

# ICA: Internal Control and Audit

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**Abstract:** Auditing is a process of acting accordingly and self-reliant examination of books, accounts and documents of a certain company or an organization to review and verify the genuineness of records. Auditing is now an event which is mobile or dynamic. Internal control can be defined as a promising process to successfully bring about the objectives in how efficient the operations are done, reliability of financial report and rules, regulations and their policies. It is very important measure taken as it plays a crucial role in detecting and stop from doing the fraud which includes both that is the machinery belongings and the things which are not having any physical presence such as character or status property such as trademarks, computerization has a massive impact on the control of an organization, the document information which is to be circulated and so on. Auditing introduced in the CIS has given rise to various changes in the procedure of collecting the evidence.

**Keywords:** cis, auditing, internal control, organization, computerized information system.

## I. INTRODUCTION

In recent years, Information Technology has drastically changed the way in which the business is conducted throughout the world. To make such changes possible there is a field called computerization which has played an important role in document information processing, organization control, transportation of financial information and so on. Auditing in CIS is the process of viewing, checking the miss-statements present in the records and suggesting the auditor in case of any miss-statements found. Thus for performing the auditing, the auditor should have appropriate knowledge of CIS to plan, observe and direct the work performed and review the final result. The auditor must use different innovative methods under the term computerization for evidence collection and evaluation.

The auditor should have enough experience of the accounting and internal control systems so as to plan an efficient audit approach. When the portions of the audit are planned the effect can be observed on the client's CIS environment. Hence the auditor should have deep knowledge of the further consequences and complexity of the data which is to be used in the audit. The consequences relate to the particular events occurring in the financial statements affected by computerization. A system can be considered as complex by huge number of transactions which is difficult for identification. As the volume of transactions is very high the error correction becomes a tedious task.

The transactions are interchanged with a electronic process that is the data is exchanged electronically without any manual interference. The data available from various documents, different document files and from any other evidences is available only in machine readable form. These innovative computer technologies used for audit techniques may allow the increase in efficiency of performance of audit procedures and it will be economical and optimal solution to perform these procedures on the entire volume of accounts or transactions.

## II. LITERATURE SURVEY

### II.A.1 SCOPE OF THE AUDIT SYSTEM ENVIRONMENT

Low error flow:

CIS environment gives the ability to avoid clerical mistakes that often happen in many circumstances, like the spelling mistakes, avoiding values that as required. This helps the environment to be much accurate than the manual process.

Faster computing:

Take a step back in physical world where the auditing is done manually, evidences collected are manually computed by a user/auditor which takes a long time, wherein the CIS environment comes in this all steps are digitized and the evidence handling is done better which in all makes the it faster to do audit process.

Better Data Handling:

In the CIS Environment the output generated very quickly as compared it manual process, otherwise in manual auditing or internal control system every process is done manually causes to handling the in place, which has to be managed by someone.

Whereas, in the CIS environment the user has to do everything digitally and is recorded all at one place cause it to be access and managed easily with less effort that of other manual processes.

Separation of duties:

In physical the auditor has to acquire resources in order to do the identification and verification of the evidences found in for the account, and keep a record of those too as we call it metadata in CIS.

But in CIS, this approach does not occur exactly in CIS, duties are concentrated in trust personnel in the work.

Impact of in-accurate system:

There are many possibilities were the design of the system may go wrong, which could lead to the one of the biggest risks associated in Computerized Information System, this could much more harm that a small manual error cause by an entity. It requires a deeper study of how the system should work on the policy, rules – different constraints associated with the audit.

Exception reporting:

Now, consider a part wherein evidence required for a document is missing which is causing substantial damage in technical terms to CIS system. But in real time the evidence does not matter much to the auditor as it considerable. The CIS environment should allow the user to take this situation as an exception so that this cannot damage the further computing of the auditing process.

Human-Computer interaction:

The most important part of the CIS environment is the usability of the system, human prefer the easy usable software which keep the interacted to it and get their work done efficiently.

Now, the user requires the crucial information right in front of them to get the further task completed, CIS environment allows the user to get such functionality. It is so much efficient in design and implementation of interface for the user

### **II.A.2 IMPACT OF CHANGES ON BUSINESS PROCESSES**

Process of Input :When CIS is introduced to a business an internal control structure is generated by user with greater authority, eg. He created new users and assign them a set of duties and authorization. These users make the process of manual interpretation to digitization and keeping the record of those documents.

