**1.****What is Auditing?**

Auditing is a detailed examination of the financial reports of an organization. It is used to provide confidence for all stakeholders that the organization’s accounting reports are accurate.

In accounting, we look at the different accounting rules, journal entries, financial statements, and other bookkeeping duties. All these tasks are important because, with these skills, accountants can then be involved in an engagement team to perform an audit on both internal or external clients. The most common audits are performed by the Big Four accounting firms for large publicly-traded companies around the world. To summarize the auditing process, see the diagram below:



The financial statements in the first box, which include the balance sheet, income statement, statement of cash flows, and note disclosures, are evaluated against some form of accounting criteria, such as Generally Accepted Principles of Accounting (GAAP). Different regions around the world adhere to different accounting standards. Commonly used standards include the IFRS or US GAAP. The bottom line is that these are established criteria that are known publicly. Finally, the work culminates in an audit report where the findings are communicated to the users.

More formally, auditing is referred to as the accumulation and evaluation of evidence to determine and report on the degree of correspondence between the information presented (i.e., the financial statements) and the established criteria. Auditing should be done by a competent, independent person or entity.

Accounting vs Auditing

Overall, auditing is a more specialized field of accounting but the two go hand in hand. This means that auditors cannot be totally unaware of accounting rules. In fact, auditors must be qualified and competent in accounting in order to properly conduct an audit. Let’s take a look at the following table to compare the two topics:

| Accounting | Auditing |
| --- | --- |
| Recording, classifying, summarizing transactions in accordance with GAAP | Accumulating and evaluating evidence |
| Bookkeeping, financial statement preparation | Determines if the financial statements are prepared in accordance with GAAP |

External Auditors vs Internal Auditors

There are basically two types of auditors: external auditors and internal auditors.

**External auditors** refer to public accountants who take on different clients and perform the audit together with an engagement team. As mentioned before, these are the usual public accounting firms such as the Big Four firms that audit large public companies in addition to large private companies. External auditors are employees of the accounting firm they are associated with and only interact with their clients through the audit process.

**Internal auditors**, on the other hand, are actual employees of the company. Their role is to perform general auditing procedures all year to ensure that all accounting and record-keeping is being done properly so that the external audit becomes more feasible. Internal auditors usually exist only in large companies.

**2.Types of Audits**

In general, an audit is an investigation of an existing system, report, or entity. There are a number of types of audits that can be conducted, including the following:

* Compliance audit. This is an examination of the policies and procedures of an entity or department, to see if it is in compliance with internal or regulatory standards. This audit is most commonly used in regulated industries or educational institutions.
* Construction audit. This is an analysis of the costs incurred for a specific construction project. Activities may include an analysis of the contracts granted to contractors, prices paid, overhead costs allowed for reimbursement, change orders, and the timeliness of completion. The intent is to ensure that the costs incurred for a project were reasonable.
* Financial audit. This is an analysis of the fairness of the information contained within an entity's financial statements. It is conducted by a CPA firm, which is independent of the entity under review. This is the most commonly conducted type of audit.
* Information systems audit. This involves a review of the controls over software development, data processing, and access to computer systems. The intent is to spot any issues that could impair the ability of IT systems to provide accurate information to users, as well as to ensure that unauthorized parties do not have access to the data.
* Investigative audit. This is an investigation of a specific area or individual when there is a suspicion of inappropriate or fraudulent activity. The intent is to locate and remedy control breaches, as well as to collect evidence in case charges are to be brought against someone.
* Operational audit. This is a detailed analysis of the goals, planning processes, procedures, and results of the operations of a business. The audit may be conducted internally or by an external entity. The intended result is an evaluation of operations, likely with recommendations for improvement.
* Tax audit. This is an analysis of the tax returns submitted by an individual or business entity, to see if the tax information and any resulting income tax payment is valid. These audits are usually targeted at returns that result in excessively low tax payments, to see if an additional assessment can be made.

**3.Duties of an Auditor**

The duties of an auditor have been laid down by the Companies Act, 2013, provided in Section 143. The Act explains the duties in a simplified manner, although the list given is not exhaustive.

**1. Prepare an Audit Report**

An audit report, in simple terms, is an appraisal of a business’s financial position. The auditor is responsible for preparing an audit report based on the financial statements of the company. The books of accounts so examined by him should be maintained in accordance with the relevant laws. He must ensure that the financial statements comply with the relevant provisions of the Companies Act 2013, relevant Accounting Standards etc. In addition to this, it is imperative that he ensures that the entity’s financial statements depict a true and fair view of the company’s financial position.

**2. Form a negative opinion, where necessary**

The auditor’s report has a high degree of assurance and reliability because it contains the auditor’s opinion on the financial statements. Where the auditor feels that the statements do not depict a true and fair view of the financial position of the business, he is also entitled to form an adverse opinion on the same. Additionally, where he finds that he dissatisfied with the information provided and finds that he cannot express a proper opinion on the statements, he will issue a disclaimer of opinion. A disclaimer of opinion basically indicates that due to the lack of information available, the financial status of the entity cannot be determined. However, it is to be noted that the reasons for such negative opinion is also to be specified in the report.

**3. Make inquiries**

One of the auditor’s important duties is to make inquiries, as and when he finds it necessary. A few of the inquiries include: -  
a. Whether loans and advances made on the basis of security are properly secured and the terms relating to the same are fair.  
b. Whether any personal expenses (expenses not associated with the business) are charged to the Revenue Account.  
c. Where loans and advances are made, they are shown as deposits.  
d. Whether the financial statements comply with the relevant accounting standards

**4. Lend assistance in case of a branch audit**

Where the auditor is the branch auditor and not the auditor of the company, he will lend assistance in the completion of the branch audit. He shall prepare a report based on the accounts of the branch as examined by him and then send it across to the company auditor. The company auditor will then incorporate this report into the main audit report of the company. In addition to this, on request, if he wishes to, he may provide excerpts of his working papers to the company auditor to aid in the audit.

**5. Comply with Auditing Standards**

The Auditing Standards are issued by the Central Government in consultation with the National Financial Reporting Authority. These standards aid the auditor in performing his audit duties with relevant ease and accuracy.

It is the duty of the auditor to comply with the standards while performing his duties as this increases his efficiency comparatively.

**6. Reporting of fraud**

Generally, in the course of performing his duties, the auditor may have certain suspicions with regard to fraud that’s taking place within the company, certain situations where the financial statements and the figures contained therein don’t quite add up. When he finds himself to be in such situations, he will have to report the matter to the Central Government immediately and in the manner prescribed by the Act.

**7. Adhere to the Code of Ethics and Code of Professional Conduct**

The auditor, being a professional, must adhere to the Code of Ethics and the Code of Professional Conduct. Part of this involves confidentiality and due care in the performance of his duties. Another important requisite is professional scepticism. In simple words, the auditor must have a questioning mind, must be alert to possible mishaps, errors and frauds in the financial statements.

**8. Assistance in an investigation**

In the case where the company is under the scope of an investigation, it is the duty of the auditor to provide assistance to the officers as required for the same.

Hence, it can be seen that the duties of the auditor are pretty diverse, it has an all-round and far-reaching impact. The level of assurance provided by a set of audited financial statements is comparatively far higher as compared to regular unaudited financial statements.

**4.Auditing Standards**

The Public Company Accounting Oversight Board (PCAOB) maintains external auditing standards for public companies (issuers) registered with the Securities and Exchange Commission (SEC).

As of 2012, PCAOB has 15 permanent standards approved by the SEC and a number of interim standards that reflect generally accepted auditing standards, as described in standards issued by the Auditing Standards Board (ASB), which is part of the American Institute of CPAs (AICPA).

The ASB also issues Statements on Auditing Standards (SASs) that apply to preparing and releasing audit reports for nonissues (companies not required to register with the SEC). AICPA members who audit a nonissue are required by the AICPA Code of Professional Conduct to comply with these standards. As of 2012, there are more than 60 active standards.

For internal auditing, the Institute of Internal Auditors provides a conceptual framework called the International Professional Practices Framework (IPPF) that provides guidance for internal audits. Some of the guidance is mandatory, while others are considered strongly recommended, but not required by law.

The generally accepted auditing standards (GAAS) are the standards you use for auditing private companies. GAAS come in three categories: general standards, standards of fieldwork, and standards of reporting.

Keep in mind that the GAAS are the minimum standards you use for auditing private companies. Additionally, the Public Company Accounting Oversight Board (PCAOB) has adopted these standards for public (traded on the open market) companies. Each audit engagement you work on may require you to perform audit work beyond what’s specified in the GAAS in order to appropriately issue an opinion that a set of financial statements is fairly presented. You need to use professional judgment and exercise due care in following all standards.

**General standards:**The first three GAAS are general standards that address your qualifications to be an auditor and the minimum standards for your work product:

* As an auditor, you must have both adequate training and proficiency.
* You are independent in both fact and appearance.
* You exercise due professional care in performing your auditing tasks.

**Standards of fieldwork:** The next three GAAS govern how you actually do your job:

* Your work is adequately planned, and all assistants are properly supervised.
* You gain an understanding of the client and its environment, including internal controls, to assess the risk of material misstatement in the financial statements and to plan your audit.
* The evidence you gather during the audit is appropriate and sufficient to evaluate management’s assertions on the financial statements.

**Standards of reporting:**The last four GAAS concern information you must consider prior to issuing your audit report:

* You have to state whether the financial statements are prepared using generally accepted accounting principles (GAAP).
* Just as important is to report whether GAAP are consistently applied for all financial accounting. Should this not be the case, you have to report any departures.
* You also have to make sure that disclosures — any additional information needed to explain the numbers on the financial statements — are provided.
* Lastly, you have to include your opinion as to whether the financial statements present fairly in all material respects the financial position of the company under audit.

**5.Audit Planning**

Audit planning includes deciding on the overall audit strategy and developing an audit plan.

