

# The vitality of auditing for each and every organization

[Business](#), [Management](#)



## **Internal Audit**

### **Introduction**

Increasing complexities in business operations have led to a growing need for audit in all sectors of business operations. This is because; audit guides managers towards making sound decisions for the future of the business. Therefore, auditing is a process of examining financial records within an organization to determine their accuracy, reliability and validity as well as whether the figures provided reflect its exact transaction. Economic activities are currently done via public finance that necessitates the intervention of an auditor to determine the proper utilization of the large pool of funds. An auditor performs cost auditing, tax auditing, social auditing, and management auditing. Also, another important aspect to note about an auditor is that, he or she only expresses his or her opinion regarding the validity of an account and does not give him or her the mandate to take action against anyone. After an auditor have determined whether or not the account of an organization reveals the true and fair view of the organization's state of affairs or financial position, they should present the results to the shareholders that is the owners of the business and not the directors (Carey et al., 2000). With the increasing incidences of misappropriation of funds, auditing plays a significant role in verifying the extent to which the accounting system within a profit or non-profit organization is successful in accurately recording transactions. Also, auditing helps in analyzing the compliance of an organization with the stipulated accounting policies and practices when preparing their books of accounts and according to statutory requirements (Abdel-Khalik et al., 1983).

Therefore, it is quite clear that auditing is vital for each and every organization at any point of the financial period. Therefore, this paper will provide a thorough evaluation of the differences that exist between external and internal auditing and the auditing roles within an organization. Also, it is going to evaluate the effectiveness of auditing as tools to provide assurance to investors and manager (Epstein et al., 1994).

## **Discussion**

### **Analysis of Auditing Roles**

In the field of auditing, auditors work towards detecting errors as well as preventing errors that are unintentionally committed by employees as a result of carelessness or ignorance. Such errors include:

- Errors that are made by the accountants of a certain company by recording incorrect entries either partially or wholly.
- Errors that arise when an account of transaction is partially or wholly omitted in the books of account
- Errors that occur during recording of transactions and happen counter balance that is compensating errors.
- Errors that arise as a result of negligence, ignorance or inaccuracy such as clerical errors.
- Errors that arise when accounting principles are not followed during recording of transactions that is an error of principle.
- Also, there are other roles in which auditors play within an organization such as deduction and preventing frauds that may be perpetrated by

employees of an organization irrespective of their title. Such fraud can be of the following types

- Cash misappropriation where fewer payments or more payments are shown in the cash department within an organization. The concerned accountant or cashier displays extra expenses more than what is incurred in the real sense and use the extra cash for personal use.
- Goods misappropriation where record keepers do not make records for goods purchased in stock records and use the goods for personal use
- Frauds that are perpetrated by manipulating accounts such as changing records with the purpose of misleading others.

### **Internal Audit roles**

Internal auditors perform both financial and non-financial audits in a broad range of areas within an organization according to the directions on the annual audit plan. Internal auditors are employees chosen from within the organization by the board to review the activities of an organization with the intention of identifying sectors or areas with poor performances (Willis, 2000). The oversight of auditing within an organization is done by the audit committee that determines the difference between management roles and audit roles. Internal auditors are involved with consultation activities and objective assurance that are independently created to bring in extra value as well as improving the operations within an organization. They also help in improving evaluating the effectiveness of internal controls and management of risks within an organization as well as evaluating and improving governance processes within an organization (Warren et al., 2006).

Therefore, internal auditing is significant in ensuring that operations of an organization are managed appropriately and by the set standards and regulations. An in-depth analysis of some of the auditing roles is done below (Lowe D, 1999).

