

# [Considerations when appointing auditors](https://assignbuster.com/considerations-when-appointing-auditors/)

These include integrity, independence, objectivity, confidentiality and professional competence. ? Conflicts of interest - The auditor should not make any executive decisions for the company, or provide any accounting assistance. It is the responsibility of the management to prepare the statements, the auditor Just checks and verifies the items. Resources - This includes making sure that staff within the firm possess the adequate skills to fulfill their duties. This is important because it is the responsibility of the management to prepare the financial statements - the auditors Just check them. Similarly, it is important other employees can do their Jobs properly, or the statements may be prepared on a false basis.

Boynton and Johnson (2006) outline six procedures that an auditor should undertake when deciding whether to accept an appointment; ? Evaluating integrity of management - The auditor must be confident that the management of the firm can be trusted. Error and irregularity is more likely when the managers are deceitful. In order to assess the integrity of management, an auditor should do two things; 1 . Contact the previous auditors of the firm to make sure the firm is not trying to cover up a misstatement in the accounts. . Enquire with third parties who have dealt with the firm, such as banks and creditors. As Gram]on are a new client for Middletons, these steps should be carried out in order to ensure management ntegrity. If GramJon do not give permission for the prior auditors to be contacted, or the auditors fail to respond, Middletons should refuse the appointment. Identifying special circumstances and risks - Auditors need to be aware of the people who will be reading and relying on the financial statements the firm has produced.

This may require the auditor to write the audit report in a specific way so everyone can understand it. Also, he must consider the level of risk involved in performing the audit. must ensure he can conduct the audit with professional capability. This consists of dentifying the audit team and considering the need to contact specialists. An audit team usually includes a partner who is responsible for the engagement, managers that have experience within the industry and staff who perform audit procedures.

In this case, a computer specialist is also required to evaluate the computerized controls. Evaluating independence - The Companies Act 1989, s27 (ineligibility on ground of lack of independence) states that a person is ineligible for appointment as company auditor of a company if he is; (a) an officer or employee of the company, b) a partner or employee of such a person, or a partnership of which such a person is a partner, or if he is ineligible by virtue of paragraph (a) or (b) for appointment as company auditor of any associated undertaking of the company.

A person is also ineligible for appointment as company auditor of a company if there exists between him or any associate of his and the company or any associated undertaking a connection of any such description as may be specified by regulations made by the Secretary of State. Not only should the auditor be independent, but he must be perceived to be independent. ? Making the decision to accept or decline the audit - The main issue an audit firm must consider when accepting or declining an audit is its own business risk.

If the auditor backs out of the audit after the engagement letter has been signed, he may be liable for breach of contract. Preparing the engagement letter - The nature and scope of the audit must be clearly stated in the engagement letter. This is to ensure that there are no misunderstandings between the client and the auditor. b) Explain the implications for an audit firm, where it chooses not to issue an engagement letter to a new audit client. An engagement letter defines the legal relationship between a professional firm and its clients.

It forms the basis of the contract between the two parties and is legally binding. ISA 210 states it is in the interest of both client and auditor that the auditor sends an engagement letter to help in avoiding misunderstandings with respect to the engagement. It should help avoid disputes about fees seeing as they are included in the letter. The case of Tenants (1136) is frequently used to show the importance of an engagement letter. (Goldwasser, 2005) The auditor failed to inform clients of employee wrongdoings, aking them liable in a court of law. ) Identify the significant factors that you would expect to have influenced Mr. Toms to assess as 'high' the inherent risk associated with the audit of the financial statement of GramJon Limited. You should explain the significance of each factor identified. Audit Risk is the risk that auditors may give an inappropriate audit opinion Detection Risk x Control Risk. Control Risk is the probability that material error in the financial statements will not be prevented or detected by the internal control system.