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DEPARTMENT OF COMMERCE

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FOR-LNMU -B.com part -3rd Paper-viii - Principles of Auditing

Revision



Easy to Understand the concept

Unit-1and 2

Introduction and Audit programme

Duties of an Auditor: Duties under section 143 (1):

- a. The auditor has a duty to enquire whether loans and advances made by the company have been properly secured whether the term and the conditions there of are prejudicial to the interest of the company or its members.
- b. Duty to enquire whether assets of the company being shares or debentures and other securities have been sold at a price less than at which these were purchased.
- c. Whether any shares have been allotted for cash, whether cash actually received and whether the position in the account books and balance sheet is correct, regular and not misleading.

Duties under section 143 (2):

The auditor has the duty to report the members of the company, the accounts examined by him and every financial statement to be laid before the company in the general meeting. The auditor shall state in his report to the best of his information and knowledge, the said accounts and financial statements whether give a true and fair view or not, of the state of company's affairs.

Duties under section 143(3):

- 1. He has the duty to sought and obtain all information and explanation which are necessary for his audit.**
- 2. He has a duty to ensure that the books of accounts as required by law have been kept by the company.**
- 3. He has a duty to see whether the company has adequate internal financial control systems in place and their operative effectiveness.**
- 4. He has a duty to ensure whether the company's balance sheet and profit and loss account dealt within the report or in agreement with the books of account and returns.**

Liabilities of an Auditor:

The liabilities of an auditor can be summed under following heads:

- 1. Civil liabilities**
- 2. Criminal Liabilities**

1. Civil Liabilities:

- (I) Liability for Negligence: The liability of an auditor arises where it is proved that his Client has suffered a loss due to his professional negligence. The auditor may be held personally liable, If it is proved, that had he exercised reasonable care and skill, he must have discovered the Discrepancy. In a case it was held that if an auditor fails to show as much skill and diligence as is Expected of a**

man of ordinary prudence, he must suffer the consequences.

(ii) Liability for misfeasance: According to section (340), the court may assess damages Against delinquent director and other officers of the company, including an auditor for misfeasance or Breach of trust. In case of an auditor who also comes within the definition of officer in section 2 (59) for Purpose of the section, if he is guilty of neglect of duty or misfeasance, so as to cause loss of company In any way, proceedings may be taken under this section against him either independently or other Officers or jointly with them. This section provides a simple way to the company to recover damages Where an auditor or any other officer of the company is guilty of misfeasance. The time limit for Bringing an action is 5 years.

2. Criminal Liabilities:

- i) Mis -statement in prospectus section 34: Where an auditor makes false Statement with material particulars in returns, reports, prospectus or other statements knowingly it to Be false or omits any material facts knowing them to be false, he shall be punishable with Imprisonment for a minimum term of 6 months extendable to 10 years.**

- ii) Non compliance by auditor with section 143 and 145: If the auditor does not Comply with section 143 and 145 regarding making his report or signing or authentication of any Document and makes willful neglect on his part he shall be punishable with imprisonment up to 1 year And with fine not less than twenty thousand extendable to five lakhs. IN case an auditor knowingly or willfully with the intension to deceive the company or Shareholders or creditors or tax authorities, he shall be punishable with imprisonment up to 1 year and Fine not less than 1 lakh extendable up to twenty five lakhs.**

- iii) Failure to assist in the investigation section 217 (6): Where the central Government appoints an inspector to investigate the affairs of the company, it is the duty of the Auditor to preserve and produce to the inspector all books and papers relating to the company. If an Auditor fails to assist the inspector in investigation he shall be punishable with imprisonment up to 1 Year and with fine not less than twenty five thousand extendable to 1 lakh**

- iv) Penalty for falsification of books section 336: Any officer including auditor of A company which is being wound up, with an intention to defraud or deceive any person, destroys, Mutilates, alters,**

falsifies any books, papers or securities. He shall be punishable with imprisonment for a term not less than 3 years extendable to 5 years and with fine not less than 1 lakh extendable to Three lakhs.

V) Penalty for deliberate act of commission or omission section 448: If any Officer including auditor of the company deliberately make a statement in any return, report, Certificate, balance sheet, prospectus etc. which false or which contains omission of material facts he Shall be punishable with imprisonment for a term not less than 6 months extendable to 10 years and Fine not less than amount involved in fraud extendable to 3 times of such amount.

Audit Programme

Meaning and Definition

Audit programme represents an outline of procedure to be followed to support an opinion on Financial statements. It is the auditor's plan of action. It provides a plan of work of examination and a Set of audit procedures.

According to Megis, “ An audit programme is a detailed plan of the auditing work to be Performed, specifying the procedure to be followed in verification of each item in the financial Statements and giving the estimated time required”.

According to holmes, “Audit programme is a flexible planned procedure of examination. Thus Audit programme is a planning of audit by auditor so that he may be able to complete his work in a Diligent manner and complete the work without loss of time”.

Advantages of audit programme:

Some of the important advantages of thee audit programme are:

- 1. It enables the auditor to keep in touch with the work done and general progress of the Work.**
- 2. The auditor can be certain that the audit staff will cover whole of the ground.**
- 3. It will help the audit assistants to know their duties.**
- 4. It helps to increase the efficiency of audit assistants.**

5. Fixing of the responsibility of audit assistants becomes easier.
6. It provides a check against the possibility of certain important items requiring Verification which are being omitted.
7. Continuity is not lost even if the person on the duty is changed.

Audit Note book:

Audit note book is a diary or register maintained by audit staff to note errors, doubtful Quarries and difficulties. The purpose is to note down the various points which need to be either Clarified with the client or the chief editor. The Audit note book is used for recording important points To be included in the auditor's report.

Contents of an Auditor's Note Book:

1. A list of books of accounts maintained.
2. The names, duties and responsibilities of principal officers.
3. The particulars of missing receipts and vouchers.
4. Mistakes and errors detected.

5. The points which need clarifications and explanations.
6. The points deserving the attention of the auditor.
7. Various totals and balances.
8. The Points to be a part of auditor's report.

Advantages of Audit Note book:

Some of the advantages of the audit note book are.

1. It ensures the uniformity and helps in knowing the amount of work performed.
2. Important matters relating to the audit work may be easily recalled.
3. Facilities and preparation of the audit report.

- 4. In case of the assistant in charge is changed, no difficulty is faced in continuing the Incomplete work.**

- 5. The responsibility of the errors undetected can be fixed on clerk concerned.**

- 6. The audit note book shows the extent of the interest and pain taken by the audit Staff. It helps in their appraisal.**

- 7. It ensures that the audit programme has been sincerely followed. Deviations can Be noticed.**

- 8. It is reliable evidence in the court of law, If an auditor has to defend himself.**