

Types of Audit

Classification of various Types of Audit

Ans:

Organisational Structure :	Objectives:	Timing :
1. Voluntary Audit - Sole Proprietorship - Partnership Firm - LLP/NGOs 2. Statutory Audit 3. Government Audit	1. Independent Financial Audit 2. Internal Audit 3. Cost Audit 4. Management Audit 5. Secretarial Audit 6. Forensic Audit 7. Information Security Audit 8. Social Audit 9. Environment Audit 10. Performance Audit 11. Propriety Audit 12. Operational Audit	1. Continuous Audit 2. Annual Audit 3. Interim Audit 4. B/S Audit

Voluntary Audit

Ans: Audit is not legally obligatory for all types of business organization or institution. On this basis audits may be of two broad categories *i.e.*, audit required under law and voluntary audits.

- Voluntary audits are non-statutory audits;
- There is no statutory requirement for audits of sole trader, partnership firm;
- The sole proprietors and partnership firms may get their accounts audited voluntarily on their own;
- Except for a statutory tax audit u/s 44AB required as per the Income Tax Act, 1961, e.g. when such an entity exceeds the turnover of certain limit

Advantages of Auditing

Ans: The entities which are not under any statutory obligation of statutory audit get their accounts voluntarily audited.

• Sole Proprietors:

- It evaluates the internal control system and strengthens it by removing weaknesses, if any.
- It increases the reliability and authenticity of Financial Statements.
- It helps in timely finalization of Annual Financial Statements and tax assessments.
It keeps a moral check on the working of employees.
- It helps them in obtaining f and s easily from financial institutions, based on more reliable Financial Statements available to the banks and financial institutions.
- It helps in settling:
 - Trade disputes
 - Labour disputes
 - Insurance claims

Types of Audit

Statutory Audit

Ans: Statutory audit is the checking of accounts required by law. A statute or law may require having an annual audit of financial records of a company or any other entity. The law may require the audit to be conducted in the specified manner. Statutory audits are mandatory in nature. The statutory auditor is generally the principal auditor in an organization.

- **Who can appoint statutory Auditor -**
 - By the board/shareholders in the General Meeting,
 - By the Central Government if shareholders fail to appoint an auditor
- **Who can be statutory Auditor -**
 - By a qualified chartered accountant holding a Certificate of Practice and not by any other person.
- **What are the advantages of statutory Audit -**
 - The auditor expresses his independent opinion after following relevant audit procedures and checking the external and internal evidences necessary for the conduct of audit.
 - He comments on the truthfulness and fairness of statement of affairs of the organization as on certain date and also about the fact that no misstatement or misrepresentation has been made in the Financial Statements under report.
- **Statutory Audit (required under law):**
 1. Companies governed by the Companies Act, 2013
 2. Banking companies governed by the Banking Regulation Act, 1949
 3. Electricity supply companies governed by the Electricity supply Act, 1948
 4. Co-operative societies registered under Co-operative Societies Act, 1912
 5. Public and charitable trusts registered under various Religious and Endowment Acts
 6. Corporations set up under an Act of Parliament or state legislature such as LIC of India.
 7. Specified entities under various sections of the Income tax Act, 1961

How can be audited financial statements used for different purpose

Ans:

1. By the members/shareholders/stakeholders, for their economic decisions and for exercising their voting rights.
2. For timely tax assessments.
3. Settlement of partners' accounts in case of admission, retirement or death of partner on account of goodwill or otherwise.
4. Before the court, in case of settlement of disputes with employees, creditors or debtors.
5. For determining the actual value of business or shares in case of merger, acquisition, etc.
6. For getting financial assistance from financial institutions, banks or investors.
7. In case of non-profit organizations, for getting government grants and availing tax exemptions.
8. Evaluation of the internal control systems and strengthening it and checking the efficacy of the internal checks.
9. For checking the integrity of the management which manages the funds and affairs on behalf of the shareholders.
10. For other users of financial statements like creditors, investors and government agencies.
11. For the proper distribution of profits by way of payment of wages and other benefits.
12. For ensuring of proper distribution of profits as dividends.
13. For ensuring that all legal requirements are fulfilled and statutory compliance are met.
14. For settlement of insurance claims or other recoveries from government bodies or otherwise.

