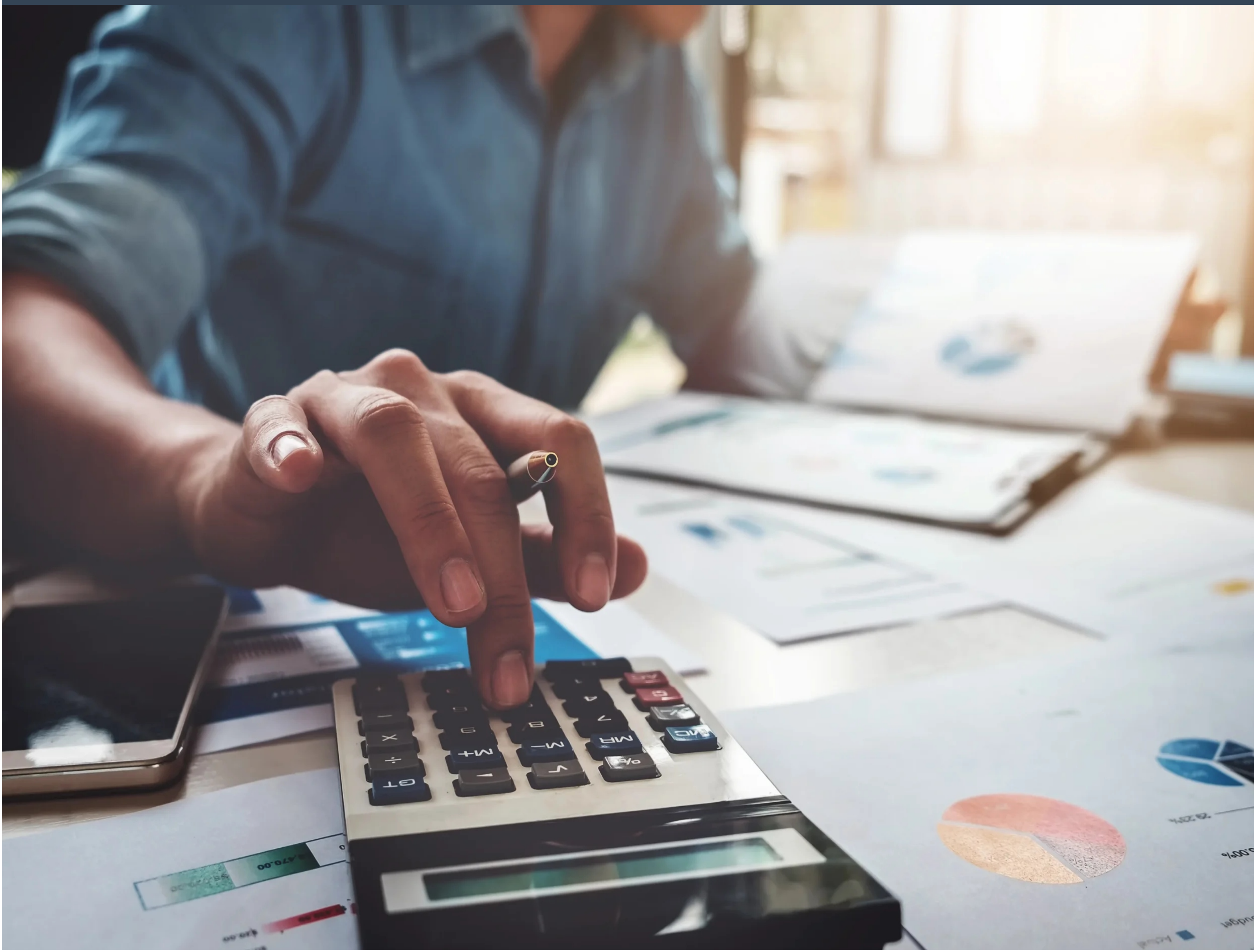
FUNDAMENTALS OF AUDITING

Shweta Verma
Ameya Ambulkar



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CHAPTER 1

EFFECTIVE METHOD OF ENFORCING STRONG INTERNAL CONTROLS: AN INTRODUCTION TO AUDITING

Ameya Ambulkar, Assistant Professor
Department of ISME, ATLAS SkillTech University, Mumbai, Maharashtra, India
Email Id- ameya.ambulkar@atlasuniversity.edu.in

ABSTRACT:

Decisions are made based on the information at hand. For instance, a bank will decide whether to lend money to a firm based on past financial ties, the company's financial standing as shown by its financial filings, and other considerations. The information utilised in the decision-making process must be trustworthy if choices are to be in line with the decision-makers' intentions. Unreliable data may result in wasteful resource utilization, which is bad for society and bad for the decision makers themselves. Assume, for the sake of the lending decision example, that the borrower Company is eventually unable to repay the loan because the barfly made it on the basis of false financial figures. The bank has lost both the principle and the interest as a consequence. Additionally, the money was taken away from another business that might have utilised it wisely. It is increasingly likely that inaccurate information will be given to decision-makers as society becomes more complicated. There are a number of causes for this: distance between information sources, abundance of data, and the presence of intricate trade transactions the decision-maker must devise a strategy of ensuring that the information is sufficiently dependable for these choices in order to overcome the issue of faulty information. In doing so, he must balance the expense of collecting more trustworthy information against the anticipated advantages. Having some kind of independent verification (audit) carried out is a typical technique to get such trustworthy information. On the basis that the audited data is reasonably full, accurate, and impartial, decisions are made using the data.

KEYWORDS:

Auditing, Financial, Responsibility, Transparency.

INTRODUCTION

The crucial process of auditing provides the basis for financial responsibility, transparency, and integrity inside organisations and across sectors. Fundamentally, auditing entails systematically and independently examining financial records, operational processes, and regulatory compliance. Its main objectives are to guarantee the quality and dependability of financial information, protect assets, identify fraud or mistakes, and provide stakeholders including shareholders, investors, and the general public assurance. Auditing is an essential practise for businesses of all sizes and industries since it plays a crucial part in fostering confidence and trust in the financial systems. Auditing is a crucial tool for encouraging effective financial management and ethical company practises, whether it is done internally or by independent external auditors.The dynamic field of auditing has developed in reaction to the changing commercial, financial, and regulatory environments. Auditor responsibilities now include areas like risk analysis, internal control review, and operational effectiveness in addition to financial statement audits as organisations become more sophisticated and have a wider worldwide reach. Auditors provide ideas for enhancing future operations and compliance in addition to evaluating previous financial performance.

Additionally, auditing encompasses not just the business sector but also governmental organisations, nonprofits, and even developing industries like environmental auditing. To meet new issues like cybersecurity risks and sustainability concerns as well as the changing demands of contemporary organisations, the concepts and procedures of auditing are continually improved. Auditing is a vital and dynamic process that guarantees the accuracy of financial data, safeguards the interests of stakeholders, and promotes the general well-being and sustainability of businesses and economies throughout the globe.The thorough study, analysis, and verification of financial records, operational processes, and compliance procedures are all part of the multidimensional discipline of auditing. It includes a wide variety of audit methods, each suited to particular goals, including audits of financial statements, reviews of internal controls, compliance checks, and analyses of operational efficiency [1], [2].

Internal and external auditors adhere to a strict set of rules and guidelines to give a fair and thorough evaluation of an organization's financial health and compliance with regulatory obligations. To protect the interests of shareholders, investors, and the general public, they serve as watchdogs, spotting financial irregularities, fraud, or mistakes that could otherwise go undetected. In a time when business and regulatory environments are becoming more complex, auditing is still a crucial task for fostering accountability, openness, and trust. It is a process that offers insightful information for improving organisational performance and reducing risks, and it is not only a retrospective examination. Auditing is changing to meet new possibilities and challenges as a result of technological improvements and the rising significance of data analytics. It is evolving to become more data-driven, enabling auditors to use technology to analyse huge datasets, spot patterns, and provide deeper insights into the operations and financial health of an organisation. In organisations all around the world, auditing supports effective decision-making by assuring the accuracy of financial reporting, safeguarding assets, and advancing the profession's constant growth and development [3], [4].

DISCUSSION

The Latin word "audire," which means to hear, is where the word "audit" originates. In the beginning, an auditor would listen while an accountant read through the accounts so they could be checked. As ancient as accounting is auditing. It was used in all ancient nations, including Mesopotamia, Greece, Egypt, Rome, the United Kingdom, and India. The Vedas make mention of auditing and accounting. Kautilya's Arthasashthra outlined the regulations for the accounting and auditing of governmental finances. The first goal of auditing was to identify and stop frauds and mistakes. Following the industrial revolution in the 18th century, auditing quickly developed and expanded. Ownership and management split apart with the expansion of joint stock firms. The shareholders, who were also the business's owners, required a report on the financial statements of the organisation run by the board of directors, who were also its workers. Instead, focusing on finding mistakes and frauds, audits were now supposed to determine if the financial statements were accurate and fair. In India, the Companies Act of 1913 made business account audits a requirement.

The primary goal of auditing evolved from determining if the accounts were accurate and correct to determining whether they were truthful and fair as the size of the firms and the amount of transactions increased. Therefore, the focus was on a realistic portrayal of the financial efforts rather than mathematical precision. The Companies Act of 1913 also established the first requirements for auditor qualifications. Standard accounting and auditing practises have been created by the International Accounting Standards Committee and the Accounting Standards Board of the Institute of Chartered Accountants of India to assist accountants and auditors in their daily work. The use of computers in accounting and auditing is one of the more recent innovations in the field.,It may be claimed that auditing has advanced significantly from hearing accounts to using computers to look at computerised accounts. The two major goals of auditing are as follows. Both the main goal and any additional or incidental goals [5], [6].

a. Primary objective

According to Section 227 of the Companies Act of 1956, the auditor's main responsibility (goal) is to inform the owners of whether the balance sheet presents a true and fair picture of the company's financial condition and if the profit and loss account accurately reflects the company's profit or loss for the fiscal year.

b. Secondary objective

It is also known as the accidental aim since achieving it is a byproduct of achieving the primary purpose. The auditing's accidental goals are:

- **i.** Fraud detection and prevention.
- **ii.** Error detection and prevention.

The primary goal of assessing whether or not the financial statements present an accurate and fair perspective leads to the incidental purpose of independent financial auditing, which is the detection of major frauds and mistakes. An auditor should keep in mind the risk of frauds or mistakes in the accounts under audit since they might lead to a misstatement of the financial situation, according to the Institute of Chartered Accountants of India's Statement on Auditing Practices. Fraud is the deliberate distortion of financial data with the aim of misleading. Frauds may be committed via the alteration of financial records, theft of money, and theft of items. The auditor's ability to identify frauds and stop their repetition is crucial. Errors are accidental mistakes in financial data that result from a lack of knowledge of accounting principles, also known as principle errors, or from the carelessness of accounting employees, also known as clerical errors [7], [8].

Expression of Opinion

When we talk about the target, we use the context, practicality, and restrictions to justify the thought process and produce a list of realistic objectives. Frauds and mistakes in the financial realm are frequent occurrences. In addition, the statements of account serve a further function in depicting the financial situation. Naturally, the goal of an audit should be to ensure that the information provided in the statements of accounts is accurate and not deceptive, and that no mistakes or frauds exist that would skew what the accounts should really show. Up until recently, the main focus was on mathematical accuracy; adequate attention was not given to the appropriate application of accounting principles and disclosure, to ensure that the preparation of the accounting statement was done in a way that would allow the reader to form an accurate view of the state of affairs. Many managements used the opportunity to emphasise or hide issues in accordance with their own agendas by manipulating assets, liabilities, and profit or loss.

The Royal Mail Steam Packet Company Case raised this situation for discussion, and as a consequence, the Companies Acts of England and India were changed in 1948 and 1956, respectively, requiring the auditor to certify, among other things, that the financial statements are honest and fair. We may consider this to be the audit's current goal. It's important to comprehend the implications of using "true and fair" instead. The focus has shifted from the issue of financial statement dependability to the issue of mathematical precision. If flaws or even frauds are present in a statement but they are not significant enough to taint the overall image, the statement may still be considered reputable. The term "correct" was used rather inappropriately since estimations make up the majority of the accounting.

You shouldn't, however, draw the conclusion that finding errors and frauds is no longer a goal of audits, since statements of account prepared from books with significant errors and fraudulent entries cannot be regarded as genuine and fair representations. The auditors must conduct a process of inspection and verification to determine if the financial statements depict a genuine and fair condition of things, and if mistakes or frauds exist, they would be discovered through routine checks. However, the main goal of an audit is to verify the level of dependability of the yearly statements of accounts, not to find faults or frauds. If there is a persistent deep-seated fraud in the accounts that is not discovered during a routine audit, as long as the auditor was not careless in doing his standard duties, it will not be considered a failure of the audit. In the pivotal Re-Kingston case from 1896, this premise was established [9], [10].

Qualities of an Auditor

We have so far spoken about the issue of an auditor's official training. Realising what an auditor should be, however, is not sufficient. He is worried about how businesses and other organisations are reported on financially. Financial issues must always be balanced with the issues of human fallibility; mistakes and scams happen often. According to Dicksee, the necessary traits are tact, prudence, firmness, excellent temperament, honesty, discretion, industry, judgement, patience, clear thinking, and dependability. In other words, all the personal characteristics that make a successful businessman also help to create a good auditor. He must also possess cultural brilliance in order to reach tremendous heights. He ought to possess the greatest level of integrity supported by sufficient independence. Integrity, objectivity, and independence are in fact listed as fundamental values in AAS-1. He has to be well-versed in the broad legal concepts that apply to situations where he will probably have direct contact with them. The Partnership Act of 1932 and the Companies Act of 1956 need special note, but commercial law, particularly the law dealing to contracts, is as significant. A thorough understanding of the law and practise of taxes is also required if enterprises are subject to a unique legislation that must be known. He must complete a rigorous course of theoretical study in areas including general management, business and corporate law, computers and information systems, taxes, economics, and more. The development of an auditor's professional ability to carry out any kind of audit assignment requires both academic education and practical training.

In addition to having a thorough awareness of how business is typically done, the auditor should also be aware of the unique characteristics that are unique to the individual firm whose accounts are being audited. The "Audit Planning" section of AAS-8 underlines the need of an auditor having sufficient understanding of the client's operations. In addition to the technical requirements of professional training and education, the auditor, who occupies a position of trust, also has to possess the fundamental human traits. He is often asked to critically examine financial accounts, although it is plainly pointless for him to do so unless his knowledge level is expert. The prerequisite for engaging in auditing work is having a thorough understanding of accounting in all of its facets. He must be well-versed in all accounting concepts and procedures.

The most useful knowledge is likely that which cannot be learned from books because its acquisition depends on the alertness of the mind in applying to ever-changing circumstances, the fruits of his own observation and reflection; only he who is endowed with common sense in sufficient measure can achieve it. Auditing is a profession requiring a wide variety of knowledge, to which no one has yet set a limit. Lord Justice Lindley effectively put up the general opinion of what an auditor should be in terms of human attributes over the course of the landmark London & General Bank case judgement. An auditor must be honest," he remarked. "He must not certify that which he does not believe to be true and must exercise reasonable care and skill before he believes that which he certifies is true [11], [12].

CONCLUSION

The purpose of auditing is to provide the auditor with the ability to verify that the balance sheet and profit and loss account are accurately prepared in order to present a true and fair view of the financial condition of the business as well as the profit or loss for the financial period. The terms accounting and inquiry have been separated from auditing. The primary point of contrast is that whereas auditing focuses on reporting on the financial condition and outcomes of an organization's operations, accounting is primarily concerned with the creation of financial statements. Investigations are conducted for certain reasons, such as to ascertain the level of fraud or the organization's acquisition price, among others. Audit goals may be roughly divided into two categories: core goals and secondary goals. The primary goal of an audit is to confirm the correctness of the accountant's financial accounts, while the secondary goal is to find and stop frauds and mistakes. Having the accounts audited by a certified auditor has several benefits, including early fraud and mistake identification, account dependability, statements of many sorts of claims, capacity to get loans from banks and other financial organisations, etc. The several sorts of audits include those performed in accordance with the law, those of private companies, those of private people, and those of trust funds. An auditor may choose from the continuous audit, monthly audit, or interim audit methods to carry out his audit of a company. An auditor should have certain qualities in addition to being a Chartered Accountant, such as knowledge of pertinent laws, intelligence, tact, vigilance, honesty and integrity, courage, impartiality, broadmindedness, patience, perseverance, maintaining client confidentiality, common sense, etc.

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CHAPTER 2

A BRIEF DISCUSSION ON AUDIT MARKET

Chetana Dilip Asbe, Associate Professor
Department of ISME, ATLAS SkillTech University, Mumbai, Maharashtra, India
Email Id- chetana.asbe@atlasuniversity.edu.in

ABSTRACT:

A crucial element of corporate governance and financial transparency is the audit market. This abstract explores the intricate and dynamic audit market landscape, looking at the major actors, legislative frameworks, and difficulties that affect the industry's dynamics. It examines the function of audit companies, such as the Big Four, in offering unbiased evaluations of financial statements and internal controls. The significance of regulatory monitoring in preserving audit quality and investor trust is also covered in the study. Additionally, it discusses recent concerns including the concentration of the audit industry, rivalry, and the influence of technology on audit procedures. This abstract emphasizes the importance of a healthy and competitive audit market in preserving the accuracy of financial reporting and safeguarding the interests of investors and stakeholders via case studies and worldwide trends. In the end, it emphasizes the joint responsibility of auditors, organisations, and regulators for ensuring that the audit market runs to the greatest standards of independence and professionalism.

KEYWORDS:

Audit Market, Misrepresentation, Shareholders, Safeguarding.

INTRODUCTION

The audit market is a pillar of financial openness and confidence in the international economy. It includes a complex ecosystem of audit companies, government agencies, and companies that are essential to guaranteeing the integrity of financial reporting and defending the interests of stakeholders and investors. An overview of the audit market, its importance, and the main topics to be covered in this discussion are given in this introduction. The audit market's primary focus is on the systematic review and validation of an organization's financial statements, internal controls, and adherence to applicable accounting standards and laws. Independent auditing companies carry out this procedure and guarantee the accuracy of the financial data to the public and shareholders. The audit market is characterized by a wide variety of companies, from the "Big Four" (Deloitte, PricewaterhouseCoopers, Ernst & Young, and KPMG), who are huge international audit firms, to mid-sized and small audit practises. These companies provide audits for a broad range of businesses, including privately held businesses, publicly traded enterprises, governmental agencies, and non-profit organisations.

The audit market is fundamentally governed by regulatory control, with regulatory authorities in many nations and regions establishing criteria and norms for the independence and quality of audits. These rules are established to safeguard investors' interests and the accuracy of financial reporting. The audit market has seen several difficulties and changes recently. Significant emphasis has been paid to issues such audit market concentration, competition, the use of technology in auditing, and the role of auditors in spotting fraud. These difficulties highlight the need of continuing debate and change within the audit market in order to increase its efficacy and responsiveness to the changing corporate environment [1], [2].

These fundamental topics will be covered in depth in this examination of the audit market, which will provide insights into the dynamics, complications, and important problems that influence this crucial facet of corporate governance and financial responsibility. We may get a better understanding of the function of audit in upholding confidence and openness in financial reporting as well as its effects on the whole economy by looking at these factors.The audit industry is a cornerstone of financial integrity, providing stakeholders with stakeholders with the assurance that an organization's financial information is accurate and dependable. In order to prevent financial mismanagement, fraud, and misrepresentation, it acts as an essential precaution. The Big Four audit firms have a significant position within the audit sector as a result of their substantial resources, worldwide reach, and knowledge. However, concerns about competition, independence, and possible conflicts of interest have been raised as a result of the concentration of audit services within a small number of significant companies. The audit environment is changing as a result of technological improvements. Automation, artificial intelligence, and data analytics are becoming important tools for auditors to improve the thoroughness and effectiveness of their evaluations. These changes in technology have the potential to fundamentally alter auditing practises and the information they may provide.

Additionally, it is becoming more and more required of auditors to take a proactive approach to detecting and mitigating risks, such as those connected to cybersecurity, sustainability, and environmental impact. The expanded range of audit services matches the changing demands of regulators and stakeholders. We will examine the difficulties, possibilities, and developing trends in the audit market in more detail in the conversations that follow. We will also look at the crucial role that regulatory organisations play in guaranteeing the independence and quality of audits, as well as the continuing discussions about audit reform and the future of this crucial aspect of financial monitoring. Modern auditors first came into existence during the Industrial Revolution, which began in Great Britain about 1780. Due to the separation between capital supply and management, this revolution saw the rise of massive industrial corporations with intricate bureaucratic structures and the eventual need to seek for outside funding to finance future growth. Both of these developments led to a requirement for the expertise of accounting and auditing internal and external financial representations professionals. It was thus just a matter of time until the audit profession became institutionalized.

Management Controls Operations and Communications

Management is in charge of the accounting systems used by the businesses that auditors examine. In addition to being in charge of the financial reports sent to investors, management also has the power to decide the specifics of the representations made in such reports. However, it is unlikely that management will see this process objectively.

Communications to Stakeholders the Financial Statements

The efficacy of management's discharge of its responsibilities is assessed by the financial reports. They have a significant impact on management's compensation, the value of their stock ownership in the firm, and even whether or not they stay on as employees. An objective and qualified judgement on the fairness of the reports is given to investors and creditors to boost their trust in these financial statements. This judgement is offered by an auditor [3], [4].

DISCUSSION

There are several explanations that might account for the need for audit services. Some hypotheses, such as the Theory of Inspired Confidence and the Agency Theory, have received thorough investigation and reporting. The Policeman Theory and the Lending Credibility Theory are two more public perception-based ideas that are more of a point of reference than a well-researched construct.

The Policeman Theory

Is an auditor expected to spot fraud, much like a police officer? Consider this theory to be the policeman theory. It was commonly believed up until the 1940s that an auditor's responsibility was to concentrate on mathematical correctness as well as the prevention and detection of fraud. However, the definition of auditing changed from the 1940s to the turn of the century to include the verification of the accuracy and fairness of the financial accounts. scams involving recent financial statements, like This notion has been carefully reexamined as a consequence of incidents like those at Ahold, Xerox, Enron, Tyco, etc. The auditor's obligation to identify and report fraud is now the subject of a public discussion, which brings us back to the fundamental public views from which this idea comes [5], [6].

The Lending Credibility Theory

Another common misconception is that the main purpose of auditing is to give the financial statements more credibility. This concept is known as the Lending Credibility Theory. Management uses audited financial statements to increase stakeholders' trust in its stewardship. If participants such as stockholders Government officials or creditors must base their decisions on the information, they have access to and have confidence that it accurately reflects the company's economic worth. This lessens the "information asymmetry" in audit research words. However, the efficient markets hypothesis contends that investors' investment choices are not primarily based on audited data.

The Theory of Inspired Confidence

Theodore Limperg, a professor from the Netherlands, created this hypothesis in the late 1920s. Limperg's approach tackles both the demand and supply of audit services, in contrast to the other ideas. According to Limperg, the involvement of outside stakeholders (third parties) in the organisation has a direct impact on the need for audit services. In exchange for their contributions to the business, these stakeholders expect responsibility from the management. An audit of this information is necessary since it may be biassed due to a potential conflict between management's interests and those of external stakeholders. Limperg employs a normative approach when discussing the amount of audit confidence that the auditor should provide (the supply side). The auditor must conduct himself in a manner that does not fall short of the expectations of a "rational outsider," but on the other hand, he must avoid raising more expectations for his report than his investigation warrants. In light of these possibilities, the auditor should take all necessary measures to live up to the fair expectations of the public.

Agency Theory

According to the agency hypothesis, which was first put forward by Watts and Zimmerman 3, an auditor who is seen as being reliable and meeting expectations is chosen not only for the benefit of management but also for the benefit of third parties. A firm is seen as the outcome of more or less formal "contracts," in which many organisations contribute in some way to the company for a set "price." The management of the company works to secure these contributions under favourable management terms, such as cheap employee pay, high share prices for shareholders, and low loan rates for bankers. In these interactions, management is seen as the "agent," attempting to enlist the help of "principals" including lenders, investors, and workers. Monitoring costs (the cost of keeping an eye on the agents), bonding costs (the costs incurred by an agent to ensure that agents will not take unfavourable actions against the principals), and residual loss (effective loss that occurs despite the bonding and monitoring costs incurred) are all associated with an agency relationship [7], [8].

Audit Regulation

The requirement for audit was discussed in the part before. This requirement has often been optional, meaning it has been up to the corporations to determine whether or not to have their financial statements audited. Regarding the supply side, there are certain nations where there are no formal regulatory requirements for auditors and the provision of audit services is left to the free market. The demand and supply of audit services are now controlled to some extent in the majority of nations, despite the fact that regulations and laws vary. Recent accounting and finance research indicates that the characteristics of accounting information, business ownership structures, corporate practices and financial market growth are all significantly influenced by national legal regimes.

For various sorts of businesses, audits are now legally mandated in the majority of nations. For instance, big and, in certain situations, medium-sized businesses are obliged by law to submit audited financial statements in the United States and the European Union. All businesses that must be audited by the various Member States are subject to the EU audit regulations. Depending on the state, the criteria could change. Companies in the Netherlands, for instance, are required to undergo an audit if they have more than 50 workers, more than 3.1 million euros in assets, or more than 6.2 million euros in net sales. The main exchanges' listing regulations mandate that all listed businesses have their annual reports audited, including the NYSE, NASDAQ, London Stock Exchange, Tokyo NIKKEI, and Frankfurt DAX. Most nations now regulate the provision of audit services. In the European Union, only auditors who have satisfied stringent technical standards in terms of training and experience are permitted to conduct statutory audits, or audits mandated by law.

