Course: Audit and Financial Control

Field of study: Economics

Type of instruction and number of hours: lecture 30 h, project 30 h

Number of ECTS credits: 2

Learning outcomes:

After reading this guide, you will understand the outline of an audit process, both the one performed inside the entity (internal audit) and the one provided by the external auditor (external audit). You will also find out about their similarities and differences. The work includes the basic information about the idea, legal regulations, role, scope, function of the audit for the entity. The procedures of the audit are described in some part of this document.
The student will be able to prepare a basis of the audit evidence of tangible and non-tangible non-current assets, inventory, receivables, cash, equity and liabilities.

Evaluation methods of learning outcomes:

- presentation of basic, draft audit pieces of evidence of assets, equity and liabilities,
- test,
- exam topics.

Subject matter of the classes:

The work will explain the concept of audit and its functions, corporate governance, it will demonstrate how the auditor obtains and accepts audit engagements. It will also involve the process of understanding the entity and its environment, preparation plans of an audit of financial statements and evaluations of internal controls, techniques and audit tests, description of the scope, role and function of an internal audit.

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1. Introduction

Auditing is the process of examining the financial statements and information about the entity. In this process, we check if the company makes a profit or not. It is a systematic process in which we analyse the economic condition and actions.

This script will:
- explain the concept of audit and its functions and also how works corporate governance,
- demonstrate how the auditor obtains and accepts audit engagements. It will present the way of understanding of the entity and its environment by the auditor,
- include plans of an audit of financial statements,
- describe and evaluate internal controls, techniques and audit tests. It will describe the scope, role and function of internal audit.

2. The framework and the concept of audit

An audit is the process based on which the auditor expresses an opinion if the financial statements is prepared, in all material respects, in accordance with financial reporting requirements. The audit has also other function, namely it should be treated as an advice on how to manage the business efficiently.

Audit may be both internal and external. The internal audit is not obligatory and if it is conducted – it may help the managements to make the evaluations if the strategies and objectives are reached or when they are required to be reviewed, updated or changed to continue to run the business.

Internal audit can involve not only financial reporting area, but also other operational fields of the activity, like sale and relationship with clients, purchase system and so on.

External audit is carried out by an independent auditor to give an opinion and details included in the audit report on financial statements.

The key reason for having the audit is to prevent or to warn of financial crises of entities in the future. The conclusions of the audit are available not only for the managers but also for the shareholders. Moreover, they are very important for making decision about investing capital in the audited business. To fulfill such an important role of the audit, the regulators have prepared a lot of formal and legal requirements which the auditor has to follow to carry out the external audit.

The external audit may be statutory or non-statutory.

The audit is required for a lot of companies. And whether it is necessary for the company depends on the country itself. In the most countries, for joint-stock companies and limited liability companies, the audit is obligatory under national requirements.

The statutory audit gives a lot of advantages both for the company itself and for the shareholders. If the entity has the audited accounts and financial statements have been correctly extracted from the records and books, it is more reliable for all the partners (e. g. for clients, for the bank and for the investors).

Non-statutory audit is performed when the owners as sole traders, managers of partnerships decide to have this process carried out by an independent auditor. In practice, in small companies, the owners and management are not separate entities. That is why, preparing the financial statements may be less valuable when it comes to an independent view.

The rights and duties of the auditor and the audit process are set down in the rules of law, including both national and international regulations.

The auditor have many rights to carry out the audit efficiently. They are as follows:

- access to records, books, notes, previous audit documentation during the audit process;
- requirement of information and explanation from managers and employees;
- attendance at meeting with management, accountants and also during stocktaking.

The auditor is appointed by shareholders for each financial year. The auditor's responsibilities and remuneration, the scope, time limit and objectives of the audit should be written in *the engagement letter* which is the agreement on the terms of the audit engagement. Additionally, the salary should be set before the audit process is started and it must be disclosed in the financial statements.

When the external auditor ceased to perform the audit, he/she informs the director and can request for calling the general meeting to discuss the reasons for resignation. The auditor has to prepare a written *statement of circumstances,* which is sent to the regulatory authority. Additionally, the audited entity sends a notice of resignation to the regulatory authority and to third parties which are authorised to receive the financial statements.