Auditing Standard No. 9 from the PCAOB describes an external auditor's responsibility and the requirements for planning an audit. According to standard No. 9, an audit plan is expected to describe the planned nature, extent, and timing of the procedures for risk assessment and the tests to be done on the controls and substantive procedures, along with a description of other audit procedures planned to ensure the audit meets PCAOB standards.

For internal auditing, the Institute of Internal Auditors provides guidance for audit planning. Planning starts with determining the scope and objectives of the audit.

Internal auditors need to understand the business, operations, and unique characteristics of the department/unit being audited and to develop an audit plan that defines the procedures needed to do an efficient and effective audit.

The whole auditing process can generally be divided into three different phases. The **audit planning phase** includes procedures such as gaining an understanding of the client and its business, making risk and materiality assessments, determining an audit strategy, and determining the type of evidence to collect, based on the risk levels.

**Performing the audit** refers to the process of collecting evidence. Finally, the **reporting phase** deals with making conclusions, reporting any necessary adjustments to management, and issuing the independent auditor’s report.

Audit Planning - Phases

Audit planning is important because auditors should plan the audit so as to reduce audit risk to an acceptably low level that is consistent with the objective of the process. The auditor should plan the nature, timing, the extent of direction and supervision of the engagement team members, and review of the work. The four main reasons for audit planning include:

* To identify areas of risk of material misstatements.
* To design audit procedures to address those risks and to obtain sufficient appropriate evidence.
* To help keep audit costs reasonable.
* To avoid misunderstandings with the client.



New Clients

Let’s picture this scenario: A potential new client approached you and asked you to be his auditor. The previous auditor of the client resigned, and the owner/manager of the company is known for being “shady.” The company needs the audit to raise money for ongoing operations. What issues come to your mind? What should you be careful/wary of?

In terms of new client matters, important issues involve legal liability, going concern issues, fee issues, and previous auditor issues. First, you will want to consider any potential integrity issues with the potential client. Is the client notorious for any sort of fraudulent manipulations? Is the client prone to making unauthorized changes? If any fraud-related issues arise, then it is not only a huge problem for the client but also for the auditor, as the auditor owes a duty of care to the clients’ known users and a foreseeable class of users.

Secondly, the auditor will want to consider the client’s overall financial state. Will the client be able to survive another year in business or is it simply struggling to break even? Thirdly, the auditing business is not some sort of volunteer or charity work. It is ultimately a business and so auditors want to make sure that the client can pay the audit fees. No auditor will want to do the work and end up not being able to collect the money for services provided.

Finally, the auditor will want to contact the former auditor and ask about specific issues that require special attention regarding the client.

Continuing Clients

In terms of continuing clients, the audit report from the previous year should not influence the approach for the new year. The auditor must consider if there are any new issues that he should be careful about. In addition, as always, he should gain an understanding of the client and make the appropriate risk assessments. This is followed by identifying transactions that need special focus (such as complex investments like convertible debentures), followed by assessing the risk of fraud, as well as going concern (financial status) issues. Gaining an understanding of the client includes:

* Obtaining knowledge of the industry/business environment.
* What regulatory or inherent risks are present? Are there unique accounting rules used?
* What is the client’s major source of revenue, its key customers/suppliers?
* Are there any related parties that the auditor should be aware of?
* General business operations and processes – review of the Board of Directors’ minutes

Example Audit Planning Scenarios – What to Consider?

James, a new employee who replaced Terry who was terminated, receives 10,000 stock options at an exercise price of $5.00.

Accounting for stock options involves a high inherent risk because there is a lot of judgment involved due to the volatility in the fair value of a stock option.

Severance issues are also an accounting issue that deserves attention.

The acquisition of a Mexican subsidiary was completed in the current quarter. A final adjustment was made to the deal. Instead of an all-cash deal, the sellers agreed to take a convertible debenture.

Acquisition of a subsidiary presents consolidation issues in accounting that are difficult.

Foreign subsidiaries involve currency issues which also have high inherent risk due to exchange rate risk and accounting for it

Accounting for convertible debt is also complex

Auditors should coordinate with foreign auditors for international situations

When planning an audit, auditors need to consider a wide variety of factors that may impact the client’s financial statements and address those risks properly to fulfil their duty of care to the users that demand and rely on it.

**6.What is the Importance of Accounting & Auditing?**

Accounting and audit have a pivotal role to play in the financial record keeping process of any business though their roles are different in their focus. While accounting translates to a much wider field, encompassing everything from the organization to the management of the flow of money through the company, auditing is more of a specialized service.

Auditing is a part of the accounting world. It is an examination of accounting and financial records that is undertaken independently. This is done to determine if the company or the business undertaking has confirmed its operations to the laws and the generally accepted accounting principles.

Whether you are a small business or a complex organization, keeping track of all your financial activities can be a daunting task. And accounting does just that for you by keeping track of your business. It reliably records every aspect of financial activities taking place, which is a crucial piece of information for the management of your company. One key function of accounting is keeping you updated about the company’s performance. This may help in identifying the areas of underperformance and those that require corrective measures. The information derived from accounting assists in the long-term project planning of the business as well.

**Why do we need accounting?**

You know that if your books are kept up-to-date in accordance with the generally accepted accounting principles, it makes it possible for you to gauge your own performance and also make peer to peer comparisons. This is an important aspect of creating and maintaining credibility with your competitors and vendors. Your financial position determines how much credit you may be allowed and at what rates, etc. Investors will get a clear picture of the risk and opportunity your company could offer them. Keeping your accounts in place will serve you well when it is time to pay your taxes, file your returns and claim deductions.

**What is the importance of auditing?**

Accounting as a field is vast and comprises many areas of specialization within its framework. Auditing is one of such specializations. While accounting deals with the tracking and recording of financial transactions auditing fulfils the role of verifying the accuracy of the accounts. Auditing in many ways determines the integrity of the whole accounting system of a company. Auditing of financial statements on an annual basis is important even if you are a non-profit or a public company. This will add credibility for your accuracy. Even when auditing is not mandatory it is a good practise to have it in place.

The importance of auditing is particularly seen in case of errors in your accounts.  
If your bookkeeping has not been up to date or in order, an auditor can make significant contributions in uncovering those details. If the details uncovered denote any presence of fraud or wrongdoings, a forensic auditors services are advisable. There is a further sub field even in the realm of audits that deals with cases verging on the lines of criminal activities.

There are different types of audits that can be availed depending on the need of the organization. Financial audits determine whether an organization’s financial statements accurately represent the results of the business’s financial operations. It makes sure that the organization’s financial position is in accordance with the generally accepted accounting principles. Compliance audits check if the company has functioned in accordance with the laws and regulations that may materially impact the financial statements. Financial and compliance audits are more often. However, they are not combined.

Economy and efficiency audits measure whether a business has been economically and efficiently managing its resources. These resources could include personnel (employees), property, space, etc; The audit also determines the causes of any problems and checks if the company has followed the laws and regulations in this regard.

Audits have to be conducted based on the Standards set by Auditing and Assurance Standards board.

**7.Auditor Certificate Programs and Certifications**



Auditors evaluate and assess the reliability of an organization or system. Explore the different certificates in internal auditing, residential energy, and IT, in addition to popular careers, continuing education and salary information, and employment outlook.

Essential Information

There are a variety of auditor certificate programs available, including certificates in internal auditing, residential energy auditing and information technology auditing. Prerequisites vary for different certificates but most require at least a GED or high school diploma. Many require professional experience, especially in the IT field. The IT audit certificate usually requires a bachelor's degree in a related field.

There are two types of internal auditing certificates. One type of certificate prepares students to take the CIA (certified internal auditor) exam. The other certificate is a certificate of completion offered generally through a college's continuing education department and allows a student to gain professional knowledge and skills in internal auditing.

Certificate in Internal Auditing

Applicants enrolling in a professional certificate program must have some experience in auditing or enough academic credits to have the background necessary to complete the coursework. They may be required to submit transcripts along with filling out an application.

Preparatory CIA certificates generally consist of four courses related to the four sections of the exam. Courses cover the development of skills in business management, information technology, business analysis, conducting an internal audit and control, risk and governance.

Students in professional certificate programs build systematic organizational skills for auditing operations. The courses are designed to allow students to make independent consulting decisions to improve an organization's effectiveness. The following are typical classes that can be found in internal auditing professional certificate programs:

* Risk assessment and control.
* Auditing for internal fraud.
* Financial analysis.
* Information systems auditing.
* Accounting and management

Certificate of Completion - Residential Energy Auditor

A residential energy auditor certificate program prepares students for certification as a residential energy auditor. Students in the certification program receive training to analyse performance issues in homes, diagnose energy problems and improve a home's energy performance to conserve and use energy efficiently. By utilizing class instruction and labs, students learn the basics of energy science, cost control, energy policies, climate impacts and renewable energy. Certificate programs also make use of computer software to analyse and understand utility bills.

A residential energy auditor certificate program requires the completion of core energy classes, as well as specialty courses in energy auditing. The following courses are some examples of classes students may find in the residential energy auditor certificate.

* Energy management.
* Sustainability.
* Energy efficiency.
* Energy analysis and assessment.
* Technical mathematics

Certificate of Completion - Information Technology (IT) Audit

IT audit certificate programs are designed to enhance the internal or external IT professional's knowledge of auditing and IT issues. Within the certificate program, IT auditors build technical skills in financial systems audits, statistical applications and computer auditing applications. Students also gain a working knowledge base in how to secure and manage a company's financial and operational data, such as utilizing security architecture and controlling data supply.

Classes in IT auditing certificate programs cover the business process and data management, as well as techniques for information security and information management. Typical courses in IT auditing certificate programs include the following:

* Principles of IT auditing.
* Assurance services.
* Evaluating controls.
* Information security auditing.
* Technology implements

Other Auditing Certifications

Certifications for auditors exist in several other fields and include certified biomedical, HACCP and quality auditors. The certifications are offers through the American Society for Quality (ASQ). To apply for these certification exams, applicants must possess five years of job experience in the area of the certification. However, having an associate, bachelor's or master's degree waives some of the experience requirements. Certified biomedical, HACCP and quality auditors must also complete 18 recertification units in a 3-year period to maintain certification.

