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A Managerial study of “Financial Audit as Control Unit”

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Abstract:

An audit is the examination of the financial report of an organization - as presented in the annual report - by someone independent of that organization. The financial report includes a balance sheet, an income statement, a statement of changes in equity, a cash flow statement, and notes comprising a summary of significant accounting policies and other explanatory notes. The purpose of an audit is to form a view on whether the information presented in the financial report, taken as a whole, reflects the financial position of the organization at a given date. Audit is an important part of evaluation and performance of an organization. Internal control, as defined in accounting and auditing, is a process for assuring achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies. This research paper deals with the various issues in financial audit.

Keywords: Audit, Financial, Balance Sheet, Equity, Efficiency, Effectiveness.

Introduction:

Initially the primary objective was detection of errors and frauds. Currently expressing opinion on true and fair view given by the financial statements has become the primary objective. The management is responsible for preparing the financial statements. The auditor is expected to express his opinion on them. The auditor uses the organization. Especially the compliances part in internal audit gives the management peace of mind. The management can entrust many of the examine responsibilities on the internal auditor. Management is in a position to know whether the porches at the Management has been implemented in proper spirit and not only as a intuit. The financial audit, as is conducted on behalf of the shareholders is of tees use to the management as such. However, the surprise checks used by the external auditor make the accounts department alert. The working of this department at least is improving the organization. Especially the compliances part in internal audit gives the management peace of mind. The management can entrust many of the examiner responsibilities on the internal auditor. Management is in a position to know whether the porches at the management have been implemented in proper spirit and not only as a intuit. The financial audit, as is conducted on behalf of the shareholders is of tees use to the management as such. However, the surprise checks used by the external auditor make the accounts department alert. The working of this department at least is improvement.

Definitions:

- 1) Spicer and Pagler defines audit as ' such an examination at the books, accounts and vouchers of a business, as shad enable the auditor to satisfy himself whether or not the balance-sheet is properly drawn up, so as to exhibit a true and fair view of the state of affairs of the business, and whether the oral? And loss account gives a true and fair view of the profit or loss for the

financial period according to the best of his intonations and the explanations given to him and as shown by the books; and if not, in what respect he is not satisfied.'

- 2) de Paula defines audit as 'bare examination of a balance sheet and profit and loss account prepared by others, together wrote the books, accounts and vouchers relating thereto in such a manner mat the auditor may be able to satisfy himself and honestly report that, in his opinion, such balance sheet is property dram up so as to exhibit a true and correct view of the state of affairs of the particular concern, according to the information and explanations given to him, and as shown by the books..... Audit of a balance sheet involves the verification of the profit and loss account, as the balance of that account must be included in some form or other .'
- 3) Comptroller and Auditor General of India defines auditing in the book an introduction to Indian Government Accounts and Audit

'Audit is an instrument of financial control. it acts as a safeguard on behalf of the proprietor (whether an individual or a group of persons) against extravagance, carelessness or fraud on the part of proprietor's agents or servants in the realization and 0117178le of his money or other assets, and it ensures on the proprietors behalf that the accounts maintained truly represent facts and that the expenditure has been incurred with due regularity and propriety. The agency employed hr this purpose is called an auditor.'

The above definitions can be summarized as 'financial audit involves checking of financial books and records to form an opinion about the true and fair presentation in financial statements.' Also we may list out basic features as below:

Basic features of financial audit:

- The basic purpose of audit is to express an opinion whether the balance sheet shows a true and fair view of the financial position of the entity and whether the profit and loss account shows a true and fair view of the profit or loss shown therein.
- The audit is carried out by an independent agency called auditor .
- The financial audit involves a systematic examination of the books of account and related evidence.
- A report is given after the completion of audit. It contains an opinion of the auditor. if the auditor is not satisfied, he gives a qualified report.
- Auditor has a right to ask for information and explanations from the concerned persons, employees.
- Auditor should also verify drawing up of the financial statements as per the accounting norms and the legal disclosure requirements.

Owners appoint the auditor to control the management on their behalf. The auditor tries to safeguard the interest of the owners. In case of government audit, the propriety of expenditure is checked. if there is any wasteful expenditure the auditor comments on it. Also if the benefits of the government scheme funding has not reached the needy . The auditor pin points it.

