

ACCOUNTING AND FINANCE

LEVEL - IV

Based on November 2023 Curriculum V – I



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Acronym

CPA ----- public accounting profession

GAAS ----- generally accept auditing standards

GAAP ----- generally accept accounting principle

IIA ----- Institute of Internal Auditors

OAG -----office of the auditor general

NGO -----non-governmental organization

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Introduction to the Module

In accounting and finance field, Performing auditing and reporting is very important for the overall health of the organizational operation. It helps to know basic Audit planning, conducting an audit and reporting audit outcomes.

This module is designed to meet the industry requirement under the Accounting and finance occupational standard, particularly for the unit of competency: Performing auditing and reporting.

This module covers the units:

- Planning an audit
- Conducting an audit
- Reporting audit outcomes

Learning Objective of the Module

At the end of the session, the students will able to:

- Plan audit activity
- Conduct planed audit
- Prepare audit Report

Module Instruction

For effective use this modules trainees are expected to follow the following module instruction:

1. Read the information written in each unit
2. Accomplish the Self-checks at the end of each unit
3. Perform Operation Sheets which were provided at the end of units
4. Do the “LAP test” giver at the end of each unit and
5. Red the identified reference book for examples and exercise

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Unit One: Planning an Audit

This unit is developed to provide you the necessary information regarding the following content coverage and topics:

- Roles and responsibilities of auditor
- Purpose and scope of audit
- Resources for audit

This guide will also assist to you to attain the learning outcomes stated in the cover page.

Specifically, upon completion of this learning guide, you will be able to:

- Identify roles and responsibilities
- Analysis Purpose and scope of audit
- Identify and locating resources

1.1. Roles and Responsibilities of Auditor

The American Accounting Association, committee on Basic Auditing concepts - Defined Auditing as:

Auditing is systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between assertions and established criteria and communicating the results to interested users.

The phrases in this definition require additional explanation. The phrase systematic process implies there should be a well-planned approach for conducting an audit. This plan involves objectively obtaining and evaluating evidence. The evidence gathered by the auditor must relate to assertions about economic actions and events. For example financial statements prepared by management contain numerous assertions.

If the Balance sheet contains amount of Br. 10million for property, plant and equipment, management is asserting (declaring) that the company owns the assets, uses them in the production of goods and services, and that this amount represents their un depreciated historical costs. The Auditor compares the evidence gathered to assertions about economic activity in order to assess the degree of correspondence between those assertions and established criteria. Generally Accepted Accounting Principles (GAAP) is normally used for measuring the degree of correspondence, for financial Audits. The last Phrase, communicating the results to interested Users, is concerned with the type of report the auditor provides to the intended users. (Banker, investors, stockholders, Creditors, etc

Benefits of Audit

Audits provide several benefits to organizations, stakeholders, and the broader business environment. Here are some key benefits of conducting audits:

- Assurance of Financial Accuracy: Audits provide assurance that the financial statements of an organization are presented fairly and accurately. This promotes transparency and instills confidence among stakeholders, including investors, creditors, and regulatory bodies.

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- **Compliance with Regulations:** Audits ensure that an organization is compliant with relevant laws, regulations, and accounting standards. This is particularly important in industries with strict regulatory requirements.
- **Risk Identification and Management:** Through risk assessment and analysis, audits help identify potential risks and weaknesses in internal controls. This allows organizations to proactively manage and mitigate risks, reducing the likelihood of fraud, errors, or non-compliance.
- **Enhanced Internal Controls:** Audits contribute to the improvement of internal control systems. Recommendations from auditors help organizations strengthen their control environment, safeguard assets, and improve operational efficiency.
- **Reliable Financial Reporting:** Audits verify the accuracy and reliability of financial information. This is essential for making informed business decisions and for maintaining the trust of shareholders, lenders, and other stakeholders.
- **Credibility and Trust Building:** A well-conducted audit enhances the credibility and trustworthiness of an organization. External stakeholders, such as investors and customers, are more likely to trust the financial information presented in audited statements.
- **Facilitation of External Funding:** Companies that undergo regular audits may find it easier to secure external funding. Lenders and investors often prefer to work with organizations that have transparent financial reporting and a history of audit compliance.
- **Detection and Prevention of Fraud:** Audits play a crucial role in detecting and preventing fraud. By scrutinizing financial transactions and controls, auditors can identify irregularities and potential fraudulent activities.
- **Improvement of Operational Efficiency:** Through process reviews and recommendations, audits can contribute to the improvement of operational efficiency. Streamlining processes and addressing inefficiencies identified during audits can lead to cost savings and better resource utilization.
- **Board and Management Oversight:** Audits provide boards of directors and management with an independent assessment of the organization's financial health

and compliance. This oversight is essential for effective governance and strategic decision-making.

- **Benchmarking and Performance Evaluation:** Audits provide a benchmark for performance evaluation. Organizations can compare their financial performance over time, against industry standards, or against competitors, gaining insights for strategic planning and improvement.
- **Investor and Shareholder Protection:** Audits protect the interests of investors and shareholders by ensuring that financial information is accurate and transparent. This protection is especially important in publicly traded companies.
- **Legal and Regulatory Compliance:** Compliance with legal and regulatory requirements is a fundamental benefit of audits. Organizations are held accountable for adhering to laws and regulations governing financial reporting and business operations.
- **Early Detection of Financial Issues:** Audits help in the early detection of financial issues or challenges. Timely identification allows organizations to address problems proactively, minimizing the impact on financial performance.
- **Continuous Improvement:** The audit process often includes recommendations for improvement. Organizations can use these recommendations to implement changes that enhance overall governance, risk management, and compliance.

Audits are valuable tools that contribute to financial integrity, regulatory compliance, risk management, and the overall success of organizations. They serve as a mechanism for accountability and transparency in business operations.

Types of audit

While there are many types of audit based on the definitions previously provided, generally they are three types: financial statement audits, compliance audits and operational audits

A. Financial Statement Audits

The purpose of a financial statement audit is to determine whether the overall financial statements present fairly in accordance with specified criteria. This type of audit usually covers the basic set of financial statements (Balance sheet, Income statement, statement of stockholders equity, and statement of cash flows); and Generally Accepted Accounting

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principles (GAAP) serve as the criteria. However, certain financial statements audits may use of other criteria, such as cash basis or Income tax basis.

i. Income Statement Audit

An income statement shows the performance of the company during a fiscal year. The statement reports the revenue earned and expenses incurred during the period. On the last line, the report reveals the net profit or loss for the period. (This fact is actually the origin of the term, “bottom line”, as the bottom line on an income statement shows a company’s profit/loss for the year.) The earnings per share (EPS) figure may be included when the financial statements are issued by a publicly traded company. The auditor verifies the accuracy of transactions by cross-checking the cash book and individual books of accounts.

ii. Balance Sheet Audit

The balance sheet reports the financial position of the company at the end of the fiscal year (or at any other point in time a balance sheet is prepared; for example, companies are usually required to submit a balance sheet when applying for a loan).

It reveals the value of assets, liabilities, and equity of a company. The items in the assets and liabilities columns are typically presented in order of liquidity, with the most liquid items reported first. The auditor may verify the existence of assets and liabilities, and the accuracy of the figures presented

iii. Cash Flow Statement

The cash flow statement may also be included in the audited financial statements. The cash flow statement reveals the cash inflows and outflows during the fiscal year. It provides an insight into the company’s ability to meet its short-term obligations and continue operating in the foreseeable future. The auditor may verify the entries in the cash flow statement against the bank statement and also check the accuracy of the footnotes.

B. Compliance Audits

The purpose of a compliance audit is to determine the extent to which rules, policies, Laws covenants, or governmental regulation are followed by the entity being audited for example, accompany may use auditors to determine whether the corporate rules, and

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policies are being followed by departments within the organization. The corporate rules and policies serve as the criteria for measuring the departments Compliance. Another example is examination of tax returns (payment) of individuals and companies by the Internal Revenue Service for compliance with Tax Laws.

