Auditing

For B Com Honours Degree Course of University of Calcutta

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Features of

Learning Objectives

- Evolution of Auditing
- Definition
- Nature
- Scope
- Objectives
- Limitations
- Basic Principles
- Accounting vs Auditing
- Errors and Fraud

Learning Objectives Provide a broad overview of a chapter.

Tables Numerous tables are provided to support the text.

Table 2.4 Difference between internal audit and statutory audit

Points of Difference	Internal Audit	Statutory Audit
Stage	Internal audit is a mid-term audit to face the final or statutory audit.	Statutory audit is a final audit done to submit the audit report.
Scope	The scope of internal audit is determined by the management.	The scope of statutory audit is vast and in no circumstances can it be limited.
Appointment and remuneration	Appointment along with the remuneration of the internal auditor is fixed by the management.	Appointment of statutory auditor is either made by the shareholders in the Annual General Meeting, or by the Board of Directors, or by the CAG as the case may be. Remuneration is also fixed by the respective appointing authority.
Qualification	Internal auditor may or may not be a Chartered Accountant.	Statutory auditor must be a Chartered Accountant.
Rights and duties	The management pre-determines the rights of the internal auditor. The internal auditor performs his/her duties accordingly.	The rights of the statutory auditor cannot be curtailed and it is just to perform his/her duties. The ultimate task of the statutory auditor is to submit an audit report to the appointing authority.

Judgement on civil liability for negligence

1. **Case:** Irish Woollen Co. Ltd. vs Tyson and Others
   Year of judgement: 1900
   Content of the case: The auditor had failed to discover a company's liability due to suppression of the creditor's invoices. The auditor could have discovered this either by checking the ledger balance or by scrutinizing the daily balances, which he never did.
   Judgement of the case: The auditor merely goes for checking arithmetical accuracy. He could have exercised sufficient skill and care for validity of the entries. He was held liable for negligence.
2. **Case:** Armitage vs Brewer and Knott
   Year of judgement: 1932
   Content of the case: The accountant had embezzled a huge amount of money by manipulating the wage sheet. The auditors have not taken reasonable skill and care and were unable to detect the embezzlement. They were held liable.
   Decision of the case: The auditors were held liable for negligence and he had to give compensation to the plaintiff. The Learned Judge observed that, 'it was the duty of auditors to be suspicious: that was what they were there for. If everybody was honest and careful, there would be no need for auditors.'

Case Studies Provide numerous legal cases to highlight associated laws.

the Book

Exercises (MCQs & Sections A, B & C) Exercises consist of multiple choice questions and review questions that follow the CU exam pattern to acclimatize students to the prevailing structure.

EXERCISES

Multiple-choice Questions

1. Concept of depreciation is based on
(a) use (b) effluxion
(c) obsolescence (d) All of these
2. Depletion method is useful in case of

8. Depreciation policy of the organization is determined by the
(a) accountant (b) auditor
(c) board of directors (d) None of these
9. Before declaration of dividend, declaration of depreciation policy is

(a) Conservatism principle (b) Disclosure principle
(c) Material principle (d) None of these
17. Depreciation is stated in which Accounting Standard?
(a) AS 1 (b) AS 2
(c) AS 6 (d) None of these
18. For calculating Sum-of-the-years'-digits method, which mathematical progression series is applicable?
(a) AP (b) GP
(c) HP (d) None of these
19. As per AS 6, depreciation should be calculated in accordance with the new method from
(a) date of change of method
(b) date as decided by the board of directors
(c) date of the asset coming to use
(d) None of these
20. The straight line method or diminishing balance method is useful in case of which of these?
(a) Tangible assets (b) Intangible assets
(c) Washing assets (d) None of these

Group A

1. Distinguish between depreciation and amortization. [CU B Com (Hons) 2002]

Group B

As an auditor how would you deal with the following situations?
(a) Fixed assets costing less than ₹5000 and therefore written off in the year of acquisition is not entered in the fixed assets register.
(b) On the basis of a report of values showing that the book value of the net assets of the enterprise is much lower than their market value, the difference has been accumulated for as goodwill.
(c) Depreciation has been provided by including the cost of land in value of the building.
[CU B Com (Hons) 2002]

Group C

1. Discuss the legal provisions of an auditor relating to the provisions for depreciation on fixed assets of a company.
2. What are the legal provisions to charge depreciation on fixed assets? [KU B Com (Hons) 1992]
3. What are the duties of an auditor regarding depreciation? [NBU B Com (Hons) 2012]
4. (a) Discuss the necessities of depreciation.

Question Bank

Group A

Q1. From which Latin word is the term audit derived?

Ans: The term audit is derived from the Latin word *audire*, which means 'to hear'.

Q2. Define the term auditing. State the two objectives of auditing.

Ans: The Institute of Chartered Accountants of India (ICAI) describes audit as 'the independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such examination is conducted with a view to express an opinion thereon'. Spicer and Pegler opined, 'An audit may be said to be such an

Question Bank Provides numerous solved questions to help students prepare for examinations.

Solved CU QPs and Model QPs Provide last five years' solved question papers as well as two model question papers to help students prepare for examinations.

Solved CU Question Papers

Model Question Papers

SET 1

Auditing (Honours)

(Full Marks 100)

Group-A

1. State the status of a company auditor. 4

Or

Explain the concept of 'auditor's independence'.

Preface

Auditing is the outcome of the work carried out by a professional auditor which he does on the basis of prevailing Accounting Standards (AS), Standards of Auditing (SA), Generally Accepted Accounting Principles (GAAP), and the Companies Act, 2013 to find the true and fair view of the financial statements of an organization. It is not only incorporated in the University of Calcutta syllabus as a subject, but also lays down the foundation of financial transparency in the corporate sector in particular and society at large.

About the Book

The basic objective of the book is to motivate the students to read the textbook, to assimilate the technical subject in an easy way, and to secure good marks and grades in university examinations. Students will be empowered to write answers with an accounting flavour. All relevant Sections are mentioned; and different case laws with facts and judgements are also given in the book. Realistic illustrations give the book a different magnitude. The book will be accepted by the students and teachers for its lucid presentation covering the wide spectrum of course contents. It is written as a textbook for university students and on the line of professional approach to cater to students pursuing professional courses like ICAI (both Chartered and Cost), CS as well as law, management, and engineering students. The book is completely updated with the Companies Act, 2013 with up-to-date amendment, Standard on Auditing, Accounting Standard CARO, 2015.

Salient Features

- Appropriate figures are used wherever necessary for clear understanding of the concepts.
- Five sets of university question papers are provided with full solutions. Two sets of model questions are also provided for practice.
- Exercises are provided at the end of every chapter. They are divided into three groups (A, B, and C) in keeping with the university examination pattern.
- Case studies along with fact of the case and decision of the case are given in sufficient numbers to enrich the book.
- Several illustrative examples are provided throughout the book to make learning of difficult laws more easy and understandable.
- A Question Bank containing numerous questions and answers is provided at the end of the book to help students prepare for examinations

Online Resources

To aid the faculty and students using this book, additional resources are available at www.india.oup.com/orcs/9780199476503.

