Auditing

Meaning

Auditing simply refers to the evaluation of business books of accounts & vouchers. It is done to make sure whether all the financial transactions are accurately recorded. Auditing aims at finding out the errors from books of accounts of the business.

It aims at the prevention of frauds. This examination is totally unbiased & 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 a business or the person who are external to business.

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.

<u>Advantages of Auditing:</u>

Auditing has several advantages which are given as follows:

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.

<u>Classification of Auditing:</u>

Auditing is classified into two:

1. Continuous or detailed.

2. Periodical or final audits.

1. Continuous Audit:

This is useful in case of big companies with larger business which have scope for keeping the audit staff busy year round or auditors may attend to auditing at intervals fixed or otherwise, and perform an interim audit. In this case, routine business goes on simultaneously with the audit work.

2. Periodical or Final Auditing:

After the completion of the financial year audit work is undertaken which goes on continuously till its completion. This system is the most satisfying from the auditors point of view.