C. Operational Audits

Operational Audit involves a systemic review of organizational activities, or apart of them, in relation to the efficient and effective use of resources. The purpose of operational audit is to assess performance, Identify areas of Improvement, and develop recommendations. Sometimes this type of audit is referred to as a performance audit or management audit. Operational audits are generally more difficult to conduct than financial and compliance audits. Since the purpose of an operational audit is to assess effectiveness and efficiency, it can be very difficult to identify objective, measurable criteria that can be used for that purpose.

Examples of such audit include – audit of government programs, Efficiency of the food and Drug administration's procedures for Introduction of new Drugs, to market. Assessment of the efficiency and effectiveness of organizations use of computer resources etc

Types of Auditors

The most known types of auditors are

- Independent auditors
- Internal auditors
- Government auditors

Independent (external auditors): - Independent auditors have no connection to the firm as an owner or employee/manager. The basic task of independent auditor is to confirm to the owners that the employees are correctly reporting on their financial position and performance.

Internal auditor: - An internal auditor is paid salary as employee on the organization that is being audits. He/she is responsible to appraise and investigation the performance of unit and/or units within the organization and give recommendation to top management.

Government audit: - The government auditor is paid a salary by the government. He/she is responsible to the legislature or executive.

Auditing principle

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Auditing principles are generally, guidelines that help direct or chart goals and aims. Principles are based on concepts or assumptions, and/or developed from particular observations. The following are the basic principles:

Integrity, objectivity and independence the auditor should be straightforward, honest, and sincere in his approach to his professional work.

- Confidentiality: - the audit 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 unless there is legal or professional duty to disclose.
- Skills and competence: - the audit should be performed and the reports prepared with due professional care by persons who have adequate training, experience and competence in auditing.
- Documentation: - the auditor should document matters which are important in providing evidence that the audit was carried out with the basic principles.
- Planning: - the auditor should plan his work to enable him to conduct an effective audit in efficient and timely manner
- Audit evidence: - the auditor should obtain sufficient appropriate audit evidence through the performance of compliance and substantive procedures to enable him to draw conclusion there from and give opinion on the financial statements.
- Accounting system and internal control: The auditor should gain or understanding of the accounting system and related internal controls to determine the nature, extent, and timing of audit procedures.

Audit Participants

Audit participants are individuals or entities involved in the audit process, each playing a specific role to ensure the effectiveness, independence, and integrity of the audit. The key participants in an audit typically include:

- Management:
 - Responsibility: Management is responsible for preparing the financial statements and ensuring they are presented fairly in accordance with the applicable financial reporting framework.
 - Representation Letters: Management provides representation letters to the auditors, confirming the accuracy and completeness of the information provided during the audit.

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- Auditors:
 - External Auditors: Independent professionals hired to conduct the audit. They express an opinion on the fairness of the financial statements based on their examination.
 - Internal Auditors: Employed by the entity, they conduct internal audits to provide insights into the effectiveness of internal controls and risk management.
- Audit Committee:
 - Oversight: A subcommittee of the board of directors, the audit committee oversees the financial reporting process and the external audit.
 - Communication: Acts as a liaison between the board of directors, management, and external auditors, facilitating communication on audit matters.
- Board of Directors:
 - Oversight: The board of directors is ultimately responsible for overseeing the financial reporting process and ensuring the integrity of the organization's financial statements.
 - Appointment: In many cases, the board appoints the external auditors based on the recommendation of the audit committee.
- Regulatory Bodies:
 - Oversight: Regulatory bodies, such as the Securities and Exchange Commission (SEC) or financial regulatory authorities may oversee audits to ensure compliance with legal and regulatory requirements.
 - Standard Setting: Organizations like the Financial Accounting Standards Board (FASB) set accounting standards that auditors must follow.
- Shareholders/Investors:
 - Interest: Shareholders and investors have a vested interest in the accuracy of financial statements. They rely on audited financial statements to make informed investment decisions.
 - AGM Participation: In public companies, shareholders may engage with auditors during the Annual General Meeting (AGM) to ask questions about the audit.
- Other Stakeholders:
 - Creditors: Creditors may be interested in the financial health of the entity, especially if they are lending money.

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- **Employees:** Employees may be affected by the financial condition of the organization, and audited financial statements can provide transparency.
- **Legal Counsel:**
 - **Legal Advice:** In some cases, organizations may engage legal counsel to provide guidance on legal matters related to the audit.

Effective communication and collaboration among these participants are crucial for the success of the audit process. Each participant has a distinct role in promoting transparency, accountability, and the overall reliability of financial information.



Figure 1. 1 Roles and responsibilities of Audit participants

The roles and responsibilities of an auditor are crucial in providing assurance to stakeholders regarding the accuracy, reliability, and compliance of financial information. The auditor's primary responsibility is to express an independent and professional opinion on the fairness of the financial statements. Here are the key roles and responsibilities of an auditor:

- **Independence:** Maintain independence in both appearance and fact. Independence is a cornerstone of the auditing profession and is essential for providing unbiased opinions.

- **Professional Scepticisms:** Approach the audit with a questioning mindset and a critical assessment of evidence. Be sceptical and objective in evaluating management's assertions.
- **Compliance with Auditing Standards:** Conduct the audit in accordance with relevant auditing standards, ensuring that audit procedures comply with established professional norms.
- **Understanding the Business and Industry:** Develop a deep understanding of the audited entity's business, industry, and operating environment to identify risks and tailor audit procedures accordingly.
- **Risk Assessment:** Assess the risk of material misstatement in the financial statements and related assertions. Design audit procedures to address identified risks.
- **Audit Planning:** Develop a comprehensive audit plan that outlines the scope, objectives, and approach of the audit. Allocate resources effectively and set timelines for audit procedures.
- **Materiality and Audit Sampling:** Determine materiality thresholds for financial statements and specific accounts. Apply appropriate audit sampling techniques when necessary.
- **Internal Control Evaluation:** Evaluate the effectiveness of internal controls over financial reporting. Identify weaknesses and assess their impact on the audit approach.
- **Substantive Procedures:** Perform substantive procedures, including tests of details and analytical procedures, to obtain audit evidence about the accuracy and completeness of financial statement assertions.
- **Communication:** Communicate effectively with management, those charged with governance, and other stakeholders throughout the audit process. Report significant findings promptly.
- **Documentation:** Maintain comprehensive and well-organized audit documentation to support the audit opinion. Documentation should demonstrate adherence to auditing standards and procedures.
- **Fraud Detection:** Assess the risk of fraud and design procedures to detect and respond to the risk of material misstatement due to fraud. Consider the potential for management override of controls.

- **Going Concern Assessment:** Evaluate the entity's ability to continue as a going concern and disclose any uncertainties if applicable.
- **Audit Reporting:** Express an independent and professional opinion on the fairness of the financial statements in the audit report. Clearly communicate any material weaknesses or significant deficiencies in internal controls.
- **Continuous Professional Development:** Stay current with developments in auditing standards, regulations, and industry practices. Engage in continuous professional education to enhance auditing skills and knowledge.
- **Ethical Conduct:** Adhere to ethical principles and professional codes of conduct. Avoid conflicts of interest and maintain integrity, objectivity, and confidentiality.

The auditor's responsibilities are critical in ensuring the integrity of financial information and fostering confidence in financial reporting. Auditors play a vital role in promoting transparency, accountability, and trust within the business community.

Audit standards

Standards are authoritative rules for measuring the quality of performance. The existence of generally accepted auditing standards is evidence that auditors are very concerned with the maintenance of a uniformly high quality of audit work by all independent public accountants. The three main categories of GAAS include:

I. General Standards:

- **Training and Proficiency:** Auditors must have adequate technical training and proficiency to perform the audit.
- **Independence:** Auditors must maintain independence both in fact and appearance. This ensures unbiased and objective reporting.
- **Due Professional Care:** Auditors must exercise due professional care, meaning they must plan and perform the audit with diligence and competence.