For Faculty and Students:

- Solutions to Chapter-end Exercises
- Solutions to Model Question Papers

Structure and Content of the Book

The book is broadly divided into two parts: Module I and Module II.

The entire content is spread over fifteen chapters.

Chapter 1 introduces the subject of auditing. It covers the basic principles of auditing, relation between accounting and auditing, and discusses the concepts of error and fraud in auditing.

Chapter 2 provides a detailed classification of audit. Auditing is classified according to objective, technique, coverage, organization structure, specific matter, etc.

Chapter 3 covers auditing procedures and techniques. The content includes auditing engagement, planning, and programme. It also covers documentation, audit evidence, and preparation before commencement of a new audit.

Chapter 4 deals with internal control and internal audit. The chapter covers the definition and objectives of internal check and internal control, as well as internal audit and audit risk.

Chapter 5 covers audit sampling and analytical procedure. Topics covered include types of sampling, test checking, and tools and techniques of analytical procedure.

Chapter 6 deals with vouching of different items, while *Chapter 7* covers verification and valuation of audit of share capital, loans, fixed assets, creditors, etc.

Chapters 8–10 deal with company audit. They include qualification, disqualification, appointment, removal, and remuneration of company auditors. They also cover audit ceiling, branch audit, maintenance of book of accounts, dividend and divisible profits, and depreciation.

Chapter 11 covers audit report and certificate. It defines the two terms and shows the differences between them. Other topics covered include relevance of opinion, contents of annual report and auditor's report, window-dressing of balance sheets, materiality, certificate on corporate governance, etc.

Chapter 12 discusses audit of different institutions such as banks, insurance companies, educational institutions, and hospitals. It also covers the audit of government bodies, NGOs, and NPOs.

Chapter 13 deals with investigation. Topics covered include types of investigations, assessing a business, investigations to detect fraud, misappropriations, and defalcations.

Chapter 14 explains different thrust areas of auditing which include cost audit, management audit, tax audit, systems audit, social audit, environmental audit, energy audit, and forensic audit.

Chapter 15 discusses auditing ethics. Topics covered include professional misconduct, auditor's independence, and auditing in a CIS environment. It also gives an overview of standards of auditing.

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Pankaj Kumar Roy

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CHAPTER 2

Classification of Audits

Learning Objectives

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- Cash Flow Audit
- Compliance Audit
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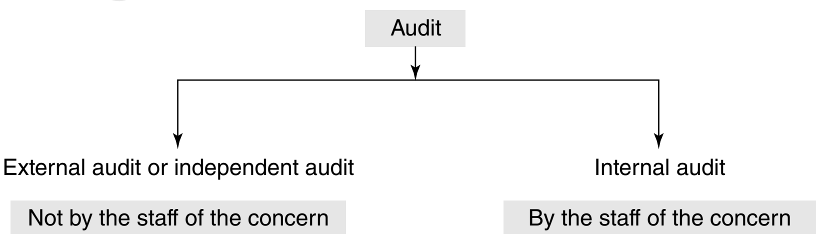
INTRODUCTION

Auditing has evolved as a dynamic social science. On the basis of structure, there are two types of audit, namely statutory and non-statutory. Statutory organizations come under the purview of the law, for example, a company and a co-operative society. In the case of non-statutory organizations, auditing is not mandatory although they may take the benefit of auditing, such as sole proprietorship and partnership. Large concerns are not only going in for statutory audit but also implementing cost audit, tax audit, social audit, and environmental audit as per the law or social commitment.



INTERNAL AUDIT

Internal auditing is an independent appraisal function established within an organization to examine and evaluate the accounting and financing activities as service to the organization. The objective of internal auditing is to assist the members of the organization in the effective discharge of their responsibilities. The scope of internal audit is determined by the management. In any case, internal audit is nothing but a post-transaction review to evaluate the records, controls, and operations in an organization.

Section 138 of the Companies Act, 2013 stated that such class or classes of companies as may be prescribed shall be required to appoint an internal auditor, who shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.

After the introduction of Companies Act, 2013, internal audit got legal recognition and the scope of professionals such as Chartered Accountants and Cost Accountants, along with other professionals has widened. As per Rule 14 of the Companies (Accounts) Rules, 2014, appointment of an internal auditor is statutory in the following cases:

1. Every listed company
2. Every unlisted company having paid up capital of ₹50 crore or more during the preceding financial year or having a turnover of ₹200 crore or more during the preceding financial year, having outstanding loans, or if borrowings from banks or financial institutions exceed ₹100 crore or more at any point of time or if there are outstanding deposits of ₹25 crore or more at any point of time
3. Every private company having a turnover of ₹200 crore or more during the preceding financial year, outstanding loans, or if borrowings exceeds ₹100 crore or more at any point of time during the preceding financial year

Objective

The Standard on Internal Audit (SIA) 1 to 17 has categorically mentioned the responsibilities of the internal auditor regarding compliance of laws and regulations on the one hand and review the significant impact on the functioning of the concern. The revised standard on internal audit reminds us, 'The internal audit in itself has, for one, been a niche area for the members of the institute, and second the Indian economy today needs the value addition made by the modern-day internal audit to help its corporates face the acerbic competition, both on the domestic and international frontiers.' 'The Institute of Chartered Accounts of India through Internal Audit Standards Board (IASB) has made keen attention on the functioning of internal audit done by the practicing members to be considered as a best practice in the field.'

Advantages

1. Supplements the external audit
2. Complies with the Companies Act, 2013 and the Standard on Internal Audit guide lines made by the ICAI
3. Helps to prepare the financial statements in conformity with Accounting Standards as laid down in the Act
4. Improves the trustworthiness among investors, banks and financial institutions, governments, and the society
5. Improves the degree of internal control to strengthen financial discipline

Example: Satyam is a ₹700 crore lie; this is because internal audit has failed. On the other side of the coin, Infosys has completed financial auditing of the preceding financial year within 15 April of the succeeding financial year.

INDEPENDENT FINANCIAL AUDIT OR EXTERNAL AUDIT

The term 'audit' comes from the Latin word *audire* which means 'to hear'. Earlier, accounts were getting checked by others. Nowadays, every organization checks the accounts with the help of an external agency for independent judgement. For the purpose of statutory audit, a qualified Chartered Accountant with completion of Articleship is essential to conduct the audit. In the case of non-statutory audits as well, qualified Chartered Accountants are being appointed to derive the best benefits from the audit. Auditing has now become the culture of an organization in particular and the society at large. The Indian Companies Act, 2013 lays down the guidelines for an audit. Chartered Accountants Act, 1949 also mentions the code of conduct of the auditor for smooth functioning of the audit.

