



AUDITING STANDARDS AND ADVANTAGES

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ABSTRACT Auditing standards are particularly important in cases where there is a matter of material importance and its interpretation is of a technical nature. In this case, auditing standards should be complied with. There may also be cases where the use of a particular standard may not be applicable in this case the Auditor should use sound judgment in deciding which action to take. Since audit procedures are consistent with auditing standards and provides guidance for Auditors on the job, this would in turn work as a benchmark for the evaluation of audit work done to ensure that they were of the desired quality and to assess whether the relevant standards were applied and done so consistently.

KEYWORDS :

INTRODUCTION

In every organization or institution, standards that were developed by regulatory bodies have to be adhered to. Standards results in the formulation of proper principles and procedures to be followed including audit plans, measurable objectives and performance targets to ensure that the necessary standard is adopted depending on the circumstances or environment of the state entity. Since audit procedures are consistent with auditing standards and provides guidance for auditors on the job, this would in turn work as a benchmark for the evaluation of audit work done to ensure that they were of the desired quality and to assess whether the relevant standards were applied and done so consistently.

“The basic principles for auditing standards are basic assumptions, consistent premises, logical principles and requirements which help in developing auditing standards and serve the Auditors in forming their opinions and reports, particularly in cases where no specific standards apply.” And Auditing Standards should be consistent with the principles of auditing. They also provide minimum guidance for the Auditor that helps determine the extent of auditing steps and procedures which should be applied in the audit. Auditing Standards constitute the criteria or yardstick against which the quality of the audit results is evaluated.¹

Auditing today finds itself as a critical link in the economic development of any nation. The modern day entrepreneurship modules are essentially agency relationship models where the owners or the providers of funds are separate from those who actually utilize those funds to run the enterprise. These funds providers can be the promoters and other investors, banks and other financial institutions etc. In addition to the fund providers, there are other stakeholders also, such as government and other regulators, employees, suppliers etc., which need not only timely but also reliable financial information to satiate their various information needs. Even in case of non-agency from of enterprises, audit would still be essential since the latter may be using public funds in the form of bank borrowings etc. In every organization or institution, standards that were developed by regulatory bodies have to be adhered to. Standards result in the formulation of proper principles and procedures to be followed including audit plans, measurable objectives and performance targets to ensure that the necessary standard is adopted depending on the circumstances or environment of the state entity. Since audit procedures are consistent with auditing standards and provides guidance for Auditors on the job, this would in turn work as a benchmark for the evaluation of audit work done to ensure that they were of the desired quality and to assess whether the relevant standards were applied and done so consistently.²

CONCEPT OF AUDITING STANDARDS

Auditing, as a profession, is a mix of science and art. It is a normative but not a positive science in the sense that despite being founded on well developed body of knowledge, there is no straight-jacketed or tailor made formulate to carry out work and reach goal. Therefore, two

professionally qualified auditors can reach different opinions in respect of same issue, on account of their varying professional judgments. Through professional judgment are an integral part of the auditing process, yet all the aspects of auditing are not open to such judgment, since professional judgment is exposed to the risk of certain amount of subjectivity inevitably. The auditing profession, therefore, does have certain set of universally accepted benchmarks, called Auditing Standards, against which the performance of an auditor can be measured. In common parlance, Auditing Standards represent a codification of best practices in the area of auditing. A large pool of national and international resources is devoted to development of such Auditing Standards.³

An Auditing Standard, to be really effective, should be founded on the principles and grounds realities, should be easy to understand, have universal acceptance, be reasonably flexible to permit application in all types of situations and importantly, amenable to enforcement . In addition, it is absolute essential that n Auditing Standards is not perceived by the society as being overly protective of the auditor but as being in the best interest of the users of the auditor's services. As a corollary, it is essentially that the Auditing Standards – setting process is objective and transparent, giving fair representation to the concerned stakeholders.⁴

Role of IFAC in Auditing Standards

- The international Federation of Accounts (IFAC) was formed in 1977 as a global organization for the accountancy profession with the objectives of;
- Developing high quality international standards and supporting their adoption and use;
- Facilitating collaboration and cooperation among the member bodies
- Collaboration and cooperation with other international organizations; and
- Serving as the international spokesperson for the accountancy profession.