Government Audit

Ans: "Government auditing is the objective, systematic, professional and independent examination of financial, administrative and other operations of a public entity made subsequently to their execution for the purpose of evaluating and verifying them, presenting a report containing explanatory comments on audit findings together with conclusions and recommendations for future actions by the responsible officials and in the case of examination of financial statements, expressing the appropriate professional opinion regarding the fairness of the presentation."

- **Who has an authority as a Supreme Audit Institution.**
 - The Comptroller & Auditor General of India (CAG) is the Supreme Audit Institution.

Types of Audit

• Types of Government Audit

1. Transaction Audit
 - Expenditure Audit
 - Receipts Audit
2. Efficiency cum Performance Audit

• Expenditure Audit

Ans: The basic standards set for audit of expenditure are to ensure that there is provision of funds authorized by competent authority fixing the limits within which expenditure can be incurred. Some standards are briefly explained below:

1. **Audit against Rules & Orders:** It is known as Regularity Audit. The expenditure incurred conforms to the relevant provisions of the statutory enactment and is in accordance with the financial rules and orders framed by the competent authority.
2. **Audit of Sanctions:** Each item of expenditure is covered by a sanction, either general or special, accorded by the competent authority. In case expenditure exceeds the sanctioned limit, objection is raised.
3. **Audit against Provision of Funds:** That there is a provision of funds out of which expenditure can be incurred and the same has been authorised by competent authority.
4. **Audit of financial propriety:** The auditor has to ensure that the expenditure incurred are with respect to the recognized standards of financial propriety i.e. quantity, quality, morality and ethics.

• Difference Between Statutory Audit and Private Audit and Government Audit

Ans:

Title	Statutory Audit	Private Audit	Government Audit
1. Applicability :	1. All private companies 2. All co-operative societies & Trust 3. Proprietorship 4. Partnership concerns in some cases.	All types of organisation or institution.	1. Government departments 2. Statutory corporations 3. Government companies
2. Report :	1. To shareholders/owners 2. format prescribed under law. 3. Within the time prescribed by the statute.	1. To the management 2. No prescribed format 3. Within the time as mutually agreed	1. To shareholders/owners 2. format prescribed under law. 3. Within the time prescribed by the statute.
3. Scope :	Scope is prescribed by the governing law.	Scope is decided by the management Scope is prescribed by the governing and auditor through the Letter of Engagement.	Scope is prescribed by the government.
4. Objectives :	Conducted with the objective of ensuring truthfulness and fairness of the Financial Statements.	1. Review of internal controls 2. Checks on employees 3. Checking financial or non financial operations	Evaluating and verifying of government entity and expressing the appropriate professional opinion regarding the fairness of the presentation

Types of Audit

Difference Between Statutory Audit and Internal Audit

Ans:

Title	Statutory Audit	Internal Audit
1. Definition :	Statutory audit is the checking of accounts required by law. A statute or law may require having an annual audit of financial records of a company or any other entity. The law may require the audit to be conducted in the specified manner. The manner of reporting, contents of the report and the authority to which the report of auditors should be presented are all specified by the statute.	An independent management function, which involves a continuous and critical appraisal of the functioning of entity with a view to suggest improvements thereto and to add value and strengthen the overall governance mechanism of the entity, including the entity's strategic risk management and internal control system.
2. Compulsion :	Mandatory and prescribed by different statutes.	Generally not mandatory.
3. Objectives :	Ensuring truthfulness and fairness of the Financial Statements of an entity.	Review of internal controls, checks and financial or non Financial operations of the organization.
4. Scope :	It is prescribed by governing law.	It is decided by the management and auditor, and documented through the Letter of Engagement.
5. Appointment	The auditor is an independent person and is appointed by the Board of Directors/ shareholders/Central Govt. The audit is conducted on behalf of the shareholders/ govt., as the case may be.	Internal audit can be conducted by any independent agency or by employees of the enterprise. It is conducted on behalf of the management.
6. Approach :	Compliance oriented approach.	Proprietary oriented approach.
7. Qualified Auditor :	A qualified CA in whole time practice or a firm of CAs in practice can be a statutory auditor.	No qualification is prescribed.
8. Report :	Report to shareholders/ owners in a format prescribed under law.	Report to the management. No prescribed format.