The principal objective of a financial audit is to report the financial position of the organization considering the financial statements, both the income statement and the balance sheet, along with the cash flow statement. Financial statement must be free from errors and frauds inter alia; the true and fair view must be exhibited in view of the Accounting and Auditing Standards being followed—International Financial Reporting Standards (IFRS) and Standards on Auditing (SA).

Objectives

1. Transparency of accounting
2. Universal acceptability of accounts
3. Reduction in the coherence between the internal user and external user of the accounts
4. Exhibition of error-free and fraud-free accounts
5. Demonstration of the true and fair view, as per the accounting standards

INDEPENDENCE OF AUDITOR

The very concept of 'independence of auditor' reflects the underlying concept that auditing is not influenced by the appointing authority. Independent opinions passed by the appointed auditor makes the process transparent and widely accepted in all parts of the society. An audited financial statement is accepted by the Income Tax department, banks or financial institutions, local authorities (corporation, municipality, or a notified area authority) or any other purpose deemed to be fit for the purpose of clarification, explanation, and support.

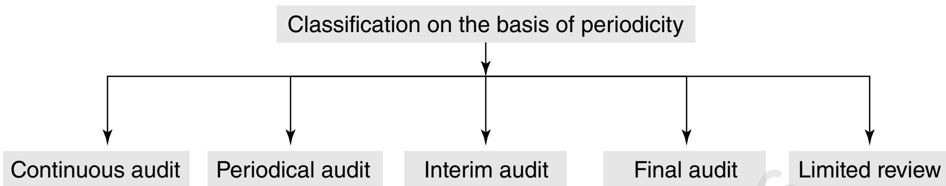
In the case of London and General Bank, Lord Justice Lindley has opined, 'An auditor must be honest, that is, he must not certify what he does not believe to be true and he must take reasonable care and skill before he believes what he certifies is true.'

Section 144 of the Companies Act, 2013 also upholds the independent character of the auditor. He/She must not render the following services directly or indirectly to the company, its holding company, or a subsidiary company:

(a) Accounting and book-keeping
(b) Internal audit
(c) Design and implementation of any financial information system
(d) Actuarial services
(e) Investment advisory services
(f) Investment banking services
(g) Rendering of outsourced financial services
(h) Management services
(i) Any other kind of services as may be prescribed

It is clear that the auditor must not render any sort of services that will hamper his/her honesty, integrity, and independence. He/She will perform his/her statutory obligation and no way deviate from the ethical code of conduct, as laid down in the Chartered Accountants Act, 1949.

PERIODICITY-WISE CLASSIFICATION OF AUDIT



Periodical Audit

Completed, final, or periodical audit is done at the end of an accounting period for the purpose of final or end-term audit. In the words of Spicer and Pegler, 'Periodical is commonly understood to be an audit which is not commenced until after the end of the financial period and is then carried on until completed.'

Objectives

1. *Time span*: Work will be carried out till the completion of the audit work task, stipulated time will be provided for that.
2. *Work plan*: Considering the volume of the audit, a plan will be laid down so that the task of auditing would become easier.
3. *Less monotony*: As audit work is done at the end of the financial year, repetition of work is not possible and chance of monotony will be minimized.
4. *Continuity restraint*: Periodical audit restrains the continuity of work.
5. *Cost effective*: As continuous audit is cost effective, it will be equally applicable to all concerns, irrespective of size.

Advantages

1. *Economics*: The cost of periodical audit is comparatively cheaper than that of continuous audit; hence any type of concern can adopt this irrespective of size.
2. *Comfortable*: As the audit starts at the end of the financial year, concerns are not affected in any way and it is a comfortable time to conduct the audit.
3. *Hassle-free*: As periodical audit is done at the end period, it will be hassle-free and regular work would not be affected.
4. *Time bound*: Periodical audit is a time-bound game and plans can be introduced smoothly.
5. *Continuity of work*: As the audit is completed in a single session, the loss of link is not possible.

Continuous Audit

A continuous audit or a detailed audit is an audit which involves a detailed examination of the books of accounts at regular intervals, every month or every three months. In the words of R.C. 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 at regular or irregular intervals during the period.'

The auditor visits his/her clients at regular or irregular intervals during the financial year and checks each and every transaction meticulously. Continuous audit is not of much use to a small concern as its accounts can be audited at the end of the financial year without much loss of time.

Objectives

This type of audit is especially applicable to the following businesses:

1. When the business is very large and the entire process of auditing cannot be completed in a short period of time
2. Where a good and efficient system of internal audit does not prevail
3. Where the volume of transaction is very large
4. Where the monthly results are required to ascertain the trend of the business
5. Where it is desired to prepare the final accounts just after the closing of the financial year

Advantages

1. *Easy and quick discovery of errors and frauds:* Errors and frauds can be discovered easily and quickly as the auditor checks the accounts at regular intervals and in detail. If the auditor checks the accounts after one year it would be difficult to locate an error and fraud. The auditor visits the organization every month or every two or three months. The number of transactions tends to be few, and errors and frauds can easily be detected.
2. *Quick presentation of accounts*: Since most of the checking has already been carried out during the financial year, the final audited accounts can be presented soon after the end of the financial year at the annual general meeting.
3. *Knowledge of technical details*: Since the auditor remains more in touch with the business, he/she is in a position to know the technical details and accordingly make suggestions.
4. *Ethical upgradation of staff*: Since the auditor visits the client at regular intervals, there is ethical pressure on the accounting staff to keep the accounts up-to-date on a true and fair basis. It is more than that for internal auditing.
5. *Efficient audit:* As the auditor has more time at his/her disposal, he/she can check the accounts with greater attention and work with considerably more efficiency.
6. *Preparation of interim audit*: When the director of a company has desire to declare an interim dividend, continuous audit will help to prepare the interim accounts without much delay.

Table 2.1 depicts the differences between continuous audit and periodical audit.

Table 2.1 Difference between continuous audit and periodical audit

Points of Difference	Continuous Audit	Periodical Audit
Definition	Financial position of the organization can be assessed on a monthly, quarterly, or half-yearly basis.	Financial position can be assessed at the end of the financial year.
Detection of errors and frauds	Errors and frauds can be detected early.	Errors and frauds remain unidentified till the completion of the periodical audit.
Cost	The system is very expensive and only medium and large concerns can bear the costs. Small concerns cannot afford that.	The system is mandatory and to derive the benefit of auditing, small, medium, and large concerns adopt this.
Dependence	Much dependence on the auditor make the staff inefficient.	Less dependence on the auditor make them keep the accounts ready at all times.
Monotony	An auditor's mechanical and monotonous attitude might make the whole process seem fishy.	Auditor takes a fresh look at the audit, and the values portrayed will be more realistic.
Frequent visit	Frequent visits by the auditor lay pressure on the accounts office of the concern.	As there are no frequent visits, accounts office will be less concerned.
System	An appropriate system has to be developed to make the auditing perfect.	An appropriate system forms a bridge between continuous audit and periodic audit.