Legal regulations set minimum requirements and standards for the auditors in the most important fields like: education, examinations, practical experience.

The most crucial legal acts regarding the International Standards on Auditing are:

200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing
210 Agreeing the Terms for Audit Engagements
220 Quality Control for an Audit of Financial Statements
230 Audit Documentation
240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial
250 Consideration of Laws and Regulations in an Audit of Financial Statements
260 Communications with Those Charged with Governance
300 Planning an Audit of Financial Statements
320 Materiality in Planning and Performing an Audit
450 Evaluation of Misstatements Identified during the Audit
500 Audit Evidence
501 Audit Evidence – Specific Considerations for Selected Items
505 External Confirmations
510 Initial Audit Engagements – Opening Balances
520 Analytical Procedures
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540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
570 Going concern
580 Written Representations
610 Using the Work of Internal Auditors
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700 Forming an Opinion and Reporting on Financial Statements
701 Communicating Key Audit Matters in the Independent Auditor's Report
705 Modifications to the Opinion in the Independent Auditor's Report
706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
720 The Auditor's Responsibilities Relating to Other Information

3. Corporate governance

Corporate governance is the system by which an entity is directed and controlled. In practice, directors are responsible for corporate governance. The main aim of corporate governance is to give the guarantee to shareholders (members of family in small companies, the general public or other investors) that the money they have invested are spent wisely. The directors should have good relations with shareholders to communicate the objectives and to encourage potential investors to invest money in the business. It is not only one good practice to control government for companies because every company is different, it works in circumstances and deals with different traditions and framework.

The directors are responsible to run the business effectively, they should have the proper skills, experience, knowledge, they should update and refresh their competences. One of the duties – in the context of the audit process – is to help the auditor to understand better business activity and specific terms of the activity, to get the proper information relevant to the audit.

The good corporate governance should ensure the strategy and objectives to be obtained. It also requires a good internal control.

The external audit is very important part of corporate governance because it is an independent examination on what the management reports to the existing and potential shareholders.

In the audit process, a communication between the external auditor and the management is very important. The auditor should discuss with those who are in charge of the audited entity and present a lot of matters concerning: the planned range and time framework of the audit, the main risk areas identified by the auditor, opinion about correctness of accounting policy, accounting estimates and present disclosures, key audit matters.

4. Internal control system

Internal control system of each entity is designed and implemented by the directors, the management, the ones who are responsible for the operations on everyday basis. The internal control system helps the auditors to understand better specific terms of activity of each entity, the potential area of risk occurrence and it helps them to identify potential misstatements in the financial statements. This system makes the audit process more effective, it helps the external auditor in designing the character, time framework and scope, selection of using audit techniques and procedures. Having results of the internal control the auditor decides if it is better to perform only *tests of controls* (if there is no big risk) or to carry out *substantive testing* of all the financial statements area (in case of increased risk or lack of control in the entity).

Of course, the internal control statement should be reviewed by an external auditor to ensure if the information which is included there is not in conflict with the audited financial statements.

There are some factors which help the internal control to operate well within the entity:

1. Existing of proper control environment which consists of the right attitudes, actions of managers, an internal culture of honesty, ethical behaviour, the right communication between employees and employees and managers, the proper skills of management, the regular actions of forward planning, reviewing and control of the objectives, if they are achieved.
2. Identification of risk area which has an influence on financial reporting objectives and the policy of taking an action if the risk occurs.
3. Relevant information system of financial reporting regarding in particular:
   - documentation, recording, reporting transactions which have influence on assets, capitals, liabilities, revenue, costs,

- the procedures used in manual and IT system of accounting,
- the way of treating non-standard journal entries,
- the manner of handling the significant transactions, but also not relevant operations in the financial statements,
- the methods of the estimation of fair value, calculations of costs, estimation of expected useful life of assets, tax records, treating lease agreements in the accounting system.

4. Control activities whose aims are to prevent from errors and to reveal the errors include:
   - physical controls (including limited access to tangible assets),
   - segregation of duties, functions, responsibilities (to know who is responsible for recording transactions, authorising transactions, taking control over each type of tangible assets, one staff should be responsible for recording transaction and another one for controlling it),
   - instant and periodic review of processes taking place within the entity,
   - observation and analysation of documents' authorisation, especially regarding an approval and control of documents, identification of person who posts records in the books,
   - checking accuracy of information process – mathematical accuracy of records (if the entries are free from arithmetical errors), reconciliations on the meaning of comparison between a bank balance and source documents which were based for entries.

