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## **AN EXAMINATION OF INTERNAL AUDITING TECHNIQUES USED IN CONTEMPORARY BUSINESSES**

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### **ABSTRACT**

The firms Act of 2009 in India made the appointment of an internal auditor essential for publicly traded businesses as well as certain other classes of companies. The new rule allows internal auditors to assert their legitimate position inside organizations, marking a turning point for the internal auditing profession deepening their connection with the Board of Directors' (Board) audit committee. Offering the services that the Board needs in order for it to effectively carry out its corporate governance job is also necessary in order for the function to be recognized as useful. The management and the Board benefit from modern internal auditing. Internal audit's scope is examined in this article.

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### **INTRODUCTION**

Businesses now work in a fast-paced, competitive, and ever-changing world. Their performance is dependent on their capacity to adapt to environmental changes, meet corporate objectives, and manage risks as the business landscape evolves on a daily basis. Businesses now work in a fast-paced,

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## **OBJECTIVE OF THE STUDY:**

To provide recommendations for enhancing the internal audit system used by commercial organizations and to chronicle the history of internal auditing.

## **SCOPE OF THE STUDY**

- The study is aimed to know the internal auditing procedures in the modern business
- To know the techniques used by the contemporary businesses
- To enhance the importance of internal auditing
- To provide the recommendations for enhancing the internal auditing

## **THE ORIGIN OF AUDITING**

The root of auditing, according to Walter W. BIGG (1972), was the requirement for the formation of some system of check on individuals whose business it was to record the receiving and spending of money on behalf of others. Accounting methods were so primitive in the early stages of civilization, and the number of transactions to be recorded so small, that each individual was no doubt able to check all his transactions for himself, but as soon as the ancient States and Empires acquired any coherent organizations, systems of check were applied to their public accounts, as evidenced by exact records; The ancient Egyptians, Greeks, and Romans all used check and counter-check processes between financial officials. It was not until the fifteenth century that the great impetus given to trade and commerce in general by the Renaissance in Italy led to the evolution of a system of accounts capable of recording completely all kinds of mercantile transactions, and the principles of double entry were first published in 1494 at Venice by Luca Pacioli. The increase in volume of trading operations, necessitating the use of

more capital than was the disposal of the average trader, induced him to combine in Partnership with others to collect the necessary finances was a powerful force in the growth of a more perfect accounting system.

Similarly, it had a significant impact on auditing practice, but auditing of business accounts did not become prevalent until the nineteenth century. The enormous increase in trade during that period, which was aided by the discovery of steam power and other mechanical inventions in general, resulted in the formation of numerous joint stock companies and other corporate ventures involving the use of large sums of capital under the management of a few individuals. Under these conditions, the benefits of using the services of auditors became evident to the broader commercial public, and there was a significant expansion in the practice of auditing; it is now the most important aspect of a professional accountant's activity.

## **HISTORICAL EVOLUTION**

Internal auditing, according to Howard F. Stettler (1977), arrived on the business scene much later than public accounting auditing. The expanded span of control encountered by management in concerns employing thousands of individuals and executing activities from multiple locations was a major driver in its inception. Other benefits of an internal approach to the problem included: internal auditors became more familiar with the company's procedures and problems, and auditing could be done continuously rather than once a year when outside auditing services were used.

## **Meaning of Auditing:**

According to Jach C. Roberston (1976), auditing can be characterized in different ways depending on the aim. Four definitions are provided below, beginning with the most

general one developed by an American Accounting Association committee. The above three definitions show three distinct purposes served by independent auditors and governmental auditors.

### **Meaning of Internal Audit:**

Internal auditing is an independent, objective assurance and consulting activity that adds value and improves an organization's operations. It assists a company in achieving its goals by bringing a systematic, disciplined approach to evaluating and improving the efficacy of risk management, control, and governance procedures

### **ICAI's Proposed Revised Definition Of Internal Audit**

“Internal audit provides independent assurance on effectiveness of internal controls, risk management processes and contributes to enhancing governance for achieving organizational

### **Explanations to above Proposed Revised Definition**

- Independence: Internal audit should be a stand-alone function, achieved by the internal auditor's position, organizational structure, and reporting
- Internal controls and risk management: are essential components of management and corporate operations. Internal auditors are responsible for assessing the design and operational effectiveness of internal controls and risk management processes (including reporting processes) as designed and executed by management.
- Governance: it is a system of interactions between the firm and its different stakeholders that provides the structure for setting

the company's objectives and the ongoing performance monitoring required to assist them be met.

- Organizational objectives take into account the interests of all stakeholders and involve adherence to internal policies and procedures, as well as laws and regulations.

Advisory function: In addition to providing assurance, the internal auditor may play an advisory role to assist an organization in achieving its goals, as long as this does not jeopardize the internal auditor's independence.