Interim Audit

Interim audit is done in between two financial audits. In the words of B.N. Tandon, 'An audit which is conducted in between the two annual audits with a view to find out interim profits to enable the company to declare an interim dividend should be called Interim Audit.'

Objectives

1. For the purpose of declaration of interim dividend
2. For the purpose of transfer of ownership
3. For the purpose of takeover of the company
4. For the purpose of calculation of goodwill
5. For the purpose of investigation

Advantages

1. Preparation of interim financial result
2. Declaration of interim dividend
3. Taking mid-term preventive measures regarding errors and frauds
4. Urgent need for borrowing from banks/FIs
5. Urgent need for ownership change, merger or acquisition

Final Audit

Standard audit may be defined as 'complete check and analysis of certain items and contingent upon effective internal check, appropriate test checks on remaining items, the whole of work being in accordance with general auditing standards.'

Standard is a comprehensive audit based on test checking provided that internal control exists. Standard audit is based on the guidelines of New Standards on Quality Control (SQCs); earlier it was based on Auditing and Assurance Standards (AAS) and International Financial Reporting Standards (IFRS), along with the Accounting Standards, New Companies Act, 2013, and the judgement from cases. Standard audit or final audit is very popular in India, along with most other countries in the world.

Objectives

1. To protect the interest of the owner
2. To protect the interest of the stakeholders
3. To revive the true and fair view of the organization as per Accounting Standards
4. To generate independent view regarding the organization
5. To make report as per compliance of law

Advantages

1. Full-year audit has to be done based on the financial year's data, information, and fact.
2. Chance of manipulation is less as it is done at the end of the financial year.
3. Both statutory and non-statutory audit can be done.
4. Satisfies the stakeholders in all respects.
5. Mitigates statutory obligation.

Limited Review

Under Limited Review the auditor has to submit a quick review report in an interim period. This type of review is not at all a full-fledged audit report and not based on the Generally Accepted Auditing Standards (GAAS). It may be called a narrow-ranged audit.

Objectives

1. The scope of limited review is narrower in comparison to general audit.
2. Examination of books of accounts is made on a basic understanding.
3. It is assumed that accounts are free from errors and frauds.
4. Limited review is done in the limited speared.

Advantages

1. In-depth study is possible.
2. Quick report is generated.
3. Interim report is prepared as per the requirement.

TECHNIQUE-WISE CLASSIFICATION OF AUDIT

On the basis of technique, audits can be classified as follows:

Classification on the basis of technique

- Balance sheet audit
- Final audit
- Standard audit
- System audit
- EDP audit

Balance Sheet Audit

A balance sheet audit is an evaluation of the accuracy of information derived from a company's balance sheet. In the words of B.N. Tandon, 'The term balance sheet audit means verification of the value of assets, liabilities, the balances of reserves and provisions and the amount of profit earned, or loss suffered by a firm during the year.' Balance sheet audit involves transactions related to balance sheets and especially, items related to assets and liabilities. By way of balance sheet audit, the weakness in the accounting system is identified and appropriate action is taken. Balance sheet audit is a very recent origin and popular in the USA.

Role of auditor

1. A good and effective internal control system has to be developed to derive the best benefit of the balance sheet audit.
2. Balance sheet audit is closely associated with balance sheet items and associated items of Profit and Loss Account cross-related with the balance sheet.
3. The accounts and finance department has to be professionally managed to derive the best benefits of a balance sheet audit.

Advantages

1. Balance sheet audit strengthens internal control systems.
2. EDP audit will be realistic if balance sheet audits prevail.
3. A qualified accountant and auditor can make and derive the best benefit of the balance sheet audit.
4. In case of too many transactions, the balance sheet audit will be more effective.
5. A comparative and comprehensive study will be more realistic.

Table 2.2 depicts the differences between balance sheet audit and final audit.

Table 2.2 Difference between balance sheet audit and final audit

Points of Difference	Balance Sheet Audit	Final Audit
Definition	It is only based on the balance sheet.	It is based on complete books of accounts.
Scope	Scope of balance sheet audit is limited.	Scope of final audit is wide.
Statutory	Balance sheet audit is not statutory.	Final audit is statutory.
Acceptability	Balance sheet audit is very popular in USA.	Final audit is well accepted throughout the globe.

Standard Audit

Standard audit refers to audit based on test checking. In this type of audit, detailed checking of certain items is made. Sampling and statistical sampling methods are widely used in this regard. The entire task is based on auditing standards to prepare an unqualified audit report.

System Audit

System audit judges if the various systems of accounting and control mechanisms are efficiently followed in the organization or not. Financial statements are the outcome of the prevailing system. The auditor has to judge if the systems are being properly followed or not.

Objectives

1. There is no stress to judge transactions.
2. More emphasis is laid on internal control and internal check.
3. In the prevailing internal control system, the auditor has to judge whether financial statements are free from errors and frauds.

Advantages

1. The outcome of the system audit is more transparent.
2. System audit expedites the audit functioning.
3. It justifies the accounting system.
4. Internal control will be imposed strongly.

Electronic Data Processing Audit

Electronic Data Processing Audit (EDP Audit) is a type of audit carried out in a computerized environment. Despite change in the environment, the dimension of audit has not yet changed. In EDP audit, the methods of evidence collection and evaluation have changed substantially. The auditor has to keep pace with the current changes in technology and audit software has to be installed in this regard.

Objectives

1. Introduction of technology to safeguard data.
2. Achievement of organizational goal efficiently.
3. Maintenance of resource efficiency.
4. Whether overall objective of audit has been violated or not.

Advantages

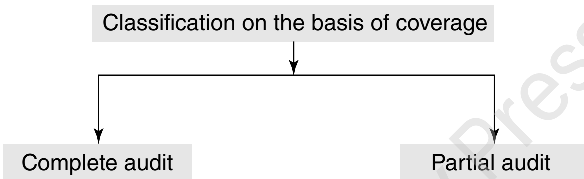
1. Fast auditing can be done.
2. On-time audit is possible.
3. Outcome of modernization.

Disadvantages

1. End users can make unintentional errors.
2. There may be a mismatch between management information system (MIS) and decision support system (DSS).
3. Due to lack of overall modernization, the entire system could be jeopardized.

COVERAGE-WISE CLASSIFICATION OF AUDIT

On the basis of coverage, audits are classified as follows:



Complete Audit or Detailed Audit

In case of complete audit, the auditor has to check all the transactions irrespective of nature and importance. In such a case, the auditor has to operate without any restriction on the scope of the audit. Nothing is untouched or unchecked. All records, vouchers, and supporting documents have to be scrutinized in the interest of the concern.

Objectives

1. Audit starts after the completion of the accounting work.
2. Auditors take up the process of auditing and hand over the accounts back to the organization after completion.
3. Uninterrupted auditing can be carried out.
4. Irrespective of the size of the organization, the auditing has to be carried out completely.

