INTRODUCTION TO AUDITING

What is the difference between accounting and auditing?

- Accounting is the **recording** and **classifying** of transactions and balances from supporting documents by an organization in order to produce a set of financial statements.
- Auditing is the **examination** and **verification** of an organization’s financial and accounting records and supporting documents by a third party chartered accounting firm such as The Exchange Group to ensure the financial statements are not materially misstated, and are presented in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

Why do we perform audits?

- To ensure that assets (Items owned by or owed to the organization) and liabilities (Items owed by the organization) exist and are fully recorded and disclosed in accordance with GAAP.
- To ensure that all revenues and expenses of the organization are properly recorded in accordance with GAAP.

An Audit is Not

- Assurance as to future viability
- Opinion as to how efficient or effective an organization was
- Opinion as to how well internal controls operated
- Designed to identify fraud
- Bookkeeping

Materiality

- Materiality is defined as the amount a set of financial statements could be misstated before someone who is using them would change their opinion of an organization.
- All audits are performed with materiality in mind.
- Materiality levels are determined by the auditor using professional judgement based on knowledge of who the users of the financial statements will be.

STANDARD AUDIT REPORT

AUDITORS' REPORT

To the members of ....

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation2 of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

STANDARD AUDIT REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Company as at December 31, 20X1, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Sampling

- Auditors do not review supporting documentation for every transaction.
- Auditors choose a sample of items recorded in the general ledger
- Based on this sample, the auditor will decide whether the financial statements are materially stated.

Auditor’s Opinion

- There are 3 different Auditor’s Opinions:
  - An unqualified opinion
  - A qualified opinion
  - A denial of opinion

Unqualified Audit Opinion

- An Unqualified Audit Opinion is a clean audit opinion, where no material errors have been found and the financial statements meet GAAP disclosure requirements.

Qualified Audit Opinion

- A qualified audit opinion will arise when the auditor has found a specific item that may be materially misstated or has not been recorded in accordance with GAAP. In the opinion, the auditor will note the possible error.
- Example,"The Organization had recorded a receivable in the amount of $10,000 from INAC. We could not obtain sufficient audit evidence to support the receivable."

Denial of Opinion

- A denial of opinion will arise when the balances and transactions recorded by an organization cannot be audited.
- This opinion is usually given due missing documentation or due to lack of organization of books and records.

Policies and Procedures

- Policies and Procedures of an organization are the written documentation as to what each person does and how they do it.
- Examples of Policies and Procedures include:
  - Entering an invoice into the computer system and then signing an initial on the invoice as proof that it was entered;
  - Printing a cheque, and submitting the cheque to someone else with signing authority to sign the cheque;
  - Obtaining written approval before making a purchase;