Popular Careers

Certified IT auditors may find a wide range of entry- to mid-level positions within various companies or organizations. With a residential energy auditor certificate, graduates may find entry-level positions in construction, technology, manufacturing and engineering fields. The following positions are career choices graduates of the certificate program may take.

* Energy auditor.
* Energy conservation representative.
* Field energy consultant.
* Process assurance analyst.
* Information systems audit manager.
* Senior auditor

Employment Outlook and Salary Info

Certified auditors may obtain entry-level positions within large corporations in the internal auditing department and may eventually become Chief Audit Executives. According the U.S. Bureau of Labour Statistics, the demand for accountants and auditors will increase by about 11% from 2014-2024 due to the increase demand for business and organizations to provide accountability in spending to meet financial regulations. Accountants and auditors earned a median yearly salary of $67,190 in 2015, as per data released by the BLS.

Professional Certification and Continuing Education

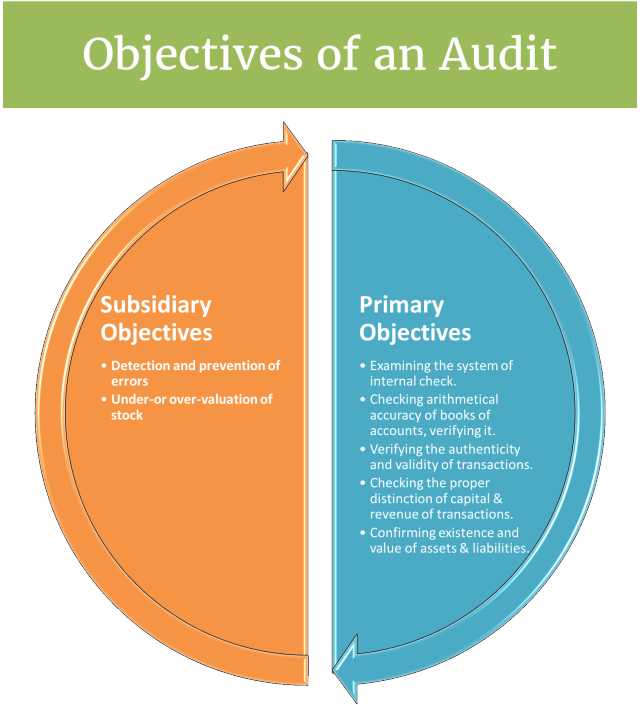
Students seeking to become CIAs (certified internal auditors) must pass the 4-part exam administered by the Institute of Internal Auditors. They must hold a bachelor's or master's degree and have completed a minimum of two years of internal auditing experience. Each segment of the exam must be completed within two years of each other. Those that have become certified in internal auditing must maintain their certification by completing Continuing Professional Education (CPE) hours every two years.

To receive a certification as a residential energy auditor, students must take and pass national certification exams required by the Residential Energy Services Network and the Building Performance Institute Inc. Students may also further their education by enrolling in an associate degree program in energy performance and resource management.

Certification for IT auditing is offered by the Information Systems Audit and Control Association (ISACA) for a certified information systems auditor (CISA) certification. To qualify for the certification, graduates must hold five years of experience in IT auditing and complete the CISA exam. CISA's must also complete a minimum of 20 hours of CPE annually to maintain certification.

The demand for auditors is expected to grow by 11% over the next decade, and prospective students have many different certificate programs to choose from including internal auditing, residential energy, and IT.

**8.Primary Objectives of Audit**



The main objectives of the audit are known as the primary objectives of the audit. They are as follows:

1. Examining the system of internal check.

2. Checking arithmetical accuracy of books of accounts, verifying posting, casting, balancing etc.

3. Verifying the authenticity and validity of transactions.

4. Checking the proper distinction between capital and revenue nature of transactions.

5. Confirming the existence and value of assets and liabilities.

Verifying whether all the statutory requirements are fulfilled or not. Proving true and fairness of operating results presented by income statement and financial position presented by the balance sheet

Subsidiary Objectives of Audit

These are such objectives which are set up to help in attaining primary objectives. They are as follows:

* Detection and prevention of errors.
* Detection and prevention of frauds.
* Under-or over-valuation of stock

Other Objectives

* To provide information to income tax authority.
* To satisfy the provisions of the Companies Act.
* To have a moral effect.

**9.****Five Things to Know About Auditing**

There are many different career options for students who choose accounting for a major. The Bureau of Labour Statistics predicts that the need for accountants and auditors will grow by 11% in the next 10 years. Though much of the preparation is the same for all accounting careers, there are some specialties that require coursework centred on applicable concepts. Tax accounting, corporate accounting and auditing are considered specialties. Of these, auditing requires a knowledge of accounting principles and, at times, an investigative nature. Interestingly, many auditors choose to specialize further within the auditing profession.

1. Financial Auditing

Financial auditing is the most widely known of the audit specializations. Most businesses and grant-funded non-profits have financial audits performed on their financial statements every one or two years. The focus of this type of audit is making sure that the statements represent a fair and accurate picture of the organization. A review of a sample of transactions may be conducted to confirm that business practices are followed and there are no irregularities. In most cases, the organizations treasurer and executive will be interviewed to confirm accounting practices. The resulting report is addressed to the owner or board of directors.

2. Internal Auditing

Internal auditors are usually found in larger organizations as employees or consultants. They are tasked with making sure the organization is in compliance with applicable accounting principles, but many times have additional duties. Internal auditors may be tasked with compliance issues such as insuring there are adequate internal controls and that there are no discrepancies. This could be done through testing of specific transactions, interviewing individuals and evaluating internal processes.

3. Forensic Auditing

Forensic auditors are vital in the investigation and prosecution of white-collar crimes. A good forensic accounting reviews accounting statements and transactions, following the money to determine if a crime has occurred. If there is information that leads to a crime, the forensic auditors will work with the FBI, state or local law enforcement to gather evidence and build a case.

4. Operational Auditing

Operational auditors are interested in process and practice. They are tasked with confirming that the established policies and procedures are followed and that they lead to the best outcome. The auditor will test a series of business operations, review documentation of prior transactions and interview involved employees to determine the efficacy of the policy and whether it is being followed. In most cases, operational auditors will provide suggestions for process improvements leading to increased internal controls.

5. Compliance Auditing

The compliance audit is focused on the organization’s compliance with external laws and regulations. They are found most frequently with organizations that receive federal funds. They myriad of federal requirements require specific knowledge that is outside the scope of most audits. The auditor will conduct a review of policies and procedures to make sure all required statements are included. She will also conduct a sample testing of transactions, review documentation supporting charges to the grant and inventory check.

Auditing is important to the proper functioning of an organization and should not be feared. Organizations should periodically change auditors to overcome any drift to complacency. An effective auditor will be able to build rapport and work to understand the workings of the organization. This cooperation aids the organization and the auditor in completing the review and report.

**10. What is a Knowledge Audit?**  
For those of you who are confused between a content audit and a knowledge audit: a content audit is focused primarily on the content in the organization. It just identifies what content exists and what doesn’t. Details like what the content is used for isn't really looked into. A knowledge audit, on the other hand, looks at problems and puts the information in the context of the problem.

The reason a knowledge audit is so vital is that it gives an organization a comprehensive picture of its strengths and weakness, allowing it to focus its efforts in the right direction.

Some of the questions addressed during a knowledge audit are as follows:

* What is the organisation’s knowledge needs?
* What knowledge assets or resources does it have and where are they?
* What kind of gaps exists in its knowledge?
* How does knowledge flow around the organisation?
* What are the blockages that prevent knowledge from flowing across the organization (people, process, technology)?

Once you start asking these questions a clear picture of your organization's knowledge structure will start emerging, and using these results can help you establish processes and systems to tackle certain shortcomings.

Some of the key benefits of a knowledge audit are as follows:

* It helps the organization clearly identify what knowledge is needed to support overall organizational goals and individual and team activities.
* It provides evidence of the extent to which knowledge is being effectively managed and indicates where improvements are required.
* It provides an evidence-based account of the knowledge that exists in an organisation, how that knowledge moves around in, and is used by, that organisation.
* It provides a map of what knowledge exists in the organisation and where it exists, as well as revealing gaps.
* It reveals pockets of untapped knowledge.
* It provides a map of knowledge and communication flows and networks.
* It provides an inventory of knowledge assets, giving a clearer understanding of the contribution of knowledge to organisational performance.
* It provides vital information for the development of effective knowledge management programmes and initiatives that are directly relevant to the organisation’s specific knowledge needs and current situation.

**11. Seven Things You Need to Know About Audits**

We’ve created this article to help you relax and arm you with evidence to calm your worries about the auditing process.

Here’s the knowhow we think you need about the auditing process:

1. Auditing means things are going to get checked over

Simply put, an audit is the authorities checking over your financial information. This can be your accountant checking over your accounts for you and making sure everything would make sense to HMRC

2. Any company can be instigated for audit by HMRC

Whilst there are situations that businesses need to be audited (such as when your sales are greater than £6.5m per year) any business can be selected for an audit.

3. Auditing is generally split into two types

For example, you have audits that are required under the Act of Parliament and there are a number of other audits (explained below).

4. Voluntary audits

You can volunteer to audit your accounts. You don’t have to wait for this to be triggered by business income milestones.

5. Investment audits

If you are in a situation where you have secured an investment into your business, part of your agreement is likely to ask for a statutory audit.

6. Grant audits from grant funders

This is mostly done to check that the money that has been granted by a central power has been spent on the project that had earned the grant in the first place.

Auditing is the best way to guarantee that the money has been spent as expected.

7. Audits by HMRC

This is what most people will mean by an audit.

