

Auditing reflection essay sample



INTRODUCTION

This report consists of 5 reflections related to auditing standards and each case was extracted from internet sources. The purpose of this report is to reflect and understand each case.

REFLECTIONS

First reflection is on China sky case for its non-compliances with SGX. Next is the case on corporate governance where new rules were proposed to improve risk management and risk control. Third will be the extracted information of executives' compensation in Australian companies. Then, the forth reflection is talking about the famous McKesson & Robbins scandal. Lastly, it was a reflection on China Shenghuo Pharmaceutical Holdings, Inc, a trade receivables fraud was detected by Cohen Milstein.

2. 1 REFLECTION 1

There are many arguments over China Sky pending cases due to its non-compliances with the bourse's order and the challenge on SGX. For every listed company and its director, they should appoint an independent auditor to provide assurance about various aspects of the company's activities such as internal control assessments and reviews. However, the arguments against allowing employees to join audit committee are that own employees is viewed as part of the client by the external auditors.

There might be conflict of interest in which increases the chance of hiding certain liability items or limiting the external audit to access fully on the information required to form opinion. Overall, if the company should allow its

own employees to join audit committee, the quality of the audit report will be affected. Its creditors and shareholders might lose confidence of the company's financial reports. There is also a need to take into considerations of their attitude and willingness to pay fair amount for audit work. Hence, in order to comply with the recommendation for independent audit committees, an external retired director with relevant financial experience is viewed as a better candidate.

However, there are arguments for allowing own employee to join audit committee is that own employee should have better knowledge of the company and its system. Apart from the integrity of the financial statement, they are able to provide better evaluation and monitoring on the company's audit process as they have the full access to the information or identified frauds and risks.

4 REFLECTION 2

The main stages of an audit are planning, performing and then reporting. For the planning stage, it involves gaining an understanding of the client, and identifying factors that may impact the risk of a material misstatement in the financial report. According to the new set of rules proposed in year 2010, by the Corporate Governance Council that it would require a company's board to made up of a majority of independent directors. Besides that, the board must be engaged with risk management and internal controls. As we know that with a more independent board of directors, it can uphold audit judgement which ensures the credibility of the company's financial statements. They do not have any concerns of their job stability in the

company or financially depending on the management, thus, fewer scruples when making decisions.

These enable the board to provide an accurate documentation and other appropriate evidence relevant to the company's operations in which assist in gaining a better understanding of the company. On top of that, the documentation helps auditors to assess the internal controls' pros and cons, as well as to determine the nature of the company's business. These are necessary as to develop an audit strategy to enhance the process of identifying the factors that may impact the risk of a material misstatement in the financial report. At the stage of performing, or execution, which involves detailed test of controls and substantive testing of transactions and accounts, auditors are to determine the level of risk approach. As the independent board are responsible for the risk management and internal controls, there should be possibly a lower inherent risk and control risk. Hence, auditors will reduce reliance on substantive tests of transactions and account balances.

5 REFLECTION 4

a) The McKesson & Robbins scandal was one of the famous financial frauds of the 20th century. In 1925, the company McKesson & Robbins was taken over by Philip Musica in 1925 whose assumed name F. Donald Coster, to conceal his criminal record and true identity. He used his bootlegging profits from his another company Adelphi Pharmaceutical Manufacturing, to buy over McKesson & Robbins and he was successful in expanding the company.

With 2 brothers in-charge of McKesson & Robbins shipping department and assistant treasurer, and the other brother placed outside the company, they have generated bogus sales documentation. Despite the success, the bogus sales were then discovered by its treasurer. The Securities and Exchange Commission opened an investigation and Musica committed suicide before he was arrested. b) The company had a fictitious asset of 19million, which consists of inventories, accounts receivable, and cash. This was largely due:

- i) Inadequate procedures in performing bank reconciliation of significant accounts like inventories.
- ii) Management override of controls
- iii) There was little or no segregation of duties within a significant account.
- iv) Ineffective designed internal control over the preparation of financial statements being audited.
- v) Those charged with governance was unable to supervise the company's financial reporting and internal control.

Both internal control and substantive tests should be performed in order to directly validate financial statement balance, and management reviews respectively. For substantive testing, e. g. inventory, the auditor will go directly to the on-site location and assess the inventory physically. On top of that, the auditor should have a thorough review on the shipping documents within and outside the company. Internal control test ensure that the company's financial reporting and reliable, and operations are compliance with applicable laws and regulations. It is also to ensure the involvement of control activities such as segregation of duties.

6 REFLECTION 5

During the period of July 23, 2007 to August 20, 2008, Cohen Milstein was appointed by Lead Counsel in litigation of China Shenghuo Pharmaceutical Holdings, Inc and all person who purchased the common stock of the company. Lead Plaintiff filed a Consolidated Amended Class Action Complaint, and alleged that CSP's fraud arose due to failure in following GAAP. Hence, CSP was required to restate their financial statement for the full fiscal year of 2007 ending December and first quarter 2008. When restated, it was found that nearly 2. 3million of its net income has been overstated. Besides that, earning per share was overstated by \$0. 12 per share.

CSP's Audit Committee later revealed that the fraud occurred was due to errors in trade receivables where the Company's reserved inadequate allowances for goods that the amounts owed were uncollectible. Plaintiffs further allege that the Defendants were aware of the Company internal control failure, however, recklessly ignored the fact, and that their accounting for trade receivables was in violation of GAAP. The court held that the Plaintiffs have made sufficient allegations to support their claim over CSP not making improvement in its public statements, and their serious internal control problems.

CONCLUSION

In conclusion, no company should recklessly disregard auditing standards in order to prevent frauds or scandals.

4. REFERENCES

" Statement on Proposed Auditing Standard on Confirmation." Public Company Accounting Oversight Board. N. p., n. d. Web. 28 Mar. 2013.