Chapter–III

Role and Importance of Accounting Standards and Auditing

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ROLE AND IMPORTANCE OF ACCOUNTING STANDARDS AND AUDITING

Introduction

Accounting Standards are employed as one of the main compulsory regulatory mechanisms for preparation of general-purpose financial reports and subsequent audit of the same, in almost all states of the globe. Accounting standards are concerned with the scheme of measurement and disclosure principles for the provision and demonstration of financial statements. They come out with a set of important statements of how particular types of proceedings, events and other costs should be known and reported in the financial statements. Accounting standards are devised to supply useful information to different users of the financial statements, to such as shareholders, creditors, lenders, management, investors, suppliers, competitors, researchers, regulatory bodies and social club at large and so alone. In fact, such assertions are planned and prescribed so as to improve & benchmark the quality of financial coverage.¹

The speedy development of international trade and internationalization of firms, the developments of new communication technologies, the issue of international competitive forces is perturbing the financial environment to a large extent. Under this global business scenario, the residents of the business community are badly in need of a common accounting language that should be uttered by all of them across the world. A financial reporting system of worldwide standard is a requirement for attracting foreign as well as present and prospective investors at home alike that should be achieved through harmonization of accounting standards.

Accounting Standards are the policy documents (authoritative statements of best accounting practice) issued by recognizing expert accountancy bodies relating to diverse aspects of measurement, handling and disclosure of accounting transactions and issues. As relate to the codification of Generally Accepted Accounting Principles (GAAP). These are expressed to be norms of accounting policies and patterns by means of codes or guidelines to direct as to how the items, which go to establish up the financial statements should be dispensed with in the accounts and presented in the annual reports. The purpose of setting standards is to bring about uniformity in

¹ Accounting Standards And Guidance Notes
financial reporting and to ensure consistency and comparability in the information published by enterprises.

Accounting Standards (ASs) are sweeping up the aspects of presentation, measurement, treatment, recognition, and revelation of accounting transactions in the financial statements which are written policy documents issued by an expert accounting body or by the government or other regulatory body.\(^2\)

**Investopedia explains 'Accounting Standard'**

An accounting measure is a guidebook for financial accounting, like how a company produces and delivers its business income and expenses, assets and liabilities. Generally accepted accounting rules are composed of a large group of individual accounting standards. GAAP standards are applicable to fiscal reporting in the United States and may possibly be pulled away in favor of international accounting standards. The following conditions apply in this Standard with the meaning specified:

Consolidated financial statements are the financial statements of a group represented as those of a single economic entity.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its bodily parts.

A group is a parent and all its subsidiaries.

The share of non-controlling interest is a pastime in a subsidiary not attributable, directly or indirectly, to a parent.

Separate financial statements are those exhibited by a parent, an investor in an associate or a job in a jointly controlled entity in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of results and net assets of the investors.

A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled aside some other entity (known as the parent).

A parent or its subsidiary may be an investor in an associate or a venturer in a jointly controlled entity. In such examples, the consolidated financial statements

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\(^2\) Accounting Standards And Guidance Notes
prepared and presented in accordance with this Standard are also educated so as to comply with and AS 28 Investments in Associates and IND AS 31 Interests in Joint Ventures.

**Accounting Standards mandatory as on July 01, 2012**

- AS 1 Disclosure of Accounting Policies
- AS 2 Valuation of Inventories
- AS 3 Cash Flow Statements
- AS 4 Contingencies and Events Occurring after the Balance Sheet Date
- AS 5 Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies
- AS 6 Depreciation Accounting
- AS 7 Construction Contracts (revised 2002)
- AS 9 Revenue Recognition
- AS 10 Accounting for Fixed Assets
- AS 11 The Effects of Changes in Foreign Exchange Rates (revised 2003),
- AS 12 Accounting for Government Grants
- AS 13 Accounting for Investments
- AS 14 Accounting for Amalgamations
- AS 15 Employee Benefits (revised 2005)
- AS 16 Borrowing Costs
- AS 17 Segment Reporting
- AS 18 Related Party Disclosures
- AS 19 Leases
- AS 20 Earnings per Share
- AS 21 Consolidated Financial Statements
- AS 22 Accounting for Taxes on Income.
• AS 23 Accounting for Investments in Associates in Consolidated Financial Statements
• AS 24 Discontinuing Operations
• AS 25 Interim Financial Reporting
• AS 26 Intangible Assets
• AS 27 Financial Reporting of Interests in Joint Ventures
• AS 28 Impairment of Assets
• AS 29 Provisions, Contingent Liabilities and Contingent Assets

**Accounting Standards non mandatory as on July 01, 2012**

• AS 31, Financial Instruments: Presentation
• AS 32, Financial Instruments: Disclosures, and limited revision to Accounting Standard (AS) 19, Leases.

**ROLE AND IMPORTANCE OF ACCOUNTING STANDARDS**

Operating a line of work is not simply to make profits, deposit money in the money box, paying employees, and lure more customers and clients. It is whether the commercial enterprise is booming or if the owner is simply investing in something that will not win them all.

Accounting standards in the United States appear in the conformation of the generally accepted accounting principles, a set of measures, guidelines and operations that are used when accounting for the affairs of most governmental and non-governmental bodies. The reading of numbers and the wherewithal to put them in the proper context are at the essence of accountability. Measures exist to assure that accounting decisions are reached in a unified and reasonable manner.

**Comparison**

Paramount to the purpose of accounting standards is the universality that it brings to financial record keeping. Governmental organizations must to accounting
procedures that are the same as their counterparts, and non-governmental organizations must execute the same. The answer is that it is easy to compare the fiscal standing of similar entities. All comparisons within groups are a matter of comparing "apples to apples." This helps both external and internal observers weigh the state of an entity in the context of other comparable entities. For example, the financial standing of a town can be appraised against a neighboring town with the presumption that the pertinent numbers have been achieved in a standardized style.

Transparency

Accounting standards are planned to implement transparency in governing bodies. The rules, procedures and standards that form up the generally accepted accounting principles were selected with the intention of assuring that organizations lean in the focal point of openness when deciding how to provide data to observers. This sort of transparency is particularly significant in the event of public entities, such as governments or publicly traded companies. Standards limit the freedom and flexibility of entities to use clever accounting to move points around or even to obscure them.

Relevance

Standards exercise to help entities provide the most relevant information in the most sensible manner possible. In this way, an organization run by accounting standards will get the kind of financial information that observers are most concerned in studying. Entities ultimately should provide information in a manner that more fairly and clearly represents the current financial standing of the surgical procedure. The standards make it more hard for organizations to misdirect observers and to fool them with information that does not have sufficient relevancy.

Hearings

Finally, the importance of accounting standards lies in the value that it brings to financial documents for the various audiences that view and make vital decisions based on it. An absence of accounting standards would cause the work of investors, regulators, taxpayers, reporters and others more difficult and more speculative. For example, without banners, an investor who has examined the financial statements of a large publicly traded company would not know whether to trust the findings on those
instructions. Standards mean that taxpayers can understand how their tax dollars are being dropped, and regulators can see to it that laws are observed.

Other reasons for which accounting standards are important for whole businesses.

