AUDITING

B.Com. Honours Part-1, Paper-2

Topic – Classification of Audit

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Classification of Audit

According to the Organization of Business

1. ***Statutory Audit:*** A statutory audit is a legally required review of the accuracy of a company's or government's financial statements and records. The purpose of a statutory audit is to determine whether an organization provides a fair and accurate representation of its financial position by examining information such as bank balances, bookkeeping records, and financial transactions.

2. ***Private Audit:*** Private companies, ranging from family businesses to global, publicly-trading corporations, are not part of the government. Their profits are designated at the operators' prerogative, often for good old capitalist gain, and companies' objectives can differ vastly.

According to the Ownership of Business

1. ***Audit of Companies:*** Under companies Act, audit of accounts of companies in India is compulsory. Chartered accountant who is professionally qualified is required for the audit of accounts of companies. Companies Act 1913 for the first time made it compulsory for joint stock companies to get their accounts audited from a qualified accountant. A number of amendments have been made in companies Act, 1956 and 2013 regarding appointment, duties, qualification, power and liabilities of a qualified auditor.

2. ***Audit of Trusts:*** The beneficiaries of the trusts may not have access and knowledge of accounts of the trust. The trustees are appointed to manage and look after the property and business of the trust. Accounts of the trust are maintained as per the conditions and terms of the trust deed. The income of the trust is distributed to the beneficiaries. There are more chances of frauds and mis-appropriation of incomes. In the trust deed as well as in the Public Trust Act which provide for compulsory audit of the accounts of the trust by a qualified auditor. The audited accounts of the trust ensure true and fair view of accounts of the trust.

3. ***Audit of Accounts of Co-operative Societies:*** Co-Operative societies are established under the Co-Operative Societies Act, 1912. It contains various provisions for the regulations and the working of these societies. Some of the states have adopted it without any change, while others have brought certain changes to it. The auditor of the Co-operative Society should have an expert knowledge of the particular act under which Co-operative society under audit is functioning. He should also study by-laws of the society and make sure that the amendments made from time to time in the by-laws have been duly registered in the Registrar's Office. Companies Act is not applicable to the co-operative Societies. The Registrar of co-operative societies shall audit or cause to be audited by some person authorized by him, the accounts of the society once in every financial year.

4. *Audit of Government Offices:* Audit of government offices and departments is covered under this heading. A separate department is maintained by government of India known as Accounts and Audit Department. This department is headed by the Comptroller and Auditor General of India. This department works only for the government offices and departments. This department cannot undertake audit of non-government concerns. Its working is strictly according to government rules and regulations.

5. *Audit of Proprietorship:* In case of proprietary concerns, the owner himself takes the decision to get the accounts audited. Sole trader will decide about the scope of audit and appointment of auditor. The auditing work will depend upon the agreement with auditor and the specific instructions given by the proprietor.

6. *Audit of Partnership:* To avoid any misunderstanding and doubt, partnership audits their accounts. Partnership deed on mutual agreement between the partners may provide for audit of financial statements. Auditor is appointed by the mutual consent of all the partners. Rights, duties and liabilities of auditor are defined in the mutual agreement and can be modified by the partners.

7. *Audit of Individuals:* An Individual such as estate managers, rent collectors, investors, etc. who engaged in business/ or profession is required to maintain books of account and to get them audited and obtain and furnish Tax Audit Report of the Income Tax Act (1961) from a Chartered Accountant if the sale, gross receipts or turnover etc. exceeds prescribed limit.

According to the Time of Audit

1. *Interim Audit:* When an audit is conducted between two annual audits, such audit is known as Interim audit. It may involve complete checking of accounts for a part of the year. Sometimes it is conducted to enable the board of directors to declare an Interim dividend. It may also be for the purpose of dealing with interim figures of sales.

2. *Continuous Audit:* The Continuous Audit is conducted throughout the year or at the regular short intervals of time. A continuous audit involves a detailed examination of all the transactions by the auditor attending at regular intervals for example weekly, fortnightly or monthly, during the whole period of trading.

3. *Final Audit:* Final Audit means when the audit work is conducted after the close of financial year. A final audit is commonly understood to be an audit which is not commenced until after end of the financial period and is then carried on until completed.

4. *Balance Sheet Audit:* Balance Sheet Audit relates to the verification of various items of balance sheets such as assets, liabilities, reserves and surplus, provisions and profit and loss balance. The procedure under this audit is to follow a backward process. First the item is located in balance sheet, and then it is located in original record for the purpose of verification.

According to the Objectives of Audit

1. ***Management Audit:*** Management audit is a systematic examination of decisions and actions of the management to analyse the performance. Management audit involves the review of managerial aspects like organizational objective, policies, procedures, structure, control and system in order to check the efficiency or performance of the management over the activities of the Company. Management Audit is an assessment of methods and policies of an organization's management in the administration and the use of resources, tactical and strategic planning, and employee and organizational improvement.

2. ***Internal Audit:*** It implies the audit of accounts by the staff of the business. Internal audit is an appraisal activity within an organization for the review of the accounting, financial and other operations as basis for protective and constructive service to the management. It is a type of control which functions by measuring and evaluating the effectiveness of other types of control. It deals primarily with accounting and financial matters but it may also properly deal with matters of operating nature.

3. ***Cost Audit:*** Cost Audit is the verification of the correctness of cost accounts and adherence to the cost accounting plans. Cost Audit is the detailed checking of costing system, techniques and accounts to verifying correctness and to ensure adherence to the objectives of cost accounting.

4. ***Secretarial Audit:*** Secretarial Audit is concerned with verification compliance by the company of various provisions of Companies Act and other relevant laws. Secretarial audit report includes
   a) Whether the books are maintained as per companies act, 2013.
   b) Whether necessary approvals as required from central Government, Company law board or other authorities were obtained.

5. ***Independent Audit:*** Is conducted by the independent qualified auditor. The purpose of independent audit is to see whether financial statements give true and fair view of financial position and profits. Mainly it is for safeguarding the interest of owners, shareholders and other parties who do not have knowledge of day-to-day operations of organization.

6. ***Tax Audit:*** Now-a-days tax audit has become very important to ascertain the accuracy of tax related documents. Tax audit mostly covers income returns, invoices, debit and credit notes and various current and fixed assets. Tax audit is an innovation of 21st century. It has added one more chapter to the practice of auditing. Tax audit ensures the validity and credibility of tax related documents.