

UNIT V

SAUDI AUDITING PRACTICES

LEARNING OBJECTIVES

- *To explain Saudi auditing system and practices*
- *To explain the auditing procedure*
- *To acquaint them internal audit system of Saudi Arabia*
- *To explore them external audit system in Saudi Arabia*
- *To explain Saudi auditing standards*

SAUDI AUDITING SYSTEM AND PRACTICES

Historical Background:

- *The 1965 Companies Act was the first law in Saudi Arabia to recognize the accounting profession and to require company management to prepare audited financial statements for shareholders*
- *The first law to regulate the auditing profession in Saudi Arabia was the 1974 Law of Certified Accountants. Articles 2 and 3 set the conditions for individuals to register as an external auditor with the Ministry of Commerce*

SAUDI AUDITING SYSTEM AND PRACTICES

- *The increasing demand for and price of oil in the 1970s, there was an enormous increase in Saudi Arabia's GNP*
- *This led to an increase in government spending, which contributed to an increase in the number of companies*
- *The King Saud University organized two conferences in 1982 and 1983 to discuss accounting and auditing issues arising from this expansion*

SAUDI AUDITING SYSTEM AND PRACTICES

- *The development of accounting and auditing in Saudi Arabia was the establishment in 1992 of the Saudi Organization for Certified Public Accountants (SOCPA)*
- *The rapid growth in the number and size of Saudi Arabian companies and the introduction of new technology has enhanced the need for internal control, monitoring and evaluation*

SAUDI AUDITING SYSTEM AND PRACTICES

- *The SOCPA been involved in the development of internal audit*
- *The main objective of the SOCPA to increase the number of members of the IIA and to supervise the CIA examinations to enable internal auditors in the region to qualify as CIAs*
- *The CIA exams can be taken twice a year and have been offered since the establishment*

INTERNAL AUDIT SYSTEM

➤ *Definition of Internal Auditing:*

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

— The Institute of Internal Auditors, International Professional Practices Framework

INTERNAL AUDIT SYSTEM

The key word of auditing are:

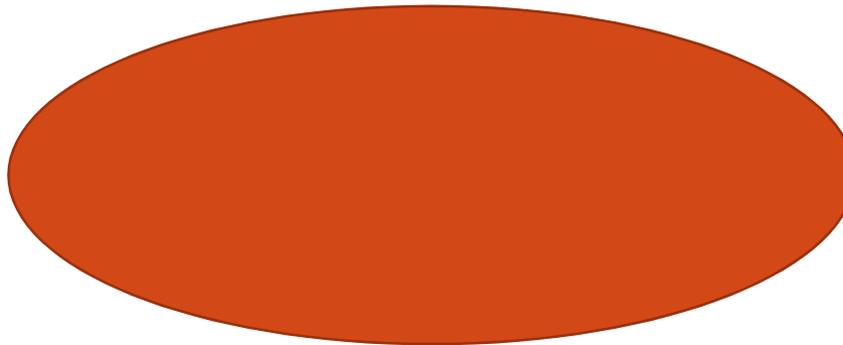
- *True and fair view of the financial statement and the assets*
- *Verification of the financial situation of the company or body audited,*
- *Verification of the results of its operations,*
- *To comply with the generally accepted accounting principles and rules.*

INTERNAL AUDITORS PRINCIPLES

INTEGRITY

CONFIDENTIALITY

OBJECTIVITY



INTERNAL AUDIT SYSTEM

- *Internal audit provide an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations*
- *It provide an appraisal of an organisation's internal control system and take the action needed to provide Accountable Officers with a continuing assurance that the organisation's risk management, control and governance arrangements are adequate and effective*

INTERNAL AUDIT SYSTEM

- *Accountable Officers are responsible for ensuring that appropriate internal control systems exist within their own organisations (or parts thereof), and for deciding whether or not to accept and implement internal audit findings and recommendations*
- *Internal audit evaluates compliance with an organisation's internal control system - including relevant regulations, guidance and procedures - as part of its review process*

INTERNAL AUDIT SYSTEM

The internal control system comprises the whole network of systems established in an organisation to provide reasonable assurance that organisational objectives will be achieved, with particular reference to:

