Types of audit

In general, an audit is an investigation of an existing system, report, or entity. It may be conducted by either an internal or external party, depending on the situation. There are many types of audits that can be conducted, as noted below.

Compliance Audit - A compliance audit is an examination of the policies and procedures of an entity or department, to see if it is in compliance with internal or regulatory standards. This audit is most commonly used in regulated industries or educational institutions.

Construction Audit - This is an analysis of the costs incurred for a specific construction project. Activities may include an analysis of the contracts granted to contractors, prices paid, overhead costs allowed for reimbursement, change orders, and the timeliness of completion. The intent is to ensure that the costs incurred for a project were reasonable.

Financial Audit - A financial audit is an analysis of the fairness of the information contained within an entity's financial statements. It is conducted by a CPA firm, which is independent of the entity under review. This is the most commonly conducted type of audit, and is required for all publicly-held companies.

Information Systems Audit - An information systems audit involves a review of the controls over software development, data processing, and access to computer systems. The intent is to spot any issues that could impair the ability of IT systems to provide accurate information to users, as well as to ensure that unauthorized parties do not have access to the data.

Internal Audit - An internal audit is usually conducted by an in-house audit team, and is focused on control assessments, process assessments, legal compliance, and the safeguarding of assets. The team’s reports are sent to management and the organization’s audit committee, and may result in recommended changes being implemented.

Investigative Audit - An investigative audit is an investigation of a specific area or individual when there is a suspicion of inappropriate or fraudulent activity. The intent is to locate and remedy control breaches, as well as to collect evidence in case charges are to be brought against someone.

Operational Audit - An operational audit is a detailed analysis of the goals, planning processes, procedures, and results of the operations of a business. The audit may be conducted internally or by an external entity. The intended result is an evaluation of operations, likely with recommendations for improvement. It is an essential element of a campaign to increase efficiencies and reduce costs.

Tax Audit -- A tax audit is an analysis of the tax returns submitted by an individual or business entity, to see if the tax information and any resulting income tax payment is valid. These audits are usually targeted at returns that result in excessively low tax payments, to see if an additional assessment can be made. If the taxpayer disagrees with the outcome of a tax audit, there is an appeal process that may overturn the initial finding.

Characteristics of Auditing

Auditing 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. Auditing is defined as the process of a detailed examination of financial records of the business to checks 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 independent person. The person doing auditing should be qualified for job to perform it with accuracy.

This can be performed either by internal employees of business or the person who are external to business. Auditing is conducted continuously at regular intervals by auditor. However, auditing is not mandatory for all businesses. Auditing is of 2 types: Voluntary audit and the one required by law.

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.

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.

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.

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 instructions easily decide the credibility of the business and take decisions regarding allocating funds to them.

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.

Thank you

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