UNIT-I

Introduction

Auditing means to inspect, examine, checking, investigate, scrutinize, company accounts. Auditing is a systematic examination and verification of firms books of accounts, transactions records, other relevant documents and physical inspection of inventory by qualified accountants called auditors.

Origin

The term audit is derived from Latin word 'audire' which means to hear. Auditing is as old as accounting. It was used in all ancient countries such as Greece, Egypt, Rome, U.K, India.

The main objective of auditing is to ascertain the accounts were true and fair and to detect and prevent errors and frauds.

The International Accounting Standard Committee and the Accounting Standard Board of the Institute of Chartered Accountants of India have developed standards accounting and auditing practices to guide the accountants and auditors in the day to day work.

Definition

1. **PROF.L.R.Dicksee**, "auditing is an examination of accounting records undertaken with a view to establish whether they correctly and completely reflect the transactions of which they relate."
2. **R.K.Mautz**," auditing is concerned with the verification of accounting data determining the accuracy and reliability of accounting statements and reports."

Functions

1. Study The Accounting System :- It is the basic function of auditing. In order to determine the nature, timing and extent of the audit procedures auditor should study the accounting system.

2. Internal Control System :- It is a process which determines that management policies are carried out according the accounting principles. This system is very useful to safeguard the interest of the enterprise. The auditor determines the effectiveness of this system.

3. Vouching :- This function is essential to determine the accuracy of accounting record. Through audit those documents can be checked which support and prove the business transactions. All entries in books of accounts are made on the basis of relevant vouchers.

4. Verification Of Assets :- It is the function of auditing that it should verify the assets of the business. It is concerned with the determination of value, ownership and possession of business asset. The auditor can check the existence of asset.

5. Legal Requirement :- It is the function of auditing to verify that statements are prepared under the legal requirements or not. There are various laws like company and income tax ordinance which are introduced by the govt.

6. Liabilities Verification :- The liabilities of the business can be verified from the books of accounts. The auditor can write a letter to the creditors for the verification of liabilities. The auditor must receive the certificate from the management in this regard.

7. Capital And Revenue :- Auditing should make difference between capital and revenue items. The capital items are compared to note the financial position of the business. The revenue items are compared to determine the income. The income and expenses related to many years can be divided in current and coming year.

8. Valuation Of Liabilities :- Through auditing value of liabilities can be checked from the books of accounts and other papers. The auditor can also confirm the value from outside sources. The value of liabilities is given in the balance sheet by the management but it is the function of auditing which confirms this value.

9. Valuation Of Assets :- The management gives the value of assets and auditor can apply the accounting principles to assess the value of assets. The auditor critically examines and takes help from the expert.

10. Reporting :- Auditing important function is reporting. Auditor is an independent person and it is his duty to submit his report in writing. If he is satisfied he can present clean report otherwise he can give qualified report.

Objectives

1. Primary Objective

The main objectives of the audit are known as primary objectives of the audit. They are as follows:

1. Examining the system of internal check.
2. Checking arithmetical accuracy of books of accounts, verifying posting, casting, balancing etc.
3. Verifying the authenticity and validity of transactions.
4. Checking the proper distinction between capital and revenue nature of transactions.
5. Confirming the existence and value of assets and liabilities.

Verifying whether all the statutory requirements are fulfilled or not. Proving true and fairness of operating results presented by income statement and financial position presented by the balance sheet.

2. Subsidiary Objective

These are such objectives which are set up to help in attaining primary objectives. They are as follows:

(A) Detection and prevention of errors

Errors are those mistakes which are committed due to carelessness or negligence or lack of knowledge or without having vested interest. Errors may be committed without or with any vested interest.

So, they are to be checked carefully. Errors are of' various types. Some of them are:

1.Errors of Accounting principle- When principles of book keeping and accountancy are not followed in recording of business transactions ,it is known as error of principle.