Public Oversight Board

The number of accounting oversight boards, which are governmental or professional groups that assess auditors' work and actively participate in establishing and enforcing standards, has increased recently. These bodies may be found in the UK (The Review Board), Australia (Financial Reporting Council), and the United States (Public Company Accounting Oversight Board). A Public Company Accounting Oversight Board (PCAOB) has to be established by the US Securities and Exchange Commission (SEC) in accordance with the Sarbanes-Oxley Act of 2002. The Board supervises, looks into, and imposes fines on organisations and persons for breaking laws, rules, and regulations regarding audits of public businesses. The American Institute of Certified Public Accountants (AICPA)'s generally accepted auditing standards (GAAS) will only be used temporarily, the Board has determined at this moment.6 The PCAOB has the authority to frequently audit the activities of registered accounting firms and will look into any infractions of the securities laws, standards, consistency, and behaviour. The PCAOB has power over accounting firms with their main offices abroad that "prepare and furnish" an audit report involving US companies registered with the SEC.The Sarbanes-Oxley Act of 2002 was enacted by Congress with almost universal support and was signed into law by President George W. Bush on July 30, 2002. It was inspired by the Enron and WorldCom scandals as well as other well reported business and accounting crises. By enhancing corporate disclosure and financial reporting quality, bolstering the independence of accounting firms, and expanding the role and responsibility of corporate officers and directors in financial statements and corporate disclosures, the Act, which the President called "the most far-reaching reforms of American business practises since the time of Franklin Delano Roosevelt," aims to instill investor confidence.

The Financial Reporting Council (FRC), a new organisation with responsibilities for wide supervision of the accounting standard-setting process for the commercial, public, and not-for-profit sectors, was formed in Australia by the Corporate Law Economic Reform Programme Act 1999. The FRC has a responsibility to keep track on the advancement of both global accounting standards and accounting norms that are used in significant international financial centres. It determines the AASB's overarching strategic direction, approves and monitors its business strategy and goals, and controls all aspects of the organization's operations. The Accountancy Foundation Limited provides funding for the Review Board in the UK. The role of the Review Board is to keep an eye on how the regulatory system is functioning and ensure that it is adequately serving the public interest. The three linked entities, the Ethics Standards Board, the Auditing Practises Board, and the Investigation and Discipline Board, all have work to do in carrying out this job, which falls within the purview of the Review Board. It also has little oversight over the UK accounting professional organisations' power for monitoring, training, qualification, and registration of its members in the accounting profession as well as inquiry and punishment. The topic of public oversight boards will be covered in more depth in Chapter 14 of Corporate Governance and the Future of Auditing [9], [10].

Audit Firms

We have covered the demand side of the audit industry and its expectations of what auditors should provide in great detail in earlier parts. How about the supply side, though? How is it organised? Typically, audit companies are divided into two groups:

1. The Big Four firms
2. The Non-Big Four firms.

The Big Four Firms

These businesses were partly the outcome of many significant mergers in the late 1980s. Deloitte, Ernst & Young, KPMG, and PricewaterhouseCoopers make up this group. There is a vast network of associated companies for these auditing businesses. After a number of mergers, the Big Five firms which included Arthur Andersen actually existed. However, after over 90 years of being a highly regarded company, Arthur Andersen was forced to lose its business in 2002 as a consequence of the Enron accounting crisis the importance of auditors responding completely to the inspired confidence of their stakeholders is shown by this case study. Although the majority of these businesses are still set up as domestic partnerships with domestic profit sharing rather than international profit sharing, these domestic member businesses are a part of an international head office where international technology, practises, and guidelines are established. The networks are used to coordinate worldwide audit engagements in addition to exchanging methodologies. The auditors of the member firms in the nations where the client has subsidiaries serve as the group auditors for a global operating corporation. The efficiency of these networks and the coordination of international activities has substantially improved as a consequence of advancements in communications technology. About half of the Big Four companies' overall fee revenue comes from audit and accounting services [11], [12].

The Non-Big Four Firms

It is difficult to approach these businesses as a cohesive group. At one extreme, there are a huge number of little local businesses that employ just a few experts. On the other end, there are a few second-tier companies that, although not nearly as big as the Big Four network, do have a global presence. There are several, multi-office, medium-sized national or regional audit companies in between. It has often been said that Big Four audit companies do audits of better calibre than non-Big Four firms, both in terms of detection and independence, since they have a technology advantage and because a specific customer will account for a lower portion of their overall fee revenue. According to this line of reasoning, it is sometimes said that auditing companies have greater independence from large customers than they do from smaller ones. It is seen less detrimental to lose a minor customer via a technical dispute with client management than to lose a large one. Furthermore, it is believed that customers who are having financial difficulties are subjected to more comprehensive auditing (better audit quality) than clients who are doing well, since the likelihood of lawsuit arising from an audit mistake is seen to be greater in cases of business failure.

Criminal Liability under Statutory Law

A professional accountant may be subject to criminal prosecution under the laws of a nation or region where it is illegal to deceive another person by intentionally using false financial statements.

US Securities and Exchange Act of 1934

Every corporation with shares listed on national and over-the-counter exchanges in the United States is required by the shares and Exchange Act of 1934 to produce yearly audited financial statements (10-K), as well as supplemental reports for quarterly financials (10-Q), unusual occurrences (8-K), and other events. The Act also specifies (Rule 10b-5) criminal liability conditions in the event that the auditor intentionally or recklessly misrepresents information for the benefit of a third party, uses any device, scheme, or artifice to defraud, makes any untrue statement of a material fact, omits to state a material fact, or both. A punishment or suspension from doing audits for SEC-registered corporations may also be imposed by the SEC on an auditor.

The criminal liability portion of the Act has been used in a number of court proceedings. In the case of United States v. Natelli (1975), two auditors were found guilty of violating the law by certifying National Student Marketing Corporation's financial statements, which had insufficient accounts receivable declarations. Three auditors were found guilty of securities fraud in United States v. Weiner (1975) in relation to their audit of Equity Funding Corporation of America. Due to the size of the fraud the corporation committed and the poor quality of the audit work, the court came to the conclusion that the auditors must have been aware of the crime. In ESM Government Securities v. Alexander Grant & Co. (1986), management informed the audit partner that the past years' financial statements were inaccurate, but the partner opted to remain silent. The partner received a 12-year jail term after being found guilty of criminal charges for his involvement in continuing the deception.

Opinion on The Occurrence of Illegal Acts

The auditor's response to criminal activity occurring in a firm is closely tied to the topic of fraud. According to ISA 25023 and the majority of national regulators, the auditor's role in this area is limited to planning and carrying out the audit so that there is a reasonable expectation of finding material frauds that have a direct bearing on the structure and content of the financial statements. Most national authorities demand that the auditor evaluate the possible effect on the financial statements and establish the implications of any ambiguity or inaccuracy for the nature of the opinion when disclosing illicit activity. In certain nations, the professional standards mandate that the auditor tell the members of the audit committee or board of directors in addition to disclosing the activities via the report. It is not permitted to inform other parties unless there are very specific, extremely limited situations. The majority of expectation gap studies show that respondents anticipate the auditor to find and disclose unlawful activities that materially affect the financial statements. The results of expectation gap studies were equivocal in regards to the auditor's obligation to identify and disclose various kinds of criminal activity [13], [14].

CONCLUSION

There was a need for accounting and auditing internal and external financial representations professionals throughout the Industrial Revolution, which began in Great Britain about 1780. A short while thereafter, the audit profession was institutionalized. There are several explanations that might account for the need for audit services. Some hypotheses, such as the Theory of Inspired Confidence and the Agency Theory, have received thorough investigation and reporting. The Policeman Theory and the Lending Credibility Theory are two more public perception-based ideas that are more of a point of reference than a well-researched construct. The demand and supply of audit services are now controlled to some extent in the majority of nations, despite the fact that regulations and laws vary. Recent accounting and finance research indicates that the characteristics of accounting information, business ownership structures, corporate practises, and financial market growth are all significantly influenced by national legal regimes. The number of accounting oversight boards, which are governmental or professional groups that assess auditors' work and actively participate in establishing and enforcing standards, has increased recently. The US's Public Company Accounting Oversight Board, Australia's Financial Reporting Council, and the UK's The Review Board Limited are three such organisations. Big Four firms and non-Big Four companies are the two separate groups into which auditing firms fall. The Big Four companies take part in a worldwide head office where global technology, practises, and guidelines are produced. The non-Big four organisations vary in size from tiny local businesses with only a few experts to middle-tier businesses with a global network. The market evaluates the auditor based on the technical and functional quality components. The degree to which an audit satisfies a consumer's expectations with respect to the identification and disclosure of mistakes and irregularities pertaining to the audited organisation is known as technical audit quality. The degree to which the procedure for conducting the audit and disseminating its findings fits a consumer's expectations is referred to as the functional audit quality. The process itself is what the functional part of audit quality reflects, not the result.

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CHAPTER 3

EXPLORING THE CONCEPT OF AUDITOR'S INDEPENDENCE

Sadaf Haseen Hashmi, Associate Professor
Department of ISME, ATLAS SkillTech University, Mumbai, Maharashtra, India
Email Id- sadaf.hashmi@atlasuniversity.edu.in

ABSTRACT:

The integrity and credibility of financial reporting and auditing procedures are underpinned by the core idea of the auditor's independence. The relevance, guiding concepts, and difficulties of auditor independence are all explored in this abstract. It looks at how important an auditor's job is in providing impartial, factual evaluations of financial statements, internal controls, and adherence to accounting rules. The article also examines the ethical and legal frameworks that control auditor independence, highlighting how crucial it is to preserve both real and perceived independence. This abstract emphasizes the significance of maintaining auditor independence as a cornerstone of financial transparency and investor trust via case studies and worldwide trends. In the end, it emphasizes how important it is for auditors, audit firms, regulatory agencies, and organizations to work together to defend and enforce this fundamental value in the auditing profession.

KEYWORDS:

Accountants, Financial Institutions, Independence, Regulatory.

INTRODUCTION

In society, professional accountants play a significant role. Professional accountants are relied upon by investors, creditors, employers, and other business community segments as well as the government and the general public for sound financial accounting and reporting, efficient financial management, and qualified advice on a range of business and taxation-related issues. Professional accountants' attitudes and behaviours while offering these services have an effect on the economy of their town and nation. Only by continuing to provide the public these distinctive services at a level that proves that the public's trust is firmly established will professional accountants be able to maintain this beneficial position. The consumers of professional accountants' services should be informed that they are carried out at the greatest level of performance and in line with ethical standards that work to guarantee such performance. This is in the best interest of the global accounting profession. Professional accountants must adhere to a variety of requirements or basic principles in order to fulfil the profession's goals.

Integrity

When providing professional services, a professional accountant should be direct and honest. Objectivity: A professional accountant should be impartial and not let bias, conflicts of interest, or other people's influence get in the way of their ability to be objective. Professional Competence and Due Diligence: A professional accountant has a continuing duty to maintain professional knowledge and skill at a level necessary to ensure that a client or employer receives the benefit of competent professional service based on current developments in practise, legislation, and techniques. A professional accountant should perform professional services with due care, competence, and diligence. A professional accountant should respect the confidentiality of information obtained while providing professional services and should not use or disclose any such information without proper and specific authorization or unless there is a legal or professional obligation to disclose.

Professional Conduct

An accountant should behave in a way that upholds the profession's good name and avoid engaging in any actions that might damage that reputation. Technical Standards: Professional accountants are expected to provide their services in conformity with all applicable technical and professional standards. Professional accountants have an obligation to follow orders from clients or employers carefully and competently, provided that they are consistent with the standards of honesty, impartiality, and, in the case of professional accountants engaged in public practice, independence [1], [2].

The foundation for a profession's respect and dignity is its independence. Independence refers to a person's ability to take an objective stance on issues without being intimidated by praise or criticism. An independent mental attitude must be maintained in all things pertaining to the task. The audit reports will only continue to be recognised and appreciated by business, financial institutions, government, and investors for as long as the auditor maintains a high degree of independence and impartiality. Professional independence and integrity are fundamental traits of all studied professions, but they are especially important for the accounting field. Independence is a mentality, a quality of the individual, and a clear understanding of the obligations of the job. The status of the profession, namely its capacity to uphold demands and desire to enforce a good code of ethics, has a significant impact on independence. The more the public respect for the profession and the higher the standards of independence it demands of its members, the more the public will rely on the reports and views provided by the profession's members. As was previously said, independence is a qualitative quality; yet, professional organisations often provide guidelines to aid and direct its members in maintaining independence in a range of challenging situations.

The independence of the auditor must not only be real but also seem to be real to all sane people. This is crucial since it happens often that connections are misconstrued. Therefore, it is essential that the connection the auditor maintains be such that no sane person could question his neutrality and honesty. It is acknowledged in the ICAI's Guidance Note on "Independence of Auditors" that a precise definition of "Independence" is not achievable. "Independence implies that a person's judgement is not subject to the desires or instructions of another person who may have engaged him or to his own self-interest," it states. It states that independence is a state of mind and a trait of the individual and should not be confused with the only outward and apparent criteria of independence that are sometimes required by law. Although these legal requirements may be loosened or tightened, independence's inherent qualities are unaffected. The auditor's independence must not only be real but also seem to be real to all reasonable people. The auditor's client relationship should be such that, first, the auditor is happy with his client and, second, no objective person would be compelled to conclude that, given the facts as they stand, the auditors' independence is likely to have been compromised. The accounting industry as a whole places importance on the collaborative component of independence.

The third parties that depend on professional opinion and accept the chartered accountant's view primarily on the basis of a greater confidence in the whole accounting profession do not know him personally. Specific rules have been introduced under the Companies Act of 1956 to give this important idea a tangible form. The restrictions on who can audit limited companies, the ceiling on the number of audits that can be performed by chartered accountants, the circumstances in which special resolution must be obtained to appoint auditors, as well as other provisions on the appointment, reappointment, and removal of auditors are all intended to give this institution of auditing the independence necessary to conduct the audit in the large companies. The extensive access rights to the company's books of account and other documents granted to the auditor are intended to ensure the independence of the auditors. Another tool in the auditor's arsenal to defend his independence is the ability to qualify his report. Another effort has been made to maintain the independence and professional competence of the accounting profession with the inclusion of specific cases of misconduct in the Schedules to the Chartered Accountants Act, 1949 [3], [4].

DISCUSSION

The accounting process is fundamentally based on the idea of materiality. It includes every phase, including recording, categorization, and presentation. Therefore, it is a crucial and pertinent factor to take into account for an auditor who is continually determining whether or not a certain item or transaction is significant. The standard AAS13 on Audit Materiality outlines the idea of materiality and how it relates to audit risk. Students should be aware that AAS-6 on audit risk is available. When performing an audit, the auditor is required by AAS-13 to take materiality and its connection to audit risk into account. In reality, the auditor will need to evaluate materiality from the time the audit is planned to the time he or she issues a final judgement. Of course, an auditor needs more trustworthy proof to back up tangible goods. Additionally, he is responsible for making sure that these elements are clearly and correctly declared in the financial statements.

According to Accounting Standard 1, significant items are those that are "items that knowledge of would influence the decisions of the users of the financial statements," or that are "relatively important and relevant items." The specific facts and circumstances of each case determine whether or not the consumers of the financial statements would be influenced by knowing about a particular item. The exact elements that may be regarded as material in every situation cannot be determined, neither in terms of particular accounts nor in terms of quantity. What may be material in one situation may not be material in another since materiality is a relative concept. As a result, the choice to determine whether an item is substantial, whether in the aggregate of items, presentation, or categorization of things, depends on the preparers' assessment of the individual case's circumstances. Comparing percentages may often be helpful in determining an item's materiality. For instance, according to Part II of Schedule VI to the Companies Act of 1956, any expense that exceeds 1% of the company's total revenue or Rs. 5,000, whichever is higher, must be shown as a separate and distinct item under the proper account head in the profit and loss account and cannot be combined with any other item that must be shown under miscellaneous expenses. Similar to this, each item that represents 10% or more of the total cost of raw materials used must be represented individually and clearly.

Furthermore, Part II of Schedule IV mandates that the profit and loss account reveal all relevant information, including credits or revenues and debits or costs related to one-time or extraordinary transactions. In reality, Schedule VI of the Companies Act of 1956's thorough disclosure requirements seeks to guarantee that the financial statements include all relevant information in order to provide an accurate and fair picture of the company's condition of affairs. When determining an item's materiality, one must consider its relative relevance from a variety of perspectives in addition to the percentage requirement. According to general consensus, the materiality of items that appear in the profit and loss account and affect the profit for the year should be assessed in relation to the group to which the asset or liability belongs. For instance, any current asset should be evaluated in relation to all current assets, and any current liability should be evaluated in relation to all current liabilities. Comparing it to the similar number from the prior year is another way to assess the item's materiality. When compared to the similar statistic from the prior year, if the item is of a minor quantity this year but a considerably bigger amount the year before, it is substantial. As a result, one can assess an object's materiality: The item's influence on the profit or loss, the balance sheet, or the sum of the item category to which it belongs may be determined (a), and (b) by comparing the current number to the comparable one from the previous year. Even a little quantity may sometimes be regarded as material. Therefore, the amount paid as a sitting fee to directors must be stated explicitly and individually if it is required by law to do so. Similar to this, it may be significant if directors get 100 rupees in salary that exceeds the statutory maximum [5], [6].

Auditing and Assurance

Material whether it further reduces or increases a modest profit, turns a tiny loss into a profit, or the other way around. Similar to that, it will be a substantial item if it increases or decreases the margin of insolvency on the balance sheet. Even if the sum involved may not be large, transactions of an unusual or non-recurring character are nevertheless regarded as relevant. Care must be taken while offsetting and aggregating objects to ensure that independently material elements are not offset against one another. For instance, a non-recurring loss cannot be offset by the surplus resulting from a change in the accounting basis. Even a minor or unimportant object may become substantial in a circumstance where it was not anticipated that it would be. Since the auditor must determine if a certain item is significant in providing or distorting a true and fair picture of the financial statements, materiality is a crucial and pertinent factor for him to take into account. Additionally, he must make sure that significant items are declared individually and clearly or that the accounting statements provide at least clear information on the item.

Concept of True and Fair

An essential idea in auditing is the idea of truthful and fair. The auditor is expected to indicate his view about whether the entity's results and the condition of affairs as determined by him during the course of his audit are honestly and fairly reflected in the accounts under audit using the phrase "true and fair" in the auditor's report. In order to verify that all assets, liabilities, income, and costs are reported as amounts that are in line with applicable accounting principles and rules and that no major amount, item, or transaction has been missed, the auditor must check the accounts. But no piece of law has ever specified what "true and fair" means. However, in the context of an audit of a company, section 211(5) of the Companies Act states that if the accounts of a company do not disclose any matters that are required to be disclosed by virtue of provisions of Schedule VI to that Act, or by virtue of a notification or an order of the Central Government modifying the disclosure requirements, they shall be deemed to not disclose a true and fair view. As a result, the auditor must ensure that the accounts are prepared in accordance with Schedule VI's requirements and that all information that must be reported therein is included.

The auditor should check to verify whether the disclosure requirements of the governing Act are met in cases where corporations are subject to special Acts. A corporation shall not be assumed to be keeping appropriate books of account to demonstrate a true and fair accrual foundation of accounting, according to Section 209(3) of the Companies Act, 1956. It should be highlighted that the legal obligations for disclosure are the bare minimum. Even if there may not be a particular legal need to do so, the accounts should provide information if it is necessary for providing an accurate and fair picture. Therefore, an auditor's judgement on the specific facts of a case will determine what constitutes a "true and fair" perspective. To be more precise, in order to ensure a true and fair view, an auditor must ensure that the following things are true and true: (i) the assets are not undervalued or overvalued in accordance with the applicable accounting principles; (ii) no material asset is omitted; (iii) the charge, if any, on assets is disclosed; (iv) material liabilities should not be omitted; (v) the profit and loss account discloses all the matters required to be disclosed by Part elements that aren't reoccurring have been stated individually.

In this regard, it is significant that the Council of the Institute noted that "The Companies Act 1956, as well as many other statutes, require that the financial statements of an enterprise should give a true and fair view of its financial position and working results." Even in the lack of a clear law provision to this effect, this obligation is implied. However, neither the Companies Act of 1956 nor any other legislation specify what a "true and fair" opinion is. The Institute's announcements aim to explain accounting concepts and how to apply them to the creation and presentation of financial statements so that they reflect an accurate and fair picture. The Institute has released a variety of declarations, guidelines, and advisory notes.

The Board's Report must include a statement that the directors "had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period." This is required by section 217(2AA) of the Directors Responsibility Statement [7], [8].

Nature of Accounting Policies

Accounting policies relate to the particular accounting principles and ways in which those principles are used by the company while preparing and presenting financial statements. There isn't a single set of accounting principles that can be used in every situation. Alternative accounting concepts and techniques of applying those principles are appropriate due to the many situations in which firms operate in a setting of varied and complicated economic activity. The management of the business must exercise substantial judgement in selecting the right accounting principles and how to apply them in the unique conditions of each organization.

The Institute of Chartered Accountants of India's many comments, together with the efforts of the government, other regulatory bodies, and progressive managements, have all contributed to a decrease in the number of acceptable alternatives in recent years, especially when it comes to corporate enterprises. Even while ongoing efforts in this area in the future are probably going to lower the number even more, businesses still have to deal with the availability of alternative accounting principles and ways to apply such viewpoints [9], [10].

Disclosure of Accounting Policies

The accounting principles used in the production and presentation of the financial statements may have a big impact on how an organisation presents its state of affairs and profit or loss in its financial statements. Different businesses use different accounting standards. If the viewpoint offered is to be correctly understood, disclosure of major accounting practises must be made. In certain situations, the law requires the disclosure of certain accounting procedures used in the creation and presentation of the financial statements. By defining major accounting policies' disclosure and the way in which they are revealed in the financial statements via an accounting standard, AS-1 aims to improve comprehension of financial statements. A more relevant comparison between the financial accounts of various firms would be made possible by such transparency.

All-important accounting policies used in the creation and presentation of financial statements must be disclosed in order for the financial statements to be properly understood. These disclosures need to be included in the financial statements. If they were all reported in one place rather than dispersed throughout many statements, schedules, and notes that are included in financial statements, it would be more beneficial to the reader of those statements. Any adjustment to an accounting policy that has a significant impact has to be notified. To the extent that it is possible to determine it, the amount by which each item in the financial statements is impacted by the change should also be communicated. When a given number cannot be determined, either completely or in part, it should be stated. If an accounting policy change is made that doesn't have a significant impact on the financial statements for the current period but is likely to have one in the future, the fact of the change needs to be properly disclosed in the period in which it is made [11], [12].

CONCLUSION

The idea of auditor independence is essential to building confidence, responsibility, and the accuracy of financial reporting. In-depth examination of the many facets of an auditor's independence has been done in this article, with a focus on how crucial it is to ensuring that audit opinions are unflinchingly impartial, objective, and devoid of undue influence. The integrity of the auditing profession is maintained by ethical standards and legal frameworks, which form the foundation of an auditor's independence. It is not only a technical necessity; it is also a crucial safety measure that guarantees the reliability of financial information for stakeholders like creditors and investors. The report has emphasised the difficulties and complications surrounding the independence of auditors, including dangers to independence resulting from financial interests, strong client connections, and the provision of non-audit services. These difficulties highlight the need of attention, openness, and regulatory monitoring to reduce risks and preserve public confidence. And just as important as real freedom is the idea of independence. Auditors must be trusted by stakeholders to be impartial and free from conflicts of interest. In order to prevent even the impression of compromised independence, auditors and audit firms must not only abide by ethical norms but also be open about their policies and practises. , the idea of auditor independence is more than just a formality; it forms the basis of financial responsibility and transparency. The purpose of this essay was to provide light on the challenges and requirements of maintaining auditor independence. By preserving the independence principles, auditors, audit firms, regulatory authorities, and organisations may all work together to create a financial ecosystem that is based on accuracy, investor confidence, and trust, therefore promoting a stronger and more resilient global economy.

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CHAPTER 4

PREPARATION METHODS FOR AN AUDIT: AN OVERVIEW

Aditya Kashyap, Assistant Professor
Department of ISME, ATLAS SkillTech University, Mumbai, Maharashtra, India
Email Id- aditya.kashyap@atlasuniversity.edu.in

ABSTRACT:

Organizations must go through a crucial procedure to guarantee a smooth and effective audit engagement: preparation. This abstract looks at the main factors and things to think about while getting ready for an audit, highlighting how important it is to have accurate and dependable financial reporting. It looks at the obligations of both auditees and auditors, emphasizing the need of open and honest communication throughout the process. The need of having strong internal controls, documentation, and conformity with accounting standards in place prior to the audit is also covered in the paper. This abstract emphasizes the importance of careful planning in minimizing interruptions, addressing possible concerns proactively, and ultimately supporting a pleasant audit experience via case studies and worldwide trends. It highlights the joint accountability of auditors and auditees for maintaining the accuracy and reliability of financial reporting and making sure that audits are carried out properly and efficiently.

KEYWORDS:

Accountancy, Compelled, Financial Reporting, Statutory.

