

Yogoda Satsanga Mahavidyalaya

B. Com Semester – VI (C-13) CBCS

Subject: Auditing & Corporate Governance

Topic: **Classification of Audit**

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Classification of Audit

Audits can be classified based on various criteria, including the purpose of the audit, the scope of the audit, and the regulatory framework governing the audit. The primary classifications are:

1. Based on Scope

- Statutory Audit
- Internal Audit
- External Audit
- Tax Audit
- Management Audit
- Operational Audit
- Compliance Audit
- Information Systems (IS) Audit

2. Based on Timing

- Pre-audit
- Concurrent Audit
- Post-audit

3. Based on Methodology

- Full Audit
- Partial Audit
- Continuous Audit

4. Based on Purpose

- Financial Audit

- Operational Audit
- Compliance Audit
- Forensic Audit

1. Based on Scope

Statutory Audit

- Definition: An audit required by law. Statutory audits are mandated by various statutes and regulations to ensure the accuracy and fairness of financial statements.
- Examples: Audits conducted under the Companies Act, Banking Regulation Act, or Insurance Act.

Internal Audit

- Definition: Conducted by the internal audit department within an organization. It focuses on assessing and improving the effectiveness of risk management, control, and governance processes.
- Scope: May include financial audits, compliance audits, and operational audits.

External Audit

- Definition: Performed by independent auditors not affiliated with the organization. It aims to provide an objective opinion on the financial statements.
- Scope: Focuses primarily on the accuracy and fairness of financial statements.

Tax Audit

- Definition: Conducted to ensure that tax returns and tax-related records are accurate and comply with tax laws and regulations.
- Scope: Includes verification of income, deductions, and tax liabilities.

Management Audit

- Definition: Evaluates the effectiveness and efficiency of management practices and decisions.
- Scope: Focuses on organizational structure, decision-making processes, and resource utilization.

Operational Audit

- Definition: Assesses the efficiency and effectiveness of operations within an organization.
- Scope: Examines procedures, processes, and operational performance.

Compliance Audit

- Definition: Ensures that the organization adheres to laws, regulations, policies, and procedures.
- Scope: Includes both internal policies and external regulations.

Information Systems (IS) Audit

- Definition: Evaluates the controls, reliability, and security of information systems.
- Scope: Includes software applications, data integrity, and IT infrastructure.

2. Based on Timing

Pre-audit

- Definition: Conducted before transactions are finalized to ensure compliance with policies and regulations.
- Scope: Preventive in nature, focusing on approval processes and documentation.

Concurrent Audit

- Definition: Carried out simultaneously with the ongoing financial transactions and operations.
- Scope: Provides real-time feedback and ensures immediate correction of errors.

Post-audit

- Definition: Conducted after transactions have been completed.
- Scope: Evaluative in nature, focusing on reviewing and verifying completed transactions and processes.

3. Based on Methodology

Full Audit

- Definition: A comprehensive audit that examines all aspects of an organization's financial statements and operations.
- Scope: Involves detailed verification of all records and transactions.

Partial Audit

- Definition: Focuses on specific areas or aspects of an organization's financial statements or operations.
- Scope: Limited to selected sections or functions.

Continuous Audit

- Definition: Involves ongoing audit activities throughout the financial year.
- Scope: Regular and systematic examination of records and processes.

4. Based on Purpose

Financial Audit

- Definition: Verifies the accuracy and fairness of financial statements.
- Scope: Ensures that financial statements are prepared in accordance with applicable accounting standards.

Operational Audit

- Definition: Evaluates the efficiency and effectiveness of business operations.
- Scope: Focuses on performance improvement and operational efficiency.

Compliance Audit

- Definition: Assesses adherence to regulatory requirements and internal policies.
- Scope: Ensures compliance with laws, regulations, and internal guidelines.

Forensic Audit

- Definition: Conducted to investigate and detect fraud, embezzlement, or financial misconduct.
- Scope: Involves detailed examination of records and transactions to uncover irregularities.

Conclusion

The classification of audits provides a framework for understanding the various types of audits based on their scope, timing, methodology, and purpose. Each type of audit serves a specific function and contributes to the overall governance, risk management, and compliance framework of an organization. By employing different types of audits, organizations can ensure accuracy, efficiency, and adherence to regulations, thereby enhancing their operational integrity and financial credibility.

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