- Wrong posting of income transaction
- Wrong posting of expenditure
- Wrong allocation of expenditure between capital and revenue. Revenue expenditure may be treated as capital expenditure and vice-versa.

Such errors are not disclosed in trial balance, debit and credit sides of transactions are same. Such errors can be detected by thorough checking of each and every transaction.

Error of principle affect the reliability of financial statement. it is an accounting mistake in which entry is recorded in the incorrect account, the value recorded was the correct but placed incorrectly.

2. Errors of omission- When a transaction is omitted fully or partly from books of accounts, such type of errors are known as error of omission. Usually it arises due to mistake of clerk.

- Omission of purchases from purchases book
- Omission of sales from sales book
- Omitting the entry for charging depreciation in the books.
- Rent or interest paid for 11 months, the remaining amount which is unpaid or outstanding has not been entered in the books.

3. Errors of commission- When the entries made in the books of original entry or ledger are incorrect wholly or partly, such are called error of commission. Usually these error arise due to negligence in recording of some business transactions.

- Ex:-wrong recording in the books of original entry wholly or partly. Goods purchased for Rs.10,000 recorded in purchases book as Rs.1000
- Rs.500 purchased from m and co, recorded as from n and co.
- Wrong totaling of original entry, while totaling sales day book or purchase day book mistake is made in the total sales. Sales day book is totaled Rs.100 short and posted to

ledger. This error will affect trial balance, the credit side total will be short by Rs.100. it will lower the profit by Rs.100.

- Wrong subsidiary book used for recording a transaction .

For ex:-credit sales to x and co. Were recorded in purchase day book or credit purchases to y and co. were recorded in sales day book.

4. Compensating errors- When an error offsets the effect of another error, such error is known as compensating error. These errors don't affect trial balance.

Sometimes under casting of one account is compensated by over casting of another account, such as 'X' a/c is under totaled by Rs.100 and' Y' a/c is over totaled by Rs.100.

5. Errors of Duplication- When a transaction is recorded twice and also posted twice in the ledger. Such an error will not affect trial balance. It is more difficult to locate such errors. Only thorough checking and comparing of vouchers with entries in the books. If two entries on the same side are appearing with the same amount.

<u>(B) Detection and Prevention of frauds</u>

Frauds are those mistakes which are committed knowingly with some vested interest in the direction of top level management. Management commits frauds to deceive tax, to show the effectiveness of management, to get more commission, to sell a share in the market or to maintain the market price of share etc. Detection of fraud is the main job of an auditor. Such frauds are as follows:

1. Misappropriation of cash- Misappropriation of cash is done by theft of cash receipts, petty cash, cheques, negotiable instruments, showing fictitious (false, fake) payments to workers, creditors, purchases etc; misappropriation of cash is very easy. With the increase in size of business, the opportunities of committing fraud also increase because the owners of the business have no direct control over receipts and payments of cash.

Examples of misappropriation of cash:-

- Recording fictitious purchases and thereby cash involved there in is misappropriated.
- Omitting credit note received from the supplier and discount allowed by them.
- Showing payment of wages to dummy workers in wage sheet.
- Various receipts like bad debts recovered ,sale of scrap or rejected stock etc;
- Omitting the records of donations receipts or recording lower amounts.
- The credit sales may not be recorded and money received from customers pocketed.

2. Misappropriation of goods- The misappropriation of goods is easy in case of a business which produces or deals in goods of high value and less bulky.

- Issuing false credit note to customers for sales returns and such goods are misappropriated.
- Goods may be stolen by employees from the godowns.

It is not easy to detect the misappropriation of goods. Only the efficient system of record keeping, periodical checking, internal check etc; will be helpful to avoid misappropriation of goods.

3. Manipulation of accounts or falsification of accounts without any misappropriation- This type of fraud is committed by upper level of management with the different objectives to mislead certain parties within or outside the business. Whenever such fraud is committed, it usually involves large amounts and it is intentional. This type of fraud is usually committed by Managers, Directors, Board of directors etc;

(a) Showing low profits than the actual ones:-

To give wrong impression about success of business to competitors. To reduce or avoid payment of income tax.

