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ENGLISH FOR
ACCOUNTING & TAXATION

Masters (2)

Course for Master students in Accounting and Taxation

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Chapter 6

AUDIT

- **Audit**

The term audit usually refers to the financial audit or review of financial statements. A financial audit is an objective examination and evaluation of the financial statement of an organization to make sure that the financial records are a fair and accurate representation of the transactions they claim to represent.

The audit can be conducted internally by employees of the organization or externally by an outside certified public accountant (CPA) firm.

An audit is the review or inspection of a company or individual's accounts by an independent body. Auditors may be hired internally by the company or work for an external third-party firm. Almost all companies receive a yearly audit of their financial statements. This includes the review of statements like the balance sheet, income statement, and cash flow statement.

- **Types of audits**
- **External audits**

External audits are commonly performed by Certified Public Accounting firms and result in an auditor's opinion which is included in the audit report.

Unqualified (clean) audit opinion means that the auditor has not identified any material misstatement as a result of his or her review of the financial statements.

External audits can include a review of both financial statements and a company's internal controls. Therefore, external audits allow stakeholders to make better, more informed decisions related to the company being audited.

External auditors follow a set of standards that are different from those of the company or organization hiring them to do the work.

- **Internal audits**

Internal audits serve as a managerial tool to make improvements to processes and internal controls.

Internal auditors are employed by the company or organization for whom they are performing an audit, and the resulting audit report is given directly to management and the board of directors.

Internal auditors are used when an organization doesn’t have the in-house resources to audit certain parts of its own operations.

- **Internal Revenue Service (IRS) audits**

The IRS routinely performs audits to verify the accuracy of a taxpayer's return and specific transactions.

IRS audit selection is usually made by random statistical formulas that analyze a taxpayer's return and compare it to similar returns. A taxpayer may also be selected for an audit if they have any dealings with another person or company who was found to have tax errors on their audit.

There are three possible IRS audit outcomes available:

1. No change to the tax return
2. A change that is accepted by the taxpayer
3. A change with which the taxpayer disagrees

If the change is accepted, the taxpayer may owe additional taxes or penalties. If the taxpayer disagrees, there is a process to follow that may include mediation or an appeal.

➢ **The purpose of an Audit**

- Audits are generally meant to ensure that businesses and individuals are being honest and accurate about their financial positions. But, the purpose of an audit depends entirely on the type of review in question.
- For instance, corporations are routinely audited to ensure they are compliant and are following accounting standards. Audits also

ensure that businesses are representing their financial well-being accurately.

- Tax agencies conduct routine audits at random or may do so if someone's tax return is flagged. Things that may trigger an audit include specific tax credits and deductions, or certain types of income.