II. Standards of Fieldwork:

- **Planning and Supervision:** Auditors must adequately plan the work and must properly supervise any assistants.
- **Understanding of the Entity and Its Environment:** Auditors must have a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement in the financial statements.

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- **Sufficient Appropriate Evidence:** Auditors must obtain sufficient appropriate audit evidence to support their opinion.

III. Standards of Reporting:

- **Expressing an Opinion:** Auditors must express an opinion on the financial statements based on their audit findings.
- **Consistency of Presentation:** Auditors should consider the consistency of the financial statements in relation to prior periods.
- **Informative Disclosures:** Auditors should ensure that the financial statements include all necessary informative disclosures.

1.2. Purpose and scope of audit

Audit is a systematic examination of financial, operational, or compliance information to provide an independent assessment of the accuracy and reliability of that information. The purpose and scope of an audit can vary based on the type of audit being conducted. The scope of an audit defines the boundaries and extent of the examination. It includes the specific processes, transactions, time period, and organizational units that will be subject to review.

The scope is typically determined based on the audit objectives and the risks identified during the planning phase. The ultimate goal of any audit is to provide stakeholders with confidence in the accuracy, reliability, and compliance of the information under examination.

Here are common types of audits and their purposes and scope:

I. Financial Audit:

Purpose: To examine financial statements and ensure they present a true and fair view of an organization's financial position.

Scope: Involves a detailed review of financial records, transactions, internal controls, and adherence to accounting standards.

II. Operational Audit:

Purpose: To evaluate the efficiency and effectiveness of an organization's operations, processes, and procedures.

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Scope: Focuses on the day-to-day activities and management practices, seeking opportunities for improvement and cost reduction.

III. Compliance Audit:

Purpose: To ensure that an organization is adhering to relevant laws, regulations, policies, and contractual agreements.

Scope: Examines whether the organization is in compliance with external and internal requirements.

IV. Performance Audit:

Purpose: To assess the economy, efficiency, and effectiveness of programs, activities, or functions within an organization.

Scope: Focuses on the outcomes and results achieved, often measuring performance against established goals and objectives.

V. Internal Audit:

Purpose: To provide independent and objective assurance to an organization's management regarding the effectiveness of internal controls, risk management, and governance processes.

Scope: Covers a broad range of activities based on the organization's needs, including financial, operational, and compliance aspects.

VI. Environmental Audit:

Purpose: To assess an organization's environmental impact and compliance with environmental regulations.

Scope: Involves evaluating the organization's practices related to environmental sustainability, waste management, and resource use.

VII. Investigative Audit:

Purpose: To uncover and document potential fraud, misconduct, or irregularities within an organization.

Scope: Focuses on specific areas of concern, often initiated in response to allegations or suspicions.

1.3. Resources for audit

Resources for conducting audits can vary depending on the type of audit and the specific focus areas. However, here are some general resources that auditors may find helpful:



Figure 1. 2 audit Resources

- i. International Standards on Auditing (ISA): Published by the International Auditing and Assurance Standards Board (IAASB), these standards provide guidance on the conduct of financial audits. They are widely recognized and used globally.
- ii. Generally Accepted Auditing Standards (GAAS): In the United States, the Auditing Standards Board (ASB) issues GAAS, which outlines the standards for conducting audits of financial statements.
- iii. Internal Audit Standards: The Institute of Internal Auditors (IIA) provides the International Professional Practices Framework (IPPF), which includes the International Standards for the Professional Practice of Internal Auditing.
- iv. Government Auditing Standards (Yellow Book): Issued by the U.S. Government Accountability Office (GAO), the Yellow Book provides standards for performing audits of government organizations, programs, activities, and functions.
- v. ISACA (Information Systems Audit and Control Association): ISACA offers resources for IT auditors, including the COBIT framework, which provides guidance on the governance and management of enterprise IT.
- vi. ISO Standards: Various ISO standards may be relevant to audits, such as ISO 9001 (Quality Management), ISO 14001 (Environmental Management), and ISO/IEC 27001 (Information Security Management).

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- vii. **Regulatory Guidelines:** Depending on the industry and jurisdiction, there may be specific regulatory guidelines and requirements that auditors need to consider. For example, financial institutions may need to adhere to regulations such as Sarbanes-Oxley Act (SOX) in the United States.
- viii. **Audit Software:** Tools like ACL, IDEA, and TeamMate are designed to assist auditors in data analysis, sampling, and workflow management.
- ix. **Training and Professional Organizations:** Organizations such as the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants in England and Wales (ICAEW), and the American Institute of Certified Public Accountants (AICPA) offer training, guidance, and resources for auditors.
- x. **Textbooks and Publications:** Various textbooks cover auditing principles and practices. Journals and publications from auditing and accounting bodies can also provide insights into emerging trends and issues.

It's essential for auditors to stay updated on the latest developments in auditing standards, regulations, and technologies. Regular training, attendance at conferences, and networking within the auditing community are valuable ways to enhance audit capabilities. Additionally, organizations may develop their own internal audit manuals and procedures tailored to their specific needs and industry requirements.

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Self-check 1

I. Multiple Choice Questions

1. What is the primary purpose of a financial statement audit?
 - A. Evaluate operational efficiency
 - B. Assess compliance with regulations
 - C. Confirm the accuracy of financial statements
 - D. Review environmental impact
2. Which type of audit is focused on assessing the efficiency and effectiveness of organizational activities?
 - A. Financial Statement Audit
 - B. Compliance Audit
 - C. Operational Audit
 - D. Investigative Audit
3. According to the International Standards on Auditing (ISA), what is the purpose of audit evidence?
 - A. Confirming management's assertions
 - B. Assessing compliance with laws
 - C. Evaluating operational efficiency
 - D. Investigating potential fraud
4. What is the primary responsibility of internal auditors?
 - A. Provide an independent opinion on financial statements
 - B. Assess compliance with laws and regulations
 - C. Evaluate the effectiveness of internal controls
 - D. Conduct investigations into potential fraud
5. The Yellow Book provides standards for which type of audit?
 - A. Financial Statement Audit
 - B. Operational Audit
 - C. Government Auditing
 - D. Investigative Audit

II. True/False Questions

1. The purpose of a compliance audit is to evaluate the efficiency and effectiveness of organizational activities.
2. Auditors must maintain independence in both appearance and fact, according to auditing principles.
3. The balance sheet reports on the financial position of a company at the beginning of the fiscal year.
4. Internal auditors are typically external professionals hired to conduct audits for an organization.
5. The International Professional Practices Framework (IPPF) is associated with Generally Accepted Auditing Standards (GAAS).

III. Give appropriate answer for the following questions

1. List and explain the three general types of audits.
2. Write types of financial statement audit.
3. Discuss the Roles and responsibilities of audit participants.
4. Write at least four focuses of Compliance audits?
5. Write at least three auditor's responsibilities.

Operation Sheet 1.1

Operation Title: Audit Planning

Purpose: To establish a comprehensive plan outlining the specific objectives, risks, and procedures for conducting a successful audit engagement.

Conditions or Situations for the Operation:

- Access to relevant historical audit information.
- Familiarity with industry-specific audit requirements.
- Collaboration with key stakeholders, including audit team members and client representatives.
- Adherence to auditing standards, regulations, and ethical guidelines.

Equipment, Tools, and Materials:

- Computer or manual planning tools.
- Previous audit reports and documentation.
- Audit planning templates and checklists.
- Communication tools for coordination with the audit team.

