MODULE-IV

AUDITING

Meaning of Auditing

Auditing, therefore, is an examination of the books of accounts and vouchers of the business by an independent person who should be qualified for the job, in order to ascertain their accuracy.

Objectives of Auditing

The basic objective with which auditing is done are:-

- 1. Verification of accounts and statements.
- 2. Detection of errors or frauds.
- 3. Prevention of errors or frauds.
- The auditor is given a free hand to the books, accounts, statements enabling him to thoroughly check them and if satisfied to certify that books have been properly drawn up and represent a true view of the financial position of the business. He gives his special attention to the direction of errors which may be innocently or intentionally committed.

In the case of former the auditor discovers the errors by vouching the transactions and by comparing and tallying the balances between and amongst various books. But in the case of latter such errors are classified as frauds as it leads to defrauding the proprietors. The frauds could be detected by a thorough checking of the books and documents such as cash book, vouchers, invoices, wage sheets, etc.

ADVANTAGES OF AUDITING

- 1. It detects errors and frauds with suggestions for their prevention.
- 2. To avoid such mistakes being committed the accounts are kept up-to-date.
- 3. The parties feel confident of the audit report because it was done by an independent person or body.
- 4. Accounts as audited stand authentic.

5. The auditors are competent persons in the fields of accounts and financial laws so can render advice to management.

6. In case of joint stock companies the director has no chance of taking undue advantages.

7. Auditing accounts facilitates settlement among partners.

Classification of Auditing

Auditing is classified into two:

1. Continuous or detailed.
2. Periodical or final audits.

Internal audit

- Internal audits take place within your business. As the business owner, you initiate the audit while someone else in your business conducts it.
- Businesses that have shareholders or board members may use internal audits as a way to update them on their business's finances. And, internal audits are a good way to check in on financial goals.

- Although there are many reasons you may conduct an internal audit, some common reasons include to:
- Propose improvements
- Monitor effectiveness
- Make sure your business is compliant with laws and regulations
- Review and verify financial information
- Evaluate risk management policies and procedures
- Examine operation processes

External audit

- An external audit is conducted by a third party, such as an accountant, the IRS, or a tax agency. The external auditor has no connection to your business (e.g., not an employee). And, external auditors must follow generally accepted auditing standards (GAAS).
- Like internal audits, the main objective of an external audit is to determine the accuracy of accounting records.
- Investors and lenders typically require external audits to ensure the business's financial information and data is accurate and fair.

Audit reports

When your business is audited, external auditors usually give you an audit report. Audit reports include details of the audit process and what was found. And, the report includes whether your financial records are accurate, missing information, or inaccurate.

IMPORTANCE OF AUDITS

You must conduct audits regularly to understand different aspects of your business. And, audits can help catch issues early on before they snowball into big mistakes. If you don’t conduct audits, you may find yourself reviewing inaccurate information, which can impact your business later.

Before you kick the idea of audits to the curb, think about how they can benefit your small business. Audits can help you:

- Find financial problems
- Catch errors
- Boost your business's bottom line
- Stay organized
- Make better business decisions

Auditing - Internal Check

Advertisements. **Internal Check** is an integral function of the **internal** control system. It is an arrangement of duties of the staff members in such a way that the work performed by one person is automatically and independently **checked** by the other.

INTERNAL AUDIT :-

An internal audit is a check that is conducted at specific times, whereas Internal Control is responsible for checks that are on-going to make sure operational efficiency and effectiveness are achieved through the control of risks.

INTERNAL VOUCHING:-

After entering in all vouchers, only then can auditing start. Vouching is defined as the "verification of entries in the books of account by examination of documentary evidence or vouchers, such as invoices, debit and credit notes, statements, receipts, etc.

THE END