India is one of the founder members of IFAC. The IFAC established various boards/committees under its aegis to help achieving its objectives in a more focused manner. One such board is the International Auditing and Assurance Standards Board (IAASB), which was established as the International Auditing Practices Committee (IAPC) in October 1977. The objective of the IAASB is “to serve the public interest by setting high-quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing an assurance profession.”⁵

The IAASB, therefore, develops International Standards on Auditing (ISAs) and on other assurance as well as non assurance services such as review of historical financial information. Presently, the standards

issued by IAASB comprise International Standards on Assurance (ISAs) and International Standards on Related Services (ISRSs). These standards are collectively known as Engagement Standards. Prior to 2004, all these standards were termed as ISAs only. IAASB also develops quality control standards for audit firms. These Standards issued by IAASB 'Provide guidance for auditors and other professional accountants, giving them the tools to cope with the increased and changing demands for report on financial information, and provide guidance in specialize areas.' For issuing these International Standards, the IAASB follows a rigorous and transparent due process that ensures "that the view of those affected by its standards and guidance on thoroughly considered". The due process of the IAASB is given as APPENDIX-A. Since 2005, the IAASB came under the oversight of the Public Interest Oversight Board (PIOB) established by the IFAC at least every three years to evaluate their effectiveness.⁶

BASIC PRINCIPLES IN AUDITING

Auditing standards are particularly important in cases where there is a matter of material importance and its interpretation is of a technical nature. In this case, auditing standards should be complied with. There may also be cases where the use of a particular standard may not be applicable in this case the Auditor should use sound judgment in deciding which action to take. In the case of Audit Institutions and especially the AOG' the need for proper to this end, several auditing standards was developed by the INTOSAI and IFAC as follows:-

1. General Standards
2. Field Standards
3. Reporting Standards

GENERAL STANDARDS IN AUDITING

The general standards are the basic standards that the AOG should adhere to. They basically describe the features that should be in place before the AOG can carry out an efficient and effective audit.

Qualifications and Training

Audit work should be carried out by Staff who is qualified to do so having the right combination of the necessary skills, training and experience. It is important that the AOG recruit and deploy Staff that is suitably qualified and in the right number to carry out audit tasks so that it will be done efficiently. For Staff of high quality to be recruited, the AOG will need to ensure that remuneration etc are attractive and that schemes are in place to reward employee who advance themselves academically and on the job. This would in turn challenge Staff to improve themselves resulting in audits of high quality and a well qualified work force. Regular reviews of entry requirements should also be done to grab the best possible combination of Staff. The AOG should also ensure that regular training takes place to sensitize Staff of new developments in the auditing and accounting profession that may embrace them when they go out to carry out their audit task. This would include new techniques and methodologies applicable to audits. This training should be carried out by a suitably qualified Staff or a consultant and the AOG should ensure that there are no absentees. Since there might be pressing deadlines at state entities, training can be done in groups to ensure that Staff can be regulated on audits. Up to date Manuals of standards, policies of the Audit Office and other written procedures and guidelines should be well documented and accessible by all Staff of the Audit Office. Staff should also have an in-depth knowledge of the legal environment in which they are working in as it relates to state entities etc.⁷

FIELD STANDARDS IN AUDITING

Field standards are basically the steps that the Auditor will have to take to perform and properly manage his audit duties. It covers mainly the criteria for approaching the audit and includes auditing and reporting standards. There are usually various approaches that can be taken towards an audit by Auditors therefore the most effective and efficient approach should be adopted. In order for an audit to be performed that is of a high quality and performed in a timely manner and with efficiency, there needs to be proper planning by the Auditor. These plans should be based around the Auditor's knowledge of the state entity being audited either from previous audits done or by well documented information by those who have audited that entity before. During the course of the audit, as more information about the entity is gathered, plans will have to be modified to account for these changes. An important aspect of the audit is whether or not the Auditor can place

reliance on internal controls. This means that the Auditor has to carry out tests to see what level of reliance he can place on internal controls if any. Tests would vary depending on what type of audit he is carrying out and the reliance actually needed on the internal controls.⁸

Financial Audits

For financial audits he will do his evaluations on controls that are in place to safeguard the entity's assets and other valuable resources and also do tests to see if proper and complete accounting records are being kept. This could be done by walkthrough tests where a transaction is followed from the cradle to the grave to point out any deficiencies in the recordkeeping and recording of transactions.