Steps in Doing the Task:

1. Understand Organizational Structure: Gain insights into the organizational structure, including key departments, functions, and reporting lines.
2. Review Previous Audit Findings: Examine findings from previous audits to identify areas of concern, recurring issues, and corrective actions taken.
3. Define Audit Objectives: Clearly define the specific objectives and goals of the audit engagement in alignment with organizational goals and regulatory requirements.
4. Identify Key Risks: Identify and assess key risks associated with financial statements, internal controls, and relevant business processes.
5. Develop Risk-Based Audit Plan: Establish a risk-based audit plan that prioritizes high-risk areas and determines the extent of testing required for each area.
6. Allocate Resources: Allocate human and technical resources based on the complexity and scope of the audit engagement.
7. Coordinate with Audit Team: Communicate the audit plan to the audit team, ensuring a clear understanding of roles, responsibilities, and timelines.

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8. Engage with Client Management: Collaborate with client management to discuss the audit plan, address concerns, and ensure cooperation in providing necessary information.
9. Select Audit Procedures: Choose appropriate audit procedures, including inspection, observation, inquiry, and analytical procedures, based on audit objectives and risks.
10. Determine Sampling Methods: Define sampling methods for testing transactions, balances, or controls, ensuring a representative and statistically valid sample.
11. Establish Materiality Threshold: Determine a materiality threshold to guide the evaluation of potential misstatements and their impact on financial statements.
12. Develop Audit Program: Create a detailed audit program outlining the specific steps, procedures, and tests to be performed during the audit.
13. Compliance with Standards: Ensure that the audit plan aligns with auditing standards, regulatory requirements, and ethical guidelines.
14. Document Audit Plan: Document the finalized audit plan, including objectives, risks, procedures, resource allocation, and timelines.
15. Review and Approval: Review the audit plan with relevant stakeholders, obtain necessary approvals, and address any feedback or concerns.

LAP T Test

Instructions: Given necessary templates, tools and materials you are required to perform the following tasks accordingly.

Task 1: Identify Key Risks

Task2: identify methods of sampling

Task 3: prepare audit plan

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Unit Two: Conducting an Audit

This unit is developed to provide you the necessary information regarding the following content coverage and topics:

- Collecting information
- Analysing information
- Record reviewing
- Compliance observation
- Areas of correction

This guide will also assist to you to attain the learning outcomes stated in the cover page.

Specifically, upon completion of this learning guide, you will be able to:

- Collect information for audit plan
- Analysis information
- Review Records
- Observe compliance with the program
- Identify areas requiring corrective action

2.1. Collecting information

Knowing how to look, where to look, and what to look for is the key to meeting the audit objectives. Therefore, data/ information gathering is a big and highly important part of any audit. Collecting audit evidence/ information is a crucial step in the audit process, as it involves obtaining information and support for the auditor's conclusions and opinions. The audit evidence serves as the basis for the auditor's report on the financial statements.

An Auditor should always support his or her conclusions about an audit with information gathered by as many different methods as possible. Restricting oneself to only one viewpoint is unlikely to produce an accurate result. Carrying out all the chosen data gathering tasks diligently will help the Auditor conduct a successful audit.

2.1.1. Types of Audit information

Audits involve the examination and verification of various types of information to assess the accuracy, completeness, and compliance of financial statements, processes, or systems. The types of audit information can be categorized based on their nature and purpose. Here are some common types of audit information:

- **Financial Information:** Financial statements, including balance sheets, income statements, cash flow statements, and other financial records, are crucial components of audits. Auditors examine these to ensure accuracy, completeness, and compliance with accounting standards.
- **Operational Information:** Information related to the day-to-day operations of an organization, such as business processes, internal controls, and operational procedures. Auditors assess whether these operations are efficient, effective, and comply with relevant regulations.
- **Compliance Information:** This includes information related to regulatory compliance, industry standards, and internal policies. Auditors examine whether the organization adheres to applicable laws, regulations, and internal policies.
- **Internal Control Information:** Details about the internal control systems in place within an organization. Auditors assess the design and effectiveness of internal controls to ensure the reliability of financial reporting and safeguarding of assets.

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- **Management Representations:** Statements and assertions made by the management of the organization regarding the financial statements and related matters. Auditors may obtain written representations from management to support their audit conclusions.
- **Analytical Procedures:** Analytical procedures involve the evaluation of financial information through analysis of trends, ratios, and other relationships. Auditors use analytical procedures to identify areas that may require further investigation.
- **Documentation and Work Papers:** Auditors create and maintain work papers and documentation to support their audit findings. This includes evidence of procedures performed, audit tests conducted, and conclusions reached during the audit process.
- **Corroborating Evidence:** it independent evidence that supports the information being audited. Auditors seek corroborating evidence to verify the accuracy and reliability of financial transactions and balances.
- **Legal Documents:** Legal agreements, contracts, and other legal documents may be examined during an audit to ensure compliance and to identify any potential legal risks or obligations.
- **Personnel Records:** Information related to employees, including payroll records, personnel files, and employee benefit programs. Auditors may review this information to ensure accurate financial reporting and compliance with employment laws.
- **External Confirmations:** Auditors may obtain external confirmations directly from third parties, such as customers, vendors, or financial institutions, to verify the accuracy of certain financial information.

The specific types of audit information required depend on the nature of the audit engagement, audit objectives, and the industry or sector in which the audited entity operates. The goal is to gather sufficient and appropriate audit evidence to form a basis for the auditor's opinion on the financial statements or other audited information.

2.1.2. Methods of collecting information

While the specific methods of gathering information during an audit may vary based on the context and the nature of the audit, here are six commonly used methods:

- Inspection:** Inspection involves the examination of records, documents, or tangible assets. The auditor reviews physical or electronic evidence to verify its existence, accuracy, or compliance with established criteria. This method is commonly used for

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examining supporting documentation such as invoices, contracts, and financial statements.

- b. **Observation:** Observation involves watching a process or procedure being performed. The auditor directly observes activities, operations, or behaviors to assess their conformity with predetermined criteria. This method is often used to evaluate internal controls, operational processes, and the implementation of policies.
- c. **Inquiry:** Inquiry involves obtaining information by asking questions. The auditor communicates with relevant individuals within the organization, such as management, employees, or third parties, to gather insights and explanations. This method is useful for obtaining qualitative information, understanding processes, and assessing knowledge.
- d. **Confirmation:** Confirmation involves obtaining a written or oral response from a third party to corroborate information. The auditor seeks to validate the accuracy of representations made by external parties, such as customers, suppliers, or financial institutions. Confirmations are often used to verify accounts receivable balances, liabilities, or other financial information.
- e. **Recalculation:** Recalculation involves checking the mathematical accuracy of financial or non-financial information. The auditor independently performs calculations or rechecks computations made by others to ensure the accuracy of the reported data. This method is commonly applied to numerical data, such as financial calculations or statistical analyses.
- f. **Reperformance:** Reperformance involves independently executing procedures or controls that were originally performed by the entity. The auditor repeats certain activities to verify the reliability of the results and to assess whether the controls are operating effectively. This method is often used to test the effectiveness of internal controls and the accuracy of financial processes.

It's important to note that auditors often employ a combination of these methods to obtain comprehensive and reliable information. The selection of methods depends on the audit objectives, the nature of the information sought, and the specific risks associated with the audit engagement.