Difference Between Audit of a company and a firm.

Ans:

Title	Companies Audit	Firms Audit
1. Governed :	The audit of a company is governed by the provisions of the Companies Act, 2013	The audit of a firm is governed by the agreement between the auditor and the client, with reference to the partnership agreement.
2. Scope :	The scope of the audit is well defined by the Act and cannot be reduced by including a clause in the Articles of Association.	The scope of the audit can be extended or reduced by the partners
3. Appointment	Generally appointed by the shareholders in the Annual General Meeting, but may also be appointed by the Board of Directors, Central Government, or the CAG, in certain cases as specified under the Act.	Partners appoint the auditor.
4. Disclosures :	All the disclosures required to be made under the Act in the Financial Statements have to be checked.	All the disclosures which are necessary to be made in accordance with recognized accounting principles and practices have to be checked.

Types of Audit

Title	Companies Audit	Firms Audit
5. Report :	The audit report has to be submitted to the shareholders of the company.	The audit report has to be submitted to the partners or to any other person as specified in the terms of his appointment.

Cost Audit

Ans: It is an audit process for verifying the cost of manufacture or production of any article, on the basis of accounts as regards utilisation of material or labour or other items of costs, maintained by the company.

In simple words the term cost audit means a systematic and accurate verification of the cost accounts and records and checking of adherence to the objectives of the cost accounting.

Cost Auditors duties

1. Examine the correctness of the cost records maintained by the concern and
2. To report as to whether the cost accounting plans have been adhered to or not.

Advantages of cost audit

1. To the Management -

- ➔ Management gets reliable data for its day-to-day operations like price fixing, control, decision making, etc.
- ➔ A close and continuous check on all wastage's will be kept through a proper system of reporting to management.
- ➔ Inefficiencies in the working of the company will be brought to light to facilitate corrective action.
- ➔ Management by exception becomes possible through allocation of responsibilities to individual managers.
- ➔ System of budgetary control and standard costing will be greatly facilitated.
- ➔ Reliable check on valuation of closing stock and work-in-progress can be established.
- ➔ Helps in detection of frauds and errors.

2. To the shareholders –

- ➔ Cost Audit ensures that proper records are kept as to purchases and utilisation of material and expenses incurred on wages, etc. It also makes sure that the valuation of closing stock and work-in-progress is on a fair basis.
- ➔ Thus, the shareholders are assured of a fair return on their investment.

Disadvantages of cost audit

- ➔ Accountants cannot estimate price of assets at current values.
- ➔ Only covers cost of business does not overcome overall profitability.
- ➔ Manipulations in accounts still exist.
- ➔ Standards of accounting vary from business to business.

Management Audit

Ans: "Management audit is a comprehensive and thorough examination of an organization or one of its components. The audit is implemented to identify problems or significant weaknesses in the organization or corporation, thus providing management with a tool to address and repair the problem area."