Compliance Audits

For compliance audits, evaluations and studies will be directed towards controls that have been implemented by management to assist in following and complying with laws and regulations.

Performance Audits

In this case, evaluations are made on controls that govern the operations of the state entity. These controls help those in charge to operate the entity in an economic and efficient manner and allow the presentation of proper reports for the use by management. A proper test of this is to review issues that were highlighted in the previous year's audit and see if any improvements have been made and if not, the reliance on the internal controls might not be recommended. Senior Auditors should review the work of junior Staff at every level of the audit process to ensure that work programs and work schedules are being followed as planned and any deviations dealt with. If the workforce consists of suitable Staff, and they have a clear understanding of the audit plan, the senior Auditor will not have a lot of issues in the supervision and review stages but despite the individual competences of the audit Staff, proper supervision and reviews should be done in all cases. Reviews should be done therefore on a timely basis so that any hiccups can be sorted out early before the problem is compounded. At every stage of the audit process, the documentation of work done is of utmost importance. Audit Staff needs to be sensitized about the importance and ensure that work at every stage of the audit process is well documented from the planning stage to the reporting stage. Proper documentation by Audit Staff will assist greatly in the review stages since all the work done will be laid out and it will be easy see if there were any deviations from the work planned and if the deviation was not authorized, why so.⁹

REPORTING STANDARD IN AUDITING

At the end of every audit, there must obviously be an audit report giving the opinion of the Auditor General on the statements of the state entities that his Office has performed numerous test and other work on. This is usually in the appropriate written form, as stipulated by legislation and signed by the Auditor General or acting Auditor General and should be clear, concise and easy to understand. Some of the most common features of audit reports will include the entity's compliance with laws and regulations in its operations, the strength of internal controls and reports on illegal actions and fraud if they are discovered. The basic characteristics of the reporting standards in auditing are

Title

The Auditor's report should have an appropriate title. It may be appropriate to use the term "Independent Auditor" in the title to distinguish the Auditor's report from reports that might be issued by others, such as by Officers of the client, the board of Directors, or from the reports of other Auditors who may not have to abide by the same ethical requirements as the independent Auditor.

Addressee

The Auditor General's report should be appropriately addressed as required by the circumstances of the engagement and local regulations. The report is usually addressed to the speaker of the national assembly.

Opening or Introductory Paragraph

The report should identify the financial statements of the entity that have been audited, including the date of and period covered by the financial statements.

Scope Paragraph

The Auditor's report should describe the scope of the audit by stating

that the audit was conducted in accordance with International Standards on Auditing or in accordance with relevant national standards or practices as appropriate.

Opinion Paragraph

The report should clearly state our opinion as to whether the financial statements give a true and fair view (or are presented fairly, in all material respects,) in accordance with the financial reporting framework and, where appropriate, whether the financial statements comply with statutory requirements.

Date of Report

The report should be dated as of the completion date of the audit. This informs the readers that the Audit Office has considered the effect on the financial statements and on the report of events and transactions of which the Auditors became aware of and that occurred up to that date.

Auditor General's signature

The report should be signed by the Auditor General or in the current situation of the Audit Office, by the acting Auditor General. By doing this, he assumes full responsibility for the audit. Since financial audits deal with the entity's policies on safeguarding of assets and other resources, the audit report should also state whether the state entity has utilized these resources in an economic and efficient manner to meet their main objective or goal. In the audit report, it is common practice for the 'Auditor General' to make recommendations as regards the change of policies if he believes, based on tests and tangible evidence that resources have not been applied in the best way possible. The audit report should contain a written expression of opinion of the financial information. It should comply with the legal requirements. In case of a qualified opinion, adverse opinion or disclaimer of opinion is given or reservation on any matter is to be made reasons thereof.¹⁰

ADVANTAGES OF AN INDEPENDENT AUDIT

The fact that audit is compulsory by law, in certain cases by it should show that there must be some positive utility in it. The chief utility of audit lies in reliable financial statement on the basis of which the state of affairs may be easy to understand. Apart from this obvious utility, there are other advantages of audit. Some or all of these are of considerable value even to those enterprises and organization where audit is not compulsory, these advantages are given below:

