An auditor verifies the transactions recorded with the help of relevant documentary evidences and explanation given to him.
4. An audit does not entail the preparation of accounts at all but denotes something much wider, namely, the examination of those accounts and the subsequent submission of a report thereon.

While acting in the capacity of an auditor, he has nothing to do with the preparation of accounts but is mainly concerned with the detailed and critical examination of accounts prepared by an accountant. He is to certify and honestly report to his clients that the profit and loss account and balance sheet have been properly drawn up and exhibit an authentic financial state of affairs of the business. Ordinarily, the report of the auditor is placed at the foot of the balance sheet.

Frequently, the auditor is called upon by a concern to prepare from the set of books, a trial balance, profit and loss account and balance sheet. If he prepares the accounts of the business, he would be acting in the capacity of an accountant and not as an independent auditor. He could only say that such a balance sheet has been prepared by him from the books of accounts. It is not his duty to report upon the balance sheet prepared by him as being authentic.

An auditor can take up both the jobs provided he makes the position clear in his report because his responsibility as an accountant will be different from his responsibility as an auditor. As stated by Emile Woolf, “*Although many practicing accountants readily undertake both accounting and audit works, these tasks are respectively undertaken with different hats on, and a separate fee for each is normally negotiated.*”

The job of an accountant is to record transactions in the books of accounts (assisted by juniors known as 'Book-Keeper') while an auditor has to check and verify such completed accounts. There can be no auditing without the prior existence of accounts. Thus, the work of an auditor begins only when the accountant has completed his job.

### ❖ Auditing and Investigation

Auditing and investigation are two different terms. Investigation is not a part of the auditing function. Often practicing accountants, being experts in their subjects, are frequently called upon to undertake the job of investigation. *The object, scope, time coverage, approach towards the work, planning of programme and finally the disclosures and report are the main points of distinction between these two terms.* From the discussion given below, one can easily understand the difference in these two terms:

#### BOX 1.2

- (1) An investigation is different from audit because in the former, the object is the examination of accounts for a *special purpose* other than the confirmation of financial accounts and the report upon it. The purpose of investigation may be —
1. to find out profit *earning capacity* of future years of a company or.
  2. the *financial position* of a concern or *suspected fraud* and the extent thereof or
  3. on the *admission* of a new partner or
  4. detect deep-rooted frauds otherwise not detected during an independent auditor or external auditor.

Obviously, the scope of an investigation has to be different from that of an audit. Not only this, even the programme of work is also different for each type of investigation. An audit is conducted to ascertain the truth and fairness of the financial statements of an organisation.

- (1) An investigation chiefly consists in analysing, collecting and presenting facts in a manner which may enable parties for whom it is undertaken to know the essential facts regarding the matter under enquiry,
- (2) Auditing is carried out to find out whether the balance sheet is properly drawn up and shows authenticity of the financial state of affairs of business and the profit and loss account shows a true and fair view of the profit or loss for the financial period under review.
- (3) Audit is concerned only with prima facies evidence which is sufficient and appropriate whereas in investigation conclusive evidence is required.
- (4) An investigation may be undertaken on behalf of those parties who are interested in the activities of business. For example, where a company has asked for credit facilities from a bank, then bank authorities may ask for the investigation of accounts of the company by an independent person for finding out the creditworthiness of that company. It is not necessary that the investigation be conducted on behalf of the proprietors of the business, as is the case with audit.
- (5) An investigation may cover more than one financial period and the programme of work depends, for each type of investigation, on the consideration of its purpose; while audit usually relates to a particular financial period.
- (6) The programme to undertake investigation of an enterprise will depend on the purpose and is determined as the work progresses.
- (7) In audit the programme is normally fixed and at times the emphasis is only changed but not the whole programme.

### ❖ Objectives of an Audit

Auditors are appointed not only to report on the truthfulness and fairness of the financial statements of the organisation, (independent financial audit), but some times they may be called upon to express

their opinion on the cost statements (cost audit) or to compute the taxable income of an organisation (tax audit). Auditor may be appointed also to critically examine, review the various policies and actions of the management performance. It means the nature of the preposition which an auditor is called upon to review and report determines the objectives of auditing.