**Protecting Investors**

Using the accounting standards, the interests of investors are ensured that the documents they examine are certainly accurate and sincere. As investors, they are interested to know that their money will eventually pull ahead and come back to them. Accounting standards increase the confidence of investors in the company.

**Regulatory Compliance**

Government regulators set of accounting standards that must be met by all companies. This is both beneficial for the investor or business proprietor as well as for customers or clients, because it protects against fraud in companies. It also promotes transparency between business transactions that will eventually lead to improved market efficiency. Accounting standards issued by the FASB and the IASB will help prevent a company or business expenses relating to legal proceedings instituted against him by the government.

**Accounting standards prevalent all across the globe:**

* Accounting standards are being created both at national and international levels. Only the form of accounting standards and rules among the lands of the world has been a sustainable problem for globalizing the business environment.

* There are various standard setting bodies and institutions that are now actively involved in the process of harmonization of accounting practices. The most singular phenomenon in the arena of promoting the global harmonization process in accounting is the emergence of international accounting standards.

* The International Accounting Committee (IASC), now International Accounting Standards Board (IASB) was formed on 29th June 1973, by the recognized professional accounting bodies in Canada, Australia, France, Japan, Germany, Mexico, Netherlands, United Kingdom and the United States of America, with its secretariat and head quarters in London.
National standard setting bodies like Financial Accounting Standards Boards (FASB) of USA, Accounting Standards Boards (ASB) of UK, and Indian Accounting Standards (IAS) in India generally frame accounting standards in the line of IASC after due consideration of the local laws and conditions.

Need to Reconcile the Accounting Standards of Different Physical Structures?

It has been observed from published annual accounts of various Indian companies that there are divergent accounting practices for the same transaction. This in effect is defeating the comparability of financial statements.

The causes for the different accounting practices may be:

a) Too many alternative accounting treatments in the accounting criteria;

b) Lack of harmony among government, standards setting body, and regulatory authorities;

* Adoption of different accounting standards causes difficulties in producing a relative rating of the frauds of societies. This phenomenon hinders the evaluation and consequently the decision making process.

* To overcome these problems, harmonization of accounting standards has already been initiated. Accounting harmonization is not an end in itself, but it is a means to an end. The ultimate aim of harmonizing accounting practices among countries is to foster international comparability of scores.

* But still the harmonization process has a long path to travel. Many standard setting bodies and regulators of different nations are ardent protectors of their local standards, they are in no mood to let their task being carried over by a strange entity.

* Thus winning the consent of these bodies is vital for international accounting standards to don the mantle of common accounting code, i.e. harmonization of common accounting standards, which will make implementing countries more competitive internationally.

* Accounting standards vary from one state to another. On that point are several elements that are responsible for this. There are some of the important factors

- Legal structure
- Sources of corporate finance
- Maturity of accounting profession
- Degree of conformity of financial reports
- Government participation in accounting and
- Degree of exposure to international market.

Diversity in accounting standards not just stands for the additional cost of financial reporting, but can have difficulties to multinational groups in the style in which they undertake transactions. It is quite possible for a transaction to give rise to a profit under the accounting standards of one nation where as it may involve a recess under the standards of another.

When a multinational company (MNC) has to report under the standards of both the rural areas, it might conduce to some extremely odd results. For example, Daimler Benz, who was the first German to secure a stock market listing in the United States, reported a net profit of DM 158 m for the six months to June 1998 based on German GAAP. The U.S GAAP reconciliation statement revealed that the company had incurred a loss of DM.

Likewise, British Telecom Inc. reported a net profit of £1767 for the year ended 31-3-1994 under the UK GAAP, but under the US GAAP reconciliation- the net profit reduced to £1476.

Although there are different resolutions that have been proposed to settle the troubles associated with filing financial statements across national boundaries like reciprocity and reconciliation, but they don't loose from limitations. International accounting standards serve the function of reducing diversity in accounting practices, but invites qualitative differences of financial accounting and reporting organizations.

Again, these qualitative differences may be removed if a single set of internationally accepted standards can be utilized for all cross-border listed financial statements. These conflicts may be shortened if the recognized professional accounting bodies of the world set up a happy wedding between the internal and international accounting standards.
Financial Reporting

Financial reporting is the operation of producing statements that reveal an organization's financial status to management, investors and the regime.

In the United States, the four basic reports are balance sheets, income statements (also adverted to as profit and loss statements), cash flow statements and statements of shareholders' equity.

All public companies in the U.S. are mandated by the Securities and Exchange Commission (SEC) to tag financial statements using extensible Business Reporting Language (XBRL). While the deadline is still a moving target, the United States is currently going to merge the Generally Accepted Accounting Standards (GAAP) with the International Financial Reporting Standards (IFRS) to make new financial reporting criteria.\(^3\)

Benefits and Limitations

Accounting standards seek to describe the accounting principles, valuation techniques and methods of application of accounting principles in the preparation and presentation of financial statements so that they can give an accurate picture. The accounting standards offer the following benefits:

(i) Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare the financial statements.

(ii) There are certain areas where important information is not legally required to disclose. Standards may call for disclosure beyond that required by law.

(iii) The application of accounting standards would, to some extent, facilitate comparison of the financial statements of companies situated in different regions of the Earth and also from different companies located in the same area. Nevertheless, it should be mentioned in this respect that differences in institutions, traditions and legal systems from one nation to another give rise to differences in accounting standards adopted in different areas.

Nevertheless, in that respect are some limitations of setting of accounting standards:

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(i) Alternative solutions to certain accounting problems may each have arguments to urge them. Thus, the selection between different accounting treatments may get unmanageable.

(ii) There may be a tendency to rigidity and away from flexibility in the application of accounting standards.

(iii) Accounting standards cannot override the police force. Measures should be set up in the context of police forces.

**The Standard Setting Process**

International Financial Reporting Standards (IFRSs) are produced through an international consultation process, the "due process", which involves interested individuals and governing bodies from around the globe.

The due process comprises six stages, with the Trustees of the IFRS Foundation having the opportunity to insure compliance at various periods throughout:

1. **Setting the agenda**

The IASB, by developing high quality financial reporting standards, seeks to address a need for better quality information that is of value to those users of financial stories. When determining whether a suggested agenda item will address users’ needs the IASB considers: The relevance to users of the data and the dependability of information that could be provided, Existing guidance available, The possibility of increasing convergence, The quality of the IFRS to be developed, Resource constraints.

To assist the IASB in considering its future agenda, its’ staff is required to identify, review and promote events that might warrant the IASB’s attention. New subjects may also originate from a modification in the IASB’s Conceptual Framework for Financial Reporting.

In summation, the IASB raises and discusses potential agenda items in the light of comments from other standard-setters and other concerned parties, the IFRS Advisory Council and the IFRS Interpretations Committee, and staff research and other testimonials.
In reaching determinations regarding its agenda priorities, the IASB also considers factors related to its convergence initiatives with accounting standard-setters. The IASB’s approval to add agenda items, as comfortably as its decisions on their priority, is aside a simple majority vote at an IASB meeting.

**ii. Planning the project**

When adding an item to its active schedule, the IASB decides whether to carry on the project alone or collectively with other standard-setter. Similar due process is observed under both approaches.

