

Auditing: Conventional and Divine Perspective

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Abstract: Audit function comes after completing the accounting function. As it is treated applied accounting, there is a necessity to framework it with certain rules and regulations. This can be reinforced with the direction of Divine message. The main focus of this study is to discuss auditing concept in conventional as well divine perspective, so that compression can be done between the same. Through the knowledge of auditing, it can be said that whether the financial statements portrait a ‘true and fair view’ of concerned organization or not. Based on this information various decisions have been taken by stakeholders. Inappropriate practice of auditing may lead a vast group of interested party to wrong direction in taking material decision. In order to make audit practice more efficient and accountable, it is the best way to take shelter under the umbrella of divine message and make an auditor thinks himself/herself that he/she is accountable for his/her work to Almighty Allah as well organization or others.

Key Words: Auditing, Accountability, Self audit, Efficiency.

1. Introduction and Concept of Auditing: Audit comes from a Latin word ‘audire’, which means ‘to hear’. The modern concept of auditing has progressed in terms of more formalized accounts: separation of ownership and control. Auditors certify the information provided by the people of the organization to the Stakeholders (Creditors, Shareholders, Investors, Regulatory bodies, Govt., Researchers, and Employees etc.) that these are true. Stakeholders are the people who use the audit report.

2. Statement of the Problem

Now a day’s people are being more materialistic where divine message are ignored from all walks of life. But fact that human life as well their all aspects can be more productive and better logical if we follow these message. Accounting and auditing is general aspect of our daily life which is required to settlement of different cases of individual, familial, social and national so on. But how we can manage this issue and to identify the concept of auditing from conventional and divine perspective is the main problem statement of this study.

3. The Objectives of this Study

The main objective of the study is to discuss the concept of auditing from traditional and Islamic point of views. Others are:

- a. To compare between traditional and Islamic thoughts on auditing.
- b. To highlight the Islamic literature according to Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).
- c. To gain an understanding of the continuing need for thoughtful leadership if the mission of audit profession is to be viable in the contemporary world.
- d. To clarify and strengthen the audit concept from divine view point, especially from the Quran, the last revelation perspective.

4. Methodology: The methodology adopted in this study is limited to using the original sources of Islamic literature, i.e., the Qur’aan and the Sunnah. However, some references were also made to the Biblical literature for comparison where the necessity arose. Making any other reference from the believer or anywhere has been avoided to avoid lengthiness of discourse.

5. Auditing from Traditional point of view:

“Audit is the independent examination and expression of opinion on the financial statements of an enterprise by an independent auditor in pursuance of his appointment and in compliance with any relevant statutory obligation (B.N Tandon, 1999).”

“An independent examination of financial information of any entity whether profit oriented or not, and irrespective of its size or legal form, when such examination is conducted with a view to expressing an opinion there on (B.N Tandon, 1999).”

Crucial Points of these definitions:

- a. Independent examination,
- b. Independent examination of financial statements or reports of any entity’s financial information, whether profit making or not,
- c. Verification of financial statement and determining accuracy and reliability,
- d. The result is expression of an opinion through audit report.

6. Origin and Growth of Auditing: In Mesopotamian Civilization (3600 B.C.), one person records transaction and another person summarized it. There may be an audit conducted by them or others. In Egyptian Pharaohs, required documents should be needed for cash disbursements and for goods inflow or outflow. There is auditing only for disbursements. In Greek Civilization, audit was taken place only for public officials for public expenses after the retirement of their jobs. But the scenario was changed in Roman Civilization. Islamic history proves that during the Umar,s(RA) Caliphate detail accounting as well auditing systems were cultured which is till now famous as Hisbah. During the Caliphate rain there were different authorized persons to receive, pay and record cash, materials and so on like present. In 14th Century, business became more expand than before. There was sole proprietorship, partnership business besides barter system. The practice of internal audit was first started as all partners were not equally involved in partnership. During this time the involvement of third party was seen. In London and Dublin, audit was conducted by Mayor and in 1492 when Colombus invented America; In 18th Century after the industrial revolution, the Joint Stock companies were expanded. To serve the interest of shareholder professional auditing was first started and recognized by law in Table A, Company Act 1857. But auditor’s qualification, scope, responsibility, power etc. were not clearly defined like the Company Act 1913.

7. Different Objectives of Auditing: Management assertions operationalise audit objectives. Audit objectives are closely connected with management assertions. As, audit is carried out to certify the accounting statements provided by management, audit objectives should be in line with management assertions. Two types of audit objectives are:

A) Specific audit objectives are designed to suit each audit engagement according to necessity. These specific objectives form a part of general audit objectives and every audit has different situations and specific audit objectives should be applied according to circumstances. It should be done only when necessary.