To purchase shares at a lower price in the market.

(b) Showing more profits than what actually are:-
-The manager may get more commission if such commission is calculated on the basis of profits earned.
-To sell the shares at high prices by declaring higher dividends, this is done when such person hold shares of the company.
-The services of such person may be retained by showing more profits to the shareholders thereby the confidence of shareholders is maintained.
-To mislead financial institutions for obtaining further credit, the financial position of the business is shown better than what actually it is.
-When the company is in the process of issuing shares to the public, to attract more subscribers for such shares.

Manipulation of accounts may be resorted /use the following devices:-----Purchases/expenses may be inflated / suppressed.

-Sales or other incomes may be inflated /suppressed.

-Stocks may be over or under valued.

-Omission of adjustment of expenses outstanding or prepaid expenses.

-Depreciation of assets may be over or under charged or omitted altogether.

-Assets or liabilities may be over or under valued.

-Treating capital expenditure as revenue expenditure or vice-versa.

Window dressing

The financial position of the business is shown in such a way that it seems better than what actually it is window dressing is more of misrepresentation than fraud. it is done in the following ways:-

(a) Purchases of current year may be shown as next year.
(b) Income of previous year may be shown as current year.
(c) Expenses of current year may be shown as next year.
(d) Showing short-term liabilities as long term liabilities.

(e) Charging revenue expenses as capital expenditure.

(f) Over-valuation of closing stock.

(g) Over-valuation of assets or undervaluation of liabilities.

<u>Merits</u>

Assurance of true and fair accounts: An audit provides an assurance to the investors, government, lenders, creditors, owners, management etc. That the final account presented shows the true and fair picture of the profit and losses and financial position of the concern

True and fair balance sheet: The user of final accounts can be sure that the assets and liabilities disclose true and fair view of financial position of the concern, it’s neither more nor less, and it’s free from window dressing or secret reserve.

True and fair profit and loss account: The user of final accounts should be sure that the profit and loss account show true amount of profit or less as it is.

Tally with books of accounts: The audited final accounts should tally with the books of accounts of the concern. So it can be easy to calculate the taxable income without going through all the transactions.

As per law: The audited final accounts should be prepared as per the rules and guidelines laid down by law.

Disclose all material facts: The audited final accounts should disclose all material facts, thus users can rely on them for making useful decisions of lending, investing etc.

Detection of errors and frauds: It is assumed that the audited final accounts are free from errors and frauds, the auditor with his expertise knowledge would detect the errors and fraud so as to show the true figure of final accounts.

Moral check on employees: Auditing techniques such as verification, vouching of cash, assets, stock etc. act as a moral check on the employees, this forces them to keep the accounts up-to-date and free from errors and frauds.

Advice to concern: Auditor can also advise the client about internal control, taxation, finance, accounting system etc.

<u>Demerits</u>

All transactions cannot be checked: It is not possible for an auditor to check each and every transaction; he has to check them on sample basis

Evidence is not conclusive: Audit evidence is not conclusive in nature the confirmation of debtors is not conclusive evidence that all amount will be collected, the conclusions are persuasive rather than conclusive.

Not easy to detect some frauds: It's not easy for an auditor to detect the deeply laid frauds which involves acts designed to conceal them such as forgery, false explanation, and not recording transaction and so on.

Audit cannot assure about profitability or efficiency of management: Even though the accounts are audited it doesn't mean that the user can take granted the future profitability or prospects of concern as audit don't comment on efficiency of the management.

Rely on experts: The auditor has to rely on experts like lawyers, engineers, valuers etc. for estimation of contingent liability and valuation of fixed assets.

<u>Accounts and Auditing</u>

- **Definition**: Accounting is keeping records of the financial transactions and preparing financial statements; but auditing is critical examination of the financial statements to give an opinion on their fairness.