Advantages

1. Smooth functioning of work is possible.
2. It is efficient and economic for small organizations.
3. A comprehensive report of the organization's accounts can be prepared.
4. There is less chance of errors or frauds.
5. There is no hurry to complete the audit work and there is lesser chance of mistakes.

Partial Audit

When the audit is conducted on partial records of the books of accounts or over a partial period of the whole year, it is called partial audit. The scope of partial audit is very limited. In the case of partial audit, the auditor must specify the scope of audit to avoid future liability.

Objectives

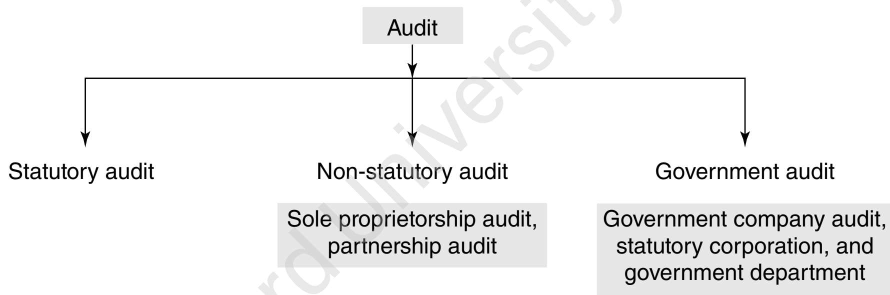
1. The scope of the partial audit is limited.
2. The scope has to be mentioned to avoid liability of errors or frauds.
3. It involves lesser time and cost.

Advantages

1. In-depth study is possible.
2. It takes lesser time.
3. It involves lesser cost.
4. It is generally undertaken by sole proprietorship or partnership organizations.

ORGANIZATION STRUCTURE-WISE AUDIT

On the basis of organizational structure, audits are classified as follows:



Statutory Audit

When audit is done as per the statute or when it is mandatory, it is called statutory audit. Audit of the joint stock companies, banking companies, insurance companies, electric supply companies, and registered societies are mandatory or statutory as per their respective statutes. Companies Act, 2013, Banking Regulation Act, 1949, Life Insurance Corporation of India Act, 1956, Societies Registration Act, 1960, and Income Tax Act, 1961 have prescribed statutory audits.

Objectives

1. Scope of independent audit can be explored and that can't be limited or restricted.
2. Statutory audit can be done by an independent auditor.
3. The qualification, disqualification, remuneration, rights, duties, and liabilities of an independent auditor are to be governed by law.
4. The report prepared by the independent auditor is for stakeholders.
5. It will uphold the financial culture of the organization and acceptability of the organization to the society at large.

Advantages

1. Statutory audit serves the statutory obligation.
2. Stakeholders will be more satisfied.
3. It safeguards the interest of the creditors, banks, financial institutions, government, and the society at large.
4. The trustees will be more satisfied with the financial operations of the organization.
5. The management can prove its efficiency and honesty.

Non-statutory Audit

When auditing is not mandatory or statutory as per the respective statute but is done to derive the benefit of audit, it is called non-statutory audit. The auditing of sole proprietorship firms, partnership firms and clubs are the brightest examples of non-statutory audit.

Objectives

1. To derive the benefit of audit.
2. To maintain a healthy relationship among the persons involved in the organization.
3. To ensure financial transparency among the stakeholders.
4. To increase social acceptance of the organization.
5. Sole proprietorship organizations, partnership firms, and individuals can derive benefits from non-statutory audits.

Government Audit

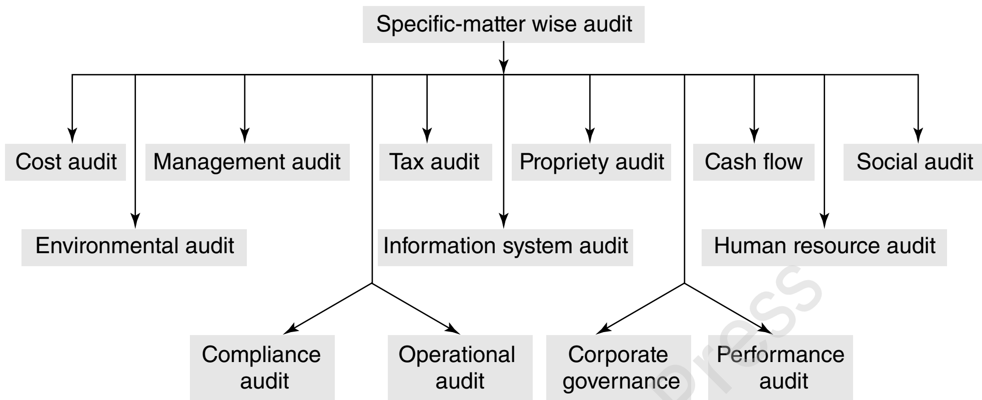
The audit of government companies, public sector undertakings (PSUs), and both central and state government departments has to be conducted by the Comptroller and Auditor General of India (CAG). The appointment, remuneration, duties, and powers of the CAG have to be stated in Articles 148 to 151 of the Constitution of India.

The objectives of the government audit are as follows:

1. To ensure that the financial transactions of government companies, public sector undertakings, and government departments are made in conformity with financial rules.
2. To ensure that expenses are made within the purview of the budget.
3. To ensure that all the activities of the government companies, government undertakings, and government departments are made for public interest.
4. To generate maximum output against minimum input.
5. To ensure that all the activities are made for public interest and funds are not misused.

SPECIFIC MATTER-WISE AUDIT

Audits can also be classified as follows:



Cost Audit

Cost audit may be defined as 'verification of correctness of cost accounts and of the adherence to the cost accounting plan.' In the words of Smith and Day it is 'the detailed checking of the costing system, techniques and accounts to verify their correctness and to ensure adherence to the objective of cost accounting.'

As per Section 148(1) of the Companies Act, 2013, the central government specifies audit of items of cost in respect of such class of companies engaged in the production of such goods or providing such services as may be prescribed, direct that particulars relating to the utilisation of material or labour or to other items of cost as may be prescribed shall also be included in the books of account kept by that class of companies.' Section 148(3) states that cost audit shall be conducted by the cost accountant in practice appointed by the Board of Directors.

As per the guideline issued by the Ministry of Corporate Affairs (MCA), applicability and maintenance of cost records is mandatory for two sectors, namely regulated sectors and non-regulated sectors laid down in the Companies (Cost Records and Audit) Amendment Rules, 2014.

Objectives

The objective of cost audit falls under two categories, namely general objectives and social objectives.

General objectives

1. Judge the accuracy of cost data and information.
2. Judge whether the recording of cost data is made in accordance with cost accounting standards.
3. Judge whether the determination of cost is made properly.
4. Judge whether the recording is free from errors and frauds as per cost accounting standards.

