**CONDUCT OF AN AUDIT**

An audit may be classified into the following groups or categories they are, Continuous audit – Government audit.

Periodical audit or final audit or complete audit – Joint stock companies, banks. Interim audit – Joint stock companies once in 6 months to know the profit.

Occasional audit – done once in a week.

Partial audit – only part of the accounts audited helps to create unaccounted money.

Standard audit – it does complete check and analysis of few items. It has effective internal check proper test check on items.

Balancesheet audit – common in U.S.A, used to verify assets and liabilities, profit or loss of the firm.

# Continuous audit

A continuous audit is also called as government audit or a detailed audit, because this audit involves a detailed examination of the books of account at regular intervals of one month or almost maximum within 3 months. In continuous audit, auditing is carried on throughout the year. The auditor visits the client regularly or at fixed intervals during the financial year, he also checks and verifies each and every transaction. The auditor at the end checks the profit and loss a/c and the balance sheet continuous audit is useful only for large concerns.

# Continuous audit is useful or applicable or suitable in

Where it is desired to present the accounts immediately after the close of financial year. Where huge transactions are maintained.

Where the statement of accounts has to be presented every fortnight or monthly or quarterly so on. Where no satisfactory system of internal check is in operation.

**Advantages of continuous audit**

Easy and quick recovery of errors.

Knowledge of technical details can be learned easily by the auditor because of constant touch with business.

Quick presentation of accounts

Keeps the clients’s staff regular or keeps the company busy and regular. Continuous audit helps to maintain a moral check on the client’s staff. Continuous audit brings in very good efficiency.

Continuous audit helps in quick preparation of interim accounts whenever interim dividend has to be declared.

Continuous audit always keeps the members of the audit department very busy.

# Disadvantages of Continuous audit.

Alteration of number or figures is possible because the accounts are already cheked. Therefore, the clerk can change the numbers very easily and no doubt will arise because the statement has already been singed.

Eg. Signed amount Rs. 8,000, the clerk alters it to Rs. 8,600.

Dislocation of client’s work- Because the auditor visits frequently the work of the internal staff can be affected to a great extent.

Continuous audit is expensive.

Because of continuous audit, even the enquiry from important people can be kept pending. Extensive note taking becomes necessary in order to avoid alternation of number.

The workers of the company may become totally dependent on the auditor or on his staff because the auditors verifies each and every detail work learning by internals staff is neglected. The disadvantages and danger are theoretical than real. These disadvantages can be removed by undertaking the following precautions.

No alternations should be made after the entries have been checked by the auditor without his permissions.

If any alteration has to be done then, it should be made after rectifying the journals.

Checking of the books should be completed within one visit itself or if that is one possible, he should finish up checking upto a particular date which should be noted down in his diary clearly.

A well drawn up program should be undertaken by the auditor to prevent any loopholes

A role should be made in the audit note book regarding any enquiry made by the auditor for which no satisfactory reply was received by him.

If any figure has been altered without the knowledge of the auditor. Then the auditor should make a secret mark so that he can check out and verify in the later on stage.

Before drawing up the balance sheet or profit and loss a/c, the auditor should make sure that no alteration is there or no secret marking is there.

The audit of impersonal, and general or private ledgers should be conducted at the time of final audit only in order to prevent any malpractice.

The audit should make surprise visit to the customer’s office to check the details and find out any fraudulent activity if any periodical audit or final audit or complete audit.

# Periodical audit or final audit or complete audit:

Is one which is taken up at the time of closing of the financial year or at the end of trading period. In this case. All the accounts will be balanced trading and profit and low a/c

and balance sheet etc. will be prepared this will also help the organisaiton to get in proper and correct information. The audit may also begin even before the final accounts are prepared and it can continue till the audit is completed. The main concept of this audit is that the audit is completed in one continuous session. This helps the auditor to check all the books, ledger balances etc, without any alteration by the staff. But the major disadvantage of periodical audit is that the auditor sees the books only once in a year, secondly the auditor cannot finish the work within one day.

The major advantage is that alteration of numbers cannot be done very easily. This is most probably used by small business concerns.

In this audit, interim dividend cannot be declared easily because the final audit is done only to the end of the year.

# Interim audit.

Whenever an audit is conducted in between the tow annual audits, with a view to find out interim profit to enable allow the company to declare an interim dividend, such typs of audit (Interim audit is done in between tow final audits).