INTRODUCTION

Accountancy and auditing are noble professions, and the behaviour of their practitioners is controlled by a set of principles. Chartered accountants are not permitted to recruit customers under one of the regulations. Clients are responsible for locating their own auditors. Anyone or any organisation that needs the services of a professional accountant for the audit of the accounts or for any other reason is referred to as a client. Individuals, partnership firms, businesses, organisations, clubs, trusts, co-operative societies, the government, etc. may all be clients. Of these, only businesses, cooperative societies, and registered societies are now required by law to have their finances audited. The appointment of auditors and their responsibilities in certain situations are governed by the relevant legislation. In all other circumstances, it is a contractual issue. If the auditor is willing to take on the task, he outlines his conditions once the customer informs him of the kind of service he needs. If he accepts the task within the terms of the agreement, according to professional standards, he must sign an agreement.

Customers that are not statutorily compelled to have their accounts audited could also need their accounts prepared for tax returns, their sales tax returns checked, etc. There may be confusion over the precise scope of the task; the auditor may believe that his only obligation is to create accounts, while the customer may believe that the audit of accounts is also included. Therefore, it is crucial for both the auditor and the client to understand the nature of the engagement; it must be put in writing and should precisely explain the scope of the activity. The auditor notifies his client of the aim and scope of the audit, the extent of his obligations to the client, and the format of the report in an audit engagement letter. On the matter, the ICAI has released AAS 26. A written engagement letter is in the best interests of both the auditor and the client since it greatly reduces the likelihood of misunderstanding. Additional safety measures are required in the event of partnerships. The partnership deed often regulates the auditor's appointment. When a company or a partner of a company approaches the accountant about taking on a professional assignment, the accountant should first understand the nature of the service that is needed and then confirm that his appointment is legitimate by consulting the partnership agreement's conditions. Above all, he should keep in mind that all partners, jointly and severally, are his customers, even if he may have only been selected by one of them if so, as permitted by the partnership agreement. He must ensure that the partnership deed's accounting requirements have been effectively implemented and that none of the partners' personal interests have been negatively impacted. The auditor may choose not to send a fresh engagement letter on each occasion of a recurrent audit. However, the below circumstances could necessitate sending a fresh letter:

1. Any sign that the customer doesn't grasp the audit's goal or scope.
2. Any altered or unique engagement terms.
3. A recent change in the ownership, board of directors, or senior management.
4. A substantial shift in the scope or character of the client's business.
5. Changes to the Institute of Chartered Accountants of India's legal requirements or pronouncements.

Acceptance of a Change in Engagement:

An auditor should think carefully about whether it is acceptable to amend an engagement before it is complete in order to give a lesser degree of confidence. A change in circumstances that affect the need for the service, a misinterpretation of the audit or related service that was initially requested, or a limitation on the engagement's scope whether imposed by management or brought on by circumstances can all lead to a client asking the auditor to change the engagement. The auditor would carefully assess the justification for the request, in addition to any potential legal or contractual repercussions of limiting the scope of the engagement. The report produced would be suitable for the new terms of engagement if the auditor determines that there is a legitimate basis to modify the engagement and if the audit work was done in accordance with the AASs relevant to the modified engagement. The report would clarify any ambiguities in order to:

- **(a)** the original engagement; or
- **(b)** any procedures that may have been performed in the original engagement, except where the engagement is changed to an engagement to undertake agreed-upon procedures and thus reference to the procedures performed is a normal part of the report.

The auditor should not agree to a change of engagement where there is no reasonable justification for doing so [1], [2].

DISCUSSION

Again, skill and discretion are needed to choose the best auditing method. Consider the extreme scenario of contingent liability in relation to outstanding lawsuits: the auditor would not have access to any entry or other data for this, making it impossible to verify the estimate of the obligation due to a lack of foundation. In such circumstances, it would be more logical for the auditor to get legal confirmation of the estimate from the company's attorneys. He should also review the case-related communications and speak with corporate representatives about the issue. The auditor would be able to gather pertinent information for calculating the responsibility by looking through the records of any previous comparable lawsuits in which the corporation was engaged. In any situation, the auditor is free to estimate his costs based on comparable cases published in the legal journals. Counting is the typical method for confirming the cash balance, but it is impractical for the cash-in-transit. The auditor must consider any deviations from standard practise in advance, as well as the areas that may be impacted. Such circumstances should be covered by the process in the programme. The auditor should utilise all available evidence, as was previously stressed, but it is not meant to go too far. Evidence gathering may sometimes be expensive in terms of both time and money. In addition to using all available internal information when determining the cost of a structure built by the client, you may be tempted to get an independent valuation certificate from a qualified valuer. This would be a foolish course of action if there were no suspicious circumstances. It would cost the company a lot of money to obtain that evidence for the auditor's satisfaction. It could also cause unwarranted suspicion about the management's sincerity even though the auditor had no evidence to support it. The auditor must approach his work with caution and reason. However, if the circumstances were different, i.e., the auditor was not given information that was sufficient to support the cost paid, it may be imperative for him to demand an independent value [3], [4].

The auditor uses a variety of strategies to gather audit evidence while conducting an audit process. He may need to gather audit evidence from many sources to validate a certain item in the financial accounts, like cash. For instance, while dealing with cash at a bank, it is possible to refer to the bank column in the cash book, the bank reconciliation statement, and then examine the bank statement and pass book. The auditor can also want to get confirmation from the client's asset. The auditor must ensure that the audit evidence gathered from various sources does not conflict with one another during this process and that the advantage gained by gathering more and more audit evidence outweighs the expense of doing so. When designing the audit plan, the possibility of fraud and mistake is eliminated. The auditor should recommend practises and methods with this scenario in mind. Before or during drafting the programme, he may fairly be in a position to concentrate on the areas where this likelihood is rather high by reviewing and testing internal controls and checks. The The auditor's attention should be focused on ensuring the identification of severe mistakes and frauds, both of which have a high likelihood of occurring. Other mistakes that often don't have a big impact might nevertheless be possible and could be detected and found within the usual process of gathering data.

Organization of the steps: It is practical to apply accounting knowledge to put the processes together in the most logical and natural way possible. Fixed assets, such as buildings or pieces of equipment, are closely related to costs for upkeep, repairs, and depreciation. Additionally, purchases are connected to inbound freight, and sales are connected to outbound freight, sales tax, and excise duty. The programme becomes cohesive, thorough, purposeful, and easy to coordinate when related items are grouped together when assembling the procedures and methods. The work can also be conveniently distributed among assistants on the basis of the groupings, for example, the assistant assigned the work in connection with plant and machinery would be responsible for carrying out also the related work, such as repairs and depreciation. The job would flow more smoothly and there would be less chance of an information gap for the particular assistance [5], [6].

Developing the Audit Programme

The auditor should design a written audit programme outlining the steps required to carry out the audit plan. The programme may also include the audit goals for each area, and it should include enough information to act as both a manual for the audit assistants and a check on the accuracy of their work. With knowledge of the accounting system and associated internal controls, the auditor may choose to depend on specific internal controls when developing the audit programme to determine the kind, timing, and scope of necessary auditing operations. The auditor may come to the conclusion that using certain internal controls to perform his audit is an efficient and effective method. However, if there are alternative, more effective methods to acquire enough relevant audit evidence, the auditor may choose not to depend on internal controls. The auditor should also take into account the sequencing of the steps, the coordination of any client help anticipated, the accessibility of assistants, and the participation of other auditors or specialists. In most cases, the auditor has discretion over when to conduct audit processes. However, there are other situations when the auditor may not have any control over time, such as when seeing client employees taking inventories or confirming the securities and cash balances at year-end. The audit planning should ideally start at the end of the previous year's audit and be reviewed for modifications as the audit goes along, along with the relevant programming. This is based on the auditor's analysis of the internal control, his first assessment of it, and the outcomes of his substantive and compliance procedures [7], [8].

Audit Programme

It would be ideal if an audit programme were to be created for each audit, especially for larger audits. Audit programmes are simply a list of examination and verification procedures to be used, laid out in such a way as to clearly show how each step relates to the previous one. These procedures are designed with an eye towards the claims that can be found in the statements of account prepared for the audit or on the basis of an evaluation of the client's accounting records. In other words, an audit programme is a thorough strategy for using audit processes in a particular situation together with guidelines for the suitable methods to be used to achieve the audit goals. Businesses vary in nature, size, and composition; thus, work that is appropriate for one organisation may not be appropriate for another. Additionally, the effectiveness and operation of internal controls, as well as the precise type of the service to be provided by the auditor, differ from assignment to assignment. It is not feasible to develop a single audit plan that is relevant to all businesses in all situations because of these variances. However, it becomes essential to clarify the kind of work to be done in the audit programme so that no time is spent on tasks unrelated to the engagement and any unique issues or unique situations may be handled.

To begin with, an auditor should set up a plan that aims to cover the bare minimum of necessary work, which might be referred to as a standard programme, taking into account the type, size, and composition of the firm as well as the dependability of the internal control and the specified scope of work. As knowledge is obtained via real work, the programme may be changed to address circumstances that were initially omitted but are shown to be pertinent for the specific problem. The same goes for any task that was initially planned but later proved to be useless or needless. The working assistant should be encouraged to maintain an open mind outside of the supplied course. He should be given instructions to take note of and report any important issues that come to his attention to his superiors, the partners, or the owner of the business hired to do the audit.

The audit programme should be periodically reviewed to see if it is effective in acquiring the necessary information and proof about the transactions. If this isn't done, any changes in the client's business strategy might not be properly known, which would allow audit work to continue using an outdated programme. As a result of this negligence, the entire audit might be considered to have been conducted negligently, and the auditor might have to face legal repercussions. For instance, if the audit programme for the audit of a branch of a financing house that was developed a number of years ago fails to take into account that the previous policy of financing a vehicle has been changed to financing of real estate acquisition, the entire audit conducted under it would be completely misdirected and may even turn into nothing more than a farce. Forsyth and others v. Pacific Acceptance Corporation Ltd.

The only way to maintain and improve the audit program's usefulness is to periodically evaluate it together with the client's internal controls and activities in order to identify any gaps or duplications. However, as a fundamental component, an audit programme also includes a few pertinent instructions, such as the scope of the check, the sampling strategy, etc., in addition to a list of the activities that need to be completed. Every assistant assigned to a task should always do the thorough work in accordance with the programme as long as the principle has not formally amended it. Rules directing the work. Many people think that this adds a degree of rigidity to the auditing course. This is untrue as long as the previously indicated periodic review is carried out to maintain the programme as current as feasible and by encouraging the on-the-job assistants to observe all important aspects of the different accounting tasks of the customer.

Methods of Statistical Sampling

The auditor must choose sample items in accordance with AAS 15, "Audit Sampling," such that the sample may be assumed to be representative of the population. To do this, every object in the population must have the chance to be chosen. The selection of specific sample items as well as the sample size are decided using two main techniques. The first two of these techniques are judging sampling and statistical sampling. The sample must be representative regardless of the sampling technique, whether it be statistical or judgmental. This implies that, although it need not be precisely the same, it must be comparable to the whole population. The sample must be large enough to provide statistically significant findings. Discretionary Sampling With this approach, the auditor's own expertise and experience are used to decide the sample size and its makeup. Due to the ease of use of this technology, it has been widely used for many years. The size of the sample is traditionally determined by the auditor based on his own experience, and is expressed in terms of the number of pages or personal accounts in the purchases or sales ledger to be verified. For instance, you may choose March, June, and September in year one while choosing alternative months in year two.

An effort would be made to avoid developing a pattern of selection year after year in order to preserve a sense of surprise over the auditor's intended inspection. A lot of things are often checked at the end of the year so that the effectiveness of the cut-off processes may be assessed. The argument against the judgemental sample is that it is neither objective nor scientific. In judgemental sampling, the desired level of objectivity cannot be guaranteed since the possibility of personal bias in the selection of sample items cannot be completely excluded. Because the sample was not chosen using mathematically based statistical approaches, it is impossible to quantify how closely the attributes predicted by the sample findings match those of the whole population. It may be argued, however, that the auditor, with his expertise and understanding of the client's company, can analyse the sample results correctly enough to make audit decisions, and that, in certain circumstances, the mathematical confirmation of correctness may be a luxury that the auditor cannot afford.

In judgemental sampling, the sample size is decided by the auditor's judgement, but the extent to which the sample size would satisfy the audit goal cannot be quantified. The sample findings from statistical sampling may be evaluated in terms of the sufficiency and dependability of the audit goals. Sample size calculations: Because statistical sampling uses mathematical principles of probability to calculate the right sample size in various situations, it is a type of audit testing that is more scientific than testing just based on the auditor's personal judgement. When a population to be tested has a large number of comparable things, statistical sampling may be used in a variety of situations. This is especially true when it comes to transactions requiring compliance testing, debtors' confirmation, payroll checking, vouching for invoices, and petty cash vouchers. Students may observe that the auditor does not need to have a thorough understanding of statistics priorusing statistical sampling for audit testing since there are published statistics tables that provide the sample size based on pre-established standards.

Materiality and Audit Risk

When performing an audit, the auditor is required by AAS-13 on "Audit Materiality" to take materiality and its connection to audit risk into account. It states that information is significant if a false statement (such as an omission or inaccurate statement) has the potential to affect the economic choices users make based on financial information. Materiality is determined by the item's size and nature, as determined in the specific conditions of its false assertion. As a result, materiality serves as a cut-off point rather than the fundamental qualitative quality that information must possess to be helpful. It emphasizes that professional judgement must be used when determining what constitutes material.

The audit should be prepared in a way that keeps audit risk at a manageable level. The auditor should determine the amount of detection risk that he is willing to bear after evaluating the inherent and control risks, and then, based on his assessment, choose the appropriate substantive audit techniques. If the auditor doesn't carry out any significant processes, there is a high chance that they won't catch a misstatement, which is known as a high detection risk. The auditor lowers the detection risk by carrying out substantial processes; the lower the detection risk, the more thorough the procedures carried out. The kind and timing of substantive processes will also have an impact on the detection risk; for instance, procedures that are completed closer to year-end will have a lower detection risk than those that rely on internal data.

Throughout an audit, the auditor's estimation of the audit risk might fluctuate. For instance, while preparing for the audit, the auditor can think that his inherent and control risk is low based on his estimation of the likelihood that mistakes would occur as well as his examination and testing of the internal control system. However, the auditor can come to the conclusion that his initial estimate was too low after carrying out audit processes. In this situation, he will need to conduct extra audit processes in order to lower the amount of detection risk and maintain the intended level of audit risk.

Surprise Checks

According to the Guidance Note on "Surprise Checks," the surprise checks also play a significant role in regular audit operations. Audit processes must be permitted to evolve in the light of experience with respect to the circumstances of each audit rather than being simply a collection of rules or precepts to be implemented in all situations. Wherever possible, an element of surprise should be integrated into the audit plan since it may greatly increase an audit's efficacy. The element of surprise in an audit may be present in both the choice of the day the auditor visits the client's office to conduct the audit and the choice of the items that will be subject to the audit.

The primary goals of surprise checks are to examine the efficiency of the internal control system and the consistency and accuracy of the accounting and other records. An accounting system that does not place enough emphasis on the need of keeping the accounts up to date has often been discovered to promote manipulations and frauds. Bookkeeping mistakes often point to internal control flaws that may be used to commit fraud or other types of manipulation. Surprise checks are an effective way to find out whether or not such problems exist, and if they do, to quickly bring the issue to the management's notice so that remedial action is made right away. So, the auditor's unexpected visits might provide the client's employees a useful morale boost.

Despite the fact that surprise inspections are typically suitable, they are especially useful when the auditor is dissatisfied with the system of internal control, or when the a very big firm, one with broad activities, or one with many branches, which results in a lack of communication between top management and the many people in charge of the company's operations at various locations. In relation to certain goods, such as cash, investments, shops and stocks, statutory registers often needed to be reviewed for audit reasons, etc., surprise inspections are also very pertinent. They are also very important for ensuring that the key entry books, such as the cash book, sales and purchase journals, etc., have been kept current. Surprise checks, test checks, and other types of checks are crucial while using an EDP system to make sure the programmes are functioning properly.

It goes without saying that the need and frequency of surprise inspections must be determined in light of the specifics of each audit. Whether or whether the auditor views the internal control system as acceptable will depend on the kind of client transaction, the locations from which he does business, and the relative significance of things like cash, investments, shops, etc. However, a surprise check should be done at least once throughout an audit whenever it is practical to do so. The auditor of a corporation is chosen at the annual general meeting and serves until the next annual general meeting. He is not appointed for a certain fiscal year.

As a result, insofar as it is required for the purposes of his report, he has the right to examine the company's finances and records at any moment throughout the time period covered by his appointment. Therefore, he is permitted to do unexpected checks on transactions that occurred after the end of the accounting year for which he is reporting. Since surprise checks are a regular element of auditing, the auditor himself will be most interested in the findings when determining the scope of his audit and delivering his report on it. The auditor should inform management of any weaknesses in the internal control system, fraud, errors, or the fact that any book or register has not been properly maintained or kept up to date if the surprise check reveals any of these things. He should also make sure that action is taken in response to his communication. The auditor's report on the accounts does not automatically follow that all or any of the issues raised to the management should be included. Each auditor must determine, in light of the specifics of each case, whether the items should also be included in the auditor's report on the accounts. He must weigh a number of factors before making his choice, including the size of the sums at stake, the extent to which the accounts being reported on are impacted by the issues he raised in his report to management, and whether the error or deficiencies pointed out have been corrected [9], [10].

CONCLUSION

The proactive and planned process of audit preparation is crucial for assuring the accuracy, dependability, and effectiveness of the auditing process. The importance of preparation for an audit has been highlighted in this study, underlining its crucial role in attaining good audit results. It is the duty of both the auditor and the auditee to prepare for an audit, working together to ensure a successful and efficient audit engagement. The guiding concepts of this approach are open communication, teamwork, and transparency, which enable auditors to obtain a thorough knowledge of the organization's financial systems, controls, and operations. The necessity of having strong internal controls, well documented processes, and conformity with accounting standards in place before the audit starts has been emphasised in this article. These components not only improve the accuracy of financial reporting but also reduce interruptions during the audit, making the process more productive and efficient. A proactive approach to identifying and resolving possible problems, hazards, and areas of concern is another component of audit preparation. Organisations may reduce risks, address flaws, and guarantee a smooth audit by undertaking internal reviews, risk assessments, and self-audits. As a result, the process of getting ready for an audit is not just a formality; rather, it is a crucial part of financial control. It creates the groundwork for an audit experience that is constructive and cooperative, eventually enhancing the accuracy and dependability of financial reporting. Organisations may protect the integrity of their financial systems, inspire trust in stakeholders, and guarantee that audits are carried out effectively and efficiently by investing in extensive and attentive preparation.

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CHAPTER 5

A BRIEF DISCUSSION ON INTERNAL CONTROL OF AUDIT

Neha Nitin Karnik, Associate Professor
Department of ISME, ATLAS SkillTech University, Mumbai, Maharashtra, India
Email Id- neha.karnik@atlasuniversity.edu.in

ABSTRACT:

An essential part of organisational governance and risk management is internal control. This abstract examines the idea of internal control, as well as its fundamental concepts, goals, and crucial function in preserving assets, guaranteeing compliance, and fostering operational effectiveness. It looks at the essential components of a strong internal control architecture, such as monitoring, information and communication flow, risk assessment, and control actions. In addition, the article emphasises how crucial internal controls are for avoiding fraud, spotting mistakes, and ensuring financial accuracy and accountability. This abstract emphasises the value of efficient internal control systems in organisations of all sizes and industries via case studies and worldwide trends. It emphasises that in order to reduce risks and accomplish organisational goals, management, staff, and auditors must all work together to build and maintain reliable internal controls.

KEYWORDS:

Administration, Auditors, Internal Control, Maintain Reliable.

INTRODUCTION

Control is a fundamental human need that has always been present in many parts of human life. The process of doing business is complicated and has become more so as society's use of technology has advanced. Internal control's formalisation in the context of corporate administration is a relatively new development. Control is a common tool in the business world for making the best use of opportunities and resources to maximise earnings. All company processes are supported by equipment and human agents; both of these components need supervision to ensure that the duties assigned to them are completed correctly and that unnecessary wastes and losses do not occur and consume the enterprise's profits. A huge industrial organisation does not need the same internal controls that a solo operator of a small firm does. A small business owner with a food store seldom ever requires more than one or two helpers. He chooses the tasks that the helpers will do. He is constantly aware of his current stock, cash, and bank balance. He is knowledgeable with everyday sales. He is aware of the suppliers for buying. He plans the transportation and purchasing. He maintains a list of the creditors and debtors. The helpers only aid him in delivering things to clients or organising them in the right sequence [1], [2].

From the above, it can be seen that there is no considerable distribution of tasks and that power is totally centralised with the owner. However, when the company expands in size, the owner quickly finds himself unable to remain fully informed about the intricate workings of his company, the actions of his staff, and the fulfilment of their duties. He must hire more and more employees to handle the growing scope and volume of the firm, and he must assign each employee specific responsibilities in order to run it efficiently. He must also depend on these individuals for remote operations in order for them to complete the task and maintain the resources, records, and equipment that have been entrusted to them. Additionally, he must guarantee that the tools and facilities are kept in good condition. For this reason, he has to create an organisational structure that will enable him to understand the general scope of the job involved and the individuals in charge of it. For the simple reason that people shouldn't come to him for advice or decisions on everything and everything, he also has to develop a plan of delegation of tasks and power. Otherwise, he wouldn't have time to devote his attention to topics that are more important. Human conduct is such that if it is not governed or controlled in some way, it often veers from the correct course. Not only must it be continuously monitored to ensure that the Employee does his duties, but also ensures that he follows the prescribed procedures and handles the tools and materials with care [3], [4].

DISCUSSION

A system of internal control is described as "the plan of organisation and all methods and procedures adopted by the management of an entity to assist in achieving management's objective of ensuring, to the extent practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, prevention and detection of fraud, and other irregularities" in AAS-6 (Revised), titled "Risk Assessment and Internal Control". The internal control system encompasses more than just issues that are directly related to how the accounting system operates. The internal audit function is a distinct internal control function with the goal of assessing the effectiveness and efficiency of other internal controls. Internal control's goals: In regard to accounting systems, AAS-6 states the following internal control goals:

1. Transactions are carried out in line with general or special authorisation from management.
2. in order to enable the preparation of financial information within the parameters of acknowledged accounting policies and practises and relevant statutory requirements, if any, and to maintain accountability for assets, all transactions are promptly recorded in the correct amount in the appropriate accounts and in the accounting period in which executed.
3. The protection of assets against illegal use, access, or disposal.
4. At regular intervals, the recorded assets are compared to the existent assets, and any discrepancies are addressed with the necessary course of action.

Internal Check

Internal checks are described as "checks on daily transactions that operate continuously as part of the routine system whereby the work of one person is proved independently or is complementary to the work of another, with the object being the prevention or early detection of errors or fraud" by the Institute of Chartered Accountants of England and Wales. Internal checks function as a built-in device when it comes to the staff structure and work allocation parts of the control system and are a component of the total internal control system. A system of internal check in accounting is setting up the bookkeeping process and staff responsibilities such that no one person can handle a transaction from beginning to end and record every detail of it. The crucial components of an internal check system for commodities are:

(i) Existence of checks on the day-to-day transaction.
(ii) Which operate continuously as a part of the routine system.
(iii) Whereby the work of each person is either proved independently or is made complementary to the work of another.

Its goal is to stop fraud, waste, and mistakes as well as to hasten their identification. The system is based on the idea that when each employee in an organisation has their performance regularly and automatically checked by another, the likelihood of errors occurring or going undetected is significantly decreased. It also assumes that when two or more people must essentially work together to receive or make a payment, there is a lower likelihood that they will commit fraud.

Let's take the straightforward scenario of a trading firm, for example. A cashier would be there to take payments and provide receipts. Separate individuals would be assigned to write the cash book and There would be a vast number of officials who would maintain ledgers, the storekeeper's accounts, and other things. In this type of organisation, in order to complete a sale, a bill must first be prepared, reviewed by the sales manager, and then approved. The cashier then collects the sale price, and the storekeeper releases the goods once he is satisfied that each functionary before him has completed their respective tasks. This separation of duties is based on the general idea that those who have physical custody of assets shouldn't have access to the financial records. In addition to accounting control, essential assets' physical and financial records should be frequently reconciled. The cost and time considerations together place a limit on the statutory or professional audit's scope.

Therefore, it is becoming clearer that the presence of an internal check system is necessary for an audit to be successful, particularly when the size of a concern is significant. The auditor may depend on it and, given that, lower the amount of comprehensive checking that has to be done by him, but only after he has verified its efficacy by using procedural tests. However, it must be noted that even if the statutory auditor tested the internal check before he accepted it as accurate, he may still be held liable for negligence if a mistake or fraud is later found in the area of the accounts that he has accepted as accurate [5], [6].

Internal Audit

It is an examination of the operations and records carried out by specifically designated staff members inside a firm, sometimes continually. Internal audit and internal check, however, should not be confounded. An internal check is a collection of rules or processes that are implemented as a part of the accounting system to verify that a business's accounts are accurately kept and that the potential of fraud and mistake is completely removed. The goal of internal audit, on the other hand, is to reassure management that the accounts are being properly maintained, the system has adequate safeguards in place to prevent any revenue leakage or asset misappropriation, and the operations have been carried out in accordance with the management's plans. Internal audit entails a thorough examination of both the accounting transactions and the system by which they have been recorded.