- *Risk management;*
- *The effectiveness of operations;*
- *The economical and efficient use of resources;*
- *Compliance with applicable policies, procedures, laws and regulations;*

INTERNAL AUDIT SYSTEM

- *Safeguards against losses, including those arising from fraud, irregularity or corruption; and*
- *The integrity and reliability of information and data.*

EXTERNAL AUDIT SYSTEM

GENERAL DEFINITION:

A periodic examination of the books of account and records of an entity. It is carried out by an independent third party (The auditor) If the books of account are accurate and comply with established concepts, principles, accounting standards, legal requirements and give a true and fair view of the financial state of the entity

EXTERNAL AUDIT SYSTEM

The objective of an audit of financial statements is to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

Auditing is understood:

- *As the activity,*
- *Performed by a qualified, independent person,*
- *Consisting of analysis, using appropriate reviewing and verification techniques, of the economic-financial information obtained from the accounting examined.*

EXTERNAL AUDIT SYSTEM

External auditors are appointed by shareholders, on recommendation from the board, and will tend to carry out the following tasks in their efforts to review the financial accounts and underpinning accounting systems:

- *Planning the audit covering timing, scope, reporting lines, access to books.*
- *Examination of financial transactions in an objective, independent and professional manner.*
- *Quality control to ensure that the audit is complete and accurate.*
- *Reporting.*

EXTERNAL AUDIT SYSTEM

The external auditors operate to professional auditing standards that cover areas such as:

- Independence and objectivity
- Professional competence and compliance with auditing standards and code of ethics
- Management of the audit in line with risk-based audit plans
- Audit work that involves the study and evaluation of records and information.
- Reporting standards and set formats for the published external audit report.

EXTERNAL AUDIT SYSTEM

□ *Professional Standards Of External Auditor*

- *Entrance conference to discuss the audit and approach with the director of finance and other staff. Some consideration may be given to the accounting policies adopted by the organization.*
- *Field work, which involves systems testing and site visits, focusing on the financial systems. External auditors will test samples of financial transactions to determine whether what should be happening is actually happening as it affects the final accounts.*

EXTERNAL AUDIT SYSTEM

- *Presentation of a findings memo on what came up during the reviews.*
- *Exit conference to convey final opinions.*
- *Formal reports and the management response*

SAUDI AUDITING STANDARDS

- *Auditing standards, which cover : general standards including professional qualification, independence, due care; standards of field work including planning, Control, Recording, Evidence, Reporting and relevant procedures.*

SAUDI AUDITING STANDARDS

The royal decree No. M/12 dated 13-05-1412H was issued approving CPAS' Regulations. Article 2 concerning the conditions of enrollment in the register, requires for registration as CPA that the applicant shall be, among other requirements :

- *Holder of a Bachelor's degree in Accountancy or any other equivalent Certificate as may be deemed acceptable by the competent authorities in charge of equivalency of degrees*

SAUDI AUDITING STANDARDS

- ❑ *Having practical experience in the field of accounting after graduation with any of the following bodies :*
- *(A) Certified public Accountants firms. This period of service shall be for a minimum of three years, reducible to two years if the applicant is a holder of a Master's degree in accountancy or an equivalent degree, and to one year if the applicant is a holder of a PH.D. in accountancy or an equivalent degree.*

SAUDI AUDITING STANDARDS

- *(B)Government bodies, companies or sole proprietorships according to the conditions and terms stipulated in the Executive By-laws, provided that such terms are no less than those stated in paragraph (A) above.*
- Full member of the Saudi Organization for Certified public Accountants(SOCPA)

SAUDI AUDITING STANDARDS

- *Article 11 requires a CPA to attend a given number of seminars as may be specified and held by SOCPA.*
- *Article 19 stated that SOCPA is entrusted to organize course of continuous education within its duties to promote the profession*

SAUDI AUDITING STANDARDS

❑ *Article 20 states the organization consists of the following :*

Full members, namely :