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2.2. Analysing information of audit

Analyzing information during an audit is a critical step that involves evaluating the gathered evidence to draw conclusions and form opinions. The analysis aims to assess the reliability of financial information, identify areas of risk, and provide insights into the organization's operations. Here are key aspects of analyzing audit information:

- Risk Assessment:
 - Objective: Identify and assess the risk of material misstatement in the financial statements.
 - Analysis: Evaluate the risk factors associated with the industry, entity, and specific financial statement elements. Consider internal controls and the likelihood of errors or fraud.
- Materiality Determination:
 - Objective: Determine the threshold for materiality to guide the audit scope.
 - Analysis: Assess the significance of potential misstatements in the financial statements. Consider both quantitative and qualitative factors that may impact users' decisions.
- Comparative Analysis:
 - Objective: Compare current financial information with prior periods or industry benchmarks.
 - Analysis: Evaluate trends, changes, and anomalies. Understand the reasons behind fluctuations and assess the consistency of accounting policies and estimates.
- Ratio Analysis:
 - Objective: Assess the financial health and performance of the entity.
 - Analysis: Calculate and interpret key financial ratios related to liquidity, profitability, solvency, and efficiency. Compare ratios with industry benchmarks or prior periods.
- Analytical Procedures:
 - Objective: Use analytical procedures to detect potential misstatements.

- Analysis: Apply financial and non-financial data analysis techniques to identify unusual patterns or relationships. Consider variances from expected results and investigate significant differences.
- Substantive Testing:
 - Objective: Obtain audit evidence to support account balances and transactions.
 - Analysis: Perform detailed testing procedures, such as examining source documents, confirming balances with third parties, and conducting substantive analytical procedures.
- Assessment of Internal Controls:
 - Objective: Evaluate the effectiveness of internal controls in preventing and detecting misstatements.
 - Analysis: Consider the design and operating effectiveness of internal controls. Identify control deficiencies and their potential impact on financial reporting.
- Understanding Business Processes:
 - Objective: Gain insights into the entity's business operations.
 - Analysis: Understand how transactions flow through the organization, from initiation to recording in the financial statements. Identify key controls and potential points of failure.
- Documentation Review:
 - Objective: Review supporting documentation for transactions and balances.
 - Analysis: Ensure that documentation is complete, accurate, and supports the recorded transactions. Assess the reliability of the information provided.



Figur 2. 1Document Review

Effective analysis of audit information requires a combination of professional judgment, industry knowledge, and adherence to auditing standards. The goal is to provide stakeholders with assurance regarding the accuracy and reliability of financial information while identifying opportunities for process improvement.

2.3. Records Reviewing

Audit records are detailed logs or documentation that capture information about specific events or activities within a system, network, application, or organization. These records are generated to provide a comprehensive and chronological account of various actions, changes, or transactions, which can be crucial for security, compliance, troubleshooting, and analysis purposes.

2.3.1. Audit Records to be reviewed

The documents reviewed during an audit can vary depending on the nature and purpose of the audit. However, some common types of documents that are often reviewed during audits include:

- Financial Statements: includes Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Equity
- Accounting Records: includes General ledger, Trial balance, Journals (e.g., sales journal, purchase journal)
- Internal Controls Documentation: includes Policies and procedures related to financial processes, Control matrices, Evidence of control effectiveness
- Invoices and Receipts: includes Purchase invoices, Sales invoices, Receipts and proof of payments
- Contracts and Agreements: includes Vendor contracts, Customer agreements, Employment contracts
- Bank Statements: includes Bank reconciliations, Cancelled checks
- Tax Records: includes Tax returns, Supporting documentation for tax filings
- Employee Records: includes Payroll records, Time and attendance records, Personnel files

- Inventory Records: includes Stock ledgers, Physical inventory counts, Reconciliation with financial records
- Compliance Documents: includes Regulatory compliance documentation, Industry-specific compliance records
- Minutes of Meetings: includes Board meeting minutes, Shareholder meeting minutes
- Previous Audit Reports: includes Reports from previous internal or external audits

It's important to note that the specific documents reviewed will depend on the focus of the audit (e.g., financial audit, compliance audit, operational audit) and the standards or regulations applicable to the organization. Additionally, auditors may request additional documents based on their assessment of risks and areas of concern.

2.3.2. Main points to look for during audit Document Review

During an audit document review, auditors examine various records and documents to assess the accuracy, completeness, and compliance of an organization's financial and operational activities. Here are some key aspects to look for during an audit document review:

- Accuracy of Financial Statements: Verify the accuracy of financial statements, including the balance sheet, income statement, and cash flow statement. Ensure that the information presented is mathematically correct and consistent with underlying records.
- Consistency among Documents: Cross-reference different financial documents to ensure consistency. Check that information in financial statements aligns with details in supporting schedules, ledgers, and other related records.
- Supporting Documentation: Examine supporting documentation for financial transactions, such as invoices, receipts, contracts, and purchase orders. Ensure that these documents are genuine, properly authorized, and match the entries in the financial records.
- Internal Controls: Review documentation related to internal controls. Check whether control activities are adequately documented and are being followed

consistently. Assess the effectiveness of internal controls in preventing errors and fraud.

- **Compliance with Accounting Standards:** Evaluate whether financial reporting complies with relevant accounting standards (e.g., GAAP or IFRS). Ensure that accounting policies are consistently applied and properly disclosed.
- **Completeness of Records:** Verify that all relevant financial records are complete. Check for any missing documents that could affect the accuracy and completeness of financial reporting.
- **Timeliness of Financial Reporting:** Assess whether financial statements and related documents are prepared and presented in a timely manner. Delays in financial reporting may raise questions about the organization's ability to manage its financial processes effectively.
- **Authorization and Approvals:** Ensure that financial transactions are properly authorized and approved. Check for appropriate signatures on key documents, such as contracts, purchase orders, and payment authorizations.
- **Revenue Recognition:** Examine documentation related to revenue recognition. Ensure that revenue is recognized in accordance with applicable accounting standards and that supporting evidence is available.
- **Expense Documentation:** Review documentation supporting expenses. Check for proper documentation of expenses, adherence to company policies, and authorization for expenditures.
- **Asset Verification:** Verify the existence and ownership of assets by examining supporting documentation, such as property records, inventory lists, and equipment registers.
- **Liabilities and Debt Agreements:** Review documentation related to liabilities and debt agreements. Ensure that these obligations are accurately recorded, and terms are in compliance with contractual agreements.
- **Tax Records:** Examine tax records, including tax returns and supporting documentation. Verify compliance with tax laws and regulations.

- **Employee Records:** Check employee records, including payroll documentation, time sheets, and personnel files. Ensure compliance with labor laws and internal policies.
- **Contracts and Agreements:** Review contracts and agreements to ensure that they are properly documented, authorized, and comply with applicable laws and regulations.
- **Bank Reconciliations:** Examine bank reconciliations to ensure that cash balances in the financial records match actual bank balances. Investigate any discrepancies.
- **Documentation of Contingencies:** Check for documentation of contingencies, such as pending legal actions, warranties, or other potential liabilities.
- **Previous Audit Findings:** Consider any unresolved issues or findings from previous audits. Ensure that corrective actions have been taken as needed.
- **Record Retention Policies:** Verify compliance with record retention policies. Ensure that documents are retained for the required period.
- **Any Red Flags or Unusual Patterns:** Be vigilant for any red flags, unusual patterns, or inconsistencies that may indicate errors, fraud, or non-compliance.

Throughout the document review process, auditors should maintain independence, objectivity, and a meticulous attention to detail. Thorough documentation of the review procedures and findings is essential for supporting the audit conclusions and recommendations

2.4. Compliance Observation

During an audit, auditors observe and examine various areas within an organization to assess the accuracy, reliability, and compliance of financial information and operational processes. Here are key areas of observation in auditing:

- **Financial Statements:** Review and observe the preparation and presentation of financial statements, including the balance sheet, income statement, and cash flow statement, to ensure compliance with accounting standards.
- **Internal Controls:** Observe the design and effectiveness of internal controls that are in place to safeguard assets, ensure accuracy of financial records, and prevent fraud.