- **Objective:** Objective of accounting is to determine the financial position, profitability and performance; while objective of auditing is to add credibility to the financial statements and reports of the company.
- **Status:** Accounting is usually carried out by an internal employee of the company; but auditing is carried out by an external person or independent agency. Accounting is governed by Accounting Standards with some degree of discretion; but auditing is governed by Standards on Auditing and does not provide much flexibility.

- **Appointment:** Accountant is appointed by the management of the company; while the auditor is appointed by the shareholders of the company, or a regulator.

- **Qualification:** Any specific qualification is not compulsory for an accountant; but some specific qualification is compulsory for an auditor.
- **Scope Determination:** The scope of accounting is determined by the management of the company; while the scope of auditing is determined by the relevant laws or regulations.

- **Commencement**: Accounting starts usually where book-keeping ends; while auditing always starts where accounting ends.
- **Remuneration :**Accounting is carried out by a company employee who gets a salary; while a specific auditing fee is paid to the auditor. Accountant's remuneration, i.e., salary is fixed by the management; while auditor's fee is fixed by the shareholders.
- **Period**: Accounting mainly concentrates on the current financial transactions and activities; while auditing concentrates on the past financial statements. Accounting is carried out on continuous basis with daily recording of financial transactions; while auditing is basically a periodic process and carried out after the preparation of final accounts and financial statements, usually on yearly basis.

- **Compulsion**: Accounting covers all transactions, records and statements having financial implications; while auditing mainly covers final financial statements and records.
- **Report Submission:** Accounts are submitted to the management of the organization; while audit report is submitted to the shareholders.
- **Knowledge :-** Accountant must have the knowledge of accountancy whereas an Auditor must have the knowledge of accounting as well as auditing.

Types Of Audit:

(A) On The Basis Of Scope:-

(1) Management audit
(2) Cost audit
(3) Tax audit
(4) Operational audit
(5) Proprietary or Performance audit

(B) On The Basis Of Forms Of Organization :-

1. Sole trader
2. Partnership accounts
3. Hindu undivided family
4. Audit of Association of persons
5. Audit of non-trading concerns

(C) On The Basis of conduct/Method/Approach:

(1) Independent (external)
(2) Internal
(3) Balance sheet audit
(4) Partial audit
(5) Interim audit
(6)Continuous audit
(7)Periodical/ completed annual audit

(A) On The Basis Of Scope:-

An audit examination can be general or specific. A general audit can be independent. On the other hand, specific audit concentrates on a particular areas, object or may be period.

(1) **Cost audit:-** Cost audit was first introduced in 1965 in India, when the central govt. added clauses (d) to section 209 and 233B to section 233 of Companies Act,1956 . Cost audit is the effective means of control in the hands of management and it is a check on behalf of the shareholders of the company , consumers and the govt. The cost audit helps in maintaining and effective control of cost. The cost accountant helps in maintaining proper cost records and suggests the means for reducing the cost of production.

(2) **Management Audit**:- Management audit is to evaluate various management functions and processes. According to Leslie R.Howard " an investigation of a business from the highest level downward in order to ascertain whether sound management prevails throughout, thus facilitating the most effective relationship with outside world and the most efficient organization and smooth running of internal organizations."

(3) **Performance audit:-** It is to determine whether the various activities of the organization are being carried out efficiently. It is to ensure effective control in the organisation. It examines the relationship between production and sales to maximize the profits of the organization.

(4) **Operational audit:** This audit aims at improving the operations of business.

- To make recommendations for the improvement of profitability of the organization.
- To help in achieving other objectives of business such as workers satisfaction, improvement in company's image.

  (5) **Tax audit** :-Under Income Tax Act, profits shown by profit and loss a/c have to be adjusted as per the provisions of the Act. In this way profits for accounting and profits for taxation are not the same. This profit differ due to various reasons. Profits for accounting are ascertained as per accounting policies and standards but profits for tax purpose are computed as per the provisions and rules of Income Tax Act.

