AUDITING

SYLLABUS

Auditing – meaning and objectives of audit – difference between auditing and accountancy – kinds of audit – advantages and limitations of audit – audit programmes and working papers.

UNIT-II

Internal control – meaning and object – internal check – meaning and object – internal control regarding cash, purchase, sales, payment of wages.

UNIT-III

Vouching – meaning – Objects – Feature of good voucher – Procedure and importance – vouching of cash transactions – Verification of assets and liabilities.

UNIT-IV

Auditor – qualification, appointment, dis-qualification, removal duties, power liabilities and remuneration – Share capital and share transfer of audit – Audit Report – Contents and types.

UNIT-V

Specialized audits, charitable institutions club, cinema theatre, educational institutions, hospital hotel – Electronic Data Processing Audit (EDPA).

Text books:

A text book of practical auditing – B.N.Tandun

References books:

Auditing – Dinker Pagare – Sultan Chand and Sons New Delhi

PracticalAuditing- S.Vengadamani,MarghamPublication,Chennai.

UNIT-I

Introduction:

In the early stages of civilization, the methods of maintaining accounts were very crude. Before this era, individuals, on small scale, produced goods. There was not much capital. Each individual was in a position to maintain his accounts and check for himself all his transactions. Hence, it was thought to be a sheer waste of time and money to get the accounts checked by someone from outside.

But the expansion of banking facilities and new means of communication, have widened the scope of investment and business in the 18th century. The investor would naturally like to see that his investment is safe. For this purpose, the accounts must be checked and audited, especially in the case of Joint-stock companies. As it is not possible for the shareholders to check the accounts of the company, they appoint a person who would audit the accounts on their behalf.

Q. EXPLAIN THE MEANING & DEFINITION OF AUDIT.

Meaning of audit:

The word **"audit"** is derived from the Latin word **"audire"** which means, **"to hear"**. In olden times, the owners of a business appointed certain persons to check the accounts whenever they suspected fraud. Such persons sent for the accountants and **"heard"** whatever they had to say in connection with the accounts.

Definition of auditing:

Spicer & Pegler - "An audit may be said to be such an examination of the books, accounts and vouchers of a business as will enable the auditor to satisfy that the balance sheet is properly drawn up, so as to give a true and fair view of the profit or loss for the financial period according to the best of the informations and the explanations given to him and as shown by the books, and if not in what respects he is not satisfied".

Montgomery - "Auditing is a systematic examination of the books and records of a business or other organization, in order to ascertain or verify and to report upon the facts regarding its financial operation and the result there of".

A.W.Hanson- "An audit is an examination of such records to establish their reliability and the reliability of statements drawn from them".

M.L.Shandilya- "Auditing may be defined as inspecting, comparing, checking, reviewing, vouching, ascertaining, scrutinizing, examining and verifying the books of accounts of a business concern with a view to have a correct and true idea of its financial state of affairs".

Q. EXPLAIN THE OBJECTIVES OF AUDITING.

The main object of audit is to find out whether the accounts of particular concern show a true and fair view of the earning and financial state of affairs.

Main objects:

The principal objects of auditing may be stated as follows;

i) Examination of books of accounts and records with a view to test the arithmetical accuracy and correctness in recording of transactions and their reliability.

ii) Verify that the balance sheet and profit & loss account are drawn in conformity with the books of accounts and records.

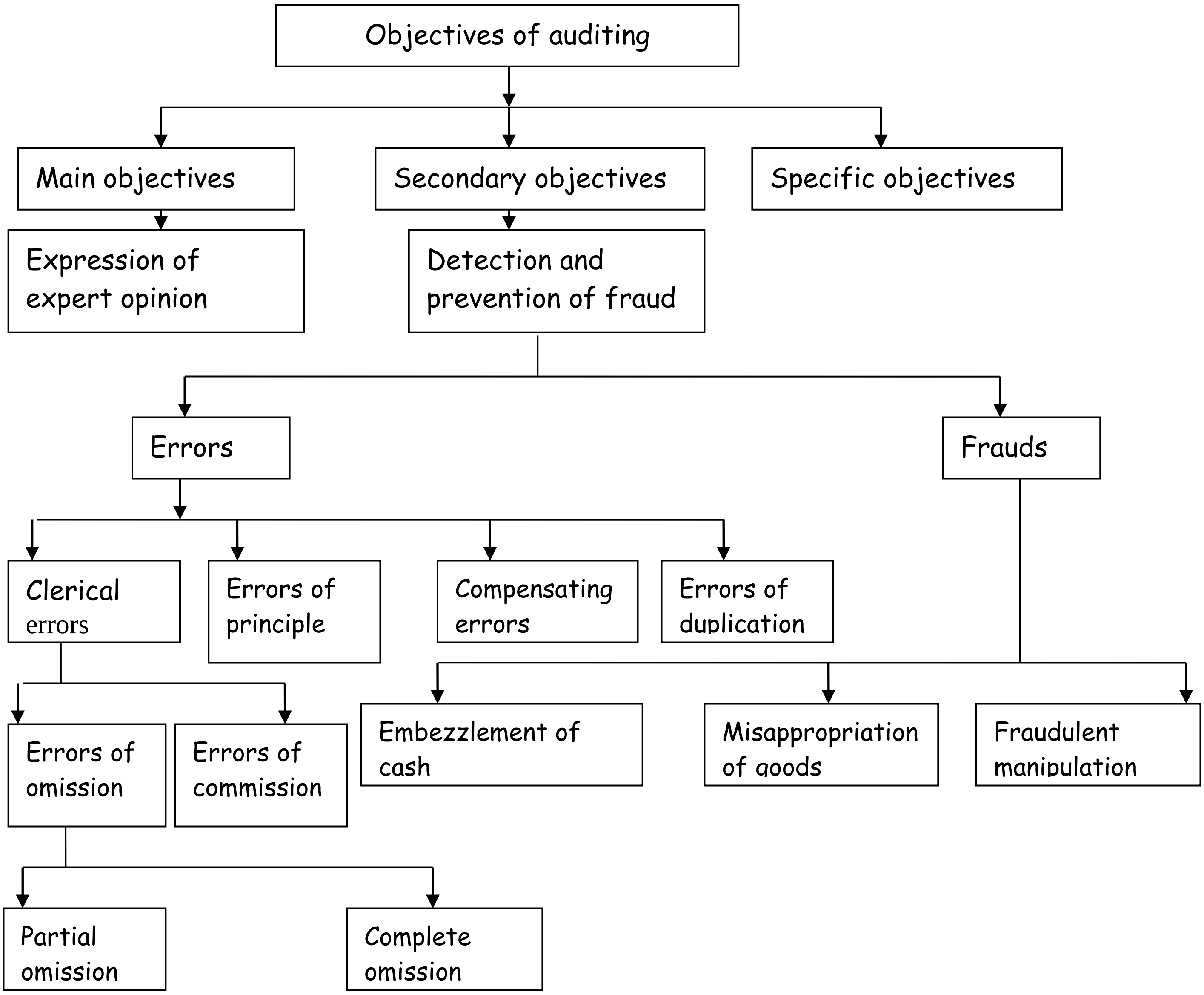
iii) Ascertain that proper accounting principles and procedures and management policies are followed.

iv) Ensure that books of accounts and records as required by law are kept.

v) Report on the balance sheet as to whether it reflects the true and fair state of affairs of the business and that the profit and loss shows the correct profit and loss of the business.

vi) Inspect all the documents, records and books of accounts of the business and express opinion on matters required by the statutes.