Here is what is likely to happen during this:

Take a look at your accounting system

Check whether that system operates as described

Investigate accounting transactions

Examine printed accounts you have and see if they match your records

See if your accounts disclosed everything, they should do

As you may expect, the auditing process is done to give confidence to investors or HMRC that your business’s accounts match up with how it is being declared via your accountants.

A lot of businesses will be audited by a process known as ‘sampling’. As you can imagine, trying to check every single transaction in and out of a company turning over £2m per year would take a very long time.

Sampling means that only some of the big items from your inventory will be checked.

**12.Compliance Audit**

****

A compliance audit is a comprehensive review of an organization's adherence to regulatory guidelines. Audit reports evaluate the strength and thoroughness of compliance preparations, security policies, user access controls and risk management procedures over the course of a compliance audit.

What precisely is examined in a compliance audit varies depending on whether an organization is a public or private company, what types of data it handles, and if it transmits or stores sensitive financial data.

For instance, a Sarbanes-Oxley Act compliance audit would have to prove that any electronic communication is backed up and secured with a reasonable disaster recovery infrastructure. Healthcare providers that store or transmit e-health records, including personal health information, are subject to Health Insurance Portability and Accountability Act laws and regulations. And financial services companies that transmit credit card data are subject to Payment Card Industry Data Security Standard requirements.

In each case, organizations must be able to demonstrate compliance by producing an audit trail, often generated with data from event log management software, as well as internal and external audits.

Internal vs. compliance audit

Internal audits are carried out by employees of a company to gauge overall risks to compliance and security and to determine whether the company is following internal guidelines. Internal audits occur throughout the fiscal year and reports can be used by management teams to identify areas that require improvement. Internal audits measure company objectives against output and strategic risks.

External audits are formal compliance audits that are carried out by independent third parties and follow a specific format that is determined based on the compliance regulation being assessed. External audit reports measure if an organization is complying with state, federal or corporate regulations, rules and standards.

An auditor's report is used by regulators to assess possible fines for noncompliance, or by the C-suite to prove regulatory compliance. An external compliance auditor may use internal audits to further evaluate compliance and regulatory risk management efforts.

Compliance audit procedures

External audits begin with a meeting between company representatives and compliance auditors to outline compliance checklists, guidelines and the scope of the audit. The auditor conducts reviews of employee performance, studies internal controls, assesses documents and checks for compliance in individual departments.

Compliance auditors will generally ask members of the C-suite and IT administrators a series of pointed questions that may include what users were added and when, who has left the company, whether user IDs have been revoked, and which IT administrators have access to critical systems.

IT administrators can prepare for compliance audits using event log managers and robust change management software to track and document authentication and controls in their IT systems. The growing category of governance, risk and compliance (GRC) software can enable CIOs to quickly show auditors that an organization is compliant, helping it to avoid costly fines or sanctions.

Auditors then review business compliance processes as a whole and create a final audit report. Compliance auditors provide details to company leaders about the organization's level of compliance adherence, any violations and suggestions for improvement. The audit report is eventually released publicly.

Importance of compliance auditing

Compliance auditing, either internal or external, can help a company identify weaknesses in regulatory compliance processes and create paths for improvement. In some cases, guidance provided by a compliance audit can help reduce risk, while also avoiding potential legal trouble or federal fines for noncompliance.

Much like the laws that drive them, compliance programs are in a constant state of flux as existing regulations evolve and new ones are implemented. Compliance auditing provides an outline of internal business processes that can be changed or improved as regulations and requirements change.

**13.Construction Audit**

A construction audit is a review of various aspects of a project to ensure they are performing appropriately and in keeping with the contract. Since construction projects typically involve several entities performing a number of concurrent tasks, a construction audit is a crucial tool for keeping everything on track and under budget.

Construction audits can be conducted by the construction company. It can also be requested by project stakeholders or government officials on public projects. If you need tips for what to look for during a construction audit or how to prepare for one, an Orlando construction lawyer can help.

Here are four reasons why construction audits can be a vital tool for your project:

* Aids Cost Recovery

Construction site costs can vary throughout a project and, without proper controls, can quickly spiral out of control. Many disputes have arisen out of this. A construction audit can help discern, per the contract, which party should be responsible for which costs and helps keeps projects within budgets.

* Improves Internal Controls

A great deal of conflict on construction sites stems from an inability to stay within the scope of the project. Project managers are assigned with the task of ensuring that all parties are performing their requested tasks, that a project plan is being followed correctly, and that safety measures are being employed. A construction audit makes sure that project managers are doing their job correctly.

* Determines the Project Progress

Construction audits are important because they can help ensure that timelines are met. A construction auditor will come down to the job site, review progress, and speak with personnel to get an accurate feel for what phase a project is in. They will be able to assess whether the project is on time, behind schedule or ahead of schedule. From a financial standpoint, many construction companies bill clients based on the project completion level. Construction audits can inform all parties if the project is at a point where an invoice is appropriate.

* Ensures Safety

Construction auditors can review procedures dealing with hazardous materials, equipment, and even walkways, to make sure that a safe environment is being provided for workers.

**14.** **Financial** **Audit**



A financial audit is an independent, objective evaluation of an organization's financial reports and financial reporting processes. The primary purpose for financial audits is to give regulators, investors, directors, and managers reasonable assurance that financial statements are accurate and complete.

Financial audits provide reasonable assurance, but not absolute guarantees. Through a variety of different audit procedures such as interviews, observation, and test work, financial auditors can determine if controls and processes needed to produce accurate financial statements are in place. If the controls and processes are in place, then they can conclude that the financial statements are accurate and reasonable, but they still can't guarantee that there were no human errors or miscommunications that may lead to a mistake.

Basic Procedures for a Financial Audit

Generally, four key phases are outlined for financial audit process. These phases include planning the audit, determining the working of internal control, testing significant assertions about the data and evaluating compliance, and reporting the evaluations.

These phases are explained below for your reference:

Planning

The process of financial audit begins with a plan that involves the method of collecting data to form an opinion about the organization or company’s financial status. A way is planned to collect a sample reflecting a point in time in the life of the company or organization. The financial transactions and documents are then looked at. It is noteworthy that the sample should show compliance with GAAP.

* Internal controls

The next step involves giving a look at the internal controls. The auditor demands info, looks closely at the records, and watches financial procedures in action. Without these steps, the auditor cannot give a statement about the financial status of the organization.

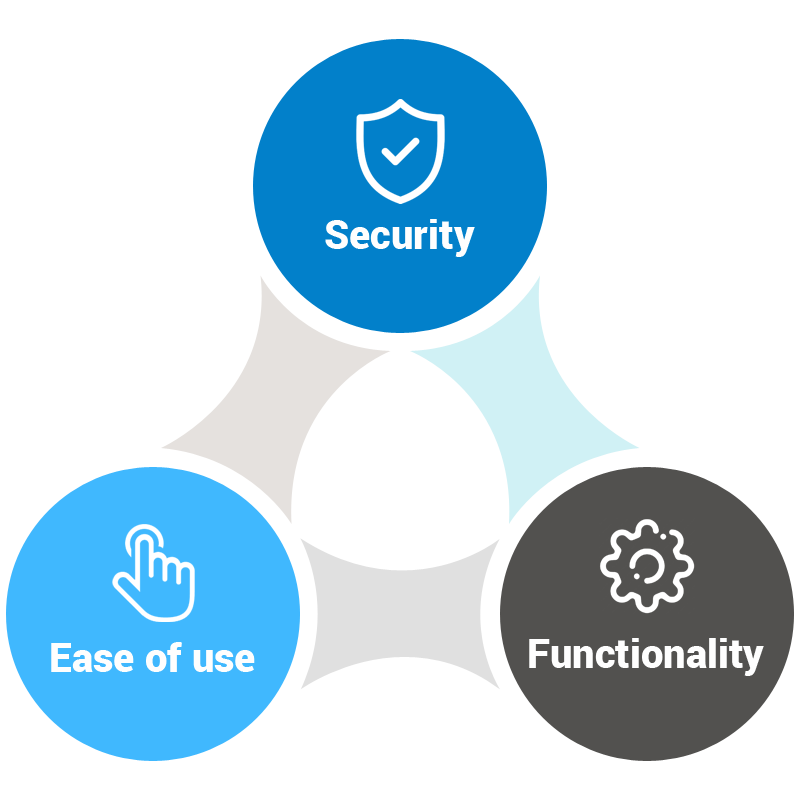
* Testing

Testing implies checking whether the internal controls are working or not. An auditor requests more info, returns to the company for more inspections, and watches how financial procedures are being performed. If the evidence demonstrates GAAP compliance, the auditor determines that the company successfully detects and prevents the errors.

* Reporting

The final step in financial audit involves giving a conclusion on how the company adheres to accounting standards. The audit from a CPA gives the organization an unqualified approval, a qualified approval, a disclaimer, or an adverse finding. The unqualified approval is considered as the best result and the adverse finding is considered to be the worst result.

**15.Technology Audit**



Technology Audit which is an auditing service done to understand the present technology utilization level of an organization. This is very similar to an Accounting Audit that is conducted in almost every company. It provides a benchmark for, where the business is now, in terms of technology. The audit can help identify strengths and weaknesses. It's really a snapshot of the organization's technology infrastructure. The evaluation of the collected evidence determines if the information technology is operating effectively and efficiently to achieve the organization's business goals or objectives.



Why we need to do Technology Audit?

The Technology Audit for organizations from any domain is a must to ensure optimum performance in the day to day operations and decision making. It helps the organization to understand and utilize technology more effectively. The success of this Audit is that it does not recommend investing more; rather it helps to get more out of existing technology investments.

Our Technology Audit includes various components and addresses the critical and major pain points of different IT areas as detailed below:

* Power Infrastructure Audit.
* Sudden power failure of UPS.
* Over-utilisation and under-utilisation of UPS capacity.
* UPS power cabling issues.
* Battery backup for the load applied.
* Climate control measures taken up for the UPS and battery placement.
* Fire hazards that pose a potential threat to the environment.