(B) **On The Basis Of Forms Of Organization or Statutory**:-

(a) **Audit of sole traders** :- In case of proprietary concern, the owner himself takes the decision to get the accounts audited. The auditing work will depend upon the agreement of audit. It will be safe for the auditor to get the agreement in writing from the trader.

(b) **Audit of accounts of partnership firms:-**To avoid any misunderstandings and doubts, partnership firms recognize the advantage of audit of financial statements. Partnership deed on mutual agreement between the partners may provide for audit of final statements. Auditors are appointed by the mutual consent of all the partners. Rights, duties and liabilities of the auditors are defined in the mutual agreement and can be modified by the partners.

(c) **Audit of accounts of individuals**:-Many of the individuals derive from income from property, shares, investments and other sources. They may be incurring heavy expenses for earning such incomes. Like insurance agents earn a commission. Auditor may be appointed to audit the accounts and to verify the accuracy. He must get clear instructions from his client. His scope of work will depend upon the agreement with his client.

(d) **Audit of companies**:-Under Companies Act, audit of accounts of companies in India is compulsory. Independent Chartered Accountant who is professionally qualified is required for audit of accounts of companies. Indian Companies, Act 1913 for the first time made it compulsory for joint stock companies to get their accounts audited by a qualified accountant. A number of amendments have been made in Companies Act, 1956 regarding appointment, duties, qualifications, power and liabilities of a qualified auditor.

(e) **Audit of accounts of trust**:-Accounts of trust are maintained as per the conditions and terms of the trust deed. The income of the trust is distributed to the beneficiaries. There are more chances of frauds and mis-appropriation of incomes. In the trust deed as well as in the trust by a qualified auditor. The audited accounts of the trust nsure true and fair view of accounts of trust.

(f) **Audit of accounts of Co-operative Societies**:-co-operative societies are established under the Co-operative Societies Act, 1912. It contains various provisions for regulation and working of these societies. The auditor of co-operative society should have an expert knowledge of the particular Act. Companies Act is no applicable for co-operative societies.

(g) **Audit of accounts of other institutions**:-other corporate bodies like banks, insurance companies, electricity companies etc. formed under the Special Acts of the parliament shall get their accounts audited as per the provisions of the respective Act.

(C) **On The Basis Of Conduct/Method/Approach**:-

It is classified into **external and internal audit**. An independent or **external audit** is conducted by an independent, professionally qualified person who is not an employee of the organization. An independent audit enjoys better credibility in the eyes of public. Indian companies Act, and Chartered Accountants Act contain number of provisions to ensure the independence of the auditor. On the other hand, i internal audit is conducted by employee of the organization to enable better exercise of managerial control.

(1) **Internal audit** implies the audit of accounts by the staff of the business. The staff may or may not have professional qualification for audit of accounts. The internal audit staff is permanent in nature and helps the business in detection of errors and frauds. Partial audit:-

When an auditor is asked to audit certain category of transactions or transactions made during a post of period, it is called as partial audit.

(2) **Partial audit:-** It is conducted as a special event, normally in those organizations where routine audits are not taking place. For ex,in a partnership firm when a new partner is to be admitted or where govt. orders a special audit to investigate in to certain matters.

(3)**Interim audit:-**When an audit is conducted between two annual audits, such audit is known as interim audit. It may involve complete checking of accounts for a part of the year. Sometimes it is conducted to enable the Board of Directors to declare an interim dividend.

(4) **Continuous audit:** It is a detailed examination when an audit is done at certain levels but from where it is left . The reasons may be where there are large volumes of transactions or internal control or check is weak.

(5) **Balance sheet audit**: It is an in depth examination of all items of balance sheet, profit and loss account, original entries etc.. Vouchers are examined only to a necessary extent.

