Abstract:

The advent of computing brought with it a whole new chapter in the audit process. Computers had affected the auditors' ability to carry out part of what they had previously done. Things such as system privileges and how they affected what data a person has access to; the suitability of the audit trail provided by the application to provide the necessary evidence for ascertaining whether events have occurred and when are not always fully present in some systems. EDP auditing bases its framework on the knowledge of 4 other disciplines. They are information system management, Computer science, behavioural science and traditional auditing.

The internal auditor's role during the design phase of an EDP application is unclear in many organizations. This article integrates recent literature with the authors' survey in an attempt to explain more precisely the potential role(s) of the internal auditor in the systems development process.

In practice, four roles appear to exist. In the order of their importance, they are: (1) audit of control adequacy, (2) audit of design process, (3) auditor as a user of the application, and (4) auditor participant in the design process. The rank ordering of these roles in practice is explainable in terms of three constraints upon internal audit involvement during the design phase. The identified constraints are those of audit approach, audit independence, and management objectives.

Although EDP manager reaction to internal audit involvement is generally favorable, it could be stronger. Upgrading of internal auditor expertise in EDP systems appears to be the key to improved acceptance.

Finally, the potential contribution to the MIS manager of internal audit involvement is noted, and means of constructive interaction are suggested.

Introduction

Meaning of EDP Audit: A system is an orderly arrangement of separate but interdependent and interacting activities and related procedures which implements and facilitates the performance of the functions of an organization.

The concept of EDP Audit is that it is an in-depth analysis of the mechanics of a system reveals that it is designed with appropriate controls, checks and balances to safeguard against errors, frauds, etc., Audit can reasonably assume, without the necessity of undertaking a detailed examination of the individual events or transactions, that the results produced by the system would be fairly accurate.

Evaluation of the efficiency and effectiveness of any system will, however, require sample testing of its actual working. Systems Audit thus serves also as an effective aid to management.

Auditing in computer information system Environment CIS Environment or electronic data processing exists when an organization uses one or more computer(s) of any type or size for preparation of financial statements. While there is change in overall objective and scope of audit under CIS or EDP, the auditor will need to assess the effect of computers on (a) processing, (b) storage (c) retrieval, and (d) communication of financial information.
Under electronic data processing system, there is virtual elimination of errors such as calculation mistakes, posting errors, totaling, etc. However, any error in programming may result in serious errors and produce incorrect result.

**Need of EDP Audit**

(i) **EDP systems are more reliable** : A computer works as programmed. If the programming has taken into account all possible circumstances, the computer will work more reliably and consistently than the manual system. In the manual system, the auditor may undertake detailed checking of a number of transactions, yet certain errors and fraud may remain undiscovered. Not so in the case of electronic data processing systems, lie has only to see whether there is effective internal control on programs and, if so, checking of certain significant or unusual transactions will assure accuracy in accounting.

(ii) **EDP system may have in-built control procedures** : With built — in automatic control procedures, the electronic data processing systems will themselves indicate certain unusual or significant transactions such as, overdue payments, falling of inventory levels below the prescribed levels, etc. In manual system, the auditor will have to make extra efforts for the purpose. Prescription of “password” control in electronic data processing systems will secure the data against access by unauthorized persons. In manual system, there is always possibility of unauthorized access to accounts.

(iii) **Automatic updating of all relevant computer files by a single transaction** : Feeding of a single transaction in the computer will update the relevant records in all files. For example, purchase of raw materials from a single supplier will update the accounts of the supplier, purchases, and inventory. In manual system, different individuals will need to update the relevant files under (heir charge. Likewise, with proper programming, electronic data processing systems can perform certain tasks without human intervention. For example, generation of monthly accounts in case of credit customers will remove the need for manual preparation of accounts in individual cases.