Categories of Management Audit

- | | |
|-----------------------------|--------------------------|
| 1. Economic function | 6. Directorate analysis |
| 2. Corporate structure | 7. Fiscal policies |
| 3. Health of earnings | 8. Production efficiency |
| 4. Service to stockholders | 9. Sales vigor |
| 5. Research and development | 10. Executive evaluation |

Types of Audit

Management audits are not limited to business corporations. Nonprofit organizations—including educational institutions, hospitals, and churches—often use it to attempt to improve operations. When conducted effectively, and when recommendations are applied properly, the management audit has proved its usefulness as a management technique.

Tax Audit

Ans: The tax audit u/s. 44AB of the Income-tax Act 1961 is significant practice area for Chartered Accountants. Since the introduction of tax audit, we have been given responsibilities to discharge the duties as tax auditors for the proper compliance of tax law by the assesses.

- **Tax Auditor u/s 44AB**

It is significant practice area for Chartered Accountants. Since the introduction of tax audit, we have been given responsibilities to discharge the duties as tax auditors for the proper compliance of tax law by the assesses.

- **Compliance burden u/s 44AB & 44AD**

➔ Total Sales/Gross Receipts = from 60 Lakhs to **1 Crore**

➔ For Profession = from 15 Lakhs to **25 Lakhs**

Secretarial Audit

Ans:

1. Every listed company and a company belonging to other class of companies as may be prescribed shall annex with its Board's report made in terms sec.134(3), a secretarial audit report, given by a company secretary in practice, in such form as may be prescribed.
2. It shall be the duty of the company to give all assistance and facilities to the company secretary in practice, for auditing the secretarial and related records of the company.
3. The Board of Directors, in their report made in terms of Sec.134(3), shall explain in full any qualification or observation or other remarks made by the company secretary in practice in his report Sec.134(1).
4. If a company or any officer of the company or the company secretary in practice, contravenes the provisions of this section, the company, every officer of the company or the company secretary in practice, who is in default, shall be punishable with fine which shall not be less than **1 Lakhs rupees** but which may extend to **5 Lakhs rupees**.

- **Functions of Company Secretary**

1. To report to the Board about compliance with the provisions of this Act, the rules made thereunder and other laws applicable to the company;
2. To ensure that the company complies with the applicable secretarial standards;
3. To discharge such other duties as may be prescribed.

Forensic Audit

Ans: The Companies (Auditors' Report) Order, 2015, requires auditors to report, amongst others, "whether any fraud on or by the company has been noticed or reported during the year. If yes, the nature and the amount involved are to be indicated". Forensic audit involves examination of legalities by blending the techniques of propriety audit, regularity, investigative and financial audits. The objective is to find out whether or not true business value has been reflected in the Financial Statements and in the course of examination to find whether any fraud has taken place.

Difference Between Statutory Audit and Forensic Audit

Ans:

Title	Statutory Audit	Forensic Audit
1. Objectives :	Express an opinion on the truthfulness and fairness of the Financial Statements.	Determine if any fraud has been committed in the client's business.

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Title	Statutory Audit	Forensic Audit
2. Procedure :	Substantive and compliance procedures are used.	Substantive procedures, audit-in depth, trend, past-data analysis are used.
3. Accounting :	Accounts relating to the relevant accounting year are checked.	Accounts may be checked for as many numbers of years as required to detect the cause of the fraud, if any.
4. Compliance :	Check the arithmetical accuracy and compliance with procedures.	Propriety aspect is focused on.
5. Conclusions :	Qualifications may be given in case of adverse findings.	The amount of fraud, the persons behind it and the legal implication are mentioned in the audit report.

Information Security Audit

Ans: Information Security Audit is an audit of the level of information security in an organization. The controls in any business organization can be classified as technical, physical and administrative controls. Thus, information security audit involves checking of security controls from the physical security of data centres to the logical security of databases. When centres on the IT aspects of information security, it can be seen as a part of an information technology audit. However, information security encompasses much more than IT.

Social Audit

Ans: A social audit is a way of measuring, understanding, reporting and improving an organization's performance towards meeting its social and ethical objectives.

