

# Techniques of Auditing

Audit techniques stand for the methods that are adopted by an [auditor to obtain evidence](#).

## 1. Inspection

### a. Documents and records:

While verifying various transactions, the auditor examines the supporting documents and records. This technique is otherwise called vouching. The purpose of examining the documents and records is to

- a. confirm the authenticity (genuineness) of the transaction.
- b. to find whether the transactions and the supporting document are appropriate.
- c. to ensure whether the transactions are authorized (approved).
- d. to ensure whether the classification of the transaction is proper.

The auditor goes through the accounting records and documents and if he comes across any unusual transactions, he verifies the same thoroughly. This is called scanning of records, which requires experience and expertise.

How far an auditor can rely on the documents depends on the origin (source) of the documents and the efficiency of the internal control system in operation.

Documents which have their origin in the hands of the third parties and held by third parties are more reliable than the documents which have their origin in the organization itself and held by the organization. One can classify the documents into 4 major categories according to their origin and availability.

1. Documents which have their origin in the hands of the third party and held by them – Most reliable evidence.

2. Documents which have their origin in the hands of the third party and held by the organization – More reliable.
3. Documents which have their origin in the hands of the organization and held by the third party – Reliable.
4. Documents which have the origin in the hands of the organization and held by the organization – Reliable only if the internal control is effective.

## **b. Physical Verification**

If an item can be measured in physical term, the same may be verified for quantity and quality (if possible). By physical examination, the auditor ensures the availability of the item. However, the ownership of the items cannot be verified through this method.

## **2. Observation**

The auditor observes a particular procedure being carried by the organization. Examples are observation of the internal control measures that are adopted in transactions involving cash, procedures followed on receipt or issue of material, etc. The auditor makes his observations to evaluate the efficiency and effectiveness of the system followed by the organization.

## **3. Inquiry and Confirmation**

**Inquiry**: Seeking information from persons belonging to the organization or from outside organization is called inquiry.

**Confirmation**: Confirming the information available with the records of the organization or with the persons mostly from outside the organization through an inquiry is confirmation.

Inquiry and confirmation can take place either orally or in writing. The best example for inquiry and confirmation is confirming the balances of debtors shown in the accounting records with the debtors of the organization.

## **4. Computation**

An auditor makes appropriate calculations and verifies the accuracy of the accounting records. For example, the auditor computes the depreciation to be charged for the year, by taking into consideration. the value of the asset (cost), the date of purchase, the rate of depreciation, etc., to verify the accuracy of the depreciation charged by the organization. The auditor also traces a particular transaction from the origin to check the book keeping procedure.

## 5. Analytical Procedures

The purpose of analysis is to ensure consistency of accounting methods and also to evaluate the efficiency of the management by comparing the results of several years. The several analytical procedures are

- i. Reconciliation
- ii. [Ratio Analysis](#); and
- iii. [Variance Analysis](#).

The auditor also applies the analytical procedures to help the management in decision making. Such analytical techniques are

- i. [Marginal Costing](#)
- ii. [Standard costing](#) etc.

The auditor studies the nature of the business and also the prevailing circumstances and selects the techniques to be applied. While conducting the audit, he may change his technique according to the changes observed in the circumstances. The suitable audit techniques adopted by the auditor helps him to carry on the audit efficiently.