Audit Recommendations:

* Safe and climate-controlled placement of UPS & batteries
* Overloading or Underloading of UPS
* Possible resolution of UPS issues

This Audit Report facilitates the clients to understand the following critical parameters:

* Potential Security threats / gaps and their removal plan
* Understand training requirements
* Identify the key expectations of the majority of stakeholders.

**16.Investigative Auditing**

Investigative Auditing consists of the prevention, detection and quantification of fraud, money laundering, terror finance and corruption. Investigative Auditing involves the examination of accounts and the use of accounting procedures to discover financial irregularities and to follow the movement of funds and assets in and out of organisations.

The objects of Investigative Auditing include, inter alia:

* Identification of suspects;
* Determination of damages;
* Quantification of damages;
* Prevention of damage;
* Identification of financial activity;
* Tracing of financial assets.

Barely provides to customers around the world a broad range of Investigative Auditing services, including:

* **Fraud Prevention.**
* Examination of the financial and operating procedures within an organisation;
* Fraud Vulnerability Studies intended to expose vulnerability to fraud and embezzlement;
* Integration of controls and enforcement.
* **Fraud Quantification.**
* Quantification of actual damages based upon Investigative Audit findings in furtherance of legal and other procedures.
* **Computer (Cyber) Fraud**
* Exposure and verification of suspicions and fraudulent systems;
* Submission of expert testimony based upon Investigative Audit findings;
* Identification of fraud perpetrated by digitized, cyber and computerized tools.
* **Insurance Support**
* Quantification of damages for purposes of claims;
* Definition of factual and accounting basis for estimating damages.
* **Advice and Assistance to Attorneys.**
* Liquidations, dissolutions, suspension of procedures, and cessation of payment;
* Location of stolen assets and assistance in their recovery;
* Evaluation and proof of securities fraud;
* Business disputes;
* Matters involving non-profit organizations;
* Litigation support;
* Arbitration;
* Lifting of the corporate veil;
* Expert opinions and testimony with respect to the above.
* **Due Diligence Examinations Prior to Mergers and Acquisitions**
* Examination of the credibility of financial statements and third-party documents.
* **Integrity Checks**
* **Fraud Vulnerability Studies within an Organization**
* **Crisis Management**
* **Management of Corporate under Crisis**

**17. Operational Audit**

An operational audit is an examination of the manner in which an organization conducts business, with the objective of pointing out improvements that will increase its efficiency and effectiveness. This type of audit is substantially different from a normal audit, where the objective is to examine the adequacy of controls and to evaluate the fairness of presentation of the financial statements.

Operational audits are usually conducted by the internal audit staff, though specialists can be hired to conduct reviews in their areas of expertise. The primary users of the audit recommendations are the management team, and especially the managers of those areas that have been reviewed.

Operational audit is the type of audit service that the review is mainly focused on the key processes, procedures, system, as well as internal control which the main objective is to improve productivity, as well as efficiency and effectiveness of the operation.

The operational audit has also targeted the leak of key control and processes that cause waste of resources and then recommend for improvement.

Operational audit is the part of the internal audit and their main aim is to add value to the business their professional services. Systematic and highly discipline is also the part that helps to make sure the operational audit adds value to the organization.

**Types of operations to be audited:**

There are many areas that internal auditors perform their operational audits. And before the reviewing could be performed, an internal audit needs to identify the audit-able areas, and process first. Those could be identified by obtained input from the management of the companies.

For example, the chief of operation might raise some concern about the wrong information that could be provided to the customer by the sales team. The finance director might raise some concerns related to miss-match between invoices with good delivery noted.

For this case, sales processes and issuing invoices process might need to review. The auditor could also identify the processes or operations to be audited by themselves through obtaining an understanding of the big picture of business first.

Then, they could identify the key processes and well business units that related. Once all of these are identified, the auditor should perform the assessment to identify the related to risks related to controlling and processes.

**Who is normally performing the operational audit?**

Operational audit services normally perform by internal auditors since this is also part of their job to assess the efficiency and effectiveness of internal audit and operation. Normally, the internal auditor performs their review on the three key types include financial statements audit, compliance audit, and operational audit.

However, the entity might consider engages these services to external firms if the entity does not have the internal audit department or internal audit team does not have enough experience and knowledge for certain key operations.

**Operational auditing process:**

The process of operational auditing is not much different from other audits performed by the internal auditor. Those include planning, execution, reporting and follow up.

Planning: The auditor needs to obtain an understanding of the business as well as operation. Then, they need to make an assessment and target which key operation should they perform.

Execution: Validating the key control and operation involve obtaining the key documents, observing how certain key control is performing and inspecting certain documents like sales invoices, goods delivery note.

Reporting: Once the key operation and control are validated, the report needs to be prepared and submit to the audit committee.

Follow up: Same as other internal audits, any key findings, and recommendations that prepare by auditor need to follow up whether those key findings are mitigated by related management or department.

**18. What Are Tax Audits?**

A tax audit is an examination of your tax return by the IRS to verify that your income and deductions are accurate.

A tax audit is when the IRS decides to examine your tax return a little more closely and verify that your income and deductions are accurate. Typically, your tax return is chosen for audit when something you have entered on your return is out of the ordinary. There are three main types of IRS audits: the mail audit, the office audit and the field audit.

Mail audits

No matter what type of audit the IRS decides to conduct, you will receive notification of it by mail. A mail audit is the simplest type of IRS examination and does not require you to meet with an auditor in person.

Typically, the IRS requests additional documentation to substantiate various items you report on your tax return. For example, if you claim $10,000 in charitable deductions, the IRS may send you a letter requesting proof of your donations. Generally, submitting sufficient proof will conclude the audit in your favor if the IRS is satisfied.

Office audits

An office audit is an in-person audit conducted at a local IRS office. These audits are typically more in-depth than mail audits and usually include questioning by an audit officer about information on your return. You will be asked to bring specific information to an office audit, such as the books and records for your business or your personal bank statements and receipts. You also have the right to bring an accountant or lawyer to represent you at these meetings.

Field audits

The field audit is the broadest type of examination that the IRS conducts. In these cases, an IRS agent will conduct the audit at your home or place of business. Generally, field audits are conducted when the IRS is questioning more than just a deduction or two. A field audit is generally very thorough and will cover many, if not all, items on your return.

Possible outcomes of an audit

There are three possible outcomes of an IRS audit. If the IRS is satisfied with your explanations and the documentation you provide, then it will not change anything on your tax return. If the IRS proposes changes to your tax return, you can either agree and accept the changes or challenge the agent's assessment. If you agree, you will sign an examination report or other form provided by the IRS and establish some type of payment arrangement. If you disagree with the findings, you can set up a conference with an IRS manager to further review your case or you can request a formal appeals conference.

One day, you get a letter in the mail from the IRS, hoping to discover a tax refund in the envelope. You carefully read the letter stating that your tax return has been selected for examination. In other words, your tax return is being audited. You’re thinking the nightmare of filing taxes hasn’t ended. However, tax audits come in different types and forms. Read on to learn about IRS tax audits and discover how to handle them.

Tax Audit: The Basics

A tax audit is a formal examination conducted by the IRS to verify information or uncover fraud and inaccurate tax returns. The IRS selects tax returns to examine both randomly and intentionally. If the audit is selected randomly, the IRS will simply take a closer look to make sure all information are accurate. The IRS will intentionally audit certain tax returns if there are issues, errors, or possible frauds in reporting the tax return.

The IRS sends out audit notification letters by mail for the following several reasons:

(1) you have a balance due,   
(2) you are due a larger or smaller refund,

(3) the IRS has questions about your tax return,

(4) the IRS needs to verify your identity,

(5) the IRS needs additional information,

(6) the IRS changed your tax return, or

(7) the IRS needs to notify you of delays in processing your return.

Tax audits can be broken down into four different types:

Correspondence Audit: This is the least serious type of tax audit. A correspondence audit refers to the IRS request of additional information to verify the accuracy or details of your tax return.

Office Audit: An office audit refers to the in-person interview with an IRS manager to process your audit. To avoid making statements that can be used against you, it's highly advisable to consult with an attorney or a tax professional before you attend the interview.

Field Audit: This is the most serious type of audit because the IRS agents will visit you at home or business. They may ask to see things that are related to the tax you've reported.

Random Audit: As mentioned above, tax returns can be randomly selected for an audit. A random audit is made without any particular reason. The IRS auditor will review the entire tax return to make sure the information was entered correctly.

How To Handle Your Tax Audit

For all types of audits, the IRS begins the audit process by sending a notification letter to the taxpayer. If you've received a notification letter, you should first read the letter carefully. The letter should contain important information, such as the reason why your tax return is being examined, specific steps to follow, and a deadline to reply.

Then, prepare yourself to resolve the issue by researching the law and gathering information. Don't feel rushed to contact the IRS to respond to the letter. Any information you give to the IRS may be used against you. If you need more time to gather information or prepare yourself to respond, you can submit a written request to the IRS by fax or mail to get a one-time 30-day extension. However, if you've received a "Notice of Deficiency" in the mail, the IRS won't grant you an extension.

There are three possible ways of concluding an audit. First, an audit can conclude without making any changes. In this case, the IRS accepts the documents or information you’ve submitted, which results in no change to your tax return. Second, the IRS can propose a change to your tax return, and you may agree to those changes. Third, you may disagree with the proposed change made by the IRS and request a conference with an IRS manager to challenge its assessment.