### **INTERNAL AUDITORS :**

These are employees within an organization whose primary responsibility is to determine whether organizational policies and procedures are being carried out correctly and to safeguard organizational assets as well as assessing the efficiency of internal control system.

### **INTERNAL CONTROL SYSTEM**

According to ISA 315 internal control system is the process designed and effected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the entities objective with regard to financial reporting, effectiveness and efficiency of operations and compliance with a appropriate laws and regulations.

### **AUDIT COMMITTEE**

This is a committee comprised mostly of non-executive Directors that is capable of viewing a company's activities objectively and independently, as well as effectively mediate between the main board of directors and the external auditors.

### **AUDITING PROCEDURES:**

The AICPA (1963) defines auditing procedures as "the acts performed by the auditor in the course of achieving the



objectives of the examination of financial statements."

### **AUDIT PLAN:**

A description and schedule of audits to be done over a specific time period (usually three years); contains audited areas, kind and scope of work, and high-level objectives.

**AUDIT PROGRAM:** Policies and procedures that control the audit process.

### **SCOPE OF INTERNAL AUDITING**

1) Ensure the financial statements' integrity and dependability by verifying that:

- The financial statements have been produced in accordance with IAS and IFRS.
- Protecting the company's assets by ensuring correct documents are kept to prove their presence and conducting frequent physical counts to confirm the assets are present and in good condition.
- Ensure compliance with applicable rules and regulations, and disclose any violations in financial statements.

2) Examine operational effectiveness and efficiency to ensure that resources are used efficiently, that economic targets are met, and that managers are efficient in carrying out their responsibilities.

3) Examine the accounting system in use as well as the corresponding internal control system to confirm that their design and effectiveness are appropriate, and monitor their operation

- Ensure adherence to the code of conduct and promote the ethical culture.
- Assist the Board Of Directors to discharge their duties ethically by informing them of the weaknesses and recommendations of the strategies employed.

- Ensure the recommendations of the external auditors are implemented within the prescribed/reasonable time.

internal auditors are secretaries to the audit committees and acts as a link person between external auditors and audit committees.

### **EFFECTIVENESS OF AN INTERNAL AUDIT DEPARTMENT**

The Institute of Internal Auditors practice standard (1980) provides five categories of guidance that take into account financial and operational auditing, independence, professional proficiency, scope of work, audit performance, and management of their internal auditing department.

**1. Independence:** This is a critical component of the success of the internal auditing function and requires internal auditors to be independent of any activities that they may be asked to audit.

**2. Competent personnel:** The proper operation of any system is dependent on the competence and integrity of people operating it. As a result, the personnel employed should be knowledgeable and skilled in their respective fields. If necessary, employees should be kept up to speed with in-house and/or off-the-job training.

**3. Professional competence:** Internal audits should consequently be undertaken with skill and attention.

**4. Scope of work:** The internal audit department's scope of work should include the inspection and evaluation of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities.

**5. Review programs:** The internal audit department should have extensive review programs in place to guarantee that no important component of operations is

neglected. The department should avoid being involved in activities that do not fit within the scope of their audit to operate because this may hinder them from adhering to their normal program. Collect, evaluate, interpret, and document data

**6. Report:** After each audit, proper reports should be created and delivered to all relevant parties within the organization on a regular basis. Recommendations in such studies should be specific and attainable.

### **key techniques of internal audit**

#### **Clearly defining your objectives**

Establishing a clear goal to conduct audits across the board is, first and foremost, a good idea for a business. Give careful thought to the reasons your company needs an audit program. Should you have any doubts concerning the ac

#### **Analyzing Potential Audit Areas**

Examining the areas that require auditing comes next after establishing a target. A review of financial data and transactions may be necessary for some divisions within your organization. A list of departments must be made, and their functional areas must be examined.

#### **Specifying the Purpose and Range of the Audit**

It is the most important stage in outlining the audit's general objectives and scope for the organization. It is the responsibility of auditors to outline a company's long-term advantages and to emphasize the advantages of internal or external auditing. An audit provides a clear and transparent financial statement report and is a great way to safeguard your business against financial irregularities.

#### **Demonstrating report clarity and accuracy**

As a result of the auditing process, every company desires a clear and comprehensive financial report. It gives them an overview

of their company's current state and predictions its future success or failure.

A company is built on its financial stability and will fail if there is any mismanagement of its financial records or transactions. The balance sheet and income statement are effective tools for determining an organization's current and future situation.

#### **Applying the Five C's of Auditing**

These five C's of auditing are based on factual findings and information from the company. They provide a complete review of records as well as important recommendations and action plans to improve a company's workflow monitoring system. The condition, criteria, cause, consequence, and corrective action are the five C's.

