

The importance of auditing

[Finance](#)



Zaid Alzaid Reading & Writing 5/8/15 Importance of Accounting & Auditing

Accounting and auditing are seemingly related concepts and they apply to the operations of any business. However, they are somehow different since they are independent of each other. Accounting practices can be carried independently but for the sake of transparency, auditing should also be carried out. As such, this paper seeks to critically evaluate the importance of accounting and auditing in the operations of the organization. The paper will draw examples illustrating the significance of auditing where irregular accounting practices have negatively impacted on the operations of different companies.

The research paper is specifically meant to explore the reasons why developing countries in particular often fail to meet their expectations in terms of economic development. As such, the hypothesis for the research is: "Implementing better regulated auditing systems with severe consequences for not passing the audit will help developing countries to improve their economic development and avoid widespread corruption." Along with this hypothesis, the methods for data collection that will be mainly used include qualitative research. This will be mainly comprised of secondary data obtained from published literature such as journals as well as other official documents in the same area of study. The main advantage of using secondary research for this particular research is that the data going to be used is authentic. This data would have been validated in other previous studies.

One of the reasons for the financial success of developed countries is their reliance on strict auditing practices. However, one of the reasons for the financial problems of many developing countries is lack of regulation of

<https://assignbuster.com/the-importance-of-auditing/>

auditing system. Developing countries fail to apply the right plans for developing because they depend on accounting and neglect the auditing systems. By not involving auditing systems in the process, the range of corruption will increase. Unfortunately, accounting and auditing systems or procedures of developing countries are currently struggling to keep pace with those of the developed nations because they were specifically designed to meet the needs of centrally planned economy and not globalized economies (Prather-Kinsey, 2006). Therefore, the accounting systems lack uniformity as well as accounting standards because they are applied differently across industries and sectors.

The auditing and accounting systems normally set clear objectives of providing accounting information related to tax, statistics, and financial information. The problems of accounting and auditing in developing countries include poor internal control, late closings of accounts, unavailability of management accounting, unauditable systems and incomplete and inaccurate records (Holzer & Chandler, 1981). Although many developing countries that rely on accounting are struggling and failing in their improvement plans, not every developing country experience all of such problems because they have put mechanisms to alleviate them. These mechanisms rely on auditing itself and that will guarantee them to decrease the percentage of their fail.

Accounting and auditing have numerous roles and significance in developing countries. Firstly, they help in the creation of transparency as well as acting as a drive for the national economy (Navarro Galera & Rodríguez Bolívar, 2007). Secondly, it ensures uniformity as well as universality thereby helping in the promotion as well as support of the developing countries' international

<https://assignbuster.com/the-importance-of-auditing/>

competitiveness in today's complex and globalized world (Iyoha & Oyerinde, 2010). Accounting in developing countries provides accounting information that is used in making decisions for the purposes of economic development. The accounting information helps in the integrity of such like implementing measures that would stir the success of developmental plans because they contribute to serious evaluation of such plans. Accounting helps in the growth of Foreign Direct Investments (FDI) in developing countries because it appeals to the investors intending to invest in the target countries thus helping in the growth of the economy (Askary, 2006). However, accounting alone is not enough in as far as economic growth and development are concerned particularly in the operations of different companies as well as the developing countries.

For instance, the collapse of Lehman Brothers Holding Inc can be attributed to primary causes such bad accounting practices including the following: “bad lending and investing decisions; a lack of understanding of risk; and flaws in the credit-rating system. Furthermore, accounting firms were at the center of the last financial crisis, when companies such as Enron Corp. and WorldCom Inc. collapsed amid scandals,” (Rapoport, 2010). It is aptly stated that auditing is specifically meant to ensure that the moves taken by companies are properly disclosed not necessarily stopping them from making business moves that are dumb. Thus, the auditors in this case have a responsibility of overseeing the internal controls of the company in order to detect as well as to prevent fraud. According to Rapoport (2010), the auditors have a role to detect accounting irregularities, prevent as well as to report fraud. This helps to promote transparency in the operations of the organization. Auditors also have a role to ensure that companies publish

<https://assignbuster.com/the-importance-of-auditing/>

accurate financial statements in order to prevent fraudulent activities in their operations.

The main purpose of this research paper is to identify the gaps that often exist as a result of some irregularities that are created by the accounting practices used by different companies. However, the paper will mainly focus on economies in developing countries in a bid to establish the extent to which auditing can help create sanity in the operations of the economy as a whole especially in developing countries. The research is valuable in that it will enlighten different parties about the significance of accounting and auditing in as far as economic growth and performance are concerned. In most cases, the aspect of auditing is overlooked and this leads to some irregularities in the accounting practices of different firms. Therefore, this topic is valuable since it helps to create knowledge about the importance of auditing such as detecting as well as preventing elements such as fraud that can impact on the operations of the economy as a whole.

References

Rapoport, M. (2010). “ Role of Auditors in Crisis Gets Look.” Wall Street Journal. Retrieved from: <http://www.wsj.com/articles/SB10001424052748703814804576036094165907626>