Taxpayer Rights

Taxpayers have the right to know what steps to take to comply with the tax laws. The Taxpayer Bill of Rights requires the IRS to provide taxpayers with clear explanations of the laws. There are several rights, which apply to tax audits as well. The IRS informs its employees and the taxpayers that the taxpayers have the following basic rights:

A right to professional and courteous treatment by IRS employees

A right to privacy and confidentiality about tax matters

A right to know why the IRS is asking for information, how the IRS will use it, and what will happen if the requested information is not provided

A right to representation, by oneself or an authorized representative

Be Prepared for Your Tax Audit: Call a Tax Attorney

Some tax audits can be simple and some can be extremely complicated. Tax audit representation is necessary only if you're charged with penalties or a possible crime. So before responding to the IRS, you should first analyze the status of your tax return and determine what steps to take to resolve the matter. If you've received a tax audit notification, you're best off contacting an experienced tax lawyer near you.

**19.Internal Audit**

****

Internal audits evaluate a company’s internal controls, including its corporate governance and accounting processes. They ensure compliance with laws and regulations and help to maintain accurate and timely financial reporting and data collection. Internal audits also provide management with the tools necessary to attain operational efficiency by identifying problems and correcting lapses before they are discovered in an external audit.

Understanding Internal Audits

Internal audits play a critical role in a company’s operations and corporate governance, especially now that the Sarbanes-Oxley Act of 2002 (SOX) holds managers legally responsible for the accuracy of their company's financial statements. SOX also required that a company's internal controls be documented and reviewed as part of their external audit. Internal controls are processes and procedures implemented by a company to ensure the integrity of its financial and accounting information, promote accountability, and help prevent fraud. Examples of internal controls are segregation of duties, authorization, documentation requirements, and written processes and procedures. Internal audits seek to identify any shortcomings in a company's internal controls.

In addition to ensuring a company is complying with laws and regulations, internal audits also provide risk management and safeguard against potential fraud, waste, or abuse. The results of internal audits provide management with suggestions for improvements to current processes not functioning as intended, which may include information technology systems as well as supply-chain management. Cybersecurity is becoming increasingly important as companies need to protect their confidential electronic information from outside attacks.

Internal audits may take place on a daily, weekly, monthly or annual basis. Some departments may be audited more frequently than others. For example, a manufacturing process may be audited on a daily basis for quality control, while the human resources department might only be audited once a year. Audits may be scheduled, to give managers time to gather and prepare the required documents and information, or they may be a surprise, if unethical or illegal activity is suspected.

Internal Audit Process

Internal auditors generally identify a department, gather an understanding of the current internal control process, conduct fieldwork testing, follow up with department staff about identified issues, prepare an official audit report, review the audit report with management, and follow up with management and the board of directors as needed to ensure recommendations have been implemented.

Assessment Techniques

Assessment techniques ensure an internal auditor gathers a full understanding of the internal control procedures and whether employees are complying with internal control directives. To avoid disrupting the daily workflow, auditors begin with indirect assessment techniques, such as reviewing flowcharts, manuals, departmental control policies or other existing documentation. If documented procedures are not being followed, direct discussion with department staff may be necessary.

Analysis Techniques

Auditing fieldwork procedures can include transaction matching, physical inventory count, audit trail calculations, and account reconciliation as is required by law. Analysis techniques may test random data or target specific data, if an auditor believes an internal control process needs to be improved.

Reporting Procedures

Internal audit reporting includes a formal report and may include a preliminary or memo-style interim report. An interim report typically includes sensitive or significant results the auditor thinks the board of directors needs to know right away. The final report includes a summary of the procedures and techniques used for completing the audit, a description of audit findings, and suggestions for improvements to internal controls and control procedures. The formal report is reviewed with management and recommendations for improvement are discussed. Follow up after a period of time is necessary to ensure the new recommendations have been implemented and have improved operating efficiency.

**20. Forensic Audit**

A forensic audit is an examination and evaluation of a firm's or individual's financial records to derive evidence that can be used in a court of law or legal proceeding. Forensic auditing is a specialization within the field of accounting, and most large accounting firms have a forensic auditing department. Forensic audits require the expertise of accounting and auditing procedures as well as expert knowledge about the legal framework of such an audit.

Forensic audits cover a wide range of investigative activities. A forensic audit may be conducted to prosecute a party for fraud, embezzlement, or other financial crimes. In the process of a forensic audit, the auditor may be called to serve as an expert witness during trial proceedings. Forensic audits could also involve situations that do not involve financial fraud, such as disputes related to bankruptcy filings, business closures, and divorces.

If you've ever padded an expense report—or even thought about it—know that that is an example of fraud and could be uncovered easily via a forensic audit.

Reasons to Conduct a Forensic Audit

Forensic audit investigations can uncover, or confirm, various types of illegal activities. Usually, a forensic audit is chosen, instead of a regular audit, if there's a chance that the evidence collected would be used in court. Below, we cite instances that could necessitate a forensic audit:

Corruption or Fraud

In a forensic audit, an auditor would be on the lookout for

Conflicts of Interest—when a fraudster uses his or her influence for personal gains to the detriment of the company. For example, if a manager allows and approves inaccurate expenses of an employee with whom he has personal relations.

Bribery—offering money to get things done or influence a situation in one’s favor.

Extortion—the wrongful use of actual or threatened force, violence, or intimidation to gain money or property from an individual or entity.

Hypothetical Example of a Forensic Audit Case

Let's say that a computer manufacturer, WysiKids, on the recommendation of its chief financial officer (CFO), entered into a contract with Smart Chips, Inc. to supply WysiKids with processors. At the time the contract was signed, Smart Chips was not authorized to conduct business; its license had been indefinitely revoked based on certain irregularities in a recent Internal Revenue Service (IRS) filing. WysiKids's CFO knew that Smart Chips' license was suspended, yet still suggested that his company sign on with Smart Chips, as he was secretly receiving compensation from Smart Chips for doing so.

The fraud depicted above could be uncovered by investigating the intrapersonal relationships involved and exposing a conflict of interest.

Asset Misappropriation

This is the most prevalent form of fraud. Examples include: misappropriating cash, submitting falsified invoices, making payments to non-existent suppliers or employees, misusing assets (like company equipment), and stealing company inventory.

Financial Statement Fraud

A company can get into this type of fraud to try to show that its financial performance is better than it actually is. The goal of presenting fraudulent numbers may be to improve liquidity, ensure that C-level executives continue to receive bonuses or to cope with the pressure to perform.

How Forensic Audits Work

The process of a forensic audit is similar to a regular financial audit—planning, collecting evidence, writing a report—with the additional step of a potential court appearance. The attorneys for both sides offer evidence that either uncovers or disproves the fraud and determines the damages suffered. They present their findings to the client, and to the court should the case go to trial.

Planning the Investigation

During the planning stage, the forensic auditor and team will plan their investigation to achieve objectives, such as,

* Identifying what fraud, if any, is being carried out
* Determining the period during which the fraud occurred
* Discovering how the fraud was concealed
* Naming the perpetrators of the fraud
* Quantifying the loss suffered as a result of the fraud
* Gathering relevant evidence that is admissible in court
* Suggesting measures to prevent such frauds from occurring in the future

Collecting Evidence

The evidence collected should be adequate enough to prove the identity of the fraudster(s) in court, reveal the details of the fraud scheme, and document the financial loss suffered and the parties affected by the fraud.

A logical flow of evidence will help the court in understanding the fraud and the evidence presented. Forensic auditors are required to take precautions to ensure that documents and other evidence collected are not damaged or altered by anyone.

Reporting

A forensic audit requires a written report about the fraud to be presented to the client so that they can proceed to file a legal case if they so desire. At a minimum, the report should include,

* The findings of the investigation
* A summary of the evidence collected
* An explanation of how the fraud was perpetrated
* Suggestions for preventing similar frauds in the future—such as improving internal controls

Court Proceedings

The forensic auditor needs to be present during court proceedings to explain the evidence collected and how the team identified the suspect(s). He or she should simplify any complex accounting issues and explain the case in a layperson’s language so that people who have no understanding of legal or accounting terms can understand the fraud clearly.

**21. The Four Concepts of Audit Evidence**

Part of Auditing for Dummies Cheat Sheet

Audit evidence consists of the documents you use during an audit to substantiate your audit opinion. While working on an audit, you encounter many different types of evidence (written, oral, and so on). Documents can be prepared by employees of the client or by outside parties. To properly evaluate the strength of evidence you gather, you have to understand the four concepts of evidence:

Nature: The form of the evidence — for example, oral, visual, or written.

Appropriateness: The quality, relevancy, and reliability of the evidence.

Sufficiency: The quantity of audit evidence — enough evidence to evaluate the audit client’s management assertions.

Evaluation: A decision on whether the evidence is compelling enough to allow you to form an opinion.

**22. Audit of Company Accounts**

“Audit” means to examine something thoroughly. Auditing is an independent inspection of the financial information of any organization; whether profit-oriented or not profit-oriented, irrespective of its legal form, status or size when such examination is conducted with a view to express an opinion thereof”.

Need for Company Audit

Auditing of book of accounts means verification of accounts by an independent professional to ensure that the accounting has been carried as per the relevant regulatory requirements and to check the veracity of transactions and make an opinion whether the books of Accounts shows a true and fair view of financial transactions by the business.

A limited company has to close its accounts every financial year and prepare the financial statements prepared as per the books of accounts depicting true and fair view of the affairs of the company. The financials shall then be audited by the statutory auditor and has to be placed before the members for approval.

Every company has to get its accounts audited by its Statutory Auditor irrespective of size and turnover and file the same with the Registrar of Companies.

The Companies Act 2013 mandates every company to keep its books of accounts and other relevant books and papers and financial statement giving a true and fair view on accrual basis and as per double entry system which shall be maintained at the registered office of the company for every financial year. However, the board of directors may keep the books of accounts at any other place in India after filing a notice with the Registrar of Companies.

Who can become Auditor of a company?

The audit of a company shall be carried out by the Statutory Auditor appointed by the company in its Annual General Meeting. A Chartered Accountant who holds a valid certificate of practice under Chartered Accountants Act, 1949 can only become an auditor of the company. Also, the company can appoint a firm as its auditor if majority of partners are practising in India and are eligible for appointment. Further, only those partners who are chartered accountant shall be allowed to sign on behalf of such a firm.