When debating whether to append an item to its active schedule, the IASB may determine that it meets the criteria to be included in the annual improvements process. The IASB assesses the issue against criteria such as Clarifying, Correcting, Well defined and sufficiently narrow in scope that the effects of the proposed change have been considered, Completed on a timely basis, all measures must be met to qualify for inclusion in annual improvements.

Once this assessment is fixed, the amendments included in the annual improvements process will conform to the same due process as other IASB projects. The principal aim of the annual improvements process is to raise the quality of IFRSs by amending existing IFRSs to clarify guidance and wording, or correcting for relatively minor unintended consequences, conflicts or oversights.

After debating the nature of the issues and the tier of interest among constituents, the IASB may establish a working group at this stage and a task team for the project will be taken. The project manager draws up a project plan under the superintendence of the conductors of the technical staff and the project team may also include members of staff from other accounting standard-setters, as deemed appropriate by the IASB.

**iii. Developing and publishing the discussion paper**

A discussion paper is not a required step in the IASB’s due process. Normally the IASB issues a discussion paper as its first publication on any major new issue as a vehicle to explain the event and solicit early comment from constituents. If the IASB decides to omit this step, it will submit its reasons.
Typically, a discussion paper includes a comprehensive overview of the issue, possible approaches in addressing the issue, the preliminary views of its sources or the IASB, and an invitation to comment. This attack may take issue if another accounting standard-setter develops the research theme.

Discussion papers may result either from a research project being led by another accounting standard-setter or as the first stage of an active agenda project carried out by the IASB. If research has been performed by another accounting standard-setter, issues connected to the discussion paper are discussed in IASB meetings, and publication of such a report asks a bare majority vote by the IASB. If the discussion paper includes the preliminary opinions of other writers, the IASB reviews the draft discussion paper to insure that its analysis is an appropriate foundation on which to ask for public comments.

For discussion papers on agenda items that are under the IASB’s direction, or let in the IASB’s preliminary views, the IASB develops the composition or its prospects on the basis of analysis drawn from staff research and testimonials, as well as suggestions made by the IFRS Advisory Council, forming groups and accounting standard-setters and presentations from invited parties. All treatments of technical topics linked to the draft paper take place in public sessions.

When the selective service is completed and the IASB has approved it for publication the discussion theme is issued to invite public commentary. The IASB normally allows a period of 120 days for comment on a discussion paper, but may tolerate a longer stop for major tasks (which are those projects involving pervasive or difficult conceptual or practical matters).

After the comment period has ended the project team analyses and summaries the comment letters for the IASB’s consideration. Comment letters are placed on the IASB’s website. In summation, a summary of the remarks is posted on their web site as a part of IASB meeting observer notes.

If the IASB decides to search the issues further, it may seek additional comment and suggestions by conducting field visits, or by arranging public hearings and roundtable meetings.
iv. Developing and publishing the exposure draft

Publication of an exposure draft is a compulsory step in due process. An exposure draft is the IASB’s main vehicle for consulting the public. Unlike a discussion paper, an exposure draft sets out a specific proposal in the course of a proposed IFRS (or amendment to an IFRS).

The evolution of an exposure draft begins with the IASB considers issues on the basis of staff research and testimonials, as well as comments received on any discussion paper, and suggestions made by the IFRS Advisory Council, forming groups and accounting standard-setters and arising from public training sessions.

After resolving issues at its meetings, the IASB instructs the staff to draft the exposure draft. When the drawing has been dispatched, and the IASB has balloted on it, with a minimum of nine votes necessary to publish an exposure draft, the IASB publishes it for public comment.

An exposure draft contains an invitation to comment on a draft IFRS, or draft amendment to an IFRS, that proposes requirements on recognition, measurement and disclosures. The draft may also include mandatory application guidance and implementation guidance, and will be accompanied by a basis for conclusions on the proposals and the alternative views of dissenting IASB members (if any).

The IASB normally allows a period of 120 days for comment on an exposure draft. If the subject is exceptionally urgent, the document is short, and the IASB believes that there is likely to be a wide consensus on the issue, the IASB may consider a comment period of no less than 30 days, but it will set such a short period only after formally requesting and obtaining prior approval from 75 percent of the Trustees. The project team gathers, summarizes and analyses the comments received for the IASB’s deliberation.

After the comment period ends, the IASB reviews the comment letters received and the outcomes of other audiences. As a way of researching the issues further, and soliciting further comments and hints, the IASB may conduct field visits, or arrange public hearings and roundtable meetings. The IASB is required to look up the IFRS Advisory Council and keeps contact with several groups of elements.
v. Developing and publishing the standard

The evolution of an IFRS is carried out during IASB meetings, when the IASB considers the comments received along the exposure draft. Varieties from the exposure draft are posted on the site.

After resolving issues arising from the exposure draft, the IASB considers whether it should expose its revised proposals for public comment, for example by issuing a second exposure draft. If the IASB decides that re-exposure is necessary, the due process to be followed is the same as for the first exposure draft.

As it goes towards making out a new IFRS or major amendment to an IFRS, the IASB prepares a task summary and feedback statement. These give direct feedback to those who submitted comments on the exposure draft, identify the most important issues raised in the comment process and explain how the IASB responded to those issues.

At the same time, the IASB prepares an analysis of the likely effects of the forthcoming IFRS or major amendment. The analysis will therefore attempt to assess the likely effects of the new IFRS on: The financial statements of those applying IFRSs, The possible compliance costs for preparers, The costs of analysis for users (including the costs of extracting data, Identifying how the data have been measured and adjusting data for the purposes of including them in, for example, a valuation model, The comparability of financial information between reporting periods for an individual entity and between different entities in a particular reporting period. And the quality of the financial information and its usefulness in assessing the future cash flows of an entity.

When the IASB is satisfied that it has arrived at a determination on the publications arising from the exposure draft, it instructs the staff to draft the IFRS. A pre-ballot draft is normally subject to external review, commonly by the IFRS Interpretations Committee. Presently before the IASB ballots the standard, a near-final draft is mailed on its limited access web site for paying contributors. Eventually, after the due process is dispatched, all salient events are settled, and the IASB members have balloted in favor of publication, the IFRS is issued, adopted by publication of any project summary and feedback statement and any effect analysis.
vi. Later the standard is released

After an IFRS is issued, IASB members and staff have regular meetings with interested parties, including other standard-setting bodies, to help understand unanticipated issues related to the practical implementation and likely shock of its provisions. The IFRS Foundation also fosters educational activities to assure consistency in the application of IFRSs.

The IASB carries out a post-implementation review of each new IFRS or major amendment. This is commonly taken out two years after the new requirements have become mandatory and been implemented. Such inspections are commonly restricted to important topics identified as contentious during the evolution of the pronouncement and consideration of any unexpected costs or implementation problems encountered. A review may also be inspired by: Changes in the financial reporting environment and regulatory requirements, Comments made by the IFRS Advisory Council, the IFRS Interpretations Committee, standard-setters and constituents around the character of the IFRS.

International Accounting Standards adopted at National or International Level

The International Accounting Standards Committee (IASC), set up in 1973, which is supported by each of the major professional accounting bodies, fosters the harmonization of accounting standards internationally. To this end each UK FRS (Financial Reporting Standard) includes a section explaining its relationship to any relevant international accounting standard.

