

Yogoda Satsanga Mahavidyalaya

B. Com Semester – VI (C-13) CBCS

Subject: Auditing & Corporate Governance

Topic: **Basic Principles and techniques of Auditing**

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Basic Principles and techniques of Auditing

Principles of Auditing

Auditing is governed by a set of fundamental principles that ensure the process is conducted effectively and reliably. These principles guide auditors in their work and help maintain the quality and integrity of the audit process. The basic principles of auditing include:

1. Integrity, Objectivity, and Independence:

- Integrity: Auditors must conduct their work with honesty and strong ethical standards.
- Objectivity: Auditors should be impartial and unbiased in their approach and judgment.
- Independence: Auditors should maintain independence from the entity being audited to avoid any conflicts of interest.

2. Confidentiality:

- Auditors must respect the confidentiality of information obtained during the audit process and should not disclose it to unauthorized parties.

3. Professional Competence and Due Care:

- Auditors should possess the necessary skills, knowledge, and competence to perform the audit. They must also exercise due care, diligence, and thoroughness in their work.

4. Planning and Supervision:

- Proper planning is essential for an effective audit. Auditors should develop an audit plan outlining the scope, objectives, and procedures of the audit. Adequate supervision ensures that the audit is conducted according to the plan.

5. Audit Evidence:

- Auditors should gather sufficient and appropriate audit evidence to support their findings and conclusions. This involves performing various audit procedures to obtain reliable evidence.

6. Documentation:

- Auditors must document their work, findings, and conclusions comprehensively. Documentation provides a record of the audit process and supports the auditor's report.

7. Audit Reporting:

- Auditors should provide a clear and concise audit report that communicates their findings, opinions, and recommendations. The report should be based on the evidence gathered during the audit.

Techniques of Auditing

Auditing techniques are the methods and procedures used by auditors to gather and evaluate evidence. These techniques ensure that the audit is thorough and effective. The main techniques of auditing include:

1. Inspection:

- Physical Inspection: Examining physical assets like inventory, equipment, and buildings to verify their existence and condition.
- Document Inspection: Reviewing documents and records such as invoices, contracts, and bank statements to ensure accuracy and authenticity.

2. Observation:

- Observing processes and procedures being performed by the organization. For example, observing the counting of inventory or the processing of transactions.

3. Inquiry and Confirmation:

- Inquiry: Asking questions of management, staff, and other relevant parties to gain insights into the operations and controls of the organization.
- Confirmation: Obtaining direct confirmation from external parties, such as bank confirmations or receivable confirmations, to verify the accuracy of records.

4. Recalculation:

- Verifying the mathematical accuracy of records and documents. This involves re-performing calculations to ensure there are no errors.

5. Reperformance:

- Independently executing procedures or controls to check if they have been correctly performed by the entity. For example, reperforming a bank reconciliation to verify its accuracy.

6. Analytical Procedures:

- Analysing financial and operational data to identify trends, patterns, and anomalies. This can include ratio analysis, trend analysis, and comparison with industry benchmarks.

7. Scanning:

- Quickly reviewing large volumes of data to identify unusual items or transactions that may require further investigation.

8. Sampling:

- Selecting a representative sample of transactions or records for detailed examination. Sampling helps auditors draw conclusions about the entire population based on the sample tested.

Conclusion

The principles and techniques of auditing form the foundation of a robust and reliable audit process. By adhering to these principles, auditors ensure the integrity, accuracy, and transparency of their work. The techniques employed by auditors enable them to gather sufficient and appropriate evidence to support their findings and conclusions, ultimately enhancing the credibility and reliability of financial information.