### **Roles of Internal Auditors in Risk Management**

Internal auditing strive towards reinforcing the responsibilities of the board and management of managing risks within an organization. Therefore, individuals with experience with internal auditing should be familiar with the varying processes, structures, attitudes to risk and processes can implement effectively internal auditing identifying risks within the business operations. Internal auditing activities play a major role in evaluating and advising organization's top management regarding risk management. Internal auditing handles consulting management in an organization (Simunic, Dan A, 1984). This is because internal auditors have a better understanding of the risk management compared to other individuals such as the business people. Thus, they are regularly needed to provide advice about practices involving risk management (Savčuk O, 2007). For instance, internal auditors handle analyzing the state of an organization to identify and prevent some of the risks that might result as an obstacle towards achieving the set organizational objectives. Internal auditors does not play a managerial role rather they assess the effectiveness of the already set risk management strategies to ensure the existence of good governance within an organization. Thus, risk-based internal auditing is essential for an organization as it provides assurance to the directors and shareholders that the processes for managing risks within an organization are effectively

managing risks according to the risk appetite (Spira et al., 2003). If an business have no risk management framework or their framework is weak, that particular organization is not ready for risk-based internal auditing. Moreover, it indicates that the internal controls within such an organization are poor, and it is the responsibility of an internal auditor to promote a risk management practice that is strong to augment the efficacy of the internal controls. This exhibit the role of auditing from within an organization such as implementing and helping in the operation of programs for risk management in an organization. Also, it is evident that internal auditors offers assistance and advice regarding the new and separate functions of risk management. Hence, internal auditing role within an organization is identifying existing key risk as well as identifying those that emerges from the dynamic of organizational operations (Krishnamoorthy, 2002).

### **Role of Internal Audit in Internal Control Quality in Corporate Organization**

The priorities of an organization are to ensure that the audit and the quality of internal controls are improved (Soh et al., 2011). This enables management to manage potential risks as well as current risks within an organization in an effective and efficient manner and, in the long run, sustain a greater performance. The rising crises in the field of finance in the United States and European countries has led to the increased need for the roles of auditing. Without good internal controls within an organization, there are a lot of financial risks and most business will end up recording dramatic outcomes out of their managements and boards (Hass et al., 2006). Thus, an internal audit process involves examining the state of internal controls in an organization to enable management of funds in an appropriate way. For

instance, internal auditing provides an oversight on the expenditure of petty cash funds to detect fraudulent activities perpetrated by the personnel within an organization for personal gains. Also, internal audit checks to ensure if an organization agency bank accounts are reconciled each month by independent persons to make sure all account balance as well as detecting and preventing fraud. Another major role of internal auditing within an organization is checking the internal controls to ensure that it does not allow sole control of the financial transaction. Internal auditor achieves this by examining the system of checks and balances are strong and necessitates more than one individual to controls financial transactions thus acting as watchdogs over each other (Hermanson, 2003). Internal audit activities, in general, ensures that executives and entities design an internal control system that provides an effective and efficient process for business, systems of financial reporting that is reliable and compliance with stipulated rules and regulations. Internal audit provides information to the organization's management on how efficient and effective internal controls are and the quality of performance of business processes as well as their appropriateness (Dittenhofer, 2001).

### **Evaluation of Internal Auditing Roles Effectiveness**

The usefulness of an outcome of internal auditing and their responsibilities within an organization determines how effective they are. An organization with effective risk management framework and internal controls will not face financial challenges such as fraudulent activities. An effective internal audit needs management level to enable undertaking of internal audit function by audit manager. Audit procedures performance should be independent in that

their operations should not be influenced by the management of an organization. Access to all information should be given to internal, entries, documentation and areas for examination for any possibility of fraud and scrupulous activities (Arena et al., 2009). Also, for an effective internal audit, maximum consideration and care should be given attention to carefully focus on the scope of the required work and quality and efficiency of corporate governance. The effectiveness of an internal audit activity is seen through the reduced probability of significant errors and inconsistencies of potential benefits concerning the engagement of internal audit (Cohen et al., 2010). For an Audit plan to be effective, it should engage the suitable number of workforce and essential budgeting; comprising engagement parts designated based on risk-based priorities where it should be approved by the boards of directors and the audit committee (Spira et al., 2003). Availability of financial reporting system that is reliable in an organization and operating according to the principles of corporate governance is an indication of the effective internal audit. Thus, effective internal audit activities ensure that an organization is free from fraudulent activities and corruption in nothing to worry about as the internal controls are in place. Also, a strong risk management framework enables organization avoid the risk that might cripple the business thus an effective internal audit activities guarantee stronger framework as it identifies emerging risks and suggests for appropriate risk management strategies (Beckmerhagen, I. A., et al., 2004).