Objectives of Independent Financial Audit may broadly be classified as —

1. Primary objective
2. Secondary objective or Subsidiary

Let us discuss in details.

1. **Primary objective of an Audit:** *The main objective of financial audit is to establish by an examination of books of accounts, vouchers and other appropriate records, that the balance sheet, at a given date is properly drawn up, so as to exhibit a 'true and fair view' of the state of affairs of the business and the profit and loss account also discloses a true and fair view of profit or loss for the financial period ending that date.* In order to establish that financial accounts disclose the true and fair view of the state of affairs, the auditor must carry out a process of examination and verification of the accounts and other related documents. In the process of such an examination of accounts and documents, certain frauds and errors may be detected. Despite such a possibility, these detections must not be regarded as the primary or main object of an audit. (Laymen have always associated auditing with the detection of fraud and error).

*The main object of audit always is to establish the degree of reliability of financial statements and to produce a report on the organisation's financial condition and working results.* The detection of errors, irregularities and frauds are regarded as *incidental* to the main object. These are only subsidiary advantages or benefits flowing automatically from an audit but by no means an insignificant objective.

The statement issued by the Research Committee of the Institute of Chartered Accounts of India also states that *"the auditor recognises that any fraud, if sufficiently material, may affect his opinion as to whether the accounts show a true and fair view and he takes this into account in conducting an audit. While an audit under the Companies Act is not intended and cannot be relied upon to disclose all defalcations and other irregularities, their discovery may be incidental to such an audit."*

Again, an audit is intended to disclose how far the system of accounting, which is being followed, has been successful in correctly recording transactions as well as the weaknesses that may be there in its organisation. Such a trend is clearly evident in the provisions of the Companies Act, which requires an auditor to report whether the books of accounts are kept in accordance with the Act and whether the balance sheet prepared from these accounts show a true and fair view of the state of the company's affairs as at the end of its financial year and in case of profit and loss account, it gives a true and fair position of the profit and loss for its financial year. According to Section 129(1) of the Companies Act, 2013, *the main objective in a company's audit is to conduct an independent review of financial statements and express an opinion about their reliability in representing the company's financial position and working results.*

An auditor, in order to be assured about the accuracy of the books of accounts so that he may report upon the actual financial position and the working results of the organisation must —

- (a) examine the system of internal check;
- (b) check the numerical accuracy of the books of accounts by verification of posting, casting and balancing etc.;

- (c) verify the authenticity and validity of transactions entered into the books with relevant supporting documents and evidences;
- (d) ascertain that a proper distinction has been made between items of capital nature and those of a revenue nature and that the amounts of various items of income and expenditure correspond to the accounting period;
- (e) confirm the existence and value of assets and to verify liabilities;
- (f) verify whether all statutory requirements as regards the books of accounts that should be maintained as well as the form in which the final accounts should be drawn up have been duly complied with.

The Institute of Chartered Accountants of India states, “*the objective of an audit of financial statements, prepared within a framework of recognised accounting principles, policies, practices and relevant statutory requirements, if any, is to enable an auditor to express an opinion on such financial statements.*”

Further, the auditor’s opinion helps in the determination of the true and fair view of the financial position and operating results of an enterprise. However, we should not assume that the auditor’s opinion is an assurance as to the future viability of the entity, or regularity and decisions taken by the management or efficiency and effectiveness with which the management has conducted the affairs of the enterprise.

## 2. Secondary or Subsidiary Objects of an Audit

As stated in above discussion the detection of material resulting from mis-statements, errors and fraudulent manipulation are incidental objective of an independent financial auditing. These flow automatically from the primary objective of an audit which is conducted to determine whether or not the financial statements give an authentic or a true and fair view of organisation’s financial position and working result. We discuss the *error* and a *fraud* under the following two heads.

### (1) Detection and Prevention of Errors

Errors are reportedly committed innocently, *i.e.*, unintentional mistakes. An auditor should be very careful about these, because sometimes, errors which might appear as innocent are the results of fraudulent manipulation. For example, a debtor sends ₹ 500 by bank draft and the accountant forgets to make an entry in the books; it is an *error*. On the other hand, if the accountant intentionally keeps the money with him and spends it for his personal use and does not record an entry in the books, it becomes a *fraud*. The guidelines issued by the ICAI also states that, an error may be defined as an unintentional mistake or misdescription in the book of accounts or records whether by way of:

- (a) mathematical or clerical mistakes in the records and data;
- (b) oversight or misinterpretation of facts; or
- (c) misapplication of accounting principles (policies).