However, the basic procedures used to conduct an internal audit are much the same as those used to conduct a professional audit. Internal audit, however, often varies from external audit in terms of focus and scope: it is more managerial than accounting, and its format might vary depending on the size of the business. For instance, an internal auditor is furthermore required to guarantee that the standards of economy and efficiency are being maintained, while a professional auditor is mainly concerned with the legality or legitimacy of transactions engaged into by a corporation. In light of this, the internal auditor Verify that orders for the purchase of stock are only placed after inviting bids, that sales are carried out at the highest permitted rates, that standard operating procedures regarding staffing requirements are followed, that manufacturing process losses experienced during the review period are not greater than those in the prior periods, and so forth. Additionally, he must check that there have been no losses in revenue or inventory, overpayment of expenses, theft or misappropriation of inventory or any other asset, and a physical balance that matches the accounting records must exist. The kind and scope of the checks he should do would also depend on the size and structure of the company organisation [7], [8].

Relationship between the Statutory and the Internal Auditors

Since an internal auditor's job is a crucial component of the system of internal controls, a statutory auditor is required to review the scope and efficiency of the internal auditor's work. Students should be aware that the statutory auditor is obligated to comment on the internal audit system under the Companies (Auditors Report) Order, 2003, as modified in November 2004, which was issued under section 227(4A) of the Companies Act. He should assess the structure of the Internal Audit Department, the size of the internal audit employees, their training, and their authority for this reason. The processes should then be examined, and the extent of the audit examination should be determined by looking at the audit programmes, reports filed, and issues mentioned in the audit and how they were resolved afterwards. The internal auditor's level of independence in carrying out his responsibilities and his position inside the business are crucial variables in figuring out how successful his audit will be. It is becoming more and more apparent in large businesses that if their roles and those of statutory auditors could be integrated, it might not be necessary for the statutory auditors to review the same facts and figures that have already been examined by a skilled and reliable internal audit staff. However, thus far, statutory auditors have benefited greatly from the practise of audit being undertaken jointly by the internal auditors.

When the statutory auditor determines that the internal audit has been efficient and effective after reviewing the work of the internal auditor, he frequently decides to scale back his audit programme by forgoing some of the thorough checks already performed by the internal audit department after or without testing the work already completed. He sometimes chooses to delegate certain tasks to the internal auditor. The elements of audit work for which the statutory auditor accepts the internal auditor's prior checking are listed below.

- **(i)** Verification of the system of internal control
- **(ii)** Verification of assets, e.g., stock in trade, fixed assets, book debts, etc.
- **(iii)** Verification of amounts provided for expenses as well as amounts adjusted as prepaid expenses.

However, it must be noted that the scope of cooperation between the statutory auditor and the internal auditor is constrained by the fact that the two owe their loyalty to different authorities the shareholders in the case of the statutory auditor and the management in the case of the internal auditor, respectively. As a result, the former is not shielded from any culpability for negligence that could develop in such a situation.

Coordination

After deciding in principle that he will rely on the internal auditor's work, the external auditor should find out the internal auditor's preliminary plan for the year and talk with him about it as early as possible to determine areas where he thinks he could rely on the internal auditor's work. It is preferable to plan in advance the timing of such work, the extent of audit coverage, test levels, and proposed methods of sample selection, documentation of the work performed, review, and reporting procedures. This is because internal audit work may be a factor in determining the nature, timing, and extent of the external auditor's procedures.

Meetings conducted at suitable intervals throughout the year generally result in better coordination with the internal auditor. It is preferable that the external auditor be informed of and have access to pertinent internal audit reports as well as be kept updated, along with management, on any significant issue that comes to light and that the internal auditor believes may have an impact on the external auditor's work. The internal auditor should typically be informed by the external auditor of any substantial issues that may have an impact on his career. The external auditor should assess the internal auditor's work while taking the following considerations into account when, after the general evaluation, he plans to use particular internal audit work as a foundation for changing the type, timing, and scope of his operations.

1. The scope of work and associated audit programmes are sufficient for the objective of the external auditor.
2. The job was properly planned, reviewed, and recorded, as well as the work of the helpers.
3. Enough relevant material was gathered to provide a solid foundation for the findings reached.
4. The conclusions drawn are reasonable given the facts, and any reports created are consistent with the findings of the work done.
5. Any anomalies or unexpected situations that were revealed by the internal auditor's processes have been satisfactorily addressed.

The external auditor should write down his findings with regard to the particular work that he has examined. The internal auditor's work, which he plans to depend on, should also be tested by the external auditor. The kind, time, and scope of the external auditor's tests will rely on his assessment of the area's importance to the financial statements as a whole, as well as the findings of his appraisal of the internal audit function and the particular internal audit activity. His examinations could include looking over things that the internal auditor has previously looked over, looking over things that are comparable to those things, and seeing how the internal auditor works [9], [10].

CONCLUSION

An essential component of risk management, financial integrity, and organisational governance is internal control. This essay has looked at the internal control's many facets, highlighting how important it is for protecting assets, maintaining compliance, and improving operational effectiveness. A solid internal control system that is well-designed and well-implemented is the basis for accurate financial reporting, risk reduction, and the avoidance of fraud and mistakes. It includes a variety of risk assessments, information and communication procedures, control activities, and monitoring tools that all work together to make an organisation successful. The study has emphasised the significance of an effective internal control culture, where control duties are dispersed across all organisational levels and workers are given the freedom to actively participate in risk management. Internal control is a philosophy that pervades an organization's activities, not just a collection of rules and procedures. Internal control must also alter to keep up with changing risks, adjustments to the business environment, and improvements in technology. The efficacy of internal control mechanisms must be continually monitored, assessed, and improved. Internal control is an essential component of organisational governance, not a standalone task. A strong internal control structure must be established and kept up-to-date by management, staff, and auditors working together as a team. Organisations may improve their financial accuracy, accountability, and resilience in the face of risks and difficulties by placing a higher priority on internal control, which ultimately helps to ensure their long-term success and sustainability.

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CHAPTER 6

VERIFICATION OF ASSETS AND LIABILITIES: AN ANALYTICAL REVIEW

Sweta Kumari, Associate Professor
Department of ISME, ATLAS SkillTech University, Mumbai, Maharashtra, India
Email Id- sweta.kumari@atlasuniversity.edu.in

ABSTRACT:

For the correctness, dependability, and openness of an organization's financial accounts, the verification of assets and liabilities is a crucial part of financial auditing and reporting. This abstract explores the idea of asset and liability verification, along with its goals, procedures, and role in financial governance. It examines the crucial role auditors play in confirming assets like cash, goods, and investments as well as liabilities like loans, bonds, and commitments. The significance of reconciliation, substantive testing, and audit evidence in the verification process are also discussed in the study. This abstract highlight the need of rigorous asset and liability verification in reducing risks, avoiding fraud, and maintaining the integrity of financial reporting via case studies and worldwide trends. In order to increase investor trust and organizational accountability, it emphasizes the joint duty of auditors, management, and stakeholders in ensuring that assets and liabilities are appropriately reflected in financial statements.

KEYWORDS:

Assets, Commitment, Liabilities, Verification.

INTRODUCTION

The practice of calculating the provision for depreciation on historical cost (i.e., the original cost of fixed assets), which had previously prevailed, has been criticised in recent years due to an abnormal rise in the price level, and it has been suggested that instead, accountants should adopt the replacement cost basis. It has been argued in favour of such a viewpoint that because of the increase in price, replacement costs of assets have increased to the point where the depreciation provision, calculated based on the original costs, does not leave the business with enough money to replace its fixed assets. Depreciation must thus be calculated appropriately on the updated book value of the assets when financial statements are issued using a basis other than historical cost basis. Fixed asset revalued amounts are reported in financial statements by either restating the gross book value and accumulated depreciation to give a net book value equal to the net revalued amount or by adding the net increase on account of revaluation to the net book value.

The cumulative depreciation that existed at the time of the revaluation cannot be credited to the profit and loss statement as a result of an upward revaluation. Additionally, a rise in net book value resulting from the revaluation of fixed assets is often immediately attributed to owner's interests under the title of revaluation reserves and is viewed as not being available for distribution. A decrease in net book value resulting from the revaluation of fixed assets is charged to the profit and loss statement, with the exception that it may occasionally be offset by an earlier increase in the revaluation reserve if it is thought to be connected to the earlier increase. Sometimes an increase that has to be documented reverses a decline that was previously recorded in the profit and loss statement due to revaluation. In this scenario, the increase is credited to the profit and loss statement to the degree that it makes up for the previously recorded decrease. The difference between net disposal proceeds and net book value upon sale of a previously revalued fixed asset is typically charged or credited to the profit and loss statement; however, to the extent that such a loss is related to an increase that was previously recorded as a credit to revaluation reserve and which has not been subsequently reversed or utilized, it is charged directly to that account. Following the retirement or sale of an asset that is related to that asset, the remaining amount in the revaluation reserve may be moved to the general reserve [1], [2].

Depreciation AS-6 Accounting rules provide that when depreciable assets are revalued, the depreciation provision must be based on both the revalued amount and an estimate of the assets' remaining useful life. It may be unclear whether the increased depreciation needed as a result of the revaluation may be charged to the profit and loss account or adjusted against the revaluation reserve. The corporation will have to submit the depreciation on the entire book value of fixed assets in accordance with the requirements of Part-II of Schedule-VI to the Companies Act of 1956. assets (including the revalued amount's enhanced value). However, only depreciation related to the historical cost of the asset is to be given out of the present profit of the firm for specific statutory purposes, such as dividends, management salary, etc. In light of these two considerations, the guidance notes on "Treatment of Reserve Created on Revaluation of Fixed Assets" states that the company can first charge depreciation on the total book value of the fixed assets (including the increased amount as a result of revaluation) in the profit and loss account of the relevant period, and then the company can transfer an amount from the revaluation reserve that is equal to the additional depreciation. Such a transfer from the revaluation reserve has to be noted appropriately in the notes to the accounts and separately indicated in the profit and loss account [3], [4].

DISCUSSION

Amounts allocated from profits that are not intended to cover any obligation, commitment, contingency, or decline in the value of assets that were known to exist as of the balance sheet date are referred to as serves. Contrarily, provisions are sums deducted from income in order to cover:

- **(i)** Depreciation, renewal or diminution in the value of assets.
- **(ii)** A known liability, the amount whereof cannot be determined with substantial accuracy.
- **(iii)** A claim which is disputed.

Provisions also include sums given or transferred from earnings to make up for the decline in assets' values caused by some of them having been lost or destroyed owing to a natural disaster or certain debts having shown to be unrecoverable. Ordinarily, before determining the amount of profit, provisions are charged to the profit and loss account. Reserves are payments made from profits.

The distinction between the two is that provisions are sums put aside to cover particular obligations of asset value decrease. Regardless of whether or not the company has made any money, they must be covered. A provision must be written back or credited to a reserve account if it exceeds the amount deemed required. In light of this, Part III of Schedule VI to the Companies Act of 1956 provides that a provision in excess of the amount specified, under the Companies Act of 1956, according to the directors, should be classified as a reserve if it is deemed to be reasonably essential for the purpose. Reserves are made up of funds allocated from earnings that are kept to balance the company's dividends from one period to the next, finance the company's growth, or otherwise enhance the company's financial position. The net worth of the firm based on the book values of its assets as of that date may be determined by looking at the balance sheet of a company at a certain moment and subtracting the total obligations to outside creditors from the value of assets represented therein. It will be made up of the capital that the shareholders have contributed as well as the total undistributed profit that is either retained in reserves or to the credit of the profit and loss account; the reserves themselves will be divided into capital and revenue reserves. It should be noted that asset valuations have an impact on the size of reserves. If they are too high, the true reserve could not even exist or might be less than the amount that is shown on the balance sheet. Revenue reserves are profits that are currently available for distribution to shareholders or for any one or more purposes, such as to supplement divvy-up profits during lean years, to finance a business expansion, to boost working capital, or to generally improve the financial position of the company [5], [6]. A capital reserve, on the other hand, represents surplus or profit realised from a specific type of transaction, such as the sale of fixed assets above cost, the issuance of forfeited shares, or the realization of balances that the directors do not consider to be eligible for dividend distribution through the Profit and Loss Account due to their origin or the purposes for which they are held. Students should be aware that, according to AS-5, profits or losses from the sale of fixed assets must go via the profit and loss statement, even if they may be shown separately.

The definition of capital reserve in Part III of Schedule VI to the Companies Act of 1956 states that it is a reserve that excludes any money that is thought to be available for distribution via the profit and loss account. As a result, the description would, in the strictest sense, only refer to the share premium, capital redemption reserve, development rebate reserve, and profit on the reissue of forfeited shares. In certain cases, capital profits which reflect surpluses gained on the sale of assets, profit on the redemption of debentures, and the like can be dispersed as dividends. Therefore, legally speaking, they do not constitute capital reserves in all situations or at all times since conditions might vary from year to year. It should also be emphasised that a reserve would qualify as a capital reserve if a firm appropriates revenue earnings to be credited to the asset replacement reserve with the intention that they would be utilised for a capital purpose. Generally speaking, a capital reserve may be used to issue bonus shares if it is realised, write down false assets or losses, or both (subject to limitations in the Articles). However, the amount of the share premium or capital redemption reserve account may only be used for the purposes listed in Sections 78 and 80 of the Companies Act of 1956, respectively. Students should also be aware that the amount of capital and income reserves must be presented separately in accordance with the format required for the Balance Sheet in Schedule VI. Additionally, a separate capital redemption reserve and share premium account are required. Additionally, the type and amount of any additional revenue reserves, as well as the remaining balance in the Profit and Loss Account, must be stated. Should be subtracted from the revenue reserve if in debit.

The total amount put aside or planned to be set aside for reserves, if substantial, must also be declared in the profit and loss statement, according to clause (viii) of Part II of Schedule VI. Similar sums taken from reserves should be notified if they are significant. Reserves may either be kept in the company and used as working capital, or they can be invested in marketable securities outside the company. Undistributed gains should stay in the company to the degree that more money may be used efficiently and productively there. When used in this way, they would provide a better return than they would if they were put in the stock or debt of another firm. For the purpose of redeeming debentures, reserves should be invested in securities that are readily realisable and whose prices are not subject to significant fluctuations. This applies to both the portion of profits that cannot be used productively within the business and the portion that must be invested outside the business due to a legal obligation. Only when a reserve's value is invested outside of the company and is represented by easily realised assets may the phrase "Reserves Fund" be used to describe the reserve. Secret or concealed reserves are those that are not declared in the balance sheet. The following methods may be used to build secret reserves:

(i) By writing down fixed asset more than what is necessary.
(ii) By writing off capital expenditure as though it were revenue.
(iii) Under-valuation of stock-in-trade.
(iv) By making an excessive provision for bad debts.
(v) By making an excessive provision for contingencies or by continuing to carry forward provision even when they are not required.

There were no limitations on the construction of secret reserves prior to the Companies Act of 1956, with the exception that once hidden reserves were reintroduced into accounts, it was essential to report the amount subtracted from such reserves. It is no longer possible for a company to establish a secret reserve due to the provisions in Part III of Schedule VI to the Companies Act, 1956, which mandate that a provision for depreciation, renewal, or diminution in the values of assets and that in respect of a known liability which, in the opinion of directors, is in excess of the amount which is reasonably necessary for the purpose, should be credited to a Reserve. Students interested in learning more about the circumstances that led to the adoption of limitations on the development of secret reserves may read the judgement in the case Rex vs. Kylsant and Moreland.

Specific Reserves

Out of the company's earnings, a certain reserve is made for a specific purpose. Any objective related to the company that the Articles of Association or the Directors want may be the goal. Be planned for, including the equalisation of dividends, the replacement of fixed assets, organisational growth, potential future income tax liabilities, etc. Even if the relevant sums are recorded under designated headings, they may still be distributed as dividends upon the directors' proposal, but only with the consent of the shareholders since they were produced by the appropriation of earnings Since some of the items for which specific reserves are created may also appear to be covered by a charge against revenue, such as a provision for bad and doubtful debts running concurrently with a reserve for bad and doubtful debts or a provision for repairs and renewals running concurrently with a reserve for an identical purpose, there may be some confusion. The sole difference between the two is whether it is an appropriation of profits or a charge against revenue. Existence of profit is required to develop any particular reserve. Unless it is held for a general purpose, in which case it becomes a general reserve, any amount that the directors choose to maintain or that the Articles compel the business to retain above and beyond provision, required for a true and fair statement of profit, is a particular reserve.

In most cases, dedicated reserves are established to satisfy the requirements of the Articles of Association or in line with a Board resolution to address a specific scenario that may develop in the future. Additionally, some of the particular reserves could be mandated by legal or contractual responsibilities. A prime example of the former is the fund for debenture redemption, while a prime example of the latter is the development rebate reserve, which is required in order to benefit from the development rebate's income-tax benefits. These particular deposits acquire the characteristics of capital reserves.

Valuation of Assets

Fixed assets, such as land, buildings, equipment, and other items, are purchased for commercial purposes with the intention of generating income during normal company operations. Except for land and goodwill, almost all fixed assets experience depletion or exhaustion as a result of time's flow and our use of or exploitation of them. Additionally, practically all assets are susceptible to impairment when their future recoverable value is taken into account. In contrast to other assets, which lose value via usage or obsolescence, mines and quarries are famous instances of the category of assets referred to be wasting assets, meaning that their value declines during exploitation. Floating assets are those that are created via trade or manufacturing operations or those that are purchased with the intention of reselling them for a profit. All of them, such as stock-in-trade, book debts, bills receivable, etc., are readily converted into cash in the usual course of business.

Fixed Assets

Fixed assets are included at cost minus depreciation and impairment loss on the balance sheet. The total cost of an asset comprises all expenses used to create and maintain the asset. As items are not meant to be sold, it would be inappropriate to value them at their retail price. The volatility in market prices, even when they are long-term, is disregarded for the same reason. These might cause the expense to be under- or over-allocated if they were considered. If a government grant was received in regard to a particular fixed asset, the grant may either be viewed as deferred revenue that is reported in the profit and loss account or it can be represented as a reduction from the asset's loss.

Wasting Assets

The Companies Act of 1956 lacks an explicit mechanism to lower the value of wasting assets, more out of habit than financial need. In the case Lee v. Neuchatel Asphalt Corporation Limited, the Court took into consideration this issue for the first time, and it was decided that a corporation did not need to give depreciation on waste assets to determine how much profit it may share. However, it cannot be argued that despite being used continuously, the worth of wasted assets stays unchanged.

In response to this argument, the Institute of Chartered Accountants in England and Wales suggested as early as 1944 that allowances for depreciation or depletion be made for all wasting assets, including mine, based on the anticipated physical exhaustion that occurs. The required amount may be found by calculating the ratio between the annual output quantity and the total quantity that the mine is anticipated to produce throughout the course of its usual operational life. Such a calculation should use the refined produce's unit rather than the raw produces. According to the Company Law Board's explanation, it seems that even squandering assets must be for the purposes of Section 205 of the Companies Act, devalued. Cases in which the Companies Act makes no provision for a rate of depreciation are covered under section 205(2)(d) of the Act. The entire price paid for the lease should ideally be amortised throughout the term of the lease in proportion to the production in each year if a mine has been bought on a lease. This could sometimes seem impossible to do; in such a case, amortization over time might be explored.

Floating resources

The goal is to account for these assets on the balance sheet at their realisable value. Therefore, they are evaluated at the lesser of cost or market value. The term "cost" refers to the purchase price, including duties and taxes, goods inwards, and other expenses directly attributable to acquisition less trade discounts, rebates, duties drawbacks, and subsidies in the accounting year in which they are recorded, whether immediate or deferred with respect to such purchases. "Net realisable value" or "replacement cost" are both acceptable definitions of "market value."

Audit of Fixed Assets

The ICAI's Guidance Note on Audit of Fixed Assets advises that fixed asset verification should include a review of pertinent documents and physical confirmation. Normally, the auditor should examine the internal controls and compare them to the documentary evidence to confirm the records. The opening balances of the existing fixed assets from records like the Schedule of Fixed Assets, ledger or register balances, as well as the acquisition of new fixed assets, should be verified using supporting documentation like orders, invoices, receiving reports, and title deeds. In order to certify self-built fixed assets and capital work-in-progress, it is advisable to consult supporting documentation including work orders, contractor invoices, and independent confirmation of the work accomplished by third parties. The auditor should check to see whether any fixed assets that have been written off or completely depreciated in the year of purchase were first entered in the fixed assets register. The auditor should investigate whether retirements of fixed assets were properly authorised, whether depreciation accounts have been adjusted appropriately, whether sale proceeds, if any, have been accounted for, and whether any material gains or losses have been appropriately adjusted and disclosed in the profit and loss account. If an asset has been compromised, the auditor must confirm that it satisfies the requirements outlined in AS 28, "Impairment of Assets." Additionally, the reversal rules of impairment loss are properly followed if the circumstances justify it.

Title documents should be inspected in order to confirm who the owner of assets like land and buildings is. Independent confirmation should be obtained if the title deeds are held by other parties, such as bankers or attorneys. Received immediately by the auditor when the customer signs a request form. The management is mostly in charge of physically inspecting fixed assets. At regular periods, the management is obligated to physically check fixed assets to make sure they are still there. However, the auditor must ensure that this verification was carried out by management wherever practicable by looking through the relevant working documents. The auditor should also assess whether the verification approach was appropriate given the facts surrounding each asset [7], [8].

In each case's specific circumstances, the auditor should also assess whether the frequency of verification is justified. The auditor should use the physical verification reports to cross-check the fixed asset book data. He should check to see whether any differences discovered during physical verification have been addressed effectively. The auditor should ensure that fixed assets have been valued and declared in accordance with applicable regulations and generally accepted accounting standards. The auditor should double-check the depreciation estimates, and any discrepancies between the total depreciation calculated and that of the prior years should be investigated. He should pay close attention to whether the depreciation charge is acceptable in light of the standard depreciation accounting foundation. The Institute has also advised the business to offer depreciation in order to write off the asset over the course of its typical operating life. If the firm believes that the asset's normal working life is short, it may provide depreciation at a greater rate than those set out in Schedule XIV to the Companies Act of 1956.

However, a corporation cannot provide depreciation at a rate less than the rate specified by Schedule XIV to the Companies Act of 1956 if it believes that the assets' normal working life is much longer. The tariffs listed in Schedule XIV should be followed in this situation. Revaluing fixed assets entails restating their book values in accordance with a systematic scientific evaluation, which would also involve determining the operational status of each fixed asset unit. Making technical projections for future working life and potential obsolescence would also be included. Typically, impartial and competent individuals like engineers, architects, etc. do such appraisals. The auditor should review these assessments as much as feasible. He is allowed to accept the experts' assessment as long as it seems reasonable and is supported by sufficient evidence [9], [10].

CONCLUSION

A crucial component of financial responsibility, transparency, and the accuracy of financial reporting is the verification of assets and obligations. The complexity of asset and liability verification has been examined in this study, underlining its importance in preserving the correctness and reliability of an organization's financial statements. The verification process is crucial for auditors, who use a variety of techniques such substantive testing, reconciliation, and audit evidence gathering to verify the existence, value, and completeness of assets and liabilities. Their goal is to reassure stakeholders that the financial information supplied is accurate and fairly depicts the organization's financial status and is free of serious misstatements. Effective asset and liability verification reduces financial risks while also assisting in the elimination of fraud, mistakes, and misrepresentation. It is a crucial instrument for fostering investor trust, safeguarding shareholder interests, and sustaining the fundamentals of financial transparency. The importance of stakeholders, management, and auditors working together to ensure the accuracy of asset and liability reporting has been emphasised in this study. This approach requires cooperation, openness, and respect to accounting regulations. In conclusion, asset and liability verification is an important procedure that protects the interests of investors and stakeholders rather than only being a technical part of financial reporting. Organisations may foster trust in their financial statements and have a positive impact on a healthier and more open financial ecosystem by following the highest standards of truth and accountability in asset and liability reporting.

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CHAPTER 7

A BRIEF DISCUSSION ON THE COMPANY AUDIT-I

Yukti Mitesh Khajanchi, Assistant Professor
Department of ISME, ATLAS SkillTech University, Mumbai, Maharashtra, India
Email Id- yukti.khajanchi@atlasuniversity.edu.in

ABSTRACT:

Corporate governance relies heavily on company audits to ensure financial responsibility, transparency, and regulatory compliance. This abstract explores the intricate world of corporate audits, highlighting its importance, goals, and essential procedures. It examines how auditors evaluate financial statements, internal controls, and adherence to accounting standards independently. The significance of ethical issues and professional skepticism in the audit process is also discussed in the article. This abstract emphasizes the importance of thorough business audits in defending shareholder interests, promoting investor trust, and maintaining the integrity of financial reporting via case studies and worldwide trends. The importance of regulators, organizations and auditors working together to maintain the highest levels of independence, professionalism, and thoroughness in conducting audits is emphasized.

KEYWORDS:

Corporate, Chartered, Governance, Pertaining.

INTRODUCTION

The requirements pertaining to company audits are covered in Sections 224 to 233 of the Companies Act of 1956 (hence referred to as the Act unless otherwise specified). Consequently, it is crucial to thoroughly comprehend these regulations. You may learn more about "Accounts" of corporations by studying sections 209 to 223 if you'd like. The "audit" sections generally include who may be appointed as an auditor under the Act, including qualifications and disqualifications, the appointment and removal procedures, and the rights and obligations of an auditor. Students should take notice that the purpose of these regulations is to ensure that only professionals of standing who would be subject to the discipline of a professional organization, namely the Institute of Chartered Accountants of India, audit the accounts of firms. Only an individual with a Its practise certificate qualifies for employment as an auditor. To guarantee that an auditor presents to the public as impartial, the regulations pertaining to disqualifications attempt to prohibit certain financial or personal links. The primary justification for prohibiting a body corporate from acting as an auditor may be because the accounting profession provides personal services to society. The restricted liability would have a negative impact on the profession's interests as a result of the corporate form of entity. Additionally, it has been stipulated that the auditor must not be related or affiliated with directors or any official of the firm, either as a partner or an employee, in order to guarantee his independence of thought and judgement. With the addition of clause (e) to section 226's sub-section (3), the legislature imposed an extremely strict requirement that an auditor be prohibited from owning even a single share or other kind of security. Even if just one partner is barred from serving as an auditor under this provision, the whole firm would be ineligible for appointment [1], [2].