- *(A) All Certified Public Accountants licensed to practice the profession in the Kingdom at the time these regulations come into force, provided that they attend the course held by the organization and pass the examinations within a period not exceeding three years.*
- *(B) Those who hold the qualifications provided for in paragraph (4) Article (2) of the regulations, provided that they obtain the fellowship certificate.*

SAUDI AUDITING STANDARDS

- *Associate members and they are those who apply for membership from among those who hold the qualifications referred to in paragraph (4), Article (2) of the regulations*
- *Article 25 specified the power SOCPA board of directors' which included organization of programs and courses of continuous professional education*

SAUDI AUDITING STANDARDS

- *SOCPA education and training committee issued it aims to update the information's, professional and technical skills in subjects related the accounting and auditing profession, for the purpose of maintaining or improving professional and technical competence*
- *The rules considered CPE as mandatory to SOCPA members. Non. Compliance with these rules may cause cancellation of membership*
- *The education and training committee is authorized to accept or reject the reasons for non-compliance with CPE requirements*

QUIZ- 5

❑ *Fill in the blanks of the followings:*

- 1. Computers have been so thoroughly-----into the business world that some times it is difficult to categorize as either manual or computerised.*
- 2. General controls are defined as the plan of ----- and operation of computer activity*
- 3. Organization and ----- controls consist of the general plan designed to effect a smooth operation, accomplish the assigned tasks, and minimize the opportunity for errors or fraud in the system*
- 4. Documentation controls consist of procedures designed to ensure the-----
-of computer storage devices and systems documentation*

QUIZ- 5

Tick the correct answer of the followings:

5. *How many groups are find in computer control procedures*

(a) Two

(b) Five

(c) Six

6. *How many groups are find in general controls*

(a) Five

(b) Eight

(c) Four

7. *How many times in a year CIA exams has conducted*

(a) Thrice in a year

(b) Twice in a year

(c) Once in a year

8. *The SOCPA been involved in the development of*

(a) Internal audit

(b) External audit

(c) None of them

Write True false for the following statements:

9. *The development of accounting and auditing in Saudi Arabia was the establishment in 1992 of the Saudi Organization for Certified Public Accountants (SOCPA)*

(a) True or

(b) False

HOME ASSIGNMENT

Q1- Clearly explain the Saudi auditing system and practices

Q2- What do you understand by internal audit system

Q3- Explain the term external audit system

Q4- Elaborate Saudi auditing standards

QUESTIONS

□ *Fill in the blanks of the followings:*

Q1- The----- Companies Act was the first law in Saudi Arabia to recognize the accounting profession

Q2- The first law to regulate the auditing profession in Saudi Arabia was the----- Law of Certified Accountants

Q3- The development of accounting and auditing in Saudi Arabia was the establishment in -----of the Saudi Organization for Certified Public Accountants (SOCPA)

Q4- The rapid growth in the number and size of Saudi Arabian companies and the introduction of new technology has-----the need for internal control, monitoring and evaluation

QUESTIONS

Tick the correct answer of the followings:

Q5- How many times in a year CIA exams has conducted

(a) Thrice in a year (b) Twice in a year (c) Once in a year

Q-6 The SOCPA been involved in the development of

(a) Internal audit (b) External audit (c) None of them

Q7- What is the full form of SOCPA?

(a) Saudi operational certified public accountants

(b) Saudi origin for certified public accountants

(c) Saudi Organization for Certified public Accountants

QUESTIONS

□ *Write True false for the following statements:*

Q8- *The development of accounting and auditing in Saudi Arabia was the establishment in 1992 of the Saudi Organization for Certified Public Accountants (SOCPA)*

(a) True or

(b) False

Q9- *SOCPA education and training committee issued it aims to update the information's, professional and technical skills in subjects related the accounting and auditing profession*

(a) True or

(b) False

Q10- *Article 27 specified the power SOCPA board of directors' which included organization of programs and courses of continuous professional education*

(a) True or

(b) False

SOLUTIONS

Q1- 1965

Q2- 1974

Q3- 1992

Q4- Enhanced

Q5- Twice

Q6- (a) Internal

Q7- (c)

Q8- (a) True

Q9- (a) True

Q10- (b) False

MINI PROJECT