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Perspective

Short note on auditing

Golan Yansonge*

Department of Economics, University of International Business and Economics, Beijing, China.

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INTRODUCTION

The practice of auditing accounts may be traced back to the early stages of civilization. In those days audit was undertaken mainly for state or public accounts. However it is difficult to ascertain when auditing as we know it today came to vogue. Generally it was customary for persons responsible for maintenance of accounts to go to some impartial and experienced persons. General judges who used to hear these accounts and express their opinion about their correctness or otherwise. Such persons were known as 'auditors'. Thus the auditor means literally hearer i.e., one who hears and is used ever since the days when public accounts were accepted and approved on the basis of hearing the accounts read.

ADVANTAGES OF AUDITING

Audit is an instrument of financial control. It has a great practical utility. It is not a luxury. It is very essential. It is of utmost importance to get accounts audited in a proprietary concern to see that the business is running efficiently, in a partnership firm to ensure healthy relations among partners and especially to decide questions like valuation of goodwill at the time of entry, retirement or death of partner, and in joint stock company in which shareholders invest their money and presume their capital intact if the accounts of such a company are audited by some qualified auditor. Needless to mention, the shareholders of a company have virtually no direct touch in its day to day administration. That is why audit is made compulsory under the companies Act.

For Business: The accounts of a business and its financial position can be examined by an independent and qualified auditor, Errors and frauds are located very easily at an early date and chances of their future occurrence, The auditing of accounts makes the clerks who maintain them alert, careful and vigilant, and more so, they prepare accounts very carefully in future and keep them up to-date. Money can easily be borrowed from banks and other money lenders on the basis of properly audited accounts, The business itself enjoys better reputation if its accounts are audited by an independent auditor, The auditor, if he audits a business regularly, can come in close touch with the working of that business and hence, can give concrete suggestions to improve it if the is asked to do so, Audit is useful in case of business is managed by some agent or representative of its owner.

For others: The audited accounts of previous years are helpful in the settlement of claims of the insurance company in case of fire. The banks or investors or other money lenders can take decisions for granting loans to business houses on the basis of their properly audited accounts. The purchaser of a business can easily calculate the amount of purchase consideration on the basis of its audited accounts. The taxation authorities can very well rely on the audited accounts for the purpose of imposing sales tax, income tax, wealth tax, expenditure tax etc. The audited accounts of a business can be produced in support of a legal case before the court. It forms a basis to determine auction in bankruptcy and insolvency cases.

*Corresponding author. Golan Yansonge, E-mail: golan99@yane.edu.cn.