- (a) It safeguards the financial interest of persons who are not associated with the management of the entity, whether they are partners or shareholders.
- (b) It acts as a moral check on the employees from committing defalcations or embezzlement.
- (c) Audited statements of account are helpful in setting liability for taxes, negotiating loans and for determining the purchase consideration for a business.
- (d) This is also use for settling trade disputes or higher wages or bonus as well as claims in respect of damage suffered by property, by fire or some other calamity.
- (e) An audit can also help in the detection of wastage and losses to show the different ways by which these might be checked, especially those that occur due to the absence of inadequacy of internal checks or internal control measures.
- (f) Audit ascertains whether the necessary books of accounts and allied records have been properly kept and helps the client in making good deficiencies or inadequacies in this respects.
- (g) As an appraisal function, audit reviews the existence and operations of various controls in the organizations and reports weakness, inadequacy etc. in them.
- (h) Audited accounts are of great help in the settlement of accounts at the time of admission or death of partner.
- (i) Government may require audited and certificated statement before it gives assistance or issues a license for a particular trade.

AAS-1 describes the basic principles, which govern the auditor's Professional responsibilities and which should be complied with whenever an audit is carried out and are

1. Integrity, objectivity and independence

The auditor should be straightforward, honest and sincere in his approach to his professional work. He must be fair and must not allow prejudice or bias to override his objectivity. He should maintain an impartial attitude and appear to be free of any interest which might be regarded whatever its actual effect, as being incompatible with

integrity and objectivity.

2. Confidentiality

The auditor should respect the confidentiality of information acquired in the course of his work and should not disclose any such information to a third party without specific authority or unless there is legal or professional duty to disclose. It is remarked that an auditor should keep his ears and eyes open but his mouth shut.

3. Skill and competence

The audit should be performed and the report prepared with due professional care by persons who have adequate training, experience and competence. This can be acquired through a combination of general education, technical knowledge obtained through study and formal courses concluded by a qualifying examination recognized for this purpose and practical experience under proper supervision.

4. Work performed by others

When the auditor delegates work to assistant* or uses work performed by other auditors or experts, he will continue to be responsible for forming and expressing his opinion on the financial information. At the same time, he is entitled to rely on work performed by others provided he exercises adequate skills and care and is not aware of any reason to believe that he should not have relied. The auditor should carefully direct, supervise & review work delegated by assistants. He should obtain reasonable assurance that work performed by other auditors or experts is adequate for this purpose.

5. Documentation

The auditor should document matters, which are important in providing evidence that the audit was carried out in accordance with the basic principles.

6. Planning

The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Plans should be based on knowledge of client's business. They should be further developed and revised, if required, during the course of audit.

7. Audit evidence

The auditor should obtain sufficient appropriate audit evidence through the performance of compliance and substantive test procedure. It will enable him to draw reasonable conclusions there from on which he has to base his opinion on the financial information.

8. Accounting system & internal control

The auditor should gain an understanding of the accounting system and related internal controls. He should study and evaluate the operation of those internal controls upon which he wishes to rely in determining the nature, timing and extent of other audit procedures.

9. Audit conclusions and reporting

The auditor should review and assess the conclusions drawn from the audit evidence obtained and from his knowledge of business of the entity as the basis for the expression of his opinion on the financial information.¹¹

CONCLUSION

Auditing has made great strides in the past decade, but it has not seemingly kept pace with the real-time economy. Some auditing approaches and techniques that were valuable in the past now appear outdated. Future audit approaches would likely require auditors, regulators, and standards setters to make significant adjustments. Such adjustments might include (1) changes in the timing and frequency of the audit, (2) increased education in technology and analytic methods, (3) adoption of full population examination instead of sampling, (4) re-examination of concepts such as materiality and independence, and (5) mandating the provisioning of the audit data standard. Auditors would need to possess substantial technical and analytical skills that are currently not components of most traditional four year university accounting programs. The accounting profession now faces an opportunity to further elevate the audit to a higher level of automation. It is imperative that accountants ultimately lead the way in adoption and implementation of the future audit such that they continue to be the professionals of choice relative to audit engagements of the future.

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