# Interim audit has the following advantages.

This type of audit is very much helpful in order to publish the interim accounts of the company (Quarterly half yearly etc).

The final audit can be carried out and completed very easily and quickly if interim audit has been done.

months or 6 mont6hs which would also atmost try to put an end to any malpractice.

**Disadvantages:**

Items may be altered in the accounts which has been already audited by the auditor.

Interim audit means the audit staff members will have to prepare audit notes whenever they finish the interim audit.

Interim audit would automatically increase the work of the organization

# Difference between Continuous audit and Interim audit:

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| **S. No** | **Continuous audit** | **Interim audit** |
| 1 | It is one which is carried out throughout the year. In continuous audit, the accounts are tallied every day and the work is done  according to the convenience of the auditor | In interim audit the work is done on a definite date and according to the instructions of the client. |

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| 2. | In continuous audit the assets and liabilities are verified after the balance sheet has been prepared at the end of the  accounting year | In interim audit the assets and liabilities are verified when the audit is conducted. |
| 3. | In continuous audit, no trial balance is  prepared, but totals of such accounts are verified or noted down. | In interim audit, the trial balance is prepared and it is checked out. |
| 4. | In continuous audit the main objective is  not to know the profit or loss. | Interim audit is conducted with an  objective to find out the profit and loss. |
| 5. | It is a complete set of records for the  financial year. | It is a record only for a specified  period. |

**Occasional audit:**

Occasional audit is not a regular audit. It is done whenever the need arises and whenever the need arises and whenever the client prefers the audit is done. Such types of occasional audit basically an audit done by sole proprietors or by small partnership concerns.

# Partial audit:

In this type of audit, where the work of the auditor is basically restricted or certain. The auditor checks in only a few books, he may be asked to check the receipts side and may be asked not to check the payments side. Same way the auditor might be asked to check the cash book, purchase book etc., if the proprietor suspects any fraud we can clearly state that partial audit is not acceptable to the companies Act. It cab be practiced only but sole proprietors or partnership concerns.

**Standard audit:**

Standard audit was defined by Mr. Irish, an accounting expert from Australia. According to him. “this embraces a complete check and analysis of certain items, contingent upon effective internal check, appropriate test checks on remaining items: the whole of the work being in accord with general auditing standards quite adequate to justify and unqualified opinion”.

From the above definition, we could clearly make out that the item of accounts relating to certain categories are checked thoroughly analysed and applied in order to bring in an effective internal check system into operation but this also accepts the concept of continuous, complete and interim audit are perfect ones it is acceptable as per law.

**Balance sheet Audit:**

Balance sheet audit is a recent development, this audit is more popular in U.S. A than in any part of the work. This balance sheet audit is most useful for the industries, business concerns, economic units. The balance sheet audit will become an important concept in the years to come.

The term balance sheet audit refers to the verification of the values of assets and liabilities. Balance of reserves and provisions, amount of profit or loss earned or suffered by the organisaiton. Balance sheet audit concentrates of various important aspects or on the important expenditures. This audit helps to differentiate between capital expenditure. And revenue expenditure and also if any item is put in profit and loss a/c where as it should have been entered only in Balance sheet, then such errors or mistakes could be corrected by balance sheet audit.

# Difference between balance sheet audit and Post & Vouch audit:

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| **S. No** | **BALANCE SHEET AUDIT** | **POST & VOUCH AUDIT** |
| 1. | Balancesheet audit is conducted with the procedural test. | In case of Post & Couch audit, the auditor takes the important items to the balancesheet and the work is reduced to  a great extent. |
| 2. | Balancesheet audit at times any not have  some important items, which have to be present. | There is no chance of missing any  important item in the Post & Vouch audit. |