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- **Revenue Recognition:** Examine how revenue is recognized to ensure compliance with applicable accounting standards. This involves reviewing sales contracts, invoices, and related documentation.
- **Expense Recognition:** Verify the recognition of expenses to ensure that costs are appropriately matched with revenues and comply with accounting principles.
- **Accounts Receivable and Payable:** Observe the management of accounts receivable and payable, including the aging of receivables, credit policies, and payment terms.
- **Inventory Management:** Examine inventory management practices, including valuation methods, physical counts, and the adequacy of controls over inventory.
- **Cash and Bank Reconciliations:** Review cash and bank reconciliations to ensure that cash balances are accurately reported and discrepancies are promptly addressed.
- **Fixed Assets:** Observe the process of recording, depreciating, and disposing of fixed assets to ensure compliance with accounting standards and accurate reporting.
- **Financial Reporting Disclosures:** Examine financial reporting disclosures to ensure that all relevant information is appropriately disclosed in the financial statements and footnotes.
- **Tax Compliance:** Observe tax compliance by reviewing tax returns, supporting documentation, and ensuring that the organization is in compliance with relevant tax laws.
- **Legal and Regulatory Compliance:** Assess compliance with laws and regulations relevant to the industry, including labor laws, environmental regulations, and industry-specific requirements.
- **Contractual Agreements:** Review contractual agreements to ensure compliance with terms and conditions. This includes agreements with customers, suppliers, and other business partners.
- **Employee Benefits and Payroll:** Observe payroll processes, employee benefit programs, and compliance with labor laws to ensure accurate and timely payment to employees.

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- **Management Representations:** Obtain and evaluate management representations to ensure that the information provided is accurate and complete.
- **Contingencies and Liabilities:** Examine contingent liabilities and other potential financial obligations to ensure they are appropriately accounted for and disclosed.
- **Compliance with Organizational Policies:** Evaluate compliance with internal policies and procedures established by the organization.

Observing these key areas during an audit provides auditors with a comprehensive understanding of the organization's financial and operational practices, helping to ensure the accuracy and integrity of reported information.

2.5. Areas Corrective Action

A correction is “action to eliminate a detected non-conformity.” Corrective action is an action to eliminate the cause of a detected nonconformity. The key difference between a correction and a corrective action is that one focuses on non-conformity itself, whereas the other focuses on the cause of the non-conformity. An example of correction might be a site identifying that there is peeling paint at their site and removing the peeling paint. They have made a correction. Corrective action would eliminate peeling paint in that area in the future through a change in the type of paint used or eliminating paint in that area altogether.

Identifying areas of corrective action in auditing involves recognizing deficiencies, weaknesses, or non-compliance in an organization's processes, controls, or financial reporting. These identified areas serve as the basis for implementing improvements and ensuring that the organization operates more effectively and in accordance with established standards. Here are common areas where corrective action might be needed during an audit:

- **Internal Controls:** Weaknesses in internal controls that could lead to misstatements or fraudulent activities may require corrective action. This includes deficiencies in the design or operating effectiveness of controls.

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- **Financial Reporting:** Non-compliance with accounting standards or inaccuracies in financial reporting may necessitate corrective measures. This could involve errors in recognizing revenue, expenses, or assets and liabilities.
- **Compliance with Laws and Regulations:** Instances of non-compliance with laws, regulations, or industry standards may require corrective action. This includes addressing issues related to tax compliance, labor laws, environmental regulations, and other legal requirements.
- **Documentation and Recordkeeping:** Incomplete or inadequate documentation of financial transactions and processes may signal the need for corrective action. Proper recordkeeping is essential for audit trail purposes and compliance.
- **Asset Management:** Incorrect or inadequate recording and management of assets, such as fixed assets or inventory, may require corrective action to ensure accurate financial reporting and control over organizational resources.
- **Employee Policies and Procedures:** Non-compliance with internal policies or deviations from established procedures may indicate the need for corrective measures. This includes addressing issues related to employee conduct, ethics, and adherence to organizational policies.
- **Budgetary Controls:** Issues related to budgetary controls, variances, and financial performance against budget may signal the need for corrective action to improve financial management and planning.
- **Communication and Reporting:** Inadequate communication or reporting structures may need corrective action to improve transparency and ensure timely and accurate information flow within the organization.
- **Data Accuracy and Completeness:** Issues related to data accuracy and completeness may require corrective measures to enhance the reliability of information used for decision-making and reporting.

Identifying these areas of corrective action is a crucial step in the audit process. Once identified, recommendations and action plans can be developed to address the deficiencies and improve the overall effectiveness and compliance of the organization.

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Self-check 2

I. True/False Questions

16. Audit evidence serves as the basis for the auditor's report on the financial statements.
17. The auditor should restrict themselves to only one viewpoint during data gathering to produce accurate results.
18. Confirmation involves obtaining a written or oral response from the audited entity to corroborate information.
19. Analytical procedures are used by auditors to independently execute procedures performed by the entity.
20. During document review, auditors should primarily focus on red flags and unusual patterns, ignoring routine discrepancies.

II. Multiple Choice Questions:

1. What is the main purpose of recalculation during the audit process?
 - A) Verify existence of assets
 - B) Check mathematical accuracy of information
 - C) Examine internal controls
 - D) Confirm external transactions
2. Which of the following is an example of compliance observation in auditing?
 - A) Calculating financial ratios
 - B) Verifying existence of inventory
 - C) Assessing adherence to internal policies
 - D) Performing substantive testing on transactions
3. What is the key difference between correction and corrective action in auditing?
 - A) Correction focuses on non-conformity, while corrective action addresses the cause.
 - B) Correction involves external parties, while corrective action is internal.
 - C) Correction is preventive, while corrective action is reactive.
 - D) Correction is a one-time activity, while corrective action is ongoing.
4. In audit records reviewing, which document type is commonly examined to assess compliance with tax laws?
 - A) Inventory records
 - B) Financial statements
 - C) Employee records
 - D) Tax returns

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6. What is the primary goal of identifying areas of corrective action during an audit?
- A) Confirming compliance with regulations
 - B) Establishing blame for non-compliance
 - C) Implementing improvements and ensuring effective operations
 - D) Enhancing financial reporting accuracy

III. Short Answer Questions

1. Explain why an auditor may use a combination of methods during the data gathering process.
2. Describe one key aspect that auditors should look for when reviewing documentation related to internal controls.
3. What is the significance of the risk assessment process during the analysis of audit information?
4. Provide an example of a document that an auditor might review to assess compliance with labor laws during an audit.
5. Briefly explain the difference between accuracy and completeness of records during the document review process.

Operation Sheet 2.1

Operation Title: Collecting Audit Information

Purpose: To systematically gather relevant audit information for accurate assessment and assurance in the audit process.

Conditions or Situations for the Operation:

- Access to relevant records and documentation.
- Familiarity with auditing standards and procedures.
- Utilization of appropriate data collection methods.
- Compliance with confidentiality and security protocols.

Equipment, Tools, and Materials:

- Computer or manual data collection tools.
- Audit evidence templates.
- Communication tools for inquiries.

Steps in Doing the Task:

1. Define Audit Scope: Clarify the specific objectives and areas of focus for the audit engagement.
2. Access Relevant Records: Obtain access to financial statements, internal controls documentation, and other pertinent records.
3. Review Audit Plan: Familiarize yourself with the overall audit plan, including the identified risks and testing procedures.
4. Identify Data Sources: Determine the sources of audit evidence, including financial documents, contracts, and internal policies.
5. Choose Collection Methods: Select appropriate methods such as inspection, observation, inquiry, confirmation, recalculation, and reperformance.
6. Execute Information Gathering: Carry out data collection tasks according to the chosen methods, ensuring comprehensive coverage.
7. Document Procedures: Record the procedures performed, audit tests conducted, and the information obtained during the data collection process.