Basic Principles Governing an Audit

The Auditing and Assurance Standard 1 (SA 200) on "Basic Principles Governing an Audit" issued by the Institute of Chartered Accountants of India describes the basic principles which govern the auditor's professional responsibilities and which should be complied with whenever an audit of financial information of an entity is carried out. The basic principles as stated in this statement are:

(i) **Integrity, Objectivity and Independence:** The auditor should be straightforward, honest and sincere in his approach to his professional work. He should maintain an impartial attitude and both be and appear to be free of any interest which might be regarded, whatever its actual effect on being incompatible with integrity and objectivity.

(ii) **Confidentiality:** The auditor should respect the confidentiality of information acquired in the course of his work and should not disclose any such information to a third party without specific authority or unless there is a legal or professional duty to disclose.

(iii) **Skill and Competence:** The audit should be performed and the report prepared with due professional care by persons who have adequate training, experience and competence in auditing.

(iv) **Work Performed by Others:** When the auditor delegates work to assistants or uses work performed by other auditors and experts, he will be entitled to rely on work performed by others provided he exercises adequate skill and care and is not aware of any reasons to believe that he should not have so relied. The auditor should carefully direct, supervise and review work delegated to assistants and obtain reasonable assurance that work performed by other auditors or experts is adequate for his purpose since he will continue to be responsible for forming and expressing his opinion on the financial information.

(v) **Documentation:** The auditor should document matters which are important in providing evidence that the audit was carried in accordance with the basic principles.

(vi) **Planning:** Planning enables the auditor to conduct and effective audit in an efficient and timely manner. Primarily, planning should be based on the knowledge of the client's business. Plans should be further developed and revised as necessary during the course of the audit.

(vii) Audit Evidence: The auditor should obtain sufficient appropriate audit evidence through the performance of compliance and substantive procedures to enable him to draw reasonable conclusions there from on which to base his opinion on the financing information.

(viii) Accounting System and Internal Control: The auditor should reasonably assure himself that the accounting system is adequate and that all the accounting information which should be recorded has in fact been recorded. Internal controls normally contribute to such assurance. The auditor should gain an understanding of the accounting system and related internal controls and evaluate the same to determine the nature, timing and extent of other audit procedures.

(ix) Audit Conclusions and Reporting: The auditor should review and assess the conclusions drawn from the audit evidence obtained and from his knowledge of business of the entity as the basis for the expression of his opinion on the financial information. This review and assessment involves forming an overall conclusion as to whether:

(a) the financial information has been prepared using acceptable accounting policies which have been consistently applied;

(b) the financial information complies with relevant regulations and statutory requirements;

(c) there is adequate disclosure of all material matters relevant to the proper presentation of the financial information, subject to statutory requirements, where applicable. The auditor should contain a clear written expression of opinion on the financial information and if the form or content of the report is laid down in or prescribed under any agreement or statute or regulation, the audit report should comply with such requirements. When a qualified opinion, adverse opinion or a disclaimer of opinion is to be given or reservation of opinion on any matters is to be made, the audit report should state the reasons therefore.

Audit Planning

Proper implementation of any plan depends upon a good programme me. While preparing audit programme me, the auditor must keep in mind size and composition of the organization and nature and extent of internal control. An auditor prepares a plan after the selection of senior and junior staffs allocating the jobs to them, mentioning when to start, how to do the work etc; this plan is known as audit programme.

An auditor should include all the procedures in written form, objectives of each sector and all the directions which are to be given to the staff, which helps to control their work and helps to implement such programmes in to action.

Preparation before commencement of audit

It means that when an organization is going to start final audit before commencement of audit the following instruction must be given by the auditor to his client.

1. To ascertain nature and scope of his duties.

2. An **engagement letter called audit contract** should be procured from the client in which it contains all the terms and conditions between auditor and his client.

3. A list of book in use, list of employees, their duties and internal control should be provided to the audit staff.

4. Books of original entry, ledgers, trial balance and Final accounts should be provided to the auditor to know the internal control system.