There are some techniques of internal control – from the simple method like narrative notes, through flowcharts, ending with questionnaires.
The questionnaire is the list of key questions of the controlled area.

Example 1.
the questionnaire for selling process:

a) Does the entity separate the tasks of taking orders, posting sales invoices, recording goods provided to clients, receiving payments?
b) Does the entity set price list (is it flexible and does it depend on the group of clients), specify the credit terms to customers?
c) Do the recorded (posted) sales transactions represent goods or services provided?
d) Does the store staff sign for goods taken out?
e) Do the sale invoices have sequence numbers?
f) Are the sales invoices per day summed up and taken to the daily sales report?
g) Do the sales invoices match with all the sale entries?
h) Does each sale document (e.g. invoice) include the date of sale, the date of record and reference number of the entry?

Example 2.
the questionnaire for purchase process:

a) Does the entity separate the tasks of taking orders, posting purchase invoices, recording goods received from clients, making payments?
b) Do the receiving goods fit the purchase order?
c) Is the quantity of receiving goods the same as the quantity included in the purchase invoice?
d) Does the entity recalculate purchasing invoices (if the documents are free from mathematic errors)?
e) Does the value of goods received correspond the trade payables?
f) Are the supplier statements in line with trade payables balance?
g) Does the store staff sign for the goods received?
h) Does the entity require the statements for the recipients and do they comply with trade receivables balance?

Example 3.

the questionnaire for inventory:

a) Does the entity sequentially number the documents about material and goods received and goods taken out form the store?
b) What are the responsibilities and duties of the store staff?
c) How does the entity organise making orders for the materials used for production?
d) What does the documentation for semi-finished and finished goods look like?
e) Is the inventory is counted regularly?
f) How often does the entity reconcile the inventory with accounting inventory balance?
g) Does the entity make a review of standard costs or other value of inventory?
h) Does the entity identify obsolete or excess of inventory and reduce their value from the accounting inventory balance?

Example 4.

the questionnaire for cash:

a) Does the entity separate the tasks of recording cash payments and cash receipts, reconciliation of cash?
b) Is the received bank monthly statement reconciled with the cash balance?
c) Is the entity an authorised staff for the cash payment (in traditional, electronic way)?
d) Are the cash documents sequentially numbered?
e) Does the sum of all cash documents match with cash report and is it in line with cash balance?
f) What are the cash sales and cash purchase procedures?
g) Are the supplier statements matched with trade payables balance?
h) Are the customer statements prepared and sent regularly?

5. Internal audit

The internal audit process is being driven to check the entity's corporate objectives, including forming and then, assessing the quality of corporate governance. The objectives for each company vary and they are included in the strategic plan and business policy.

The internal audit is not obligatory process and, in practice, it takes place mainly in large companies and public sector. It is made by the assigned employees or by external company – the work carried out by consultants within the outsourcing.

There are the following reasons for making the internal audit:

- to ensure that the management system (including risk management) works in a proper way,
- to control that the strategies, tasks, objectives are implemented into day to day running of the business,
- to detect fraud and errors;
- to examine, evaluate, report the effectiveness of the operations to the management.

Additionally, the internal audit can play a key role in the financial area:

- analysing and reporting for the management the areas not audited by the external auditors, like customer satisfaction, IT area and so on,
- evaluating and reporting the efficiency of internal control system for the directors,
- advising the board of directors on the implementing new standards on accounting and assessing the operation of the existing standards on accounting within the entity,
- helping the external auditors which can use internal audit's work including conclusions, arrangements in the field of accounting,
- ensuring a good effective control governance.

The finalisation of the internal audit is the report, which should consists of the following sections:
- background information like purpose of an audit, scope;
- main factors of risk, main points of the task included in the audit;
- summarisation – results of the report, recommendations;
- opinions of managers on the results and findings of the audit.

