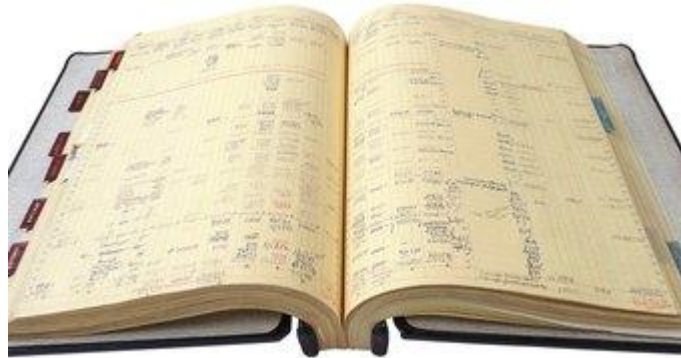
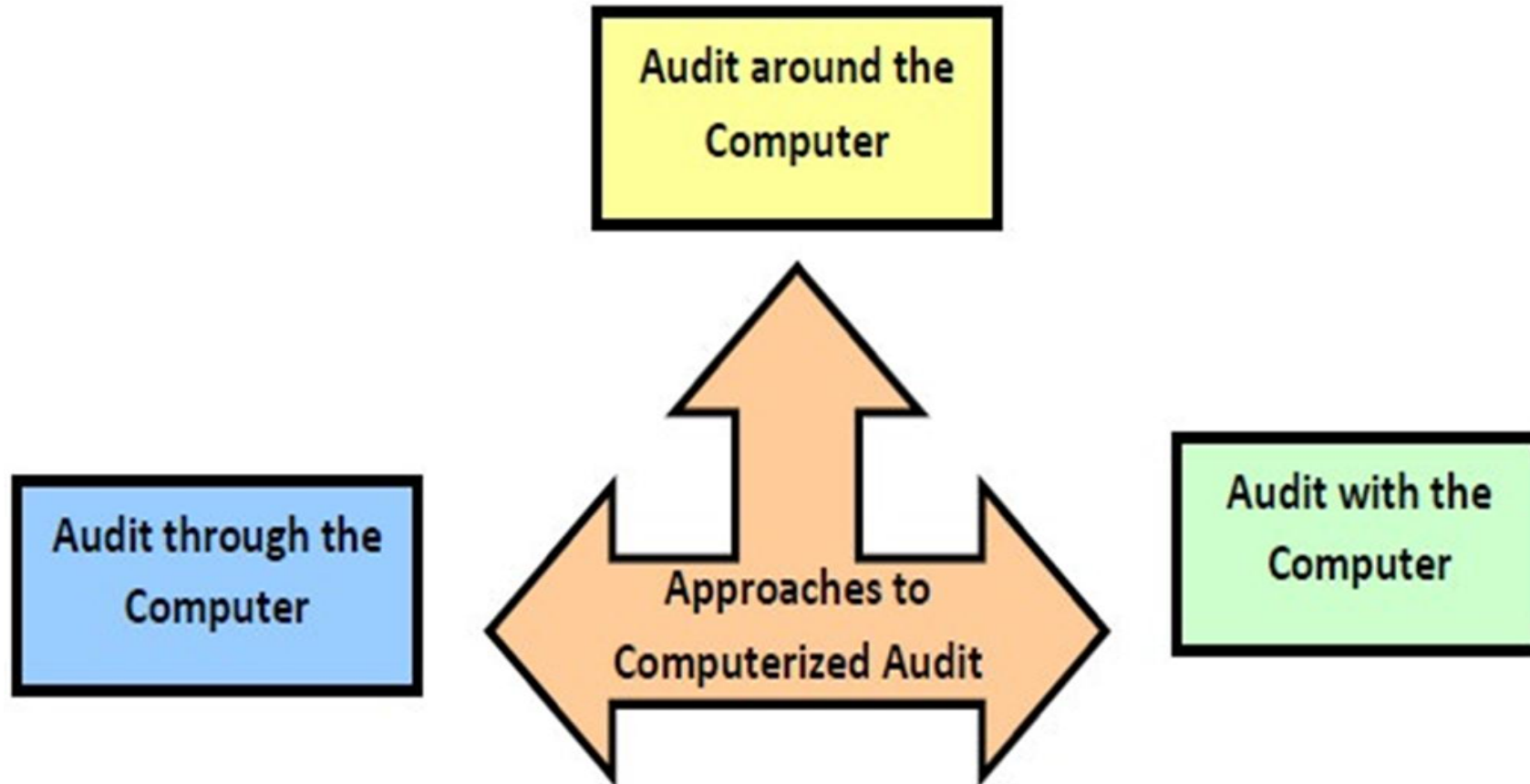


