

Introduction to audit

The primary purpose of the audit is to confirm the authenticity of books of accounts prepared by an accountant. It simply refers to the evaluation of business book of accounts and vouchers. It is done to make sure whether all financial transactions are recorded accurately. It is the process of a detailed examination of financial records of the business to check their accuracy and whether they follow the prescribed rules and regulations.

It reveals errors from books of accounts of organizations. It aims at checking fairness of financial records and prevention of frauds. This examination is totally unbiased and conducted by an independent person. The person doing auditing should be qualified for the job to perform it with accuracy. This can be performed either by internal employees of business or the person who is external to business. Auditing is conducted continuously at regular intervals by an auditor.

The audit is an intelligent and critical examination of the books of accounts of the business.

Auditing is done by the independent person or body of persons qualified for the job with the help of statements, papers, information and comments received from the authorities so that the examiner can confirm the authenticity of financial accounts prepared for a fixed term and report that:

- The balance sheet exhibits an accurate and fair view of the state of affairs of concern;
- The profit and loss accounts reveal the right and balanced view of the profit and loss for the financial period;
- The accounts have been prepared in conformity with the law.

Thus, it will be seen that the duty of an auditor is much more than a mere comparison of the balance sheet and accounts with the books. But, apart from doing this, he has to satisfy himself according to his information and the explanations given to him.

WHAT IS AUDIT?

Audit is the activity of evaluation and determining the financial, operational and strategic goals and exercise in an organization to decide if the organization is in accordance with the rules and regulations. To see if an organization is in accordance with all the rules and regulations, is one of the most important objects of auditing. It is one of the primary goals and the reason why an organization conducts an audit.

Definition of Auditing

“An audit is an examination of accounting records undertaken with a view of establishing whether they correctly and completely reflect the transactions to which they purport to relate.” –Lawrence R. Dickey

“Audit is defined as an investigation of some statements of figures involving examination of certain evidence, so as to enable an auditor to make a report on the statement.” –Taylor and Perry

“An audit denotes the examination of balance sheet and profit and loss accounts prepared by others together with the books of accounts and vouchers relating thereto such in such a manner that the auditor may be able to satisfy himself and honestly report that in his opinion such balance sheet is properly drawn up so as to exhibit a true and correct view of the state of affairs of a particular concern according to the information and explanations given to him and as shown by the books.” -F.R.M De Paula

“Audit such an examination of the books of accounts and vouchers of a business as will enable the auditor to satisfy himself that the balance sheet is properly drawn up so as to give a fair and true view of the state of affairs of the business and the whether the profit and loss of accounts gives a true and fair view of profit and loss for the financial period according to the best of his information and explanations given to him and as shown by the books and if not in what respect he is not satisfied.” –Spicer & Pegler

“Audit may be said to be verification of the accuracy and correctness of the books of accounts by an independent person qualified for the job and not in any way connected with the preparation of such accounts.” -J.B. Bose

“Audit is not an inquisition and its mission is not one of fault finding. Its purpose is to bring to the notice of the administration lacunae in his rules, regulations and lapses, and to suggest possible ways and means for the execution of plans and projects with greater expedition, efficiency and economy.” –A.K. Chandra

“Auditing is a systematic examination of the books of records of business or other organization in order to ascertain or to verify and to report upon the facts regarding its financial operations and the result thereof.” –Prof. Montgomery

Objectives of Auditing

Accounts And Statements Verification

Evaluating the fairness & accuracy of books of accounts is the primary objective of Auditing. It checks each & every financial transaction thoroughly. It detects and prevents any frauds in the books of accounts. The auditor is provided with free hands to audit the books of accounts & is independent of business.

Checking Accounting Policies

Every business or organisation needs to follow some accounting policies. Books of accounts are prepared according to these accounting policies. If a business has an effective accounting system, its efficiency can be increased. It is the duty of the auditor to check the accounting policies of business & express his independent opinion.

Error And Fraud Detection

Auditing helps in easy finding of errors & frauds from the books of accounts. It is the duty of management to avoid & check errors & frauds. However, sometimes it becomes difficult for management to find out the errors.

It is through auditing that helps managers to find out errors & frauds. After this managers take corrective steps against these errors or frauds.

Improves Quality Of Business Processes

Auditing helps management in finding out the errors & frauds. Management can take corrective measures against these errors. Steps are taken so that they are not repeated again. This way it improves the quality of business process & improves its efficiency. Also the employees of business work properly due to the threat of auditing.

Assurance To Investors

Auditing assures that each & every figure represented in the financial statement is correct. It helps in evaluating every figure of business books of accounts. Financial statements after being audited are considered trustworthy by investors. Investors are fully assured by these financial statements.

Checking Assets And Liabilities

Auditing thoroughly evaluates the financial statements of the business. It helps in confirming the true value of assets & liabilities of the organisation. This helps in determining true financial position of the business. After that accordingly, proper plans can be made to achieve targets & goals.