There are broad variances in the accounting practices that have been built up in different nations. These reflect the roles for which financial data is demanded by the different users of that information, in each of those states. Thither is a different focus on the type of information and the comparative importance of each of the users of financial information in each state. This is because each state may differ in terms of:

- Who finances the businesses – individual equity shareholders, institutional equity shareholders, debenture holders, money boxes, and so on
- Tax systems either aligned with or separate from accounting rules
- The stratum of government restraint and rule
- The stage of transparency of data.
The growth in international trade and globalization has led to a demand for convergence, or harmonization, of accounting principles and patterns. The IASC was created in order to develop international accounting standards, but these have been slow in appearing because of the troubles in bringing together differences in accounting operations. Until 2000 these measures were called International Accounting Standards (IASs). The heir to the IASC, the IASB (International Accounting Standards Board), was set up in April 2001 to make financial statements more comparable on a worldwide base. The IASB publishes its standards in a series of pronouncements called International Financial Reporting Standards (IFRSs). It has likewise taken over the physical structure of standards published by the IASC, which go on to be designated IASs.

The late president of the IASB, Sir David Tweedie, who retired in June 2011, said that ‘the aim of the globalization of accounting standards is to simplify accounting practices and to build it easier for investors to compare the financial statements of companies worldwide’. He likewise pronounced that ‘this will bust down barriers to investment and trade and ultimately bring down the monetary value of capital and stimulate growth’ (Business Week, 7 June 2004). On 1 January 2005 there was convergence in the compulsory application of the IFRSs by listing companies within each of the European Union member countries. The impingement of this should be negligible with respect to the subjects encompassed in this volume, since UK accounting standards have already moved closer to international criteria. The cause for this is that the UK SOP was drawn up using the 1989 IASB conceptual framework for storing.

**Controlling Authority of the IASB?**

The European Union’s new internal market commissioner has proposed reforms to the consistency that sets international accounting rules, infuriating accountants and potentially scotching fragile hopes of global convergence.

In an apparent power grab by Brussels, Michel Barnier has suggested future funding of the International Accounting Standards Board might depend on whether it bends to political pressure from the European Commission to make modifications to its organization.
MrBarnier’s suggestion, made at a meeting of top accountants and regulators in London, stunned the accounting community by putting forward doubts about the IASB independence during crucial talks to launch an international set of accounting principles.

The Group of 20 most industrialized nations last September pledged support for a single lot of accounting standards to improve capital flows and cut cross-border arbitrage in response to the fiscal crisis. Nevertheless, achieving consensus is proving more and more hard.

Crucially, many European policymakers believe prudential regulators should be more involved in the IASB governance so that accounting can be applied as a tool for financial stability.

But accountants and business leaders – particularly in the US and Japan – argue that accounts should not be the case of regulatory intervention, but should concentrate on supplying an accurate snapshot of a company’s value.

During an increasingly tense meeting on future financing for the IASB, MrBarnier said that “the two matters of financing and organization can be connected”.

“We want to see more issuers – more corporations and more companies – and more prudential regulators represented on the governing board [of the IASB]”, he stated.

Mr.Barnier went on to state that it was “premature” to expect the EU to increase its annual £4.3m ($6.5m) budget contribution for the IASB. Moreover, Brussels intended to reconsider its financial support each year.

Senior accountants said Mr. Barnier’s salvo could bring Brussels into conflict with the US and Asia and derail the convergence process.

More than 110 states, including most of Europe and Asia, use the International Financial Reporting Standards drawn up by the IASB. US companies remain to report under Generally Accepted Accounting Principles while regulators consider whether to endorse IFRS.

In this respect, the NAC ICAI has decided to extend to take in three tiers to this with some modifications, instead of two by the government notification.
OBJECTIVES OF ACCOUNTING STANDARDS

1. Understand the need to Develop accounting standards.
2. Study the development of accounting standards from a historical perspective.
3. The GAAP and the FASB Accounting Standards Codification.
4. Study the roles of the AICPA and the SEC in Developing GAAP.
5. Introduce the accounting standard setting process of the FASB.
8. Understand the accounting standard compliance system in the U.S. (a Public / Private partnership)
9. Discuss financial reporting reform and the Sarbanes and Oxley Act (the Public Company Accounting Reform and Investor Protection Act of 2002)
10. Study the need for international accounting standards and the convergence of the U.S. accounting standards with the International Accounting Standards.4

Designated as a "business language" communicates the financial effects of a company to various stakeholders through financial statements. If the financial accounting process is not set correctly, there is a possibility of the financial statements being misleading, biased and give a distorted image of the company, rather than the actual state of personal business. To ensure transparency, consistency, comparability, relevance and reliability of financial information, it is all important to standardize the accounting regulations and methods.

Accounting standards provide a framework and standards to accounting policies so that the financial statements of different companies become comparable.

Accounting standards reduce accounting choices in the formulation of financial statements sound, ensuring the comparability of financial instructions of different companies. Accounting standards address the following issues:

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4 Financial Accounting and Accounting Standards
i. The acknowledgment of issues and transactions in the financial statements,

ii. The extent of these transactions and publications,

iii. The presentation of these transactions and effects in the financial statements in a way that is useful and understandable to the reader, and

iv. The disclosure requirements that should be there to let the public and stakeholders and potential investors, in particular, to know about the financial position and strength of enterprises.

The objective of accounting standards is to standardize the various accounting methods in order to eliminate as far as possible maximum, non-comparability of financial statements and thereby improve the reliability of financial instructions to offer a set of accounting policy standards, assessment standards and disclosure requirements.

**List of International Accounting Standards**

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Standards for categorization of non-incorporated entities as determined by the IASB

**Level I Entities**

Unincorporated entities that fall into one or more of the following categories, at the conclusion of the relevant accounting period, are considered Level I organizations:

- Entities whose equity or debt securities are listed or are in the process of listing on a stock exchange.
- Corporations (including cooperative corporations), institutions or entities that have financial assurance activities.
- All, Commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the previous fiscal year.
• All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of ten crore at any time during the previous year.

• Holding and subsidiary entities of any of the foregoing.

**Level II Entities (SMEs)**

Unincorporated who fall into one or more of the following categories, at the end of the relevant accounting period entities, organizations are considered Level I:

• Entities whose equity or debt securities are listed or are in the process of listing on a stock exchange, whether in India or outside India.

• Corporations (including cooperative corporations), institutions or entities that have financial assurance activities.

• All, Commercial, industrial entities and reporting of the company, whose turnover (excluding other income) exceeds rupees fifty crore in the previous year.

• All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of ten rupees at any time during the previous year.

• Holding and subsidiary entities of the foregoing.

**Level III Entities (SMEs)**

Unincorporated which are not covered by level I and II entities are considered as Level III entities.

additional requirements

(1) An SME, which does not divulge certain information under exemptions or flexibilities it shall reveal (through a corporationnote to the financial statements) that it is an SME and respected accounting standards insofar as they are applicable to entities under level II or III, as the cause may be.
(2) Where an entity, being covered with level II or III, had qualified for any exemption or relaxation previously, but no longer qualifies for the exemption or the relevant relaxation in the current accounting period, standards or relevant requirements are applicable for the current period and for the corresponding period of the previous year do not necessitate to be retooled for the exclusive cause of his having ceased to be covered in level II or III, as the cause may be. The fact that the entity was covered in Level II or III, as the case may be, in the previous period and it had taken advantage of the exemptions or relaxations available to the entities must be brought out in the bills to financial statements.

