

Ford case study

Business



This could be a conflict of interest if there are no checks from an outside party other than the two companies. Step 2. Assess consequences of decision: In the second step, the auditor assesses the consequences of the potential alternatives. If the company hires multiple firms to assist with audits and tax preparation the company might have to pay more for essentially the same services since one company could handle the job. There could be several breakdowns in communications if the company has to relay information to multiple companies working on the same areas.

Also, there might be too much of a secular work environment rather than a collaboration if there are multiple firms working on the financial. The other issue of having just one company work on the financial is that the Ford company could be paying for good results from

PricewaterhouseCoopers and there wouldn't be an outside source to check.

Step 3. Assess risks and uncertainties of the audit problem: In the third step, the auditor assesses the risks and uncertainties in the situation.

Which involves anything relating to the risks the audit client faces, the quality of evidence the auditor gathers, and lastly the sufficiency of audit evidence gathered.

The evidence of the for mentioned issues is that Ford has paid PricewaterhouseCoopers over \$50 million two years in a row to be their exclusive auditor and tax preparer. Step 4. Evaluate information/audit evidence-gathering alternatives: The auditor evaluates the various information/audit evidence-gathering alternatives against an appropriate decision rule aka generally accepted accounting principles.

There aren't any rules against the practice of having only one firm prepare all the financial off company. It isn't an uncommon accounting practice even though it could have harmful outcomes is there was a lack of integrity.

Also, if amounts prove insufficient then a request for incremental funding will be submitted to the Audit Committee for approval. All new engagements greats than \$250, 000 will be presented In advance to the Audit Committee for approval Step 5. Conduct sensitivity analysis: The auditor considers the sensitivity of the conclusions reached In steps 2-4 to Incorrect assumptions.

If uncertainties remain, then the auditor should continue onto step 6. After reviewing the information presented in all the previous steps, I would say ten International approval doesn't seen up any real rear nags Tanat would indicate a compromise of the independence of PricewaterhouseCoopers from Ford management.

Step 6. Gather information/audit evidence: The auditor gathers info and audit evidence in an iterative process that affects considerations about the consequences of potential alternatives and the uncertainties associated with those Judgments.

There is no need to go to step six because the information from the previous steps is sufficient. Step 7. Make decision about audit problem: The auditor must make and document the decision. After reviewing all the information on the case, I would come to the same decision that the independence of PricewaterhouseCoopers is not compromised by the provision of other initiation services.

Case Study Chi. 4 Ia. Describe the primary risks facing Ford.

The primary risks facing Ford is primarily the business risks of attempting to get out of debt and show viability in the industry. The risks they face range from an every expanding decline in industry sales because of the economic downturn; decline in market share; worse accounting assumptions relating to increasing gas prices, worsening discount rates and investment returns.

1 b. Describe the primary risks facing Toyota. A primary risk facing Toyota is the automotive market is extremely competitive and the global economy is very weak.

Another primary risk is the automotive industry is extremely volatile with several different mitigating factors that are beyond Toyota's control. LLC.

Compare the risks of Ford and Toyota. The risks of Ford and the risks of Toyota are very much the same. Both companies face the risks of selling expensive products in a weak economy. Both companies must adopt new and innovative designs and technologies price to stay ahead of the competition and the high demands of the consumer at a very low cost. D.

Why would auditors want to know about their clients' business-related risks?

Auditors want to know about their clients' business-related risks because those risks affect the operations and potential outcomes of organizational activities which tie into the companies day to day operations and their financial. AAA. What are related-party transactions? Related-party transactions are business deals or different types of arrangements between two parties who are joined by a special relationship prior to the deal. These <https://assignbuster.com/ford-case-study/>

deals or arrangements can cause conflicts of interest which could lead to integrity issues or scandals. B.

Why do related-party transactions pose a risk to audit firms?

Related-party transactions pose a risk to audit firms they must gather information on a preliminary basis to determine if the potential client has or is still engaging in related-party transactions. This could send up red flags for the auditor to be looking for because these types of transactions can cause conflicts of interest and/or opportunities to influence the reported financial statements of the company. C. Read about the related parties at Ford and Toyota. Does one firm have more related-party transactions than the other? If so, what might be the rationale?

Are there any situations that cause you particular concern? Explain your concern.

Ford has more related-party transactions. The rationale behind this tactic is that Toyota is exclusively a single company rather than several companies. For the same products the one company will deliver above and beyond expectations for a lower cost since there is guaranteed business. The fact that Ford has a single source supply of components or materials is of particular concern because typically the best way to save on materials is to continually price shop and seek out multiple proposals.