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审计学英语简明教程

The Principles of Auditing

李越冬

编 著

Li Yuedong

Bianzhu



西南财经大学出版社
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前 言

编者在参阅了美国相关教材和国内相关书籍后,构建了本书的结构。本书分为十二章,第一、二、三章是对有关审计的基本知识作总体性的描述,第四、五、六、七章是对有关审计的基本技能作介绍,第八章到第十二章是对审计的实务描述。本书主要以注册会计师为主线,以会计报表审计为重点,以内部控制制度审计为基础,以审计风险和审计目标为导向,以审计实务操作和能力培养为根本,密切结合当前注册会计师审计实践,将审计的基本理论和知识融入审计基本技能之中。本书可用于会计专业双语教学,也可作为学生的参考书和从事审计业务人员的学习书籍等。

在本书的编写过程中,中国建设银行四川省分行计财处肖勇、四川大学华西口腔医院李灏来参与了收集整理材料,借此一并致谢。

由于编者水平有限,加之时间紧迫,疏漏以及错误在所难免,恳请读者批评指正。

编 者

2006年8月

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Chapter 1

Introduction about auditing

Learning objectives

After the students learn this chapter, they should:

1. Understand the definition of auditing and the relationship among auditing, attestation, and assurance.
2. Comprehend the differences between auditing and review.
3. Learn the three parties involved in auditing.
4. Learn the classification of auditing.
5. Understand the definition of independence.
6. Understand the meaning of standards.

1.1 Definition of auditing

There are different definitions about auditing from the history development of auditing. Some people defined the auditing is the appraisal process, some defined that the auditing is the evaluation process, and others defined that the auditing is the economic control process. The most accepted definition for auditing

should be stated as follows:^①

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

From this definition, several important words are needed to pay attention to. First, auditing is a systematic process. It is not the appraisal process, evaluation process, or economic control process. Second, when the auditor collecting the evidence, they need to keep objectivity. Third, the collected evidence should be compared with the assertions. Assertions are the implication or representation by management. Forth, the auditor's report is about the degree of correspondence between assertions and established criteria. The results of auditing will be available to all the interested users. Fifth, the established criteria usually refer to GAAP (general accepted accounting principles).

There is another definition-review, which is similar to audit, but there are many differences between them. The audit offers reasonable assurance about verified information, whereas the review offers limit assurance about verified information. What does reasonable assurance mean? It means that the audit cannot find all the misstatements because of his or her knowledge and scope limitation. However, the auditors try their best to collect sufficient evidence to prove their opinions. The limit assurance means that the auditor just use limited procedures to collect evidence, which just includes reading and analysis procedures. They don't try their best to collect evidence so that they only can offer the limited assurance. That's why we call audit is a positive assurance, and the review is a negative assurance.

① Wally J Smelchaskas, Jack C Robertson. Auditing: an international approach. 3rd Canadian ed Toronto: McGraw-Hill Ryerson Limited, 2004

1.2 Assurance & auditing

There is another word “Assurance”. Some people usually are confused with assurance and auditing. Actually, assurance services are independent professional services that improve the quality of information for decision makers. Assurance services emphasize independence so that assurance services are valued and perceived as being unbiased with respect to the information examined. Assurance services can be performed by CPAs or by a variety of other professionals. The typical example about assurance is the certification of lottery. When the government announces the winner of lottery, the notary will assure this lottery is fair and legal. There is another important definition-attestation. An attestation service is a type of assurance service in which the attester issues a report about the reliability of an written assertions that is the responsibility of another party. For example, when you buy a diamond, there is a certification about purity. If you do not trust the store, you can ask some professional people to make attestation for you. In China, The assurance standards are issued in 2006 and they will be implemented on January 1, 2007. The “assurance” in China means assurance service and attestation service. We just learned what is auditing, so we can figure out the relationship among three of them. The auditing is included in attestation, and attestation is included in assurance. The following graph can show their relationship:

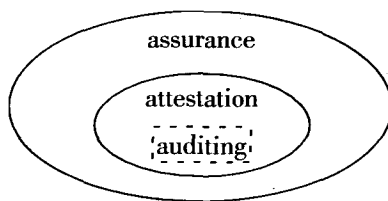


Fig 1-1

1.3 The three parties involved in auditing

From the following graph, we know that there are three parties involved in auditing, and they are auditors, owners and managers. The auditors is the first party in this relationship and they usually refer to CPA firms. The second party is managers, and they are auditee. The owners is the third party in this relationship. The owners entrust the auditors to do the auditing. The relationship between the owners and managers is called accountability, which is the responsibility or obligation of managers to operate and manage the economic resources entrusted by the owners. The managers must report the situation of application of economic resources to the owners and the owners will assess the performance of managers through these information. From the point of managers' view, there is a conflict between the position of entrustee and the compensation related to performance. So they will offer different information to satisfy the owners. The owners have no direct information from the company, therefore, they invite the auditor to assess the information offered by the management. This is also why the auditing appeared. The owners entrust the auditors to audit the managers, and the auditor's report the results to the owners. When the auditors audit the managers, the managers should feedback the information the auditors want.

