

Unit VI- AUDIT OF COMPUTERIZED ACCOUNTS AND EDP SYSTEMS

Today accounting is no more manual but computerized. One can rightly say that today account keeping is being done in a computerized environment and modern account keeping is computerized account keeping.

Computerized Accounting:

Meaning:

When the various accounting functions like recording of business transactions in the books of account in the form of accounting entries, the preparation of financial statements like the balance sheet and the profit and loss account and cost statement from the accounting entries and also the preparation of various financial and cost reports from the data found in the financial accounts and cost accounts are performed by using computers, the accounting system is called computerized accounting.

Features:

Computerized account think has certain features. They are:

- a) Computerized accounting is accounting by the use of computer.
- b) Computerized accounting is done on the basis of software program or computer program.
- c) An accounting software program is written in a computer language.
- d) Digital computers are used in computerized accounting.
- e) Computerized accounting is done at a very high speed.
- f) computerized accounting work is accurate and free from errors. Computers do not make mistakes, if they are properly program to work.
- g) In a computerized accounting system, it is possible to prepare various specialized statements and reports from the same accounting records very quickly. For instance area wise list of sales, product wise list of sales, period wise list of sales etc can be taken from the sales record within a few minutes.

Advantages:

- a) In a Computerized accounting system, accounting work is done at a very high speed.
- b) It provides up-to-date accounting information to the management.
- c) In this system, accounting functions are done more accurately.
- d) In this system, a large amount of accounting information can be stored.
- e) the cost of operation of computerized accounting system is very low.
- f) Computerized accounting system can make available on number of special statements and reports from the same accounting data.
- g) In the system, once the initial feeding of the transactions to the computer is done, the entire set of accounts get ready automatically.
- h) In this system, the number of printouts with various modifications can be taken and those data can be used more freely.
- i) Computerized accounting provides job staff.
- j) It ensures flexibility in the program, as computers can make modifications in the program easily.
- k) It ensures neat, clean, accurate and prompt accounts and financial and cost statements.

Disadvantages:

- a) The success of computerized accounting depends upon the availability of special programs and professional programmers.
- b) Accounting staff of an organization have to be specially trained in computer accounting operations which would involve additional training cost.
- c) A computer requires costly computer peripherals, such as floppy disks for storage, printers etc.
- d) Computerized accounting is costly because highly paid technically qualified staff, costly computer peripherals and special stationery are required to be introduced in the system.
- e) Regular backups on various storage devices, such as hard disks, floppy disks, magnetic tapes etc are required to guard against possible loss of data.
- f) Data in a computer are subject to the risks of computer viruses. Computer viruses may destroy the entire data in a computer.
- g) There is the risk of breakdown of computers which disturbs the smooth working of the computerized accounting system.
- h) There is greater risk of obsolescence of computers due to technological inventions.
- i) The initial investment on the installation of computers is very high.

Auditing in EDP environment:

Data processing done with the help of electronic computers is popularly known as Electronic Data Processing or EDP and auditing in such environment is called auditing in EDP environment.

According to *Ron Weber* " EDP auditing is the process of collecting and evaluating evidence to determine whether a computer system safeguards assets, maintains Data integrity, achieves organizational goals effectively and consumes resources efficiently."

Problems auditing in EDP environment:

- 1. Concentration of functions:** In the EDP environment, the number of persons involved in the processing of accounting data is quite few. As a result, there is concentration of functions in a few hands. Because of this, segregation of functions which is essential for the smooth working of the accounting system, may not be present in an EDP environment.
- 2. Concentration of knowledge:** In an EDP environment, certain persons acquire a specialized knowledge of the sources and processing of data as well as the distribution and use of the output. These persons are in a position to alter data and programs unauthorizedly.
- 3. Concentration of programs and data in a few locations:** In an EDP environment, most programs and data are concentrated in a few locations. Such a concentration would facilitate easy access to data and programs, and thereby, increase the scope for unauthorized alterations of programs and data.
- 4. Absence of supporting vouchers:** In conventional accounting, there are basic documents duly authorized by responsible officers to originate business transactions. For example in the case of a sale transaction, the sale invoice is prepared by a person and it is duly signed by responsible

official but in an EDP environment many business transactions are fed directly into the computer without basic authorization records for vouchers.

5. **Difficulties in checking from outside:** In computerized accounting, discount and interest calculations are done according to the parameters of arithmetic already set in the program to stop that means, in computerized accounting there are difficulties in checking from outside as to what calculations are made and how does calculations are recorded.
6. **Lack of visible audit trail: Audit trail** refers to the successive stages in the recording of business transactions in the books of account from their source to their completion through which and auditor can trace accounting entries in the books, back to their origin and vice versa. In manual accounting there is an audit trail for every transaction. But in computerized accounting, the audit trail may not be as elaborate as in manual accounting system.
7. **What is put in coma is put out:** In EDP environment, what is put into the computer undergoes processing and is reflected as final output. That means, any entry wrongly fed into the computer with the wrongly reflected in the output.
8. **Vulnerability to manipulations:** The computer input, processing and output can be easily manipulated. This is because the computer obeys everybody and does what it is directed to do.
9. **Lack of visible output:** In some EDP system, the results of processing may not be printed or maybe printed only in summary form. That means, in a computerized accounting system, there is lack of visible output. The lack of visible output necessitates retention of access data in files in a form readable by computers.
10. **Coding problem:** The computerized accounting makes extensive use of codes in the place of self explanatory accounting heads employed in manual accounting. The designing and operating of coded accounting version of business transactions requires care and experience.
11. **Storage problem:** The program, data recorded in the computer are stored in storing devices like floppy, disk etc. These are to be carefully stored and guarded against risks of loss of physical devices, manipulations and infection of virus.
12. **Computer frauds:** In computerized accounting, there is scope for many types of computer frauds like manipulations of programs and output, theft of confidential output, taping, intercepting, etc.
13. **Computer virus:** Another problem connected with computerized accounting is the infection of computer virus. Computer virus is a mischievous program that affects the working of certain pre targeted areas of the computer. Computer viruses, sometimes cause simple inconvenience, but sometimes may make the whole computer system dead.