

Generally accepted auditing standards paper

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Generally Accepted Auditing Standards Paper Generally Accepted Auditing Standards Paper Nature and Functions of Auditing The primary objective of periodic auditing is to ensure fiscal accuracy and financial responsibility in organizations (Huault & Richard, 2012). Auditing constitutes an independent examination and evaluation of financial statements of a legal entity to determine whether the statements and the books of accounts reflect the true and fair value of the organization as at a given day. In Mobitech Accessories Ltd, auditing is crucial as it increases the value and credibility of the management's financial statements to the users, reduces investor risks, and minimizes the cost of capital of financial statements by the company. The audit opinion resulting from verification of financial statements provides a reasonable assurance that the statements give a true and fair value in accordance with the frameworks of financial reporting; therefore, Mobitech Accessories Ltd. does not expect auditors to produce absolute assurance by detecting all aspects of errors and fraud. Types of audits that organizations can perform include statutory, internal, external, and compulsory audits. Various standards, Acts, and boards have been initiated to guide the auditing function.

Elements of Generally Accepted Auditing Standards

Generally Accepted Auditing Standards provides a basis for performing and judging the quality of audits (Catty, 2012). The general requirements of GAAS include maintenance of independence in audit matters, adequate technical training, and proficiency for audit performance, and exercising professional care during audit performance and report preparation. Mobitech Accessories Ltd enables auditors to obtain sufficient understanding of the enterprise and allows auditors to access sufficient evidence by performing <https://assignbuster.com/generally-accepted-auditing-standards-paper/>

audit procedures in accordance with GAAS. GAAS also require the auditor to express an opinion regarding the financial statements; an opinion can be qualified, unqualified or disclaimer (Huault & Richard, 2012). Mobitech Accessories Ltd auditors usually state reasons in the report where they cannot express an overall opinion.

GAAS provide assumptions, principles, and constraints to achieve basic objectives and implement fundamental qualities (Huault & Richard, 2012). The accounting entity assumption assumes that the business entity is a being and separate and distinct from its owners and managers. The going concern assumption assumes that the business will remain in operation indefinitely. The historical cost principle requires companies to report their liabilities and assets based on costs of acquisition rather than fair market value. The principle of revenue recognition holds that companies should not report revenues and expenses until they realize and incur respectively finances respectively. Other GAAS principles that direct the auditing function include objectivity, consistency full disclosure, and materiality.

Effects of Sarbanes-Oxley of 2002 Public Company Accounting Oversight Board (PCAOB) on Audits of Publicly Audited Companies

The objective of enacting Sarbanes-Oxley of 2002 was to respond to widespread business failures, financial statement misstatements, and allegations of corporate improprieties. Some methods used by auditors in the past such as “ walk-through” and cycle rotation will be eliminated from integrated audits of public companies. The approaches of minimizing testing of preventive controls are not advisable under Sarbanes-Oxley of 2002.

Auditors will now need to obtain greater evidence in order to reduce the nature, timing, and extent of substantive procedures performed during the

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auditing function (Catty, 2012).

Public Company Accounting Oversight Board (PCAOB) received an authorization from Sarbanes-Oxley Act of 2002 to establish standards of auditing to be applied by public accounting firms. The board has specified in its Rule 3100 that auditors should comply with the applicable auditing professional and practice standards of the PCAOB (Huault & Richard, 2012). PCAOB also monitors compliance of auditors by participating in registering of accounting firms, ensuring that accounting practices comply with Sarbanes-Oxley Act of 2002 and establishing independence, ethics and quality control. PCAOB compels auditors to be exercise extra due care during their auditing function, lest they will face legal judges.

References

Catty, J. P. (2012). *The professionals guide to fair value: The future of financial reporting*. Hoboken, N. J: John Wiley & Sons.

Huault, I., & Richard, C. (2012). *Finance: The discreet regulator : how financial activities shape and transform the world*. New York: Palgrave Macmillan.