

# [Good accounting information system (ais) and its usefulness to internal auditors ...](https://assignbuster.com/good-accounting-information-system-ais-and-its-usefulness-to-internal-auditors-research-paper-example/)

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## Introduction

With the emergence of a global competition, every business faces a challenge to capture more market share by improving the bottom line of its financial statements and reinvesting much of the earnings to expand operations. For this organizations implement tight internal controls so that none of the business transaction goes unchecked. In this regard, an auditor’s role is critical to track any possibility of fraudulent activity within the business finance.
With such a concept in mind, this paper has been written to identify the roles and responsibilities which an internal auditor assumes within an organization. The major focus of this paper rests on the examination of Accounting Information System (AIS) and how is it useful to every internal auditor to perform independent examination of financial statements.
In this research paper, it is also discussed as to how internal auditors can use the knowledge of accounting information system to improve their professional activity to fulfill their mission which is required by the professional standards. This study is useful to every candidate who wishes to become an internal auditor because the knowledge of AIS has become a basic requirement these days to perform an internal audit with quality.

## Who Is An Internal Auditor And How Is He Different From An External Auditor?

Most publicly traded businesses have internal auditors that ensure not only the compliance to internal structures but the adherence to outside regulatory agencies as well. These include the SEC and audit guidelines as laid down by the Generally Accepted Accounting Principles (GAAP). In this sense, an internal auditor is an employee of an organization who is charged with the responsibility to provide an objective and independent evaluations of the business’s operational and financial activities including its system of corporate governance. Internal auditors, by evaluating the operational efficiencies, usually report to the senior levels of the management about numerous ways to improve the overall business structure and managerial practices of the organization.
Internal auditors are those who provide an independent and objective assessment of a company’s operations specifically an organization’s internal control structure. Because working in the accounting and auditing industry leads to different career orientations, auditing roles are usually divided into two categories like internal and external audit. Therefore, it is important to understand the underlying difference before examining the ways in which accounting information systems are helpful to internal auditors.
Internal auditors are the employees who work within an organization where they are required to report to the internal audit committee and board directors. The internal auditors help to design and organize the company’s systems and are able to develop specific-risk management policies. They also ensure whether all the managerial policies that are implemented for identifying risk and its management are operating effectively. An internal auditor tends to perform a continuous work based on the internal control system of an organization of any size.
External auditors, in contrast, are independent of the organization which they are auditing. External auditors are required to report to the business’s shareholders, not the management and board of directors. They provide an experienced audit opinion on the reliability and truthfulness of the financial statements of the company under their review and perform work on a test-basis for monitoring systems-in-place.
As far as the appointment of these auditors is concerned, external auditors should be appointed from a different company which remains independent of its own whereas internal auditors must be the employees of an organization itself. Similarly, external auditors are usually responsible to the shareholders or owners of the public company. The stakeholders to whom external auditors usually report may include its owners, the shareholders, government as well the general public. Comparatively, internal auditors are solely responsible and accountable to the senior management of the company.

## The Role of an Internal Auditor in an Organization

Internal auditors usually play a critical role in their organizations which they work for. They add substantial value to the business by helping the senior management and board members of an organization to achieve goals and corporate objectives after reviewing. Internal auditors achieve this after they review each and every business function and operational efficiency as well as effectiveness in a detailed manner.
Internal auditors play a vital role in their workplaces by observing a professional care and skepticism while performing their work and dealing with corporate representations. This is so because they are the ones to be held responsible to the business and its owners, as a whole. They act as a gatekeeper in the financial accounting procedures and policies to detect and prevent any kind of wrongdoing or a fraudulent activity within the organization .
Apart from observing a professional skepticism, internal auditors are charged with an additional responsibility to monitor and check the viability of numerous controls and systems. They perform their professional duties to detect signs of any fraud and embezzlement. Unlike external auditors, they verify the internal controls related to any specific project approved by the senior management within their organization .

## Accounting Information System and its Usefulness for Businesses

An accounting information system (AIS) is a systematic structure which an organization uses to gather, process, store, manage, retrieve the collect information and report its financial records to be used by forensic accountants, managers, business analysts, consultants, chief financial officers (CFOs), internal/external auditors and regulatory as well as tax agencies. Particularly, specially trained managers and certified accountants work with software tools (like AIS) to ensure the reliability of the financial transactions. They also use AIS to make the financial data easily accessible to those who need ready access to the recorded information while keeping data secure and intact.
The successful application of Accounting Information System (AIS) combines a universal business background with a strong emphasis on the management information systems and various accounting practices to prepare involved students for their specialized careers in auditing, accounting, consulting, management and business analysis.
The system involves collection of a financial data, its storage and processing of related data that is used by numerous classes of decision makers. Generally, an accounting information system (AIS) is computer based software used for tracking each and every accounting activity in combination with Information Technology IT) resources. The resulting financial and statistical reports which AIS generates can be used internally by the senior management and by other readers of the financial statements including general public, investors, business creditors and various tax authorities.
An Accounting Information Systems (AIS) is a software tool that combines conventional accounting practices (e. g. the Generally Accepted Accounting Principles - GAAP) with the utilization of advanced Information Technology (IT) resources. Accounting Information System normally addresses six key elements of an organization. These key components include people (users of the system), business practices and instructions, data/information, software programs, Information Technology Infrastructure (ITI) and internal controls within an organization.

