

# Chapter 17

## Auditing and Evaluating the AIS

# Outline

- Expected outcomes
- Audit types
- Generally accepted auditing standards
- Financial statement audit steps



# Expected outcomes

- Describe the various kinds of audits you might encounter in your accounting career.
- Explain the AICPA's 10 generally accepted auditing standards.
- Discuss the basic steps associated with financial statement audits.
- Explain the connection between auditing and AIS.

# Audit types

- Financial audit
  - Independent examination of a company's AIS and financial statements
  - Culminates in an audit opinion
  - Unique province of CPAs
- Operational audit
  - Examination of a company's rules and procedures for doing business
  - Closely connected to business processes discussed earlier



# Audit types

- Systems audit
  - Determines if IT employed in a system is producing expected results
  - Requires strong background in both accounting and information systems
- Compliance audit
  - Audit of governmental and not-for-profit entities
  - Often referred to as a “Yellow Book” audit
  - Requires solid understanding of GNFP accounting, which can be very different from business

# Audit types

- Management audit
  - Assesses the degree to which assumptions made as part of decisions are valid
  - Particularly relevant in times of economic uncertainty
- Investigative audit
  - Also known as a fraud audit
  - Gathers evidence to confirm or refute occurrence of occupational fraud and abuse
  - Does not determine guilt or innocence



# Audit types

- International audit
  - Focuses on:
    - Foreign operations of US-based firms
    - Operations of non-US based firms
  - Required knowledge goes far beyond accounting
    - Language
    - Culture
    - Laws

# Audit types

- **Lecture break 17-1**

All audits require some degree of professional judgment. Working with a group of students, select one of the seven audit types just presented. Give two examples of how professional judgment might be required in such an audit.



# Generally accepted auditing standards

- Abbreviated GAAS
- Promulgated by American Institute of CPAs ([www.aicpa.org](http://www.aicpa.org))
- GAAP: Rules for preparing financial statements
- GAAS: Guiding principles for conducting an audit
- Three groups, ten standards

# Generally accepted auditing standards

- General standards
  - Training
  - Independence
  - Professional care
- Field work standards
  - Supervision
  - Internal control
  - Evidence
- Reporting standards
  - GAAP
  - Consistency
  - Disclosure
  - Opinion



# Generally accepted auditing standards

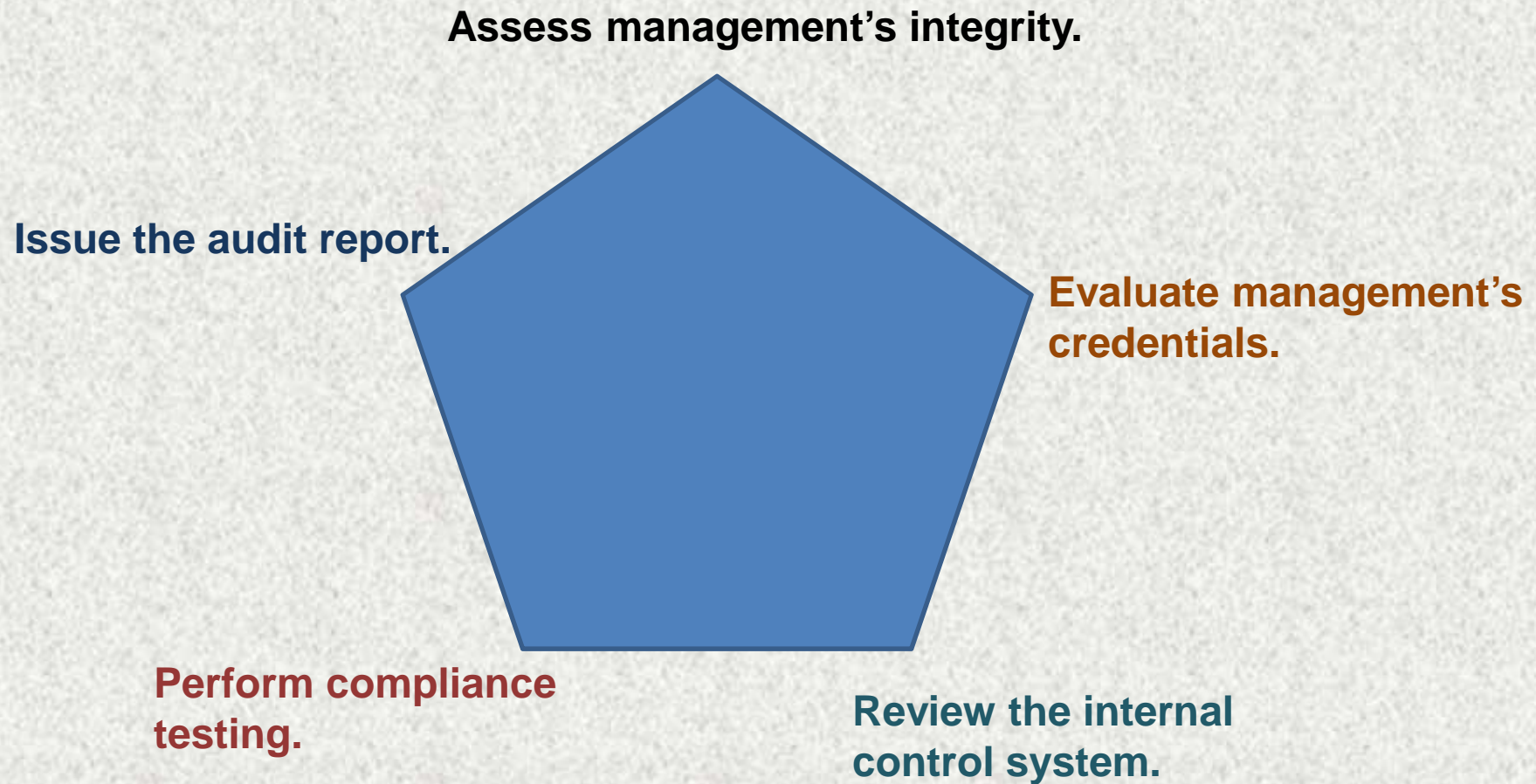
- **Lecture break 17-2**

Consider one of the following fraud cases:

- Enron
- Bernie Madoff
- City of Bell (California)
- Parmalat

- Which GAAS were ignored or violated in the case you selected?

# Financial statement audit steps





# Classroom assessment

- This chapter has focused on:
  - Types of audits
  - Generally accepted auditing standards
  - Steps in a financial statement audit
- Choose one of those three topics.
- Working with a group of three to five students, suggest two or three questions you have about it.
- Trade questions with another group.
- Do some research to answer their questions.