An error is generally taken to be innocent and not deliberate. Where it appears to be wilfully made, it assumes the character of a fraud?

Thus, an auditor must pay particular attention to it.

#### **Errors of various types are listed below:**

**(i) Clerical Errors:** A clerical error is one which arises on account of wrong posting, *e.g.*, posting an item to a wrong account. If the trial balance is agreed upon, the clerical error of such a type should

have been discovered, unless counter balanced by other errors. But some clerical errors are of such a kind, even if undetected, do not affect the trial balance. For example, an amount received from A is credited to B. The trial balance will still agree.

Clerical errors are of three types:

(a) *Errors of Omission*: Errors which arise on account of transactions not being recorded in the books of accounts, either wholly or partially, are called *errors of omission*.

**Examples:**

- Where a transaction has been totally omitted from record it will not affect the trial balance and hence it is more difficult to detect. For example, omission to enter purchases in purchase books. It means that both the debit and credit aspects of the transactions are equally omitted and the numerical accuracy of the trial balance is not affected.
- On the other hand, partial omission can be easily discovered as the trial balance will not agree.
- For instance, if the entry for purchase is made in the purchase books but is omitted from the accounts of the concerned customer. Such an error may be due to the carelessness of the clerk who records only one aspect of the transaction or may be intentional.
- The rent account must show twelve entries for the rent paid in a year whereas if only nine entries are shown, it means the rent for three months has not been paid or recorded. In these cases the trial balance will disagree and the auditor can find out these errors by conducting a thorough checking of the records.

(b) *Errors of Commission*: When incorrect entries or wrong posting of amounts are made in the books of accounts (books of original entry or ledger accounts) either wholly or partially, the errors are known as *errors of commission*. Goods sold to A were recorded correctly in journal but while posting to the ledger account, A's account was not given credit in goods account partial omission, it will affect the trial balance.

**Examples:**

1. Wrong entries in the books of original entry, wrong calculations, postings, additions, castings and carry forwards.
2. Goods were sold to A for ₹ 5,000. This amount is posted to the debit of B instead of A (trial balance would not be affected).
3. The amount in the books of original entry is wrongly recorded. The amount of ₹ 232 might be entered as ₹ 322 in the books of original entry. Such errors can be located while vouching the purchases with the original invoices and then rectified.

(b) *Errors of Principles*: As the name indicates, errors of principle occur when some fundamental principles of sound accountancy are not properly observed while recording a transaction. In other words, such errors may arise quite unintentionally due to the lack of correct knowledge and understanding of the principles governing the preparation of the accounts of a business.

**Examples:**

1. The incorrect allocation of expenditure between capital and revenue or vice versa,
2. Ignoring outstanding assets and liabilities,
3. Wrong valuation of assets and provisions for liabilities and bad debts, etc.



The error of this kind does not affect the agreement of the trial balance; but the profit and loss account is very much affected. For example, if the revenue expenditure is shown as capital expenditure or when closing stock is overvalued, the profit gets inflated *i.e.*, the profit is shown more than what it actually should be. Such errors are also committed intentionally to manipulate the accounts in order to show more profits or less profits or for instance, if more depreciation is provided for plant and machinery the profit is reduced. This will affect the profit and loss account and the balance sheet. Such errors will never be discovered by mere routine checking. Therefore, an auditor should exercise utmost care in discovering such errors, make an intelligent enquiry and investigation of every transaction whereas error of principle is most likely to occur to locate such errors.

(c) *Compensating Errors*: When there are two or more errors which exactly counter-balance each other, they are referred to as *compensating errors*. They are also known as offsetting errors, because the effects are offset. They are difficult to detect as the trial balance will still agree. For example, X account was credited by ₹ 20 instead of ₹ 80. There was a short credit of ₹ 60, while Z account is debited by ₹ 20 instead of ₹ 80. Thus, there is a short debit of ₹ 60. It means that there is only a short credit and a short debit of ₹ 60 each. Both the sides of the trial balance are equally affected. But these errors affect trial balance as it may or may not affect the profit and loss account.