Thus the main object of auditing is to form an independent judgments and opinion about the reliability of accounting records and true and fair view of financial state of affairs and working results.



Secondary objectives:

The subsidiary objects of audit are;

i) Detection and prevention of errors and

ii) Detection and prevention of frauds.

In case of a proprietary or partnership concern, however, detection of errors and fraud may be the principal object of audit.

I. Detection of errors:

Errors are generally innocent but sometimes errors which might appear, at first sight, as innocent are ultimately found to be due to fraudulent manipulation and therefore an auditor must pay particular attention to every error, however, innocent it may appear to be at first sight.

The following are the various types of errors:

i) Clerical errors:

These errors are committed in posting, totaling and balancing. Such errors may again be subdivided into

a) Errors of omission
b) Errors of commission.

a) Errors of omission

Errors of omission generally arise due to the mistake of a clerk. If a transaction has been omitted from being entered in the books of accounts, wholly or partially, it is an example of error of omission. There are items like purchases or sales, which ought to have been recorded in the books of accounts, but due to oversight or carelessness they have been wholly omitted from being recorded.

Example:

The rent or interest may have been paid for 10 or 11 months and the remaining part of it, which is unpaid, or outstanding has not been recorded in the Journal. It is, of course, true that such a mistake can be detected by careful audit but this is after all a case of clear omission.

b) Errors of commission:

Errors of commission usually arise through negligence in the matter of recording some business transactions in the books of accounts. If an item is incorrectly recorded in the journal or posted in the ledger, it is an error of commission.

Example:

- Posting of wrong amount to ledger account.
- Posting an amount on the wrong side of the ledger account.
- Posting to wrong heads of accounts.
- Posting a wrong entry in the original record.
- Errors in balancing ledger accounts.
- Carrying forwards of amounts by taking wrong balance of an account.
- Entry of the transaction twice in the books.
- Entering in the books only one aspect of the transactions in the books.

ii) Errors of principle

The errors which may occur because of ignorance of the principles of accounts by staff are called errors of principles.

i) Treatment of revenue expenditure as capital expenditure. Example- Repairs to machinery treated as capital expenditure and added to machinery account.

ii) Posting transactions to wrong class of revenue accounts. Example- posting of commission paid to general expenses account.

iii) Treatment of revenue income or expenditure as a transaction to be posted to personal account. Example- rent paid to landlord debited to landlord account instead of rent account.

iv) Valuation of assets and liabilities against accepted principles of accounting.

Such errors can be committed intentionally to show more or less profit or to project an image of the business. Through this auditor can advise to maintain good book- keeping and suggesting effective controls.

iii) Compensating errors:

If two or more errors are counterbalanced (i.e. set off by one another) they will not affect the agreement of the trial balance. For example- If Rs.2000 overcasts the purchase book and the sales book is also overcast by Rs.2000, they will not affect the agreement of the trial balance.

The auditor can trace such errors only by a detailed and complete verification of the books of accounts.

iv) Errors of duplication:

Such errors arise when an entry in a book of original entry has been made twice and has also been posted twice.

II. Detection and prevention of fraud:

Fraud means false representation or entry made intentionally or without belief in its truth with a view to defraud somebody. Detection of fraud is considered to be one of the important duties of an auditor.

The following are the chief ways in which the fraud may be considered.

- Embezzlement of cash
- Misappropriation of goods and
- Fraudulent manipulation of accounts.

Embezzlement of cash

Misappropriation of cash means wrongful conversion or fraudulent application of cash. Embezzlement generally in the case of a small proprietary business where the proprietor has a direct control over the receipts and payments of cash should be such that the work of one clerk is automatically checked by another clerk. Such system is known as internal check.

Cash may be misappropriated by,

a) Omitting to enter any cash, which has been received.

b) Entering fewer amounts than what has been actually received

c) Making fictitious entries on the payment side of the cashbook.

d) Entering more amounts on the payment side of the cashbook than what has been actually paid.

Misappropriation of goods:

Fraud may be in respect of goods, i.e., misappropriation of goods. This type of fraud is very difficult to detect especially when the goods are less bulky and are higher value. Proper purchases and sales, stock taking, periodical checking of stocks will help to avoid misappropriation of goods.

Fraudulent manipulation of accounts:

This type of fraud is more difficult to discover as directors or managers or any other responsible officials usually commit it with the object of,

Showing more profits than what actually they are

i) So that if they get commission on profits, they may get more commission; or

ii) Their service may be retained by showing to the shareholders that because of their efficiency they have shown more profits and thus maintain confidence of the shareholders.

iii) If they hold shares, they may sell them at high price by declaring higher dividends; or

iv) To obtain further credit by showing the financial position of the business better than what actually it is; or

v) To attract more subscribers for the sale of the shares of the company, etc.

Falsification of accounts may be resorted to,

a) By not providing any depreciation or providing less depreciation or providing more depreciation.

b) By under valuation or over valuation of assets and liabilities

c) By showing fictitious sales or purchases or returns in order to show more profits or less profits.

d) By the utilization of secret reserves during a period when the concern has made less or no profit, without disclosing that fact to the shareholders.

Q. NARRATE THE FEATURES OF AUDITING.

i) An audit is a critical examination of the books of account and the financial statements drawn from them, including all operations and performances, whether financial or otherwise.

ii) An audit examination can only be made by a person who is duly competent for the purpose.

iii) An audit examination is to be made on the basis of evidential documents such as invoices, money receipts and other records, including information and explanations supplied by authorized representatives of the client.

iv) The object of the audit examination is to enable examination is to enable the auditor to express his opinion as regards the truth and fairness of financial statements prepared by his client.

Q. EXPLAIN THE FUNCTIONS OF AUDIT.

Auditing is primarily concerned with the verification and examination of the books of accounts. The auditor must satisfy himself that the system of accounting is sound; the information is disclosed adequately to understand the financial operations of the company and find out the results there on.

The functions of audit are as follows;

1. To ascertain the systems of accounting, internal control and management pattern of the organization.
2. To conduct tests check of the system of internal control to find out its soundness.
3. To collect all evidences in support of the transactions and find out whether the transactions entered in the books of accounts reflect the true nature of transactions.
4. To check the arithmetical accuracy of the records.
5. To scrutinize whether the items of capital and revenue nature have been correctly identified and disclosed properly in the books.
6. To satisfy that the books of accounts are maintained according to the requirements of status governing the business.
7. To verify the assets and liabilities and ensure that the assets are valued properly.
8. To report on the financial status of the business.