(3) If an entity has been hidden in Level I and subsequently, ceases to be handled, the entity will not be eligible for exemption / relaxation available to Level II entities, until the entity ceases to be covered in level I for two sequential years. Alike is the lawsuit with respect to an entity, which has been hidden in Level I or II and thereafter, is covered under Level III.

(4) If an entity identified in Level II or III chooses not to avail itself of the exemptions or relaxations available to the entities with respect to everything but not all Accounting Standards, it must reveal the measure (s) in respect of which it has made use of the exemption or relaxation.

(5) If an entity identified in Level II or III wishes to reveal the information to be discovered by virtue of exemptions or relaxations available to the entities, it must discover the information in conformity with the relevant accounting standard.

(6) An entity referred to in Level II or III may opt for certain exemptions or derogations from compliance with the prerequisites prescribed in Accounting Standard: provided that the partial exemption or relaxation and communication must not be permitted to mislead a person or the populace.

(7) With regard to Accounting Standard (AS) 15, Employee Benefits, exemptions / relaxations are available at Level II and Level III entities under two sub-categories, viz.,
• Entities where the number of persons employed during the year whose average is 50 or more, and

• Entities where the number of persons employed during the year average of less than 50.

The requirements of paragraphs (1) to (6) above, mutatis mutandis, to these sub-categories.

**INSTRUCTIONS**

**A. General Instructions**

SMC must follow the instructions below while respecting the accounting standards under these rules:

SMC which does not divulge certain information under exemptions or flexibilities it shall reveal (through a corporation note to the financial statements) the fact that it is an SMC and has complied with the standards accounting to the extent they are applicable to an SMC on the accompanying arguments:

"The Company is a small and medium enterprise (SMC) as specified in the general instructions in respect of notified under the societies Act 1956 accounting standards. Consequently, the Company has followed with the accounting measures as applicable to a small clientele."

Where a company, being a SMC, has qualified for any exemption or relaxation previously, but no longer qualifies for the exemption or the relevant relaxation in the current accounting period, the relevant standards or requirements are applicable to from the current stop and for the corresponding period of the previous year do not necessitate to be retooled for the exclusive cause of his having ceased to be an SMC. The fact that the caller was an SMC in the previous point and he had taken advantage of the exemptions or relaxations available to SMC must be brought out in the bills to financial statements.

If an SMC chooses not to avail itself of the exemptions or relaxations available to an SMC in respect of any but not all accounting standards, it must designate the measure(s) in respect of which he has made use exemption or relaxation.
If an SMC desires to reveal the information to be discovered by virtue of exemptions or relaxations available to the SMC, it must discover the information in conformity with the relevant accounting standard.

The SMC may opt for availing certain exemptions or derogations from compliance with the prerequisites prescribed in Accounting Standard:

Provided that this partial exemption or relaxation and communication must not be permitted to mislead a person or the populace.

**B. Other Instructions**

Rule 5 of the Companies (Accounting Standards) Rules, 2006, provides as below:

An existing company, which was previously not a Small and Medium Sized Companies (SMC) and later becomes an SMC, shall not be qualified for exemption or relaxation in respect of Accounting Standards available to a SMC until the company stays on as SMC for two consecutive accounting periods."

**AUDITING**

Auditing refers to a systematic examination of books, accounts, documents and vouchers of an organization to ascertain how far the financial statements present a true and fair view of the concern. It also attempts to ensure that the books of accounts are properly maintained by the concern as required by law. Auditing has become such an ubiquitous phenomenally in the corporate and the public sector that academics started identifying an "Audit Society".  

Auditing is defined as a systematic and independent testing of information, statements, books, operations and frauds (financial or otherwise) of an enterprise for a stated function. In any auditing the auditor perceives and makes out the propositions before him/her for examination, collects evidence, evaluates the same and on this basis formulates his/her legal opinion which is transmitted through his/her audit report.  

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Any subject matter may be audited. Audits provide third party assurance to various stakeholders that the subject matter is free from material misstatement. The condition is most often applied to audits of the financial information relating to a legal person. Other areas which are commonly audited include: internal controls, quality management, labor management, water management, and energy conservation.

As a consequence of an audit, stakeholders may effectively assess and improve the effectiveness of risk management, restraint, and the governance process over the dependent manner.

**Financial auditing services**

Due to strong incentives (including taxation, messaging and other phases of fraud) to misstate financial information, auditing has become a sound necessity for many entities who hold the ability to exploit financial information for personal gain. Traditionally, audits were mainly associated with gaining information about financial arrangements and the financial records of a society or a job.

Financial audits are performed to ascertain the validity and reliability of information, as well as to provide an assessment of a system's internal control. As a result of this, a third party can express an opinion of the person / organization / system (etc.) in question. The opinion given on financial statements will depend on the audit evidence obtained.

Due to constraints, an audit seeks to provide only reasonable assurance that the statements are free from material error. Hence, statistical sampling is often adopted in audits. In the case of financial audits, a set of financial statements are said to be true and fair when they are free of material misstatements – a concept influenced by both quantitative (numerical) and qualitative factors. But recently, the argument that auditing should go beyond just true and fair is gaining momentum.[3] And the US Public Company Accounting Oversight Board has come out with a concept release on the same.

Cost accounting is a process for verifying the cost of manufacturing or producing of any article, on the basis of accounts measuring the use of material, labor or other items of cost. In simple words, the term, cost audit means a systematic and accurate verification of the cost accounts and records, and checking for adherence to
the cost accounting objectives. According to the Institute of Cost and Management Accountants of Pakistan, a cost audit is "an examination of cost accounting records and verification of facts to ascertain that the cost of the product has been arrived at, in accordance with principles of cost accounting."

In most nations, an audit must adhere to generally accepted standards established by governing bodies. These standards assure third parties or external users that they can rely upon the auditor's opinion on the fairness of financial statements, or other subjects on which the auditor expresses an opinion.

**Integrated audits**

In US audits of publicly traded companies are governed by rules laid down by the Public Company Accounting Oversight Board (PCAOB), which was established by Section 404 of the Sarbanes–Oxley Act of 2002. Such an audit is called an integrated audit, where auditors, in addition to an opinion on the financial statements, must also express an opinion on the effectiveness of a company's internal control over financial reporting, in accordance with PCAOB Auditing Standard No. 5.

There are also new types of integrated auditing becoming available that use unified compliance material (see the unified compliance section in Regulatory compliance). Due to the increasing number of regulations and need for operational transparency, organizations are adopting risk-based audits that can cover multiple regulations and standards from a single audit event. This is a very new but necessary approach in some sectors to ensure that all the necessary governance requirements can be met without duplicating effort from both audit and audit hosting resources.