(d) *Errors of Duplication*: These errors occur when the same transaction has been recorded twice in the books of original entry and also posted twice in the Ledger. For example, purchase worth ₹ 5,000 may be recorded twice in the accounts. Some of such errors will be detected by the non-agreement of the trial balance while some errors do not affect the trial balance. As these errors will not affect the agreement of the trial balance, it is not so easy to trace them. Such errors can be located through careful vouching of records. The vouchers *once entered* in the book of original entry should be maintained in separate files and duplicate invoices should be maintained in separate files and be stamped duplicate.

#### AUDITOR DUTY — HOW TO LOCATE ERRORS

In simple terms, the duty of the auditor is not to trace and locate a difference in the books of accounts. He is required to audit the books only; but in many cases, the auditor is frequently called upon to discover differences in the books of accounts. Such a situation arises only when the accountant is unable to trace it. The auditor should apply the following tests:

- (i) Trial balance should be checked. It is possible that there may be errors in the totalling of the trial balance itself.
- (ii) List of debtors and creditors should be compared with the trial balance.
- (iii) Compare names of the accounts appearing in the ledger with the names of the accounts as have been recorded in the trial balance. Check up the balances of ledger accounts with the trial balance.
- (iv) Totals of the cash book, purchases and sales books should be checked and see that they have been properly recorded in the trial balance.
- (v) Verify that no entry of the books of the original entry has remained unposted.
- (vi) Verify the totals of the books of account.
- (vii) Check the posting of entries from various books into the ledger.
- (viii) Verify the journal entries. It may happen that the mistakes may be on account of wrong journal entries.
- (ix) Have the amount of difference, and ascertain if there is a balance of this amount on the wrong side of the trial balance.

In spite of all this checking, some errors may still remain there for which a detailed inspection and examination of the books should be done.

## 2. Detection and Prevention of Fraud

### ❖ Fraud

'Fraud' is intentional and is knowingly committed to defraud the proprietors of the concern. This is done deliberately to deceive, to mislead or to conceal the truth of the material facts which will affect the financial statements. Frauds are more serious than unintentional errors because of the implication of dishonesty which accompanies them. Trusted personnel of management, third parties and employees may be involved in committing fraud to obtain illegal gains or personal benefits. Frauds generally involves either misappropriation of assets that may be called 'employees fraud' whereas manipulation of account is considered as 'management fraud'. Thus, detection and prevention of frauds is of great importance and constitutes an important duty of an auditor.

Frauds may be of three types:

(a) *Embezzlement or Misappropriation of Cash*: In small types of business enterprises, the possibilities of misappropriation of money are very little because the individual owner is in touch with all the affairs of the business. But in big business houses, where there is a divorce between ownership and the management and the individual owner has no direct control over the receipts and payments of cash, the opportunities of committing frauds are frequent. Broadly, frauds resulting in misappropriation of cash are perpetrated by (i) inflating payments and (ii) by suppressing receipts.

(i) *Inflating of Payments*: It generally involves *employees* of the organisation so it is named as employee fraud. It is done by inflating purchase invoices or inflated amounts being paid by manipulating totals of wage sheets either by including therein names of dummy workers, or amounts paid against fictitious vouchers or actual sales may be shown as goods sent on consignment to misappropriate cash.

(ii) *Suppression of Receipts*: It is done by (a) cash sales not being fully accounted for, (b) adjusting unauthorised rebates, allowances and discounts, etc. in customer's balances against which cash has been received but has been misappropriated, (c) Not accounting for miscellaneous receipts *e.g.*, sale of scrap, rents of quarters allotted to an employee for a temporary period, etc., (d) "Teeming and Lading", *i.e.*, cash received from one customer is misappropriated and a remittance received from another debtor is posted to the first debtor's account and from the third to the second and so on, etc.

In order to detect all these types of frauds, the auditor should make a detailed checking of all the important books and documents, *i.e.*, cash books, vouchers, invoices, wage sheets and confirmations of balances from the customers etc.