B) General audit objectives are applicable to every account balance. It is done all the time. Under general audit objective, the auditors would look into the following aspects:

a. **Overall Reasonableness:** Before going into each account balance the auditor need to form a general impression about the client’s business as to whether the business is reasonably safe and free from complications for audit or whether the business would have material misstatements or errors. The auditors have to form an overall opinion about the entity before going into the accounts balances. Tests for overall reasonableness helps to plan the audit in terms of efforts require gather evidence extent of investigation, time spent etc. Overall reasonableness influences the plan of the auditor.

b. **Validity:** The object of validity involves the ascertainment of appropriateness of the amount included in the financial statements. To test whether these amounts really deserves to go into the financial statement or not, e.g., recording a sale which never took place.

c. **Completeness:** The objective of completeness involves making sure that all actual events or transactions have been recorded. So, the objective of completeness is violated if any transactions/events is not recorded. It is a direct result of management assertion on existence or occurrence. The objectives of validity and completeness have opposite implications so far the audit is concerned. The objective of validity is to detect potential overstatements through recording of transactions that have not taken place. And also the objective of validity is to detect potential understatements through not recording of transactions that have taken place, e.g., unrecorded sales or purchase etc.

- d. **Ownership:** This audit objective deals with the determination of ownership of assets & liabilities shown on the financial statements actually belonging to the company under audit. This is the result of the management assertion on assets and obligation.
- e. **Valuation:** The audit objective concerning valuation involves checking the correct valuation of items appearing in the financial statements, their arithmetic accuracy and calculation and any change in the realizable value of the assets and liabilities, e.g., the value of the foreign loan may change in the Balance Sheet with the change in the value of foreign currency.
- f. **Classification:** The objective is to ensure that items appearing in the financial statements are under correct heads.
- g. **Cut-off:** It deals with ascertaining the appropriate accounting period for transactions and events. This follows the management assertion of allocation.
- h. **Mechanical accuracy:** Control A/c. or ledger A/c balances appears in the financial statements, e.g., individual data accounts constitute the overall debtors A/c. The objective of mechanical accuracy is to see details of lists are accurately prepared, correctly added, and transferred to the relevant control accounts.
- i. **Disclosure:** This objective follows the management assertion of presentation and disclosure. It involves checking whether all balances and other relevant information are presented and disclosed properly in the financial statements, depreciation policy, cost classification etc.

8. Auditing from Islamic point of view

Islamic or Shariah audit is the examination as per guidance of the accounting and auditing organization for Islamic Financial Institutions formerly known as- Financial Accounting organization for Islamic banks and Financial Institutions(AAOIFI). As per GSIFI- 2 the following most descriptive description about Shariah Audit--“**Shariah** audit is the examination of an IFI’s compliance with the Shariah, in all its activities particularly the financial statements and other operational components of the IFI that are subjected to the risk of compliance including but not limited to products, the technology supporting the operations, operational processes, the people involved in key areas of risk, documentations and contracts, policies and procedures and other activities that requires adherence to Shariah principles (Akram Laldin, 2009).”

The purpose of Auditing Standard for Islamic Financial Institution (ASIFI) is to establish standards and provides guidance on the objective and general principles governing an audit of financial statements prepared by a financial institution which conducts business in conformity with Islamic Shari’ah rules and principles. In Islamic viewpoint audit activities are not concentrated only on financial statements rather it is encompasses in whole over a believer’s life.

A. Self Audit is the best Audit: It indicates that self accountability to almighty Allah (SWT) is the best and beneficial guide for auditing. If a person is appointed as an auditor in any organization for auditing, he always feel that there is no scope for any fraudulent activities for the fearless of punishment as the almighty Allah (SWT) always see him, rather he can perform well for his Allah fearing accountability.

Regarding the self audit, there are a lot of evidence in Al-Qur’aan and Al-Hadith. In the Holy Qur’aan Allah (SWT) says,

1. “*Truly nothing is hidden from Allah (SWT), in the earth or in the heaven*” (Al – Qur’aan, Sura Al – Imran – 5)

“*He is with you where so ever you may be.*” (Al – Qur’aan, Sura Al – Hudid – 5)

In the Hadith Prophet (SAW) said,

“*Judge yourself before you will be judged and weight your deeds before you will be weighted.*”(Jabnoun, 1994).

B. Qualities of an Auditor with regard to Ethical and Divine View

A. Ethical View: Ethics can be defined as acceptable code or pattern of behavior for every human being in the society. Professional ethics is simply the application of the general theory of ethics. All recognized professionals

developed their own codes of ethics. The basic logic of codes of ethical conduct applicable to different profession is to provide a framework to all the members of the profession, regarding their professional behavior to ensure a high degree of esteem and the continued acceptability of the profession. Code of professional ethics consists of two things: General statements of ideal conduct and Specific rules defining unacceptable conduct.