## Relationship between Accounting Information System and the Job of Internal Auditors

Prior to the performance of their work, professional accounting and auditing organizations prescribe that internal auditors must acquire, maintain and develop their knowledge as well as core competences revolving around the Accounting Information Systems (AIS). Information Systems (IS) and Information Technology (IT) are the main knowledge components of every professional development programs these days. The scientific literature review reveals that internal auditors should enhance their knowledge about information systems so that they are able to cope up with the increasing complexities of the client's entities accounting information systems.

## How Accounting Information System Is Useful For Internal Auditors?

In this section, the usefulness of the accounting information system has been defined for every internal auditor. With well-designed Accounting Information System, every authorized internal auditor within an organization can access the same accounting system and get the needed information. When the Accounting Information System is employed into business operations, this tool also simplifies getting financial accounting information by the internal auditors of the organization, when necessary.
Using this system, internal auditors may use the data which the AIS generates to assess the strength of business’s internal controls, its financial performance and compliance with the Sarbanes-Oxley Act (SOX). The data generated by Accounting Information System contains all the financial accounting information that is pertinent to the company's business practices.
Any business transaction which has a substantial impact on the company's financial statements should be saved into Accounting Information System which depends on the nature and size of the business. The system may consist of the sales orders, analysis reports, client billing statements, supplier invoices, inventory level information, personnel payroll and tax liability information to facilitate internal auditors for their professional work.
This data can further be used by internal auditors to verify the accuracy and reliability accounting statements and records such as depreciation, amortization, accounts receivable aging, trial balance, profit and loss etc. When all this accounting data is gathered in one place into the AIS, it facilitates an internal auditor of a business to analyze record-keeping, standard reporting, financial analysis, auditing and decision-making practices. For any financial accounting data to be useful for an internal auditor, it should be complete, reliable, correct and relevant.
Since computers play an important role in the accounting and auditing industry, the accountant and an internal auditor will benefit from a professional background in accounting information systems. Internal auditors will be able to access the accounting data in the business’s AIS software tool in order to perform their auditing functions. These functions often include the independent preparation and analysis of company’s budgets and financial statements, preparation of tax returns and independent examination of records for verifying accuracy.
Internal auditors examine the financial statements, operating expense reports and all of the accounting records to ensure that the information is accurate. For a publicly traded company, an internal auditor makes sure that the business strictly adheres to the Generally Accepted Accounting Principles (GAAP) and complies with Securities and Exchange Commission (SEC) as well as Sarbanes-Oxley (SOX) requirements. It is the AIS which makes such financial information readily accessible to the internal auditor so that the professional auditing can be done effectively.
Internal auditors work on the technical side of the accounting information systems by looking at the internal controls, data processes, data integrity, general business operations, security, maintenance, and other aspects of information systems used by businesses. In addition to assessing the reliability and integrity of existing accounting systems, AIS can help internal auditors to design new ones.
Internal auditors use analytical procedures, the most modern methods, to check and examine the reliability of financial statements which are submitted by the AIS audit after examining the records using samples methods. Their use has become quite effective as well as efficient than a detailed manual audit for reducing the risk of any fraudulent activity and confirmation of the fairness as well as objectivity of the financial statements.
These days, computer programs help internal auditors to a great extent in application of analytical procedures for assessing risks and errors which includes regression analysis of various account balances. The Accounting Information System helps an internal auditor to evaluate changes between actual balances and predicted values .
Accounting Information System is now widely available and used by large businesses of all sizes. Small businesses commonly utilize QuickBooks as well as Peachtree to assist them with their financial accounting functions. These software tools allow the management to record every transaction and create reliable financial statements with only a few clicks. Large organization need the expanded functionality for whom a commercial software is readily available which can perform many business functions.
Internal auditing can be automated to make verification processes more accurate and time oriented. Traditionally, internal auditors used to perform manual examination of receipts, processes, and inventories. As business processes have become more automated, professional programmers designed software tools which can accomplish some of the accounting tasks at the same time. In this regard, AIS specialists make sure that the software operates in a normal way while complying with the Generally Accepted Accounting Principles (GAAP).
The AIS (Accounting Information System) is used by internal auditors to extract the information or data which is most relevant to a given application. One must realize that the financial reporting is done for both the external and internal use. Internally, accounting reports are generated which covers everything from market trend analysis to the financial performance of a sales department. External reporting is used for determination of a tax liability and compliance reporting to federal as well as local agencies. AIS help internal auditors to examine all of these business areas to verify the accuracy of financial statements.

## Conclusion

After a detailed examination of how an accounting information system is useful to an internal auditor, readers may arrive at a conclusion that this system helps the internal auditor to collect, organize and analyze the financial data necessary for the professional responsibility. It has also come to light that, initially, an internal auditor used to perform their work manually which was very time consuming. By the emergence and wide use of accounting systems, internal auditors were facilitated to perform their audit in a less time with quality. The use of AIS has automated the verification process which has improved the audit quality and transparency of business records.

## Works Cited

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