(b) *Misappropriation of Goods*: Fraud may be in respect of goods. This type of fraud is difficult to detect; unless a proper stock record is kept, *i.e.*, proper records of goods inwards and outwards must be maintained. An efficient system of internal check must be introduced in business. There should be adequate external security arrangement to see that no goods are taken out of the business premises without proper authority. *The goods may be removed by junior staff or by senior officials of the concern.* The auditor can detect this by undertaking a thorough and strenuous record checking and the physical verification of the goods.

In all above stated cases, employee's or senior officials are normally involved.

(c) *Manipulation of Accounts or Falsification or alteration of books and other records of Accounts without any Misappropriation*: It is known as management fraud. This type of fraud is always intentional, predetermined and is more difficult to detect as it is usually committed by the higher management cadre

persons connected with the business such as directors and managers. The accounts are so prepared that they present a picture of the state of affairs of the business different from what it actually is. As a result of the manipulation of accounts, profits are increased or reduced. The true position is concealed. The object of manipulation and falsification may be to make payment of taxes *i.e.*, sales tax and income tax, or ‘*window dressing*’; to mislead a prospective buyer of the business by presenting a better state of financial affairs and the financial health than the actual position of the concern or paying higher amount of commission, securing more capital and giving a wrong notion of its financial position to intending competitors, or to borrow money to maintain a reasonable rate of dividends and to attract new shareholders for the company or to withhold the declaration of dividends despite sufficient profit and for receiving higher remuneration where managerial remuneration is payable by reference to profits. The object can be achieved in a number of ways, some of which are given below:

**Examples:**

- (a) Recording fictitious sales or purchases so that profit may be increased or reduced (whatever the case may be).
- (b) Increasing sales by recording fictitious purchases to earn more commission.
- (c) Omission of expenses or income or other significant information from the books of accounts and by not adjusting outstanding liabilities or prepaid expenses — sending cheques to the creditor before the balance sheet date but not entering them on cash records until the beginning of the next financial year. It means creditor will not exist at the date of balance sheet and cash at bank will not get reduced. It will show improvement in cash ratio.
- (d) By undervaluation or over-valuation of assets
- (e) Showing fictitious payments or receipts.
- (f) **Misapplication of accounting policies:** Income received in previous or preceding financial year may be taken into account in the records of the current year’s and expenses of current year being shown as of next year in violation of matching concept of accounting. It is known as misapplication of accounting policies.

❖ **Responsibility of Independent auditor — Legal and Professional angles:**

The primary objective of appointing an independent auditor is to know the reliability of the data on which the financial statements are prepared and also to know his opinion on the ‘truthness and fairness’ of the financial statements of the enterprise under audit. The detection of errors and frauds are incidental to the main objective. The detection of frauds requires careful and searching enquiries as they are committed by responsible officials.

It has been clearly stated from time to time, in *judicial judgements* and the *professional pronouncements*, issued by the ICAI that the prevention and detection of fraud and error is the responsibility of the management. An auditor can only ascertain the adequacy and effectiveness of the internal control in operation and then he can plan his audit programme accordingly which will enable him to detect the material misstatements in the financial information. He can only reduce the chances of errors and frauds being remained undetected but cannot eliminate.

The auditor, who uses adequate professional expertise and reasonable care in detecting frauds, cannot be held responsible if he fails to discover a well planned defalcation. He cannot be held liable for

failing to trace ingenious frauds where there is nothing calculated to arouse suspicion. He should act as a *watchdog and not as a blood-hound*: [Kingston Cotton Mills Co. (1896)].

On the other hand, if he fails to discover a fraud which could have been discovered by the exercise of reasonable care, he will be liable for negligence. It was held in *Hedly Bryne & Co. v. Heller and Partners Ltd.* (1963), “a person exercising any professional skill will be liable for negligence, resulting in failure to exercise due care and skill, to any person relying on his careless advice or information despite of the absence of contractual relationship with him.” In a recent decision in *Caparo’s* (1990) case it had upheld the principle of auditor’s liabilities towards third parties for detection and prevention of frauds and errors in case of his negligence. All that an auditor should do is to advice his client of the ways and means to prevent their future occurrence.