• Objectives of Social Audit

1. Assessing the needs of the society and resources available for fulfilling them.
2. Spreading awareness among beneficiaries about the business' efforts towards attaining social objectives.
3. Increasing efficacy and effectiveness of the organization's corporate social responsibility (CSR) programmes.
4. Scrutiny of policy decisions, keeping in view the interests of stakeholders.

• Advantages of Social Audit

1. Encourages community participation among different business entities.
2. Ensures continuous efforts towards environmental protection and use of environment friendly production processes.
3. Builds customer satisfaction and trust through ethical business practices.
4. Promotes collective decision making and sharing responsibilities.
5. Develops human resources by working towards improvement of workers' and the underprivileged persons' working/ living conditions.

Environmental Audit

Ans: "Environmental audit may be defined as a systematic, documented, periodic and objective review by a regulated entity of facility operations and practices related to meeting environmental requirements"

• Scope & Objectives :

1. All emissions to air, land and water
2. Legal constraints
3. The effects on the neighboring community, landscape and ecology
4. The public's perception of the operating company in the local area

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5. It provides expert opinion on hazards in the environment
6. Associated risks
7. The measures that may need to be taken for the management and control of risks.

- **Different steps of an Environment Audit**

The International Chamber of Commerce presents the different steps of an environmental audit as follows:

1. Pre-audit activities:

- | | |
|--|----------------------------|
| (1) Selection and scheduling of facility to audit. | (3) Contact with facility. |
| (2) Selection of audit team. | (4) Planning of the audit. |

2. Site activities:

- | | |
|---|-------------------------------------|
| (1) Understanding of internal controls. | (4) Evaluation of audit findings. |
| (2) Assessment of internal controls. | (5) Report of findings to facility. |
| (3) Gathering of audit evidence. | |

3. Post audit activities:

- | | |
|-----------------------------------|---|
| (1) Production of a draft report. | (3) Preparation and implementation of an action plan. |
| (2) Production of a final report. | (4) Monitoring of action plan. |

- **Efficiency-Cum-Performance Audit**

Ans: It is an objective examination of the financial and operational performance of an entity. It includes identification of opportunities of greater economy as well as removal of weaknesses after evaluation. Actual performance is compared with the standards set by the entity.

- **Scope of EPA**

1. **Economy Audit:** It ensures that entity has acquired the financial, human and physical resources economically. It implies that resources have been procured in appropriate quantity, quality and at minimum cost.
2. **Efficiency Audit:** It ensures the economical execution of various schemes and policies. It refers to the relationship between inputs and output
3. **Effectiveness:** It is an appraisal of the performance of schemes and projects with reference to the overall targeted objectives as well as efficiency of the ways and methods adopted for the attainment of objectives.

- **Proprietary Audit**

Ans:

1. A propriety audit is not just concerned with the truthfulness and fairness of the Financial Statements and books of accounts of the client, but also ensures that the transactions entered into by the client, business practices and activities undertaken are not against public interest.
2. Its objective is to see that the business lives upto standards of proper conduct. Legal, economic and financial are all equally important aspects that require to be looked into during the course of the audit.
3. It is an essential element of a Government Audit.
4. The Comptroller and Auditor General examines the propriety of all government expenditures to ensure that they have been incurred in the interest of the general public, and are not influenced by personal interests of the government authorities sanctioning it.

- **Operational Audit**

Ans: Operational Audit involves examination of all the operations and activities of the entity under audit.

- **Objectives :**

“The examination of the control structure of the entity. The relation of department controls to general policies and its relation with control of other departments.”

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- **Scope :**

Operational audit, in its initial stages, was developed as a branch of internal auditing. Internal audit focuses on accounting operations of the entity but operational audit has a wider scope of working and covers all other operations, such as production and marketing too.

- **Advantages :**

It is more useful in an entity where the management is at a distance from actual operations. It is very useful in large organizations where management cannot control the actual operations due to layers of delegation of responsibility. The management information system has various tools like routine performance report from department heads, internal audit reports, surprise checks, periodic inspections and investigation to control the managers responsible for their departments.