The final report on the internal audit is addressed to the managers, the board of directors, and also to the external auditors. The report can have any form, because – contrary to the external auditor's report – there is no formal internal audit report requirements. Of course, the internal audit report should include findings, results and its format should be similar as the one prepared by the external auditors.
Firstly, the internal auditor should prepare *the draft report* with suggestions of improvement the operations and recommendations. Then it should be discussed with the management to find the conclusions and agree or not with the proposed solutions to the problem which have been identified and then it can produce *the final report*. The report should include minimum contents covering purpose (objectives), range (activities, key audit matters), results (finding, recommendations, conclusions). Additionally, the internal audit report can have some sections regarding the opinion of the managers on the results of this audit.

6. External audit process

An external audit is a type of arrangement that is carried out by an auditor to assess the financial statements.

The fundamental objective of the external audit of the financial statements is to express opinion if the financial statements is prepared in accordance with all rules of accounting standards and whether it presents the true and fair view of the financial situation of the entity.

To prepare the information the auditor needs certain data from the entity, the management and also from the third parties and directly from himself/herself.

The audit process is complex and consists of:
a) planning,
b) implementation of control activities and making audit evidence,
c) creating the opinion and audit report.

a. Audit planning

Before starting the fundamental element of audit process, the auditor should prepare the plan of audit activities. The plan should include scope, time limits which will help to identify the crucial areas of the audit, to organise the tasks and timetable in the audit process, to identify the potential problems. The schedule of the audit process can be basis to make a review of planned work, to manage team work if this process involve both, the staff and the experts, to coordinate their work.

When the audit plan has been made, it should be discussed with the management of the audited entity.

The auditor should consider many factors before performing the audit. They are as follows:
a) financial reporting framework requirements,
b) legal changes of reporting requirements,
c) nature of the business,
d) existing the internal audit and budgeting process in the audited entity or lack of it,

e) availability of the staff (not only management, also the employees),
f) results of previous periods (conclusions, recommendations),
g) scale of the activity and volume of transactions in the audited entity,
h) the business internal culture, ethical standards existing in the audited entity.

The auditor, before using the right method or procedure during the audit performance, should prepare a plan of the audit regarding:

a) compliance of the opening balances with the prior year's closing balances,
b) reviewing the general ledger for usual and unusual records,
c) carrying out an analytical review,
d) testing transactions in detail,
e) testing balances,
f) reviewing the disclosures.

b. Audit evidence and procedures

The auditor must prepare and perform the proper audit procedures to get the relevant audit evidence. The auditor evidence constitutes the information obtained from the audit process which is the basis for the construction of an audit opinion. The audit evidence should come from independent sources (in practice it is the information obtained from both internal and external sources) and it should have a written form. If the audited entity uses the expert information during operating processes, the auditor can use these findings but firstly it should evaluate the competences and objectivity of the expert.

There are two fundamental types of audit procedures:

a) **tests of control** which aim to prevent, detect and correct material misstatements, if the risk is little and some procedures of internal control take place in the audited organisation;
b) **substantive procedure** which is more complex, it consists of test details like checking accuracy of information process e.g. classification of operations, check out of account balances, disclosures and analytical procedures. The substantive procedures are implemented to reveal the material misstatements when the risk is higher, the control processes do not exist in the entity.

Test of control – possible techniques and procedures:

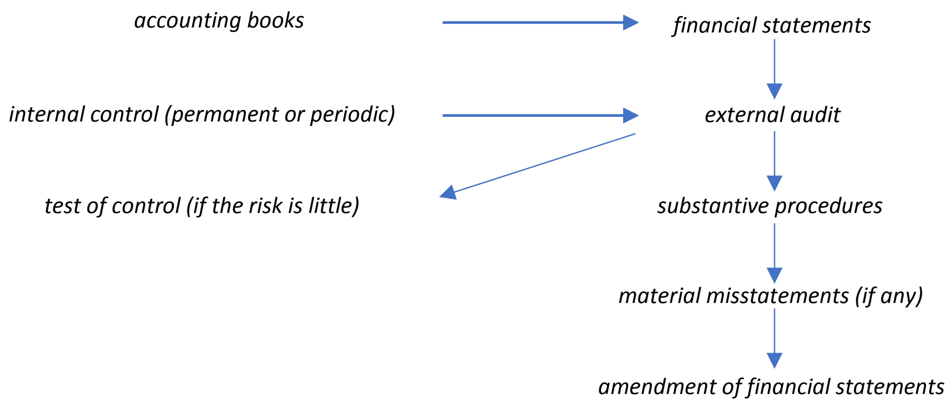
- observation of the processes which take place as a proof of occurrence and existence (for example by attending the inventory count),
- sampling,
- cut-off testing – is used to determine whether transactions have been recorded within the correct reporting period,
- reviewing the procedures,
- verifying the documents e.g. to test if all documents are recorded in the accounting system to avoid understatement/overstatement items because of the omissions form the accounts,
- comparing the data of documents which are basis for accounting with the accounts,
- auditing accounting estimates (regarding allowance for debts, the expect useful life of tangible assets for depreciation needs, inventory obsolescence, provisions),
- testing the principle of double-entry rule (misstatement of a debit/credit entry, misstatement in the opposite direction) – the potential errors make overstate of an asset which means understate of other asset, overstate of liability, overstate od income or understate of costs and vice versa.