It can be concluded that the primary function of an auditor is not to discover frauds and irregularities unless he has been specifically appointed to detect or uncover defalcations. An auditor is not an insurance against frauds and errors. If he finds anything of a suspicious nature during the conduct of an audit, he should *probe it to the full*, (in-depth checking and verifications). In *Westminster Road Construction and Engineering Co.* (1932) case the learned Judge emphasised adoption of audit procedures to confirm the facts stated through management representations. This decision has widened the scope of auditor’s duty with regard to frauds and errors and laid down more strict standards of reasonable care but his approach to work should never be in the nature of endeavouring to uncover frauds.

In addition to auditor’s responsibilities as discussed above, SA 240 has issued guidelines also on auditor’s responsibility to identify the errors and frauds and report these to management.

**The Auditor’s responsibilities relating to fraud and errors which remains undetected in an audit of financial statements:**

The judgement in two cases mentioned above — *Hadley Byrne and Company Limited v. Heller and Partners Ltd.* (1963) and *Caparo’s Case* (1990) also recognised the liability of professionals toward third parties for detection and prevention of frauds and error.

**Salient features of SA 240 are stated briefly as under:**

1. *Primary responsibility* for prevention and the detection of error and fraud rests with those charged with governance of and management of entity.
2. *The auditor conducting* financial audit starts the work only after obtaining reasonable assurance that the financial statements are free from material misstatement caused by error/fraud.
3. In case auditor is not satisfied with the internal control system and he suspects the possibility of the entity’s financial statements having material misstatement from fraud and error then *suitable procedure to carry forward the audit* work should be designed in consultation of the audit team.
4. (a) When approaching work, the auditor should maintain *certain degree of skepticism* throughout the audit, *i.e.*, to remain alert from any misstatement.  
(b) Normally, an auditor accepts the audit assignment on the belief that all records and documents are genuine. Still he is free to ask the management for any possibility of financial misstatement being materially misstated due to fraud.

5. *When auditor identifies a misstatement:*
  - (a) He should *evaluate* whether such misstatement is *indicative* of fraud.
  - (b) He will also examine the reliability of management representations.
  - (c) Evaluate the implications of misstatement in relation to other aspects of audit.
6. (a) If as a result of misstatement resulting from a suspected fraud, the auditor should discuss the matter with the management immediately and take decision regarding the modalities/ procedures necessary to complete the audit.

### ❖ Advantages of an Audit

The following are the advantages accruing from an audit:

- (i) Audited accounts are more readily accepted as a correct and authentic record of the transactions.
- (ii) Errors and frauds are detected and rectified
- (iii) A regular audit would exercise a great moral influence on the client's staff and thus prevent chances of frauds and errors. At the same time, the staff will also keep the books of accounts up-to-date.
- (iv) An auditor possesses practical knowledge of business finance, contract laws, tax laws and other financial and legal matters. He can always advise on these matters and his opinions can be helpful to his clients.
- (v) An auditor acts as a *trustee* of the shareholders in the case of a joint stock company and safeguards their financial interests. Shareholders are assured that the accounts have been properly maintained and the directors and managers of the company have not taken any undue advantage of their position and have conducted the company affairs in the interest of the whole body of shareholders.
- (vi) Audited accounts are considered more reliable for taxation purpose *i.e.*, sales tax, income tax and other taxes.
- (vii) Audited accounts are helpful in claiming reasonable compensation from the insurance company in respect of loss by fire or burglary etc.
- (viii) Audited accounts facilitate the settlement of accounts between the partners, at the time of retirement or the death of a partner.
- (ix) Comparison can be made between the accounts of the current year and other years.
- (x) Audited accounts can be very useful whenever it is desired or required: (a) to secure a loan, (b) to obtain extended credit, (c) to admit a partner, (d) to sell the business or to convert it into a company, and (e) to absorb or amalgamate different businesses or to determine the purchase consideration for a business and for the purposes of obtaining licenses from the government.
- (xi) As an appraisal function, audit reviews the existence and operations of various controls in the organisation and points out the weaknesses and inadequacies in them.
- (xii) Audit safeguards the interests of the owners, creditors, investors and workers. For example, it is generally seen that the audited accounts are useful for settling trade disputes for higher wages or for the payment of bonus to the workers.