Appointment of First Auditor by a Company.

The first auditor of a company shall be appointed within 30 days from the date of incorporation of the company by the board of directors. If the Board fails to appoint one, the members of the company have to appoint the first auditor at an Extraordinary General Meeting 120 days from the date of incorporation.

Appointment of Auditor at AGM of Company.

The statutory auditor shall be appointed at an AGM by the members of the company who shall hold office for 5 five consecutive years unless removed or the auditor resigns himself.

Rotation of Auditors

The appointment of auditors at AGM is for a period of 5 years. Rotation of Auditors are applicable for companies that comes under the categories:

* Listed Companies
* Unlisted Public Company having paid up share capital of rupees 10 crores or more;
* Private limited companies having paid up share capital of rupees 50 crore or more;
* Unlisted public company and Private company having public borrowings from financial institutions, banks or public deposits of rupees 50 crore or more.

Rotation of Auditors are not applicable to One Person Company (OPC) and Small Companies. That means, OPC) and Small Companies can appoint or reappoint an individual for more than one term of five consecutive years or an auditor firm for more than for more than two terms of five consecutive years.

Auditor to Sign Audit Reports

The statutory auditor shall sign the auditor’s report or certify financial statements and other document of as required in accordance with the provisions of the Act.

Timeline for Company Audit

Audit is a continuous process which involves examining various compliances, risk and accounting practices. Upon the closure of a financial year (31st March), the company shall prepare its financial statements as per the books of accounts maintained and the board of directors shall approve it for giving for the audit process.

The auditor shall then make a detailed auditor report disclosing the accuracy of transaction whether it shows a true and fair view or not.

Company has to conduct the Annual General Meeting (AGM) within 6 months from the closure of financial year and the notice of AGM has to be given to all the members before 21 days of AGM. Copy of Directors Report and Audited Financial Statement with report of auditors has to be given to the members along with notice of AGM. So, the Auditors Report must be made available before sending the notice.

In case the company is planning to conduct AGM by the 30th September (6 months from the date of closure of Accounts), Notice of AGM is required to be sent by first week of September. So, ideally, the Audit of Company Account has to be completed before 31st August.

Company Annual Filing

Every Company registered under Companies Act is required to file their returns with the Registrar of Companies annually.

Company Annual Filing refers to the Filing of Audited Annual Financial Accounts of the Company along with Directors Report and Annual Return of Company with Registrar of Companies. These yearly filings are mandatory for every registered Company whether the Company carries on business or not.

Penalty for Contravention

The company shall be punishable with fine not be less than Rs.25,000.00 which may extend to Rs.5,00,000

Every officer of the company shall be punishable with imprisonment for a term 1 year or with fine not less than Rs10,000.00 which may extend to Rs.1,00,000.00, or with both.

The auditor shall be punishable with fine not less than Rs.25,000. but which may extend to Rs.5,00,000.00 or 4 times the remuneration of the auditor, whichever is less.

Further, if it is done knowingly or wilfully with the intention to deceive the company or its shareholders or creditors or tax authorities, he shall be punishable with imprisonment for a term of 1 year and with fine not less than Rs.50,000.00 which may extend to Rs.25, 00,000.00 or 8 times the remuneration of the auditor, whichever is less.

Further the auditor convicted as mentioned above shall be also liable to refund the remuneration received by him to the company and pay for damages to the company/statutory bodies/authorities/ to members/creditors of the company.

If the partner or partners of the audit firm have acted in a fraudulent manner/colluded/abetted for action of company or directors, the concerned partner shall be liable whether civil or criminal as provided in this Act jointly and severally.

**23.Educational qualification to become an auditor**

To become an auditor, one must have at least a bachelor’s degree in Accounting. Some employers may prefer those with master’s degree in accounting. MBA with specialization in finance can also be a right subject choice. Courses in economics, business studies and humanities are also helpful. Some universities conduct specialised courses in auditing. Along with subject specialisation, computer literacy is also essential. One must take a course in computer accounting software's such as Tally or some other related diplomas. One can further take up more advanced courses like ICWA, CA, Company Secretary ship or CPA (certified public accountant in the USA) etc. There are certain auditor certifications provided by international audit associations such as Institute of Internal auditors (IIA), Information Systems Audit and Control Association (ISACA) etc which are globally accepted. The Institute of Internal auditors gives Certified Internal Auditor (CIA) designation and ISACA provides Certified Information Systems Auditor (CISA) certification, respectively. CISA qualified Auditors have been recognized as qualified to conduct Systems Audit by Reserve Bank of India (RBI), Ministry of Information Technology (MIT), National Stock Exchange, Comptroller and Auditor General of India (C&AG).

Accountants should have an aptitude for mathematics and be able to analyse, compare and interpret facts and figures quickly. They must be able to communicate well and have an eye for detail. Familiarity with computerized accounting packages is a great asset for present generation auditors. They must be able to work as a team. Must have high standards of integrity and accuracy as major decisions are made based on financial statements given by them. They must also be reliable and trust worthy.

**24.What is IAAS exam?**

Indian Audit and Accounts Service (IAAS) is a Group A civil services of the Government of India. The IAAS is a central government service, under the Comptroller and Auditor General of India and is free of control from any executive authority.

The main responsibility of the IAAS is to audit the accounts of the Union and State governments and public sector organisation and to maintain the accounts for State governments.

IA&AS is responsible for auditing the accounts of the Union and State governments and public sector organizations, and for maintaining the accounts of State governments. Its role is somewhat similar to the US GAO and National Audit Office (United Kingdom).

Once recruited to the IA&AS, the directly recruited officers are trained mainly at the National Academy of Audit and Accounts, Shimla, Himachal Pradesh, India.

Eligibility Criteria

* Nationality:
* Nationality of a candidate must be either of the following:
* Citizen of India
* Subject of Nepal
* Subject of Bhutan
* A Tibetan refugee who came to India before January 1, 1962 for permanent settlement in India.
* Migrant from any of the following countries for permanently settling in India: Pakistan, Burma, Sri Lanka, East African countries of Kenya, Uganda, the United Republic of Tanzania, Zambia, Malawi, Zaire, Ethiopia and Vietnam

Educational Qualification: In order to qualify to attend the exam, candidates should hold a degree from any of the universities recognised by the UGC or possess an equivalent qualification.

* Candidate must hold a Bachelor's Degree from any of the recognized universities
* Candidates who have appeared for the qualifying examination and are awaiting results or those who are yet to appear for the qualifying examination are also eligible for the Preliminary Examination. Such candidates have to produce proof of passing the said examination along with the application for the Main Examination
* Candidates with professional and technical qualifications recognized by the Government or its equivalent are also eligible to apply
* Candidates who have passed the final year of MBBS or any Medical Examination but are yet to complete the internship can also appear for the Main Examination. However, they must submit a certificate from the concerned University that they have passed the final professional medical examination

Age Limit:

* Minimum age 21 years
* Maximum age 30 years as on 1st of August in the year of examination.
* Relaxable age limit is as follows:
* Upto max. 5 years for SC/ST candidates.
* Upto max. 3 years for OBC candidates.
* Upto max. 5 years for candidate from the State of Jammu & Kashmir
* Upto max. 5 years for Defence Services personnel
* Upto max 5 years for Ex-servicemen including Commissioned officers and ECOs/SSCOs who have rendered at least 5 years Military Service and have been released.
* Upto max 5 years for ECOs/SSCOs who have completed an initial period of assignment of 5 years of Military Service.
* Upto max. 10 years for Blind, deaf-mute and Orthopaedically handicapped persons

Number of attempts:

The maximum number of attempts is as follows:

* General Category candidates: 6 attempts
* Scheduled Caste /Scheduled Tribe (SC/ST) candidates: No restriction
* OBC candidates: 9 attempts
* Physically handicapped- 9 attempts for general and OBC, while unlimited for SC/ST

Roles and Responsibilities

The role of IA&AS officers is very venerable, demands a great deal of responsibility and reverence. It is also important that an officer is physically and mentally fit and healthy to handle the work pressure without giving in. The following are the roles and responsibilities that an IA&AS officer is deputed:

* IA&AS is responsible for auditing the accounts of the Union and State governments and public sector organizations.
* Maintaining the accounts of State government.
* Its role is somewhat similar to the US GAO and National Audit Office (United Kingdom)

**25. The 10 companies with the best internships**

Some internships give you the chance to do interesting work and meet accomplished people. Others will keep you running around getting coffee or drowning in projects you weren’t trained to do.

To find out where interns are being offered the best opportunities, the team at careers website Way Up asked current interns to submit nominations, and some 2,500 responded. The top 10 companies were nominated by hundreds of interns, according to a Way Up spokesperson.

Here’s are the top 10 places to intern, ranked by number of submissions:

* Dell Technologies

The computer and technology company are serious about hiring more college students. By 2020, it aims to have 25 percent of all external hiring come from college campuses, according to a company memo.

The company offers internships in accounting, financial services, engineering and computer science, finance, global operations, human resources, marketing, information technology and more. Most positions run from 10 to 12 weeks and pay approximately $24 an hour, according to jobs and salary website Glassdoor.

* GE

GE offers internships in 83 locations across 43 different countries. And they’re a good pipeline into full-time employment, according to company data.

The company runs several different multi-year leadership training programs, and 25 percent of people in these programs are former interns.

* L’Oréal

The beauty company offers a range of internships, from digital marketing to consumer product design and sales. Some of the company’s internships are open to recent graduates as well and can last for up to 12 months. Interns make approximately $20 to $22 per hour.

* EY

The financial services company offers internships in multiple areas including advisory, assurance, tax and transaction advisory services. Interns make approximately $26 to $29 dollars per hour, according to Glassdoor.



* Facebook

An internship at Facebook includes hackathons, offsite events and weekly Q&A sessions with executives, according to the company’s website. Interns make anywhere between $7,000 and $8,000 per month Glassdoor reports.