Provide True And Fair View

Auditing provides fair and true view of financial statements of business organization. It examines the authenticity of profit and loss account and balance sheet of business concern and identifies any discrepancies in it. This way the audited book of accounts exhibits correct picture of business conditions.

Detect Errors And Frauds

Auditor verifies all books of accounts maintained by business for detecting any errors and frauds. Errors are innocent mistake that occurs without any intention whereas frauds are deliberate mistakes. These both have adverse effects on organizational performance and need to be timely monitored. Process of auditing enables in overcoming these mistakes by timely detecting them and taking corrective actions accordingly.

Assist In Accounts Consistency

Auditing has an efficient role in maintaining the regularity of accounts in every organization. An auditor raises questions in case if accounts are not maintained consistently by business. He may give unclear

auditing opinion if he found any irregularities in book of accounts. Therefore, auditing puts pressure on maintaining a consistency in book of accounts.

Independent Viewpoint

Auditing provide an independent viewpoint about company's financial statements when performed by external auditors. He inspects all accounts honestly without any hidden agenda thereby giving a fair and correct view of business position. If he declares the authenticity of book of accounts as true, it has a lot of weightage with both company and investors.

Enable In Obtaining Loans

Auditing ease the overall process of obtaining loans by companies. Banks and financial institutions rely on audited book of accounts for determining the true financial position of business organization. Businesses easily get approval for the loans on the basis of their audited statements of last 5 years.

Check On Employees

Another important advantage provided by auditing is that it keeps a moral check on employees and other staffs working within the organization. It avoids any instance of dishonesty, irregularity and defraud on the part of employees. They all are under constant scrutiny as they are aware that all accounts will be evaluated. It eventually leads to staff being honest and responsible at all point of times.

Enhance Goodwill

Auditing plays an efficient role in improving the goodwill of the organization. It reveals real profitability and financial position of business to public that creates their faith over enterprise. All stakeholders are fully assured of all audited book of accounts which results in raising the overall goodwill of organization.

Characteristics and Importance of Auditing

Characteristics of Auditing

Systematic Process

Auditing is a systematic process of examining the authenticity of the book of accounts. It follows a logical and scientific series of steps for examining financial accounts.

Independent Examination

It is an independent evaluation done by the body of individuals who are external to the business. These persons have the required qualifications for conducting auditing and give their views or opinions without any biases.

Expresses Opinion

The auditor does not only examine the accounts but also give his opinions regarding them. He expresses whether accounts present a true and fair picture of the organization and also comply with required laws.

Evidence

Auditing process requires collecting various financial and non-financial documents for verifying accounts. The auditor evaluates various documents such as certificates, vouchers, questionnaires etc. for examining purpose.

Established Criteria

In auditing, the whole examination of evidence collected is done in accordance with the established criteria or principles. These consist of International financial reporting standards, international accounting standards, industry practices, generally accepted accounting principles etc.

Importance of Auditing

Detects Errors Or Frauds

Auditing helps in identifying all errors or frauds in the financial books of business by examining them. Auditors examine every financial record to verify their accuracy and discover all mistakes or frauds committed within the organization.

Assurance To Owners And Investors

It provides assurance to owners and investors by checking all internal workings of the organization. Business owners will be satisfied by auditing reports that the books of accounts are properly maintained and all departments are working efficiently. Investors to gain confidence once the accuracy of financial records is verified.

Helps In Decision Making

It supports management in decision making by providing them with crucial information regarding the organization. Auditing is an examination process which is done by a highly qualified professional having good knowledge of subjects like finance and accounts. They discover issues in organization workings and books of accounts and give their opinions for resolving them.

Independent View Point

Auditing is an independent examination of accounts which is done by auditors which are external to the organization. Auditors properly inspect books of accounts and present their fair view without any biases or hidden agenda.

Satisfies Stakeholders

It helps in gaining the confidence of all stakeholders in the organization. Auditing reports provide a transparent view of organization operations and financial records. Financial accounts after getting audited gain more creditability and provide satisfaction to all creditors.

Provide Easy Access To Loans

Audit reports serve as an efficient tool for raising the required funds from banks or other financial institutions. These reports contain accurate information regarding the business organization and depict a fair financial position. Financial institutions easily decide the credibility of the business and take decisions regarding allocating funds to them.

Ensures Validation Of Accounts

Auditing ensures the authenticity of all accounts by performing a detailed examination and presenting a trusted opinion regarding them. It checks the regularity of accounts and finds out whether they follow all prescribed rules and regulations..

Establishes Morale Check

Auditing enables in keeping a check over the performance and efficiency of organizations. Workers and staff work honestly and do not try to cheat or commit fraud due to the fear of being identified under the auditing process. It helps in avoiding all irregularities and makes all employees attentive.