Audit techniques and procedures are the critical area of the audit issue. The choice of the right method during the audit process depends on type of assertion and has a significant influence on the audit's results.

For example:

1. To test completeness of classes of transactions and account balances and disclosures the audit can do cut-off testing, general and analytical review, make confirmations and reconciliations to control the accounts.
2. To test accuracy, valuation and right entries on account balances and disclosures the auditor can match posted data with the source documents, e.g. invoices, recalculate e.g. cost of production to test if correct amounts are posted, the initial value of some items of tangible non-current asset, check out if accounting policy is quite well designed for the entity and its specific terms and according to the existing law regulations and accounting standards.
3. To test existence of account balances the auditor can physically verify some tangible assets, confirm trade receivables by a third – party.
4. To test occurrence of transactions classes and notes in disclosures the auditor can inspect additional supporting documentation, confirm if all posted transaction are related to the business, inspect some selected purchased item if it exists and works.

The general outline of internal and external audit is presented below, in picture 1.



Picture 1. The outline of internal and external audit
Source: own study

Auditors create documentation from the audit using the following detailed procedures:

- **physical inspection** to confirm real existence of tangible assets,
- **observation of posting opening or selected transactions**, what does the process of double entry look like,
- **the examination of documents and records**, if all the documentation on base which the transactions are posted exists, what does the process of documents authorisation looks like,
- **an attendance at inventory stock and count the quantity of selected items** to confirm the individual balances with their real values,
- **the investigation of information from clients or third parties** to confirm if the transactions recorded in the entity really took place and if they are not manipulated,
- **making recalculation of production costs** (finished goods, production under work) to check out arithmetical accuracy of figures and sums,
- **confirmation of bank balances**,
- **using expert reports about market value of assets** to compare with the entries and balances of assets in the financial statements,
- **review of internal control activity conclusions and findings**.

During the audit process, the external auditor prepares all working paper which is the tangible evidence of work done and conclusions made by the auditor.

Content of working papers for external audit process may include:

a) engagement letter,
b) audit programmes,
c) the background information such as the legal documents, agreements to understand general and specific terms of the entity's operations,
d) extract form the internal audit report conclusion,
e) notes about risk area in the audited entity,
f) account checklist,
g) reconciliations of financial accounts,
h) copies of the transactions, records, balances, financial statements for the current and previous year,
i) copies of the previous year opinion and report audit,
j) notes from meeting about important matters with those who are responsible for control governance,
k) conclusions of substantive tests and tests of control,
l) conclusions from financial analyse of the entity as a whole.

c. creating the opinion and audit report

All this information collected by the auditor is the base to form the audit conclusions. The evidence during the audit process should be:

- made in written form,
- independent and got from both internal sources and from outside the organisation and generated from the auditor itself,
- the auditor can use internal audit conclusions (if they exist) to formulate the opinion.

The products of auditing are the opinion and the report. They are written documents in which the auditor evaluates and sets out the opinion if the accounting policy and the financial statements are in accordance with accounting rules – they give the truth and fair view in financial situation of the entity.

"True" means that information is actual and reflects reality. "Fair" means information is free from bias and it is in compliance with the existing standards and rules.

The opinion is placed at the beginning of the report and includes a general description of the auditor's responsibilities and the key issues of an audit.

