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**AUDITING/CORPORATE GOVERNANCE |  
BASIC/INTERMEDIATE**

# **Video Transcription: What Do Auditors Do?**



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Hello there, my name is Sumaya, and this video will be answering the question: “What do auditors do?” Well, it is important to firstly explain what auditors actually do before we look at the details of what they do in the audit process.

Have you ever heard or read that the “auditors are investigating the matter”, or on television when they release the Lotto results, we are told that “the auditors are standing by to verify the results”. So, what does this actually mean?

What would you say if you were asked to describe what auditors do? The common descriptions I get are that auditors check that there are no mistakes in the accounting records, and that they test for illegal and fraudulent activities at the company. Is this correct? Is there more that they do? Why is this not correct?

So, what do auditors do? Simply stated, auditors of all types: provide assurance pertaining to information prepared or presented by one party to another party with the intention of inspiring confidence in the “fairness” of the information, which is being prepared or presented.

What does this actually mean? Okay, let’s use a simple example that has nothing to do with auditing to explain what auditors do. Let’s assume that you are planning to buy a house. What are some of the problems that you may face?

Well, there is the risk that the seller may not be completely honest about some of the problems with the house such as damp walls or beetle damage. Or they may not have the necessary expertise to evaluate the condition of the house. The seller wants to receive the highest price for the house, so will probably overstate the positive characteristics of the house (leak-proof roof, sparkling swimming pool etc.). The seller may also want to understate the negative characteristics of the house such as cracked walls, electrical issues etc. The point is, the seller is likely to provide unreliable information regarding the house you are interested in.

So, as the buyer, you will want reliable information to help you make a decision on whether or not to purchase the house. You will only make the decision if certain criteria has been met. For example, three bedrooms, two bathrooms, a leak-proof roof, plumbing and electrical are all in good condition etc. However, you may not have all the information and may not have the knowledge or expertise to assess whether the information you have been given is reliable. The buyer may consider using a house inspector (third party) to provide assurance that all the criteria they are looking for in the house are met.

However, be careful about the information that the house inspector is providing – all he is saying is that the house does have three bedrooms, two bathrooms, a leak-proof roof etc. He is not telling you whether or not to buy the house, or whether it is a good investment. The third party is merely assuring that the criteria you have requested have been met.

So, let’s make sure you are comfortable with the concept of what the house inspector does. The house inspector is there to give you assurance on the reliability of the information of the house, rather than tell you whether or not you should buy the house.



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But, the question is, why would you trust the house inspector? What characteristics are you looking for in order to trust the house inspector? The most important item is that you want the house inspector to be independent. In other words, you probably would not want her to be the wife of the person selling the house, and that she has the appropriate knowledge, competence and expertise to assess the reliability of the information about the house.

Now let's take this simple example and see how it applies to the auditing process.

The investors/users (buyers) are interested in investing in the company. The directors (sellers) provide financial information through the Annual Financial Statements (the house). But the users will need reliable information regarding the AFS, and the auditor (the house inspector) would be the third party who provides an opinion on the reliability and fairness of the information provided in the Annual Financial Statements.

So, why would you trust the auditors? If they are independent and have the knowledge, qualification, competence and expertise to assess the reliability and fairness of the financial information contained in the AFS. Remember, though, that the auditors are not advising you to invest in the company.

This video developed an understanding of what the auditor does. We suggest that you now watch the video looking at The Audit Process.