AUDIT OF COMPUTERISED ACCOUNTS



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Auditing in EDP Environment



Computerised Accounting System

- In recent years, there has been **development in the use of computers** as a means of keeping the accounting records and producing financial information. . This trend has brought about significant changes in the way the organisations process, store data and disseminate information.
- A **computerised accounting system is an accounting information system** that processes the financial transactions and events as per Generally Accepted Accounting Principles (GAAP) to produce reports as per user requirements. Every accounting system, manual or computerized, has two aspects. First, it has to work under a set of **well-defined concepts called accounting principles**. Another, that there is a **user -defined framework for maintenance of records and generation of reports**.

FEATURES OF COMPUTERISED ACCOUNTING

1. Fast, Powerful, Simple and Integrated
2. Complete Visibility Enhanced User Experience
3. Accuracy
4. Speed
5. Scalability
6. Power
7. Improved Business Performance
8. Quick Decision Making
9. Complete Reliability

Computerized Accounting

- ❑ Financial reports are automatically generated at the end of accounting year.
- ❑ The computerized accounting eliminates paper work making it easier and faster to collect.
- ❑ A **Computerized Accounting System** is now a basic necessity and no longer a luxury among businesses of whatever orientation and size.
- ❑ In the past, accounting was done manually by business owners and that process was time consuming.

Advantages of Computerised Audit:

- **1.Simplicity**

A wide variety of accounting software programs are consumer friendly. Business owners can shop around to find a program that is easy to install, learn and use. Once the system is established with bank accounts, debts and vendors, the business owner only needs to update information as it comes in.

- **2. Reliability**

- Most of the major software programs make using the program simple, so a business owner can accurately determine available funds at any time.

- **3. Cost-Effectiveness**

- The software program has an upfront cost and might require contracting a bookkeeper to set up the accounts and coach the business owner on using the program, but it quickly becomes cost-effective.

- Most programs work with operating systems for years and only occasionally require an inexpensive upgrade.

- **4.Ability to Collaborate:** Many software programs allow business owners to set permissions that give an outside bookkeeper or accountant access to the data.

Disadvantages (Problems) of Computerised Audit:

- ✓ 1. Concentration of functions
- ✓ 2. Concentration of knowledge.
- ✓ 3. Concentration of programs and data in a few location.
- ✓ 4. Absence of supporting vouchers.
- ✓ 5. Difficulties in checking from outside.
- ✓ 6. Lack of visible audit trail or transaction trail.
- ✓ 7. What is put in, is put out.
- ✓ 8. Vulnerability to manipulations. (Computer obeys everybody)
- ✓ 9. Lack of visible output.
- ✓ 10. Coding problem
- ✓ 11. Storage problem
- ✓ 12. Computer frauds
- ✓ 13. Computer virus
- ✓ 14. Lack of adequate knowledge about computer program on the part of auditors.

Internal controls Required to be enforced under an EDP Environment

Two classifications:

1. General EDP Controls

2. EDP Application Controls.

1. General EDP Controls: The purpose is to establish a frame-work of overall control over EDP activities:

a. Division of responsibility of Duties.

b. Control over Development and Maintenance of Software:

Steps:

- i. System software and Application software must be developed.
- ii. Procedure should be clearly stated.. Manual should be prepared
- iii. Program requirements should be documented.. Program manual
- iv. New system.. Certified by a competent authority.
- v. Review and pre-test of programs
- vi. Programs must be properly and protected.

.....*Internal controls*

C. Control over operators:

- ✓ Planning and Allocation of work.
- ✓ Sequence of work should be so arranged.
- ✓ Scheduling of work, job rotation.