- **Continuous Audit**

“Continuous audit may be defined as the examination and verification of a firm’s financial transactions and their supporting documents, continuously throughout the year, at regular or irregular intervals. A continuous audit driven system generates alarm triggers that provide advance notice about anomalies and errors detected by the system. It is performed usually by the firm’s internal auditors to eliminate the year-end workload.

- **The Basic Features of Continuous Audit**

1. It is a process conducted throughout the year.
2. It is conducted at regular or irregular intervals.
3. It focuses on testing 100% of transactions.
4. Technology is important to enabling it.
5. It provides advance notice about errors and irregularities detected.
6. Surprise visits by the auditor are involved.

- **Necessary of Continuous Audit**

Continuous audit is necessary where:

1. Internal controls are inadequate.
2. The transactions run in large numbers.
3. The management is interested in getting statements of accounts audited periodically for enabling better management of resources.

- **The Advantages of Continuous Audit**

1. **Early location of errors and frauds:** It helps in detecting errors and frauds immediately on their occurrence, and not at the year end when it would become difficult to install corrective control mechanisms.
2. **Quick rectification:** rectification of errors at an early stage is possible.
3. **Guidance:** Continuous guidance to client.
4. **Finalization of accounts completion in time:** Just at the end of the accounting period.
5. **Moral check:** Make employees of the client alert and more efficient in conducting their work.
6. **Improves statutory auditor’s focus:** It relieves statutory auditors of routine testing and allows them to focus efforts on more valuable activities.

- **Some Apparent Demerits of Continuous Audit**

1. The records and figures in the books of accounts, which have already been checked by the auditor, may be altered after the audit is over.
2. Frequent visits made by the auditor may cause inconvenience at times.
3. The client may suffer due to the clash of duties between his staff and that of the auditor.
4. It is more expensive because the auditor has to devote more time to this audit.
5. The work of audit becomes too mechanical and repetitive.

- **INFORMATION SYSTEMS AUDIT**

Ans: Information systems auditing is an organizational function that evaluates asset safeguarding, data integrity, system effectiveness, and system efficiency in computer based information systems. It has arisen for seven major reasons:

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1. The consequences of losing the data resource;
2. The possibility of misallocating resources because of decision based on incorrect data or decision rules;
3. The possibility of computer abuse if computer systems are not controlled;
4. The high value of computer hardware, software, and personnel;
5. The high costs of computer error;
6. The need to maintain the privacy of individual persons; and
7. The need to control the evolutionary use of computers.”

ANNUAL AUDIT

Ans: Annual Audit is conducted at the end of the accounting year, after the books of accounts have been closed.

- **Procedure**

It does not interrupt with the regular functioning of the client's accounting or operations functions and ensures completion of work in one session due to continuity. The auditor may use statistical sampling methods and techniques which lead to time effectiveness. The possibility of tampering with the books of accounts during the audit is considerably reduced as the audit work starts only after the books are closed.

- **Limitations and precautions**

A major disadvantage of annual audit is that all the errors and frauds are found at the end of the accounting year, which makes it very difficult to fix responsibility for defalcations. It delays the presentation of Audited Financial Statements to the shareholders and to prevent the delay, the auditor uses sample testing, which also reduces the possibility of detection of frauds and errors.

INTERIM AUDIT

Ans: “Interim audit is an audit conducted between two annual audits. It may be conducted for a specific period, such as a quarter or half year, with an interim object of declaration of interim dividend or valuation of shares on a certain date, in case of mergers. It is carried out by professionals, but has no legal status as the figures may be altered subsequently.”