5. All supporting document should be properly arranged.

6. List and schedule of assets and liabilities should be arranged properly for the examination to the audit staff managed properly for the examination to the audit staff.

7. The auditor of the newly established company should also carry out the following primary work before commencing the audit.

8. To understand the nature of transaction of the client the auditor should acquire technical knowledge.

Audit Programme

Audit programme is a detailed work plan which includes the time of doing work and how to do the work which includes audit procedures. It also estimates the duration to complete the audit task. Senior staffs prepares audit programme to junior staff on the basis of nature of business. Auditor has to keep in mind the size and composition of organisation nature and extent of internal control for audit program.

Advantages

(1) **Audit programme saves time and labour**:- All the directions which are to be given to assistant are clearly stated in the audit programme which helps to complete the task in time.

(2) **Audit programme increases efficiency**:- The responsibilities of auditor are divided among the number of staffs considering their skill and intelligence which helps to complete the work of audit properly.

(3) **Audit programme helps to control**:- An auditor can compare the work performed by the assistants on the basis of audit programme which helps to control their wok.

(4) **Audit programme helps to maintain uniformity:-** work is divided among the assistant staffs, so there is no chance of leaving non-audited statements. If the work of audit is performed every year, uniformity can be maintained in the work of audit which helps to compare the report of various years.

(5) **Audit programme help to make responsible**:- work of assistant is clearly defined in the audit programme and assistant puts signature in the completed work. So, if any work is left out, assistant can be made liable for such work.
(6) **Audit programme helps to maintain continuity**:- Audit programme clearly shows the completed task and procedures of doing work. So, if any staff leaves the job or remains absent, new staff can easily continue the job of audit.
(7) **Audit programme helps to present as proof:-** Auditor can present audit programme as proof. If he/ she done negligence or misfeasance, can get clearance from such accusation. Audit programme can be presented in court also.

Disadvantages

Even though audit programme has number of advantages it is not free from limitations. Some of the major disadvantages of audit programme are as follows:-

(1) **Audit programme harasses staff**:-All the staff should perform task within the limitation given in audit programme. So, staff can't use their knowledge and calibre which harasses to them.
(2) **Possibility of being unsuitable**:- Nature and size of business differs. So, the programme which is prepared at the beginning of the year remains unsuitable. Different organisations may have their own problems.so, similar type of programme may not be applicable to all.
(3) **Audit programme increases the chance of fraud**:- Staff of the client got information about the audit programme in advance which increases the chance of committing frauds. Similarly, it harasses the audit staff, so they perform the work of audit carelessly which also increases the chance of committing frauds.
(4) **Audit programme is unsuitable to small concerns**:- Small concerns has less transactions and work of audit can be completed in short period of time. So, audit programme is not essential to audit such concern.
(5) **Exclusion of problems of new technology**:- New techniques and technologies are used in the work of accounting. Such technology creates the problem in the work of audit.

Audit Note Book:-

Audit note book is a diary or register maintained by audit staff to note errors, doubtful queries and difficulties. The purpose is to note down various points which need to be either clarified with the client o the chief auditor. The audit note book is also used for recording important points to be included in the auditor's report. It is a complete record of doubts and their clarification.

Contents of Audit Note Book:-

(1) A list of books of accounts maintained.
(2) The names, duties and responsibilities of principal officers.
(3) The particulars of missing receipts and vouchers.
(4) Mistakes and errors detected.
(5) The points calling for clarification and explanations.

(6) The points deserving the attention of the auditor.
(7) Various totals and balances.
(8) Extracts from minutes and contracts.
(9) Points to be part of auditor's report.
(10) Date of commencement and completion of audit.

Audit papers or Audit Working Papers:-

Audit working papers are the documents which record all audit evidence obtained during financial statements auditing, internal management auditing, information system auditing and investigations. These papers contain essential facts about accounts which are under audit.They show the audit was:

- Properly planned;
- Carried out;
- There was adequate supervision;
- That the appropriate review was undertaken; & finally and most importantly;
- That the evidence is sufficient and appropriate to support the audit opinion.

