

# Auditing research paper – 1



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Auditing Research Paper January 9, 2012 Auditing in general is an organized process of accurately finding and assessing statements regarding financial records to determine the degree of accuracy between those statements and established criteria and communicate the results to interested users and or the public. Even though auditing and accounting have similarities, they can be distinguished. An accountant handles the daily financial operations for a business, while an auditor reviews the information provided by the accountants, usually on a quarterly or yearly basis.

Another difference is an audit is usually performed by one or two people from an outside agency, whereas accounting for a company is usually complied of several different employees. The three main types of audits include an operational audit, a compliance audit, and a financial statement audit. Arens, Beasley and Elder (2010) state that an operational audit evaluates the efficiency and effectiveness of any part of an organization's operating procedures and methods. " A compliance audit is conducted to determine whether the auditee is following specific procedures, rules, or regulations set by some higher authority.

A financial statement audit is conducted to determine whether the financial statements are stated in accordance with specified criteria. (pgs. 13-14)

According to Woelfel (2012), " there are three main types of auditors: internal, governmental, and external" (para. 2). Woelfel (2012) says an internal auditor reviews the financial records and accounting systems, assess compliance with company policies, evaluate the efficiency of company operations, and assess the attainment of company goals. Governmental auditors include accountants employed by the U. S.

General Accounting Office. The governmental accountants perform accounting and auditing tasks for the entire federal government. The independent auditor is not an employee of the organization being audited or an employee of the government. He or she performs an examination with the objective of issuing a report containing an opinion on a client's financial statements. (para. 2-4) According to American Institute of CPAs (2011), the AICPA is the world's largest association representing the accounting profession. " The AICPA sets ethical standards for the profession and U. S. auditing standards for audits of private companies, non-profit organization and federal, state and local governments" (para. 1). The C. P. A. Group, P. C. is a state CPA group and they provide several services for clients all over Michigan. The shareholders of the firm are made up of six individuals, all are CPAs. The professional staff consist of 8 individuals mostly CPAs with a few exceptions. Some of the services they provide include: complete business and personal tax service, audits, reviews and compilations, accounting and bookkeeping services, new business start-up and ownership changes, business valuations, and V.

I. pay payroll services. According to PCAOB (2012), " the PCAOB is a nonprofit corporation established by Congress to oversee the audits of public companies on order to protect investors and the public interest by promoting informative, accurate, and independent audit reports" (para. 1). The General Accepted Auditing Standards (GAAS) are a set of guidelines that auditors must use when conducting audits on companies finances. The US GAAS were developed by the Auditing Standards Board of American Institute of Certified Public Accountants. The International Auditing and Assurance Standards

Board (IAASB) is an independent standard-setting body that serves the public interest by setting high-quality international standards for auditing, quality control, review, other assurance, and related services, and by facilitating the convergence of international and national standards” (International 2011, para. 1). “ The Auditing Standards Board (ASB) is the AICPA’s senior technical committee for auditing, attestation and quality control applicable to the performance and issuance of audit and attestation reports for nonissuers” (American 2011, para. ). In July 2002, Congress passed the Sarbanes-Oxley Act. The act applies to publicly held companies and their audit firms. It requires the external auditor to report on effectiveness of a company’s internal control over financial reporting. CPAs offer other assurance services that are not defined as attestation services, they differ because no written report is required, “ and the assurance does not have to be about the reliability of another party’s assertion about the compliance with specified criteria” (Arens et al. , 2010 pg. 11). Other Assurance Services| Service Activities|

Controls over and risk related to investments, including policies related to derivatives| Assess the process in a company’s investment practices to identify risks and to determine the effectiveness of those processes| Mystery shopping| Perform anonymous shopping to assess sales personnel dealings with customers and procedures| Assess risks of accumulation, distribution, and storage of digital information| Assess security risks and related controls over electronic data, including the adequacy of backup and off-site storage| Fraud and illegal acts risk assessment| Develop fraud risk profiles, and assess the adequacy of company systems and policies in preventing and

detecting fraud and illegal acts| Compliance with trading policies and procedures| Examine transactions between trading partners to ensure that transactions comply with agreements; identify risks in the agreements| Compliance with entertainment royalty agreements| Assess whether royalties paid to artists, authors, and other comply with royalty agreements| ISO 9000 certifications| Certify a company's compliance with ISO 9000 quality control standards, which help ensure company products are of high quality| Environmental audit| Assess whether company policies and practices ensure the company's compliance with environmental standards and laws|

Source: Auditing and Assurance Services an Integrated approach 13th ed. (pg. 12) According to El-Moukammal (2009), " Auditors' Code of Ethics is a system or code behavior based on moral responsibility and obligation to explain how an auditor must behave" (para. 2). Auditors must abide by the code of ethics in order for their work to be trusted. Auditors must apply and uphold to certain principles which include, integrity, objectivity, confidentiality, and competency. During the audit process, the Code of Ethics is the accepted practices that surround the auditor" (El-Mokammal 2009, para. 20). The standard unqualified audit report consists of seven distinct parts: report title, audit report address, introductory paragraph, scope paragraph, opinion paragraph, name of the CPA firm, and audit report date. Within the title must be included the word independent. The address is usually the company, its stockholders, or the board of directors. The introductory paragraph has three objectives: (1) simply states that there has been an audit performed, (2) tells the financial statements that were audited, and (3) indicates that management is responsible for the statements and the auditor only expresses an opinion on the statements.

The scope paragraph is a truthful paragraph about what the auditor did. The opinion paragraph is the conclusion made by the auditor. A qualified opinion report is when an auditor determines that the overall financial statements are fairly stated. An unqualified audit report means that there is nothing that requires a qualification or modification of the auditor's opinion.

References

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