

Gaas, gagas and pcaob auditing standards

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Audit standards are set codes of conduct for auditors when auditing financial statements or other financial issues of a company. There is also a relation to performance audit and certain attestation engagements.

The American Institute of Certified Public Accountants (AICPA) established all Generally Accepted Auditing Standards (GAAS). GAAS, in turn, formed the basis for other standards like the Generally Accepted Government Auditing Standards (GAGAS) and the Public Company Accounting Oversight Board (PCAOB). This paper seeks to define those three standards, while clarifying the similarities and differences between them.

All the three standards have some underlying similarities. They all address the basic audit issues like transparency, accuracy, reliability etc of financial statements.

They all also spell out standards for audit field work and performances, simultaneously spelling out, on a dynamic base, the education and qualifications required of the audit and audit assistants. All the three standards ultimately target the protection of the firm and its assets or finances. They minimize operational risks. And though driven by different objects, GAGAS and PCAOB are based on the AICPA's GAAS.

The different objectives of the three auditing standards results in a difference in their content, approach, criteria and specifications. Nowadays, the GAAS primarily deals with audits of non-issuer public companies. PCAOB, on the other hand, addresses the concerns of auditors auditing issuer and certified public companies.

Its hold in matters of issuer companies, as controlled by the American Securities and Exchange Commission (SEC) is paramount. GAGAS, as set by the GovernmentAccountabilityOffice, applies to government organizations or organizations availing government assistance, setting auditing standards for their functions, activities, programs and so on.[1]

Introduction

The external audits of governmental and non-governmental entities may be broadly classified into Financial Audits, Performance Audits and Attestation Engagements. Auditing Standards have some General Standards, as well as Field Work Standards and Reporting (GAO, July 2007).

The Generally Accepted Audit Standards (GAAS) are issued as Statements on Audit Standards (SAS)[2]. This is done by the Audit Standards Board or ASB which has been set up by the AICPA. These standards relate principally to the audit processes and procedures which are to be adopted by the public companies not issuing shares. [3]

The General Accepted Auditing Standards are sets of systematic guidelines used when conducting audits on company finances, to ensure accuracy, consistency and verifiability of auditor's action and reports.

However, for auditing government bodies, the US Government Accounting Office sets separate rules and standards, outlined by the GAGAS. These include auditing of their activities and programs, as well as all their functions.

The objective is to ensure proper use of funded assistance availed from government bodies or agencies. (GAO, Jul 2008). Companies that issue

shares and that are registered with the Securities and Exchange Commission were placed under the standards of the PCAOB[4].

As per the provisions of GAGAS, their reference incorporates GAAS, unless the Government Accounting Office specifically excludes them through a formal announcement. Sometimes, depending on the audit requirements and the organization being audited, GAGAS may be used together with PCAOB.

Basic Objectives and Premises behind all Audit Standards:

The similarities amongst all the auditing standards may be drawn from their basic premises and government policies driving them. For example, all auditing standards serve as a regulatory tool, prescribing the process to be followed by auditors, and determining what is to be scrutinized in the financial statements, internal control processes and management performances.

Audits done on an organization's financial statements express an opinion on the fairness with which the statements represent the status and changes in the financial position, operational results and cash flows.

Universally, audits need to be performed by a person or persons who has/have adequate technical training and proficiency as an auditor. The auditors need to maintain their independence so that their assessment and opinions reflect an impartial and objective view of the issues involved. They are also expected to exercise due professional care in planning and conducting the audit report [5].

The auditor must have sufficient knowledge of internal control processes so as to enable him to plan properly and arrive at the nature, extent and timing

of tests to be performed for ensuring a proper audit. While in the field, the work needs to be adequately planned and properly supervised.

The competency and sufficiency of evidence reviewed needs to be assured so that the auditor and others can form a proper opinion on the financial matters in the organization, which is subjected to the audit.

All performance audits have similar standards. The auditors must prepare written audit reports communicating the audit results[6]. The audit reports should be prepared and made available so as to ensure timely use by management legislative and other interested parties.

The auditors must report the scope, objectives and methodology of audits. They must report any significant findings of audits and in the applicable cases, also the auditor's conclusions.

They should report recommendations for action. This is to correct problem areas and ensure operational improvement. They must state what auditing standard was used in the reporting. All cases of significant non compliance or abuse must be reported, found during or related to the audit. In some cases, this reporting has to be done to outside parties.

Appropriate inspection and observation must be conducted to gather competent and factual evidence so that a reasonable opinion on the financial state of affairs of the organization under audit may be formed.

Audit work must be properly planned & materiality considered for arriving at considered opinions based on competent evidence by selecting appropriate nature, timing & extent of tests. Audits must be designed so that material

frauds may be detected reasonably well.[7] It is notable that frauds are intentional misstatements.

Material misstatements may result from direct & material illegal acts and this is to be considered in audit design so as to ensure the reasonable detection of such misstatements through the audit process.[8] The auditor must detect any indirect illegal acts that may indirectly affect correctness of financial statements by applying audit procedures[9] (GAO, Jul 2007).

Every audit strives to maintain accountability and transparency within any organizational policy, whether for governmental or non-governmental organizations. To this end, public resources within an organization must be efficiently, ethically, effectively, equitably and economically utilized.

Where this is not the case, audits prescribe the remedial steps to be taken in a time-bound manner by the organization's management and other concerned parties. All assessments by the auditors must be objective, concise, independent and factual, as related to an organization's financial or management performance. The auditor therefore needs to be independent and impartial. All this adds up to a case for complete professionalism and quality of audit processes.