**Assessments**

The purpose of an assessment is to measure something or calculate a value for it. Although the process of producing an assessment may involve an audit by an independent professional, its purpose is to provide a measurement rather than to express an opinion about the fairness of statements or quality of frauds.\(^7\)

**Auditors**

Auditors of financial statements can be classified into two categories:

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• External auditor / Statutory auditor is an independent firm engaged by the client subject to the audit, to express an opinion on whether the company's financial statements are free of material misstatements, whether due to fraud or error. For publicly traded companies, external auditors may also be required to express an opinion over the effectiveness of internal controls over financial reporting. External auditors may also be engaged to perform other agreed-upon procedures, related or unrelated to financial statements. Most importantly, external auditors, though engaged and paid by the company being audited, should be regarded as independent.

• Cost auditor / Statutory Cost auditor is an independent firm engaged by the client subject to the Cost audit, to express an opinion on whether the company's Cost statements and Cost Sheet are free of material misstatements, whether due to fraud or error. For publicly traded companies, external auditors may also be required to express an opinion over the effectiveness of internal controls over Cost reporting. These are Specialized Persons called Cost Accountants in India & CMA globally either Cost & Management Accountants or Certified Management Accountants.

Cost auditing

The most commonly used external audit standards are the US GAAS of the American Institute of Certified Public Accountants; and the ISA International Standards on Auditing developed by the International Auditing and Assurance Standards Board of the International Federation of Accountants.

• Internal auditors are employed by the organizations they audit. They work for government agencies (federal, state and local); for publicly traded companies; and for non-profit companies across all industries. The internationally recognised standard setting body for the profession is the Institute of Internal Auditors - IIA. The IIA has defined internal auditing as follows: "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes". Thus professional internal auditors provide independent and objective audit and
consulting services focused on evaluating whether the board of directors, shareholders, stakeholders, and corporate executives have reasonable assurance that the organization's governance, risk management, and control processes are designed adequately and function effectively. Internal audit professionals (Certified Internal Auditors - CIAs) are governed by the international professional standards and code of conduct of the Institute of Internal Auditors. While internal auditors are not independent of the companies that employ them, independence and objectivity are a cornerstone of the IIA professional standards; and are discussed at length in the standards and the supporting practice guides and practice advisories. Professional internal auditors are mandated by the IIA standards to be independent of the business activities they audit. This independence and objectivity are achieved through the organizational placement and reporting lines of the internal audit department. Internal auditors of publicly traded companies in the United States are required to report functionally to the board of directors directly, or a sub-committee of the board of directors (typically the audit committee), and not to management except for administrative purposes. As described often in the professional literature for the practice of internal auditing (such as Internal Auditor, the journal of the IIA), or other similar and generally recognized frameworks for management control when evaluating an entity's governance and control practices; and apply COSO's "Enterprise Risk Management-Integrated Framework" or other similar and generally recognized frameworks for entity-wide risk management when evaluating an organization's entity-wide risk management practices. Professional internal auditors also use Control Self-Assessment (CSA) as an effective process for performing their work.

- Consultant auditors are external personnel contracted by the firm to perform an audit following the firm's auditing standards. This differs from the external auditor, who follows their own auditing standards. The level of independence is therefore somewhere between the internal auditor and the external auditor. The consultant auditor may work independently, or as part of the audit team that includes internal auditors. Consultant auditors are used when the firm lacks sufficient expertise to audit certain areas, or simply for staff augmentation when staff are not available.
Response of Audis

Safety, security, information systems frauds, and environmental concerns are increasingly the subject of audits. There are now audit professionals who specialize in security audits and information systems audits. With nonprofit organizations and government agencies, there has been an increasing need for frauds audits, examining their success in satisfying mission objectives.

**Quality audits**

Quality audits are performed to verify conformance to standards through review of objective evidence. A system of quality audits may verify the effectiveness of a quality management system. This is part of certifications such as ISO 9001. Quality audits are essential to verify the existence of objective evidence showing conformance to required processes, to assess how successfully processes have been implemented, and to judge the effectiveness of achieving any defined target levels. Quality audits are also necessary to provide evidence concerning reduction and elimination of problem areas, and they are a hands-on management tool for achieving continual improvement in an organization.

To benefit the organization, quality auditing should not only report non-conformance and corrective actions but also highlight areas of good practice and provide evidence of conformance. In this way, other departments may share information and amend their working practices as a result, also enhancing continual improvement.

**Project management**

- **Regular Health Check Audits**: The aim of a regular health check audit is to understand the current state of a project in order to increase project success.

- **Regulatory Audits**: The aim of a regulatory audit is to verify that a project is compliant with regulations and standards. Best practices of NEMEA Compliance Center describe that, the regulatory audit must be accurate, objective, and independent while providing oversight and assurance to the organization.
Energy audits

An energy audit is an inspection, survey and analysis of energy flows for energy conservation in a building, process or system to reduce the amount of energy input into the system without negatively affecting the output(s).

Operations audit

An operations audit is an examination of the operations of the client's business. In this audit, the auditor thoroughly examines the efficiency, effectiveness and economy of the operations with which the management of the entity (client) is achieving its objective. The operational audit goes beyond the internal controls issues since management does not achieve its objectives merely by compliance of satisfactory system of internal controls. Operational audits cover any matters which may be commercially unsound. The objective of operational audit is to examine Three E's, namely: Effectiveness – doing the right things with least wastage of resources. Efficiency – performing work in least possible time. Economy – balance between benefits and costs to run the operations. A control self-assessment is a commonly used tool for completing an operations audit.9

The general definition of an audit is an evaluation of a person, organization, system, process, enterprise, project or product. The term frequently refers to audits in accounting, quality management, water management and energy preservation.

Audit is defined as a systematic and independent testing of information, statements, books, operations and (financial or otherwise) frauds of a society for the purposes designated. In any audit, auditor perceives and recognizes the above suggestions to him for examination, collects evidence, evaluates the same and on this basis formulates his opinion that communicates through its audit report.

The audit is an indispensable element of accounting. Traditionally, audits were associated with obtaining information on financial arrangements and the financial statements of a caller or a job.

Financial audits are directed to assure the robustness and reliability of the data, and furnish an evaluation of the internal control system. The aim of an audit is to

9 Gilbert W. Joseph and Terry J. Engle (December 2005).
convey an opinion on the scheme of organization / person / (etc.) in question, under
evaluation based on work done on a tryout.\textsuperscript{10}

\textbf{What is Audit?}

Historically, the word "audit" has - been derived from the Latin word "audire
of " meaning "hear". According Dicksee traditionally audit can be interpreted as an
interrogation of the accounting records undertaken to find out whether they fully
reflect the transactions related purposes correctly. In addition, the auditor also
expresses his judgment on the case of statements of accounts prepared from the
accounting records to draw what they believed a mediocre.

The audit is the systematic critique and the structural appraisal of a business
establishment, the same operations and the merchandise and production processes
within the initiative system. The audit also takes an exam and, hence, an investigation
into past history, records and data about a fellowship in order to assess and explore
the legality of business operations, transactions, tax reporting and management of
global finance within the society.

The audit is commonly carried out by an objective, experienced individual
who has zero to lose or gain from the outcome of the audit and therefore can
communicate on a detailed, honest and the unprejudiced history of the dealings of a
commercial enterprise and operational operations. Typically, these masses are known
as auditors.