Q. DISTINCTION BETWEEN ACCOUNTANCY AND AUDITING.

The points of distinction between accountancy and auditing are as follows;

S.No	Basis of difference	Accountancy	Auditing
1.	Scope	Accountancy refers to the preparation of final accounts and its interpretation.	Auditing refers to the examination and checking of these accounting records.
2.	Nature	Accountancy is primarily constructive and concerned with current recording of business facts.	Auditing is analytical in nature and essentially retrospective
3.	Objects	The main objective of accountancy is to ascertain the trading results of a	The objective of auditing is to certify the correctness and justification of financial

		business concern during the financial year.	statements.
4.	Qualification	An accountant need not be a chartered accountant	An auditor must be a chartered accountant
5.	Commencement	When book-keeping records are completed they become available for the beginning work of accountancy in other words, accountancy starts where book -keeping ends.	The work of auditing starts only when the work of accountancy has been completed. In other words, where accounting ends auditing starts.
6.	Knowledge	Accountants need not to be expert in the work of auditing.	Auditors must have thorough knowledge of principles of accountancy.
7.	Duration	Accounting work is undertaken throughout the year.	Auditing is generally done at the end of the financial year.
8.	Status	An accountant is a permanent employee of the business concern.	An auditor is not a permanent employee of the concern. He may be changed from year to year.
9.	Report	An accountant is not required to submit a report to the proprietor of the concern when the accounting work is over.	An auditor is required to submit the report to the proprietor after the completion of his audit work.

Q. DISTINCTION BETWEEN INVESTIGATION AND AUDITING.

S.No	Basis of difference	Investigation	Auditing
1.	Object	Investigation is done for some specific purpose according to the necessity of the situation.	The object of audit is to ascertain whether the balance sheet of the concern shows the true and fair view of state of affairs of the concern.
2.	Compulsory	The investigation of books of accounts and records is not legally compulsory.	Audit is compulsory in case of joint stock companies.
3.	Nature	Investigation is thorough investigation of books of accounts for a particular year.	In case of audit, it is usually carried out in the form of test checking.
4.	Appointer	Investigation may be carried out on behalf of proprietor or on behalf of the third parties also.	Audit is carried out on behalf of the proprietor of the business concern.
5.	Period	Investigation of books of records may cover to three to seven years.	Audit of books of accounts is for six months or for full year.
6.	Carried on	Investigation is usually carried on when the books of accounts are already subject to regular audit.	It is not so with regard to audit except in case of special audit of joint stock companies u/s 233A of companies act.
7.	Adjustment	In investigation, it may become necessary to make certain adjustments in annual accounts already prepared.	This is not so required in case of audit.
8.	Report	The investigation report is prepared according to the necessity of situation	The audit report is prepared according to the act.
9.	Qualification	It is not necessary that an investigator must be a chartered accountant.	Auditing can be conducted by practicing chartered accountant.
10	Utility	The results of investigation are beneficial only to the client.	The reports of auditing are widely used.

Q. EXPLAIN THE VARIOUS KINDS OF AUDIT.

Audit is a skilled job since an auditor has to detect the irregularities in the accounting records. An audit is essentially a review function. Audit may be classified in to two categories.

a) Based on organizational structure of the business.

b) Based on conduct of audit.

Types of audit

Types of audit

Based on organizational structure of the business

Based on conduct of audit.

Based on organizational structure

a) Continuous audit
b) Private audit
c) Government audit
d) Internal audit

Based on the conduct of audit

a) Continuous audit
b) Periodical audit
c) Balance sheet audit
d) Complete audit
e) Partial audit
f) Interim audit
g) Propriety audit

h) Performance audit
i) Occasional audit
j) Operational audit
k) Standard audit
l) In-depth auditing
m) Post and vouch audit
n) Cost audit
o) Management audit

a) Statutory audit

Where audit in the case of an enterprise is made compulsory by the statute or law, it is called as statutory audit. The scope of audit, qualification, disqualification, appointment, remuneration, removal, duties, rights of the auditor and the nature of audit report and certificate etc are regulated by the respective provision of various statutes. Auditor must be properly qualified.

Most of the countries in the world have made it compulsory fro joint stock companies and societies. In India also, the audit of the following institutions has been made compulsory.

a) Joint stock Companies, registered under the Companies Act.
b) Banking Companies regulated under banking companies Act of 1949.
c) Insurance Companies governed by insurance Act, 1938.
d) Co-operative societies registered under societies regulation act or state cooperative societies act of the states.
e) Public and charitable trusts registered under various religious and endowment acts.
f) Public corporations formed under special acts.

Features of statutory audit

The features of statutory audit are as follows;

i) It is compulsory and it cannot be optional for the undertaking.
ii) Auditor must be properly qualified chartered accountant or costs and works accountants.
iii) Auditor must not possess the prescribed disqualifications during the course of his audit work of the company.
iv) Auditor represents the shareholders; he is the trustee of the shareholders and he does not and cannot represent the management in any respect.
v) Appointment of the auditor is made according to the set norms of the companies act.
vi) Such statutory audit has to be complete and it cannot be undertaken as partial audit.

b) Private audit:

The private institutions also get their accounts audited by some qualified auditors. Such an audit is not required by statue. Hence it is called private audit. These bodies have their own arrangements for audit and run for their own interest so that their accounts may be subject to a close scrutiny to be made by a professional accountant.

The main advantages of private audit

i) Audit serves as an assurance to the owners that the accounts of business transactions are being properly maintained and that there are no errors and frauds by employees of the enterprise.
ii) Audited accounts are reliable basis for assessment of tax liability.
iii) Audited accounts facilitate the settlement of claims and disputes.
iv) Audited accounts facilitate the process of raising loans and advances.
v) Verify the existence and valuation of stores and the stock.
vi) Ensure the proper system of stock taking should be adopted.
vii) Check the system of granting allowance such as traveling allowance (T.A), daily allowance (D.A) etc. and to ensure that they have been granted under rules framed for the purpose.

c) Government audit:

Government audit is applicable to government departments and departmental undertakings. In India the president appoints the comptroller and auditor general of India under article 149 of the constitution, government audit is divided in to several branches like defense, railways post and telegraph audit.

Objectives of government audit

i) Ensure that the expenditure is incurred out of the fund which has been sanctioned by the competent authority.
ii) Verify that the expenditure of the government department is sanctioned according to the rules and regulations of the department concerned.
iii) See that the expenditure already sanctioned has been incurred by an officer or officer's who are authorized to do so.
iv) See that the payments have been properly classified as capital and revenue.
v) Ensure that the payments have been made to the right persons and they are duly entered on the receipts received from them.

d) Internal audit:

Internal audit is a continuous and systematic process of examining and reporting the operations and record of a concern by its employed selected specially for this purpose. Internal audit is one of the functions of management. Such audit is an independent appraisal activity within an organization for their review of the operations and for measuring and evaluating the effectiveness of other controls.

