Auditing

Finance

Management Letter When an auditor addresses a letter to a client, it is called a management letter. The content of this letter is the conclusions drawn by the certified public accountant concerning the accounting procedures and policies of a company, its internal policies, as well as the internal controls. The current system is evaluated, and its flaws are identified. Suggestions for improvements are then outlined. Issues identified by the management letter do not need disclosure in the Financial Annual Report. Nevertheless, the letter reflects the recommendations and concerns of the auditor that he might have come across during the audit process. A report by an auditor is a complete review by a third party of the financial position and bookkeeping practices of a company as well as financial statements' preparation. These financial statements include the statement of cash flows, the income statement and the statement of financial position of a company. In dissimilar contexts, other forms of reports may consist of a concise address to users known as the management letter (Ruppel 145). Every year, all public companies are obliged to publish and file some financial statements, a management letter inclusive, in order to meet regulatory standards and to report to the investors the activities of the company. Other companies, other than the public corporations, do prepare financial statements in the normal day to day running of the business. However, these companies are not obliged to display the information for public reviews or even to file their report with the authority. Despite that the financial statements can be generated at any given time; they are produced periodically by a certified public accountant as a component of the audit process. According to the law, a company should hand over its books at given intervals; an audit is a vital part of the restrictive control of public companies. It needs reviewing of the

company’s records by an autonomous third party who then gives an official statement regarding the validity of the report (Ruppel 146). #2 Segregation of Duties Segregation of duties is whereby an individual is assigned a certain task partially, and another individual or individuals are assigned the remaining part of the task. This is a common internal control procedure, which eradicates fraudulent and erroneous activities within an organization. For instance, an employee who makes cash deposits to the bank should be different from the one who accepts the cash payments from customers and another totally different employee from the above two should be responsible for preparing bank reconciliation statements. Another quintessential segregation of duties is where the custodian of the asset should be different from the record keeper of the same asset or the person responsible for authorization of such assets. Therefore, where one or more individuals are required to participate on different levels in order for a task to be complete, the concept is referred to as segregation of duties (Gray 278). #3 COSO In 1987, The Committee of Sponsoring Organizations’ (COSO) was formed to support an initiative for independent private sector that analyzed the common causes of dishonest financial reporting; the National Commission on Fraudulent Financial Reporting. COSO established suggestions for public corporations and their autonomous auditors. Reducing fraud in organizations and provision of acute leadership is COSO’s mission. Its vision is to be a regrouped thought leader in the marketplace throughout the world on the development of guidance in the risky areas and control, which facilitate reduction of fraudulent deeds leading to good organizational governance (Cendrowski and Mair 77). #4 Outsourcing When a company decides to transfer some internal business functions to an outside supplier such as a

third party who will complete the work on behalf of the company, this can be referred as outsourcing. If used in the right way, outsourcing can be an effective strategy of cost saving. The most outsourced service is the payroll. This has numerous advantages that include time saving, reduced costs amongst others (Bragg 227). #5. Substantive Testing & Analytical analysis Substantive test is a method used while auditing to verify errors in the statement of financial position and other financial statements. A substantive test involves randomly picking a sample of transactions and checking it for errors, crosschecking account balances for any inconsistencies, or reviewing and analyzing procedures used to carry out and to enter transactions. Analytical analysis is when a person scrutinizes financial statement in order to find any irregularities. This comprises comparison of financial and non-financial details. An analytical review is not as thorough as an audit (Puttick and Van Esch 735). #6. SAS 70 Report- any recent changes to this area SAS 70 is an auditing standard, which enables an independent auditor to assess and give an opinion on the controls of a service organization. The SAS 70 has the opinion of the auditor, and analysis of the controls used in the operation. User organizations and user auditors can share the audit report. Depending on the engagement performed, the SAS 70 reports (Service Auditor's Reports) are commonly classified into three or four sections. Since the SAS 70 is not a pre-arranged group of standards, a service organization need not necessarily meet to " pass" it. The SAS No. 70 guidance and requirements for user auditors will be superseded by the Clarified Statement on Standards of Auditing. There are two types of Service Auditor's Reports: Type I and Type II (Welytok 203). Works Cited Bragg, Steven M. Accounting for Payroll: A Comprehensive Guide. Hoboken: John Wiley & Sons, 2004. Print. Cendrowski,

Harry, and William Mair. Enterprise Risk Management and COSO: A Guide for Directors, Executives and Practitioners. New York: John Wiley & Sons, 2009. Print. Gray, Iain. The Audit Process: Principles, Practice and Cases. London: Thomson Learning, 2007. Print. Puttick, George, and Sandy Van Esch. The Principles and Practice of Auditing. Lansdowne [South Africa: Juta, 2007. Print. Ruppel, Warren. Not-for-profit Audit Committee Best Practices. Hoboken: John Wiley & Sons, 2006. Print. Welytok, Jill G. Sarbanes-oxley for Dummies. Hoboken, NJ: Wiley Pub, 2008. Print.