Thus, the audit is the procedure by which a company is investigated and
evaluated to determine if the company has worked according to accepted standards
and approved regulatory procedures.\textsuperscript{11}

The audit is a monitoring tool to assess the effectiveness of the frauds of an
organization primarily for accounting, financial and functional outcomes. The study of
internal audit assures that the work of the society is moving smoothly, efficiently and
economically and that all laws, conventions and ordinances governing the operations

\textsuperscript{10} McKenna, Francine. "Auditors and Audit Reports."
\textsuperscript{11} Auditing and Assurance
of the organization are adhered to, ensure compliance internal control to prevent mistakes, fraud and misappropriation.

Audit in its modern concept is a systematic, intelligent, scientific, critical and thorough examination of the books of accounts of the organization by a soul or an independent body of masses with the help of vouchers, documents, information and explanations received by authorities for the intention of determining whether the transactions in the books of business relationships are authentic and have been presented with permission. The task is to get out if they are arithmetically correct and that the accounts and financial statements are made in conformity with the police force and the rules and regulations of the constitution. Internal audit in recent times in the computerized environment has become more important in parliamentary procedure to prepare the staff very effectively in detecting irregularities. It is for this cause that the audit is considered as analytical and critical accounting aspect. It is a test not only of the accounting records, but also managerial frauds.

Internal Audit plays an essential role to ensure that effective controls are operating role in all actions, whether it is passive or active in an arrangement. Internal Audit plays a constructive part in supplying management services for the objective evaluation of systems, processes, practices, compliance of policies. Later on the enactment of the Companies (Auditor's Report) Order, 2003, by the Government of India in terms of subsection (4A) of part 227 of the Companies Act 1956, which states that it is mandatory for all companies to appoint an internal auditor, if applicable CARO 2003. Clause 4 (vii) of CARO, 2003 is applicable to listed companies and / or other companies holding a paid up capital and reserves exceeding 50 lakhs as at the start of the financial year concerned, or causing an annual turnover exceeding Rs 5 crores for a full stop of three immediately preceding financial consecutive tax years in question, if the caller owns an internal audit system commensurate with its size and nature of the job. Commissioners are asked to report pursuant to Section 227 of the Companies Act, 1956, as to whether the company delivers an internal audit system commensurate with the size and nature of the job. Internal Audit has been delineated as an independent appraisal activity within an organization for the critique of accounting, fiscal and other operations as a groundwork for service management. It is a managerial control which functions by measuring and judging the strength of other
commands. The overall aim of internal auditing is to serve all members of management in the efficient dismissal of its function, by supplying them with objectively analyzes, appraisals, recommendations and pertinent comments concerning the activities reviewed. The internal audit, in essence should be interested with any form of business where you can be of service to the government.

The audit concept has undergone a sea change and the above objectives, viz. "The finding fault " is no longer relevant or interesting. Internal Audit is a diverse and specialized function in various areas of the audit. It is a tool employed to detect good, bad and the despicable. Concept of Internal Audit is an effort to reach an ideal combination of financial audit, frauds audit and reviews of programs for the hereafter. Internal Audit, to be effective must provide three types of services PPC, i.e. Prevention, protection and healing.

- Preventive role, a negative situation before management forewarns;
- The external auditors pointed out before, reducing its notice in advance by management protects and
- As a curative function, this change and act as a catalyst for action, suggests corrective measures.

THE ROLE OF AUDITING:

The audit frauds is Safety, protection, information systems frauds, and environmental businesses are increasingly the subject of the audit. Security audit and information systems audit professionals who specialize in audits still exist. With non-profit organizations and government agencies, reviewing his success in the great mission objectives, frauds audit is a growing demand.

The audit primarily deals with accounting, fiscal and operational matters in order to assess the effectiveness. Internal audits of company work efficiently and economically, is playing smoothly and to assure that the organization's operations related laws, principles and regulations in all an effective internal control system to ensure addition, errors are implemented, to prevent fraud and misappropriations.

The innovative concept of vouchers for auditing, documentation, information and received an explanation from the authorities with the avail of an independent
individual or physical structure of souls from the books of accounts of the organization, organized, intelligent, scientific, critical and thorough examination, is recorded in the books of business relationships and transactions are genuine or not inserted with the appropriate agency for the determination of sensing. Arithmetically correct and your work accounts and financial statements of the law and regulations and accounting standards and mandatory standards of the Institute of Chartered Accountants auditing practices, in particular, are prepared in conformity with the dominions of the system to ascertain out whether India. The administration describes the results of the audit work. Very efficient in detecting anomalies audit personnel so as to fix it more relevant computerized environment internal audit has been checked. This analytical accounting and auditing is regarded as an important aspect of that is imputable. The accounting books and administrative efficiency is not just a trial.

Effective internal audit controls that receive the obligation or the assets of the organization, working in all activities play an authoritative part in ensuring that. Internal audit arrangements, processes, practices, policies and procedures with the aim of assisting with the diagnosis by management plays a constructive part. Companies (Auditor’s Report) Order, 2003, after implementation, all callers are required to nominate an internal auditor says that the Section 227 of the Companies Act 1956, sub-section (4A) by the Government of India in terms of Christmas 2003 is applicable. Christmas 2003 section 4 (VII) listed companies and / or relevant financial year as paid up capital and reserves exceeding Rs.50 lakhs or Rs.5 crore, more than the average yearly turnover of other companies the company immediately applied his business commensurate with its size and nature, whether an internal audit system, the relevant financial year for a period of three back-to-back. Statutory auditors of the company business, an internal audit system commensurate with the size and nature as to whether the Companies Act, 1956, under section 227 is required to cover.

Internal and External Auditing

In this newspaper, both internal and external auditing, including the use of government auditing, leaves. Government audit activities and describing relationships in a myriad of different fields and there are several patterns of politics. The primary stage, nevertheless, the ethical audit activities effectively achieve their ends, while
efficient, are accountable to the citizens fulfill their duty, and to enable governments and state agencies must be properly configured.

**Public Sector Governance**

In the public sector, governance, goals are set and attained by means of which. To cut down the danger of corruption - that is, the reputation of the administration to ensure equitable provision of services established, and government officials to ensure appropriate behavior in the natural processes that are included.

**The Role of Government Auditing**

Government auditing is a cornerstone of good public sector and politics. Public resources responsibly and effectively to achieve intended outcomes are fair, by providing objective assessments, the auditors governmental organizations, accountability and unity, seeking to improve operations, and creating trust between citizens and parties. The character of the auditor oversight, insight, and foresight to support the debt instruments of business leader. Government authorities should monitor what they are addressed and to prevent and detect corruption in public works. Insight government programs, policies, operations, and by providing an independent judgment of the issues to aid decision makers.

Foresight to identify styles and emerging challenges. Listeners, such financial audits, frauds audits, and investigations and the function of each of these services to conform to the use as tools.

