



COLLEGE OF
ACCOUNTING

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

Video Transcription: The Audit Process



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Hi there, my name is Wayne, and today I will be explaining the audit process. Imagine you are thinking about going on holiday. Before you can set off on holiday, there are a few things that need to happen. You will first need to decide where you are going to, on holiday. Then, you will plan the best way to get there – you could fly or drive to your holiday destination. Let's assume you are going by car, your third step will be driving your car on the planned route to where you are staying, and finally at the end of your holiday you will think back on your holiday or you could even write a travel blog, reviewing your trip.

The audit process is similar and also has these four stages. The first stage – the Preliminary Stage – is, deciding whether or not to accept or continue with an audit client. The second stage is, planning the audit. The next stage is the response stage, actually doing the audit, and the last stage is the concluding and reporting stage. So let us look at each stage of the audit process in slightly more detail.

Let's start at the Preliminary Stage. If you intend going to a new place for your holiday, you will do quite a lot of research about the place. You could read up on the positive and negative aspects of the holiday destination or you may ask other people, who have been to the place, about it. This will assist you in making the decision as to whether this is where you want to go on holiday.

In a similar way, in the Preliminary Stage, we, as auditors, decide if we want to accept an audit client. We will research our potential client, and examine their good and bad points, we will talk to the potential client's previous auditors, and will decide whether to take them on as a client.

However, our decision regarding our holiday destination would differ a little if we had been to our holiday destination before. In deciding whether to go back to the same holiday destination again, we will think back to our previous holiday and, based on the experience we had there before, would decide whether we enjoyed it enough to go back to the same place again. It would still be a good idea to do some research, just to make sure that things at the holiday destination are still similar to what you remember.

Similarly, if we have an existing audit client, we need to decide whether we want to audit this client again. We will review the previous audit and decide, based on our experience, if we should keep them or not. It will also be a good idea to do some research, again, to check that things have not changed dramatically since you last did your audit.

The second stage is the Planning Stage

You will need to plan how to get to your holiday destination and where you will stay. You will look at a map and decide on the best route to get there, and will need to budget for the amount of petrol you will use, and your accommodation options. Part of your planning will include checking the road that you will be using and plotting where the petrol stations are, so that you do not run out of petrol.



During the Planning Stage of an audit, we plan for the audit ahead. We identify the areas of the client's business that have risks for us, as the auditor. This is why this stage is also known as the Risk Identification Stage. If the client is a new client, there will be risks that you will be unaware of, much like when you drive a road for the first time, you will not be aware of possible potholes on the road. If the client is an existing audit client, you will already be aware of a number of possible risks in the client's business, much like knowing where the potholes are likely to be. However, like the possibility of new potholes, there is the possibility of new or different risks in the existing client's business, or some of the known risks may no longer exist, and this is like previous potholes, which have been repaired.

The third stage of an audit is called the Risk Response Stage

When you are finally on the road, on the way to your holiday destination, you are going to follow the route you planned. If you have been on the road before, you know where the potholes, from the last trip, are and drive more carefully when you approach these dangers, and at the same time keep an eye out for any new potholes. If you have never been on the road before, you will be extremely careful the whole time because you do not know what lies ahead, and want to make sure that you do not damage your car or have an accident.

During the Risk Response Stage of the audit, we will follow or implement the audit plan we developed. If it is an existing audit client, we exercise more caution over the areas where we know there are risks. Remember, these could be risk areas that we had noted in previous audits or additional risks we identified in the Planning or Risk Identification Stage. For a new client, we work with extreme caution so that we can confirm the risk areas we identified in the Planning Stage as well as identify any additional risks in the business that had not been identified in the Planning Stage. This will allow us to respond correctly to each situation we face, throughout the audit.

The final stage of the audit is the Concluding and Reporting Stage

When you get to your destination, you can review your trip. Make a note of any potholes and other issues for the next journey, or your blog, should you decide to write it.

The Concluding and Reporting Stage is similar to this. At this stage of the audit we look back at the audit and make notes of any issues we identified, how we handled them, and we then conclude on all the work we have just completed. Our destination for the audit is the audit report.

Thanks for watching and hope this video helped in developing an understanding of the audit process.