Audit Services

An audit is a type of attestation service in which an auditor provides an independent opinion (positive assurance) about whether management (asserter) has prepared financial statements in conformity with an applicable financial reporting framework (criteria). Appropriate reporting frameworks include U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS).

The Generally Accepted Auditing Standards (GAAS) are the minimum standards required of an auditor in the execution of an audit engagement. GAAS provide a measure of audit quality and the objectives to be achieved in an audit, and these standards are guidelines used by an auditor when exercising professional judgment in the conduct of an audit. If a problem arises with the audit, the measure will be whether the auditor relied on the standards.

Generally Accepted Auditing Standards *

General Standards –

1. The auditor must have adequate technical training and proficiency to perform the audit.
2. The auditor must maintain independence in mental attitude in all matters relating to the audit.
3. The auditor must exercise due professional care in the performance of the audit and the preparation of the report.

Fieldwork Standards -

1. The auditor must adequately plan the work and must properly supervise any assistants.
2. The auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures.
3. The auditor must obtain sufficient appropriate audit evidence by performing audit procedures to afford a reasonable basis for an opinion regarding the financial statements under audit.

Reporting Standards -

1. The auditor must state in the auditor's report whether the financial statements are presented in accordance with Generally Accepted Accounting Principles (GAAP).

2. The auditor must identify in the auditor's report those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.
3. When the auditor determines that informative disclosures are not reasonably adequate, the auditor must so state in the auditor's report.

4. The auditor must either express an opinion regarding the financial statements, taken as a whole, or state that an opinion cannot be expressed, in the auditor's report. When the auditor cannot express an overall opinion, the auditor should state the reasons in the auditor's report. In all cases where an auditor's name is associated with financial statements, the auditor should clearly indicate the character of the auditor's work, if any, and the degree of responsibility the auditor is taking, in the auditor's report.

Auditors' Opinions

Auditors' opinions are relied upon by 3rd parties (i.e. investors, stakeholders, and the public) and they carry significant weight in the financial community. They affect lending decisions, credit ratings, financial transactions, and other facets of business.

An audit provides an independent and objective evaluation of a company's financial statements. After completing the audit, an auditor issues a report that contains the auditor's opinion whether the financial statements fairly represents the client's financial position. The opinion report describes the nature of the auditor's work and the degree of responsibility the auditor assumed. This opinion is based on whether the client's financial statements fairly reflect the company's financial position, operations, and cash flow according to Generally Accepted Accounting Principles (GAAP).

Auditor's opinions are categorized as follows:
1. *Unqualified Opinions -*
Unqualified opinions are also referred to as *standard* or *clean* opinions. The auditor concludes that the financial statements are a fair representation of the organization's financial position in accordance with Generally Accepted Accounting Principles (GAAP). The opinion indicates which statements were audited, that the GAAP standards were followed, and that tests that the auditor considered were necessary were completed.

2. *Qualified Opinions -*
Qualified opinions are also called *modified* opinions. This type of opinion is given when some doubt exists about whether the financial statements fairly represent the client's financial condition. The auditor reports that the financial statements are a fair representation of the organization's financial position in accordance with GAAP, with the exception of identified and reported items. Qualified opinions may occur in situations such as:

a. When a company changes accounting principles
b. When a company changes accountants
c. When material uncertainties exist
d. When a client has justifiably departed from GAAP in a transaction

The recipients of qualified opinions must make independent judgments and determine how the qualification affects the company's financial condition.

3. *Adverse Opinions* –
Adverse opinions are issued when an auditor determines that a client's financial statements do not fairly represent the client's financial position in accordance with GAAP. This type of opinion may also be issued if accounting techniques that the company used to prepare the financial statements damaged the creditability of the financial statements.

4. *Disclaimer of Opinions* –
Disclaimers of opinions are issued when an auditor is unable to objectively determine whether the financial statements conform to GAAP. For example, an auditor is unable to form a conclusion due to lack of sufficient information. If sufficient information is available to reach a conclusion, then the auditor is required to issue an unqualified (standard or clean), a qualified (modified), or an adverse opinion.

* Auditing and Attestation. Chapter 1. Professional Standards, Audit Process, and Audit Planning. (Course 5294 Copyright 2013.)