

External audit

External audit is a periodic examination of the books of account and records of an entity carried out to ensure that they have been properly maintained, are accurate and comply with established accounting standards and legal requirements.

External auditors are independent audit professionals or firms that audit the financial statements of a company or organisation. They express their own opinions on whether the financial statements are free of material misstatements, which can be due to fraud, error or otherwise. An auditor can issue one of the following opinions: *qualified opinion*, *unqualified opinion*, *adverse opinion* and a *disclaimer of opinion*. To find out which is which complete the following sentences.

1. _____ states that the financial statements do not accurately or completely represent the company's financial position, results of operations, or cash flows in conformity with generally accepted accounting principles.
2. _____ is used when most of the company's financial materials were in order, with the exception of a certain account or transaction.
3. _____ states that the auditor does not express an opinion on the financial statements, generally because he/she feels that the company did not present sufficient information.
4. _____ means that all materials were made available, found to be in order, and met all auditing requirements.

Key: 1. *adverse opinion*, 2. *qualified opinion*, 3. *disclaimer of opinion*, 4. *unqualified opinion*

Writing an audit report is the final stage of an audit. The report is a narrative attesting to the financial results and disclosures of a company, and in rare occasions, it may be used in a civil proceeding. To find out more about audit reports complete the text with one of the two words in italics.

The independent audit report sets forth the external auditor's (1) *findings/displays* about the business's financial statements and their level of (2) *correctness/conformity* with generally accepted accounting principles. The report identifies the financial statements audited, states whether they are prepared so they can be used, understood, and (3) *adapted/interpreted*. It classifies and (4) *summarises/resumes* in a (5) *reasonable/realistic* manner the information presented in the financial statements. The report describes what the auditor has done and (6) *specially/specifically* states that the auditor has examined the financial statements in (7) *accordance/accordingly* with generally accepted auditing standards and has performed (8) *appropriate/applied* tests.

Key: 1. *findings*, 2. *conformity*, 3. *interpreted*, 4. *summarises*, 5. *reasonable*, 6. *specifically*, 7. *accordance*, 8. *appropriate*

In English-speaking countries there are slight differences in the process of becoming an external auditor. Read the descriptions below and try to guess which description refers to which of the following countries: *the United Kingdom*, *Australia*, *the United States of America* and *New Zealand*.

To become an external auditor:

1. you must first study accounting at university and then you must be registered with the Institute of Chartered Accountants, followed by registration with the Securities and Investments Commission.
2. you must first qualify as a qualified chartered accountant with one of the professional bodies of chartered accountants, and to qualify as an authorised external auditor, you must have been a qualified chartered accountant for at least two years and hold a practicing certificate and audit qualification from your professional body.
3. you must hold a Bachelor's or Master's degree in accounting and obtain your licence as a certified public accountant by passing a uniform CPA exam and completing other state requirements.
4. you must hold a degree level (Level 7) qualification majoring in accountancy and membership or provisional membership with the Institute of Chartered Accountants.

Key: 1. Australia, 2. the United Kingdom, 3. the United States of America, 4. New Zealand