- **Use of Interim Audit**

It is useful for:

1. Early detection and rectification of errors & frauds
2. Publishing of interim results in some cases
3. Timely completion of records and final audit
4. Moral checks on employees

BALANCE SHEET AUDIT

Ans: Balance sheet audit is generally synonymous with statutory audit. In a balance sheet audit, the auditor reviews and critically examines the Financial Statements, which include the Balance Sheet and Profit & Loss Account prepared by the management. He verifies each assertion in the Financial Statements, working backwards and checking through original entries made in the books of accounts and evidences to support the entries recorded.

- **Objective**

While conducting a balance sheet audit, the auditor can rely upon the system of internal controls and internal checks and also on the reports of the internal auditor. Wherever internal controls and checks are sound, he can reduce the extent of routine checking of vouching, posting, casting and other routine tests. However, he should increase the extent of checking to obtain audit assurance if he finds that there are weaknesses in the internal control systems.

- **Need**

With the development of industries and computerization of accounts, the need for balance sheet audit has increased. Now, the statutory auditor can reduce the extent of routine checking and concentrate more on critical examination of the Balance Sheet due to the computerized recording of large number of transactions and adoption of EDP system controls in data processing.

- **Procedure**

As per the national and international accounting bodies, the auditor should follow carefully planned audit procedures:

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1. For identification of areas where sample testing is sufficient.
2. For performance of certain compliance procedures and substantive procedures in some areas.
3. For analytical review of Financial Statements.
4. For verification of assets and liabilities stated in the Financial Statements.
5. For scrutiny of books of accounts to check whether Financial Statements are in conformity with the records.
6. For evaluation of the internal control system and critical examination of the assertions made in the Financial Statements.
7. For ensuring the compliance of all legal requirements relating to adequate disclosure of material facts in the Financial Statements.

• Advantages of Balance Sheet Audit

1. Balance sheet audit commences after the completion of books of accounts. The management prepares the Balance Sheet, therefore changes in the accounts is not possible once the verification process is started.
2. No interruption from the accounts department. Checking can be done smoothly without any breaks in between.
3. No loose links because audit is conducted in a continuous flow, which reduces the chances of missing the verification of any aspect.
4. Sample tests reduce the time involved for routine checking. The saving on account of time results in cost effectiveness.

• Difference between Balance sheet Audit & Annual Audit

Ans:

Title	Balancesheet Audit	Annual Audit
1. Size of Business :	Balance Sheet audit are more suitable for large Organisations where branches are wide spread and internal control systems are centralized and large numbers of small transactions are recorded at different places.	Annual audits are suitable in small organizations and where internal control system is reviewed by annual auditor, whether statutory or volutar
2. Limitations :	1. Verification of balance sheet items and their comparison with previous year figures. 2. Examination of items of profit & Loss Accounts with direct relation to Balance Sheet items. 3. Concentrated efforts are made for verification of Balance Sheet and examination of Profit & Loss Account, but not for internal control systems.	1. Review the internal control systems and internal checks, and adherence to management policies. 2. Critical examination of Financial statements and checking whether they are in conformity with the books of accounts maintained.
3. Concept origin :	The concept of balance sheet audit has its origin in the USA and is more popular in companies working globally.	Generally, annual audit is treated as balance sheet audit in India. However, because of computerization and EDP accounting, it is gaining popularity in India as a separate concept.

• Difference between Balance sheet Audit & Continous Audit

Ans:

Title	Statutory Audit	Continuous Audit
1. Audit period :	Balance sheet audit is taken up at the end of the financial period, when Financial Statement are drawn from completed books of accounts and other records	Continuous audit is examination of records continuously throughout the year, at regular or irregular intervals.