A chartered accountant must also declare his conflict of interest when commenting on the financial accounts of a corporation or of a business if the accountant is related to someone with a significant stake in the firm or in the business. It would be considered "misconduct" under the Chartered Accountants Act of 1949 if this declaration were not made.

For this purpose, the term "relative" refers to a relative as defined by section 6 of the Act. Similar to how "substantial interest" is defined in Explanation 3 of Section 13 of the Income-tax Act of 1961, this term should have the same meaning. The fact that an auditor of a corporation is not prohibited by the Act from doing additional services in the role of a consultant should be noted carefully by the students.

Rather, an auditor is probably the finest individual to provide advice services because to his extensive understanding and experience with the client's activities. In this context, attention is also drawn to Part II of Schedule VI to the Act, where various headings must be used to represent the auditor's compensation. Further, acting as a director, secretary, or in any other capacity as an officer or employee of the business by a person's relatives or employees does not disqualify them from being appointed as the firm's auditor. But under Section 314 of the Act, it could be necessary to get approval from the Central Government. However, the Institute's Council recently published a statement in which it set a limit on the audit fees that might be obtained in comparison to other services [3], [4].

DISCUSSION

At each annual general meeting, the shareholders have the authority to nominate the auditor under section 224(1) of the Act. In reality, this sub-section makes the appointment of auditors mandatory for all businesses, regardless of their size, type, or whether they are limited companies, non-profit organisations, or public companies with unlimited liability. The word "each" is used, which is significant because it essentially means that a resolution to appoint an auditor must be passed at each AGM, preventing a retiring auditor from being automatically reappointed. A corporation's shareholders must nominate someone during a general meeting of the firm. The corporation is required to notify the concerned auditor within seven days after the appointment of an auditor at the annual general meeting. The auditor, in turn, is expected to provide a written notification to the relevant Registrar of Companies within 30 days after receiving the notice from the firm regarding his appointment [5], [6].

Appointment of the First Auditor

Within one month of the company's registration date, the Board of Directors may designate the first auditor, who will serve in that capacity until the end of the first annual general meeting. The company's annual meeting has the authority to select the first auditor if the Board declines to do so. Within one month of the company's registration date, the board of directors shall designate the first auditor or auditors to serve in that capacity until the end of the first annual public meeting. However, the company may, upon a nomination being made by any member of the company, at a general meeting, remove such an auditor or all of them and appoint another or others in his or their place, with notice being given to the members of the company, not less than fourteen days before the date of the meeting.

Within one month after registration, the company's general meeting has the authority to choose the first auditor(s) if the first auditor(s) is/are not chosen by the board of directors. The annual general meeting is often when the shareholders of a corporation vote to appoint the auditor. Once appointed, the auditor serves in that capacity until the end of the next annual general meeting. In the next annual general meeting, an auditor who has already been appointed may be renewed or a new auditor may be named in his stead. A corporation is required to make such an appointment every year and to notify each auditor who has been appointed or reappointed within seven days of the appointment.

Appointment of Auditor by Special Resolution

According to Section 224A of the Act, auditors may only be appointed or reappointed in certain circumstances by special resolution. It should be kept in mind that an auditor may often be chosen by a regular resolution. However, in accordance with Section 224A, a company in which at least 25% of the subscribed capital is held by any of the following: (i) a public financial institution; (ii) a government company; (iii) the Central Government; (iv) any State Government; (v) any financial or other institution established by any Provincial or State Act; (vi) a nationalised bank; or (vii) an insurance company engaged in general insurance. It shall be presumed that no auditor or auditors have been appointed if the aforementioned company neglects or fails to adopt a special resolution in the annual general meeting for that purpose, at which point the Central Government's authority to appoint the auditor under section 224(3) will take effect.

The percentage of the subscribed capital owned by the different groups indicated above is the yardstick used to gauge whether the appointment needs a special resolution or not. The company will be subject to the provisions of Section 224A and the appointment of the auditor can only be made by passing a special resolution if any of them individually or several of them collectively hold 25% of the subscribed capital of the company as of the day of the closing of the register of members before the annual general meeting. According to government clarification, for the purposes of section 224A, the shareholding composition shall be as of the day of the annual general meeting. In terms of the position open on the day of the aforementioned member register's closure, this will essentially remain the same. It should be remembered that subscribed capital also comprises the capital of preference shares [7], [8].

Ceiling on Number of Audits

It has already been noted that before any auditor is appointed, the business must receive a certificate from him stating that, if made, the appointment won't cause the auditor in question to possess more company audit than is permitted by section 224(1B). According to Section 224(1B), no company or its Board of Directors may appoint or re-appoint any person or firm as its auditors on or after the financial year that follows the start of the Companies (Amendment) Act, 1974, if that person or firm is at the time of such appointment or reappointment holding appointment as auditor of the specified number of companies or more. According to the Companies (Amendment) Act of 1988, no corporation or its board of directors may appoint or re-appoint someone who is employed full-time elsewhere. It has also been stated that, in the instance of an auditing company, "specified number of companies" must be understood to mean the number of companies indicated for each partner of the firm who is not employed full-time by another organization and 20 business audits are the maximum allowed per individual. In the scenario of a three-partner audit firm, the total limit will be 3 x 20 = 60 company audits, not more than 30 of which should be in businesses with paid up capital of Rs. 25 lakhs or higher.

A chartered accountant may have partnerships in many auditing companies. All the businesses in which he is a partner or owner will be eligible for a total of 20 company audits on his account in this situation. How they divide the 20 audits among themselves is their business, subject to the total cap on corporate audits. Section 224's explanation II, which comes after sub-section (IC), elaborates more on how to identify the audit units in order to determine the required number. According to this justification, each portion of a company's financial records that an auditor is assigned to examine shall be included as a single audit for the purposes of determining the audit ceiling. Nowadays, it's common to see "joint audits," in which two or more auditors are selected to review a company's financial records. For the purposes, each joint auditor is regarded as a part auditor. When determining the audit ceiling, any joint audits that an auditor has will be counted as one audit unit. However, the calculation of the ceiling does not take the audit of a firm branch into account. The audit of corporations that are not firms.

Effective Date of the Order

In June 2003, the Companies (Auditor's Report) Order, 2003 (CARO, 2003) was released, and on July 1st, 2003, it went into effect. The MAOCARO, 1988 was superseded by the aforementioned Order as of the date it entered into effect. A further requirement of the Order is that the information outlined in paragraphs 4 and 5 be included in every report the auditor submits in accordance with section 227 of the Act regarding the accounts of every company that the Order applies to and that he has examined. This suggests that even if it is released on or after July 1, 2003, the auditor's report on accounts for the fiscal year ending on or before June 30, 2003, is not obliged to include a report on the topics listed in the CARO, 2003. However, in certain circumstances, the auditor's report shall contain a comment on the topics covered by the former MAOCARO, 1988. Following the publication of the Order, the Ministry of Company Affairs of the Government of India issued a circular with the reference number GC No. 32/2003 about the date of compliance with the Order.

The Circular states that beginning on the day the Order becomes effective, the firms to whom it applies should make considerable efforts to comply with the revised CARO, 2003. The government will adopt a liberal stance in situations of non-compliance for accounts related to financial years that end on December 31, 2003, or before, providing the accounts at least contain an MAOCARO Report, if necessary. However, according to the circular, all accounts for fiscal years ending on or after January 1, 2004, must adhere precisely to the CARO, 2003. Appendix VII contains a reproduction of the Circular. The Companies (Auditor's Report) (Amendment) Order, 2004 announcement from the government makes it clear that the Amendment Order will take effect on November 25, 2004, the date of its publication in the Official Gazette. As a result, any audit reports published on or after November 25, 2004, must adhere to the revisions set out in this document when read in conjunction with the Companies (Auditor's Report). 2003 Order, dated June 12th.

Even if a portion of the financial year occurs before the date the Order enters into effect, the provisions of the Order nonetheless apply to the whole financial year. According to certain of the Order's criteria, the auditor is required to remark on the documents that the firm keeps, as well as the current systems and practises. Because these requirements were not a part of the previous MAOCARO, 1988 and were not necessary for the auditor to comment on, it is possible that many of the companies did not maintain the records or establish the systems and procedures that are outlined in the Order during the time prior to July 1, 2003. It is advised that the auditor, while making comments under the relevant sections, also make it apparent that such records were not maintained and that no systems or processes existed.

Auditing and Assurance

The user's comprehension of each sort of changed report will improve if its form and content are uniform. As a result, this AAS provides examples of modifying phrases that may be used when providing amended reports as well as recommended wordings to communicate an unqualified view. Issues That Don't Impact the Auditor's Opinion In certain cases, an auditor's report may be changed by including an emphasis of topic paragraph to draw attention to a financial statement-related issue that is covered in greater detail in a note to the financial statements. The auditor's view is unaffected by the inclusion of such a thing paragraph emphasis. The paragraph, which normally refers to the fact that the auditor's view is unqualified in this regard, would better be put before the opinion paragraph. If the going concern question is unresolved and proper disclosures have been made in the financial statements, the auditor should add a paragraph to the auditor's report to note a substantial issue. If there is a major doubt (other than a going concern issue), the auditor should take into account adding a paragraph to the auditor's report so that the financial statements are not adversely affected. Uncertainty is a situation whose resolution relies on future actions or occurrences that are beyond of the entity's direct control yet might have an impact on the financial statements. The auditor's reporting obligations on such problems may often be satisfied by adding a paragraph highlighting a going concern issue or a major uncertainty. However, in unusual circumstances, such as those having several uncertainties that have a material impact on the financial statements, the auditor could decide that expressing a disclaimer of opinion is preferable to include an emphasis of matter paragraph [9], [10].

Signing Of the Audit Report

According to section 229 of the Companies Act, 1956, only the person appointed as the company's auditor—or, in the case of a firm, only a partner who practises law in India—may sign the auditor's report, as well as any other document for the company that must be signed or authenticated by the auditor in order to comply with the law. According to the Department of Company Affairs of the Government of India, when a single chartered accountant is in practise, there should be no doubt about the name of any business. Further, it is claimed that Section 229 of the Act expressly states that only a partner in the firm may sign the auditor's report or authenticate any other document that is required by law to be signed by the auditor if a firm of chartered accountants is selected as the auditor. According to the legislation, it is improper to simply write the "firm name" on reports or other documents. The partner in question should always sign in his own name for and on behalf of the firm hired to audit the company's finances, according to the Department. It would not be sufficient and is not a method that the legislation contemplates to separately disclose to the Registrar of Companies the identify of a partner of a company whose name is attached to the auditor's report and other papers appended thereto.

The auditor in question and any person, if any, other than the auditor, who signs the report or signs or authenticates the document shall, if the default is wilful, be punishable with a fine that may extend up to Rs. 10,000/-. This is the penalty for non-compliance if any auditor's report or any document of the company is signed or authenticated otherwise than in conformity with the requirements of section 229 (section 233). Reading and inspection of the auditor's report: According to Section 230, the auditor's report must be read to the company's shareholders at a general meeting and made available for everyone to see. The auditor has no obligation to ensure that the report be read in front of the company at a general meeting, or to transmit a copy to or let individual company members to see it. A fine of up to Rs. 5000 may be imposed on the corporation and any officer who is in default for failure to comply with any of the provisions of Sections 225 to 231 (Section 232). In Re Allen Craig & Co. (London) Ltd. 1934, it was determined that the auditors' obligations after signing the report that would be appended to a balance sheet are limited to sending such report to the company secretary. Convening a general meeting and sending the balance sheet and report to members (or other parties eligible to receive it) will be the responsibility of the secretary or the directors.

Auditing and Assurance

In accordance with section 226 or [section 228(1)], if the branch office is located in a foreign nation, either the company's auditor, a person qualified as aforementioned, or an accountant lawfully qualified to operate as an auditor under the laws of that nation. Except in the case of a banking company with a foreign branch office, in which case it would be sufficient if the company's auditor is given access to such copies of and extracts from the branch's books and accounts, the auditor of the company would have the right to visit the branch office, if necessary, and to have access at all times to the books and accounts and vouchers maintained there.

A company's general meeting may determine whether or not it wants the branch office's finances audited by someone other than the company's auditor. Upon making such a decision, the company may either designate a person who may be qualified under section 226 or, in the case of a foreign branch, a person qualified under the laws of that country to audit the branch's accounts, or it may authorize the Board of Directors to designate such an auditor after consulting the company's auditor. The auditor in question in either scenario will be given the same authority and responsibilities as the statutory auditor and receive the compensation that the company's annual general meeting or the Board may choose. The branch auditor will be required to make a report on the accounts of the branch office he has reviewed and to send it to the company's auditor, who will then deal with it in any way he deems appropriate when producing his report [section 228(3)].

When the branch's accounts are audited by someone other than the company's auditor, it is essential that both auditors have a clear understanding of their respective responsibilities with regard to the audit of the branch's accounts and the audit of the company as a whole. Additionally, a good working relationship between the two auditors is essential to the success of the audit. The Council of the Institute of Chartered Accountants of India addressed these concerns in AAS 10, "Using the Work of Another Auditor," in acknowledgement of these demands. It is made clear that under certain circumstances, the legislation governing the corporation may provide the primary auditor the power to visit a component and inspect its books of account and other documents, if he deems it essential to do so. The principal auditor would typically be allowed to rely on the work of another auditor who has been appointed for the component unless there are special circumstances that make it necessary for him to visit the component and/or examine the books of account and other records of the said component. Additionally, it mandates that the primary auditor follow certain steps in order to gather sufficient relevant audit evidence demonstrating that the other auditor's work is sufficient for the principal auditor's needs in the context of the particular assignment. The primary auditor should typically take these steps when utilising the work of another auditor [11], [12].

CONCLUSION

In the contemporary business environment, company audits stand as a crucial component of corporate governance, financial transparency, and accountability. This essay has shed light on the complex world of business audits, highlighting its importance, goals, and challenging procedures. As independent specialists, auditors are essential to the audit process because they provide a frank evaluation of a company's financial statements, internal controls, and compliance with accounting standards. Their work acts as a vital safety for stakeholders, investors, and shareholders by fostering trust in the accuracy and dependability of financial information. The basic tenets that guide auditors in their work are ethical concerns and professional scepticism. The integrity, impartiality, and objectivity of the audit process must always be maintained. Additionally, corporate audits have developed to handle modern issues including cybersecurity threats, sustainability reporting, and the complexity of international business operations. The highest levels of professionalism and thoroughness must be maintained by auditors as they continue to perform audits in response to these developments. Business audits are a strong tool for ensuring the integrity of financial reporting, safeguarding shareholder interests, and promoting investor trust rather than just a formality. To ensure the accountability and openness that support the reliability of financial information in today's changing business climate, it is critical that auditors, regulatory authorities, and organisations work together to perform and facilitate audits.

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CHAPTER 8

A COMPREHENSIVE REVIEW OF THE COMPANY AUDIT-II

Sarika Kumar, Assistant Professor
Department of ISME, ATLAS SkillTech University, Mumbai, Maharashtra, India
Email Id- sarika.kumar@atlasuniversity.edu.in

ABSTRACT:

A crucial component of financial monitoring and responsibility in the business sector is company audits. In-depth discussion of issues including risk assessment, audit methodology, audit reporting, and the changing role of technology in the audit process are covered in this abstract, which digs into the most complex aspects of business audits. The difficulties of auditing global organisations, the difficulties of auditing in the digital era, and the significance of audit quality in preserving investor trust are all explored. The study also emphasizes the professional obligations and ethical concerns of auditors in light of increasing regulatory scrutiny and changing global economic dynamics. This abstract emphasises the need for constant development and adaptation within the area of corporate audits via case studies and developing trends, highlighting the common commitment of auditors, regulators, and organisations to safeguard financial openness and integrity.

KEYWORDS:

Auditors, Complexity, Contemporary, Global Corporate.

INTRODUCTION

Due to the complexity of contemporary business contexts, the area of company audits has undergone tremendous evolution. In-depth discussions on risk assessment, audit methodology, digital transformation, and the ethical ramifications of auditing are included in this discussion of advanced elements of business audits. Auditors encounter new possibilities and difficulties as multinational firms operate in a globalised environment and corporate processes are transformed by digital technology. This introduction lays the groundwork for an investigation of how audits change to address these issues, preserve audit quality, and continue to be a pillar of financial openness and accountability in modern corporate situations.The function of auditors has evolved beyond the conventional scope of financial statement review in the increasingly linked and digitalized global corporate world. To assure the correctness and dependability of financial information, auditors are now faced with analysing complicated risk scenarios, evaluating the efficacy of internal controls, and traversing complex digital ecosystems.

Additionally, auditors must be diligent in keeping ethical standards and professional obligations as regulatory scrutiny increases and stakeholder expectations rise. Maintaining auditor independence, impartiality, and integrity is essential to keeping the audit process credible and trustworthy. The multifaceted world of advanced company audits will be explored in this discussion, along with the techniques, methodologies, and tools that auditors use to meet the changing needs of the corporate world while upholding the values of openness, responsibility, and financial integrity. The first definition of an audit's primary goals included the detection and prevention of frauds and mistakes. It was due to the fact that the auditor was seen as the business's watchdog over both its overall functioning and its assets at the time. Such an idea of an auditor's responsibilities stems from people's innate scepticism of one another, particularly in situations when numerous people are entrusting one another with their money or other assets. This attitude is so deeply ingrained that even today, if a fraud or mistake is found during the winding up of a corporation, there is a public uproar that the auditors should be held accountable for it [1], [2]. The focus has switched from the identification of frauds and the avoidance of mistakes occurring to the verification of the statements of account, even though the general goals of an audit remain the same now as they were in the past. It is because it is more crucial that the yearly statement of account show a genuine and accurate balance in the context of the current system of management of organizations.

DISCUSSION

Fair state of affairs of their operating rather than the auditor spending their time and effort locating minor frauds and accounting errors that the internal employees of the firm may be expected to identify or prevent. As a result, the primary role of an audit is now understood to be the verification of financial accounts and the expression of an opinion thereon. The expression of opinion gives financial statements legitimacy. However, the auditor is required to consider the likelihood of a fraud or other accounting irregularity when carrying out the audit. However, he is not required to undertake the audit with the aim of identifying every fraud or irregularity since doing so would cause it to take an excessively lengthy period and incur costs that are disproportionate to its benefits.

Nevertheless, it is expected that the auditor will be watchful and vigilant. Whenever he observes a situation that makes him suspicious, he should investigate to see if a fraud or other irregularity actually exists and, if so, determine whether it is significant enough to call for the qualification of the audit report. It is well acknowledged that the auditor is not an insurance and does not guarantee that the financial records of the firm accurately represent its operations. Such an opinion is supported by the ruling in the well-known case of London and General Bank. As a result, the auditor is primarily responsible for carrying out his tasks with necessary diligence and expertise in accordance with the industry standards. He cannot be held accountable for the inability to spot fraud or other irregularities in the accounts if, in spite of this, they go unnoticed. Furthermore, as the management is largely in charge of protecting the company's assets and property, the auditor is allowed to rely on these internal controls when establishing his audit programme since they were put in place by the management after a thorough assessment.

It should be noted that the Companies Act of 1956 does not specifically say that an auditor is responsible for finding mistakes or frauds, unless they are so significant as to undermine his assessment that the financial statements reflect a true and fair condition of affairs. The above-mentioned shift in the focus of audit's goals, which is also implicitly accepted by the law, is largely attributable to the extraordinary growth in the size of corporate organisations as well as the volume, complexity, and variety of transactions they handle. Due to this, it is now impractical for the statutory auditor to create a plan for conducting a thorough audit in order to find all frauds and irregularities. He has to depend on internal control mechanisms more and more. As a result, he is not in a position to assure the shareholders categorically that there is no fraud or other irregularity in the books of account, with the exception of the limited circumstance that any fraud is not material enough to affect the true and fair position represented by the statements of account.

However, in order to completely assure that they reflect a genuine and fair state of affairs of the company's operation, the auditor is obliged to review the final statements of account as well as other things impacting them. He may either conduct a thorough review of the books for this purpose or, depending on the internal control mechanisms in place, simply check the correctness of the transactions reported therein after determining the strength of the measures. If an auditor is certain that the internal control system in place is sufficient and acceptable, he or she may use test checks to confirm the correctness of transactions entered into the books of accounts [3], [4].

One of the most sophisticated kinds of test checks is the statistical selection of a representative sample from the area of accounts that is to be tested and the thorough examination of the transactions included in the sample. Procedural tests are yet another format that list checks may take. These are applied to a range of transactions chosen from different account areas as long as those areas, as chosen for test checking, constitute a representative sample of the transactions made by the concern and the transactions are thoroughly verified. In light of this, the practise of verifying transactions by using test-checks has gained widespread acceptance. In contrast to test checking, a thorough examination of 100% of transactions would only turn up mathematical errors, failing to guarantee a genuine and fair assessment. In any event, given the scale of the company and its global distribution, comprehensive inspection would be exceedingly time intensive and almost impractical. The level of test checks that must be applied in each instance and the circumstances under which they may be used as a replacement for extensive checking, however, are decisions that the auditor must make.

It is now sometimes conceivable for the statutory auditor to considerably restrict the breadth and extent of his regular checking while performing the audit of a major business house that employs a competent accountant as internal auditor. Instead of reviewing the facts and figures that have previously been checked by a knowledgeable and reliable internal staff, he may restrict his checking to the application of testchecks; nevertheless, if any substantial errors are found during the test period, the audit's scope is appropriately expanded. The profession is becoming more aware of the possibility of better coordination between the work of the internal auditor and the statutory auditor, which, if achieved, would allow the statutory auditor to utilise the internal auditor's meticulous checking to a greater extent in the performance of his duties and responsibilities. An Auditing and Assurance Standard (AAS) 7 has been released by the Institute of Chartered Accountants of India on the topic [5], [6].

Audit Of Share Capital

Raising cash is almost always a company's first job. Before allocating share capital, all companies other than private ones produce a prospectus, which may be in shortened form, or a Statement in place of Prospectus. The goal is to publicly state the terms under which allotments will be made, to outline the projects on which the funds obtained will be spent (when they have already been agreed upon), and to set restrictions on certain expenditures related to capital raising. Every capital issuance must include the reception of share applications and the distribution of shares in accordance with those applications since they serve as the formal legal foundation for all transactions involving the acquisition of shares. The auditor should consequently pay close attention to these. Additionally, he must confirm that each party has met their obligations under the contract within the allocated period. When the directors decide to enhance the subscribed share capital, both at incorporation and thereafter, the share capital audit is required. However, unless new capital has been issued during the audited year, it suffices to verify share transfers that were registered during the year and to reconcile the total number and value of shares held by various shareholders with the company's total paid-up capital [7], [8].

Calls Paid in Advance

If allowed by the articles of incorporation, a company may accept from members all or a portion of the outstanding balance on any shares held by him as calls in advance; however, the amount so received cannot be considered a part of the capital for the purposes of any voting rights until it is presently payable and properly appropriated. When a bigger sum is paid up on certain shares than others, a business may, if so permitted by its articles, issue dividends in proportion to the amount paid upon each share (Section 93). It should be noted that calls made in advance cannot be counted as monies paid up on shares for dividend payment purposes under Clause 88(2).

The shareholders who have paid calls in advance would be eligible to earn interest at the rate outlined in the Articles unless the firm exercises the right as described above. Even while the interest on advance calls may be deducted from earnings, it can also be paid out of capital in cases when profits are not available. Calls in advance must be repaid in the case of a winding up, together with any interest that has accumulated, before any money is distributed to shareholders.

Presentation of Financial Statements

Every balance sheet of a company is required by Section 211 to give a true and fair view of the company's financial situation as of the end of the fiscal year. Subject to the provisions of the said section, the balance sheet must also be in the form described in Part I of Schedule VI, or as close to it as the circumstances permit, or in any other form that may be approved by the Central Government either generally or in any particular case. The general directions for the creation of the balance sheet under the title "Notes" at the conclusion of that Part should be given serious consideration while compiling the balance sheet, if applicable. The profit and loss account of a business must, subject to the aforementioned, present an accurate and fair assessment of the company's profit or loss for the financial year and must also, to the extent appropriate, conform to the standards of Part II of Schedule VI.

Furthermore, it is stated that nothing in the aforementioned provisions shall apply to any insurance, banking, or electricity-related companies, as well as any other class of companies for which a specific format for a balance sheet or profit and loss account, as applicable, has been specified in or under the Act governing such class of companies. The Central Government may, however, exempt any class of companies from compliance with any of the requirements of Schedule VI by notification in the Official Gazette, either unconditionally or subject to such conditions as may be specified in the Notification, if it determines that such an exemption is necessary to grant in the interest of the public. The Central Government is also authorised to change any requirements of this Act regarding matters to be stated in the company's balance sheet or profit and loss account in order to adapt them to the circumstances of the company, either on the application of or with the consent of the Board of Directors of the company. Unless the context clearly dictates otherwise, any reference to a balance sheet or profit and loss account for the purposes of section 211 shall include any notes thereon or documents annexed thereto that provide information required by the Act and permitted by the Act to be given in the form of such notes or documents. The criteria for the profit and loss account in Part II are addressed in Schedule VI, which is explained below. Schedule VI deals with the format of the balance sheet in Part I. While Part IV includes a summary of the financial statements and a basic business description of the organisation, Part III specifies and explains specific lessons [9], [10].

