

Episode 2

For deeper learning

The different types of audits

There are different types of audits. While they might look similar, they all have different purposes as follows:

Statutory or Financial Audits:

A statutory audit is often called a financial audit. This is the most common type of audit. An independent financial audit is generally conducted to determine whether the balance sheet and income statement present a true and fair view of the financial position and working results of the organization under audit. The need for financial audit arises as the control of the organization is vested in the hands of the organization's management and the financial statements are also prepared by the same management. Therefore, the owners/shareholders—or, in the case of non-profits: the Board, members of the organization, and/or the general assembly—need assurance from an independent financial expert that the organization's financial statements are reliable and that the financial information is accurate (including assets, liabilities, revenues, expenditures, or other financial presentations).

Internal Control Audits:

These are audits that generally determine whether the organization as a whole or the unit/process/program under audit is conducting its financial and business processes using an adequate system of internal controls, as required by policies, guidelines, and good business practices.

Compliance Audits:

These are audits to determine the adequacy of an organization or a unit/process under an audit system designed to ensure compliance with policies and procedures and external requirements. Examples of external requirements include donor rules and regulations, governmental laws and legislation, etc. Audit recommendations typically address the need for improvements in procedures and controls intended to ensure compliance with applicable regulations. This helps to detect non-compliance and enables the organization to take corrective measures. Compliance audits are also a process to assess the maintenance of books and ensure (and provide documentation by a professional) that the organization has complied with relevant legal, regulatory, and procedural requirements. It is essentially a mechanism to monitor compliance with legal requirements.

Other Audits:

There are other types of audits, such as:

- Performance audits
- Health, safety, and environment (HSE) audits
- Tax audits
- Project audits
- Contracts audits
- Agreed-upon procedures audits
- Fund accountability statements audits.

Project audits could fall under financial, operational, or compliance audits. Fund accountability statements audits are very specific and unique to non-profits. They occur in specific circumstances, such as if an organization uses a cash basis for accounting (whereby income is recognized on receipt of cash or cash equivalents, and expenditure is recognized on the disbursement of cash or cash equivalents). It is also used in many sub-recipients' award audits by some bilateral donors (e.g. GIZ).