**Organization of EDP Audit**

Organizations have the challenge of dealing with employees’ honesty and trustworthiness. Auditing is used to circumvent any question of integrity. An electronic data processing audit is an evaluation of the accuracy and proper function of an organization’s data processing. Organizations mainly audit the accounting department. Auditing ensures compliance and checks on fraud of the company’s resources.

**Get Electronic Data** : To commence the auditing process, auditors must first retrieve the data stored in the computer. Documents such as sales receipts and supplies invoices are used to verify the data entered into the computer. This ensures that correct information was input into the computer.

**Data Conversion** : Organizations use different types of software to store their data. This data should be converted from the stored software to the auditing software. This is done using special software programs known as package and utility programs. This ensures that there is no inconsistency when auditing data stored in different software.

**Compliance Test** : Auditors need to verify that procedures followed when entering data into the data processing system are being applied as prescribed. These procedures act as the underlying evidence of whether the accounting data is correctly fed into the processing system. Obtaining this evidence involves reviewing the accounting journals, ledgers and worksheets. Compliance tests, which are
tests used to verify the correct functioning of internal controls, are then carried out to indicate whether such internal controls are working properly. This provides the auditor with the overall picture of the truthfulness of data entered in the processing system.

**Substantive Test** : Auditors obtain evidence to verify the completeness, validity and accuracy of a client’s records. This evidence is an important factor in determining the auditor’s opinion on the records. Substantive tests in a merchandising firm would include examining inventory at the end of the period to verify that the levels of such inventory are as indicated in the records. An auditor can also request that suppliers confirm in writing the details of the debts owed by a firm at the end of the trading period.

**Reporting** : The main aim of an audit is to report to the client. A report should be written and signed after completing the audit examination; it also should include the auditor’s opinion and the basis for it. The date of the report should also be included, along with recommendations for improvements of the entity’s reporting system. Finally, reports should be objective, clear, concise and timely.

**EDP Program Controls**

The control environment in complex EDP systems is even more critical than that in more simple systems because there is greater potential for misstatement. The types of controls in an EDP system are general controls and application controls. The difference between general and application controls is illustrated in the diagram below, in which three computer applications are shown. General controls affect all three applications, but separate application controls are developed for purchases, cash payments and inventory. Although some application controls affect one or only a few transaction related audit objectives, most of the procedures prevent or detect several types of misstatements in all phases of the application.

**General Controls**

General controls are to ensure the integrity of application development and implementation and to ensure that computer operations are properly administered to protect hardware, programmes and data files. There are five main types of general controls:

(i) **Organization of EDP Department**

No one individual should be able to
(a) access the data;
(b) alter the computer system or programmes; and
(c) access the computer.

(ii) **Application Development and Maintenance Controls**

(iii) **Hardware Controls**

(iv) **Access to Computer Equipment, Data Files and Programmes**

(v) **Data or Procedural Controls**

**Application Controls**

Application controls must be evaluated specifically for every audit area in which the client uses the computer where the auditor plans to reduce assessed control risk.

**There are four main types of application controls:**

(i) **Input controls**;
(ii) **Processing controls**;
(iii) **Output controls**; and
(iv) **Controls over Master File information**.

**Conclusions** :

Conclusions drawn by the Auditor are the final output of the audit which when presented in formal and standardized manner is called an audit report. Conclusions such as these need to be documented systematically and in a way that another auditor who have not participated in the audit should be able to use them in reporting without the need of
more elaboration from the auditor involved in the audit.

**Safe storage of the evidence in electronic form:** After completion of the audit and collection of relevant and sufficient audit evidence it is advised that the Auditor should store the evidence so obtained in a safe storage and which is expected to be in electronic form. This may be put in disc storage devices which are not easily affected by viruses and not easily altered.

EDP itself as a sequences activity in changing data into useful information for the user. Auditing as a control tool just like I define before, is also needed to develop with the technology. By this case some auditing expert defines new way of auditing, known as Electronic Data Processing Audit or EDP Auditing.

**References:**

10. *INTOSAI Standing Committee on EDP Audit Minutes October 13, 1993.*