# External Audit, Its Purpose and Difference from Internal Audit

## EXTERNAL AUDIT

James Wilkinson (2013) defines external audit as “a company audit which is performed by a party which is not a department or employed by a business to be audited”. External audit is also explained as an obedient or non-obedient audit realized by a 3rd party. It provides both the business and the government with a beneficial check of the company accounting. The purpose of external audit is that the company accepts an outside party as it will be more efficient at work.

## Reasons for external audit

Firstly, the company will receive accurate and efficient information by using external auditor. This could happen for many reasons such as company employees are already engaged with other tasks, fraud within the company may prevent internal audit, external auditors are well trained for these purposes. In any case, the company will use external auditors to find the answer of certain questions about the accounting query. The external audit plan by specialist companies may be concerned with missing of funds or bringing another opinion.

Secondly, an external audit report may occur when a government body questions part of the financial statements of the company. In this case, an external auditor will not be obedient. The IRS (Internal Revenue Service) will mandate it. These are reasons why an external audit will occur under these situations such as the IRS questions the financial statements of the company, the IRS will detect internal frauds, the company’s statements may not according to GAAP, the court authorise the audit because they suspect that funds are being spent illegally. External audit fees are usually paid by the company being audited. The omission to this is that if auditors find illegal activity then the company may be charged with the costs of the external audit.

## Importance of external audit

a) Provides credibility

The financial statements will be reliable if an external auditor assesses them and agrees that the statements are detailed. Credibility is important especially during the first few years of a business, it is when the business is trying to build positive reputation.

b) Critique internal processes

Internal auditors will not critique the internal processes of a company because they are part of the company. External auditors can detect movement from outside and determine where the company is wasting time and money. External auditors often critique accounting practices. They can justify behaviors to the company to promote greater efficiency as well as tighten accounting practices.

c) Double check internal audit

Internal auditors may be too close to the business because of their seat within the company. Some internal auditors do have enough experience to audit the company financial statements precisely. External auditors can look at the same elements as internal auditors and double-check their work. They can also train internal auditors in the accounting principles by explaining them how their scrutiny differs from the internal auditor's one.

## DIFFERENCE BETWEEN INTERNAL AND EXTERNAL AUDIT

- Objective

  Designed to add value to and improve the organization deal.

  An exercise to enable auditors to express an opinion on the financial statements.

- Reporting

  Report to the board of directors and to management.

  Report to the shareholders or members of a company on a true and fair view.

- Scope

  Work relates to the operations of the organization.

  Work relates to the financial statements.

- Relationship

Often employees of the organization.

Independent of the company and its management. Appoints by the shareholders.

- Planning and collection of evidence

  Strategic long-term planning carried out to achieve objective of the assignments, with no materiality level being set. Evidence is collected mainly from interviewing staff and inspecting documents.

  -Planning carried out to achieve objective regarding truth and farness of financial statements. Materiality level is set during the planning. Evidence is collected as per ISA to obtain sufficient appropriate audit evidence.