Social objectives

1. To help the consumers provide goods at least cost.
2. To help in the optimum utilization of resources.

Advantages

1. *Improves productivity*: As the cost audit highlights wastage and inefficiency, it will help to increase productivity.
2. *Helps in decision-making*: As the cost auditor provides extensive data, it will help in decision-making.
3. *Early signal for weakness and sickness*: Cost audit can give us early signals that the organization is weak.
4. *Cost competitiveness*: Cost audit helps in cost competitiveness. Better sustainability of the firm is possible.
5. *Benefit to the customer and society*: The customer and the society will ultimately be benefitted from cost audit.

Management Audit

In the words of 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 the outside world and the most efficient organization and smooth running of internal organizations.'

The American Institute of Management defines it as, 'Management auditing is a diagnostic appraisal process from analysing goals, plans, policies and activities in every phase of operation to turnover unsuspected witness and to develop ideas for improvement in areas that have escaped management attention.' Management audit assesses the performance or efficiency of management.

Objectives

1. It involves comprehensive examination of the organization or part.
2. It is undertaken to check the operation of the management and its effectiveness.
3. It involves analysing goals, plans, policies, and activities in every phase of management operation.

Advantages

1. Evaluates the performance of the management.
2. Reviews the plans and policies taken, and the execution of plans and policies.
3. Suggests necessary steps to mitigate the gap between plan and execution.
4. Guides the management to chart out future policies and plans.

Tax Audit

According to Section 44AB of the Income Tax Act, 1961 tax audit is compulsory (w.e.f. assessment year 1985–86) in respect of a person carrying on a business or profession where the turnover exceeds ₹1 crore (w.e.f. assessment year 2013–14) and in the case of profession gross receipts exceeding ₹25 lakh (w.e.f assessment year 2013–14).

The tax auditor may be appointed by the management of the business or profession or by the person duly authorized to do so. The appointment letter should clearly specify that the tax audit is to be conducted as per the requirement of Section 44AB of the Income Tax Act, 1961. As Section 44AB is silent on the rights of the tax auditor, the appointment letter of the tax auditor clearly mentions the domain of the tax auditor.

As per Section 288 of the Income Tax Act, 1961 tax audit shall be conducted by the Chartered Accountant.

Environmental Audit

The Confederation of British Industry has defined environmental auditing as the systematic examination of the interactions between any business operation and its surroundings.

Environmental auditing originated in the USA to check whether the company complies with the environmental laws of the country or not. In the year 1978, TISCO started an environmental audit.

As per the requirement of Water (Prevention and Control of Pollution) Act, 1974, Air (Prevention and Control of Pollution) Act, 1981, Environment (Protection) Act, 1986, and Wastes (Management and Handing) Rules, 1989, environmental audit report has to be submitted.

Objectives

1. To ensure that the environment is least affected.
2. To judge the risk factor included in the operation of the organization.
3. To judge if the operation of the organization conforms to sustainable economic development.
4. To ensure that environmental laws and regulations are followed.

Human Resource Audit

Human resource audit reviews the policy, procedure, and practices related to human resource.

Advantages

1. Identifies the most important HR programme
2. Implements the most important HR programme
3. Identifies the deviations in HR policy and implementation
4. Measures the deviation from the benchmark HR achievement
5. Promotes innovative ideas with change and creativity

Social Audit

Social audit assesses the social, economic, and environmental benefits it derives from the society and gives to the society.

In the 1980s, the Union Carbide passed the statutory audit but did not qualify on the social audit parameter as it was blacklisted because of the Bhopal Gas massacre. In 1980, TISCO worked on the first social audit document. As per Section 135(1) of the Companies Act, 2013 in case of companies having net worth of rupees five hundred crore or more or turnover of rupees thousand crore or more or net profit of rupees five crore or more during any financial year they have to spend 2 per cent of the net profit on account of corporate social responsibility.

Objectives

1. To assess that the company has discharged its social responsibility towards stakeholders.
2. To assess that the company has discharged its social obligation towards shareholders, customers, debtors, creditors, and the government.
3. To ensure that the company discharges its statutory obligation.
4. To ensure that the company in no way violates its social obligation.
5. To ensure that economic sustainability is maintained.

Advantages

1. Fulfils social obligations.
2. Makes the society aware of the functioning of the organization.
3. Assesses the social performance of the organization.
4. Increases the accountability of the organization towards stakeholders.
5. Helps the management judge the organization.

Operational Audit

All types of activities involved in the operation have to be examined by operational audit. Operational audit judges if the operation is to be made in conformity with the predetermined set of standards or not. Economic efficiency is the key factor in judging operational efficiency. One needs to check if the operational audit is made at an optimum level or not. The auditor has to highlight the causes of deviation and the steps that need to be taken in this regard.

Advantages

1. Reviews the organization's operating procedures and methods.
2. Improves the performance and efficiency of the organization.
3. Implements the 'plan, do, check, and act' (PDCA) model.
4. Implements the profitability objective.
5. Implements the non-profitability objective.

Propriety Audit

Propriety audit measures the rightness of policy and procedure. It also measures the decisions and actions made in public interest and mitigates the standard code of conduct. Propriety audit involves checking if transactions have been made in conformity with the principles, rules, regulations, guidelines, and standards which are in the best interest of the public.

Objectives

1. To ensure operation is being conducted in conformity with rules and regulations.
2. To check that books of accounts are being maintained properly.
3. To see that funds are being utilized in the best interest of the concern.
4. To work towards the desired results of the concern.

Advantages

1. Ensures that public money is not being misused from the point of view of propriety.
2. Ensures that policies and procedure are being followed accordingly.
3. Ensures that public interest is being safeguarded.

Table 2.3 highlights the differences between traditional audit and propriety audit.

Table 2.3 Difference between traditional audit and propriety audit

Points of Difference	Traditional Audit	Propriety Audit
Objective	Measures the true and fair view of the financial position	Measures the rightness of financial position
Verification and valuation	Based on verification and valuation of financial transaction	Goes beyond verification and valuation to judge greater interest in the company
Concern	Not the concern of the auditor whether it is run efficiently or inefficiently	It is the concern of the auditor whether it is run efficiently or inefficiently
Advisory	No room left for advisory work	Auditor also plays an advisory role
Compliance	Compliance with GAAP	Revenue expenditure for day-to-day running of the organization, capital expenditure for wealth generation, and ultimately wealth maximization

Stock Audit

Stock or inventory maintenance is the stickiest issue among current assets. In a stock audit, the auditor indicates the quality, quantity, segmentation and value of the stock. Stock audit can be done by way of verification and valuation of stock. Stock audit is an important part of a statutory audit.

Objectives

1. To identify the volume of stock.
2. To ascertain the value of stock.
3. To ascertain the actual profit.
4. To justify the ownership of stock.
5. To verify the status of stock.

