

# Auditing of financial statements

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Auditing of the company's financial statement has been a core function in every business entity, and Starbucks and Hewlett-Packard are no exception. Ideally, the main intent of auditing the financial statements of an organization is to enhance true and fair view of the company's reported financial statements.

Both companies perform strategic audit that is well known to the industries and public. However, this has worked for the advantage of Starbucks while at the expense of Hewlett-Packard. Through strategic audit, the latter is likely to earn only from the printing segment and this would weaken a strategy in the future. According to Hooks (2010), auditing of an entity's financial statements involves an organized procedure that aims to evaluate and obtain evidence on the assertions made by an entity concerning its economic events and actions. It ascertains the extent of the entity's assertions and establishes criteria and communicates the results to the interested users. As such, in a financial audit, the auditor's assertions determine the relationship between the objective evidence presented and the integrity and reliability of the entity's financial statements and operating information.

On the other hand, corporate governance is the relationship that exists between the different participants, and defining the direction and performance of corporate firm (Hilb, 2012). The main actors of corporate governance include the management, board of directors, and shareholders. Starbucks and Hewlett-Packard's internal control system should be consistent over the preceding years in order to realize an effective and reliable report that can be used by third parties in making a decision. The standards require

that the independent auditor plans and performs the audit to obtain a reasonable assurance on whether effective internal control was maintained in all material respects. Integrated audit involves the auditing of the firm's financial statement, in addition to the internal control, over financial report.

The audited financial statements of both Starbucks and Hewett-Packer portrayed the management ability to co-ordinate the work in the company, and to uphold the independency of the internal auditor. The audited accounts had minimal deviation from the companies' reported financial position of the year. Therefore, there was no need to raise the alarm on the managerial performance (Hilb, 2012). Ideally, in order to perform a reliable integrated audit, the auditor is required to form an extensive judgment concerning the internal control of the entity in comparison to its financial reporting. The auditor should address the availability of risks associated with material misstatements when the company reports its financial statements.

As such, the auditor should determine the type and amount of evidence that is necessary in supporting a conclusion on the entity's financial statement. Starbucks and Hewett-Packer's internal control over financial reporting includes those procedures and policies that; a)Are relevant to safeguarding of the entity's records that fairly and accurately provides the reflection of thee dispositions and transactions of the entity's assets. b)Presents an assurance that the transactions undertaken by an entity necessitates preparation of its financial statements. The information provided in the entity's financial statements should comply with the regulations of the Generally Accepted Accounting Principles (GAAP). In addition, it should

analyze the company's expenditures and revenues undertaken prior to the end of the financial period (Jacques & Plessi, 2010).

These expenditures and revenues should be under the authority of the company's directors and management and not the third parties. c)Presents a realistic assurance, to users of the financial statements, on timely detection and prevention of unduly acquisition or transactions in the entity. It should ascertain the material effect, which the transactions have when it reports its financial statements. Due to the intrinsic limitations that negate the effectiveness of internal controls in regard to the financial reporting, there is a possibility of improper management and collusion, which enhance material misstatements, override controls, and enhance fraudulent activities that may not be detected or prevented on a prescribed time framework. Projections of any evaluation of the effectiveness or the internal control in relation to its future financial reporting are subject to inherent risks.

The changes in the entity's and auditor's conditions may mitigate the competence of the internal controls, or affect the extent of compliance with the set rules and regulations (Hooks, 2010).