

**A PRACTICAL APPROACH TO
AUDITING COMPUTER-BASED ACCOUNTING SYSTEM**

**A PAPER SUBMITTED TO THE MARA INSTITUTE OF TECHNOLOGY
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ABSTRACT

This project paper is written with the intention of providing a guideline on how to audit a computer-based accounting system. Since most organisations have partly or wholly computerised their daily operations, there is a need for auditors to equip themselves with knowledge of Electronic Data Processing (EDP) and the various procedures of computer auditing.

The data collected for this project paper is of secondary in nature. The method used is through library research and personal readings.

The audit approach of a computerised accounting system does not differ much from the conventional audit of a manual system. The objectives, rules and regulations must still be complied with. Basically, there are two methods of auditing a computer-based accounting system. They are auditing around the computer and auditing through the computer. The first method requires the printout of output and audit work is done on the hard copies. The latter method requires the employment of computer assisted audit techniques (CAATs) which use the client's computer in evaluating the client's software and controls existing in the system. Sometimes both methods are combined depending on the client's system and the results of preliminary investigation on the system's internal controls.

CHAPTER ONE : INTRODUCTION

Introduction

The Association of Chartered and Certified Accountants (UK), in its 1986 edition of Auditing and Investigation wrote that:

"The word 'audit' is derived from the Latin word 'audire' meaning to hear and was appropriate to an era when accounting records were approved only after a public hearing at which the accounts were read aloud." (page 2)

However, an audit today involves critical examination of the financial statements and their underlying accounting records to enable the auditor to form an opinion. Normally the opinion is expressed in 'truth and fairness' terms.

Electronic Data Processing is defined by the Webster World Dictionary as follows:

"The application of stored-program digital computers to the processing of information. Some typical applications are business, scientific computation, data acquisition and process control. Electronic data processing in business is typically concerned with maintaining files of data. Examples include payroll, inventory control, customer billing and accounting."

The words "EDP system" are used interchangeably with "computer-based" or "computerised accounting system" in this project paper.

Rapid developments in computer technology and the increased utilisation of computers in accounting, have