D. Control over Data Access and Program Access:

Steps :

- i. Authorisation from proper authority
- ii. The password should be kept secret
- iii, Responsibility must be fixed.

E. Control over Editing and Rejection over Data.

- i. Ensure the editing is done only to correct errors
- ii. Authority to edit
- iii Edited by the daa processor only
- iv. Rejection of invalid data and verify to reconsider, if any.

.....*Internal controls*

- **E. Storage Control:**

- ✓ CD's Drives etc should be properly labelled.
- ✓ Devices must be protected against fire and other damages.
- ✓ Programs and data files must be stored in computer and outside both.
- ✓ Back-up files must be maintained.

- **F. Hardware Control(Control over functioning of input)**

- ✓ Mechanical and electronic parts must be maintained.
- ✓ Proper controls like parity check, duplicate processing, error check, validity check etc can be enforced in this respect.

.....*Internal controls*

2. EDP Application Control

A. Input Control

B. Processing Control

C. Output Control

A. Input Control:

- ✓ Input should be complete and contain all relevant particulars.
- ✓ Should be accurate
- ✓ Input data should be authorized by responsible official
- ✓ Input documents should be reviewed and verified by others.
- ✓ Input data should be entered in a well-defined form.

.....*Internal controls*

B. Processing Control

Data recorded in computer undergoes processing ..manipulated, analysed, computed and compared.

- ✓ **File Label Check**
- ✓ **Cross Check**
- ✓ **Run-to- Run control (Ensuring each step of computer program)**
- ✓ **Generation of computer log..(Provides complete history of days transactions with regard to input processing and output)**
- ✓ **Testing of software efficiency**
- ✓ * **Contrived System test: Controls frauds and errors, validates the process**
- ✓ * **Real system Test: Makes use of representative data which have already been analysed**
- ✓ **Editing of Data**

.....*Internal controls*

C. Output Control

- ✓ Examine the reasonableness of the findings and facts recorded in the output.
- ✓ Verify the output with input.
- ✓ Proper control over the distribution of output.
- ✓ Distribution of output with Format and get feedback.
- ✓ Review of output.

Computer Assisted Auditing Techniques(CAAT)

Special Techniques in Auditing in EDP Environment

Technique which use computer itself for audit purposes:

A). Test Data:

.... is a special set of input data prepared specifically to test the effectiveness of a programme used in the computer system.

Auditor prepares test data in **valid and invalid conditions** to test how the program responds. Test data are run in the clients computer under auditors supervision:

Steps:

- ✓ Decide the type of master records(permanent records) to be used, if needed.
- ✓ Determine the type of transaction to be included.
- ✓ Maintain adequate working papers.
- ✓ Ensure no effect of the test transactions processed remain on the actual records.

Limitations: Expert knowledge is needed. – Initial cost is high- Testing does no prove that the programs tested is actually in use.

....Computer Assisted Auditing Techniques(CAAT)

- **B) Integrated Test Facility:**

- The auditor makes arrangements with the clients enterprise for creating a dummy entity (dummy employee, customer, item of inventory). Dummy transactions are processed along with the normal processing of the transactions of the enterprise.

- **C) Controlled Processing**

- The auditor checks the efficiency of a particular programme by insisting that the processing a particular transactions is done in his presence. On the basis of his observation nof the processing of particular transaction, the auditor can test the efficiency of the particular programme.

....Computer Assisted Auditing Techniques(CAAT)

D. Audit software or Computer Audit Programme:

- ✓ Auditor makes use of computers for planning and conducting audit and for drawing conclusions in the following areas:
- ✓ For evaluating the internal control System
- ✓ For preparing detailed audit programme
- ✓ For retrieving required information from the files
- ✓ For making and checking arithmetical calculations
- ✓ For analytical review of the data, say, for ratio analysis.
- ✓ For preparing Audit Reports

A close-up photograph of a blue ballpoint pen writing the words "Thank you" in a cursive script on a white notepad. The pen is positioned at the end of the word "you", with its tip touching the paper. The notepad has a white cover with a grey spine visible on the left. The background is a plain, light-colored surface.

Thank you