Internal audit incorporates a series of processes and techniques through which an organization's own employees ascertain for the management, by means of first hand on job observations.

Objects of internal audit

i) To study and evaluate the adequacy and effectiveness of accounting, financial and operating controls.
ii) To ascertain the degree of compliance with pre-determined policies, plans and procedures.
iii) To ascertain the extent to which business assets are accounted for and safeguarded form losses.
iv) To ascertain the authenticity of accounting and other data complied within the organization.
v) To evaluate the quality of performance in carrying out assigned responsibilities and
vi) To furnish the members of management with objective analysis, comments and recommendations as regards the activities of the business so as to help them in an efficient and effective discharge of their responsibilities.

Based on the conduct of audit:

a) Continuous audit

Continuous audit implied a detailed examination of all the transactions by the auditor continuously through out the year. It is suitable only for business concerns. At the end of the financial period the auditor checks the financial accounts. Continuous audit is also called running audit or detailed audit.

Definitions

According to R.G.Williams, A continuous audit is one where the auditor or his staff is constantly engaged in checking the accounts during the whole period or where the auditor or his staff attends or his staff attends at regular intervals during the period.

According to Batliboi, a continuous or detailed audit involves a detailed examination of all transactions attending at regular intervals says, weekly, monthly, during the whole of the trading period."

Usually, the continuous audit is applicable in the following cases.
i) Where it is necessary to present the final accounts just at the closure of financial year, e.g., railways, banks etc.
ii) Where the scope of business is wide.

iii) Where the cash transactions are more.
iv) Where the system of internal check is not satisfactory.
v) Where sales are very large and a detailed investigation is required.
vi) Where the management required the review of financial position of their concern monthly or quarterly.

Advantages of continuous audit

i) The first advantage of continuous audit is that under that system a detailed examination of accounts is possible as the auditor gets one complete financial year for the purpose
ii) Errors can be detected and rectified soon.
iii) The opportunities for complicated frauds are lessened and they can be detected before they attain larger proportions.
iv) The regular supervision by the auditor brings increased efficiency and accuracy in the accounts of the concern.
v) In the process of continuous audit each and every person of the deputed staff in the particular concern is kept fully busy.
vi) Th proprietor of the concern may get any desired information duly verified at any time without any difficulty.
vii) It is more convenient to the auditor also as he is able to make easy arrangements for his work.
viii) Continuous audit can be completed quickly and finally accounts can be presented sooner.

Disadvantages of continuous audit

i) The auditor checks the books of accounts in several units. The items or figures may by alter and client's staff may tamper books of accounts after the auditor has checked them on previous days.
ii) The technique of continuous audit cannot be afforded by smaller concerns, because it is very expensive.
iii) Auditor's frequent visit may cause inconvenience to the staff of the client.
iv) Under continuous audit, work becomes too mechanical since it continuous throughout the year.

Precautions against the disadvantages of continuous audit

The auditor should take into consideration the following precautions to avoid and minimize the dangers of continuous audit.
i) An audit programme should be made in a thorough and systematic manner.
ii) The auditor should use secret ticks and use different colors to denote specific ticks during the course of checking the different entries.
iii) The auditor should give specific instructions to the client staff not to make any alterations after the checking of books of accounts.

Kinds of audit cond…

iv) The checking of impersonal accounts should be done at the end of the financial year.(i.e.) income and expenditure accounts
v) The auditor should take proper care of the work to be done in time.
vi) The auditor should pay surprise visit, so that the staff of the client may not be able to prepare, in advance, against detection of some of its errors.

b) Periodical audit

Periodical audit is done at the close of the financial or trading period when financial accounts are closed. In such a case, the auditor visits his clients only on in a year and checks the accounts in one visit till he is not in a position to cover the accounts pertaining to the whole of the period.

Advantages of periodical audit

i) The auditor access to the books of accounts immediately after the close of books. Once the record come to his hand, he can plan in such as way, that there is no possibility for alteration of any entry by the client staff.
ii) The cost of the audit is comparatively less.
iii) The auditor can finish his work in few sittings.
iv) The auditor can remember his observations well and will be in a position to write his audit report without difficulty.
v) The accounting staff will not be disturbed as in a case of continuous audit.

Disadvantages

i) The errors are found only after the close of the accounting period.
ii) The there will be sufficient time for accounts staff for manipulation of funds and accounts.

iii) Final audit is a post mortem examination. The auditor finds the errors and regularities much latter. Naturally the business suffers during the period.
iv) Errors are mot rectified immediately.
v) Auditor is left with little time for detailed checking.
vi) In big house enterprises, there is possibility for delay in getting auditors report.

c) Balance sheet audit

Balance sheet is of recent growth as compare to other types of audit. This type of audit is more popular in U.S.A. The term balance sheet audit means verification of value of assets, liabilities, the balance of reserves and provisions and the amount of profit earned loss suffered by a firm, during the period. This involves checking of values of fixed assets, current assets, liabilities, balance of reserves and provisions, surplus etc. An auditor should also verify the profit or loss from the profit or loss account since profit or loss is one of the items appearing in the balance sheet.

Balance sheet audit is more effective and useful

i) Where a good and effective internal control, internal check and internal audit system are in operation.
ii) Where the size of the business concern is very big and very large volume of transactions take place.
iii) Where mechanized accounting system is in practice.
iv) Where professionally qualified staffs are employed in accounting and finance department.

Spicer and Pegler suggested the following steps in conducting the balance sheet audit:

i) Compare each item in the trading and profit and loss accounts with the corresponding item of previous year and ascertain the reasons for variances.
ii) Consider whether increase or decrease in wages, materials consumed and variable expenses appear to be proportionate to the increase or decrease in turnover.
iii) Obtain a satisfactory explanation for any material change in the rate of gross profit earned.
iv) Ascertain the reason for any substantial increase or decrease in the net profit.
v) Consider the values placed in current assets.
vi) Examine carefully the adjustments made in the tax computations.
vii) Compare the schedules of outstanding and provisions with those for the previous period and enquire into any material changes.
viii) Verify in the usual manner the assets and liabilities shown in the balance sheet.

d) Complete audit

Complete audit means an audit in which all transactions recorded in the books of accounts are audited thoroughly. In this system detailed checking is done. In complete audit, no entry, source, total, balance etc. is left unchecked.

e) Partial audit

In case of complete audit, all the records and books of accounts are subjected to audit by the auditor but when audit is conducted on some of the records and books of a part or whole of the period, is known as partial audit. Partial audit may relate to some part of the work for some or whole of the trading period.

f) Interim audit

Interim audit implies carrying out of audit work at any time during the year or in the middle of financial year in order to find out interim profit or loss of the concern. In case of interim audit, accounting records upto certain date only are checked. An example of interim audit is that the directors of a company may desire to declare interim dividends or bonus when first half year is over. It is thus conducted between the two periodical audits.

