

Factors favoring acceptance essay sample

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1. The location being in Ocean City will be favorable for all auditors conducting the audit. This will allow for ease of travel for all auditors involved. This will also lend to the knowledge the firm has of the business and all relevant operations pertaining to Oceanview Marine Company. 2. The financial statements are organized in an easy-to-read fashion. They support that Oceanview is a healthy company and has been for the past three years. The past three years have been audited annually in accordance with their bank and management decisions. Concerns about Acceptance

1. The location of the firm and client could lend to more knowledge but the client preferring this firm might also mean they have close ties to them. I did not see that any upper management had any connections to the firm but the close proximity may lead to a friendship that could potentially negatively affect the audit. 2. There is a contingent liability that has not been included in the financial statements. It was noted but if they are liable for their boat sinking this could lead to unidentified problems that they may be hiding. 3. Oceanview has a current outstanding balance of \$5, 100, 000 with First National Bank when their line of credit is for up to \$6, 500, 000. It also mentions that Oceanview is growing and looking to expand but the outstanding balance seems high when their line stops at \$6, 500, 000.

2. Agree to accept client.

– It appears that a healthy transition from predecessor auditor to successor auditor will occur. This will allow for ease of access to any documents necessary in a successful audit. It also mentions that any management that the firm might need information from is willing and able to give it. This is also a good sign as to why our firm is accepting this audit. The other reason for

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agreement to perform this audit is taken directly from Oceanview's financial statements. Their financial statements determine that Oceanview is a healthy company and growing. They are audited annually as well so this should make the current audit easier as the company is used to the process even though there is a new firm conducting the audit.

3. Audit Fees lower than estimated first year costs.

- I see two possible reasons why the firm might have undermined the first year costs. The first reason, most obvious, takes from a standard marketing strategy. The firm might value Oceanview as a customer and would like to continue doing business with them so they will assess the audit at a lower cost for the first year. This will entice the client to want to work with our firm for years to come as this company conducts annual audits. The not so obvious reason, but more likely, is that this being the first audit with this client, the firm may not know how much the audit will cost in total. So they are budgeting a larger number but assuming all things run smoothly, the \$29,000 initial estimated audit fee may be realistic. But the budgeted fee of \$37,590 is probably more realistic as I am gathering that the firm is budgeting for possible road bumps that might boost the actual cost of the audit.

4a. Purpose of communication with predecessor auditor.

- The reason for the communication between the predecessor auditor and successor auditor is that the successor will need to have access to information from past audits and overall integrity of Oceanview. Audit procedures range based on firm so our firm will conduct an audit different from the predecessor. The difference in audits will trigger a need for open <https://assignbuster.com/factors-favoring-acceptance-essay-sample/>

communication lines so that another annual audit can be completed successfully.

4b. Client's Permission.

- The client may have had an issue with the predecessor auditor and this could be the reason for the switch. The client may not want the successor auditor knowing of the past audits for several reasons. An unqualified opinion may have been accessed by the successor that the client did not agree with. The client may not want this to happen so they switched auditors to try and gain a qualified opinion. Also, the client may want to start fresh with a new firm and receive a completely new opinion to ensure that their financial statements are still assuredly presented in a qualified manner.

4c. Successor reviews of predecessor audits.

- The successor should review previous audits in order to whether problems exist that may impact the successor's acceptance of the audit. Also, the successor should review previous audits in order to have confidence in the current/past figures presented on the client's financial statements.