

A Brief Guide to...

External Auditing

**FINANCIAL
REPORT**



**AUDIT
REPORT**

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**SAINT HELENA
AUDIT SERVICE**

What is EXTERNAL AUDITING?

“An examination of the *annual financial report* of an organisation by *someone independent* of that organisation.....”

“...*annual financial report*...”

Usually includes a balance sheet, a profit and loss account, a cash flow statement, notes (stating the accounting policies applied plus more detail on the figures disclosed in the previously listed documents) and a report by directors of the organisation.

“.....*someone independent*.....”

An auditor must play no part in the day-to-day running of the organisation and must not be controlled by the management of the organisation

What is the purpose of an EXTERNAL AUDIT?

To express an *opinion* on whether the information presented in the financial statements, reflect the financial position of the organisation at a given date. For example: Are details of what the organisation owns and owes properly recorded in the balance sheet? Are profits or losses properly assessed?

“..... *opinion*...”

An opinion may be referred to as *qualified* (accounts do not present a true and fair view) or *unqualified* (no significant concerns)

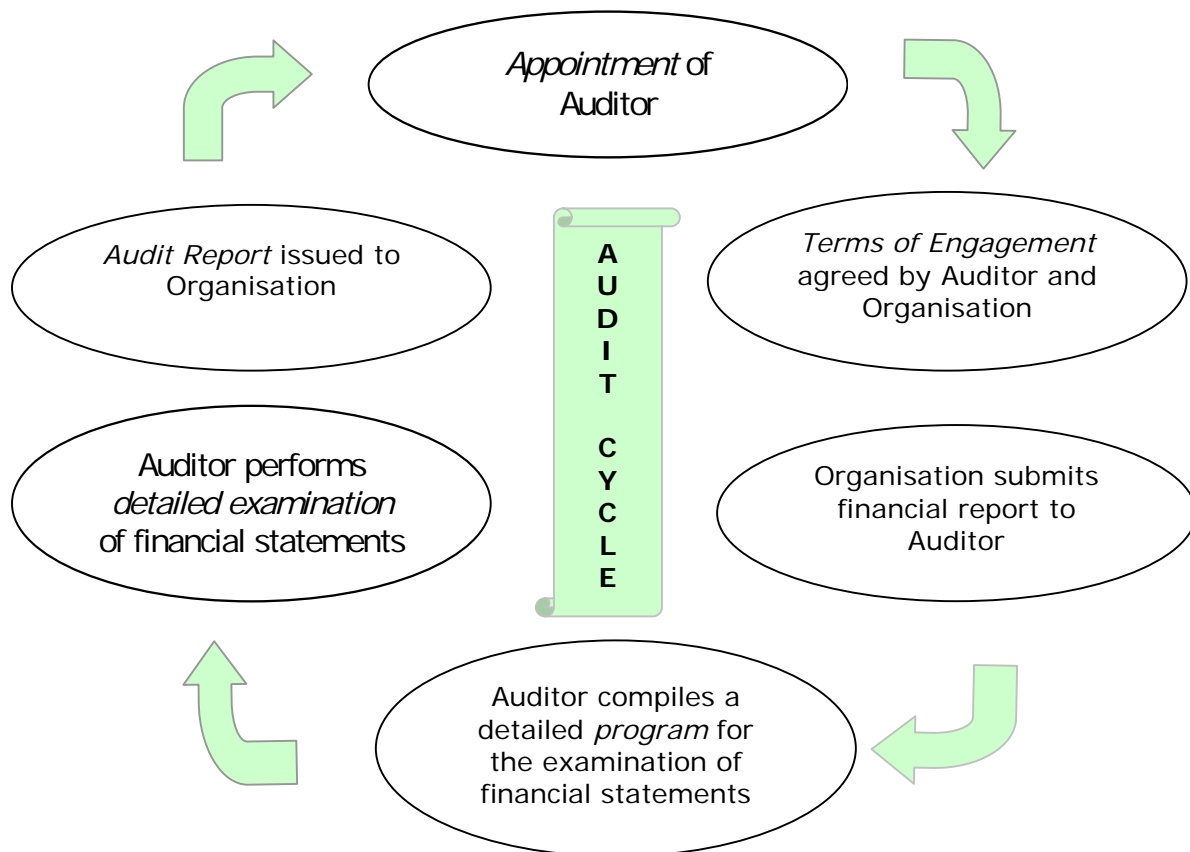
AUDITORS OBLIGATIONS

Statutory Obligation - is a duty imposed by the law. Auditors have statutory obligations because people want to be assured that the auditor has checked that certain matters e.g. laws and policies have been followed and adequate records have been kept.

Other Obligations - the main other obligation is to report serious irregularity e.g. improper use of the organisations funds.

Auditors notify Management of any significant issues observed during the course of the audit via an annual '**Audit Management Letter**'. Such issues are recorded together with recommendations for their resolution and an agreed action plan for implementation.

What does an EXTERNAL AUDIT involve?



Appointment of Auditor – auditors are usually appointed by shareholders at the Annual General Meeting. Governing legislation may also state who the auditor shall be.

Terms of Engagement – an engagement letter provides written confirmation of the auditors acceptance of appointment, sets out the scope of the audit plus auditors and management responsibilities.

Audit Program – sets out the extent and type of audit procedures. Auditors work to internationally agreed auditing standards. Auditors start by gaining an understanding of the organisation's activities. For each major activity listed in the financial statements, auditors identify and assess risks that could have a significant impact on the financial position or performance.

Detailed Examination – auditors perform testing and obtain evidence to satisfy the requirements of the audit program. Testing may include e.g. confirming compliance with the organisation's accounting policies, examining accounting records and verifying the existence of tangible items such as plant and equipment.

Audit Report – contains the audit opinion on the financial report and basis of that opinion. The scope of the audit plus auditors and management responsibilities are also restated.

SUMMARY

WHAT IS AN EXTERNAL AUDIT?

“The **independent examination** of,
and
expression of opinion on,
the **financial statements**
of an organisation
by an **appointed auditor**
in compliance with
any relevant **statutory obligation**”

Some **DO'S** and **DON'Ts** of External Auditing

DO'S	DON'TS
<ul style="list-style-type: none"> ✓ Auditors maintain independence from management and directors so that the tests and judgments are made objectively ✓ Auditors discuss the scope of the audit work with the organisation ✓ Auditors determine the type and extent of the audit procedures they will perform depending on the risks and controls they have identified ✓ Auditors form an opinion on the information in the financial report 	<ul style="list-style-type: none"> ✗ Look at every transaction carried out by the organization ✗ Test the adequacy of all of the organisation's internal controls ✗ Identify all possible irregularities ✗ Audit other information provided to the members of the organisation – eg the directors' report

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