Advantages

1. High amount of stock involves blockage of funds, indicates poor cash flow, and high degree of cost and vice versa; stock audit gives caution in this regard.
2. As stock is vulnerable to pilferage, obsolesce, wastage, and damage, stock audit minimizes the situation.
3. Sock audit helps to determine the correct amount of profit and helps to take dividend decisions.

Public Deposit Audit

Banks usually raise public deposit. The audit of public deposit is made as per the Reserve Bank of India 1934, Banking Regulation Act, 1949, The State Bank of India Act, 1955, The State Bank of India (Subsidiary Bank) Act, 1959, The Regional Rural Bank Act,1976, and The Banking Companies (Acquisition and Transfer of Undertaking) Act, 1980. Demand deposit, savings bank deposit, term deposits, deposit of branches in India, and deposits of branches outside India are the types of deposit.

Objectives

1. Borrowing through deposit is one of the main functions of banks to be monitored.
2. To verify different types of deposits from different registers or ledgers.
3. To ensure that banking regulations are followed properly.
4. To check the interest paid or payable on public deposit regularly.
5. To follow statutory obligations regarding public deposits.

Advantages

1. The public deposit register or ledger is scrutinized to get a real picture of the accounts.
2. Borrowing is carried out as per banking regulations.
3. The interests credited are vividly made.
4. Test checking method of sampling has to be followed carefully to ascertain the interest paid or payable.
5. Internal control mechanisms are followed.

Corporate Governance

N. Narayana Murty, Chairman, Committee on Corporate Governance of SEBI, has made a remarkable statement by saying, 'Corporate governance is the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders.'

As per section 135(1) of the Companies Act, 2013, every company having net worth of ₹500 crore or more, or turnover of ₹1000 crore or more or a net profit of ₹5 crore or more during any financial year shall constitute a corporate social responsibility committee of the Board having three or more directors out of which one director shall be the independent director as a part of corporate governance.

Auditor's duty regarding corporate governance

The following points may be noted:

1. The auditor has to collect a board approved financial statement, draft report of the board of directors, and a report on corporate control.
2. The collection of document is as per AS 230.
3. The auditor has to judge if the conformity with guidance is maintained or not.

Cash Flow

Cash flow means the inflow and outflow of cash of a business enterprise. It is mandatory to incorporate cash flow statement in the annual report.

Cash flow statement

As per the revised guideline, AS 3 issued by ICAI cash flow becomes mandatory w.e.f. 01.04.2004 in the following cases:

1. When turnover of all the commercial, industrial, and business enterprises exceeds ₹50 crore.
2. For listed companies or companies whose shares and debentures are in the process of being enlisted in a recognized exchange of India.
3. For banks, financial institutions, and insurance companies including co-operative banks.

Auditor's duty regarding cash flow statement

1. The auditor has to see if cash flow statements are to be prepared on the direct method or indirect method.
2. In case of listed companies, the cash flow statement is to be prepared on the basis of Revised AS 3.
3. It is also expected that increase or decrease in cash is made on the basis of operating activities, investment activities, and financial activities.

Compliance Audit

Compliance refers to the test of control against a specific standard. Compliance audit measures the effectiveness of the internal system in the organization. It also checks whether or not internal audit is carried out in conformity with the prevailing system.

Objectives

1. The medium of transactions is tested with the help of compliance audit.
2. If it is found that compliance is not carried out, there is a need to revise the system.
3. It is used to check if the deviation from conformity is made in isolation or is symptomatic.

Advantages

1. It will help to increase the prevailing standards of audit.
2. The review of the standard of internal audit is the underlying mechanism.
3. It will help in the maintenance of a certain standard.

Performance Audit or Efficiency Audit

A performance audit ascertains if the internal activities of the organization are carried out efficiently or not. Performance audit has some sort of symmetry with internal audit. Performance audit studies the competence of achieving goals.

Objectives

1. To strengthen performance control and improve internal audit.
2. To study whether management controls are functioning effectively and efficiently.
3. To appraise and review efficiency.
4. To be obliged towards the attainment of organizational goals.

Advantages

1. Reduces the area of uncertainty in business.
2. Removes bottlenecks in achieving goals.
3. Removes inefficiencies and ineffectiveness.
4. Achieves operational goals smoothly.

Information System Audit

In the words of Rob Weber, 'Information system audit is the process of collecting and evaluating evidence to determine whether computer system safeguards assets, maintains data integrity, achieves organizational goals effectively, and consumes resources efficiently.'

Table 2.4 shows the differences between internal and statutory audits, and Table 2.5 depicts the differences between statutory and non-statutory audits.

Table 2.4 Difference between internal audit and statutory audit

Points of Difference	Internal Audit	Statutory Audit
Stage	Internal audit is a mid-term audit to face the final or statutory audit.	Statutory audit is a final audit done to submit the audit report.
Scope	The scope of internal audit is determined by the management.	The scope of statutory audit is vast and in no circumstances can it be limited.
Appointment and remuneration	Appointment along with the remuneration of the internal auditor is fixed by the management.	Appointment of statutory auditor is either made by the shareholders in the Annual General Meeting, or by the Board of Directors, or by the CAG as the case may be. Remuneration is also fixed by the respective appointing authority.
Qualification	Internal auditor may or may not be a Chartered Accountant.	Statutory auditor must be a Chartered Accountant.
Rights and duties	The management pre-determines the rights of the internal auditor. The internal auditor performs his/her duties accordingly.	The rights of the statutory auditor cannot be curtailed and it is just to perform his/her duties. The ultimate task of the statutory auditor is to submit an audit report to the appointing authority.

Table 2.5 Difference between statutory and non-statutory audit

Points of Difference	Statutory Audit	Non-statutory Audit
Definition	Statutory audit is mandatory or compulsory as per statute or respective law.	Non-statutory audit is not mandatory or compulsory as respective statute or law but it is done to derive the benefit of audit.
Organization covered	Joint stock companies, banking companies, and insurance companies along with others.	Sole proprietorship firms, partnership firms, etc.
Qualification of the auditor	Auditor must possess the requisite qualification as per the statute: Chartered Accountant with completion of Articleship.	Auditor qualification is not mandatory as per the statute but should preferably be a Chartered Accountant with completion of Articleship.
Appointment	In case of a joint stock company, appointment is made by the shareholders in the Annual General Meeting and in some cases by the Board of Directors or by the Central Government.	In case of sole proprietorship firms, appointment is made by the owner and in case of the partnership firms, appointment is made by the firm.
Remuneration	Remuneration is fixed by the appointing authority.	Remuneration is fixed as an agreement between the auditor and appointing authority.

Covered area	The purview of the audit covers the entire organization.	The purview of the audit covers the desired area as deserved by the appointing authority.
Liability	Liability of the auditor is fixed by the respective statue and law of the country.	Liability of the auditor is fixed by the law of the country.
Report submission	A report has to be submitted to the shareholder in the AGM.	A report has to be submitted to the owner or to the firm.
Scope	Scope of the statutory audit is widened.	Scope of the non-statutory audit is limited.