**Procedure or method to conduct balance sheet audit:**

1. The auditor should examine the minute book of the company especially the items which relate to accounts.
2. He should examine and compare the Profit and Loss a/c of the previous year to find out whether there is any difference between the tow years.
3. He should compare the increase or declare in the expenses between the two periods with the turnover in order to make adjustments relating to allowance, sales tax etc.,
4. If there is any difference in the gross profit and if so he should investigate, he should also calculate the value of the stocks.
5. He should find out whether there is any change in the rate of depreciation in the current year. If so, then he should examine the change with effect to the revenue a/c.
6. He should investigate into the items of non-recurring nature. eg: Repairs – painting of building etc
7. He should carefully analyse whether there is any substantial change in the value of any fixed asset when compared with the previous year.
8. He should find out the value of current assets and compare it with the previous year, to find out if there is any difference.
9. The auditor should analyse whether there is any alteration in the pre-payments and in the accruals. If so, he should find out the cause for the difference.
10. He should study the balancesheet fully in order to find out whether there is any variation in the balansheet items.
11. He should carefully determine the value of assets and liabilities of the company.
12. He should find out whether there is any capital commitment for the company (within 1 year), If so, find out the reason and whether because of such commitments, the company will suffer any loss, must be determined by the auditor.

# Position of an auditor with regard to balance sheet audit:

Whenever an auditor checks only the balance sheet to prepare an auditing report, he should submit the report which clearly states the work dine by him according to sec., 227(3). The report will contain the method undertaken by the auditor, to conduct balancesheet audit and the duties and responsibilities which were discharged by the auditor at the time of conducting such audit must be put in the report. The report must provide only true or fair information.

# Vouch and Post audit:

**Meaning/ Definition:**

“Vouch and post audit is that where the auditor check each and every transaction right from its origin in the books of prime entries till they are posted”.

The system of audit has become obsolent in case of large firms where the number of transactions are numerous, with a good internal check system or mechanized system being brought into use in the present day system. The auditor basically uses the scientific methods to test check the items by choosing random samples.

# Internal check or control:

“According to L.R. Dicksee, “Internal check is such an arrangement of book keeping routine that errors and frauds are likely to be prevented or discovered by varying operation of the book keeping itself”.

According to F.R.M Depaula, “Internal check means practically a continuous internal audit carried on by the staff itself by means of which the work of each individual is independently checked by other members of the staff”.

**Meaning of internal check system:**

Internal check system is a method of organizing the accounting systems of a business concern or a factory where the duties of different clerks are arranged in such a way that the work of one person is automatically checked by another and thus the possibility of fraud or error or any irregularity is minimized or reduced. This minimization makes the employees to be alert and careful in their work.

# Internal audit:

**Definition:**

According to Professor Walter.B.Meigs of U.S.A., “Internal auditing consists of a continuous, critical review of financial and operating activities by a staff of auditors functioning as full time salaried employees”.

According to Institute of Internal Auditors, New York, “Internal audit is an independent appraisal activity within an organization for the review of accounting, financial and other operations as a basis for service to the management”.

# Meaning of Internal audit:

The concept internal check and internal audit should not be confused together. Internal audit is the independent appraisal (report) of the activity within an organization in order to review the accounting, financial and other business practices as a protective and constructive arm of management. It is a type of control which functions by measuring and evaluating the effectiveness of other types of controls”.

# Operational auditing:

Operational auditing is a recent concept. This was basically developed by the internal auditors. They instead of calling their work as internal audit, they started to call it as operational auditing. By the term operation, they mean the transaction of a business.

Operational auditing is nothing but internal audit because such an audit covers all the transactions of a business. This type of auditing can be used in any organization or institution where there are large number of transactions are carried out. This is not suitable for small business concerns. The objectives of operational audit are more or less same like that of internal audit.

# Objectives of internal audit:

Examination of the control structure.

Use of auditor’s general knowledge in the company’s operation in order to examine the departmental controls and general company policies.

Difference between Internal check and Internal audit.

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| Internal Check | Internal Audit |
| 1. In case of internal check, entries are passed in such a way that the work of one check is automatically checked by another at a same  time. | 1. Internal audit in this case, the work of clerk is checked by another after the former has finished the work. |
| 2. In case of internal check, the system is devised in such a way that the chances of committing theft, error and frauds is  minimized. | 2. Internal audit is a device or method which is used to find out the error or fraud which has been committed or done already. It is a  detective method. |
| 3. Internal check system is a systematic  device and guarantees protection against any fraudulent activity. | 3. This is a system to find out any fraudulent activity. |

# Objectives of internal checks:

* Proper division of work.
* Fixation of responsibility.
* Minimisation of errors and frauds.
* Easily detection of errors and frauds.
* Reliability of the books of accounts.
* Easily preparation of final accounts.

# Advantages of internal check:

* Proper division of work.
* Efficiency and economy.
* Prevention of errors and frauds due to moral check.
* Easily preparation of financial statements.
* Increase in profitability for the owners.
* Convenient to the auditor to carry out work easily.