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8. Corroborate Evidence: Seek independent evidence to support the accuracy and reliability of financial transactions and balances.
9. Review Legal Documents: Examine legal agreements, contracts, and other relevant legal documents.
10. Personnel Interviews: Conduct interviews with relevant individuals, including management, employees, and third parties.
11. External Confirmations: Obtain external confirmations directly from third parties, when necessary.
12. Documentation and Work Papers: Create and maintain work papers and documentation to support audit findings.
13. Reconciliation with Financial Records: Cross-reference different financial documents to ensure consistency and accuracy.
14. Prepare Audit Findings: Summarize the collected information to form the basis for audit findings and conclusions.

LAP T Test

Instructions: Given necessary templates, tools and materials you are required to perform the following tasks accordingly.

Task 1: Identify audit resources to be collected

Task2: identify methods used to collect information

Task 3: collect information for audit

Unit Three: Reporting audit outcomes

This unit is developed to provide you the necessary information regarding the following content coverage and topics:

- Reporting Situations
- Preparing audit reports
- Communicating results of audit

This guide will also assist to you to attain the learning outcomes stated in the cover page.

Specifically, upon completion of this learning guide, you will be able to:

- Identify and reporting Situations
- Prepare audit reports
- Communicate results of audit

3.1. Reporting Situations

Reporting in auditing involves communicating the results of the audit examination, including findings, conclusions, and recommendations, to relevant stakeholders. The reporting process is crucial for providing transparency, accountability, and insights that contribute to informed decision-making. Here are key situations in auditing that require reporting:

a. Audit Opinions:

- **Unqualified Opinion:** If the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows in conformity with the applicable financial reporting framework, the auditor issues an unqualified (clean) opinion.
- **Qualified Opinion:** If there are material misstatements but not pervasive to the financial statements, the auditor issues a qualified opinion, indicating that the financial statements are fairly presented except for specific issues.
- **Adverse Opinion:** If the financial statements are materially misstated and the effects are both material and pervasive, the auditor issues an adverse opinion, expressing that the financial statements are not fairly presented.

b. **Emphasis of Matter and Other Matters Paragraphs:** The auditor includes an "emphasis of matter" or "other matters" paragraph in the audit report to draw attention to specific aspects of the financial statements, such as significant uncertainties or changes in accounting principles.

c. **Going Concern Considerations:** If there are concerns about the entity's ability to continue as a going concern, the auditor includes a section in the report expressing these concerns. This is particularly relevant when there are substantial doubts about the entity's ability to remain in business.

d. **Material Weaknesses in Internal Control:** The auditor reports any material weaknesses in internal control over financial reporting. A material weakness is a deficiency or combination of deficiencies that results in a reasonable possibility of a material misstatement in the financial statements.

e. **Non-Compliance and Illegal Acts:** If the auditor identifies instances of non-compliance with laws or regulations, they report these findings. The nature and effects

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of non-compliance are communicated to appropriate levels of management and, in some cases, regulatory authorities.

- f. **Management Representations:** The auditor obtains written representations from management regarding various aspects of the financial statements and the completeness and accuracy of information provided.
- g. **Scope Limitations:** If the auditor encounters limitations on the scope of the audit, they communicate these limitations in the audit report. This could result from restricted access to information or circumstances beyond the auditor's control.
- h. **Related Party Transactions:** The auditor discloses related party transactions in the financial statements and may report on any significant issues or concerns related to these transactions.
- i. **Other Reporting Considerations:** Reporting may also include comments on the consistency of accounting policies, changes in accounting estimates, and other matters that are relevant to stakeholders.
- j. **Recommendations for Improvement:** In cases where the auditor identifies areas for improvement in internal controls, financial reporting processes, or other aspects of the organization, they may provide recommendations to address these issues.
- k. **Quality of Financial Reporting:** The auditor may comment on the overall quality of financial reporting, including the clarity of disclosures, transparency, and adherence to accounting standards.
- l. **Responsibility for Financial Statements:** The audit report clarifies that the responsibility for the preparation and fair presentation of the financial statements rests with management, and the auditor's responsibility is to express an opinion on the financial statements.

Effective reporting is essential for providing stakeholders, including management, shareholders, and regulatory bodies, with a clear understanding of the results of the audit and any areas that require attention or improvement. The audit report serves as a critical tool for accountability and decision-making within an organization.

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3.2. Preparing audit reports

Preparing audit reports is a crucial aspect of the auditing process, as it communicates the results of the audit examination to stakeholders. An audit report typically includes the auditor's opinion on the financial statements, findings, and other relevant information.



Figur 3. 1 Audit Report preparation

Here's a general guide on preparing audit reports:

- **Title and Introduction:** Begin with a clear and concise title that identifies the report as an independent auditor's report. Include an introductory paragraph that outlines the responsibilities of both the auditor and management.
- **Addressee and Salutation:** Clearly state the intended recipient(s) of the report, usually the board of directors, shareholders, or regulatory authorities. Include a formal salutation, such as "To the Board of Directors" or a similar designation.
- **Scope and Objective:** Clearly define the scope and objectives of the audit. Specify the financial statements and periods covered by the audit, as well as the auditing standards used.
- **Audit Opinion:** Express the auditor's opinion on the financial statements. The opinion can be unqualified (clean), qualified, adverse, or a disclaimer of opinion. Clearly articulate the basis for the opinion.
- **Basis for Opinion:** Provide information on the audit procedures performed and the evidence obtained. Explain the basis for the auditor's opinion, emphasizing the compliance with auditing standards.

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- **Management's Responsibility:** Acknowledge and state management's responsibility for the preparation and fair presentation of the financial statements, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements.
- **Auditor's Responsibility:** Clearly outline the auditor's responsibility to express an opinion on the financial statements based on the audit. This includes obtaining reasonable assurance about whether the financial statements are free from material misstatement.
- **Key Audit Matters:** If applicable, highlight key audit matters that were of most significance in the audit. Explain why these matters were considered significant and how they were addressed during the audit.
- **Emphasis of Matter and Other Matters Paragraphs:** Include an "emphasis of matter" paragraph for matters that, in the auditor's judgment, are of such importance that they need to be emphasized. Additionally, include "other matters" paragraphs for relevant disclosures.
- **Going Concern Considerations:** If applicable, include a section addressing the auditor's considerations about the entity's ability to continue as a going concern.
- **Date of the Auditor's Report:** Clearly state the date of the auditor's report. This is important for users to understand the period to which the auditor's opinion relates.
- **Auditor's Signature and Firm Name:** Include the signature of the lead auditor or audit partner, and the name of the auditing firm. Some jurisdictions may require specific language or formatting for the signature.
- **Address and Contact Information:** Provide the address and contact information of the auditing firm for further inquiries or clarification.
- **Appendices or Additional Information:** Include any necessary appendices or supplementary information that supports the findings or opinions expressed in the audit report.
- **Distribution:** Clearly state who will receive the audit report and how it will be distributed. This may include management, the board of directors, regulatory authorities, and other relevant stakeholders.

- **Confidentiality and Restrictions:** If necessary, include any confidentiality or restriction clauses related to the use and distribution of the audit report.
- **Overall Clarity and Readability:** Ensure that the language used is clear, concise, and easily understandable by the intended audience. Avoid jargon or technical terms that may not be familiar to all readers.
- **Review and Approval:** Before finalizing the audit report, ensure that it undergoes a thorough review and approval process within the auditing firm. This is typically done by senior partners or designated reviewers.

Remember that the format and content of an audit report can vary based on the applicable auditing standards, regulatory requirements, and the specific circumstances of the audit engagement. It's essential to follow the relevant professional standards and guidelines when preparing an audit report.