Purpose of Audit Working Papers

1. Working papers represent the volume of work performed by the auditor and his staff. Hence, they enable the easy drafting and preparation of a detailed audit report.

2. The various minute details and aspects of the audit report can be well substantiated based on the findings summarized in the report.

3. They become a valuable documentary evidence for the auditor on the occasions when he has to defend himself against the charges of negligence, etc. leveled against him.
4. They enable auditor to coordinate and organize the work of audit clerks.

5. They enable the auditor to advice his client regarding the improvement of the system of internal check and efficiency of the accounting system.

6. They serve as a guide to the auditor in subsequent examinations and help the auditor to plan for the succeeding year.

7. They serve as a means to give training to the audit clerks to summarize the work done by them.

8. The purpose of audit working papers is to prepare written record as a proof of audit work done.

9. Audit staff keeps audit working papers so long these are needed for future use such record is the property of an auditor. He can keep it as long as he thinks necessary.

10. The auditor can be assisted in forming an opinion about financial statements.

Latest Trends in audit

The AC (Audit Committee) plays a critical role in helping organizations navigate today's challenging business environment, providing guidance and oversight on a wide range of complex issues. This means audit committees must focus on ensuring the right skills are at the table and that all members continue to expand their knowledge in key areas. Encouragingly, more than 70 percent of respondents indicated that their board assesses its skills on an annual basis with an eye to facing evolving challenges.

1**. Talent and human capital**: So much data gathering work is being automated now in internal audit and finance. Talent-wise, that means internal audit will be looking for people who are more astute on the levels of data and information analysis – people who can use data strategically to help the organization realize its vision and goals. We're really seeing the emergence of a different capability in internal audit, where it's moving from a 'doing' function to a 'leading/ influencing' function.

2. **Technology and cyber security**: Businesses really need to think harder about technology infrastructure, as it appears to be moving from one model to another model. Organizations are unsure what their capital investment should look like going forward, as a pay-as-you go approach is becoming more practical. This is an area that is changing at a tremendous rate and it just isn't as well understood as it should be. For those that get it right, it could create significant innovation differentiation.

3. **Disruption to business models**: It is clear that the innovation agenda will continue to be a core focus for organizations, whether to optimize cost, differentiate the customer experience or grow new products and services. It is critical to move past the buzzwords and for ACs to truly understand the existing and future risks and opportunities posed through innovation disruption, which is occurring at an exponential rate.

4. **Evolving regulatory landscape**: In our globalized economy, organizations should start thinking not just about complying with regulations in other countries, but about whether their operations in those countries are living up to home country standards and regulations. This is particularly relevant given the rapid rise of social media and its use to highlight what individuals believe to be inappropriate corporate behaviour. Companies have a social responsibility to think about these issues, and their brand can be damaged if they are not properly addressed.

5. **Political and economic uncertainty**: For ACs to address risk issues around uncertainty – whether political or economic – they need access to, and engagement with, leading insights. Those insights can come from a variety of places: subject matter experts, experience gleaned from other boards, or external advisors who can assess the business and understand how the broad range of uncertainty-based risks applies.

6. **Changing reporting expectations**: The importance of operational and non-financial metrics will only continue to increase. As a result, the finance function's responsibilities will expand beyond traditional financial reporting and controls. Audit committees should ensure their finance function is taking the full range of externally reported KPIs(Key Performance Indicators) into account and leveraging them to give external stakeholders more assurance around the accuracy of all reports.

7. **Environment and climate change**: Many of Canada's leading industry sectors could well suffer negative consequences from climate change if they don't take action. The cost of recent catastrophic weather events and the potential negative impact of climate change on business models and asset valuations are increasingly driving home this realization. To play an effective role, ACs have a responsibility to understand and ensure that management has addressed the potentially material impacts of climate change and related disclosure requirements.