CONCLUSION

Company audits are a complex and developing topic that are essential to financial transparency, accountability, and investor trust, especially in the context of multinational firms and the digital era. The advanced elements of business audits were discussed in this study, with an emphasis on their importance, difficulties, and the changing dynamics within the audit profession. Modern firm audits must include the risk assessment process, which aids auditors in identifying and prioritising areas of concern. To improve audit quality, efficiency, and effectiveness, techniques have developed to use data analytics, artificial intelligence, and other technology technologies. The digital era has also changed the audit environment, presenting new possibilities as well as problems for auditors who must now deal with intricate cybersecurity threats, data privacy issues, and the complexities of auditing digital assets and transactions. Maintaining audit quality is still crucial since it has a direct impact on financial reporting dependability and investor trust. Auditors must respect these values to preserve confidence and credibility. Ethical concerns and professional obligations are essential elements of the audit profession. The area of advanced corporate audits is dynamic and constantly evolving to meet the demands of the complicated contemporary business environment. The obligation to guarantee that audits are done to the greatest levels of professionalism, thoroughness, and ethical integrity falls on auditors, regulators, and organizations as a whole. The audit profession can continue to play a crucial role in ensuring financial openness and integrity in a business environment that is always changing by embracing new technology and expanding procedures.

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CHAPTER 9

UNDERSTANDING SPECIAL AUDITS PROCEDURE AND RULES

Vinima Gambhir, Associate Professor
Department of ISME, ATLAS SkillTech University, Mumbai, Maharashtra, India
Email Id- vinima.gambhir@atlasuniversity.edu.in

ABSTRACT:

Special audits, which differ from standard financial statement audits in their uniqueness and emphasis, are a special kind of financial assessment. This abstract examines the idea of special audits, as well as their goals, methods, and the particular situations in which they are carried out. It explores the many special audit kinds, such as forensic audits, investigative audits, compliance audits, and performance audits. The importance of special audits in revealing financial anomalies, identifying fraud, maintaining regulatory compliance, and assessing operational efficiency is also highlighted in the study. This abstract emphasizes the need of specialised audit approaches in handling complicated and unusual circumstances via case studies and worldwide trends. It highlights the need of specialized knowledge, objectivity, and thoroughness while performing special audits, eventually promoting openness, responsibility, and risk management inside organizations and across sectors.

KEYWORDS:

Government Auditing, Legislative, Special Audits, Supervision.

INTRODUCTION

Government auditing is as ancient as established governments and even in emerging nations, it has a pretty lengthy history. Government audits have evolved in idea, substance, and scope in tandem with the political, social, and economic growth of the nations. Additionally, it has reacted to the demands of the government. It strives to guarantee the executive's responsibility for public income and spending. All government spending is primarily under the supervision of the Parliament and, in the case of States, the State legislatures, who insist on demanding funds. The primary principle of this control is that no expenditure may be made without first being approved by the Parliament or the State Legislatures, and all such expenditures shall be funded from the Consolidated Fund of India or the State. The Public Accounts Committee reviews the appropriation accounts that have been produced after the expenses have been incurred and the accounts have been closed. Therefore, parliamentary or legislative control is used both before and after the actual expenditure is made.

Since gaining independence, there has been a significant uptick in governmental activity, which has been accompanied by a rise in capital, capital expenditure, and revenues and borrowings to match the spending. Government has become involved in business, but this is different from government enforcing the law and carrying out regulatory duties. State-run businesses expanded consistently throughout independent India. A shift in the form and scope of audit was required due to the evolution of government and the complexity of its tasks, including regulatory actions in a global setting. The purpose of audit has changed from being an accounting and regularity check to becoming an examination of the outcomes of government activities. Government auditing was first largely focused on expenditures, both in India and abroad. Auditing of receipts both tax and non-tax began gradually. Another significant area of specialization commercial audit was created as a result of the public companies' explosive development. Many non-profit, autonomous organisations that are funded by the government and work in a variety of disciplines, including development, academia, and social or scientific research, are also obliged to undergo audits from the perspective of public accountability. In order to meet the needs of governmental transactions, government audit has not only accepted the fundamental auditing principles as understood and applied in the profession but has also incorporated new ideas [1], [2].

DISCUSSION

The audit profession with methodologies and processes. Government auditing is defined in detail in the U.N. Handbook on Government Auditing and Developing Countries as follows: Government auditing is the objective, methodical, professional, and independent examination of a public entity's financial, administrative, and other operations made after their execution for the purpose of evaluating and verifying them, presenting a report containing explanatory comments on audit findings along with conclusions and recommendations for further action by the responsible officials, and in the case of an examination of financial statements, providing an explanation of the findings. Public accounting of government finances is accomplished via government audit. Furthermore, it ensures that the administrators of the operational, managerial, programme, and policy parts of public administration are held accountable. The failures of the lower hierarchy are also highlighted by audit findings based on real data gathering, assisting supervisory level personnel in taking remedial action [3], [4].

Government audit is neither designed or prepared to act as an investigative body, pursuing every irregularity or criminal act to its natural conclusion. The primary goal of an audit is to help the administration while also ensuring that the administration is accountable to the legislative. However, it is part of the auditorial responsibility to criticise administrative acts when it is appropriate. Given that the critique is offered in a positive light, it must be received and appreciated in the appropriate context. The independent statutory authority of the Comptroller and Auditor General in India performs the auditing task through the organisation of the Indian Audit and Accounts Department. To guarantee accountability of the executive to Parliament and within the executive of the spending agencies to the sanctioning or regulating bodies, audit is a vital role. The audit's goals or objectives must be put to the test against the standard of open accountability. As part of his duties, the Comptroller and Auditor General (C & AG) ensures that the different authorities behave in conformity with the Constitution, the laws passed by Parliament, and the regulations or orders issued thereunder when it comes to financial problems.

Legal Framework and Comptroller & Auditor General

The appointment, compensation, and responsibilities as well as the authority of the C & AG are all covered in detail under the Indian Constitution. The constitution stipulates that the C & AG of India shall be nominated by the President of India and shall not be removed from office unless on the basis of proven misbehaviour or incompetence. This protects the independence of the C & AG of India. He can only be removed, as with a Supreme Court judge, when each House of Parliament agrees to do so by a vote of at least two-thirds of the members of the House present. After his appointment, the pay and other terms of service cannot be changed in a way that is detrimental to him by the Parliament. The Constitution further states that the President, in collaboration with the C & AG, shall decide on the terms of service for individuals working for the Indian Audit and Accounts Department and the administrative authority of the C & AG.

A fixed term for the position is established by the Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, which was approved in accordance with the requirements of the Constitution. will receive compensation that is equivalent to the compensation of a Supreme Court judge, thus enhancing his independence. According to

Article 149, the C & AG must carry out any tasks and use any authority related to the accounts of the Union, the States, and any other authority or body that may be specified by or under any legislation passed by the Parliament. These duties, powers, and conditions of service are specifically outlined in the Comptroller & Auditor General's (Duties, Powers, and Conditions of Service) Act, 1971 [5], [6].

According to Article 150 of the Constitution, the accounts of the Union and the States must be maintained in the format that the President, on the advice of the C&AG, may prescribe. According to Article 151, the President or Governor must receive the reports from the C & AG about the Union's or State's financial statements and then arrange for them to be presented to the House of Parliament or the State Legislature.

Audit of Receipts

Although it is not as widespread or as ancient as auditing expenditures, the audit of revenues has become standard practise in several nations. Such an audit allows for the following checks: (i) whether all revenues or other debts owed to the government have been accurately assessed, realised, and credited to the government account by the designated authorities; (ii) whether sufficient regulations and procedures have been framed by the department or agency concerned to secure an effective check on assessment, collection, and proper allocation of cases; (iii) whether such regulations and procedures are actually being carried out; and (iv) The fundamental tenet of an audit of receipts is that, although specific instances of assessment, demand, collection, refund, etc. are significant within the context of a test check, it is more important to consider the general than the particular. To measure the efficiency of the assessment process, a review of the legal judgements made by tax authorities is conducted.

The C&AG determines the scope and volume of audits that must be performed under each type of audit. These are not subject to discussion or negotiation. As may be justified by the nature of transactions, their significance in the overall scheme of activities of a department, the frequency of checks, and the overall plan of audit to be carried out during a period, the prescribed extent and quantum of audit are structured in accordance with the design of test check, random sampling, general review, in-depth study of specified areas, etc. A primary check by the auditor, a test check by the supervisor, and control and direction by the group leader are all provided via institutional mechanisms. The intermediate and top layers of the audit hierarchy direct and oversee the planning, carrying out, and reporting of work. The C&AG is designed with provisions to guarantee that the task allocated to each employee is completed according to plan. Depending on the organisational and institutional structures in place, the audit is carried out both locally where the drawing and disbursing duties are carried out and centrally where the accounts and original vouchers are held.

Audit of Stores and Stocks

With reference to the tasks and obligations given to C&AG, an audit of the accounts of stores and inventories has been created as a component of expenditure audit. An audit is performed to check the effectiveness and efficiency of the regulations controlling the purchase, receipt, issuance, custody, sale, and stock taking of establishments. The objective is also to alert the authorities to any faults in the system of control or shortcomings in the amounts of stores kept. The audit of shop purchases is undertaken in the same way as audit of expenditures, which is to ensure that they have been duly authorised, made economical, and in compliance with the rules for purchases established by the competent authority. The auditor must make sure that the prices paid are fair, in line with the contract for the supply of stores, and that the inspecting and receiving units have provided the certifications of quality and quantity. The audit notably raises instances of uneconomical retail purchases and losses owing to faulty or subpar quality of establishments. Accounts of revenues, issuance, and balances are examined for accuracy, correctness, and reasonableness of stock balances, paying special attention to the established standards for the level of stock holding consumption. Any surplus or unused stock is expressly indicated in the report, and regular stock checks are also done to confirm its presence. When maintaining priced accounting, the auditor should ensure that the prices charged are fair and have undergone periodic review. The stock valuation is thoroughly examined to ensure that the value accounts match the physical accounts and that adjustments are made for any gains or losses resulting from revaluation, stock taking, or other factors [7], [8].

Audit of Local Bodies

A unit of local self-government in an urban area is known as a municipality. The term "local self-government" typically refers to the management of a locality, such as a village, town, city, or any other area smaller than a state, by a body that represents the local residents, has a fair amount of autonomy, and spends its income on services that are considered local and, therefore, distinct from state and central services. On an essay titled "Audit of Municipal Administration" by R. Chandrasekharan, the debate that follows is based. By 1947, the year India gained its independence, the majority of urban and semi-urban regions had been organised into municipalities of some kind. They included the major corporations of Bombay, Chennai, and Kolkata, each of which had a unique constitutional framework, more substantial financial backing, and less governmental authority than other municipal authorities. The services that local governments had to provide were limited to roads, a few public works, public health, sanitation, and medical aid. This was the case since these organisations were seen to be ineffective and lacked sufficient funding. These organisations received funding from a variety of sources, including property, trade, and person taxes; fees and licences; non-tax sources such rent from real estate, residences, and businesses; government grants; etc.

In India, there are five different forms of urban local bodies that fall under the purview of municipal government: municipal corporations, municipal councils, notified area committees, town area committees and cantonment committees. The taxing authority of corporations is limited to a few things and is typically mandatory; in contrast, the taxing authority of other types of urban local authorities is optional, covers a wider range, and is subject to a procedure for its imposition that requires the final approval of the state governments. Municipal authorities are given unique local powers to carry out tasks related to development, maintenance, and regulatory operations. The following categories may be used to group expenses spent by municipalities and corporations: (a) general administration and tax collection, (b) public health, (c) public safety, (d) education, (e) public works, and (f) additional expenses like interest payments, etc. The two main sources of revenue for municipal authorities are property taxes and octroi; additional municipal taxes include the profession tax, the tariff on non-mechanized vehicles, the tax on ads, the tax on animals and boats, the tax on tolls, the show tax, etc. The state government may also provide funds to local organisations in various forms. The three kinds of revenue grants are, generally speaking:

- **(a) General purpose grants:** These are mainly designed to significantly close the gap between local bodies' demands and resources.
- **(b) Awards with a specific purpose**: These are awards that are dependent on the delivery of certain services or accomplishment of specific objectives.
- **(c) Statutory and compensating funds:** These grants are provided to local bodies as compensation for any income lost when the state government took over a tax that was previously levied by the local authority.

Audit of Non-Governmental Organisations (NGO'S)

NGOs can be characterised as non-profit organisations that, in addition to receiving donations of time, energy, and skills, raise money from members, donors, or contributors to further their social objectives, such as delivering education, offering healthcare, assisting the poor economically, managing emergencies, and disaster relief. As a result, this definition of an NGO would include institutions of higher learning, charity organisations, hospitals, nursing homes, research foundations, etc. The range of services provided by NGOs is quite broad, and as a result, it is impossible to describe everything in a brief description. Child Relief and You (CRY), NORAD, UNICEF, Godhuli, Vidya, Concern India Foundation, etc. are a few NGOs that operate in India.

Non-Governmental Organisations are often formed as societies under the Societies Registration Act of 1860 or as trusts under the India Trust Act of 1882, or under any other statute similar to these Acts that is in effect across India. Section 25 of the Companies Act of 1956 permits NGOs to be formed as companies as well. None of the aforementioned Acts justifies requiring an NGO to register with them. However, if an NGO is established as a trust and the trust relates to immovable property valued at more than one rupee, Section 17(1) of the Registration Act of 1908 read with Section 123 of the Transfer of Property Act of 1882 must be followed, and trust registration is now required. All charity trusts must be registered under the relevant Public Trusts Acts in certain states, such as Maharashtra and Gujarat, where Public Trusts Acts have been enacted, such as the Bombay Public Trusts Act 1950. In many circumstances, registration under the Foreign Contribution (Regulation) Act of 1976 and the Income Tax Act of 1961 would also be required. The requirements of section 209(3)(b) of the Companies Act of 1956 mandate that NGOs incorporated under the said Act keep their books of account on an accrual basis. If the accounts are not kept on an accrual basis, the Companies Act of 1956's provisions would not be followed. NGOs that are not incorporated under the Companies Act of 1956 are permitted to keep their financial records on a cash basis or an accrual basis [9], [10].

Sources and applications of funds

Grants and contributions, fund-raising activities, ads, dues from members, technical assistance fees, fees for services given, subscriptions, gifts, sales of goods or publications, etc. are the primary sources of funding. Donations and grants in the form of promoter contributions are seen as capital receipts on the NGO's balance sheet and are shown as liabilities. These might take the shape of a donation to the corpus or a contribution to a revolving fund. A donation contributed to an NGO's corpus is referred to as a corpus contribution. Generally, donors must state whether the contribution or grant they are making will be added to the NGO's overall corpus. These donations are often made in accordance with the overall amount of money that an NGO needs. The Income Tax Act of 1961 additionally stipulates in Section 11(1)(d) that income in the form of voluntary donations made with the explicit intent that they become a part of the trust's or institution's corpus must not be included in the calculation of total income. The goal of a donation or grant to a revolving fund is to cycle the money by disbursing short-term loans from the fund to other non-profit organisations or recipients for their projects, recovering the loan, and so on.

However, depending on restrictions set by the body providing the contribution (for the revolving fund) or by the rules and regulations established by the concerned NGO in this regard, any interest earned from the beneficiary on such temporary loans from the revolving fund may either be added back to the fund or credited to the Income and Expenditure Account. Donations and grants that are obtained for the acquisition of certain fixed assets are those whose main requirement is that the NGO receiving them acquire the assets in question by purchasing, building them, or in some other manner. NGOs often accept gifts in kind as donations. These gifts include tangible items like real estate, buildings, cars, office equipment, etc., as well as things associated to programmes or projects like food, books, clothing, beds, construction supplies, and raw materials for training, including wool, reeds, and textiles. An NGO may use money for things like establishment costs, office and administrative costs, maintenance costs, programme and project costs, charitable giving, donations and other contributions, etc [11], [12].

CONCLUSION

Special audits are a crucial and essential component of financial examination that are designed to handle special and difficult situations that fall beyond the purview of regular financial statement audits. In-depth discussion of special audits has been provided in this article, with an emphasis on their relevance, techniques, and the crucial role they play in revealing financial irregularities, identifying fraud, assuring compliance, and improving operational efficiency. There are several distinct audit kinds, each created to address certain goals and difficulties, such as forensic audits, investigative audits, compliance audits, and performance audits. Specialised skills, in-depth knowledge of industry practises, and the capacity to adapt to quickly changing regulatory environments are requirements for auditors doing special audits. The findings of special audits may have a wide range of effects, from revealing financial fraud to enhancing organisational operations and decision-making. They are an effective means of reducing risks, protecting assets, and maintaining accountability and openness. Special audits are a crucial tool for businesses and regulatory agencies to deal with atypical circumstances. Special audits contribute to the overall financial integrity, confidence, and stability of organisations and industries by using specialised audit methodologies, performing exhaustive investigations, and respecting the values of independence and impartiality. It is impossible to overestimate their significance for contemporary corporate governance and risk management.

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CHAPTER 10

OVERVIEW OF GROUP AUDIT ADVANTAGES: AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS

Zuleika Homavazir, Professor
Department of ISME, ATLAS SkillTech University, Mumbai, Maharashtra, India
Email Id- zuleika.homavazir@atlasuniversity.edu.in

ABSTRACT:

The consolidated financial accounts of a group of firms are examined via the complicated and specialized financial examination known as group audits. This summary gives a general overview of group audits, including their goals, essential elements, and the challenges of auditing companies with several subsidiaries. It investigates the value of group audits in offering a thorough assessment of a group's financial performance, hazards, and adherence to accounting rules. The problems and legal requirements related to group audits are also covered in the paper, with a focus on the need of cooperation, coordination, and communication among auditors of different group entities. This abstract emphasizes the importance of competent group audits in improving financial transparency, investor trust, and informed decision-making within complicated company structures via case studies and worldwide trends. In today's globalized corporate context, it emphasizes the joint duty of auditors, regulators, and organizations in guaranteeing the correctness and dependability of consolidated financial statements.

KEYWORDS:

Consolidated, Complicated, Financial, Group Audit.

INTRODUCTION

Group audits are a specialised and complex area of financial examination that are used to evaluate the consolidated financial statements of multinational groups that have several subsidiaries. The need for a thorough grasp of a group's financial performance and hazards has never been higher in an age of globalised company operations, mergers, acquisitions, and complex corporate structures. This introduction lays the groundwork for a discussion of group audits, highlighting their importance, goals, and particular difficulties. Auditors must coordinate, communicate, and work together to assure the accuracy and dependability of consolidated financial statements as multinational firms extend their activities across borders and sectors. Within the complex web of corporate group structures, group audits play a critical role in fostering financial transparency, investor trust, and well-informed decision-making. The complexity of group audits lies in their capacity to consolidate the financial statements of numerous subsidiaries to provide a comprehensive view of the financial health of a business group. Because it provides a more accurate and thorough picture of the group's overall financial performance, risks, and compliance with accounting rules, this procedure is essential for investors, stakeholders, and regulatory agencies.

However, carrying out group audits poses a special set of difficulties for auditors. Navigating the complexity of intercompany transactions, working with the auditors of many group businesses, and adhering to various regulatory regimes that may differ from one jurisdiction to another are some of these difficulties. Group audits have become even more complicated as a result of the digital revolution and the globalisation of commerce, necessitating the possession of specialised skills, technical prowess, and a keen awareness of the subtleties involved with corporate group structures on the part of auditors. We will delve deeper into the world of group audits in the discussions that follow, examining the methodologies, legal requirements, and best practises that auditors use to meet these challenges and maintain the integrity of consolidated financial reporting in today's complex corporate environments [1], [2].

DISCUSSION

Based on group audit guidelines, this chapter walks you through the paperwork and processes of an international audit. This chapter's information is based on the writers' professional experiences. It should be noted that electronic versions are progressively replacing the hard paper audit documentation mentioned in this chapter. While each component of a thorough audit will be briefly covered in this chapter, the main emphasis is on substantive year-end processes. There isn't a description of the controls that will be tested since that information is covered in greater: Control Risk, Audit Planning, and Test of Controls.

You are the Audit Manager

You work as an audit manager at Biggest International Group, Accountants (BIG), a global accounting company, in the Netherlands. You get a parcel on a Monday morning that you had been anticipating. Along with other supporting papers, it also has a letter of introduction from your accounting firm's US branch. The Home Office Technology, Inc. (HOT) customer of this US office, which is traded on the New York Stock Exchange, wants you to audit a few of its European subsidiaries. Local Office Technology (Local), a division of HOT, will serve as your main audit client. The group audit instructions are included in the bundle of papers. These publications are intended to familiarise you with the HOT audit requirements set out by the BIG office. 2 You will create an audit planning document and an audit programme (audit plan) based on these with the partner in charge of the audit. Your audit's final report, a completion memorandum, will need to provide a summary of your findings.

Your comprehension of the client's history and the relevant accounting and auditing standards to be utilised in the audit depends on the instructions from the US office. They list a few of the main audit goals for this customer. In this instance, both HOT and Local have made a number of acquisitions that call for more rigorous substantive assessments. Additionally, a subsidiary independent distributor was spun off. You must reconcile Local's financial statements to US GAAP since Local employs International Accounting Standards (IAS) whereas HOT is obligated to account following US Securities Exchange Commission (SEC) GAAP guidelines.

Your audit team will draught the audit programme, the audit planning note, and the completion memo. The majority of the audit's key concepts are included in the audit-planning document. Your senior audit staff member prepared it, and you, the manager, and the partner gave your approval. When in draught form, it is also discussed with the customer. The client's input seldom results in significant improvements. The audit programme acts as a set of instructions for the assistants taking part in the audit as well as a way to ensure that the task is carried out correctly. It is created using the auditing software from BIG. The completion memorandum and report on your auditing findings include key and important audit areas, accounting problems, and any other concerns that should be noted.

Reviewing the Group Audit Instructions

As previously said, it is Monday morning and you have arrived into BIG weighed down with work that you started over the weekend but did not complete. On your desk is a parcel from BIG's US headquarters that was delivered over the weekend. You put everything else aside and grab your yellow marker pen since it is advisable to start working on these assignments right now. The audit's general direction is established in the strategy section of the audit preparation document. The audit planning memorandum's plan section enumerates technological issues, client service issues, and logistical issues. Technical issues include greater preparation for how we would handle internal control and key audit goals. It elaborates on the strategy section and offers information about the client firm, the industry environment, key audit issues, and areas of the audit team's attention, among other things. In other words, an audit has to be more carefully designed utilising the strategy as a guide.

We won't go into deeper depth about the audit technique and important audit goals, but we will briefly touch on certain factors for audit planning that should be based on risk analysis. These factors are what we refer to as "significant audit areas" and "accounting issues." These factors should be taken into account in the audit programme (audit plan) that will be covered below, along with the important audit goals, of course. Please be aware that the audit programme largely focuses on important year-end processes in order to provide useful information for the audit work. Of course, control tests had to be carried out. However, Chapter 8 Control Risk, Audit Planning, and Test of Controls goes into further depth about them.

Audit Program (Audit Plan)

You create the audit programme using BIGdealer, BIG's audit software. You use the software's recommended standard audit processes to thoroughly examine the account balances and transactions described in the audit planning memorandum. The major phases that may be included are listed. The audit programme begins with the fundamental information about asset worth and income, the foundation upon which testing will be conducted, and the gauge of monetary precision or materiality, the amount of maximum authorized misstatements.

Review Accounting of Three Companies

Zap is a paid item on Local's books. You believe that accounting treatment is reasonable given that Local owns just 15% of Zap, but you feel that without first seeing Zap's financial records, you are unable to form an informed judgement. You want financial statements, ideally audited ones. You examine the three controlled firms' notes to look for any accounting discrepancies. This is crucial because the financial accounts of both firms will be combined, and any inconsistencies in the financial statements must be corrected on the combined statements. Two of the three controlled firms' financial statements are prepared by independent auditors who are not part of your own company. Financial Investment National Enterprises (FINE) are audited by Doiever, RA, while Design Information Planning and Programming Resources (DIPPER) are audited by Lickanapromise, RA. You are familiar with the histories of the companies and have noted it in your working documents. You also email Doiever, RA, and Lickanapromise, RA, a questionnaire about the audit and a request for working papers. It is crucial to ascertain these auditors' repute and whether or not they used necessary caution throughout the audit [3], [4].

A Look at Accounting Standards and Assumptions

In order to determine if the write-off assumptions are approved, you speak with management and review corporate minutes. The corporate minutes for the July meeting include an attachment that makes reference to updating assumptions. Research and development must be accounted for as a cost in the year that it is paid for in accordance with the national accounting rules that apply to HOT. However, the GAAP standards used by HOT, which require charging all research and development to expenses, must be applied to Local, necessitating adjustments to the financial statements. The national standards for accounting for Local permit you to capitalise and amortise some costs associated with research and development. In your working papers, you make these improvements and suggest Local book them.

You examine the predictions to determine if the allocations are reasonable and to check whether the amortisation assumptions are the same as those in the financial statements. Both predictions and financial statements employ the same amortisation assumptions. You can see that the cost of raw materials is predicted to rise by just 10% in the next year. When you look at the financial documents, you can see that the cost of raw materials has typically climbed by around 15% annually, but it jumped by almost 20% last year. You find that estimates are unreasonable after taking a look at the fundamental profit drivers, sales revenue and service income. Local management initiatives that two subsidiaries' goodwill paid for three years ago should be amortised over an additional ten years. You see that the subsidiaries have had yearly losses. Making a note in your working papers, you decide that the goodwill associated with the acquisition of these subsidiaries has to be written down more swiftly [5], [6].