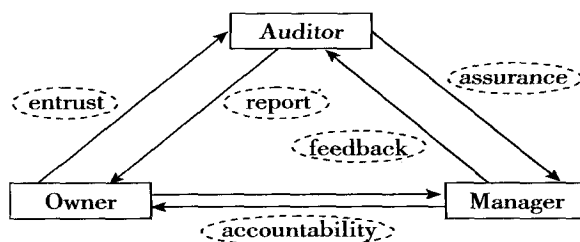


Fig 1-2

However, this three-party relationship is changing in the real life. The managers instead of the owners entrust the auditors to do auditing. Because government requires many companies to offer the audited financial statement, the managers have to ask the auditors to audit the financial statements. So the relationship is shown as follows:

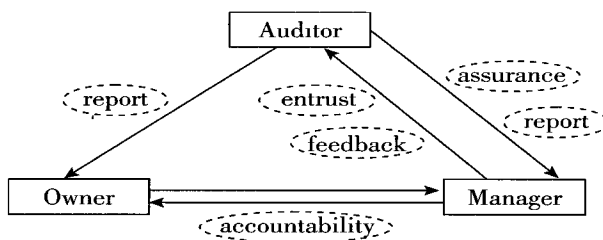


Fig 1-3

From the graph, we know that the managers control the auditors because the managers become the entrustor and they decide the employment and salaries of auditors. This kind of relationship impairs the independence of auditors.

1.4 The classification of audit

There are many ways to classify the audit. First, according to the different auditors, there are three main auditing, and they are CPA firms auditing, government auditing, and internal control auditing. The CPA firms usually have four types, sole proprietorship, partnership, limited corporation, and partnership corporation. Sole proprietorship is organized by one CPA (Certified Public Accountant), and the owner will bear all the liabilities of the company. If the assets of company cannot offset the liabilities, the owner have to use his or her own property to pay off the obligations. The partnership is organized by two or more than two CPAs, and all the owners bear the liabilities of company according to the share of assets. If the assets cannot offset the liabilities, they also

must use their own property to pay off the obligations. The limited corporation is organized by buying share stock of company and the owners have limited responsibilities for the liabilities of company according to how many stocks they hold. Their own properties will not be used to offset the liabilities of company. The partnership corporation has the characteristics of partnership and corporation. The CPA firms are responsible for all the liabilities, but only the partner who brought up the loss for CPA firms will undertake all the obligations. The four big CPA firms in USA are all partnership corporations. The government audit is implemented by the members in the government and the audit department is a department of government. The internal audit is operated by employees within the company and the audit department is a department in the company. In China, only two types of firms are allowed-partnership and limited Corporation.

Second, according to the objects of auditing, the audit can be divided into three types-financial statement audit, compliance audit, and operational audit. Financial statement audit is conducted to determine whether all the material aspects in the overall financial statements are stated in accordance with specified criteria. The financial statements include the statement of financial position, income statement, the statement of cash flows, as well as accompanying footnotes. This is the main engagement for CPA firms. The operational audit is a review of any part of an organization's operating procedures and methods for the purpose of evaluating efficiency and effectiveness. In operational auditing, the reviews are not limited to accounting. They can include the evaluation of organization structure, computer operations, production methods, marketing, and any other area in which the auditor is qualified. After the completion of an operational audit, the auditors will give some recommendations for improving the operations to the managers. The government audit and internal audit focus on the operational audit. Internal audit also includes compliance audit. The

compliance audit is to determine whether the auditee is following specific procedures, rules, or regulations set by some higher authority.

Third, according to the time to perform the engagement, the audit can be divided into two types-fixed time audit and flexible time audit. The fixed time audit means that the auditors perform the auditing at the fixed time every year. The typical example is financial statement audit and CPA firms audit. The financial statement audit starts after the balance sheet date. The other one is flexible time audit, which is to be performed in flexible time. It usually depends on higher authorities' or manager's determination. For example, the internal audit is performed when the manager thinks it is necessary.

Forth, According to the place to conduct the auditing, there are two types of audit-auditing at the client's company, auditing at CPA firms. Auditing at the client company means that the auditors go to client's company and perform the auditing there. This type is suitable for those companies which have complex business and a large amount of accounting documents. So it is impossible to take these documents to CPA firms. This is a common way to conduct the auditing. Auditing at CPA firms means that the client sends the documents to CPA firms and auditors conduct auditing at CPA firms. This type is applicable for those companies which have simple business and a small number of accounting documents.

There are also other classifications of audit. According to the scope of auditing functions, there are Micro-audit and Macro-audit. According to the boundary of country, there are domestic audit, overseas audit, and international audit.

1.5 The standards & standards setting

In USA, the AICPA sets professional requirements for CPAs, conducts research, and publishes materials on many different subjects related to accounting, auditing,

attestation and assurance services, management consulting services, and taxes. There are three major areas relevant to assurance services and CPAs in which the AICPA has authority to set standards and make rules:

First, auditing standards. There are three sections in generally accepted auditing standards. Please read the following table:^①

Table 1 - 1

General standards
<ol style="list-style-type: none"> 1. The audit is to be performed by a person or persons having adequate technical training and proficiency as an auditor. 2. In all matters relating to the assignment, and independence in mental attitude is to be maintained by the auditor or auditors. 3. Due professional care is to be exercised in the planning and performance of the audit and the preparation of the report.
Standards of field work
<ol style="list-style-type: none"> 1. The work is to be adequately planned and assistants, if any, are to be properly supervised. 2. A sufficient understanding of internal control is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed. 3. Sufficient competent evidence matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.
Standards of reporting
<ol style="list-style-type: none"> 1. The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles. 2. The report shall identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period. 3. Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.

① Alvin A Arens, Randal J Elder, Mark S Beasley. Essentials of auditing and assurance services: an integrated approach New Jersey: Pearson Education, Inc , 2003: 19