0. FUNDAMENTALS OF AUDITING (FOR ACADEMIC INTEREST ONLY)

1) BOOKS OF ACCOUNTS:

As per companies act, 2013 "books of account" as defined in Section 2(13) includes records maintained in respect of:

a) all sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;

b) all sales and purchases of goods and services by the company;

c) the assets and liabilities of the company; and

d) The items of cost as may be prescribed under section 148.

2) FINANCIAL STATEMENTS:

a) Definition as per SA 200:

A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with applicable financial reporting framework.

The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information.

b) Definition as per Companies Act: Financial statements includes the following

i) Profit and Loss account or Income and Expenditure account

ii) Balance Sheet

iii) Cash flow Statement

iv) Statement of change in equity, if applicable

v) Any explanatory notes annexed to or forming part of financial statements.

c) USERS OF FINANCIAL STATEMENTS:

Users	Purpose
Management	For day-to-day decision-making and performance evaluation.
Proprietor / shareholders	To analyse performance, profitability and financial position. **Note:** Prospective investors are interested in the track record of the company.
Lenders - banks & fin. Institutions	To determine the financial position and strength of the Company, Debt Service Coverage, etc.
Suppliers	To determine the credit worthiness of the company.
Customers	To know the general business viability before entering into long-term contracts and arrangements.
Government	• To ensure prompt collection of Direct and Indirect Tax revenues. • To evaluate performance and contribution to social objectives.
Research scholars	For study, research and analysis purpose.
Employees	Job security, bonus.

3) APPLICABLE FINANCIAL REPORTING FRAMEWORK:

In view of the nature of the entity and the objective of the financial statements, the framework adopted by management for preparation and presentation of the financial statements is known as AFRFW.

In other words, a financial reporting framework is nothing but, set of rules and regulations that are to be followed for preparation and presentation of financial statements.

E.g: For a company the AFRFW is Sch-III and Accounting standards.

4) **GENERAL PURPOSE FINANCIAL STATEMENTS (GPFS):**

If the F/S are prepared in accordance with General Purpose Framework (GPFW) then they are called as GPFS.

5) **SPECIAL PURPOSE FINANCIAL STATEMENTS (SPFS):**

Financial statements prepared in accordance with a special purpose framework.

In other words, if the financial statements are prepared as per the requirement of a specific user then they are known as SPFS.

6) **GENERAL PURPOSE FRAMEWORK:**

A financial reporting framework designed to meet the common financial information needs of a wide range of users. (Framework may be understood as Rules and Regulations)

Characteristics of GPFW:

a) Fundamental accounting assumptions are used in this type of framework.

b) Compliance with GAAP.

c) Accounting standards as per AFRFW.

d) Annual Preparation, Periodically.

Further this financial reporting framework may be a Compliance Framework (or) a Fair Presentation Framework.

7) **COMPLIANCE FRAMEWORK (CFW):**

a) It refers to a framework where F/S are prepared and presented in accordance with the requirements of such framework without any deviation.

b) The words "True and Fair View" do not appear in the financial statements in this type of framework.

c) **E.g.:** Most of the special purpose financial statements are prepared as per compliance framework.

8) **FAIR PRESENTATION FRAMEWORK:**

a) It refers to a framework where F/S are prepared and presented in accordance with the requirements of such framework (CFW) AND "Contains disclosures beyond the requirements of such framework or may deviate from the requirement of the framework" so as to achieve fair presentation.

b) The words true and fair view appears only in this type of framework.

E.g: Most of the general purpose financial statements are prepared as per fair presentation framework.

9) **LEGAL FORM:**

There are several types of legal forms in which people ordinarily conduct businesses. This is similar to "Person" Definition under Income Tax.

The following are the various types of legal forms:

a) Proprietorship firm

b) Partnership firm

c) Limited Liability Partnership

d) Society and

e) Company

f) AOP or BOI

g) Any other artificial Judicial Person

10) .**MISSTATEMENT:**

A difference between the Amount, Classification, Presentation, Or Disclosure of a reported financial statement item AND the Amount, Classification, Presentation, Or Disclosure that is required as per applicable financial reporting framework.

Misstatements can arise from error or fraud.

11) **FRAUD:**

An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

a) **FRAUDULENT FINANCIAL REPORTING:**

It involves intentional misstatements, including omissions of amounts or disclosures in financial statements, to deceive financial statement users. Either Overstatement or understatement of performance / position.

b) **MISAPPROPRIATION OF ASSETS:**

Involves the theft of an entity's assets and is often perpetrated by employees in relatively small and immaterial amounts. Also it involved misuse of resources.

12) **ERROR:**

The term "error" refers to unintentional mistakes in financial statements such as:

a) Clerical errors, like errors of omission, errors of commission, errors of duplication and compensating errors.

b) Misapplication of accounting policies (Called errors of principle).

c) From the point of view of audit these errors are two types namely – Self revealing errors (Apparent on record and easily identifiable) and Non-self-revealing errors (Not apparent and require additional efforts to detect them).

13) **MEANING OF AUDIT:**

An audit is an independent examination of financial information of any entity, whether or not profit oriented and irrespective of its size or legal form, when such an examination is conducted with a view to express an opinion thereon.

14) **OBJECTIVE OF THE AUDIT/AUDITOR:**

To express opinion (Audit Report) on financial statements:

a) Whether the financial statements are free from material misstatements and

b) Whether they are prepared as per Applicable Financial Reporting Framework.

15) **AUDITOR:**

"Auditor" is used to refer to the person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or the firm.

When it comes to acceptance of Responsibility or being accountable to regulatory authorities then engagement partner shall only be referred as auditor.

Practically the meaning of auditor includes the following persons (mentioned in Point No. 16)

16) **ENGAGEMENT TEAM:**

a) Engagement Partner
b) Audit Manager
c) Paid assistant
d) Senior article assistant
e) Junior article assistant
f) Any other designation

THE END