The audit's opinion can be:

1. An unmodified opinion.
2. A modified opinion – there are three types of modified opinion:
   a) a qualified opinion,
   b) an adverse opinion,
   c) a disclaimer of opinion.

An unmodified opinion is the opinion in which the auditor states that the financial statements is prepared in accordance with the financial standards and reporting framework.
If the auditor expresses that the financial statements as a whole is not free from misstatement or cannot get appropriate audit evidence, the auditor has to modify the opinion.

A modified opinion is made in two cases:

a) the auditor finds the financial statements as a whole is not free from material misstatements,
b) the auditor cannot get the adequate audit evidence to conclude that the financial statements as a whole is not free from material misstatements.

In practice it means that in case a) the auditor performs control activities and some of selected accounting policies do not work fully or in case b) some activities and their results are beyond the control of the audited entity or limited time of the auditor's work or limitation force by managers.

An adverse opinion is made up when the auditor on the basis of the audit evidence reveals mis-statements which are relevant, material and pervasive, for example the entity does not calculate depreciation at all, trade receivables balance includes most of irrecoverable debts.
Sometimes an opinion must be disclaimed (***disclaimers of opinion***) when the auditor cannot get enough proves to evaluate the information involved in the financial statements. Despite of big efforts to prepare the audit evidence, the auditor is not able to make an opinion due to various uncertainties.
Below there are examples of outline of an opinion.

1. Example 1. – an unmodified opinion,
2. Example 2. – a qualified opinion,
3. Example 3. – an adverse opinion,
4. Example 4. – a disclaimer of opinion.

Example 1.
an unmodified opinion

We have audited the financial statements of X Company, which includes the statement of financial position as at 31^{st} December, 20XX, the profit and loss statement, cash flow, the statement of changes in equity and notes to the financial statements, including the accounting policy.
In our opinion, the accompanying financial statements presents fair, in all material aspects, and gives a true and fair view of the financial position of X Company and its financial performance and its cash flow for the year ended 20XX in accordance with existing Accounting Standards.
We perform our audit in accordance with the International Standards on Auditing. Our responsibilities are described in the Auditor's responsibilities for the audit as a separate section in our report. We also state that we are independent in accordance with the ethical requirements. We believe that the audit evidence is sufficient and we are authorised to make the unmodified opinion.

Example 2.
a qualified opinion

We have audited the financial statements of X Company, which includes the statement of financial position as at 31^{st} December, 20XX, the profit and loss statement, cash flow, the statement of changes in equity and notes to the financial statements, including an accounting policy.
In our opinion, *except for the some effects of the issue described in the Basis for Qualified Opinion section of the report,* the accompanying financial statements is fair, in all material aspects, and gives a true and fair view of the financial position of X Company and its financial performance and its cash flow for the year ended in 20XX in accordance with existing Accounting Standards.
We perform our audit in accordance with the International Standards on Auditing. Our responsibilities are described in the Auditor's responsibilities for the audit as a separate section in our report. We also state that we are independent in accordance with the ethical requirements. We believe that the audit evidence is sufficient and we are authorised to make the qualified opinion.

The Basis for Qualified Opinion
The X Company does not value the inventory at the lower of cost and net realisable value NRV (market value) but at cost, which does not agree with the International Standards. It makes that cost of goods sold has been increased by…$, and income tax, net income and equity have been decreased by…$, respectively.

Example 3.

an adverse opinion

We have audited the financial statements of X Company, which includes the statement of financial position as at 31st December, 20XX, the profit and loss statement, cash flow, the statement of changes in equity and notes to the financial statements, including the accounting policy.
In our opinion, because of the matters present in the Basis for adverse opinion, the accompanying financial statements does not present fair information, in the material aspects, and does not present a true and fair view of the financial position of X Company and its financial performance and its cash flow for the year ended in 20XX in accordance with the existing Accounting Standards.
We perform our audit in accordance with the International Standards on Auditing. Our responsibilities are described in the Auditor's responsibilities for the audit as a separate section in the report. We also state that we are independent in accordance with the ethical requirements. We believe that the audit evidence is sufficient and we are authorised to make the adverse opinion.

The Basis for Adverse Opinion

The X Company does not compute the depreciation on plant and equipment at all, which does not agree with the International Standards. It makes that cost of goods sold has been decreased by…$, and income tax, net income and equity have been increased by…$, respectively.