The condition discusses identifying a specific problem and determining an appropriate remedy. Criteria are a collection of standards that must be met in accordance with corporate policy. Cause highlights the rationale for audits and identifies solutions to problems. The result reflects the unfavorable influence of the findings on the company, which results in a poor market reputation

#### **Auditing with Modern Technology**

Auditors find the standard auditing approach intimidating and time consuming. It takes a long time to uncover and collect credible evidence. Auditors must examine every detail, from petty cash vouchers to financial accounts. The debit and credit balances must be the same amount.

With the rapid progress of technology, the auditing process has gotten much simpler. Auditors no longer need to waste time collecting evidence, and they may conduct their investigations using the most recent audit apps. It just takes them a few hours to complete their audit, and auditors appreciate not having to deal with the headaches of manual auditing

#### **Suggestions**

- Firms are recommended to ensure greater involvement of all people by including them in crucial business matters and policy choices, as well as to provide divisional managers a free hand.
- It is also recommended that businesses conduct more thorough verification and cross-checking of documentary evidence.
- It is recommended that business organizations simplify the frequency of periodic reports to be made by personnel from all divisions in order to achieve farm-wide uniformity in reporting methods.
- Firms are recommended to take a more nuanced approach to accounting for stock and inventory by harmonizing the systems in place for diverse stock-related activities such as 'sourcing'. The companies are advised to adopt a flexible approach and take corrective measures to ensure that the internal audit process does not hamper the regular working of employees in carrying out their assigned jobs. So that there is no concession and deviation in the regular business activities of the organization.
- It is advised that the system of accounts maintenance be brought into consistency by fully adopting Computer Application Based models in place of manual book keeping, as this will help to eliminate accounting errors.
- Companies can reduce employee turnover by retaining experienced employees. Employees with matriculation and less schooling are also educated to manage monetary transactions properly.

**REVIEW OF LITERATURE**  
**[Colbert and Alderman, 1995):** In planning and executing audit tasks, internal auditors would consider the appropriate audit approach based on the effectiveness and efficiency of the approach in accomplishing the task at hand. There are generally three types of audits which internal auditors

perform and they are compliance, operational, and financial audits. The objective of these audit types is to support the auditee's assertions.

**(Verschoor, 2006):** A risk-driven approach on the other hand, involves assessing, during the annual audit planning stage, the risks inherent in each audit area. Specific audit procedures would only be established after considering the risks involved. The goal of the audit planning process is to customized a dynamic, risk based and defensible audit plan that addresses all the needs of the organization.

**(Colbert & Alderman, 1995):** The fact that risk-driven approach helps internal auditors to focus their efforts on areas which are relatively more risky, it is hence regarded as more effective in meeting the objectives, and also efficient as it focuses on areas which are riskier as compared to the procedures-driven approach.

**(Rivenbark, 2000):** By identifying, assessing, and monitoring a company's risk, internal auditing helps to ensure that adequate resources are deployed and focused on priorities (Kunkel, 2004). In short, risk based auditing focuses on assessing the goals, risks and controls that are infused in the organization's success.

**(Kanter et al., 1990):** While risk assessment is an essential part of the audit planning process, internal audit departments are finding their resources are limited with the scope

of audit and the associated risk exposures ever increasing in the challenging environment.

**(Alderman & Tabor, 1989):**

By adopting a risk-driven approach where the audit engagement objectives, auditee's assertions and risks are considered, the internal auditor can assure that appropriate focus and resources are given to risky areas and that audits can be performed in the most efficient and effective manner.

**(Walz, 1991):** At the individual audit unit level in a risk based model, auditing procedures should be designed to achieve the objective that the controls in place are adequate. The internal auditor should understand the control and its environment; evaluating the adequacy of controls and test these controls are functioning as designed and effective.

**(McNamee & McNamee, 1995):** The scope and function of internal audit have increased in response to changes in the business environment over the decades, shifting the focus of their audit work from financial statement and accounting functions to compliance audit, assessing the internal control and operating processes, and in recent years, adding risk management to their existing role. The internal auditing function has evolved along with changes in the business environment

Internal check and internal audit techniques are used by all organizations, not just businesses, to ensure that business activities are carried out efficiently.

- Internal audit is in charge of various functions, including:
- matching revenues, payments, and cash / bank balances;
- stock maintenance and inventory management;
- and asset management. Tax and legal compliance
- Quality assurance and production management Stress Assets control and management
- Wage administration and payroll management
- Fraud and accidental error prevention Proper bookkeeping and assistance to external auditors, etc.

**WEBSITES:**

[www.icaai.org](http://www.icaai.org)

[www.qcsl.co.uk](http://www.qcsl.co.uk)

[www.taxguru.in](http://www.taxguru.in)

[www.iiaindia.org](http://www.iiaindia.org)

[www.galagroup.in](http://www.galagroup.in)

[www.shodhganga](http://www.shodhganga).

**CONCLUSION:** Internal audit is critical to the successful operation of any firm.