# Disadvantages of internal check system:

* Cheating may be done by high officials or complication can be done by high officials.
* Costly for small business concern.
* Risky for the auditor.

# Principles of an effective internal check system:

* Authority, duties and responsibilities of each member of staff should be clearly defined.
* Division of work should be based on the capacity and capability of each individual member.
* There should not be overlapping or duplication of work at any point of time.
* Division of work should be designed that no single individual is allowed to perform any work single handed from beginning to end.
* Routing of work should be so arranged that the work performed by one individual is automatically and in ordinary course is checked by another individual department.
* There should be regular rotation of employees from one work center to another in order to ensure against errors and frauds and to broaden the work experience.
* Employees should be carefully selected and properly trained for the job to be done by each of them.
* Employees should be given clear cut instructions whether oral or written so as to enable them to perform their work in an orderly or ordinarily in efficient manner.
* At periodical intervals employees should be asked to go on any leave so that any errors or frauds committed by any could be detected during the leave period.
* There should be self balancing system of accounting to provide for control of subsidiary ledgers through an account in the general ledger.
* There should be a system of perpetual (continuous) inventory control providing for continuous accountability.
* Use of mechanical and electronic equipment such as cash register, book keeping machines, calculator, signature checking machine and computer should be encouraged.
* Filing of the vouchers should be done systematically according to the number or date.
* Incoming letters should be opened by a responsible official who should list all the letters, cheques and money order receipts and pass them on to the clerk concerned after securing individual acknowledgements.
* Cash receipts should be duly deposited in the bank, cash received after banking hours and cheques, drafts share and security should be under the custody of a responsible official.
* Major assignment like verification and valuation of wages etc. should be under the strict control vigilence.

# Objectives of internal control relating to accounting system:

According to the institute of Charted Accountants of India, the following objectives are brought out with regard to the accounting system.

* To ensure that transactions are executed in accordance with the managements general or specific authorization.
* To ensure are transactions are promptly recorded.
* To ensure that assets are safeguarded from unauthorized people.
* Recorded assets are compared with the existing assets.

# Characteristics of an effective internal control system:

* Proper planning in the organization.
* A proper system for authorization and record procedures.
* Proper practices in the performance of duties and functions.
* Proper quality of the employee is must.

# Limitations of internal control use:

* Operation use of internal control system involves expenditure of both time and money.
* Internal controls are consistent with transaction of routine nature which may call for greater attention.
* Potential for human error contributes its own share to the internal control system.
* Possible confusions can arise between persons operating the internal control and the employee of the client enterprise may arise.
* Persons responsible for exercising control may themselves break the control procedure.
* Change in conditions may bring in unnecessary or inadequate control which may lead to mistakes.
* Top management of the client enterprise may manipulate transactions, estimates and judgements to bring a defective internal control system.

# Internal audit and statutory audit:

**Internal audit:**

Internal audit is an independent checking of a work in an organization regarding accounting financial or other activity. It is a protective and constructive step done within the organization to protect any cheating or fraud and also it is a positive step to prevent errors and mistakes. Internal audit is done by the auditors who are the employees of the company. A proper internal audit helps the organization to finalize the accounts very quickly at the end of the year. It can also act as a guide to the external auditor.

# Statutory audit:

Whenever an audit is conducted according to the rules and regulations of the Companies Act 1956, by an external auditor then we term it as statutory audit. A statutory audit is normally done by joint stock companies in order to present a proper set of accounting records to the shareholders, income tax department, creditors and to the future members of the company statutory audit is done only by the external auditor who is appointed by the share holders of the organization in the AGM (Annual General Body Meeting).

