Auditing and assurance

Finance

ASSIGN BUSTER

Auditing and Assurance: A Study of Illegal Acts and Frauds Client Teacher 9/14 Auditing and Assurance Materiality: Impacts on Opinion and Audit work The concept of materiality in audit and assurance services is of immense importance. The concept of materiality decides the scope and extent of the audit work. A material omission or misstatement, once identified, decides on the areas that require more careful inspection. A misstatement or omission is considered to be material when it affects the decision of the user of financial statements. The materiality level helps in determining the nature of the audit report and the opinion about the truth and fairness of financial statements. An auditor, while working with a client, may pass on an ' unqualified' report, if the misstatement, or omission thereof, is immaterial. The omission is considered as immaterial if it does not affect the decisions of the users of financial statements. If the discrepancies in the information provided by the financial statements are material, the auditor needs to check and cross-check the effects of the misstatement on the financial statements as a whole. For instance, a misstatement in the inventory is required to be evaluated through an evaluation of combined effect of its relevant and linked accounts. The materiality of this misstatement, hence, would consider the accumulated impact on inventory, total current assets, total working capital, total assets, income taxes, income taxes payable, total current liabilities, cost of goods sold, net income before taxes and net income after taxes (Arens, Elder, & Beasley, Audit Reports, 2012).

The relationship of materiality and opinion is tied with a lengthy process of auditing the financial statements. This relationship, hence, influences the way an auditor works by deciding on the extent and scope of auditing. Materiality determines if the auditor needs more time to be spent on certain areas of financial statements. Moreover, it also decides the nature of the report and the type of opinion. A material misstatement, for instance, results in a qualified, disclaimer or an adverse report if it affects the decisions of the users.

Discovering Illegal acts And Barriers to Uncovering Frauds

Auditors are responsible to discover and report direct-effect illegal acts in the same manner as errors and frauds. On the other hand, there are limitations to detect and report indirect-effect illegal acts. The direct-effect illegal acts are detectable as, usually, they have a financial impact in terms of, for example, tax calculations etc.; whereas, indirect-effect illegal acts are not easily determinable as they are more related to the company’s work procedures, environment and conduct. The three levels of responsibilities that auditors hold in discovering illegal acts include evidence gathering:

1. When there is no reason to believe that indirect effect illegal acts exist (Arens, Elder, & Beasley, The Audit Process, 2012)
2. When there is reason to believe that direct- or indirect effect illegal acts may exist
3. When the auditor knows an illegal act exists (Arens, Elder, & Beasley, The Audit Process, 2012, p. 147)

If the auditor detects an illegal act, he is responsible to check materiality and modify report accordingly. He must also judge the reliability of management in other matters if the management willfully and knowingly conducted the illegal act.

It becomes difficult to uncover the fraud as the management or the employees involved in the fraudulent activity, try to conceal it. I, as an auditor, will have limited time to analyze the statements and underlying fraud. The management is more involved in the activities of the firm as well as the financial records and has more chances to conceal it. If the management is involved in the fraud, they will try to keep the information revealing it as secret as possible. The time constraints and the lack of access to information due to management interference may be counted as the biggest barriers in the way of accurately uncovering the fraud.

Management and employees are the biggest source of barriers in the way of successful auditing when uncovering a fraud. In order to minimize the risk of these barriers, I would use my right of independence and right to receive information on every document that is susceptible to fraud. Moreover, professional skepticism is the approach that would lead to a better opinion and independent judgment about the areas of financial statements to be analyzed. I would eliminate the barriers to accurate uncovering of fraud as it might pose as a threat to the viability and fairness of the audit report. The users trust the audit report and base their major decisions about the company as per the views of auditors, on the truth and fair view of the financial statements. Hence, the report must be independent, free from errors and unbiased.

Bibliography

Arens, A. A., Elder, R. J., & Beasley, M. S. (2012). Audit Reports. In A. A. Arens, R. J. Elder, & M. S. Beasley, Auditing and assurance services : an integrated approach (14 ed., pp. 45-75). Harlow, England: Pearson Education.

Arens, A. A., Elder, R. J., & Beasley, M. S. (2012). Audit Reports. In A. A. Arens, R. J. Elder, & M. S. Beasley, Auditing and assurance services : an integrated approach (14th ed., pp. 45-75). Harlow, England: Pearson Education.