



TOPIC: AUDITING

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OUTLINE

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AUDITING

- **Auditing** can also be defined as an independent examination of the books of accounts and vouchers of a business with a view of forming an opinion as to whether these have been kept properly as per companies act and as to whether the statements drawn there form a true and fair view of a company's state of affairs as at a given date.



TYPES OF AUDIT REPORTS

An audit report is a letter communicating what was audited, management's and the auditors responsibility, what an audit entails and the auditors opinion. Most FS audits result in a three paragraph standard audit report that uses uniform language and most important of all states that, "in the auditors opinion the entity's FS present fairly in all material respects, financial position, result of operations, and cash flows in conformity with GAAP ."

There are basically two types of audit reports i.e.

- 1) Unqualified Report
 - 2) Qualified Report
- Unqualified report= A positive opinion
 - Qualified report = A negative opinion



UNQUALIFIED REPORT

- That opinion that is positive and satisfactory, in this case the auditor is fully satisfied that the FS have been prepared correctly and this shows a true and fair view of the state of affairs.



A QUALIFIED OPINION

This opinion is given by the auditor when:

- ❖ Auditor is unable to obtain all information and explanations which he considers necessary evidence regarding existence or ownership of some fixed assets.
- ❖ Auditor has the opinion that proper accounts records have not been maintained.



A QUALIFIED OPINION CONT'

- ❖ The balance sheet and the profit and loss account are not in agreement with the books of accounts.
- ❖ There is uncertainty regarding such events which may affect the financial position of the current FS's in the future.
- ❖ The accounts do not conform to the acceptable



Auditing encompasses both an investigative process and reporting.

- ❖ **Investigative** involves the systematic gathering and evaluation of evidence as a basis for reaching an opinion about whether assertions made by management in an entities financial statement correspond in all material aspects with GAAP.
- ❖ **Reporting** means communicating an opinion in a written report to interested users of the financial statements. The opinion conveyed in an audit report is referred to as **Attestation**.



TYPES OF AUDITS

- ❖ Financial statement audits
- ❖ Operational audit
- ❖ Independent audits

Financial statement audits:

This is a systematic process that begins with an entities request for audit services and culminates in an attestation.



Operational audit:

This is designed to assess the efficiency and effectiveness of managements' operative procedures rather than the fair preservation of management's financial statements. Internal operational audits focus on operating procedures not recorded dollar amounts or reported financial information



Independent audits.

They also determine whether the entity has complied with applicable laws and regulations that may have a material effect on the FS.

Compliance audits are conducted either by independent auditors or by governmental auditors



AN AUDITOR

This is an independent person/firm(Professional) appointed by a company to execute an audit.

TYPES OF AUDITORS

There are mainly two types of auditors

- ❖ Internal auditors
- ❖ Independent external auditors.



○ **Internal auditors.**

Many large companies and organizations maintain an internal auditing staff. Internal auditors are employed by individual companies to investigate and appraise the effectiveness of company operations for management. Much of their attention is often given to the appraisal of internal controls. A large part of work consists of operational audits; in addition, they may conduct compliance audits. In many countries internal auditors are heavily involved in financial audits.



- ❖ An internal auditor must be independent of the department heads and other executives whose work he/she reviews. Internal auditors however, can never be independent in the same sense as the independent auditors because they are employees of the company they are examining.



Independent External Auditor

These have a primary responsibility to the performance of the audit function on published financial statements of publicly traded companies and non public companies. Some countries have several classes of auditors who have different functions. Independent auditors are typically certified either by professional organisation or government agency.



END OF THE PRESENTATION

***I WELCOME QUESTIONS
AND
SUPPLIMENTS***

