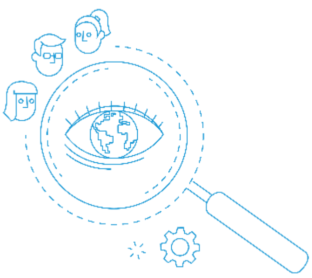
Why you need a competent external auditor?

Corporate governance defined

Corporate governance is the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity. A good corporate governance framework, of which the auditor forms a part, seeks to protect the stakeholders of a company from the opportunistic acts of either the company's management or the dominant shareholders. In the case of companies with widely dispersed shareholdings, those shareholders are at risk because there is a separation of the management of the company and its owners. To put a check on such exploitative behaviour, the role of the auditor comes into play.

Role of the auditor

The role of the external auditor is to express an opinion on whether or not the financial statements of a company present a true and fair view. Auditing involves performing procedures to obtain reasonable assurance that the company's financial statements are not misstated, whether due to fraud or error. It is also important to mention that it is not the auditor's responsibility to prepare financial statements nor present them at board or shareholder meetings. This role belongs to management and the directors. The auditor is only responsible for issuing his audit opinion.



The downside of auditing is that it is carried out after a financial period has ended and therefore it cannot always protect the company from the past actions of a company's management.

There are many stakeholders who place reliance on the audit opinion of a competent auditor of a company's financial statements. This article focuses on

- shareholders,
- creditors,
- tax authorities, and
- depositors of funds into financial institutions.

Shareholders and investors

The audited financial statements might be relied upon by shareholders in determining whether to maintain or increase their investment in the company or withdraw. They can achieve this by selling their investment in the company and investing the proceeds elsewhere. The information can also be used to provide shareholders with reliable intelligence for the purpose of enabling them to scrutinise the conduct of the company's financial affairs and to exercise their collective powers to reward or control or remove those to whom the conduct has been attributed.

Potential investors evaluate the audited financial statements to determine whether or not they should put their money in a company or venture. It is vital that the financial information they are analysing has been audited by a competent auditor whom they can trust.

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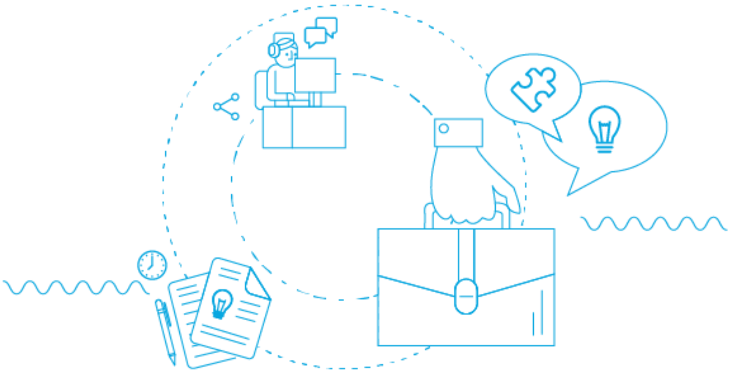
Lenders and creditors

Lenders and creditors are interested in the audited financial statements of the company because financial statements are indicators of the company's health. If the company performs well, then the prospects of receiving payment for credit advanced to the company are greatly enhanced. On the other hand, when a company is struggling, financial statements could alert them as to when they should take alternative remedies to recover their debt.

Tax authorities

The tax authorities in eastern Africa rely to a large extent on the audited financial statements as a basis for assessing tax. The self-assessment regime in the region means that companies or individuals must file their taxes with the authorities based on financial information that has been audited and therefore can be relied upon. The absence of the same may mean significant exposure to tax assessments and tax audits, leading to interest and penalties. The auditor's role is therefore crucial in giving the company and its management confidence in the reliability of the information they give to the tax authorities.



Depositors

The banking, micro-finance and other deposit-taking institutions hold the savings of many citizens and non-citizens of the East African region; therefore, if there is financial mismanagement of these institutions, many citizens of the region stand to lose a lot of money. It is therefore important that such institutions are kept under very close scrutiny. One of the ways in which the East African governments have protected their citizens has been by enacting specific regulation requiring auditing of financial statements of financial institutions by independent external auditors.

Choosing a competent external auditor

It is important to choose an auditor who is competent. It is vital that you select an auditor who commands the respect of the general public and other regulatory bodies so that each of the requirements of the stakeholders discussed above is met, thereby enabling the protection of their interests.

There are many in this market who call themselves auditors who may have the experience to help you. However, it is vital that you select an audit firm that has the knowledge and experience to conduct audits in accordance with International Standards on Auditing.
A firm of competent auditors having qualified accountants, i.e those that have met all the requirements of licensing and regulation by their professional body such as The Institute of Certified Public Accountants of Kenya, The Institute of Certified Public Accountants of Uganda and the National Board of Accountants and Auditors of Tanzania is recommended as a start. A list of approved auditors is published annually by the above regulators in the local press or on their websites.

Further, professionally qualified auditors keep their skills and knowledge up to date through continuing professional development and make an annual statement to their professional body that they have done so. They are also required to hold Professional Indemnity Insurance.