# Difference between Internal audit and Statutory audit:

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| Internal Audit | Statutory Audit |
| 1. Internal auditor is appointed by the management of the company. | 1. Statutory auditor is appointed by the shareholders of the company except in certain cases he is appointed by the  Government or the directors of the company. |
| 2. Internal auditor appointment is optional. | 2. Statutory auditor must be compulsorily  appointed. |
| 3. Internal auditor need not possess any particular qualification according to Sec.226. | 3. Statutory auditor must be a qualified person according to Section. 226 of the  Companies Act. |
| 4. Internal auditor is an employee of the  company. | 4. Statutory auditor is an independent person. |
| 5. The work of internal auditor is determined  by the management. | 5. Work and responsibilities of statutory  auditor is prescribed by the law. |
| 6. Internal audit is a continuous process. | 6. Statutory audit is normally done after the  preparation of final accounts. |
| 7. Internal auditors main duty or objective is to find out whether there is any error or fraud. | 7. Statutory auditor main duty or objective is to find out whether the B/S and P&L a/c are  correct and are acceptable to the law. |
| 8. The powers and duties of an internal auditor can be reduced. | 8. The powers and duties of a statutory auditor cannot be reduced. It is laid down by  the law. |
| 9. Internal auditor can suggest steps to avoid  wastage, run business efficiently etc. | 9. Statutory auditor does not give any advice  unless otherwise specifically asked. |

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| 10. Internal auditor need not submit any  report to the shareholders. | 10. Statutory auditor must submit the report  to the shareholders. |
| 11. Internal audit has to check all the  transactions. | 11. Statutory auditor may apply test check. |
| 12. Internal auditor cannot be prosecuted or  held for any professional misconduct unless he is a chattered accountant. | 12. Statutory auditor will be automatically prosecuted for misconduct of work. |
| 13. Internal auditor can be removed by the  management or the directors. | 13. Statutory auditor can be removed only by  the shareholders. |
| 14. Internal auditor acts as a watch dog or  protector for the directors or management of the company. | 14. Statutory auditor normally protects the interest of the shareholders. |
| 15. Internal auditor has to prepare accounts or internal audit statements in order to the satisfaction of management. | 15. Statutory auditor has to prepare the auditing statement to the satisfaction of the shareholders or to the third parties who  utilizes the financial data. |
| 16. The remuneration of internal auditors are  fixed by management. | 16. Remuneration of statutory auditor is fixed  by shareholders. |
| 17. Internal auditors have no right to attend  the meeting of the shareholders. | 17. Statutory auditors are allowed to attend  shareholders meeting. It is their right. |
| 18. The activities of an internal auditor is  continuous. | 18. The work of the statutory auditor is  periodical. |
| 19. Internal auditor is appointed till the  attainment of retirement age or till the management prefers. | 19. Statutory auditor is appointed every year or denominated every year. |

**Status of an Internal Auditor:**

* Internal auditor is an advisor to the company.
* Internal auditor has no right to set up procedures or policies.
* Internal auditor cannot direct work to anyone.
* Internal auditor can only advise, he cannot force things on the management.
* Internal auditor has to prepare accounts efficiently. He will not find out or report any inefficiency or short comings of an accountant.
* Internal auditor must get the co-operation of all the members of the company and must be firm and fair in reporting good and bad events.
* Internal auditor should always report to the finance director of the company so that the independence of internal audit is maintained.

# Audit Procedure:

An auditor should have with him an audit notebook, working papers etc in order to note down the important points to be clarified with the client. The last information or accounts with which he has audited should also be noted down in the audit book properly. These things have to be maintained in order to prevent any mishappening. Cheques should be crossed, any fraud or misappropriation of accounts in the previous audits are found out means they should be noted down in the book carefully.

# Procedure:

* Different tick marks of different colours must be used for addition, posting, for ledger, for balances and carry forwards etc.
* The importance of the tick marks should not be made known to the client or it should be kept secret.
* The same kind of tick marked should not be used for every firm and for the same kind of transactions for all the visits, they should be different each time.
* One book checking should be completed in one setting.
* Some fraudulent alterations may be made by the clerks after the audit clerk has left the office, in order to avoid such alterations. Different types of tick marks should be done.
* On the next visit, the auditor should see and make sure that there is no scratch marks or cut down marks in the previous audited files, if such marks are found out, he should get proper explanation from the officials of the company and must also check wherever it is necessary.
* Whenever any alteration is necessary, it should be altered from the journal entry.
* Special ticks should be utilized for items which has area by been crashed.
* The auditor should write the correct item with this own ink, just close to the erased one and the tick should be put properly or a circle mark should be made.
* The auditor should refuse to commence his work until the items are properly written, audit clerk should not balance the books of accounts before auditors verification.
* The auditor must begin the audit work even before the balancing of the books, so that the audit may be completed very soon.
* The auditor should certify the true and correct statement of affairs only.
* The auditor should not discuss various tick marks made by him in the ledger with the client or with the members of the client’s company.
* Voucher checking should be carried out by two clerks, by the senior examining the voucher by calling out and comparing the amount placing the special tick mark by the junior clerk in the cash book.

