Understanding audit and review

Business

There are numerous differences between performing a review and actual audit on the financial statements, but the major one Is that the review does not contemplate obtaining an understanding of internal control structure.

Also, a review does not assess control risk, tests of accounting records and responses to inquiries by obtaining corroborating evidence through inspection, observation or any other audit procedure. It can point out significant matters of the financial statements but does not provide assurance of their accuracy.

The issue with JAZZ Best case is that the auditors review was not sufficient enough to review any misstatements on the financial statements. Ernst & Whiney never questioned the internal control, reviewed contractual agreements or made comparison of the previous statements. If they had done any of the above, they would have revealed a glitch in the system. In addition, the review does not provide the assurance that an audit opinion would do on the financial statement.

2. Upon the performance of those procedures, the auditors of JAZZ Best Inc. Ad obtained evidence In order to draw reasonable conclusions on which to base the audit pollen. However, these evidences are subject to Limitations due to factors not controlled by the auditors. First Limitation of the evidence is its insufficiency to support the occurrence, reliability and relevance of events and transactions.

Mere paperwork is not enough to prove an event to have existed. It also needs inquiries from people accountable in recording or recognizing such events. Moreover, there's a risk in being dependent on evidences provided by the management itself.

Auditors should ask cooperation from the third parties in order to verify all records. Second limitation is the rules implemented by the client which prohibit auditors to further inspect or review the financial standing of the company.

Some clients make some arrangements with the auditors as to how wide their scope In auditing would be. As a result, auditors fall to uncover misstatements or manipulations In the financial statements. Third Limitation Is the consideration of the relationship between the cost of obtaining audit evidence and the usefulness of the Information obtained.

There's a tradeoff between those two things that requires auditors to carefully evaluate them in order to get sufficient and reliable evidence. 3.

In testimony of before Congress, George Greenshank reported that one method he used to audit the insurance restoration contracts was to verify that his client actually received payment on those jobs. How such apparently reliable evidence lead an auditor to an improper conclusion? Greenshank had been lead to an improper conclusion because he did not investigate the authenticity of the " apparently reliable evidence".

He may have verified that his client actually received payment on those jobs but he had committed lapse on determining the activities of the company in which those payments were used. He had been misled by the Information given by the subordinate of Barry who had confirmed such payments and insurance restoration contracts which were actually bogus. Due to extreme concealment's of fraud, head come up to an improper conclusion. 4.

What procedures, if any, do audit but post-year-end earnings press release? To audit and to review are two different cases in terms of conducting its procedures.

In auditing, there are specific audit procedures which will be determined by the auditor in order to arrive at opinion with reasonable assurance. In reviewing financial statements, this involves inquiry and analytical procedures which only give limited assurance. Also, the professional standards do not necessarily require any procedures in reviewing a client's pre-audit but post-year-end earnings press release. 5.

What is the purpose of predecessor-successor auditor communications? Which party, the predecessor or successor auditor, has the responsibility for initiating these communications?

Briefly summarize the information that a successor auditor should obtain from the predecessor auditor. A predecessor auditor is an auditor who has reported on the cost recent audited financial statements or was engaged to perform but did not complete an audit of the financial statements, and has resigned, declined to stand for reappointment, or been notified that his or her services have been, or may be, terminated. The successor auditor is an auditor who is considering accepting or has already accepted an engagement to audit financial statements, but has not been in communication with the predecessor auditor.

Communication between the predecessor and successor auditor is very important as it can yield important information as to whether or not the successor auditor should accept the engagement. There are many possible reasons why the predecessor auditor is no longer serving the client.

Whether it was a disagreement on accounting principle, audit procedures, adequate disclosures, limiting the audit scope, or a multitude of other reasons, the successor auditor will need this information in order to make a decision.

For this reason, it is the responsibility of the successor auditor to initiate communications with the predecessor auditor. This communication may be written or oral. By rule, auditors are not allowed to disclose confidential information discovered throughout the course of an audit, unless permitted in the Code of Professional Conduct. The potential client may allow the prospective auditor to fully respond to the successor auditor's questions, but it is the responsibility of the successor auditor to ask for this permission, otherwise the successor auditor may not be able to obtain all of the pertinent facts.

For the sake of efficiency, a successor auditor should make sure to inquire of the most important matters.

Some of these ay include: management integrity, disagreements between the predecessor auditor and management, any possible frauds or other illegal acts charged to the client, strength of internal controls, and the predecessor auditor's opinion on the change of auditors. 6.

Did the confidentiality agreement that Minnow required Ernst &Whinney to sign improperly limit the scope of the JAZZ Best audit? Why or why not? Discuss general circumstances under which confidentiality concerns on the part of a client may properly affect audit planning decisions. At what point do client-imposed audit cope limitations affect the type of audit opinion issued? The scope of an audit states that the audit is designed to obtain reasonable assurance of no material misstatements.

It also requires that auditors discuss the audit evidence acquired and whether they believe the amount of evidence to be appropriate to express an opinion. As discussed earlier, E&W was required to sign a confidentiality agreement projects.

By signing this agreement, E&W effectively allowed JAZZ Best to limit the scope of their audit. E&W was allowed to visit the restoration sites and view the entrants, but that was the extent of their audit on the contracts because of the agreement.

Normally, the auditors may wish to gather more evidence and strengthen their faith in the validity of contracts by collaborating with independent parties, but this was disallowed. Ernst &Whinney was also not allowed to contact any insurance companies, contractors, or building owners involved with the restoration projects. This would force Ernst &Whinneys auditors to issue a disclaimer of opinion, as they would not have been able to obtain reasonable assurance of no material misstatements, nor obtain sufficient audit evidence.