The advantages of interim audit as follows

i) The audit becomes easy and it can be completed without much lapse of time.
ii) The client will know the financial operations for the half-year and their results.
iii) There will be moral fear on the staff as the auditor will be in touch with business unit during the period of the interim audit.
iv) Errors and irregularities are found out earlier than in the system of final audit.
v) Interim audit helps to speed up the completion of final audit at the end of the financial period.
vi) The audit will be more useful to have authenticated interim figures for publication.

Disadvantages of interim audit

i) There is an inherent danger of altering figures in the accounts already checked.
ii) This type of audit involves additional work.

iii) The audit-staff becomes engaged in more work and strain, as they have to prepare notes after the end of the interim audit.

g) Propriety audit

The propriety audit is confined to examine the validity of appropriations or he is concerned with verifying that there is no leakage of revenue and wastage of funds knowingly in disregard of any legal requirement or economic consideration. Under proprietary audit, it is to be seen that the contracts entered into by the concern are in its best interest and there is a proper check to ensure that the assets are safe.

h) Performance audit

Performance audit is a procedure of analyzing the profits and losses, of economic activities carried on by the business enterprise, examining the relationship between productions and discovering the avenues for maximizing profits.

i) Occasional audit

This type of audit is conducted as and when the need arises and the client desires it to be carried out. This is possible only in case of proprietary concern such as sole trader's business or partnership firms.

j) Operational audit

Operational auditing is the same as internal auditing with its scope extending to (operational) administrative areas. Operational audit is not a distinct and separate type of audit characterized by special programmes or techniques.

k) Standard audit or sample checking

Standard audit has been defined as "a complete check and analyses of certain items, and contingent upon effective check, an appropriate test check on remaining items, the whole of the work being in on accord with general audit standards quite adequate to justify an unqualified opinion.

l) In-depth auditing

In-depth auditing is a technique of examination belonging to the family of sample checking with only this difference that under the former a selected number of transactions are subjected to a detailed step-up verification.

m) Post and vouch audit

A post and vouch audit is audit examination by detailed verification of individual transactions. Under this, each and every transaction of business is examined from the point of its appearance in the books of original entry till it has been posted.

n) Cost audit

It implies through checking of Cost accounting records of a company. Cost audit is the verification of the correctness of cost accounts. The term **"cost audit"** means an audit of cost records. The cost accountant is appointed to check the cost accounting records in order to ascertain their accuracy and also to ensure that the cost accounting plan as laid down by the company is carried out.

Objectives of cost audit

i) To verify the arithmetical accuracy of the cost accountancy records made in the books of accounts.

ii) To find out that the cost accounts have been properly maintained according to the principles of cost accountancy.

iii) To certify that management is adhering to the procedures and process of cost accountancy which are pre-determined.

iv) To find out that each item of expenditure involved into the relevant components of the goods manufactured or produced has been properly incurred or not.

v) To ensure that the cost accounts are correct to detect all errors or fraud.

vi) To find out how far the prevailing practices of cost records are helpful for the management to take decisions.

o) Management audit:

The term "management audit" is a new concept in the sphere of auditing. As its name signifies, management audit means the audit of management processes and functions.

Management audit implies through examination of all aspects of management concerning a business. In management audit, the auditor goes through the planning, organization, co-ordination and control of the concern. Management audit is voluntary audit.

Q. DISTINCTION BETWEEN STATUTORY AUDIT AND PRIVATE AUDIT.

S.No	Basis	Statutory audit	Private audit
1.	Nature	It is a compulsory audit to be carried out according to the acts governing the business. Example- joint stock company, banking companies.	It refers to the audit carried out by private firms where audit is not compulsory.
2.	Period	The audit is to be carried out compulsorily every year.	The audit is not compulsory. The audit is carried out for the interest of partners or sole traders.
3.	Conduct	The audit is to be carried out according to the provisions of law applicable to the business.	The auditor conduct audit according to the standard audit practices and according to the provisions of the agreement entered into by the auditor with the business house.
4.	Purpose	The purpose of the audit is to comply with the requirements of law.	The purpose of audit may vary from one private business house to another. The audit is carried out to suit the needs of business house.

Q. DISTINCTION BETWEEN CONTINUOUS AUDIT AND INTERIM AUDIT.

S.No	Basis	Continuous audit	Interim audit
1.	Object	The object of continuous audit is not only to ascertain the profit or loss of the undertaking for a given period.	The object of interim audit is to ascertain and check the profit and loss for a given period.
2.	Period	In the process of continuous audit the accounting records of one accounting or financial year ids examined.	In interim audit accounting records up to a certain date only are checked.
3.	Scope	In continuous audit, detailed and extensive checking of books of accounts is done.	In interim audit, a detailed and extensive checking of books of accounts is not done.
4.	Trail balance	In continuous audit, the trial balance is not prepared at intervals.	In interim audit, the trial balance must be prepared and checked at the time of audit.
5.	Verification	In continuous audit, the verification of assets and liabilities is undertaken at the close of financial year.	In interim audit, the verification of assets and liabilities is undertaken at the time of such audit.
6.	Report	In case of continuous audit, the auditor's report is submitted at the end of the financial year.	In case of interim audit, the auditor's report is submitted at the time of audit.

Q. DISTINCTION BETWEEN CONTINUOUS AUDIT AND INTERNAL AUDIT.

S.No	Basis	Continuous	Internal
1.	Object	The object of continuous audit is to present the correct and fair financial statement of the concern to the shareholders.	The main object of internal audit is to fulfill the needs of the management.
2.	Scope	The continuous audit involves a detailed examination of all the transactions at regular intervals say fortnightly or monthly.	The internal audit is carried on continuously through out the year.
3.	Nature	Continuous audit is an independent examination work	Internal audit is an integral part of existing internal control system in the concern.
4.	Status	An independent and professional auditor does continuous audit.	In internal audit, the internal auditor is the employee of the concern itself.
5.	Qualification	In case of continuous audit, the auditor must be a chartered accountant.	In case of internal audit, there is no question of submitting the report.

Q. STATE THE ADVANTAGES OF AUDITING.

The main advantages of auditing are as follows;

<u>1. For the enterprise</u>

a) Employees in charge of maintenance of books of account and other records are regular, careful and systematic in their work.
b) Errors and frauds, if any, committed by employees of the business are promptly detected.
c) Loans and credit can easily be obtained on the basis of audited accounts which are widely regarded as the reliable index to the state of affairs of the enterprise.
d) Liability of the enterprise as to income tax, wealth tax, sales- tax etc., can be easily being determined on the basis of audited accounts as these are readily believed by the tax authorities.
e) In case a running business is proposed to be sold, purchase consideration can be easily being determined on the basis of audited accounts.
f) Audited statement or accounts provide a mutually satisfactory basis for the resolution of disputes as to higher wages and bonus payments to workers.
g) In case of loss or damage to business property, audited accounts facilitate the determination of claims against the insurers.
h) Weaknesses of the existing system of internal check and internal control may be detected such that remedial steps can soon be initiated.
i) Audit is an easy means to ascertain whether the understanding is in fact maintaining the registers and books of account as required under the law.