Basic General Principles governing the financial Auditing:

The SA 200 (AAS 1) gives following nine basic principles governing audit.

1. Integrity. Objectivity and Independence: The auditor should be straightforward, honest, sincere and unbiased. He should be objective in the performance of audit. He should be impartial. He should be independent.

2. Confidentiality: The auditor has access to inside information of business. He should not disclose any such information to a third party without the specific permission of the client. He may disclose the information for which he has a legal or professional binding.
3. Skills and Competence: Audit requires specialized knowledge and skills. it is expected that the auditor should have adequate training, experience and competence in this held. Generally the qualification of a chartered accountant is required to act as an auditor.
4. Work Performed by Others: An auditor uses assistants to conduct the audit. Theses assistants may be even chartered accountants. But, the responsibility of forming the opinion is with the auditor. The auditor should carefully direct, supervise and review work delegated to assistants. The auditor should obtain reasonable assurance that work performed by other auditors or experts is adequate for his purpose.
5. Documentation: The auditor has to keep documents that prove that the audit was carried out with reasonable care. These documents are called the working papers. The working papers are used as an evidence of the work done. The auditor has to preserve them for a reasonable period of time. Another form of documentation is the audit note book containing the information of the day to day work done by the assistants of the auditor. These notes may be in the form of the queries raised, explanations obtained, unclear queries, points to be included in the audit report, details of missing vouchers, dates on which the audit was conducted etc.
6. Planning: The audit should be properly planned. So that it can be conducted efficiently and within a time limit. The planning includes knowledge of client's business, accounting system, internal control etc. Auditor analyses the internal control system. He should plan the audit procedures he is going to use. The plan should include coordination procedure among the assistants. The plan once prepared need not be rigid. It may be modified during the audit.
7. Audit Evidence : Audit evidence is the base of audit. In the audit, the auditor tries to find out, whether sufficient and reliable evidence is available for the accounting entries made. The auditor may use different tests to obtain the audit evidence. A substantive test involves test checking of the details of the transactions and the balances
He may use significant ratios and trends for unusual deviations. The internal control system is checked by the compliance tests. if the evidence is insulhcient or unreliable. auditor makes in depth checking of these transactions. The techniques used are inspection, Observation, Inquiry and confirmation, Computation, Analytical review.
8. Accounting System and internal Control: The management is responsible for maintaining proper accounting and internal controls. The auditor varies the accounting system. He also evaluates the internal control system. if he finds out that the internal control system is good and effective the substantive checks may be reduced. On the other hand, if the controls are not good, the in depth checking may be done.
9. Audit Conclusions and Reporting: The auditor forms his opinion based on the audit evidence he has checked. He has to find out whether
 - (a) The financial information has been prepared using acceptable accounting policies consistently;
 - (b) The financial statements comply with relevant legal regulations and statutory disclosure requirements;
 - (c) The financial statements disclose adequately all material matters relevant to the proper presentation of the financial information

At the end of audit, auditor submits his report. A specific format is prescribed in which the report is to be given. It contains all the necessary details as specified by the relevant legislation. If the auditor is fully satisfied, he gives an unqualified or clean report. If he is not satisfied he may give a qualified report, adverse report or a disclaimer of opinion.

Conclusion:

By control we generally mean comparing the planned results with the actual results. We try to find out the differences, deviations. An analysis is made of the probable reasons causing these deviations. The last step involves taking corrective actions to remedy the causes of deviation. The various types of audit help in controlling the organization. Especially we have seen management audit plays an important role as control tool. The evaluation of performance of management and making suggestions for improvement involves the control function. The management audit tries to analyse the performance function wise. Questionnaire for each function of management like defining objectives, planning, organizing, and controlling is used. A separate questionnaire is used for judging the performance of each department like production, stores, personnel etc. The cost audit also is an important tool. It helps in controlling the costs. Cost reduction programmes may be suggested by the cost auditor. The internal audit is a helping hand for the management. In conclusion we may say that Audit is used as an internal control tool.

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