Example 4.

a disclaimer of opinion

We were involved to audit the financial statements of X Company, which includes the statement of financial position as at 31st December, 20XX, the profit and loss statement, cash flow, the statement of changes in equity and notes to the financial statements, including the accounting policy.
We do not express our opinion on the accompanying financial statements because of the matters presented in the Basis for disclaimer of opinion. We are not able to get adequate audit evidence to prepare the opinion on the financial statements.

Basis for disclaimer of opinion

We were not able to attend the counting of physical inventories at the beginning and end of the year. because we were appointed o be auditors after December 20XX. We cannot confirm the quantity of the inventory as at 31st December. As a result of this matter, we were not able to adjust inventories in the financial statements (we do not know if the inventory value is overstated or understated).

The audit report consists of a number of many elements according to the accounting standards. Auditor's report is covered by many accounting standards. They are as follows:

ISA 700 Forming an Opinion and Reporting on Financial Statements
ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report
ISA 705 Modifications to the Opinion in the Independent Auditor's Report
ISA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report.

The auditor firstly should asses if:

- the information included in the financial statements is clear, fair, reliable, comparable with previous periods,
- the accounting policy is prepared correctly, regarding the specific external and internal terms of the entity activity,
- accounting estimates are made in a proper and correct way,
- the financial statements provide right disclosures to allow users to understand the details and effects of economic transactions.

The main elements of the auditor's report include:

1. Title which clearly proves that this is the report of the independent auditor.
2. Address of the entity which is audited.
3. The outline of the auditor's opinion which underlines that the financial statements have been audited and it explains notes attached to the opinion.
4. Basis for the opinion – the auditor must confirm that it is independent of the audited entity and acts according to the framework rules.
5. Going concern confirmation.
6. Crucial audit issues description (key audit matters) explanation for important events or transactions which takes place for each entity and there are the subjects for the auditor's judgements.
7. Other information.
8. Responsibilities for the financial statements – a statement that the managers are responsible for preparing the financial statements.
9. Responsibilities for auditing this description of the auditor's responsibilities must be expressed in the body of the report or in the appendix of the report.
10. Auditor's signature – the auditor's name and/or the audit company name.
11. Auditor's address – the location where the auditors take a practise.
12. Date of the report next to the date of making the audit by the auditor.

7. The differences between internal and external audit

Both internal and external audit can bring many advantages to the audited entity. The processes have some differences when it comes to objective, scope, regulation basis. Table 1 presents the area of the distinction between internal and external audit.

Table 1. The comparison of internal and external audit

Criteria	Internal audit	External audit
Objective	To assess the existing operation system and to improve it	To give an opinion on the financial statements
Subject	The operations of the entity, like accounting field, information technology, customer service	The financial statements
Recipients	The information is addressed to the internal users like managers, directors	Existing and future shareholders
Legal regulations	No legal requirements (according to the Institute of Internal Auditors which issues Standards for the Professional Practice of Internal Auditing the process of internal audit is not obligatory but it is a good practise), procedures of internal audit are adopted and set by each company	Legal requirements

Source: own study

8. Requirements for project on the course

To get a credit from the course entitled Audit and Financial Control, the student should write an essay (at least 5 pages) and make a presentation (in Power Point) on the following topic – see table 2 (the lecturer chooses the topic for each student).

Table 2. Topics to discuss on the project

	Topics	Name	Date
1.	Financial control and accountability in the public sector		
2.	Audit procedures (sampling, the audit of estimates in accounting, the outline of tests of controls, substantive tests)		
3.	Control of tangible non-current assets and intangible non-current assets in the company		
4.	Control of inventory in the company		
5.	Control of cash in the company		
6.	Control of equity and liabilities in the company		
7.	Control of sale and purchase process		
8.	Control of the payroll system		
9.	Audit software		
10.	Outsourcing of internal audit		

Source: own study

9. The list of selected questions and topics for the exam on Audit and financial control

1) What is the external audit and what kind of entities are obligated to make it?
2) What is the internal audit control?
3) Describe two fundamental types of audit procedures.
4) The kinds of an auditor's opinions.
5) The main elements of the auditor's report.
6) The differences between internal and external audit.

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