

EDP Auditing

Many firms are using Electronic Data Processing (EDP) equipments for their accounting. EDP has been defined as the process of collecting and evaluating evidence to determine whether a computer system safeguards assets, maintains data integrity, achieves organisational goals effectively, and consumes resources efficiently (Weber). The concept of EDP auditing encompasses the traditional audit objectives of attesting the stated facts with efficiency and effectiveness.

Audit Approach in EDP/ CIS Environment

There have been drastic changes in audit approaches and methodologies as a result of emergence of CIS (Computer Information System) environment. The selection of one of the approaches depends upon the knowledge base expertise of Auditors. There are mainly two approaches for auditing in CIS environment that are explained as follows:

A. ***Black-box Approach (Auditing around the computer)***: In this approach, the auditor is mainly concerned about the Inputs fed-in by the client and the output generated by the system. The auditor completely ignores the internal processing of the Information System. For example, while testing payroll of a company, under black-box approach, the auditor may first find out the total monthly hours worked by selected employees from their respective time cards and then he may check the salary/wage rate from the rate card to find out the salary/wage payable to each employee. On the basis of above, the auditor ascertains his own output by comparing hours, rates, extensions, over-time and leaves. Finally, the auditor compares his own results with the system generated results.

The biggest advantage of auditing around the computer is the ease and simplicity, since the auditor does not require in-depth knowledge of system application program in order to perform his duties. On the contrary, a major disadvantage is that, under this approach, the auditor is completely ignorant about the internal processes of the system. Moreover, in order to generate certain complex reports, print-outs cannot be arranged to apply the audit procedures.

B. *White-Box Approach (Auditing through the computer)*: Under this approach, the auditor is not only concerned with the subject matter of the audit (i.e. inputs and outputs), but also with the internal processing of the computer system. The auditor focuses upon all phases of CIS activities i.e. input, processing and output. The auditor reviews and tests general and application controls and determines their effectiveness. This approach requires that the auditor should have sufficient knowledge of computers, its programmes, process and controls. An auditor does auditing with the help of Audit software and Computer Aided Audit Techniques (CAATs). Some of such techniques are test data approach, integrated test data approach, generalised audit software (GAS). Under test data approach the test data prepared by the auditor is processed by the client's processing system under the control of auditor. Then the results of the processing are compared with the predetermined output of the auditor. In integrated test data approach, fictitious entities are created by the auditor within the client's actual data. The hypothetical data for fictitious transactions are integrated with actual client data and processed. In case of generalised audit software, audit programmes are designed by computer manufacturers, software professionals and large firms of auditors.

Sources for the E-Content

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1. These notes are only for the students.
2. These notes are prepared after referring various books and websites.