# Auditing in depth:

* According to Taylor and Perry who defines auditing in depth as, “it implies the examination of system applicant within the business, entailing the tracing of certain transactions from their origin to their conclusion, investigating at each stage the records created and their appropriate authorization”. E.g: audit in depth in normally followed for purchase of steps to be followed.
* Auditor should enquire whether there was a demand for the goods from the store keeper or from the godown administrative officer or from purchase department that such goods have reached the minimum level or ordering level.
* Whether the tender were invited for the purchase of the goods.
* Whether the order was placed by an authorized person.
* Auditor should examine the delivery note.
* Auditor should examine the inspection report given by the technical supervisor that the goods are according to the order placed and the invoice from the suppliers of the goods.
* Auditor should examine the invoice.
* Auditor should see whether the goods were entered in the stock register and in the bin cards by the store keeping or godown keeper.
* He should examine the necessary entry regarding the purchase in the purchase ledger, journal and other such relative vouchers.
* He should see whether the account of the supplier has been credited with the correct amount according to the invoice.

# Planning of Auditing:

Planning of audit means deciding or programming or budgeting systematic work which has to be executed while auditing.

A systematic rules, regulations and policies and procedures to be followed while auditing the accounts of the company is done in order to prepare a proper set of records, this is known as audit planning.

# Audit Note Book:

An audit note book is a book which is maintained by the audit clerk. During the course of audit, the clerk comes across several difficulties or new points which he has to discuss with his senior or with the auditor. He makes several enquiries, which, he feels has not being answered or not done properly. In order make sure that all these things are treated properly. In order to verify without forgetting all the concepts the audit clerk notes them down carefully in the audit note book or audit memorandum. Note book may be of a great help to the auditor in preparing the audit report. A separate note book has to be maintained for different concerns.

# Contents of an audit Note Book:

Some of important concepts which are normally found in an audit note book are,

* A list of books maintained by the client.
* The names of principal officers, their powers, duties and responsibilities.
* The technical terms used in the business.
* The points which require further explanation and clarification.
* The particulars of the missing vouchers, the duplicates of which have to be obtained.
* The mistakes and errors discovered.
* Total or balances of certain books of accounts, bank reconciliation statement etc.
* Notes and queries which might be required at a subsequent audit.
* The points which have to be registered in the audit report.
* Any matter which requires discussion with senior clerk or with the auditor.
* Accounting method followed in business.
* Dates of commencement and completion of the audit.
* Provisions in the articles and the memorandum of association affecting the accounts and audit.

# Value of an audit note book:

An audit note book when properly maintained will be of great help to the auditor in the future days. If audit note book is properly maintained with all the entries clearly posted, it can become an effective record which could be submitted in any court of law, if any case of negligence is filed against the audit or, the book will be of documentary evidence in favour of the auditor even after several years and the concepts might have even lapsed from the memory of the auditor.

An audit note book may be clear, concise and complete so that it can be used as a guide for future reference.

# Working Papers:

**Meaning:**

* Working papers are those papers which contain the essential facts about accounts so that the auditor may not have again to go over the account of his clients. In case he wants to refer them later on during the course of his audit.
* Audit programme duly completed, showing the nature of work, the extent of checking and the initials of the person who have done the work.
* Working trial balance.
* The schedules of debtors and creditors, fixed assets, investments etc.
* Correspondence between the auditors and the debtors and the creditors, banks etc.
* Certificate from the management that all the assets and liabilities have been included in the accounts.
* Adjusting journal entries.
* Abstracts from minute books.
* Particulars of investments.
* Particulars of depreciation.
* Details of the enquiries made during the course of audit and the explanation given.