For the owners of the enterprise:

a) In a sole proprietary business, in the case of which audit is not compulsory, audited statements of accounts provide a proof that all business transactions have been duly accounted for, and there is no error or fraud.
b) In a partnership firm, audited accounts serve as evidence of proper management of the affairs of the business by the active partners and employees of the firm. Such accounts are also of great help in settlement of accounts in case of admission, retirement or death of a partner.

Advantages of auditing contd…

c) In a joint stock company, shareholders rely on the audited statement of accounts to satisfy themselves that the affairs of the company are being smoothly run and their investment is safe.
d) In case of trusts, co-operative societies etc., auditing serves as an evidence for the beneficiary’s members etc., that their interests are being properly and efficiency looked after.

Advantages to partnership firms

i) Making the accounts acceptable to all partners.
ii) Ascertain and decide the share of profit or loss of the partners.
iii) To settle matters pertaining to the share and value of goodwill of incoming share or outgoing share.
iv) Determine the share of retiring partners in the business.
v) Determine tax liabilities.
vi) For dissolution of firm, determination of asset value.
vii) Smooth and efficient running of firm is possible only through proper auditing.

Advantages to joint stock companies

i) The first and foremost advantage of auditing is that it ensures the correctness of the accounts of the concern to a great extent.
ii) Auditing helps in the detection and prevention of errors and frauds.
iii) Auditing does not serve only as a corrective measure but also exercises a great moral influences on the staff putting a check upon the dishonest employees.
iv) Audited accounts are taken to be more reliable as evidence in the court of law.
v) Audited accounts can be safely relied upon by the management for the purpose of decision making.
vi) Audited accounts are normally considered more helpful in obtaining additional capital or borrowing money form banks or from other sources.
vii) Audited accounts are more useful in the valuation of property or goodwill of concern, when the business has been sold out or firm has to be converted in to a company.
viii) Audited accounts are more reliable and useful during the course of amalgamation, absorption and reconstruction of the companies.

Q. STATE THE LIMITATIONS OF AUDITING.

Auditing also suffers from following limitations,

1. Conceptual restriction:

Auditing has traditionally been regarded as a practical subject dealing mainly with procedures and techniques of checking, ticking, totaling, vouching etc., as a result, several vital aspects such as finances, managerial efficiency and effectiveness, business ethics etc., are wholly ignored as being outside its scope.

2. Post-mortem on prepared accounts:

Auditing begins where accounting ends. The auditor may be nowhere around when the accounts are being finalized. Therefore, it may not be possible for him to discover clever manipulations in the books and accounts at preparatory stages.

3. Dependence on inside information:

Books of account of business, however complete they may be in every respect, do not tell the complete story as to transactions recorded therein. As such, an auditor has of necessity to seek additional information, clarifications and explanations from various personnel of the enterprise. Even the audited statements or accounts may not reveal the correct or complete picture.

4. Application of faulty techniques.

Collection of adequate evidence in support of any proposition made in the books of accounts depends on the types of audit techniques employed for the purpose. Where an audit technique is not consistent with the nature or type of the business enterprise, or with the method of record keeping followed by it, it will not provide the right kind of evidence and even audited accounts may not tell the entire story.

5. Formation of faulty judgment

The auditor's judgment as to correctness and fairness of the propositions in the books of accounts is based on an objective evaluation and critical review of the evidence collected by him through appropriate audit techniques. However, at times personal opinion of the auditor might cloud his sense of judgment so that his report might contain an assessment, which is unsupported by relevant material evidence.

Audit planning

Introduction

An auditor has to draw up his plans to conduct the audit work depending upon the nature and type of the audit he is required to conduct. The process of planning an audit would include activities ranging from making arrangements for securing the data to be reviewed, to designing procedures to be followed in examining them.

Audit planning becomes more necessary in view of the introduction of statistical techniques in the field of audit and increasing reliance on internal control.

For effective and efficient conduct of audit; audit planning is necessary.

The first steps in audit planning are;

i) Developing Time budgets
ii) Assigning audit staff personnel
iii) Schedule's dates for interim and year-end audit procedures.

Time budgets lays down the number of hours expected to complete the work. A budgeted time can be broken down category or activity wise.

i.e., 60hours on work on cash, 100 hours on work on inventories, 20 hours for report preparation etc.

Staff assignment should be according to

a) Capability
b) Availability
c) Rotation amongst clients
d) Opportunity for on the Job training.

A good audit plan should be based on;

i) Knowledge of accounting system in organization and it policies and internal control procedures
ii) Reliability of internal control.
iii) Programming of the nature, timing and extent of audit procedures to be performed.
iv) Good Co-ordination of the work.

Q. WHAT ARE THE FACTORS TO BE KEPT IN MIND BEFORE INTRODUCING A NEW AUDIT?

Meaning of audit plan:

Audit plan is pre-determined course of action to be followed during the performance of audit work. Auditor should plan his work to conduct an effective audit in an efficient and timely manner. How to prepare and proceed with audit is another pertinent question to be examined. How much time should be devoted by an auditor in auditing the accounts of a business concern will depend entirely upon the circumstances of a particular case and the training, experience and knowledge of the auditor.

Purpose of the audit

The auditor must ascertain the purpose of audit for which he has been engaged. It may be that audit is required.

a) For credit purpose, i.e., where on the basis of audited statements, the business seeks to raise a loan, or a banker seeks to grant a loan; or

b) For investment purposes i.e., where a potential investor on the basis of audited accounts seeks to make an investment in the business; or

c) For purchase of business, i.e., for valuation of assets and liabilities of the business; or

d) Determination of the nature and extent of any fraud; or

e) Filing tax returns or

f) To comply with the legal requirements, i.e. a statutory audit.

Scope of duties

In case of voluntary audit, the auditor must ascertain the precise nature of his duties so as to avoid any liability in future. In case of a statutory audit, the auditor has only to make a reference to the law under which the audit has to be done with a view, to be clear about his duties.

Nature of the business

The nature of the business plays a very important role in the planning of auditing procedures and their application. Knowledge about the nature of the business can be had from the memorandum of association, partnership deed etc. the auditor should also make himself familiar with the working of the business so as to know the nature of the transactions.

Organization structure

The organization chart will show the pattern of authority and responsibility in the managerial organization of the firm. This will help him in planning the auditing procedures.

Key personnel

The auditor should obtain a list of key personnel of the business and, if possible, also meet them in person to ascertain whether the personnel are performing the work as designed for them.

Accounting system

The auditor should obtain the list of books of account and records maintained by the business. He must also enquire about the system of internal control in the business.