Record of accessing records: Many users in an organization access the documents stored in the document stack manually having no records of the access causes the suspicion of manipulation of records, but CIS makes it easy but giving a limit the every user of the organization of authorization and authentication at different levels to read, write and edit. Much more secure than the manual, makes it intangible.

No longer use of traditional stationeries:Manual process requires a basic stationary which is paper, not a blank one but which is evidence, the CIS replaces this manual paper handling into digital document handling using hardware support like hard-disks, magnetic tapes etc.

Absence of link in transactions: Each record in a manual business handling structure has categorization approach causing it to be put in a specific category and left it there. But this handling causes the document connection with other document in some other category no direct link, CIS allows you to do this easily even by categorizing them in

any category and gives direct link if such functionality is added to system.

User Codes Or Accounting Codes:Codes like social security numbers used to assign an entity its identification similarly the CIS system can give the user a specific unique identification code called user code to make the task handling them easier for the higher authority and get computer by system faster too.

It also help to keep a record of the document access or the creation any such operation done by any user with or without authority.

### **III. APPROACH TO AUDITING IN A CIS ENVIRONMENT**

Auditing in the computerized information system tells us that the scope to which auditing is done does not change due to transition to digitization but makes the process changes a bit which has advantages and disadvantages which affect the accounting and internal control systems. Approach requires the following:

Skill and Competence:

An auditor should have a sense of deep knowledge of the computerized information system to direct, plan and govern the control of the organization that they perform. The adequate knowledge acquired by the auditor should be sufficient for performing various operations in the computerized information system environment.

Planning:

The planning indicates the consequences of the complexity of the system activities on the available data which is to be used for the audit.

Auditor handling the system should have the understanding of the system infrastructure and how it works. The auditor should determine the extent of the available data in the system that might be be useful in context of computing it.

Risk :

If the system is implemented later on when a organization is fully functional then this causes a risk of inter relating documents.

Lack of transaction link:

Now the documents that in manual existence can have links to digitized record causing greater computing problem and not getting accuracy as ideal auditing wherein the data availability is hundred percent

Processing of Transaction:

There could be a possibility the links may not be there but the user may have accidently added it causing a clerical error it.

Initiation or Execution of Transaction:

There are number of function that are triggered internally in the CIS environment, which may or may not require

authorization as in manual every step is to be asked or cost in man power.

#### **IV. EFFECT OF COMPUTERS ON INTERNAL CONTROLS**

Duties like delegation of authority & responsibility, physical control over asset & records a system of authorization, adequate documents records management Supervision records, management supervision are the operation of internal controls.

In CIS environment, all these components must exist but computer affects the implementation of these internal controls in many ways. Some of the effect are as follows-

1. Delegation of Authority & Responsibility- The authority and responsibility are the important terms within the computer environment. In the computer system it is difficult to maintain the authority and the responsibility as the resources are shared between the multiple users.

The multiple users operate on the same data or resources due to this the integrity of the data is violated and it is difficult to identify who is responsible for corrupting the data.

2. Competent and trustworthy personnel - The users operating in the environment should be skilled and well trained for the digitized process as the person is responsible for the implementation, information system development and maintenance. The person should be trustworthy for performing various tasks and operations on the transactions or data.

3. System of Authorization- The authorization is used to establish policies for the organization. The auditor has the authority to examine the work of the employees on the tasks allocated to them.

#### **V. EFFECTS OF COMPUTERS ON AUDITING**

##### **V.A.1 CHANGES IN EVIDENCE COLLECTION**

The manual collection of evidence is easier than collecting the evidence on the computer systems because we cannot use same methods in the computer system while collecting the evidence. In computer system, we require a set of hardware components for performing various operations which is not required in manual system. When using manual system, the handling of the evidence is more difficult as compared to computer systems because we need to check every record for the required evidence which can be done easily in digital systems.

##### **V.A.2 CHANGES TO EVIDENCE EVALUATION**

The evidence evaluation is we basically check whether the available evidence is true or not. The evidences available in the computer system are compared with the manually collected evidences so that the correctness of the evidence

evaluation can be determined. This task of verifying the evidences is done by the auditor itself. Hence evidence evaluation is important while performing the audits.

#### **VI. CONCLUSION**

CIS environment is the one beneficial system that cause the auditor simplicity of auditing and accuracy, error handling and better understanding of an organization this is only possible by the combination itself of the internal control and audit. It definitely has some issues, which are very important and hard to understand but somewhere in the future the real word analysis, historical data is going to help it be an automation system with greater AI and help the auditor, users and organizations profit from them.

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