The Code of Ethics is listed in four elements in order to increasing specificity (Alvin A. Arens & Loebbecke, 2000),.

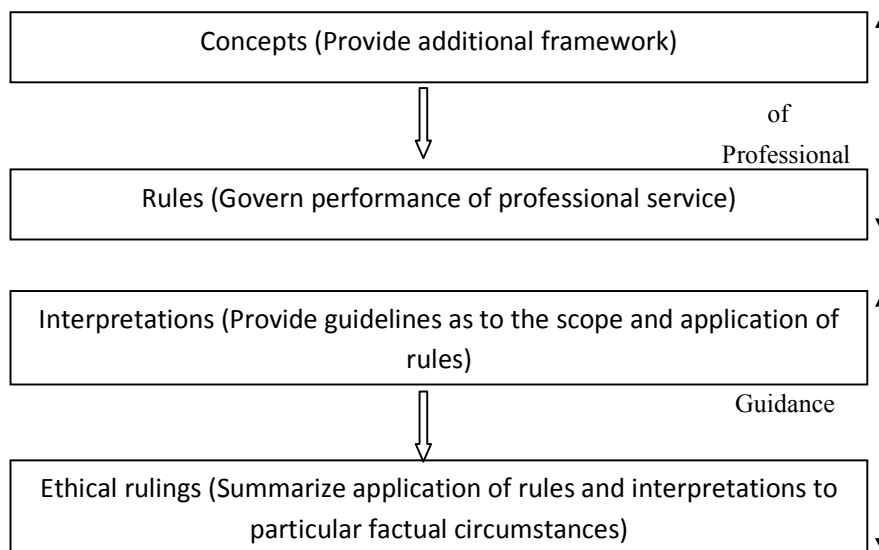


Fig: Code of Professional Conduct by AICPA

Concepts of Professional Ethics: **five** ethical principles are discussed here: -

1. **Independence, integrity and objectivity:** An auditor should maintain his independence, integrity and objectivity. He must report what he watches.
2. **Competence and technical standards:** Auditors should observe the profession’s technical standard and make effort to improve his level of competence and quality of his service on a continuous basis.
3. **Responsibility to clients:** The auditor should always be fair and impartial with his clients. He should exercise due professional care consistent with his responsibilities.
4. **Responsibility to colleagues of profession:** The auditor should conduct himself in such a manner that will promote good relationship among the members and enhance the reputation of the profession as a whole.
5. **Other responsibilities and practices:** Since audit is a social function, the auditors should conduct their activities in such a manner that the public interest is served at all times.

9.B. Qualities of an Auditor in the Eye of Islam: The auditor should comply with the “Code of Ethics for Professional Accounts” issued by Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) and the International Federation of Account which do not contravene Islamic rules and principles. The ethical principles governing the auditor professional responsibilities included:

9.1. Righteousness: An auditor should be righteous in regard to his duty. Regarding to righteousness there are a lot of evidence in Al-Qur’aan and Al-Hadith. In the Holy Qur’aan Allah (SWT) says,

“He will direct you to do righteous good deeds and will forgive your sins. And what so ever obeys Allah and his messenger has indeed achieved a great achievement (Al – Qur’aan, Sura Al – Furqan – 58).”

There is a Hadith narrated by Abdullah Ibn Masud relates to the Prophet (SAW) used to supplicate,

“Allah I beg of the three guidance of righteousness, chastity, and self-sufficiency (Al – Hadith, Muslim Sharif)

9.2. Trustworthiness: Without this quality, a person cannot be a good auditor. It is the prerequisite of an auditor. It is the quality of all prophets. Muhammad (SAW) treated Sadiq and Amin in his boyhood. In the Holy Qur’aan Allah (SWT) says,

“And put your trust in the ever living one who dies not (Al – Hadith, Tirmidhi Sharif)

Allah (SWT) also says,

“Allah (SWT) is sufficient for him who puts his trust in him (Al – Hadith, Tirmidhi Sharif)

Hazrat Umar (R) said that he heard the Prophet (SAW) said,

“Were you to put your complete trust in Allah (SWT), He provides for you as He provides for the birds (Al – Qur’aan, Sura Al – Ahzab – 71).

“I am sent to explain in detail what honest character is

The Qur’aan has expressly forbidden the dishonesty:

“Oh Ye who believe! Betray not the trust of God and the Postle, nor misappropriately things entrusted to you (Al – Qur’aan, Sura Al – Talq – 4).

9.3. Professional Behavior

In Islam, there are ample evidences about how the professional behavior should be in particular job field. In this regard, we may mention the following Hadith about excellence in profession.

“Allah almighty one that when one of you doe a job, he/she does it well (Al – Qur’aan, Sura Al – Baqarah – 282)

One of the event of the administration of Umar(RA) here mentionable. Those who were not well equipped about business rules and other profession Umar(RA) did not allow them to do this profession.