General

The declaration that the engagement manager and partner have read the audit documents relating to important areas is the first item in the completion memorandum. This method is crucial since a management and partner evaluation might reveal weakor gaps in the audit which the audit professionals may have missed or are not knowledgeable enough to identify as a concern. Audit schedules, going concern issues, and your overall assessment of the job are additional crucial topics that need to be discussed right away. The schedules of Local and FINE are audited in accordance with BIG's handbook, you specify in the completion note. Providing modifications are made regarding the recoverability of assets, Local is a continuing concern. Your audit opinion will be based on the further investigation of issues including reorganisation costs, taxes, inventory, and ongoing issues. You are aware that the group auditor will heavily rely on your audit opinion before he approves the consolidated financial accounts. The group auditor is in charge of providing an audit opinion on whether the group financial statements are presented properly in all significant respects and provide a true and fair picture in compliance with the relevant financial reporting framework [7], [8].

Critical Audit Areas

The completion memorandum discusses the topics you deem important. Critical refers to dangerous and important locations. Review of inventory and accounts receivable is conducted. The audit team received assurance that the inventory was appropriately tallied after a thorough inventory take was completed. The team reconciled the inventory sub-ledger and the general ledger after agreeing on the count sheets. The team tested receivables using confirmation letters. They used several techniques for unpaid bills for nonrespondents. The audit for consolidation purposes did not assess the inter-company accounts' collectability. No relevant parties provided confirmations. You feel that more assurance from BIG's US division is necessary. A confirmation procedure for the primary local suppliers was used to examine accounts payable. The cut-off test work, search for unrecorded liabilities on invoices and payments at year-end, test work on accumulated expenditures, and analytical assessment of expenses were additional accounts payable processes that were completed. Your assessment is that accounts payable are $30,000 underestimated [9], [10].

CONCLUSION

A general audit plan with detailed instructions and a general audit programme guide from the main auditor are the papers that are normally needed in an audit of a subsidiary. The auditor will create an audit planning memorandum, an audit programme, and an audit completion memorandum based on these papers and other research. Participating offices get group audit instructions from the parent company's auditors. They could open with two sections one with broad information and the other with particular instructions. The majority of the audit's key concepts may be included in the strategy section of the audit planning document. It is put together by the whole auditing team. As part of the strategy. The audit planning memorandum, which is a basic summary of the auditors' approach to the audit, will come after the ideas covered in the strategy phase. The audit programme (audit plan) acts as a guide for helpers participating in the audit as well as a way to ensure that the task is carried out correctly. It is often created using the audit programme software of the auditing company. The completion memorandum, the report on your auditing results, outlines any issues that should be emphasised as well as important and major audit areas. The audit's final document is the completion memorandum, which also includes the audit opinion.

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CHAPTER 11

A COMPREHENSIVE REVIEW OF CORPORATE GOVERNANCE

Mukul Bhatt, Associate Professor
Department of ISME, ATLAS SkillTech University, Mumbai, Maharashtra, India
Email Id- mukul.bhatt@atlasuniversity.edu.in

ABSTRACT:

With an emphasis on safeguarding stakeholders' interests, guaranteeing accountability, and advancing ethical practises, corporate governance is a crucial framework that regulates the interactions, accountability, and decision-making processes inside organisations. This abstract explores the complex idea of corporate governance and describes its guiding principles, organisational structures, and the functions played by different stakeholders, such as boards of directors, CEOs, shareholders, and regulators. It investigates the value of corporate governance in promoting openness, reducing risks, and promoting environmentally friendly business methods. The study also explores how globalisation, technological development, and shifting cultural norms have all had an impact on the corporate governance environment. This abstract emphasises the significance of strong corporate governance in preserving organisational integrity, boosting investor trust, and contributing to long-term economic success via case studies and worldwide trends. In order to handle the difficulties of the modern business environment, it emphasises the joint duty of organisations, boards, executives, and regulators in sustaining the highest standards of corporate governance.

KEYWORDS:

Audit profession, Corporate, Governance, Regulators.

INTRODUCTION

The idea of corporate governance and its many elements will be covered. We'll also make a rough sketch of how corporate governance systems vary throughout the globe. The difference between a network-oriented and a market-oriented organisation is crucial. Along with some current advancements in corporate governance, the role of the auditor in corporate governance will be discussed. The nature of corporate governance, the foundation for current discussions of corporate governance, corporate governance structures, corporate governance committees and reports (the Sarbanes-Oxley Act, European Union Laws Best Practise), and best practise (managing best practise, board responsibility, internal control, and transparency) are all covered in this chapter. We will also talk about the short- and medium-term EU priority model, corporate governance, the role of the auditor, including the audit profession.

The Nature of Corporate Governance

There are several definitions of corporate governance from numerous writers in numerous nations. In many facets of society, including the public and private spheres, corporate governance is a topic of debate. We may compare "governance" to a darts game. The entity's purpose, vision, goals, and strategy are determined by the board of directors. These resemble the darts' target in a game. As one of the Board's primary responsibilities, governance deals with managing. (Managing is the aim, coordination, and skill necessary to strike the target's bull's-eye.) The darts player should make sure to have a good night's sleep, check that windows are closed, and ensure that the crowd is calm. The Board is also responsible for designing and overseeing controls that fairly ensure that goals are reached. Control is the third component of governance. It is very important to have independent oversight of management performance and compensation (the umpire should oversee the darts game since cheating is not allowed). We are all aware that there are daily conflicts of interest between management and stakeholders, which may lead to bankruptcies or significant frauds. Transparency towards all identifiable stakeholders is a component of governance; the darts match's principles and regulations should be made public [1], [2].

DISCUSSION

Since there is no established definition of corporate governance, we shall make use of a number of different definitions. Using language from the Toronto Stock Exchange, To increase shareholder value, which includes guaranteeing the company's financial viability, corporate governance is the method and structure used to oversee and manage the activities and affairs of businesses. The procedures and organisation lay out the lines of authority and provide the framework for management, the board, and the shareholders to be held accountable. The Cadbury Committee described corporate governance as "the system by which companies are directed and controlled." The Hampel Committee 4 argued that additional stakeholder groups with genuine interests in the organisation are not sufficiently recognised by this definition.

The Peters Committee 5 in the Netherlands highlighted that integrity and openness are crucial components of governance, which also encompasses characteristics like management and authority, responsibility and influence, and accountability and oversight. According to OECD 6: "Corporate governance comprehends that structure of relationships and corresponding responsibilities among a core group consisting of shareholders, board members, and managers designed to best foster the competitive performance necessary to achieve the corporation's primary objective." Corporate governance essentially focuses on the problems brought about by the division of ownership and control and specifically addresses the principal-agent relationship between shareholders and directors and the relationship between company agents and stakeholders. Other stakeholders include the company's creditors, its trade partners (employees, clients, and suppliers), rival businesses, and the general public. Each of these stakeholders has a stake in the corporation's success. Everyone stands to lose financially if a company fails, with the possible exception of rivals (and maybe the general public and analysts). Each stakeholder has a unique connection with the company and particular rights to financial report delivery. If we wish to comprehend each claim and suggest a reporting system that appropriately satisfies this need, these rights and connections must be thoroughly stated [3], [4].

Stakeholders

Corporate governance (CG) is, generally speaking, the procedure and framework utilised to run the company and maximise shareholder value. However, it has been acknowledged that company directors should also consider how their choices would affect other stakeholders. The community, the general public, consumer groups, etc. are often also included on a list of stakeholders. These organisations do not, however, possess any legal standing or authority to enforce any agreements. The ties between the stakeholders include those between the community and the business, the government and the business, and the community and the government. Community members may communicate with the firm and voice their opinions via this legal network. According to certain perspectives, community people are indirectly involved in the company via the government rather than directly. However, in certain circumstances, community members may feel that the legal system does not provide them appropriate assistance.

Influence of Shareholders and Public

The desire for shareholder engagement is likewise growing, as is the power of consumers' and the general public's opinions. Just consider the following quandary. You are the director of Royal Shell, and you must choose between destroying an old oil station on land or sinking it at sea. Legally, both choices are permissible. Consider as well that sinking the platform at sea will be less expensive and harmful to the environment than tearing it down on land. But a well-known, powerful interest group politely requests that the platform be taken down on property. What action do you take? This case presents a challenging conundrum since the interest group may have an impact on public opinion, including that of your clients and vendors. The worst-case scenario is that these significant stakeholders decide not to do business with your firm any more. Calculating the financial load in the event that this scenario occurs is not particularly difficult. The present debates about corporate governance centre on these novel types of conundrums. Following extensive financial analysis and discussion, the Board of Renault in Paris made the decision to shut their facility in Belgium a number of years ago. Even the financial cost of strikes was mentioned. They did not anticipate Belgian clients, however, to opt to stop doing business with Renault for close to six months. This is an intriguing illustration of how the interests of long-term shareholders and those of extremely significant stakeholders like workers and customers may coexist. But one must concede that managing in retrospect is really simple [5], [6].

Globalization of Capital Markets

The third element that draws attention to corporate governance is the globalisation of the economy and the stock market. The privatisation of companies in continental Europe, the Calpers investment in Europe, and the listing of companies with their headquarters outside of the United States on the NYSE (Daimler Benz) are just a few instances. The harmonisation of laws and regulations is encouraged by globalisation. Examples include the EU recommendation to implement International Financial Reporting Standards (IFRS) as of 2005 in all European countries and the anticipated obligation to use ISA for statutory audits. Empirical research demonstrates that institutional investors are increasingly basing their investment choices on whether a company complies with corporate governance requirements. When analysing a company, corporate governance is seen by 50% of foreign investors in the USA and Western Europe as being at least as essential as financial measurements. The ratio is significantly greater at 80% in Eastern Europe, Asia, Latin America, and Africa.

Corporate Governance Structures

Understanding the variations in national corporate governance models is also necessary to comprehend contemporary trends. Culture, history, legal systems, and other variables, among others, are the root causes of these variations. In other words, the history and culture of the nation have an impact on business behaviour. Anglo-Saxon culture was described by Geert Hofstede as masculine, whereas continental culture was described as feminine. We briefly outline a few variations between the market corporate governance structure and the network corporate governance structure in Illustration 14.2 to serve as an example. Examples of nations having a corporate governance system that is focused on the market include the United States and the Commonwealth nations. Countries in continental Europe and certain Asian nations are examples of nations with network-oriented corporate governance structures.

Market-oriented nations are more combative and aggressive, while "network cultures" prefer consensus over conflict. Of course, differences are not always clear-cut, but cultural diversity is a very important aspect in understanding regional variations in corporate governance (CG). Let's go on. Shares are extensively dispersed among people in Anglo-Saxon nations. Banks, insurance corporations, and other institutions are the principal stockholders in continental nations. As a result, stock exchanges are more significant in nations that value the free market. Share prices are a frequent starting point for debates among students in high schools in the US. Directors often opt for a short-term plan to maintain shareholder satisfaction as a result of this shareholder concentration.

Network-Oriented Corporate Governance

A culture of long-term shareholder support exists in Germany and Japan due to the importance of banks, which act as equity suppliers as well as lenders. Companies have a history of being family-oriented in France and Italy, and many still have a primary stakeholder today. Typically, such stockholders have a board representative. There is a higher expectation from shareholders that earnings will be reinvested in the company since shareholder interests are not the sole factor used to evaluate business success. This, together with the absence of a hostile takeover culture, contributes to the development of a longer-lasting atmosphere free from the displacement anxiety brought on by the idea of a hostile takeover [7], [8].

Governance Boards Market vs. Network CG

The two-tier separation between the board of management and the supervisory board in the network structure is another significant distinction between the market-oriented and network-oriented corporate governance structures. The whole board, which includes both executive and non-executive members, is officially in charge of overseeing day-to-day operations under the market-oriented, one-tier structure. The non-executive board members have a supervisory duty, whereas the executive members are given this obligation. In other words, non-executives oversee operations while also sharing responsibility for them. In the two-tier structure, management and supervision are technically separated; the supervisory board is solely in charge of overseeing executive board members. Because of this, supervisory board members seem to be more impartial than their non-executive colleagues.

Demand for Supervision vs. Shareholder Rights

We perceive a desire for more stringent monitoring and control in Anglo-Saxon nations in light of the aforementioned fraud instances and bankruptcies. While in continental nations like France and the Netherlands, where the supervisory board plays a more active role, there is a clear need for more shareholder rights due to the globalisation of the capital markets. In light of these global trends, specific corporate governance committees have been established in a number of nations to codify best practises for corporate governance.

Managing Best Practice

"Managing" is a crucial component of governance and encompasses the ideas of purpose, strategy, objectives, and alignment with societal goals. Best practises demand that boards take the initiative in establishing the company's vision and strategy since these matters are sometimes referred to be "corporate glue" and are thus crucial. for the company's growth and health. We use the Royal Dutch Shell Group as an example to highlight its significance. Due to the vehement criticisms of pressure organisations over the multinational's links to the apartheid state in South Africa, this corporation began to establish and declare its goal and ideals far back in the 1970s. Today, Shell's board openly discusses its goal and principles to give cohesiveness, a single purpose, and shared values for a global and decentralised organisation based on years of experience. The company's main goals are to operate in certain businesses financially, effectively, and responsibly. These goals are closely tied to its purpose and strategy. These goals lead us to another best practise in management, namely "recognising societal interest.

Recognizing Societal Interest

Companies must be consistent with societal goals for social cohesion, individual welfare, and equitable opportunity for all since they are not autonomous from the society in which they operate. In the long term, all parties—including shareholders—should gain from attending to justifiable social concerns. However, there may sometimes be a trade-off between immediate societal costs and the long-term advantages of maintaining a strong, vibrant private sector for society. A highly fascinating example of social interest is the present discussion on and quest for sustainability. The triple bottom-line reporting, which addresses "economic, social, and environmental issues," often indicates sustainability. The Chair of Shell's Committee of Managing Directors, Mark Moody Stuart, is quoted as saying, "My colleagues and I are absolutely dedicated to a business strategy that delivers profits while contributing to the well-being of the world and its people. There is none that we can see. Companies in the raw material sector, like Shell, are concerned about reputational risk since doing so might hurt their profits. Best practise dictates that management must prioritise stakeholders' interests in addition to shareholders' interests as a result. 23 Of course, the company's owner should be involved actively in corporate governance. The EU mandates that institutional investors provide information about their function as shareholders. They should be required, among other things, to reveal their investment strategy and how they utilise their voting rights. The power of shareholders to vote in absentia, raise questions, and present motions should all be strengthened in EU nations [9], [10].

Audit Committee

Another example of best practise is having a distinct audit committee. According to Cohen Commission recommendations, audit committee regulations were implemented by stock exchanges in the USA in 1978, marking the beginning of regulated corporate governance via audit committees. Unbelievably, audit committees were not necessary before to 1978 (at least not to some of us now). The most recent wave of corporate governance reforms in the USA were brought about by former SEC Chairman Levitt's initiative, which culminated in the 2000 recommendations of the NYSENASD Blue Ribbon Committee. The creation and continued operation of efficient audit committees need the complete commitment of boards. Since 1978, the main American stock exchanges have mandated that publicly traded companies have audit committees made up of independent, external directors who hold very little company shares and are not management. Audit committees have been given growing amounts of responsibility for overseeing management, corporate reporting, and interactions with the independent auditor across time and during different periods of corporate failure. In this sense, the audit committee responds to shareholder behaviour.

According to the newly proposed EU Directive on Statutory Audits 29, audited organizations must establish an audit committee with independent members to monitor the audit process and maintain direct communication with the auditor without going via management. Additionally, that committee would choose the auditor and recommend the choice to shareholders. Additionally, if a corporation fires an auditor, it must provide a justification to the appropriate authorities in the Member State in question. The committees' current responsibilities include holding meetings with the internal and external auditors, evaluating financial accounts before they are made available to the public, and, in certain cases, intervening to control management. These committees should concentrate on high quality financial reporting and risk management (including detection and control), since these are often where ideas for process improvement and recent failures are focused. Audit committees should also have a charter on file and routinely evaluate their performance in relation to it [11].

EU Proposed Directive on Statutory Audit

The Eighth Company Law Directive was subject to a significant change by the European Union Commission in 2004, which also recommended a new framework for corporate governance and audit. The idea is the result of a revision of EU statutory audit policy that began in 1996 with a Green Paper on the function and accountability of the EU statutory auditor. The current Eighth Council Directive, which primarily addresses the authorisation of auditors, would see a significant expansion in its scope as a result of the proposal. It defines the obligations, independence, and ethics of statutory auditors, adds a need for external quality assurance, and establishes an audit regulatory commission to provide public control of the audit industry. 46 The proposal offers a foundation for a balanced and successful international regulatory cooperative approach with oversight bodies of foreign countries like the US Public Company Accounting Oversight Board (PCAOB), even if the majority of the Directive focuses with improving audit quality inside the EU.

Mandate ISAs for EU

The plan calls for all statutory audits carried out in the EU to adhere to worldwide norms of auditing. adoption of these standards, which are being created at the moment stringent requirements, including the observance of procedural due process, will be imposed by the IAASB (the International Auditing and Assurance Standards Board). Final decisions on whether and how much to support ISAs will be mainly dependent on the implementation of effective governance plans for the IAASB. The Commission and the Audit Advisory Committee will cooperate to prepare the implementation of ISAs starting in 2005, according to the Commission letter from May 2003.

These will include the examination of audit requirements from the EU and Member States not covered by ISAs, the creation of an endorsement system, a single audit report, and excellent translations. The International Federation of Accountants (IFAC) International Auditing and Assurance Standards Board (IAASC) audit standard-setting process will continue to be improved by the Commission, particularly by ensuring that the public interest is adequately considered. If things go well, the Commission will put out a binding law mandating the adoption of ISAs starting in 2005.

Oversight of Auditors

Common standards for public oversight systems would be outlined in the proposed Directive, including the need that they be primarily managed and staffed by non-practitioners while also incorporating a sufficient number of individuals with auditing experience and/or competence. The proposed Directive would establish an audit regulatory body made up of members from Member States at the EU level, enabling quick adoption or modification of the Directive's specific implementation measures as well as ongoing monitoring and reactions to new events. The proposal outlines a model for cooperation between the relevant authorities of Member States based on "home country control," which means that regulators in the country where an audit firm is established would be fully responsible for supervising it. This model could be applied across the EU. Before they could conduct statutory audits in another Member State, however, individual audit professionals would have to demonstrate their skill and familiarity with the local legal system. Additionally, the proposed Directive would create protocols for information sharing between national oversights authorities of Member States during investigations. The proposed Directive would permit reciprocal cooperation with other nations, likewise based on the "home country control" premise, in order to set the groundwork for closer cooperation with international oversight organisations like the US PCAOB.

Measures applied to statutory auditors and audit firms of public interest companies

The introduction of an annual transparency report, auditor rotation, audit quality review every three years, a requirement that auditors be chosen by an audit committee, and a mandated report of the auditor to the audit committee on audit key matters (especially material weaknesses of the internal control system) are all provisions in the proposal that specifically apply to auditors of public interest companies, which are broadly defined as listed companies, banks, or insurance companies. Important criteria include the rotation of auditors and the transparency report. Information on the audit firm's governance, its global network, its quality assurance processes, and the fees received for audit and non-audit services are all included in the annual transparency report for audit firms (to show the relative significance of audit in the firm's entire business). If the same audit firm continues to handle the job, Member States might mandate either a change of the primary audit partner working with an audited business every five years or a change of the audit firm every seven years [12], [13].

CONCLUSION

Corporate governance has been described in a wide variety of ways by a wide variety of writers in a wide variety of nations. Corporate governance, in general, refers to the procedures and organisational frameworks utilised to run the company and maximise shareholder value. According to the Corporate Governance Principles of the Organisation for Economic Co-operation and Development (OECD), "Corporate governance encompasses a set of connections between a company's management, its board, its shareholders, and other stakeholders. Corporate governance also offers the framework through which the company's goals are established, as well as the methods for achieving them and evaluating success. The entity's purpose, vision, goals, and strategy are determined by the board of directors. As a major duty of the Board, "managing" is addressed in governance. Designing and overseeing controls that fairly ensure that goals are attained is another duty of the Board. Supervision is the third component of governance. It is very important to have independent oversight of managerial performance and compensation. We are all aware that there are daily conflicts of interest between management and stakeholders, which may lead to bankruptcies or significant frauds. Transparency with all identifiable stakeholders is another aspect of governance. The main focus of corporate governance is the problems that arise from the division of ownership and control. It specifically addresses the principal-agent relationship between shareholders and directors and the relationship between company agents and stakeholders. Other stakeholders include the company's creditors, its business associates (employees, clients, and suppliers), rival companies, and the general public. Each of these stakeholders has a stake in the corporation's success. Each stakeholder has a unique connection with the business and particular rights to financial report delivery. If we wish to comprehend each claim and suggest a reporting system that appropriately satisfies this need, these rights and connections must be thoroughly stated.

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CHAPTER 12

GOVERNANCE AND AUDITING IN A PUBLIC INTEREST CONTEXT

Malcolm Firdosh Homavazir
Associate Professor, Department of ISME, ATLAS SkillTech University, Mumbai, Maharashtra, India
Email Id- Malcolm.homavazir@atlasuniversity.edu.in

ABSTRACT:

In the framework of serving the public interest, governance and auditing constitute a dynamic and varied field where the practises of financial inspection and the principles of corporate governance collide. This abstract examines the complex interrelationship between governance and auditing, explaining the roles, duties, and effects on organisational accountability and transparency of each. The importance of boards of directors, audit committees, and regulatory agencies in forming efficient governance and audit practises is explored in depth. The article also looks at the difficulties and moral issues that come up when auditing institutions with a public interest mission, such governmental bodies, nonprofit organisations, and publicly listed enterprises. This abstract emphasises the critical role that governance and auditing play in protecting the public interest, maintaining the integrity of financial reporting, and ensuring that organisations perform their obligations to society at large via case studies and worldwide trends. It highlights the common dedication of governance experts, auditors, and regulators to uphold the highest standards of accountability, ethics, and openness in a setting that serves the public good.

KEYWORDS:

Auditing, converge, Governance, Public Interest.

INTRODUCTION

With the overarching goal of serving the greater good and the interests of society as a whole, governance and auditing in a public interest context represent a dynamic and critical intersection where the principles of responsible organisational governance converge with the practises of financial examination. This introduction sets the stage for a thorough investigation of how governance structures, regulatory oversight, and auditing practises interact to ensure transparency, accountability, and ethical conduct in organisations that have significant public influence in an era where organisations increasingly act as stewards of public trust and resources. The interaction between governance and auditing takes on distinct dimensions, bringing both problems and possibilities, whether in the context of government bodies, non-profit organisations, or publicly traded enterprises. The conversation will focus on their common commitment to preserving the greatest standards of openness and accountability for the benefit of society as it explores the complexity, ethical issues, and growing trends in governance and auditing within a public interest environment.The importance of governance and auditing is growing since organisations' choices and actions may have a significant impact on the general population. Government agencies, nonprofit groups, and publicly listed businesses all have a substantial impact on society well-being, financial stability, and the fair allocation of resources [1], [2].

Effective governance frameworks, such as boards of directors and audit committees, act as barriers to possible abuses of authority and financial resources, ensuring that businesses remain accountable to the public and its stakeholders. These governance practises build moral principles, direct strategic choice-making, and support continued financial reporting openness. Auditors provide assurance that financial information is accurate and trustworthy by independently examining financial statements and internal controls while working within the governance framework. Auditors are essential to maintaining the reputation of public interest organisations since they often receive public funding or have a larger social goal. However, there are certain complexity in the environment of governance and audits in the public interest. The necessity for regulatory monitoring, ethical concerns, and possible conflicts of interest are ongoing issues that need for careful navigating. The complex dynamics, legal frameworks, and best practises that influence governance and auditing in a public interest environment will be covered in further detail in this session. It will look at how these fields interact in order to maintain their common commitment to openness, accountability, and moral behaviour, eventually ensuring that institutions continue to uphold the public's confidence and serve the greater good [3], [4].

DISCUSSION

The context of auditing is often rather simple in business situations. A board of directors is chosen by shareholders to run a firm on their behalf. The board is in charge of selecting the right management for the business and accurately informing the shareholders of the outcomes. oThe Audit Market, this paradigm is characterised as a principal-agent relationship.

Relationship of Principal and Agent

Between principals and agents, there is an information imbalance that necessitates the auditor's fundamental role. By independently confirming management's claims to the board and the board's claims to the shareholders, auditors lessen this disparity. The principal's (shareholder) trust in the efficacy of the audit function is dependent on the independence, integrity, and skill of the auditor. The usefulness of the audit role is diminished if this trust is shaken by an auditor's violation of these requirements. This has been shown by a number of financial crises, most notably the full departure of Big Five Company Arthur Andersen after the fall of Enron. Principal-agent interactions are more complicated in a public interest situation. We'll use banks as an example here. The governance structure and shareholders of banks are essentially the same as those of other commercial companies. The bank's debtors and, more broadly, all those with an interest in the stability of the financial system as a whole, are another crucial set of stakeholders. In essence, it refers to everyone and every person, or the general public. This is what is meant by "public interest." The principal-agent model can only be used completely given the significance of the public interest in the improved operation of banks. It would be unrealistic to expect auditors to be able to properly decrease information asymmetry if almost everyone is a principle to an interconnected complex of actors. Additionally, the need of the financial system's overall stability justifies the ongoing focus of government watchdogs [5], [6].

