

Introduction to Auditing

Introduction to Auditing – Study Notes

1. What Is Auditing?

Aspect	Description
Definition	An independent examination of financial statements, records, and related operations to express an opinion on their fairness and compliance with applicable standards. - Provide assurance to stakeholders (investors, creditors, regulators).
Purpose	- Detect and deter fraud and errors. - Improve internal controls and operational efficiency.
Types	1. Financial Audit – focuses on financial statements. 2. Compliance Audit – checks adherence to laws, regulations, contracts. 3. Operational (Performance) Audit – evaluates effectiveness and efficiency of operations. 4. Information Systems (IT) Audit – reviews controls over technology and data.

2. Key Concepts & Terminology

Term	Meaning
Audit Opinion	Formal conclusion (unqualified, qualified, adverse, disclaimer) issued by the auditor.
Materiality	Threshold of significance; misstatements below this level are unlikely to affect users' decisions.
Audit Risk	Probability that the auditor expresses an inappropriate opinion. It consists of: • Inherent Risk – susceptibility of an assertion to error before controls. • Control Risk – risk that a misstatement will not be prevented or detected by internal controls. • Detection Risk – risk that audit procedures will not detect a misstatement.
Evidence	Information used to support audit conclusions (documents, confirmations, observations, analytical procedures).

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Independence	Auditor must be free from bias or conflict of interest; both in fact and in appearance .
Professional Skepticism	An attitude of questioning and critical assessment of audit evidence.

3. The Auditing Process – Step?by?Step

Phase	Main Activities	Typical Output
1. Planning & Risk Assessment	• Understand the entity and its environment. • Identify significant accounts and risks. • Set materiality levels. • Develop overall audit strategy and detailed audit plan.	Audit Plan, Risk?Based Materiality Schedule
2. Internal Control Evaluation	• Document and test controls. • Determine reliance on controls for substantive testing.	Control Test Results, Assessment of Control Risk
3. Substantive Procedures	• Perform tests of details (transactions, balances). • Conduct analytical procedures (trend analysis, ratio testing).	Working Papers, Evidence of Account Balances
4. Completion & Review	• Evaluate overall findings. • Perform final analytical procedures. • Review for consistency with audit objectives.	Completion Checklist, Review Notes
5. Reporting	• Formulate audit opinion. • Draft audit report (including any emphasis of matter or key audit matters).	Audit Report (with opinion)
6. Follow?up (Optional)	• Monitor corrective actions on identified deficiencies.	Follow?up Report, Management Action Plan

4. Auditing Standards

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Standard?Setting Body

Primary Framework

International Auditing and Assurance Standards Board (IAASB)

International Standards on Auditing (ISA)

American Institute of Certified Public Accountants (AICPA)

Generally Accepted Auditing Standards (GAAS) – U.S.

Public Company Accounting Oversight Board (PCAOB)

Auditing Standards for Public Companies (U