

Steps of conducting an audit



I sincerely hope that this assignment meets your approval and demonstrates my ability to present assignments. If you require further clarification, I will be happy to contact you according to your convenience. Sincerely, Ishrat Nahid
ID: 0930183 Executive Summary An auditor is an official whose job it is to carefully check the accuracy of business records. An auditor can be either an independent auditor unaffiliated with the company being audited or a captive auditor, and some are elected public officials. Auditors are used to ensure that organizations are maintaining accurate and honest financial records and statements.

In this report I have written about the plan of audit and the importance of independence of auditors. Planning the audit is an important step to conduct the audit. Auditor uses different planning methods to determine risk assessment, assessment of internal controls etc. The auditor either internal or external cannot complete all the aspects of the audit in one year. The auditors plan the audit in such a way they can cover the audit over a period of time. Auditor independence is one of the most important issues in accounting practice today.

Independence increases the effectiveness of the audit by providing assurance that the auditor will plan and execute the audit objectively. High-quality audits enhance the reliability of the financial reporting process by investors and other users. Topic 1. Planning of audit 15- 163. References Page no 5-14 2. Independence of auditor 17 audit report Planning refers to the process of deciding what to do and how to do it. Planning involves selecting mission and objective and the actions to achieve them; it requires

decision making that is, choosing from among alternative future course of actions.

Plans thus provide a rational approach to achieving reselected objectives. Planning is an intellectually demanding process; it requires that we consciously determine courses of action and base our decisions on purpose, knowledge and considered estimates. An audit plan is the specific guiding to be followed when conducting an internal or external audit. Internal audits are usually conducted by a company's accounting staff and are primarily used for a management review of accounting process.

External audits are conducted by external public accounting firms or private certified accountants (CPA) to ensure outside stakeholders that the company's financial information is prepared in accordance with that jurisdiction's accepted accounting principles. External audits usually use a formal audit plan for auditors to follow when conducting audits. Audit planning improves the quality of audit work. It is necessary for an effective, efficient and timely audit. Adequate audit planning establishes the right means to achieve the objectives of audit.

It helps in identifying potential problems and ensures that work is completed expeditiously. An audit plan does help the auditor not only to understand the scope of audit but also facilitates smooth conduct of audit. Auditors use five types of tests to determine whether financial statements are fairly stated: procedures to obtain understanding of internal control, tests of controls, substantive tests of transactions, analytical procedures and tests of details of

balances. All audit procedures fall into one or more than one of these five categories.

By these tests detection risk reduces and effectiveness of internal control has increase. Five types of tests are firstly, update and evaluate the auditor's previous experience with the entity. Secondly, make inquiries of client personnel. Thirdly, read client's policy and systems manuals. Fourthly, examine documents and records. Fifthly, observe entity and operations. A meaningful audit plan considers some basic steps. If these basic steps are the minimal possible time. Step 1: Talk to the client The auditor discusses the nature of the engagement and the client's business and industry trends at the beginning of planning.

Insights gained from this discussion help the auditor navigate through the remainder of the audit planning procedures. These insights set the stage for an active two way communication process that result in a fully engaged auditor. Step 2: Obtaining background information An extensive understanding of the clients business and industry and knowledge about the company's operations are essential for doing an adequate audit. The auditor asks about recent developments in the company that may cause the audit to differ from prior years.

Developments such as mergers, new locations or new product lines may have a significant impact on the audit plan for the current year. These discussions take place at the client location. Going on site provides the auditor the opportunity to meet with key employees or new employees and to see for him or herself any changes in the overall operations of the client.

Step 3: Prepare A Complete list of items needed from the client Before starting auditing auditors require samples, documents and many other papers those auditors need to audit.

A meaningful audit plan provides an updated list of client-prepared items that considers the following: New schedules because of changed risk profiles at the client New schedules resulting from a change in audit approach Example schedules and templates so the client prepares them in the auditors desired format Insertion of due dates for each schedule that has been agreed to by the client For larger clients, insert the name of a person responsible for the completion of the schedule that has been agreed to by the client