

Introduction to Auditing Procedures

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Designed as a quick-reference guide for students and new practitioners

1. What Is an Audit?

Element	Description
Definition	An independent examination of an entity’s financial statements (or other information) to express an opinion on whether they are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
Objective	Provide reasonable assurance that the statements are free from material misstatement, whether due to error or fraud.
Scope	Can be financial , operational , compliance , or IT -focused, but the most common is the financial statement audit .

2. Types of Audits & Their Purposes

Audit Type	Primary Purpose	Typical Users
Statutory / Financial Statement Audit	Verify fair presentation of financial statements.	Investors, creditors, regulators.
Internal Audit	Evaluate internal controls, risk management, and governance processes.	Management, board of directors.
Compliance Audit	Test adherence to laws, regulations, contracts, or policies.	Regulators, grantors.
Forensic / Fraud Audit	Detect, investigate, and prevent fraud.	Law enforcement, litigation parties.
IT / SOC Audits	Assess security, availability, processing integrity of information systems.	Management, customers, partners.

3. The Auditing Process – Step-by-Step

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1. Engagement Acceptance & Planning

- Evaluate independence, competence, and ethical considerations.
- Obtain client background, understand the business, and assess risk.
- Draft an **Engagement Letter** outlining scope, responsibilities, fees, and timelines.

2. Pre-Engagement Activities

- Review prior audit files, regulatory filings, and industry literature.
- Conduct a **Pre-Audit Meeting** with management.

3. Risk Assessment

- Identify **Inherent Risk** (nature of the business, complexity, etc.).
- Identify **Control Risk** (effectiveness of internal controls).
- Perform **Analytical Procedures** (trend analysis, ratio analysis) to spot unusual items.

4. Develop Audit Strategy & Plan

- Choose between **substantive testing**, **test of controls**, or a **combined approach**.
- Allocate resources (staff, time, tools) and set materiality thresholds.

5. Execution of Fieldwork

- **Test of Controls** – evaluate design & operating effectiveness of key controls.
- **Substantive Procedures** –
 - *Analytical procedures* (e.g., variance analysis).
 - *Test of details* (e.g., vouching, confirmation, cutoff testing).
- Document evidence in **working papers** (chronological, cross-referenced, and indexed).

6. Evaluation of Findings

- Compare audit evidence against assertions (existence, completeness, rights & obligations, valuation, presentation).
- Assess whether misstatements are **material** individually or in aggregate.

7. Forming the Audit Opinion

- Determine if financial statements are **fairly presented**.

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- Choose the appropriate opinion type (unqualified, qualified, adverse, disclaimer).

8. Reporting

- **Audit Report** – includes opinion, basis for opinion, key audit matters (KAMs), and any required emphasis of matter or other paragraphs.
- **Management Letter** – observations on internal controls, recommendations for improvement.

9. Post-Audit Activities

- Conduct a **Quality Review** (internal or peer review).
- Archive working papers per