*Who is the Auditor:* The person who conducts audit is known as the *auditor*. He submits a report to his appointing authority, after careful examination of the accounting records and the accounting

statements. In this report, he expresses his opinion whether the statements of account are authentic or not.

### ❖ Quality and Qualifications of an Auditor

The Indian Companies Act 2013 has made it compulsory that the accounts of joint stock companies must be audited by a Chartered Accountant.

Therefore, the auditor of a company must be a *Chartered Accountant within the meaning of the Chartered Accountants Act, 1949*. He must also possess the certificate of practising of Accountancy and is bound to follow the professional code of conduct. Besides professional or statutory qualifications, an auditor must possess the following personal, technical and general qualities or attributes:

- (i) An auditor should know completely and thoroughly the principles of book-keeping and general accounting, cost accounting, income-tax, wealth-tax and death duty, etc. He should have the ability to install various accounting systems. This is very essential because he may be called upon to audit the accounts maintained under different systems of book-keeping in different businesses.
- (ii) He should have considerable legal knowledge of commercial and all business laws, Companies Act and other relevant laws and must be a complete master of the science of auditing in all its aspects. Where undertakings are governed by special statute, its knowledge will be necessary.
- (iii) He should be able to read the scripts in which the accounts of his clients may be kept such as English, Hindi and Mundi, etc.
- (iv) He should possess a pleasing personality and other qualities like tact, judgement, resourcefulness, self-control, dignity and diligence.
- (v) He should be methodical, painstaking, cautious and accurate and should have considerable perservance because the work of an auditor is mechanical in nature.
- (vi) An auditor need not be unduly suspicious. As Lord Justice Lopes said, "*An auditor is not bound to be a detective or to approach his work with suspicious or with foregone conclusion that there is something wrong.*" (In Kingston Cotton Mills Co. case). He should not assume when he comes to do his duty that he is dealing with fraudulent people.
- (vii) He must be vigilant and honest possessing high moral standards. He should not sign or certify any document which in his opinion does not give a true and fair view of the state of affairs. In the words of Lord Justice Lindley, "*An auditor must be honest — that is, he must not certify what he does not believe to be true and he must take reasonable care and skill before he believes that what he certifies is true.*" (In London & General Bank).
- (viii) Honesty, integrity and independence and good communication are the most important qualities of an auditor.
- (ix) He should possess adequate knowledge of general management, *computer application*, managerial economics, financial and marketing management to perform his professional responsibilities to.
- (x) He should be prepared to seek clarification on technical questions which are not clear to him. He should not allow any false pride or fear of displaying his own ignorance.
- (xi) He should be impartial and must not be influenced by others in the discharge of his responsibilities. He must strategically do his duties cheerfully and conscientiously. This would

earn for him a reputation for integrity and independence which in the long run will earn more business for him.

- (xii) He must have the ability to prepare an authentic report.
- (xiii) He should maintain complete secrecy and must not divulge to others any confidential information about the business of his client.
- (xiv) It will be enough to say that “*an auditor should have a full share of that most valuable commodity — common sense.*”

An auditor is a professional person, and his personal attributes, coupled with ability, educational qualification and experience will determine in great measure the extent of his success as an auditor.

### ❖ Independence of Auditors

The concept of audit and independence are the twin sides of the same coin. The word independence here means ‘*independence of mind*’. The auditor should be capable of expressing his opinion without any hesitation.

As stated by the Research Committee of the Institute of Chartered Accountants of India, “*professional integrity and independence is an essential characteristic of learned professions, but more so in the case of the accounting profession. Independence implies that the judgement of the person is not subordinate to the wishes or directions of another person who might have engaged him or to his own self-interest.*” Thus, independence is not based solely upon honesty in the preparation of financial statements, but upon any accountant-client relationship which in any manner detracts from the objective of independence of the auditor. As Wilcox mentions in the CPA Handbook, an auditor “*must fulfil his obligations even when it means opposing or denying the wishes of those who have employed him and who, he knows may cease to do so. It is a requirement unparallable in any other field.*”

Both these statements highlight that the auditor must be honest, sincere and straightforward in his approach towards his professional work. An auditor, like a judge, has to form his opinion on the basis of the evidences available instead on pre-conceived notions. If he fails to observe this principle it will not be possible for him to give an independent and objective report issued under sub-section 4A of section 227 of the Companies Act.