General outline that is commonly followed in audit reports looks like the following sample audit report. Remember, the actual content and format will vary based on the specific circumstances of the audit engagement and the applicable auditing standards. Below is a simplified example:

Table 3. 1 Sample of Audit report

[Auditor's Letterhead]
[Date]
[Addressee: Board of Directors or Shareholders or Appropriate Designation]
[Entity Name] [Address]
Independent Auditor's Report
We have audited the accompanying financial statements of [Entity Name], which comprise the balance sheet as of [Date], and the related statements of income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements			
<p>Management is responsible for the preparation and fair presentation of these financial statements in accordance with [applicable financial reporting framework], 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.</p>			
Auditor's Responsibility			
<p>Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with [applicable 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.</p>			
<p>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 significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.</p>			
Opinion			
<p>In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of [Entity Name] as of [Date], and the results of its operations and its cash flows for the year then ended in accordance with [applicable financial reporting framework].</p>			

Emphasis of Matter Paragraph
[Include an emphasis of matter paragraph if necessary, addressing specific issues or significant events.]
Other Matters Paragraph
[Include an other matters paragraph if necessary, addressing additional relevant information.]
[Signature of the Auditor]
[Auditor's Name, Title, and Firm Name] [Address] [City, State, Zip Code]
Please note that this is a simplified and generic example. In practice, the report would include more specific details, additional disclosures, and adhere to the relevant professional and regulatory requirements. It's essential to consult the applicable auditing standards and regulations when preparing an audit report for a specific engagement

3.3. Communicate audit Result

Communicating the results of an audit is a critical step in the auditing process, and it involves conveying findings, opinions, and relevant information to various stakeholders. The communication should be clear, transparent, and tailored to the needs of the intended audience.



Figur 3. 2 Audit Result communication

Here's a general guide on how to effectively communicate the results of an audit:

- **Prepare an Audit Report:** The primary document for communicating audit results is the audit report. This report typically includes the auditor's opinion on the financial statements, key audit findings, and other relevant information.
- **Address the Intended Audience:** Identify the intended audience for the communication, which may include the board of directors, shareholders, management, regulatory authorities, and other stakeholders. Tailor the communication to meet the needs and expectations of each audience.
- **Summarize Key Findings:** Begin the communication by summarizing the key findings of the audit. Highlight significant issues, areas of improvement, and any material misstatements or weaknesses in internal controls. Use a concise and clear language to convey the information.
- **Present the Audit Opinion:** Clearly state the audit opinion on the financial statements. Whether it is an unqualified (clean) opinion, a qualified opinion, an adverse opinion, or a disclaimer of opinion, articulate the conclusion on the overall fairness of the financial statements.
- **Provide Context and Explanation:** Offer context and explanations for key findings and the audit opinion. Help stakeholders understand the reasons behind the

conclusions, including any changes in accounting policies, significant transactions, or uncertainties.

- **Highlight Positive Aspects:** Acknowledge and highlight positive aspects of the audit. If there were areas of strength, effective internal controls, or improvements since the previous audit, emphasize these positive elements to provide a balanced view.
- **Include Emphasis of Matter or Other Matters Paragraphs:** If necessary, include an emphasis of matter or other matters paragraphs in the audit report to draw attention to specific issues or provide additional context. These paragraphs can address significant uncertainties, events, or changes in accounting principles.
- **Provide Recommendations for Improvement:** Offer constructive recommendations for areas that need improvement. These recommendations should be practical, actionable, and aimed at enhancing the organization's internal controls, financial reporting, or operational efficiency.
- **Encourage Dialogue:** Encourage a dialogue between the auditor and stakeholders. Provide opportunities for questions and discussions to ensure that stakeholders have a clear understanding of the audit results and can seek clarification on any matters.
- **Follow Up with Management Responses:** After presenting the audit results, allow management to respond to the findings and recommendations. Management may provide explanations, additional information, or details about corrective actions taken or planned.
- **Document and Retain Records:** Document all communications related to the audit results. Maintain a record of the audit report, management responses, and any additional correspondence for future reference and audit trail purposes.
- **Address Confidentiality and Sensitivity:** Be mindful of any sensitive or confidential information. Ensure that the communication adheres to privacy and confidentiality requirements while providing stakeholders with the necessary information.

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2. What does an "emphasis of matter" paragraph in an audit report typically address?
 - a) Positive aspects of the audit
 - b) Areas for improvement
 - c) Matters considered significant but not pervasive
 - d) Material weaknesses in internal control
3. Who is typically the intended recipient of an audit report?
 - a) Regulatory authorities
 - b) Auditors
 - c) Shareholders or Board of Directors
 - d) Management
4. When might an auditor include a "going concern" section in the report?
 - a) When there are no concerns about the entity's ability to continue as a going concern
 - b) When there are significant uncertainties about the entity's ability to remain in business
 - c) When there are no material weaknesses in internal control
 - d) When there is a disclaimer of opinion
5. What is the primary purpose of providing recommendations for improvement in an audit report?
 - a) To criticize management's performance
 - b) To fulfil regulatory requirements
 - c) To encourage continuous improvement in internal controls and processes
 - d) To shift responsibility from auditors to management

III. Short Answer Questions:

1. Explain the difference between an unqualified opinion and a qualified opinion in an audit report.
2. What role do emphases of matter paragraphs play in an audit report, and when are they typically included?
3. Why is the date of the auditor's report important in an audit communication?
4. Describe the auditor's responsibility regarding the preparation and fair presentation of financial statements.

5. What actions can auditors take when they encounter limitations on the scope of the audit, and how should they communicate these limitations in the audit report?

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Operation Sheet 3.1

Operation Title: Audit Report Preparation

Purpose: To compile and present audit findings, conclusions, and recommendations in a clear and comprehensive audit report.

Conditions or Situations for the Operation:

- Access to finalized audit working papers and documentation.
- Understanding of audit standards and reporting requirements.
- Collaboration with audit team members and key stakeholders.
- Adherence to ethical guidelines and reporting protocols.

Equipment, Tools, and Materials:

- Computer or manual report preparation tools.
- Standardized audit report templates.
- Previous audit reports for reference.
- Communication tools for coordination with the audit team.

Steps in Doing the Task:

1. Review Completed Audit Working Papers: Thoroughly review the finalized audit working papers, ensuring that all audit procedures were appropriately documented.
2. Summarize Key Findings: Summarize and organize key audit findings, including any issues identified, areas of improvement, and positive observations.
3. Evaluate Materiality and Significance: Assess the materiality and significance of identified issues to determine their impact on financial statements and overall business operations.
4. Draft Executive Summary: Prepare an executive summary outlining the purpose of the audit, key objectives, and a concise overview of major findings.
5. Develop Audit Conclusions: Formulate clear and supported conclusions based on the audit evidence and analysis of identified risks.
6. Provide Recommendations: Propose practical and feasible recommendations to address identified issues and enhance internal controls.

7. Ensure Compliance with Reporting Standards: Verify that the audit report complies with relevant auditing standards, regulatory requirements, and reporting protocols.
 8. Prepare Financial Statements Section: If applicable, include a section in the report addressing the audit of financial statements, highlighting any modifications or qualifications.
 9. Include Management Responses: Incorporate responses or comments from management related to audit findings, providing a balanced perspective.
 10. Create a Structured Report Format: Organize the report in a structured format, including sections for the introduction, scope, methodology, findings, conclusions, recommendations, and appendices.
 11. Review Draft Report: Review the initial draft of the audit report for accuracy, coherence, and adherence to the established format.
 12. Incorporate Audit Team Feedback: Gather feedback from the audit team and make necessary revisions to improve the clarity and effectiveness of the report.
 13. Finalize Report: Make final adjustments to the audit report based on feedback and ensure that all required elements are included and accurate.
 14. Obtain Necessary Approvals: Seek necessary approvals from key stakeholders, including audit team leaders, before finalizing the report.
 15. Distribution of Final Report: Distribute the final audit report to relevant parties, ensuring timely delivery and adherence to any distribution protocols.
- Note: This operation sheet provides a general guide for audit report preparation.

LAP T Test

Instructions: Given necessary templates, tools and materials you are required to perform the following tasks accordingly.

Task 1: Create a Structured Report Format:

Task2: Prepare audit report

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