9.4. Fairness: A person who works for another person, a firm or an institution, has been commended by Allah (SWT) to perform his work efficiently and honestly. In the Holy Qur’aan Allah (SWT) says,

“Oh you who believe! When you contract a debt for a fixed period writes it down (Al – Hadith, Tirmidhi Sharif).

9.6. Proficiency and Efficiency (Ihsan): Ihsan is commonly understood as doing marginally more than the minimal requirements. Islam urges Muslims to do their jobs without any lapse or omission and to the best of their efficiency and competence. The Qur’aan urges the believers to gain control over the universe and to move full use of its natural resources

Believer should do every work with full devotion and perfect manner.

“Allah almighty one that when one of you does a job, he/she does it well (Al – Hadith, Tirmidhi Sharif).

“Allah has decreased excellence for everything, when you kill, do it in the best way; and when you slaughter (an animal for sacrifice), does it in the best way. So, every one of you should sharpen his knife and let the slaughtered animal die comfortably (Al – Hadith, Muslim Sharif).

Whereas taqwa is the fear of Allah and the feeling of Allah’s presence, *ihsan* is the love of Allah. This love of Allah motivates the individual Muslim to work towards attaining Allah’s pleasure. The prophet Muhammad (SAW) describes *Ihsan* as follows: *“To worship Allah as if you see Him, and if you cannot achieve this state of devotion then you must consider that He is looking at you (Mohiuddin ,2004).*

9.7. Sincerity (Iklas): Sincerity is the key to all virtue because one cannot be ore genuinely performing a task without sincerity. When an auditor is sincerely undertaking the task; he has to make sure that it is completed with the best of his ability.

Sincerity is one of the most significant qualities of those most faithful or loyal to God; loyalty is regarded as a source, and sincerity as a sweet water originating from it. The most eloquent of humanity, upon him be peace and blessings, declared that one who drinks uninterruptedly from this water for forty days will find channels of wisdom opened from his or her heart to his or her tongue, and that such a person will always speak wisdom.

Loyalty or faithfulness is the primary attribute of Prophet-hood, and sincerity is its most lustrous dimension. Sincerity is innate in the Prophets; all other people try to obtain it during their lifetime. Among them, for example, the Qur’an describes the Prophet Moses as one made sincere (Al Quran,19:51).

9.8. Objectivity: Without identifying clear cut objective, a person can not proceed smoothly. He should know his mission and vision. In this regard Allah (SWT) says,

“Say! (Oh Mohammed) This is my way I call to Allah with knowledge and understanding together with who followed Me (Al Quran Sura Yousuf – 108).

9.9. Professional Competence: The auditor must be competent about the audit. He should have the ability to make any judgment on any occurring situation. For that he needs proper education, training and sufficient guidelines. In Islam, every profession is a trust to particular employee. It is religious duty for every Muslim job holder to gather knowledge about his profession (Mustak Ahmed, 1995).

9.10. Confidentiality: During the audit period auditor should keep secret his observation. It is required for the effective audit. In the holy Qur’aan Allah (SWT) says,

“Whether you publish a good deed or conceal it or cover evil with pardon verily Allah both bolt out (sins) and hath power in the judgment of value (Al Quran Sura An Nisa – 149).

10. Comparative analysis between traditional and Islamic thoughts of auditing

a) In traditional audit, auditors’ accountability is one fold that means only to his superior. But in case of Islamic audit, his accountability not only to his boss but also to almighty Allah.

b) Sometimes a traditional auditor is guided by the whims of his superior and at that consequences, the authenticity of the audit report will be questionable. But a man who checks the accounts for the satisfaction of Allah (SWT) to ensure good governers, he will never be misled by whims of any person or group.

c) In traditional audit, there may be further audit of an audit. But for an Islamic audit, there is no need to make further audit.

d) The auditor in a traditional audit thinks himself independent. But an Islamic auditor, he feels himself as a vicegerent of Allah (SWT).

11. Conclusion and Recommendation: Auditing is an important task for every organization. If it is not done effectively and efficiently, the main figure of an organization as well as its position cannot be determined. For this efficient and effective audit the Holy Qur’aan and Hadith can be the best guide to perform it. A man with Qur’aanic knowledge as well as traditional knowledge on auditing can do it well. Now-a-days, Islamic Financial Institutions are growing rapidly with success. This is an initial approach that Islamic auditing may play a vital role there. But there is a need for more comprehensive works for pious person. A separate compilation should be developed with the reference of selected Qur’aan, Sunnah and other divine messages. Initiative should be taken to develop God fearing attitude among the concerned. Divine message based course curriculum as well their implementation on different aspects, like accounting, auditing and other should be developed through study and research.

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