

Simple Facts of Accounting

from **infoCPA**



No: **3**

The Auditor and the Audit



This is the 3rd in the series of financial information bulletins prepared by the Institute of Certified Public Accountants in Ireland for members of the Small Firms Association. The intent is to give an overview of the subject rather than an in-depth analysis. Directors are advised to obtain professional advice before proceeding. Topics covered in previous bulletins include *Availing of the Audit Exemption and Duties of Company Directors*, and these can be accessed on the CPA website – www.cpaireland.ie

What is an audit?

An audit is an independent examination of the financial statements and underlying books and records of a company. The auditor will report back to the shareholders of the company.

Why have an audit?

In many cases it is a legal requirement for a company to have an annual audit. In cases where it is not a legal requirement directors may opt to have an audit. For details of the audit exemption see Simple Facts of Accounting No 1.

What is an auditor?

An auditor is a member of a professional accountancy body who holds a specific licence to conduct statutory audit work. A holder of an audit licence will have passed a rigorous set of exams to become a member of the body and will then be subject to further training to become an auditor.

A CPA qualified auditor will be subject to checks and monitoring visits from professionally qualified staff from the CPA Institute to ensure their standards are of the highest quality. They must maintain their professional competence through continuous professional education throughout their career.

Auditors are bound by a strict code of ethics and must maintain their independence and integrity at all times.

What will the audit report say?

The auditor must reach an opinion on a number of factors including whether or not the accounts show a true and fair view and whether the company has kept proper books and records.

Where the auditor reaches the opinion that the accounts do not show a true and fair view the audit report will clearly state this. If this situation arises, the audit report will contain specific details on the areas where the issues arose.

How do I choose an auditor?

When choosing, you must ensure that your auditor is a "Registered Auditor". This means that they hold an audit licence from a recognised accountancy body.

You can check with the Companies Registration Office to ensure that your accountant is registered at www.cro.ie.



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How is the auditor appointed?

The shareholders of the company at the annual general meeting appoint/re-appoint the auditor.



What rights and powers does the auditor have?

The auditor has the right to obtain access to the books, accounts and vouchers of the company and any other information that he thinks necessary to conduct the audit. The auditor may talk to your staff to obtain a good understanding of the company's financial system. They may also write to third parties such as banks and debtors to independently verify year-end balances.



What advantages can an audit have for my company?

An audit can deliver the following benefits:


- * The assurance that is derived from knowing that a professional auditor has reviewed the business, the company's systems and internal controls.
- * Lenders to, or investors in the business may require audited accounts as part of their terms and conditions.
- * When selling the business historical audited accounts may be required
- * As a consequence of the audit, your auditor is in a unique position to comment on the performance of your business.



What other obligations does the auditor have?

The auditor has a number of reporting obligations as follows:

- * To make a report to the Office of the Director of Corporate Enforcement if certain breaches of the Companies Acts are identified.
- * Where proper books and records are not being maintained and the situation is not resolved the auditor must make a report to the CRO. This report goes on the public record.
- * To report suspicions of money laundering to the Gardai, and the Revenue Commissioners.
- * To report certain theft and fraud offences to the Gardai.
- * To report to the directors any material taxation offences they identify. Where the matter is not rectified the auditor must resign and notify the Revenue Commissioners.



Can I find out, in advance, how much the audit will cost?

Your auditor can explain the fee structure and how fees will be calculated. Your auditor's letter of engagement will explain this. The fee will depend on the quality of business records available to the auditor.



Should I be aware of any changes in the audit process for 2006?

Yes, auditors must now conduct audits using the International Standards on Auditing. Previously national standards were used.

The auditor may require more input from directors and staff at the planning stage of the audit.

The auditor is also subject to revised ethical requirements. While there have always been ethical requirements in place, these new standards may require additional disclosures in your accounts depending on the issue. A common example of this would be in a case where your auditor also provides you with other services such as tax and accounting.

The Institute of Certified Public Accountants in Ireland

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Disclaimer

This information bulletin is intended to be used as an introduction to the Duties of Company Directors. It does not purport to be a definitive guide. For further information the Companies Acts should be consulted or you should speak to your CPA professional advisor. Neither the Institute of Certified Public Accountants in Ireland, or the Small Firms Association can be held liable for any error, or for the consequences of any action, or lack of action arising from this leaflet.

For further assistance...

Please contact the Institute of Certified Public Accountants in Ireland at 01 6767353, who can put you in touch with your nearest CPA practice. The Institute is a statutory accountancy body with 4,500 members and students. CPAs work both in practice and all areas of Irish commercial life, and work in 28 countries around the world.