### Circumstances undermining the Independence and Specific Safeguards

There are many circumstances which have the effect of undermining the auditor’s independence. For instance, an auditor who is a relation of a managing director, director or officer of the company, in ‘public eye’, will always be seen as an ‘dependent auditor’. Thus, the auditor who has lost his independence has lost his *raison d’etre*; he has become dependent and a dependent auditor is a contradiction in terms.

The Code of Ethics for professional accountants of IFAC states that when undertaking a reporting assignment, a professional account should *both* be and appear to be free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity.

In view of the very real threat to the independence of an auditor, the Companies Act, 2013, lays down certain restrictions on the appointment of chartered accountants as auditors of a company. According to Section 141(3) of the 2013 Act, the following persons are not qualified to act as auditors of a company:

- (i) An officer or employee of the company.
- (ii) A person who is a partner of, or in the employment of, an officer or employee of the company.

- (iii) A person who is indebted to the company for an amount exceeding ₹ 100 and.
- (iv) A person or his relative or partner is undebted to company or to subsidiary or its holding or associate company or a subsidiary of such holding company in excess of such amount as may be prescribed who has given any guarantee or provided any security in connection with the indebtedness of any third person to the company for an amount as may be prescribed.

Similarly, the Chartered Accountants Act, 1949, also lays down certain conditions in this respect. For instance, the Act prohibits acceptance of fees by an auditor which are based on the profit. This restriction on appointment has been laid down keeping in view the situations in which there exists an implicit temptation, on the part of the auditor to avoid incurring the displeasure of those in a position to harm him.

The Council of Institute of Chartered Accountants of India has also advised its members that a chartered accountant should not get into a situation where there could be a conflict between his own interest and his duty. The statement issued by the Research Committee of the Institute of Chartered Accountants of India in this connection is worth noting.

“The council feels that there are adequate safeguards provided in the Companies Act as well as in the Chartered Accountants Act. It is of the view that independence being a state of mind, is not necessarily affected by the fact of mere relationship and more than it would be in existence if the relationship did not exist. In any case, lest there should be any feeling in the public mind that the relationship would affect the independence of auditors, the Council suggests that where, due to a near relationship of an auditor with the managing or the whole time director, the independence of an auditor is likely to be jeopardised, and he should use his good sense, and acting in best traditions of the profession, refrain from accepting the appointment.”

It can, therefore, be concluded that without his independence, the auditor is like an ornament; his effect is cosmetic in an organisation.

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### TUTORIAL ASSIGNMENTS

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1. What do you understand by ‘Auditing’? Explain its object.
2. Discuss the main classes of errors and frauds found in auditing of a firm accounts. Is the auditor responsible for the detection of such errors and frauds?
3. Among the objects of an audit are the detections of technical errors and errors of principle. Give two examples of each type of error and indicate the steps you would take to discover them in the course of your audit.
4. Explain the differences between Accountancy, Investigation and Auditing.
5. Write short notes of the following:
  - (a) Location of errors.
  - (b) Detection and prevention of errors.
  - (c) Detection and prevention of frauds.
6. What are the advantages of an audit? Briefly state the qualities of an auditor.
7. (a) Explain the difference between Accountancy and Auditing.  
(b) What are the main objects of an audit.
8. How would you discover an error in the trial balance, which the staff of your client had failed to discover and which you are asked to find out?



9. It is said that the efficiency of an auditor depends upon (i) his knowledge of law and accounts, (ii) his capacity for taking pains, (iii) his tact and patience, and (iv) the strength of his common sense.
10. What is meant by “independence of the auditor.?” Under what circumstances will an auditor be called as a dependent auditor?
11. “Auditing begins where accountancy ends.” Comment, distinguishing between auditing and accountancy.
12. (a) Internal Audit is to audit by an independent auditor.  
(b) The concept of due audit care is concerned with obtaining conclusive and fool-proof evidence in support of assertions in the financial statements.  
(c) Auditing is the process of checking, vouching and verification of the items in a balance-sheet and profit and loss account.
- Give your *comments* on the above statements.
13. Describe briefly the main classes of errors and frauds. Is the auditor expected to detect all errors and frauds?