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Title	Statutory Audit	Continuous Audit
2. Compulsion :	Mandatory, and prescribed by different statutes	Not mandatory/ Optional. It is conducted at the discretion of the management.
5. Advantages:	1. As no routine checking is done so check on employees is lost. 2. Reliance on internal control is assumed and no efforts are made for review of internal controls or checks. 3. No timely detection of errors and frauds as it commences at the end of the financial year and works like a postmortem analysis. 3. In this era of computerization, the quantum of errors has reduced, but blunders may occur due to programming errors in the system of recording of transactions and preparation of Financial Statements.	1. Very costly as more time is spent on continuous check. 2. Figures can be altered once the audit is over for a certain period. 3. Frequent visits by the auditor or his team may create inconvenience to the accounts department. 4. There are chances of collusion between the client's staff and auditor's staff because of frequent visits and distribution of duties among them.
4. Qualification :	A qualified CA can be a statutory auditor.	No qualification is prescribed.
3. Objectives :	Balancesheet audit is conducted with the objective of ensuring truthfulness and fairness of the Financial statements of an entity.	Continuous audit is conducted with the objective of review of internal controls. Checks and financial or non financial operations of the organization.

Complete Audit, Partial Audit & Detailed Audit

Ans:

Complete Audit	Partial Audit	Detailed Audit
1. It is an audit where the scope of audit is not confined to specific limits, which may be set by the management or any other authority.	1. It is a non statutory audit, which restricts the scope of the auditor to checking of certain specific aspects only.	1. It is also known as audit-in-depth. It involves checking of transactions from the time of their recording till their final effect on the Financial Statements.
2. The auditor is required to check all the possible aspects of a business, including manufacturing operations, data flow processes, accounting records and procedures, etc. In general business practices, it is not feasible to get a complete audit conducted.	2. The auditor's powers to enquiry are restricted by his terms of engagement. He may not be allowed to obtain information which falls outside the purview of the scope defined for him. E.g. an auditor may be appointed to check the accuracy of recording of transactions relating to cash sales, or he may be appointed to conduct an audit for the month of Diwali only.	2. Every stage that a transaction goes through in the accounting process is closely examined by the auditor using various audit evidences.

Statutory Report

Ans: "Statutory Audit of a public company implies the audit of the transactions of the company which are the subject-matter of the report under Sec.143. The auditor, however, has to certify as correct only as much of the Statutory Report as relates to the shares allotted by the company, cash received by such shares and other receipts and payments of the company."

• Therefore the auditor must:

1. Examine the internal check with regard to the control over amounts collected. And

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2. Study the Memorandum, articles of Association and the Prospectus for ascertaining the amount of authorized capital, its composition, terms of issue, particulars of any underwriting contract entered in to, the rate of underwriting commission, shares agreed to be issued for consideration other than cash and particulars of important agreements entered into by the company.

- **The under mentioned steps are also necessary for audit of the issue of shares.:**

1. Vouch the payment of the underwriting commission.
2. Vouch the brokerage paid on issue of share by examining the application and confirming that they bear the stamps of the brokers or agents to whom brokerage has been paid. Refer to minutes of the Directors authorizing the payment of such broker age. Also see that the provisions of section 40 have not been contravened.
3. Vouch the payment of preliminary Expenses and see that the amount paid does not exceed the amount fixed by the Articles or the prospectus.
4. Vouch all other receipts and payments of the company up to date within seven days of the report; pay special attention to receipts and payments on capital account, e.g., sale proceeds of assets acquired from the vendor of the business, payments made to him, purchase of fixed assets, etc.
5. Check in detail amounts deposited in the bank and withdrawals thereof with the entries in the bank Pass Book. Obtain a certificate from the Bank as to the bank balance as at the date up to which the statutory report has been prepared.
6. Verify that the amounts receivable and payable which have been adjusted in the books of account but have been excluded from the balance of receipts and payments.

The statutory audit culminates in the preparation of the statutory report. Its main content, with which the audit is concerned, is the abstract of Receipts and payments made up to a date within 7 days of the report, exhibiting under distinctive heads, receipts of the company from shares, debentures and other sources, payment made and balance left in hand. The Statutory Report is required to be certified by the auditors of the company, in so far as the report relates to shares allotted by the company, cash received in respect of which the checking of accounts, as per details given above, has been carried out