# Objectives and aims of working papers:

* In order to support the auditor’s report, these papers show in detail the actual work performed by the audit clerks.
* The auditor can get an opinion about the efficiency of the audit clerks.
* Working papers are always retained by the auditors, therefore these papers becomes a permanent record, to help the auditor whenever any case of negligence is filed against him in any court of law.
* The working papers basically help and train the audit clerks to summarise their work clearly.
* The working papers help the auditor to point out to the client the weakness of the internal control system which is in operation and inefficiency if any in the accounting system. This may help the auditor to point out the mistakes to the client.
* Working papers help the auditors to plan for the future years.
* Working papers help the auditor to prepare the report without waste of time.
* It helps the auditor to find out whether his assistants have followed his instructions properly.
* Working papers help the auditors and the clerk to carry out the functions easily without any problem even in the case the clerks are transferred or quit the job.
* Working papers help as a basis for carrying out future audit programmes easily.
* Items which has been outstanding in the previous years can be given attention atleast in the future period.

# Essentials of good working paper:

* Completeness.
* Organisation and arrangement.
* Clearness.
* Easily readable with explanation.
* Good stationery or quality of the stationery – paper, ink etc. should be proper.
* Paper used should be of uniform size or same size.
* Papers should be clearly arranged together in logical order, properly and adequately in order to refer in future.
* Proper space should be left for the auditor to note down any concept or decision taken by him.

# Responsibilities, Protection and Preservation of working papers:

Working papers should be always kept in safe custody by a responsible person (normally working papers are maintained or kept by the auditor, in some cases the client retains the working papers), the working papers should not be shown to the third parties at any point of time except with the permission of the client.

After the preparation of the audit report, and the report being submitted to Income tax. Shareholders and Directors, the working papers should be carefully preserved for a period of 5 or 10 years or even more at times.

# Test Check:

**Definition:**

According to Professor Walter.B.Megis, “Testing and test checking means to select and examine a representative sample from a large number of similar items”.

# Meaning of Test Check:

In large business houses, where there are numerous transactions, it is very difficult to check each and every transaction and the auditor is also having little time to do individual checking, therefore the auditor chooses a method to check few transactions at random. Such types of random checking is called as test check or test checking.

# Precautions to be taken while applying test check:

* Entries of every description should be checked.
* Selection of entries to be checked at random.
* Periods and entries selected for test checks should be different in each audit.
* Large number of the entries of the first and last month of audit period should be checked.
* The test check should be arranged in such a way that the work of each clerk is checked.
* Test check concept should not be applied to cash book where every transaction is checked.
* Steps to be undertaken by an Auditor when internal check system is adopted.
* Whenever internal check system is used in a organization, the first and the foremost important concept is that the entries of the organization must be numerous or huge whenever the system is used and the auditor feels the answers derived are correct, he can proceed with the system, by chance if the results are negative, then the auditor should discard test check system and check all the transactions.
* He should check the work of all the clerks, period should be different and department works should be analysed.
* Work to be undertaken or steps to be considered by an auditor whenever he starts a new audit.
* When he is appointed in a joint stock company, he should make sure that his appointment is acceptable by law. If he is appointed on the place of an old retiring auditor, the new auditor should ask the reason why the old auditor was retired.
* He should find out his work and duty from his client, he should also find out the last date for work completion and his salary.
* He should study the accounting system used by the client. If the system is weak, he should take steps to correct it.
* He should get the list of all the books maintained by the company with the name and signature of the persons who maintain the book. The overall list must be signed by a responsible officer of the company.
* If the company has branches, the profit and loss and the balance sheet of the branches must be received by the auditor for preparation of final accounts.
* If internal check system is there, then he should get a written statement to check the system.
* He should get the name and specimen signature of all the officers of the company together with duties and responsibilities.
* If the business is of technical nature, he should get the technical knowledge before starting the work.
* He should ask his client to prepare final accounts, balance sheet, balance of books etc. together with the vouchers and prepare the schedule of debtors, creditors, doubtful bad debts, legal papers contracts, security list etc, if they have not been checked already, he should not start work before the books have been balanced properly.
* He should obtain the previous years audited balance sheet and make sure that the accounts during the current year are opened with those balances **a**which appeared in the previous year balance sheet.
* He should get the report of the auditor if any about the previous year’s information regarding the company’s position. (Report can be obtained from the previous auditor or old auditor).
* He must read the memorandum of association and articles of association of the company to make sure with the details and find out whether any concepts are related to the accounts.
* If the company is to be audited for the first time, he must go through or study the prospectus, contracts to the vendors and to the promoters.

# Division of work between senior and junior clerks:

After preparing the programme or the method of working, the next important duty of the auditor is to divide the work between his assistants. This is done in order to make the work easy. After the division of the work between his assistants, the auditor takes up the role of supervisor.