Change of auditors

Where an auditor has been appointed in the place of another auditor, he must ascertain the reason as to change of auditor. He should communicate with the retiring auditor to confirm the reasons as given out by the client.

Instructions to the client

The auditor should ask the client to direct his staff to prepare schedule of debtors and creditors, schedule of investments, prepaid and outstanding expenses etc.

Inventory observation

In case of good lying at distant branches, auditor must point out to the client that the stock taking should be done under his observation.

Letter of engagement

The auditor should prepared a memorandum listing the points agreed upon between him and his client and send a copy there of to the client. It avoids subsequent misunderstandings and enables the auditor and the client to sort out many questions before the commencement of the audit.

Q. NARRATE ABOUT AUDITING IN INDIA

Prior to 1913, no qualifications for auditors were prescribed; it was Indian Companies Act 1913 which had for the first time prescribed qualifications for an auditor. The growth of auditing in India can be related with this act, which had made it compulsory for every company to get its accounts audited once in every year. Prior to this the provincial governments were authorized to issue certificates to accountant entitling them to act as auditors. The Bombay government was first to start a diploma in accountancy, which was known as government diploma in accountancy (G.D.A). The persons holding such diploma were qualified to act as auditors in any province of the country.

Auditor's certificate rules 1932 were passed and with this all the control over accountancy profession were transferred to central government. This was with the view to maintain uniform standard in accounting and auditing throughout the country. Under these rules an auditor has to obtain a certificate of registered accountants.

In 1949, the chartered accountants act was passed, since then full autonomy has been granted to the profession thorough institute of chartered accountants.

The institute of chartered accountants of India was established by the act of parliament on July 1, 1949. It regulates the profession, conducts examinations and grants certificate of practice. Now a person had to pass the examination conducted by the institute and follows its rules and regulations. The institute maintains a register of members. A member can be:

i) Associate of the Institute of Chartered Accountant (A.C.A), the ordinary members.

ii) Fellow of the institute of chartered accountant (F.C.A), the ordinary members who have completed five years practice.

Audit Programme

Introduction:

An audit Programme means a written plan containing exact details with regard to the conduct of particular audit. An audit Programme consists of procedures under taken on the particular work done by an accountant in carrying out an audit.

Meaning

Audit Programme is the auditor's plan of action. It is a detailed plan containing exact details with regard to the conduct of a particular audit.

It is description, memorandum or an outline of the work to be done, prepared by an auditor for the guidance and control of assistants.

Definition

According to Prof. Meigs, "An audit Programme is a detailed plan of the auditing work to be performed, specifying the procedures to be followed in verification of each item and the financial statements and giving the estimated time required."

Q. ENUMERATE THE SALIENT FEATURES OF AUDIT PROGRAMME.

- It is the auditors' plan of action.
- The audit Programme is invariably in black and white.
- It is a set of procedures to be followed to support an opinion on the financial statements.
- It enables the auditor to delegate work to the audit staff.
- It is a scheme according to which the audit work will be distributed among the audit staff.
- It enables the auditor to specify the work to be done within the estimated time.
- It determines the various audit techniques to be adopted.

Q. WHAT ARE THE FACTORS TO BE CONSIDERED WHILE DEVELOPING AN AUDIT PROGRAMME?

In drawing up a satisfactory audit Programme the auditor should consider the following;

- To ascertain the scope of his duties.
- To study the various aspects and operations of the client's business.
- To obtain a list of all the books of accounts names of the persons who are in charge of the activities of different departments.
- Audit Programme should be drawn for each audit according to the work involved.
- The audit staff should be consulted while preparing the audit Programme.
- Examine carefully the system of bookkeeping.
- The audit Programme should be capable of necessary changes.
- Unnecessary procedure or checking steps should be carefully avoided.
- Obtain financial and statistical records and legal documents such as memorandum of association, articles of association, prospectus etc.

Q. WHAT IS AN AUDIT PROGRAMME? STATE ITS OBJECTIVES & CONTENTS.

Objectives of audit Programme:

i) To integrate & co-ordinate the various parts of audit work.

ii) Ensure uniformity in the performance of audit work.

iii) To avoid duplication of work.
iv) To have a fair allocation of audit job amongst audit staff.
v) To fix responsibility of each audit staff.
vi) Ensure the completion of audit work within a time frame.
vii) To provide a proof of completion; the dates on which it was completed.

Contents of audit Programme:

Audit Programme may differ from company to company. It depends on the type of audit work to be carried out. A fresh audit Programme is required for each audit. Generally preparation of audit Programme needs the following information.

Contents of audit programme contd.,

i) Name of the company.
ii) Nature of operations of the company.
iii) A review of the system of the internal check.
iv) Date of commencement of audit.
v) Accounting system followed by the company.
vi) Preparation of audit report.
vii) Points of caution as mentioned by previous year's auditor.
viii) Schedule of checking of various subsidiary books.
ix) Schedule of checking of ledger accounts, profit and loss accounts and balance sheet.

Q. WHAT ARE THE MERITS OF AUDIT PROGRAMME?

The main advantages of audit programme are as follows;

i) It ensures that all necessary work has been completed.
ii) The auditor may easily know about the work done at any point of time simply by looking at the programme.
iii) It serves as a ready checklist of procedures to be applied and the work already finished.
iv) It simplifies the allocation of work to vari0ous grades of assistants and clerks.
v) It serves as a guide to the juniors who will not need repeated instructions.
vi) An uniformity of wok can be attained, as the same programme will be followed from time to time.
vii) It may be used as evidence by the auditor in the court, when necessary to prove that there has been no negligence and the work has been completed.
viii) It is useful basis for planning the prgramme for the following year.
ix) Changes in the placement of the audit staff do not affect the audit work in progress.
x) The supervision and control of the work can be undertaken easily as every work is undertaken in a planned manner.
xi) It facilitates the final review before the report is signed

Q. WHAT ARE THE LIMITATIONS OF AUDIT PROGRAMME?

i) The auditor's task becomes mechanical and auditors may lose interest and initiative.
ii) No rigid audit Programme can be laid down for each type of audit work.
iii) Audit Programme may be unnecessary for a small concern.
iv) Audit Programme may not be completed and certain item left unchecked.
v) Inefficient audit assistance may also take shelter behind the Programme.

AUDIT NOTEBOOK

Introduction

The audit clerk maintains the audit notebook. Audit notebook is a book of events or records maintained by the auditor regarding his day-to-day audit work of a business.

Meaning Audit notebook is also called as a remembrance book in as much as the auditor records his observations in the books. The audit notebook contains all matters that come to the notice of the auditor in the course of audit.

Q. EXPLAIN THE CONTENTS OF AUDIT NOTE BOOK.

Some of the important matters recorded in the audit notebook are as follows;

- ✓ Name of the business.
- ✓ Organization structure of the enterprise.
- ✓ Provisions of the memorandum and articles of association having a bearing on the audit.
- ✓ Instructions from the management having relevance to the audit.