Banking Supervision

Principals of banks are concerned with a variety of issues in addition to reducing information asymmetry with regard to financial reporting. They want assurance that they can consistently depend on the financial system. This has necessitated the creation of a more permanent regulatory and oversight role we will refer to as banking supervision. (Note that such role occurs in other contexts, for example, insurance and securities oversight, and competition agencies). Banking supervision, also known as prudential supervision, protects the public interest by granting licences to banks, enforcing regulations on corporate governance, capital adequacy, risk management, and internal controls, and by monitoring the compliance of banks both on- and off-site. Internal and external auditors' work often conflicts with that of banking supervisors in these areas. As a result, an International Auditing Practise Statement (IAPS) 1004 was released in 2001 by the Basel Committee on Banking Supervision1 and the

International Auditing Practises Committee of the International Federation of Accountants (IFAC). (Remember that the International Auditing and Assurance Standards Board (IAASB) is the successor of the IAPC.)

International Auditing Practice Statement 1004

The functions and obligations of a bank's board of directors, management, internal and external auditors, and banking supervisors are covered in IAPS 10042. It seeks to explain these functions and how they interact with one another. It should boost each participant's contribution to the public interest in financial stability, explain each position, and improve the model as a whole. The structure of IAPS 1004 is as follows. It first outlines the board of directors' and management's main duties. Then, it looks at the key components of the roles of banking supervisors and external auditors. Finally, it examines the working relationship between the bank's external auditor and the banking supervisor and outlines further ways that external auditors and the accounting industry might support the supervisory process. The function of the bank's external auditor is afterwards explained. So, in a word, the whole auditing procedure is shown. This closely relates to the subject matter of the book. An audit's goal is to provide an assessment of the financial statements. As a result, it is crucial to consider the financial reporting system for each individual nation. The auditor develops audit methods, evaluates inherent and control risk, and takes into account fraud risk elements in order to reach this conclusion. Numerous pertinent ISAs are cited.

Characteristics That Distinguish Banks

The next section is significant because it lists 14 features of banks that set them apart from most other business companies. Another best practise illustration of the necessity for auditors to thoroughly examine and comprehend the audit object and its business context can be found in this study. A professionally suitable audit is difficult to do without such. These have always been true, but it is crucial for every audit in the global, dynamic business environment of today. Audit committees and auditing companies should thus guarantee that this is properly satisfied. The Statement goes on to discuss topics including communicating with management, testing internal controls and substantive processes, using the work of the internal auditor, and the significance of judgement and materiality concerns [7], [8].

Role of the Banking Supervisor

After that, IAPS 1004 discusses the function of the banking supervisor. The basic goal of prudential supervision, it states from the outset, is to preserve stability and trust in the financial system while lowering the risk of loss to depositors and other creditors. The article continues by describing a crucial aspect of banks: "Banking supervision is based on a system of licencing, which enables supervisors to identify the population to be overseen and to regulate access into the banking system. Entities must adhere to specific prudential rules in order to be eligible for and maintain a banking licence.

Bank Risks

The Statement continues by describing many risks that banks must deal with, including credit risk, market risk, liquidity risk, operational risk, legal risk, and reputational risk. Banks must safeguard themselves from these dangers with a strong risk management programme and extensive internal controls. The credit risk, or risk that borrowers would default on their debts and cause loan losses, is a well-known example. For businesses as well, this is a crucial lesson to learn. Every organisation, whether it is monitored or not, should do the aforementioned risk analysis, naturally adjusted to the specific conditions. The directors and management can only develop reliable controls and have those adequately audited on that basis.

Supervisors’ Efforts

Finally, this section of the Statement outlines the steps supervisors take to guarantee management quality, gather, analyse, and validate information through on-site inspections and the use of external auditors, and schedule regular meetings with the audit committee or directors to improve their comprehension of a bank's corporate governance and system of operation. Supervisors pay close attention to the auditors' independence, competency, impartiality, and quality assurance programmes since their job is so important to them. When an auditor is not effectively carrying out the audit role for a bank's statutory audit, supervisors seldom have the authority to have him terminated.

Communications

"In a similar vein, data coming from the banking regulator may provide external auditors useful insights. It is customary to inform the bank of the findings from any supervisory inspections or management interviews that take place. Insofar as they provide an unbiased judgement in crucial areas like the sufficiency of the provision for loan losses and draw attention to particular areas of supervisory concern, these communications may be helpful to auditors. However, due diligence is essential in this situation in order to ensure that information that is known by one party and valuable to the other is shared correctly between them and, on the other hand, to maintain the required professional confidentially on both sides [9], [10].

Governance Communications

IFAC and the Basel Committee have had significant discussions about this issue. The agreement reached is stated in IAPS 1004's paragraph 52: "Communications of Audit Matters with Those Charged with Governance" (ISA 260) recognises items of governance importance and requires auditors to promptly inform those tasked with governance of such concerns. Only those issues that the auditor has become aware of as a consequence of conducting the audit are considered audit items of governance interest. In an audit conducted in line with the ISAs, the auditor is not needed to create processes with the express goal of locating governance-related issues.

Banking supervisors are likely to be interested in some audit concerns of governance importance, especially where such problems may call for immediate supervisor action. When mandated by a written agreement or convention, the regulatory, legal, or administrative framework, or by the The auditor promptly relays such information to the banking supervisor. The auditor advises the bank's management or those in charge of governance to promptly disclose any concerns that, in the auditor's opinion, may be of urgent interest to the banking supervisor in cases where there are no such regulations, agreements, or procedures. Furthermore, when management or those in charge of governance fail to inform the banking supervisor of such problems, the auditor considers doing so even though there is no duty to do so. When such communications are made, the auditor evaluates whether the law shields them from liability.

The Statement concludes by stating in paragraph seven that "banking supervisors and internal and external auditors cooperate with one another to make their contributions to the supervisory process more efficient and effective. When parties work together, oversight is optimised while everyone may focus on their own obligations. IAPS 1004 also addresses the potential for further requests for the external auditor to participate in the supervisory process. There are recommended criteria to prevent things like conflicts of interest and uncertainty regarding roles and abilities. The function of auditors has been explored in respect to banks and their interactions with banking regulators. It seems that the joint efforts of supervisors and auditors improve company governance. The key players in a proper corporate governance model are the board of directors and management. The supervisors' and internal and external auditors' professional efforts should enhance the governance's quality. IAPS 1004 explains how to utilise each job to its fullest potential. A lesson for unsupervised companies would be to consider what they are missing by not being monitored and how to make up for it in order to attain excellent corporate governance. This is especially true since non-financial entities are also valued highly in the public interest [11], [12].

CONCLUSION

In the framework of the public interest, governance and auditing form a nexus of duties and procedures that are essential to the stability and integrity of society. In this study, the complex interrelationship between governance and auditing has been examined, emphasising the importance of both in preserving the public interest, fostering openness, and guaranteeing accountability. An organization's culture, decision-making procedures, and adherence to ethical norms are all shaped by its governance structures, which include audit committees and boards of directors. These organisations are crucial in ensuring that companies achieve their social and stakeholder commitments in a public interest setting. Assuring the accuracy and reliability of financial information is the job of auditors, who are tasked with independently reviewing an organization's financial statements and internal controls. Auditors support organisations that have a greater social influence, such government agencies, non-profits, and publicly listed businesses, in building their trust in the public interest. In the area of governance and auditing in a framework of public interest, difficulties abound. Professionals in these industries must traverse a number of difficulties, including ethical issues, possible conflicts of interest, and the need for regulatory monitoring. Additionally, the scene is always changing due to the dynamic nature of organisations, technology breakthroughs, and shifting cultural expectations. Public interest governance and auditing are essential methods for preserving the confidence of the general public, stakeholders, and society at large. The greatest standards of openness, accountability, and moral behaviour are upheld by professionals in various fields as well as by organisations and regulators. They therefore support the general health and sustainability of organisations and societies.

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CHAPTER 13

A BRIEF DISCUSSION ON CLIENT ACCEPTANCE

Kajal Dipen Chheda, Assistant Professor
Department of ISME, ATLAS SkillTech University, Mumbai, Maharashtra, India
Email Id- kajal.chheda@atlasuniversity.edu.in

ABSTRACT:

Clients that lack integrity may result in major and costly issues for an accounting company because of the legal and professional obligations they place on them. Certain high-risk sectors are not acceptable customers for certain auditing companies. For instance, following the monetary penalties and court rulings resulting from the audits of Lincoln Savings, Standard Charter Bank, and International Bank of Credit and Commerce (BCCI), many significant auditing firms in the USA and Northern Europe during the 1990s were extremely cautious when accepting audit engagements of financial institutions. The energy sector (Enron, Dynergy, Pacific Gas and Electric, the State of California), the telecommunications sector (WorldCom, Global Crossing, Qwest), the healthcare sector (Health South, ImClone), and even traditional sectors like retail (K-mart, Ahold), food products (Parmalat), experienced significant issues at the start of the twenty-first century.

KEYWORDS:

Client Acceptance, Client-Audit, Competitive, Engagement Services.

INTRODUCTION

The client-audit firm relationship is not a one-way street in which the audit firm assesses the client before deciding that the client is "acceptable" and concluding the agreement by sending an engagement letter. As in any other industry, the market for audit services is competitive, and there are certain customers that each audit company would prefer to establish an audit relationship with. Audit companies create and submit engagement proposals to many of their (possible) customers, notably the big ones, however this is not always the case.

Steps in the Client Acceptance Process

In order to assess the client's past and the risks involved in accepting the engagement, it is essential to first comprehend the client, according to the part that follows in this chapter. To be able to determine if the ethical and professional criteria (independence, competence, etc.) characteristic to the particular engagement can be satisfied, the auditors' connection to the client must also be understood. That comes after the first phase in the procedure for customer acceptance. The remaining portion of the chapter addresses customer acceptance (referred to as responsible party in assurance services language). Here, we talk about the audit market's rivalry, cost factors, and audit service quality. The audit company is required to create and provide an engagement proposal to the customer (some auditors see this as a beauty pageant). The chapter also covers the elements of a client engagement proposal for both current and potential clients, as well as a short discussion of ISO 9000, the quality control standard, and how it relates to auditing firms and the engagement services they provide.

Evaluate the Client’s Background

The auditor has to learn enough about the client's operations to be able to recognise and comprehend any transactions, events, or practises that might materially affect the financial statements or the audit report. To evaluate the engagement risks related to accepting the specific engagement and to assist the auditor in determining whether all professional and ethical requirements (including independence, competence, etc.) with regard to this client can be met are the main motivations for obtaining this understanding. In Phase I of the audit process model, the client acceptance phase, auditors do not only learn about the client before the engagement. In the planning phase (Phase II of the model. Understanding the Entity, Risk Assessment, and Materiality), auditors will conduct a more thorough investigation of the client, its company, and industry.

Auditors are permitted to conduct a preliminary evaluation of both potential and current customers by travelling to their locations, looking through annual reports, speaking with the client's management and personnel, and reading public news and public information databases, often online. Review the working papers from previous years if the customer is an existing one. The auditor should speak with previous auditors and expand the initial information search if the client is new [1], [2].

DISCUSSION

An audit company will do comprehensive research before taking a new client to see if the customer is suitable and whether the auditor can satisfy the ethical standards of independence, specialised expertise, etc. Interviews with local attorneys, other CPAs, banks, and companies are other sources of information, albeit many of them may be subject to confidentiality constraints depending on the local environment. In such cases, the auditor will engage its forensic accounting division or a private investigator to learn more about the standing and history of the important management figures. A more thorough examination could be conducted if there has never been an auditor.

Continuing Clients

Every year, several auditing organisations assess their current clientele. In addition to the previously mentioned research, the auditor will take into account any prior disagreements over the audit's scope, the kind of opinion and fees, any ongoing legal disputes between the audit company and the client, and management integrity. Refer to Illustration 5.3. These four elements have a significant impact on whether the relationship will last. For ongoing engagements, the auditor would revise and reassess the data gleaned from the working papers of earlier years. The auditor should also take steps to find noteworthy changes that have occurred since the last audit. The auditor may decide to stop doing audits for a client if he believes there is too much risk involved. For instance, a customer and a government agency could have regulatory disagreements, which might lead to the client's financial collapse and perhaps even legal action against the auditor. It's possible that the auditor believes the sector (like financial services) carries greater risk than they are willing to take [3], [4].

Ability to Meet Ethical and Specific Competence Requirements

The auditor should decide if all ethical criteria, as stated. of Ethics for Professional Accountants, can be satisfied with relation to the particular engagement based on the appraisal they have got of the client's history. Verifying the auditor's independence is perhaps the most crucial technique at this stage of the engagement acceptance process. It is decided if the auditor and the audit team jointly possess the specialised competence necessary to deal with the challenges that the auditor is anticipated to meet in the audit based on the facts and circumstances discovered during the client assessment phase. The selection of personnel to carry out the audit, which is step six of the client acceptance process, also depends on the appraisal of the audit team.

Litigation and Independence

The existence of any ongoing legal disputes between the client and the auditor may also have an impact on the future of the partnership. The auditor's independence may be at risk if the customer is a party to a legal dispute with the auditor. 4 Independence would be compromised if a customer or other third party filed legal action against the auditor. Independence might also be compromised if the auditor filed a lawsuit claiming, for instance, that corporate officials committed fraud or dishonesty or that the accountant underperformed the client's audit. On the opposite side of the legal aisle, representing an assurance client as an advocate in court or in negotiations with third parties poses a "advocacy threat" to independence [5], [6].

Use of Other Professionals in the Audit

The auditor may learn via the background information search that the client's financial statements will be audited in part by another auditor or that a third-party expert, such as an IT, environmental, or tax specialist, may be required to do the client audit appropriately. In certain situations, specific processes are required by international standards.

Using the Work of another Auditor

Consideration of the need for a different auditor to audit a company component, such as a division in another nation, is a component of the background information search. The auditor should take into account how utilising the work of another auditor may affect the combined financial statements if another auditor is auditing a portion of the financial statements. When an auditor acting as a group auditor chooses to employ the work of a related auditor or another auditor in the audit of group financial statements, ISA 600, the standard regarding the work of another auditor, is intended to set standards and give advice. An auditor from the group auditor's firm, a network firm, or another company that follows similar quality control policies and practises is considered a related auditor. Any auditor who is not the group auditor nor a connected auditor is referred to as a other auditor [7], [8].

Group Auditor

The group auditor must provide an audit opinion on whether the group financial statements are presented accurately in all important respects and provide a true and fair perspective in conformity with the relevant financial reporting framework. In order to gather enough relevant audit evidence to offer an opinion on the group financial statements, the group auditor must decide what work needs to be done on the financial information of the components and on the consolidation. The group auditor decides the scope of work to be conducted and communicates the plan to the associated auditor or other auditor if they will be working on the audit with them.

Audit Responsibility

If national standards do not allow the group auditor to split responsibility for the audit opinion on the group financial statements, and national legislation or regulation does not allow it, (sometimes called "division of responsibility") the audit opinion on the group financial statements should be the group auditor's exclusive duty, if the group auditor chooses to do so. The group auditor should not include the other auditor in the auditor's report on the group financial statements if the group auditor is solely responsible for the audit opinion on the group financial statements. There are several national norms regarding the acceptance of duty division. Australia, Japan, the United Kingdom, and Australia 10 all forbid shared responsibility. 12 Only when presenting an opinion with qualifications is division of duty permitted under Canadian norms. If this revelation clarifies the basis for the auditor's reservations, the auditor may make reference to his inability to depend on the secondary auditor's work in his report. When the group auditor chooses to use the work of another auditor, he should take into account the other auditor's professional qualifications, independence, competence, and resources, as well as the quality control procedure used by the other auditor's firm in relation to the work to be done by the other auditor [9], [10].

Using the Work of an Expert

The auditor's training and experience allow him to have a basic understanding of business issues, but he is not expected to have the competence of a person with a different kind of training, like an engineer or an actuary. If the auditor needs specialised knowledge, they might think about engaging a professional to help them acquire the required information. According to 14 ISA 62015, an expert is a person or organisation with specific expertise, knowledge, and experience in a subject outside from accounting and auditing. The evaluation of specific types of assets (land and buildings, works of art, precious stones, etc.), determination of the physical condition of assets, actuarial valuation, value of contracts in progress, specialised IT expertise (for example, in the audit of a telecommunications company), and legal opinions are examples of situations where an auditor might use an expert.

Communicating With the Predecessor (Existing) Auditor

The requirement (addressed in Chapter 3 Ethics for Professional Accountants) calls for direct communication between the incoming auditor and the outgoing auditor. The code of ethics urges the new, proposed auditor to speak with the present accountant in situations when they would replace an existing auditor. Obtaining the client's consent and any applicable legal or ethical standards will determine the degree to which a current accountant may discuss the client's affairs with a potential accountant. This communication's goal is to ascertain if there are any technical or moral facts or situations that the new auditor needs to be aware of before accepting the audit. This stipulation is a crucial safeguard against "opinion shopping," or notifying the new auditor of the reasons the previous auditor terminated the client relationship. According to the Code of Ethics for Professional Accountants (the Code), upon receiving a request from a proposed successor auditor, the current auditor is required to respond and let the prospective successor auditor know if there are any professional reasons why they shouldn't take the position. The prospective replacement auditor should be informed if the client restricts or refuses the present auditor's ability to speak with the proposed successor auditor about its business.

Request Permission of Client

The new auditor should confirm that the previous accountant has been informed and granted permission to discuss the client's affairs completely and freely before accepting an appointment to audit a business that has been employing another accountant. The suggested accountant should then ask the customer for approval before speaking with the current accountant. When the newly proposed auditor communicates with the preceding (current) auditor, the former auditor should respond, preferably in writing, and advice of any professional reasons the proposed accountant should not take the assignment. Within a fair amount of time, the current accountant should provide the prospective accountant with a good response. If a response is not received, the prospective accountant should write to the current accountant to let them know that they should assume there is no professional justification for declining the appointment and that, if accepted, the new auditor would go through with the engagement.

ISA 510 advises the following for first engagements. The auditor shall gather adequate, suitable audit evidence to demonstrate that: (a) the opening balances are accurate and do not significantly include misstatements that impact the financial statements for the current period; Appropriate accounting principles are consistently used; (b) the closing balances of the former period have been accurately carried forward to the current period or, as necessary, have been restated; and (c) changes in accounting principles have been appropriately recorded and effectively communicated. Reviewing the predecessor auditor's working papers is, of course, one of the greatest methods to ensure that the opening balances and accounting rules are accurate when the preceding period financial statements were audited by another auditor. This should make it possible for the incoming auditor to gather enough relevant evidence. The previous auditor's independence and professional competence should be taken into account by the incoming auditor as well. The new auditor should pay special attention to the issue that led to the change in the current period if the preceding period's auditor's report did not provide the usual unqualified opinion [11], [12].

Acceptance by the Client the Engagement Proposal

The auditor came to the conclusion that the client is acceptable in terms of risk and ethics, and that the ethical standards for the particular client engagement may be satisfied. Given the competitive pressure present in the current audit environment the Audit Environment), considerable effort will then normally be put out in an attempt to secure the auditee as a customer. This needs a well written engagement proposal. The methods for the engagement proposal are covered in some detail in ISA 210, "Terms of Audit Engagement." 19 The audit team, audit strategy, audit quality, usage of the client's internal auditors, transition requirements, and the nature of the audit services to be done should all be understood by the auditor and the client. In ISO 9001, 20 references to the quality components of the client proposal may be found. This standard recommends that the auditing company identify and record its quality commitment, policy, and goals. The auditor must guarantee that this policy is recognized, followed, and upheld at all organizational levels. The two main categories of audit engagement proposals are those for new customers and those to existing clients.

A Review of How the Auditing Firm Can Add Value

The client proposal's introduction discusses how the proposing firm may help (add value to) the client firm. The company's focus, management philosophies, and quality control procedures are all discussed. It may be stated how the client's internal audit and accounting departments relate to one another. This section on future plans for value addition could include the client's expectations and explain how the audit company complies with them. It's possible to talk about the audit's materiality boundaries and breadth. It is important to talk about the reliance on local, national, and worldwide audit regulatory obligations. It should be made clear how much the client's internal audit team will be relied upon. Finally, it's crucial to evaluate any changes to client business management, newly launched initiatives, and the overall regulatory landscape. The adjustments that have an impact on the audit are particularly crucial.

New Client Audit Proposal

Since new customers are the main driver of a company's development, a proposal to audit a new client is crucial for auditing companies. Most businesses want to gain more distinguished clientele. A sophisticated proposal for a big, reliable customer can take several hours to complete. Of staff preparation time, particularly in a setting where there is competition. An example of a new customer proposal's table of contents in the executive summary, the proposal is briefly summarised with a focus on the client's expectations, the audit methodology, the firm's selling points, and the coordination of the audit with internal auditors on staff. A description of the client's business sectors, technology, financial strengths, and divisions may come first in the overall proposal. The audit approach 21's underlying client goals might be stated. In addition to things in the company's policies that go above and beyond what is required by law, it may draw attention to audit obligations related to securities exchange, environmental, governmental, and other restrictions.

The customer service mentality, technical proficiency, expertise, ambition to surpass expectations, and guidance and support are examples of the audit firm's strengths. This part may also highlight the calibre of the reports, the consistency of the audit teams, the global service, the cost-effectiveness of the audits, and the calibre requirements of the audit business. A description of each team member and a rundown of their professional background are provided in the section on the audit team. The team's communication strategy with management, the function of the team and supervisors, as well as team meetings and communications, may all be covered in this area. Step 6 of the client acceptance process, selecting the audit team, is often completed long before preparing the client proposal. Because it provides for a description of how the audit is customized for this one particular customer, the audit methodology section is crucial. The section might describe the audit's focus or emphasis on certain audit risks, the use of information technology throughout the audit, the participation of additional auditors or experts, and the number of locations or components examined. The conditions of the engagement, any legal obligations, internal control, and client systems might all be included in this section. It's also crucial to consider the kind and delivery schedule of any reports or other communications (such as audit opinions, reviews, special procedures, governmental reporting, and oral and written reports to the audit committee) anticipated as part of the engagement. In all audits, there must be some reliance on the work22 of the client's internal auditors. This section can make mention of the effort and output of the internal auditors, the choice of the supplier, and the failure of the supplier. Asset protection, internal controls, management information systems, system security, adherence to company policy, due diligence evaluations, and chances for development are some more topics that could be covered.

A description of the company's transition requirements for integrating the new auditor might be crucial in persuading a new client to transfer auditors. The transition timeline for the proposal's section on meetings with management and previous auditors may be included here. Documentation for permanent files, knowledge of internal controls, and advantages of the modification might all be other topics covered. There are still possibilities for the auditor to help the customer after the audit is finished. Monitoring the audit performance, audit firm self-evaluation (typically at closing meetings), management questionnaires to assess the audit performance, and written summaries of what was done in the audit (i.e. audit and satisfaction survey) can all be included in these after-service monitoring activities. An overview of the audit strategy, more information on the audit team, and a list of typical publications could all be found in the appendix. The amount of audit time needed for fieldwork, control confirmation, balance and transaction validation are often included in the audit plan's framework. A summary of the audit risks and the auditor's recommended response to those risks in the form of specific audit procedures will be included in the audit plan's blueprint.

The Audit Engagement Letter

In order to prevent misconceptions about the engagement, it is in the best interests of the client and auditor for the auditor to submit an engagement letter, ideally prior to the start of the engagement. An engagement letter formalises the agreement between the customer and the accounting firm about the performance of the audit and any associated services. The aim and scope of the audit, the extent of the auditor's duties to the client, and the format of any reports are all documented and confirmed in the engagement letter of an auditor. Legal obligations to the client may change as a result of the engagement letter. In court, the auditor may use an engagement letter as a contract outlining the scope, obligations, and restrictions of the audit. The letter outlines the auditor's objectives, the fact that the audit comprises a review of internal controls, the engagement timetable, and fees.

Financial Reporting Framework

The appropriate financial reporting frameworks for general purpose financial statements are described in ISA 200. The relevant financial reporting structure for general purpose financial statements is often determined by legislative and regulatory requirements. The appropriate financial reporting framework will typically be developed by a national standards-setting body that is accredited to issue standards in the country where the firm is registered or does business. When the auditor determines that the management-identified financial reporting structure is unacceptable, the auditor should decline the engagement for an audit of financial statements [13], [14].

CONCLUSION

In order to assess the client's past and the risks involved in accepting the engagement, the auditor must first have a basic knowledge of the client. To be able to determine if the ethical and professional criteria (independence, competence, etc.) characteristic to the particular engagement can be satisfied, the auditors' connection to the client must also be understood. The auditor should establish if all ethical criteria might be satisfied with relation to the particular engagement based on the assessment made of the client's history. Verifying the auditor's independence is perhaps the most crucial technique at this stage of the engagement acceptance process. It is decided if the auditor and the audit team jointly possess the specialised competence necessary to deal with the challenges that the auditor is anticipated to meet in the audit based on the facts and circumstances discovered during the client assessment phase. The auditor may learn through the background information search that a part of the client's financial statements will be audited by another auditor or that an outside expert, such as an IT, environmental, or tax specialist, may be required to adequately audit the client's financial statements. Client. In certain situations, specific processes are required by international standards. When the auditor employs additional auditors or related auditors, he becomes the "group auditor." The group auditor must provide an audit opinion on whether the group financial statements provide a true and fair picture (or are presented honestly, in accordance with generally accepted auditing standards).

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