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EXTERNAL AUDITORS AND THEIR LIABILITY TO THIRD PARTIES

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A R T I C L E I N F O.

Key words:
external auditor, internal auditor, financial control, internal control, investor, creditor, fraud, ultramares, restoration, preview.

Annotation:

In this article, the main task of external auditors, their difference from internal auditors, as well as the responsibility of external auditors to third parties, will be explained.

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An audit is a systematic review of a company's financial statements and activities. It is conducted by an external or internal auditor to verify the accuracy and truthfulness of financial statements. The law and regulatory authorities require the company to ensure compliance with accounting principles and standards.

Auditors provide an independent opinion on a company's financial health and compliance.

External audit activities in Uzbekistan are carried out by audit organizations with independent legal personality rights. According to the law, an audit organization is a legal entity that has a license to perform audit activities.

According to the law, the organization that audits the external auditor may be prohibited from providing certain services. This is necessary, first of all, to ensure that there is no conflict of interest. An external audit engages an experienced certified public accountant to review and approve the company's financial statements. Unlike an internal audit, an external auditor does not answer to management. Instead, it usually reports to shareholders. The independence of external auditors is very important for the correct and thorough evaluation of the company's financial control and reports. Any relationship between the external auditors and the entity should be disclosed in the external auditor's reports, except withholding for the audit. These rules also prohibit auditors from owning a share of government clients and severely limit the types of audit services they can provide. The main task of external auditors is to express an opinion on the absence of serious errors in the financial statements of the enterprise.

An external audit is performed by a third-party audit organization or a certified public accountant (CPA) independent of the company.

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It includes a comprehensive review of financial statements, internal controls and management practices.

The auditor obtains evidence through inspection, observation and documentation.

The auditor reports on the financial condition of the company and the accuracy of its financial statements. An external audit is primarily focused on financial reporting and provides an objective opinion on the company's financial condition. External audit is carried out by independent auditors hired by the company, and bank audit is carried out by supervisory authorities. External audit is mandatory for public companies and bank audit is mandatory for all banks.
A bank audit focuses on regulatory compliance, risk management, and the safety and soundness of the bank.

Bank inspectors are regulators who work for regulatory agencies such as the Federal Reserve, the OCC, or the FDIC. In America, they monitor banks' compliance with regulations and laws. They conduct on-site inspections, review banks' financial health and management practices. They report their findings to regulatory authorities and take enforcement action if necessary.

External auditors and bank inspectors do not usually work together, but may exchange information when necessary. An audit can help inspectors by providing additional information or sharing areas of risk in the bank. Bank inspectors may request documents and reports from the external auditor. The auditor can also report his observations to the bank's management, which the inspector will take into account.

External auditors and bank inspectors communicate regularly to ensure compliance and avoid duplication of effort.

They can coordinate their schedules to minimize disruption to banking operations.

Bank inspectors may attend meetings between management and the auditor to understand the audit process.

An external audit may share its findings with regulatory authorities to assist in bank investigations.

External audits and bank inspections ensure that companies and banks comply with laws, regulations and accounting standards, and provide a level of transparency and accountability for investors, customers and regulators.

They help identify areas for improvement and opportunities to manage risks, promote best practices, and maintain a healthy business environment. A bank audit focuses on regulatory compliance, risk management, and the safety and soundness of the bank.

The difference from an internal auditor is that internal auditors, who are members of a professional body, are subject to the same rules of ethics and professional ethics that apply to external auditors. But they differ primarily in their relationship to the subjects they examine.

Although internal auditors are generally independent of the activities they audit, they are part of the organization they audit and report to management. Usually, internal auditors are employees of the entity, but in some cases this function can be outsourced. The primary responsibility of the internal auditor is to evaluate the entity's risk management strategy and practices, management (including IT) governance frameworks, and governance processes. They are also responsible for the organization's internal control procedures and fraud prevention.

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If the external auditor discovers fraud, it is their responsibility to bring it to the attention of management and consider exiting the contract if management does not take appropriate action. Usually, external auditors audit the organization.

They should also investigate any significant issues raised by the professionals.

Liability of external auditors to third parties

Auditors may be liable to third parties who have suffered damage as a result of making decisions based on information contained in audited reports. The risk of auditors being liable to third parties, privacy limited by the doctrine. For example, an investor or creditor cannot sue an auditor for giving a favorable opinion, even if the opinion was given in a knowing error.

The level of liability to third parties is (in general) determined by 3 accepted standards:

Ultramares, restoration and foresight.

- Under the ultramares doctrine, auditors are liable only to specifically named third parties.
- The restitutionary standard exposes their liability to named "classes" of persons.
- The reasonableness standard puts accountants at the greatest risk of liability because it allows anyone who may rely on the auditor's report to sue for damages based on material information.

In short, external auditors promote corporate governance by making sure that the subject company's reports are accurate, correct, and fairly reflect the company's position. An external auditor examines the entity, making sure that its automated systems, particularly financial systems, comply with internal controls.

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