- ✓ List of books of accounts maintained by the enterprise.
- ✓ Accounting methods followed in the enterprise, and their defects.
- ✓ Any irregularities in the observance of laws and notifications applicable to the enterprise.
- ✓ Names of key officials and their powers, duties and responsibility.
- ✓ List of missing vouchers and receipts.
- ✓ Matters requiring explanation or clarification.
- ✓ Weaknesses of the internal control system.
- ✓ Totals and or balances in important accounts.
- ✓ Bank reconciliation statement.
- ✓ Errors and fraud as discovered.
- ✓ Books and records not made available for audit.
- ✓ Points to be noted for subsequent audits.
- ✓ Points to be included in the audit report.
- ✓ Dates of commencement and completion of audit.

It should be noted that an audit note book is meant to record only important and strategic items matters which are, or can be, stored out on the spot, or those of a trivial nature, need not be entered therein.

Q. EXPLAIN THE ADVANTAGES OF AUIDT NOTE BOOK.

- ❖ An auditor is enabled to record all important points which arise during the course of his audit.
- ❖ An auditor can produce this book as documentary evidence in a suit filed against him for negligence or misfeasance.
- ❖ A note book makes the work of audit convenient as all the important details about audit can be recorded in this book and, as such, any change in the staff of the auditor does not disturb or dislocate the audit work.
- ❖ Audit note book can help in making an assessment of the knowledge, efficiency and work of audit clerks.
- ❖ It makes the procedures of subsequent audit easier.
- ❖ It provides a key to evaluate the efficiency of the staff of audit.

WORKING PAPERS

Q. WHAT DO YOU MEAN BY WORKING PAPERS?

Working papers refer to the papers prepared by the auditor for audit work as well as the documents, statements and recorded information obtained by the auditor form his client and others connected with the business.

Q. ENUMERATE THE CONTENTS OF WORKING PAPERS?

Working papers normally include the following,

- ✷ Audit Programme.
- ✷ Audit notebook
- ✷ Copies of the documents, which the auditor has taken.
- ✷ The schedules of debtors and creditors, fixed assets, investments.
- ✷ The certificate for the stock in trade and its valuation.
- ✷ Copies of the correspondence concerning the audit work.
- ✷ Contract letter from the client.
- ✷ Particulars of depreciation.
- ✷ Particulars of investment
- ✷ Copies of previous audit report.
- ✷ Copies of the resolutions passed in the meetings of shareholders and directors.

Q. EXPLAIN IN BRIEF ABOUT THE OBJECTS OR AIMS OF WORKING PAPERS?

The aims/ objects of working papers are given below;

1. Working papers show in detail the work done by the audit clerks to support the auditor's report.
2. Working papers make the auditor to show the client the weakness of the internal control system of working.
3. The making of working papers is a means to give training to the audit clerks to summarize the work done by them.
4. Working papers are the permanent record and in case of any suit against him for negligence, he can defend himself on the basis of the working papers.

5. Working papers make the auditor to plan for the succeeding year.
6. Future audit work can be done in the same order on the basis of previous working papers.

Q. EXPLAIN THE ESSENTIALS OF GOOD WORKING PAPERS?

The essentials of good working papers are as follows;
1. A good working paper should contain all necessary information so that they may be of maximum use.
2. A good working paper should be so arranged that one might not experience any difficulty in locating a particular subject.
3. The facts contained in a working paper should be self- explanatory.
4. The facts stated in a working paper should be readily apparent to the reader.
5. Paper used for writing working papers should be of uniform size.
6. Paper used for writing working papers should be of better quality.
7. Sufficient space should be lift after each note so that any decision taken by an auditor may be written in that space.

Whosoever is in the possession of working papers should be responsible for their security.

Q. WHAT DO YOU MEAN BY AUDIT FILES? EXPLAIN THE TWO TYPES OF AUDIT FILES.

An auditor is often simultaneously occupies with a number of audits, it is necessary for him to maintain a record of each audit for ready reference. Such record is maintained in files known as “audit files”.

They are two types of files;
a) Permanent audit file
b) Current audit file
c) Other files

Permanent audit file:

It includes those working papers, which are useful in conducting the audit examination year after year. It provides useful information regarding the financial history, nature of business, recurring items calling for review and details of operation etc.

The auditor is only required to note the additions and deletions that may have taken place in the year. The permanent audit file should preferably be in a hard card-board binder. It should also have on the cover or on the first page itself a table of its contents.

The permanent audit file generally contains the following items

i) Name, address and telephone number of the client.
ii) A brief description of the business and its operation.
iii) A plan of the office lay-out of the client.
iv) Copies or experts of the memorandum and articles of association in case of a joint stock company and of partnership deed in case of partnership firm.
v) Management instructions regarding administrative and other procedures to the extent these are relevant to the audit work.
vi) Organization and authority -responsibility structure, preferably in chart form, as also informal relationship among members of the staff of the client.
vii) List of persons authorized to sign cheque, contracts and other major documents.
viii) List of accounts, books records and procedure manuals covering all phases of operations.
ix) Special financial arrangements and other significant contracts.
x) Details of operations such as;
   a) Plant facilities
   b) Location of plant
   c) Warehouses
   d) Offices
   e) Proposed capital expenditure
   f) Products and by products
   g) Purchase, their mode and volume etc.
   h) Production of items and their demand.

xi) Auditor’s analysis of accounts which have little or no changes such as land, buildings, plant, machinery and so on.

Current audit file

The current audit file contains paper and information obtained or developed during the current audit. At the end of the audit, items of continuing interest are transferred to the permanent audit file. The contents of current audit file should be indexed either on the cover or on the first page.

The contents will vary according to the type of business under audit, but will generally comprise the following.

i) Engagement letter and correspondence
ii) List off items to be reviewed before releasing the report or filing of the working papers.
iii) Internal control questionnaire.
iv) Audit programme.
v) Risk areas or loopholes in the operation of internal control.
vi) Correspondence with debtors and customers including confirmation and certificates obtained form other parties.
vii) Copies of excerpts from minutes of the meetings of board of directors and shareholders, new contracts, new leases etc.These are to be subsequently transferred to permanent audit file.
viii) Bank reconciliation statement.
ix) Financial statements
x) Trial balance.
xi) Audit adjustments.
xii) Variance analysis
xiii) Notes regarding examination of subsequent events.

Other files

In addition to the permanent and current files, the auditor may also prepare other files based on the circumstances of the audit or his personal preference.

Correspondence file

This type of file contains general correspondence with the client in a chronological order. Such of the correspondence as is to be useful on a continuing basis, will be removed to the permanent file.

Tax file

This file contains all the documents relating to the preparation and filing of tax return. The other items included therein are follows;

i) Duplicate of tax return filed.
ii) Record of payment and receipts.
iii) Working papers relating to determination of tax liability and reconciliation of book and tax figures.
iv) Assessment orders.
v) Evidence of tax payments, refund claims and refund orders.