* Google

An internship for the internet and tech giant pays very well. Software engineering interns make more than $6,600 each month and an internship for MBA students pays $8,200 each month, according to anonymous reviews on Glassdoor.



* Newell Brands

Newell Brands, the company behind Paper Mate pens, Elmer’s Glue and many other office and household products offers internships in areas ranging from e-commerce to design to research. Interns make between $15 and $20 per hour, according to Glassdoor.

[](https://twitter.com/CareersAtNWL/status/572484734002974720/photo/1)

The company offers a number of perks, including “lunch and learns” with executives, team building like bowling and golfing excursions. Each intern is assigned a mentor and is evaluated on his or her progress throughout the summer, according to the company’s website.

* CohnReznick

At the accounting and tax advisory firm, interns “will learn by doing real work on real engagements,” according to the company website, with the opportunity to work on projects in industries such as renewable energy, technology, life sciences and real estate.

* Enterprise Rent-A-Car

The rental car company offers internships in management, accounting and brand “ambassadorship.”

The internship pays approximately $10 to $12 per hour.

Multiple intern reports on Glassdoor tout good on-the-job experience and a fun working environment. At the same time, however, some said working weekends wasn’t fun.

* Under Armour

The athletic wear company calls its internship the “summer league.” Each intern is assigned a mentor and has access to learning seminars like Q&A sessions with executives, according to the company.

The internships pay approximately $15 to $20 per hour, according to Glassdoor.

“To make it here you have to be curious,” a company post reads. ” You have to be ready to go above and beyond. And live up to the idea of ‘I Will.’”

According to Wessel, the best companies for interns “plan events to get interns in front of company leaders, have mentorship programs and are focused on making sure that the interns develop tangible skills.”

**26.Qualities of An Auditor**

An efficient auditor must have certain qualities besides Professional qualification. He needs to carry out the audit efficiently and smoothly.

It is very important for an auditor to be well versed in the fundamental principles and theory of all branches of accounting, e.g., general accounting, cost accounts, income-tax, etc. it is not possible for a person to audit the accounts unless he himself knows how to prepare them. He should be aware of the latest development of the technique of accounting so that he may modify his procedure of work.

He should not pass a transaction unless he knows that it is correct. This is possible only when one knows thoroughly well the principles of accounting.

He should be able to grasp quickly the technique of the business whose accounts he is auditing. If possible, he should pay a visit to the works of his client, before he commences his work.

He should be prepared to seek elucidation on technical questions rather than show a false pride or fear of displaying his own ignorance.

He should be quite familiar with Company and Mercantile Laws and must be a complete master of the principles of auditing.

He must be tactful and scrupulously honest, as Lord Justice Lindley has said, “An auditor must be honest, i.e., he must not certify what he does not believe to be true, and he must take reasonable care and skill before he believes what he certifies is true.” (In re London and General Bank, 1895)

He must not be influenced, directly or indirectly, by others in the discharge of his duties.

He must be prepared to resign, rather than sign a balance sheet, which he knows does not exhibit a true and fair view of the state of affairs of the concern and thus give a false report.

He should not disclose the secrets of his clients.

He must have the tact to put intelligent questions to extract full information.

**27. How Can I Become an IT Auditor?**

To become an IT auditor, it is advisable that you have a strong knowledge and understanding of IT systems and processes. It is not only necessary to have a technical understanding of technology though you should be able to apply your knowledge in a practical way that demonstrates a sound understanding of software change management principles, logical access to IT systems as well as other related topics within the IT audit field such as backup and incident management. The IT audit field is mostly established however, many of the large audit firms are pushing further development within this field such as including data analytics capabilities for IT audits.

Having a sound technical and theoretical understanding of IT is essential however, as an IT auditor you will spend the majority of your time at clients where having solid soft skills is vital.

Personally, my skill-set was developed through the study of IT management at university where I obtained a bachelor’s degree with majors in informatics, business management and IT management. I have found this skill-set to be aligned with the requirements of becoming an IT auditor.

During your university vacation periods, it is strongly recommended that you attempt to become part of an internship program within an audit firm in order to gain some industry experience. It is not vital that you only participate within IT audit work during an internship as merely having your “foot-in-the-door” can be highly beneficial towards achieving this objective.

Finally, it is currently not essential to have a CISA accreditation to become a novice IT auditor although having this accreditation is beneficial towards long-term career growth prospects within a large audit firm. For instance, it is now becoming a requirement within some of the top firms to have a professional qualification in order to stand any chance of obtaining a management position and having a CISA qualification is a sufficient professional qualification for attaining a potential management position. Therefore, having a CISA qualification is essential should you decide to make IT audit your career. However, if you understand CISA requirements, you need professional experience within the field to finally achieve the qualification even if you have passed the exam.

**28. The difference between internal and external audits**

There are multiple differences between the internal audit and external audit functions, which are as follows:

* Internal auditors are company employees, while external auditors work for an outside audit firm.
* Internal auditors are hired by the company, while external auditors are appointed by a shareholder vote.
* Internal auditors do not have to be CPAs, while a CPA must direct the activities of the external auditors.
* Internal auditors are responsible to management, while external auditors are responsible to the shareholders.
* Internal auditors can issue their findings in any type of report format, while external auditors must use specific formats for their audit opinions and management letters.
* Internal audit reports are used by management, while external audit reports are used by stakeholders, such as investors, creditors, and lenders.
* Internal auditors can be used to provide advice and other consulting assistance to employees, while external auditors are constrained from supporting an audit client too closely.
* Internal auditors will examine issues related to company business practices and risks, while external auditors examine the financial records and issue an opinion regarding the financial statements of the company.
* Internal audits are conducted throughout the year, while external auditors conduct a single annual audit. If a client is publicly-held, external auditors will also provide review services three times per year.

In short, the two functions share one word in their names, but are otherwise quite different. Larger organizations typically have both functions, thereby ensuring that their records, processes, and financial statements are closely examined at regular intervals.

**29. Advantages of Audit**

Auditing has become a compulsory task in the business organization. All the organizations like business, social, industries and trading organizations make audit of books of accounts. Now-a-days, owner of business and its management are separate. So, to detect and prevent frauds, auditing has become essential. Its advantages are as follows:

1. Audit Helps to Detect and Prevent Errors and Frauds

An auditor's main duty is to detect errors and frauds, preventing such errors and frauds and taking care to avoid such frauds. Thus, even though all organizations do not have compulsion to audit, they make audit of all the books of accounts.

2. Audit Helps to Maintain Account Regularly

An auditor raises questions if accounts are not maintained properly. So, audit gives moral pressure on maintaining accounts regularly.

3. Audit Helps to Get Compensation

If there is any loss in the property of business, insurance company provides compensation on the basis of audited statement of valuation made by the auditor. So, it helps to get compensation.

4. Audit Helps to Obtain Loan

Specially, financial institutions provide loan on the basis of audited statements. A business organization may obtain loan considering the audited statement of last five years. So, an organization should make audit compulsory to obtain loan.

5. Audit Facilitates the Sale of Business

Valuation of assets is made by the auditor. On the basis of valuation of assets and liabilities, businessman can sell his business. It helps to determine the price of business.

6. Audit Helps to Assess Tax

Tax authorities assess taxes on the basis of profit calculated by the auditor. In the same way sales tax authority calculates sales tax on the basis of sales shown in the audited statement.

7. Audit Facilitates to Compare

An auditor instructs an accountant in the same way which helps to compare books of accounts of current year with the accounting of the previous year. So, comparing the accounts of current with previous years helps to detect errors and frauds.

8. Audit Helps to Adjust Account of Deceased Partner

Valuation of all the assets and liabilities of the business is made by the auditor while auditing books of account. Such valuation helps to clear the amount of deceased partner.

9. Audit Helps to Present a Proof

If any case is filed against the auditor regarding negligence, auditor can present audited report as a proof to settle such case. So, it helps to present proof to settle such cases.

10. Audit Provides Information About Profit or Loss

A businessman wants to know profit or loss of his business after a certain period of time. So, the owner of the business can get information about profit or loss after auditing the books of accounts.

11. Audit Helps to Prepare Future Plan

All the audited statements remain true and correct. Such true and correct account helps to prepare for the future plans.

12. Audit Helps to Increase Goodwill

Auditing shows the profitability and financial position of an organization which creates faith of public over the business. Thus, auditing helps to increase goodwill of an organization.

13. Audit Helps to Amalgamate the Company

Sometimes, same nature of organization may be amalgamated. Auditing makes valuation of assets and liabilities which helps to amalgamate the company. Purchaser of the company can accept such business organization on the basis of valuation made by the auditor.

**30. Limitations/Disadvantages of Auditing**

The main issue for accountants is there are some certain limitations to assurance services and for that reason, there is always a risk involved that the wrong conclusion will be drawn. Assurance can never be absolute. Assurance providers will never give a certification of absolute correctness due to the limitations set out below:

Testing is used – the auditors do not oversee the process of building the financial statements from start to finish.

The accounting systems on which assurance providers may place a degree of reliance also have inherent limitations.

Most audit evidence is persuasive rather than conclusive.

Assurance providers may sometimes not test the entire item in every subject matter.

The client’s staff members may collude in fraud that can then be deliberately hidden from the auditor or misrepresent matters to them for the same purpose.

Assurance provision can be subjective and professional judgments have to be made. For example, about what aspects of the subject matter are the most important, how much evidence to obtain etc.

Assurance providers rely on the responsible party and its staff to provide correct information, which in some cases may be impossible to verify by other means.

Some items in the subject matter may be estimates and are therefore uncertain. It is impossible to conclude absolutely that judgmental estimates are correct.

The nature of the assurance report might itself be limiting, as every judgment and conclusion the assurance provider has drawn cannot be included in it.

It does not take into account the productivity and the skills of the employees of the business.

For smaller companies, hiring a firm to carry out an audit can be costly.

Investment may be discouraged by a bad auditing.