**TYPES OF AUDITS AND OTHER SERVICES**

Government auditors conduct audits with different types of finishes. Financial data and frauds indicators for government functions, obligations vary between jurisdictions and types of natural processes (e.g., public health, law enforcement, national security and environmental protection) and the issues may require long time to happen. Consequently, the way to assess the regularity of public funds and frauds varies considerably. Consequently, the auditors of individual government show different types of skills, competencies and specializations. For instance, government auditors shall include: accounting standards and systems to examine the financial
responsibility; program and operations frauds measures to assess the success or progress of government activities and that standards and best practices of corporate administration, management and interior control. In some instances, auditors can assess the reliability of existing indicators, but they must likewise be capable to evaluate the carrying out of independently assess the accomplishments of a mixture of public programs.

In addition, to get useful recommendations on how to improve operations, they must be able to use the standards and best practices specific to management type of operation under consideration. Choosing the type of audit or service to be performed is based on the dominance of the audit activity and function, as considerably as the needs and issues to be accosted. The telescope of the audit activity of study depends on the authority given to it by the statute and the needs or risks the system faces. A broader perspective allows the flexibility of audit activity to use a risk-based approach for the verification, focusing on the fields of greatest concern or risk, while contributing value throughout the constitution.

The aim of the audit also considers broader governance activities of the system, which can facilitate the organization reach its goals and priorities and improve its governance framework, including its ethical code. The narrow aim of confirmation is to examine individual transactions for errors or for conformity with contract conditions, policies, rules or laws. The scope of employment of the auditors may vary between these two extremes, and actions such as the inspection of internal controls, procedures and systems to identify systemic weaknesses and propose operational improvements. Normally, two characters of focus are necessary to varying levels in order to make the most effective impact of an activity control finances.

**RISK MANAGEMENT SYSTEMS AND CONTROLS**

**Effectiveness:** Auditors to assess the adequacy of corporate administration and the control environment, the effectiveness of processes to identify, measure and manage risk insurance provided by the control policies, operations and activities; completeness and accuracy of the systems and information and communication practices, and effective monitoring and evaluation of management. Many jurisdictions have developed an audit that "systems", which is planned to measure the extent of
financial systems and control the operation of the system and to identify gaps and recommend measures called corrective.

**Frauds:** Accounts systematically collect evidence to evaluate aspects of program execution beyond financial reporting. Because the types of government services are broad types of appropriate aims for frauds audit vary. In increase, depending on the jurisdiction, the beach and the orientation of the frauds audit may vary. In its widest sense, the objectives of the frauds audit can assess:

**Effectiveness:** Assess the achievements of the program. A program achieved its aims? What are the issues or outcomes of the program, planned and unplanned?

**Efficiency:** examines productivity, unit price, or indexes such as utilization, delays or hours of waiting the service. Perform operations to maximize the results in terms of cost and other resource inflows (e.g., the number of license renewals per hour of staff)?

**Economics** - examines the extent to which a government operation has cut its usage of inputs (e.g., money, staff resources, equipment or installations) in conformity with the quality requirements of the plan. For instance, an audit of the economic system can assess the cogency of a competitive procurement procedure to assure that costs were contained.

**Compliance** - compliance testing organization to objective requirements, standards or criteria. These types of audits generally assess compliance with laws and ordinances, contract requirements, the need for subsidies, and organizational policies and routines. A relatively new service, environmental audit, examines compliance with environmental rules.

- The reliability of data - evaluate the interior commands and reporting for non-financial issues, such as frauds standards.

- Policy and other forward-looking (prospective) evaluation - evaluate alternative policies or programs, forecasting the consequences of potential programs under different assumptions or assess the advantages and disadvantages of the various legislative proposals. Auditors can also compile
benchmarks or best practice information to help in the appraisal of practical design or platform direction.

**Hazard Assessment**: identify the dangers that may bear on the accomplishment of strategic goals and financial goals of an organization and assesses the management response to these perils. In political science, the risks go beyond the normal operational and financial risks, and may include political and societal hazards. For instance, some hazards of politics are the political and economic issues of the public perception of justice and just handling of citizens. They also conduct risk assessments to select and audit program.

**Financial/Regularity**. Auditors express an opinion on the introduction of the financial statements in conformity with proven or accepted accounting principles (regularity). Frequently done by external auditors — either commercial auditors or auditors from another arm of government — this type of audit focuses on properly accounting for assets and expenditures as reported by the government. In summation to the financial statement, opinion, financial audits can also analyze the reliability of specific financial information, compliance with relevant procedures and rules, or the safeguarding of assets.

**Advice, Assistance, or Investigative Services**. Auditors may provide objective, expert advice in a range of fields in which they have expertise. Established on their knowledge and expertise, they may provide technical advice on issues associated to good administration, accountability, ethical practices, and anti-corruption programs; effective risk assessment and management; internal controls; sound business procedures; information technology (IT) systems development and operations; project management; program evaluation; and other areas regarding the potency, efficiency, and economic system of operations. In increase, government auditors may provide such services as control and risk assessment workshops and preparation in areas such as fraud awareness, frauds measurement, and control design. They may also offer advice on implementing audit recommendations.

In providing advisory/assistance services, auditors should remain autonomous. Although the auditors may, in an advisory role, provide technical advice and prepare recommendations to management, they may not make management
decisions or get into a management function. Moreover, they must stay cognizant of the need to assert independence and objectivity for any subsequent audits conducted in any program that has experienced significant levels of advice or assistance in its formative phases. In other words, auditors should guard against the risk of auditing their own workplace.  

Because government auditing is key to good public governance, it is important to maintain an appropriate configuration with an appropriately broad mandate to achieve the organization’s governance objectives. The government audit activity’s mandate should be as wide as possible to enable it to respond to the broad range of the government’s or governmental unit’s activities.

Although listeners may be able to add value to any segment of the establishment for which they can provide independent, objective assurance, our view is that, at a minimum, every government takes some sort of independent audit activity that holds authority to measure the wide scope of the government’s actions.

Full audit coverage is often offered by complementary external and internal audit entities. All the same, in some smaller governments or sub-governmental units, one audit entity alone, or an entity combining a hybrid of internal and external audit characteristics, may be appropriate.

Finally, government auditing strengthens public governance by providing for accountability and protecting the core values of government — ensuring managers and officials conduct the public’s business transparently, fairly, and honestly, and with fairness and probity. We encourage elected and appointed officials at all tiers of administration to support effective audit activities by establishing independent audit functions that conform to all of the key components.

“State and local government retirement programs, participants, and beneficiaries have a direct interest in sound corporate governance, since they are major investors in securities markets. State and local retirement plans collectively invest over $2 trillion dollars in the public markets. The character and unity of corporate governance directly affect the ability of retirement plans to fit their...
investment goals, and by extension, the ability to fulfill their long-term obligations to current and future retirees”.

“The Government Finance Officers’ Association (GFOA) supports corporate governance reforms that enhance transparency and align management and the plank of directors with the interests of long-term shareholders. These reforms include, but are not limited to… the appointment of a legal age of independent board members, as well as audit and compensation committees comprised entirely of independent panel members…”13

**Frauds of Auditing:**

Public presentation of security organizations, security, information, and environmental businesses are increasingly open to confirmation. On that point are now audited professionals who specialize in security audits and audits of data organizations. With nonprofit organizations and government agencies aim, he experienced a growing need for frauds audits, examining their success in satisfying the aims of the commission.

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References:

