



JAGATPUR P.G COLLEGE
AFFILIATED TO MAHATMA GANDHI KASHI VIDYAPITH, VARANASI



Subject: Auditing

Class: B.Com 2nd year.

Topic: Auditing: Definition, Scope, Functions and Limitation.

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- **Auditing: Introduction:**

Auditing may be defined as an intelligent and a critical scrutiny of the books of accounts of a business with documents and vouchers from which they are written up, for the purpose of ascertaining whether the working results for a particular period, shown by the Profit and Loss Account, as also the exact financial condition of that business, as reflected in the balance sheet are truly determined and presented by those responsible for their compilation. Basically it is the independent examination of data, statement, records, operation and performances of an enterprise for a stated purpose.

According to **Montgomery- “Auditing is a systematic examination of the body and records of the business & other organisations, in order to ascertain or verify & to report upon the facts regarding its financial operations and the result thereof”.**

According to **Ronald A. Irish – “Auditing in its modern concept is a scientific & systematic examination of books, vouchers and other financial and legal records in order to verify and report upon the fact regarding the financial condition disclosed by the Balance Sheet and net income revealed by the Profit and Loss Account.**

- **Characteristics of Auditing:**

1. There must be an institution: The work audit is done in institution, whether it is government, semi-government or non government. Books of accounts of non profit making institutions are also audited.

2. Independent Person: The core idea of any audit exercise is an independent evaluation of the available evidences. The auditor while forming and expressing his opinion should not be susceptible to any influence or presence from client.

3. Examine Truthness: Audit is a systematic & independent examination of the books of accounts to ascertain whether the Balance Sheet show true & fair view of the financial position.

4. Follow Principal: During the course of auditing, the auditor has to take in mind some principal and has to see whether the Profit and Loss Account and Balance Sheet has been prepared in the prescribed form or not.

- **Scope of Auditing:**

1. Scope of Private Audit: If an organisation gets its accounts audited by a person under an agreement it is called private audit. It is optional and the qualifications of the auditor in such a case is not prescribed by any law. The rights, duties and liabilities of such an auditor are determined by an agreement.

2. Scope of Statutory Audit: The audit of a concern, performed compulsorily under law is called statutory audit e.g. audit of company, Trust, Bank etc. The provisions of law cannot be changed by any agreement in statutory audit, although the duties and liabilities can be changed.

3. Scope of Government Audit: The audit of accounts of various government institutions and department is known as Government Audit. The audit of central and state government department is headed by the Comptroller and Auditor General of India. Under article 148 of the Indian constitution, the president of India appoints the Comptroller and Auditor General of India.

- **Functions of Auditing.**

1. Primary Functions: The primary Functions of an auditor is to respect the owners of his business expressing his opinion whether account exhibits true or fair view of the state of affairs of the business. It should be remembered that in case of a owners of the company, he reports to the shareholders who are the owners of the company & not tot the director.

2. Secondary Functions: Detection and prevention of errors done in 4 ways:

-Errors of Omission: These are the errors which arise on account of transaction into being recorded in the books of accounts either wholly partially. If a transaction has been totally omitted it will not affect trial balance hence difficult to detect.

-Errors of Commission: When incorrect enteries are made in the books of accounts either wholly, partially such errors are known as commission e.g wrong enteries, wrong calculations etc

-Errors of Principal:These are the errors committed by not properly following the accounting principles.They arise mainly due to lack of knowledge of accounting.E.g. Revenue expenditure may be treated as Capital Expenditure.

-Compensation Errors:When two/more mistakes are committed which counter balanced each other.Such an error is known as Compensation Error e.g. A's account which was to be debited for Rs.200 was credited for Rs.200.

3 .Protection to Shareholders:This means protection to shareholders'interest in the company.Auditors are the representatives of the shareholders, naturally it is their duty to see whether the interest of the shareholders is protected or not.

4 .Stop Capital Erosion:The problem of capital erosion arises when high rate of corporate under the purview of general audit.It should be duty of an auditor to see whether the wages of labour are fair and unconformity with general price index and to see the basis reduction of wages for labourers is made or not in the plea of labour cost control.

- **Limitations of Auditing**

1.It is only Test Check:It is almost impossible for an auditor to check each and every transaction.Hencw only test checking is done by him which could lead to frauds and errors being escaped.

2.Based on Internal Check and Control:

Efficiency & effectiveness of auditing is largely dependent on an efficient internal check and internal control system.In case these are not efficient,the auditor can't audit the books of account.

3.Dependence on Inside Information:An auditor has to depend on various persons of enterprise to seek additional information, clarification and explanation.If the persons providing information have themselfess been a party to manipulation of books of account,they may not be liable.

4.Conceptual Restrictions: Conceptually auditing is confinned to the techniques of checking,vouching, verification, totalling etc.in a modern business.

- **Questions;**
- **Short Questions:**
 1. **What do you mean by auditing?**
 2. **What are the characteristics of of auditing?**
- **Long Questions:**
 1. **Explain the scope of auditing and it's limitations?**

- **Reference:**

- **B.K Mehta(AUDITING)**
- **WIKIPEDIA**
- **Tutorialspot.com**
- **Investopedia.com**

Thank you