EXERCISES

Multiple-choice Questions

1. Which one of the following is expensive?
(a) Continuous audit (b) Periodical audit
(c) Final audit (d) None of these
2. In 1980, which company started social audit?
(a) IOL (b) Infosys
(c) TISCO (d) SAIL
3. As per structure audit, which one of the following is the right classification of an audit?
(a) Statutory audit (b) Non-statutory audit
(c) Government audit (d) All of these
4. The audit of sole proprietorship or a partnership firm is
(a) statutory (b) non-statutory
(c) compulsory (d) None of these
5. Complete audit, detailed audit, partial audit, and limited review is the classification of audit on the basis of
(a) coverage (b) technique
(c) structure (d) None of these
6. Verification of the correctness of cost accounts and of adherence to the cost accounting plan is known as
(a) cost audit (b) financial audit
(c) management audit (d) tax audit
7. Which audit facilitates the most effective relationship with the outside world and the most efficient organization and the smooth running of an internal organization?
(a) Financial audit (b) Management audit
(c) Cost audit (d) None of these
8. Which type of audit ascertains whether internal activities of the organization are carried out efficiently or not?
(a) Performance audit (b) Operational audit
(c) Management audit (d) None of these
9. Which one of these is contained in the Annual Report?
(a) Fund flow statement
(b) Cash flow statement
(c) Both fund flow and cash flow statement
(d) None of these
10. Government audit is carried out by the
(a) Chartered Accountant
(b) Government Officer
(c) CAG
(d) None of these
11. Public deposit audit is made as per
(a) Reserve Bank of India 1934
(b) Banking Regulation Act, 1949
(c) The State Bank of India Act,1955
(d) All of these
12. In 1978, which company started environmental audit?
(a) TISCO (b) SAIL
(c) BHEL (d) None of these
13. Which audit measures whether transactions have been made in conformity with the principles, rules, regulations, guidelines, and standards that would be best in the interest of the public?
(a) Management audit (b) Propriety audit
(c) Performance audit (d) None of these
14. In which type of audit is economic efficiency the key factor for judging efficiency?
(a) Operational audit (b) Performance audit
(c) Management audit (d) None of these
15. As per the Companies Act, 2013, every company having which of the following criteria must have to spend 2% of the net profit for CSR?
(a) Net worth of ₹500 crore or more
(b) Turnover of ₹1000 crore or more
(c) A net profit of ₹5 crore or more
(d) All of these
16. As per Section 148(3) of the Companies Act, 2013, which audit must be done by the cost accountant as a practice appointed by the Board of Directors?
(a) Cost audit
(b) Tax audit
(c) Both cost audit and tax audit
(d) None of these

17. As per Section 138 of the Companies Act, 2013, who states that such class or classes of companies as may be prescribed shall be required to appoint which type of auditor who shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company?
    (a) An external auditor
    (b) An internal auditor
    (c) Both external auditor and internal auditor
    (d) None of these
18. An independent appraisal function established within an organization to examine and evaluate the accounting and financial activities as service to the organization is called _______.
    (a) statutory audit (b) external audit
    (c) internal auditing (d) None of these
19. Who can conduct tax audits?
    (a) A commerce graduate
    (b) An M.Com graduate
    (c) A cost accountant
    (d) A chartered accountant
20. Which audit assesses the performance of the management?
    (a) Management audit (b) Performance audit
    (c) Efficiency Audit (d) None of these

Group A

1. What is partial audit? [CU B Com (Hons) 2014; KU B Com (Hons) 1996]
2. What is tax audit? [CU B Com (Hons) 2008, 2014]
3. What is management audit? [CU B Com (Hons) 2009]
4. What do you mean by interim audit? [CU B Com (Hons) 2009]
5. What do you mean by EDP audit? [CU B Com (Hons) 2008]
6. Write a short note on:
    (a) Social audit [CU B Com (Hons) 2010, 2015]
    (b) Environment audit [CU B Com (Hons) 2012, 2015]
    (c) Proprietary audit [CU B Com (Hons) 2015]
    (d) Performance audit [CU B Com (Hons) 2015]
    (e) Tax audit [CU B Com (Hons) 2008, 2012, 2014]
    (f) System audit [CU B Com (Hons) 2014]
    (g) EDP audit [CU B Com (Hons) 2012, 2013]
    (h) Cost audit [CU B Com (Hons) 2011]
    (i) Management audit [CU B Com (Hons) 2005]
    (j) Balance sheet audit [CU B Com (Hons) 1995; BU B Com (Hons) 2000; KU B Com (Hons)1997]

Group B

1. Define performance audit. What are its objects and importance? [CU B Com (Hons) 1996]
2. Define propriety audit. Distinguish between traditional audit and propriety audit. [CU B Com (Hons) 1992]
3. What is meant by balance sheet audit? How is it conducted? Discuss the position of auditor in connection with balance sheet audit. [CU B Com (Hons) 2014]
4. What is interim audit? What are its advantages and disadvantages? [CU B Com (Hons) 2007]
5. Internal audit is not a substitute for statutory audit. [CU B Com (Hons) 1996]
6. Explain internal audit, its nature, and scope. [CU B Com (Hons) 2011]
7. Show the points of distinction between independent financial audit or statutory audit and internal audit. [CU B Com (Hons) 1999, 2014]
8. Discuss the auditor's duty with regard to detection and prevention of frauds and errors. [CU B Com (Hons) 2010]
9. State the advantages and disadvantages of a continuous audit. [CU B Com (Hons) 2010]

Group C

1. What is management audit? Discuss its advantages. [CU B Com (Hons) 2013]
2. What is management audit? What are its objectives? [CU B Com (Hons) 2011]
3. What are the objectives of cost audit? [CU B Com (Hons) 2013]
4. What is environment audit? What are its objectives? [CU B Com (Hons) 2012]
5. What is cost audit? What are its advantages? [CU B Com (Hons) 2010, 2012]
6. What do you mean by EDP audit? Mention the problems associated with such an auditor. [CU B Com (Hons) 2010]
7. Write the difference between statutory audit and non-statutory audit. [KU B Com (Hons) 1995, 2010; NBU B Com (Hons) 2007]
8. Write the difference between continuous audit and periodical audit. [BU, B Com (Hons) 1999, 2006, 2009, 2011; KU B Com (Hons) 2004; VU B Com (Hons) 2008]
9. Write the difference between continuous audit and interim audit. [BU B Com (Hons) 1997; VU B Com (Hons) 2010]

Answers to Multiple-choice Questions

1. (a)	**2.** (c)	**3.** (d)	**4.** (b)	**5.** (a)	**6.** (a)	**7.** (b)	**8.** (a)	**9.** (b)	**10.** (c)
11. (d)	**12.** (a)	**13.** (b)	**14.** (a)	**15.** (d)	**16.** (a)	**17.** (b)	**18.** (c)	**19.** (d)	**20.** (a)