

Auditing case essay sample



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(a) Answer:

The main difference between a financial report audit, an environmental audit and an efficiency audit is the diverse objective of every audit. To be more precise, the objective of financial report audit is embodied in affording rational assurance on whether the financial report is prepared in almost all respects that is consistent with the financial reporting framework (Moroney, Campbell & Hamilton, 2011, p. 6). Then, the role of the environmental audit is to evaluate and check whether the operations of company are complying with internal policies of company and environmental regulations. In addition, the environmental audit can foresee some risks reasonably as well. In the last place, the purpose of the efficiency audit is to verify whether the corporate plans are effectively executed. In the meantime, the efficiency audit also can inspect whether the capital resources of company are exploited or not.

(b) Answer:

Specifically, the main differences between reasonable assurance and limited assurance are reflected in three respects, which the objective of assurance engagement, the diverse procedures of evidence-gathering and the assurance report (Moroney, Campbell & Hamilton, 2011, p. 15). Speaking of the objective of assurance engagement, in a reasonable assurance engagement, the objective is to reduce the audit risk to an acceptance low level, in context of circumstances surrounding such engagement. In addition, the conclusion can be expressed in positive form (Moroney, Campbell & Hamilton, 2011, p. 15). However, for limited assurance, the objective is to

collect plenty information to express a negative opinion regarding the reliability on the basis of assured information (Moroney, Campbell & Hamilton, 2011, p. 15).

When it comes to the procedures of evidence-gathering, there is no doubt that these assurance engagements both obtain sufficient appropriate evidence through mandatory and systematic process. Whereas the difference is the evidence-gathering process of limited assurance is deliberately limited, as compared to a reasonable assurance engagement. The last difference is the assurance report. The report of reasonable assurance is a positive form of expression while the report of limited assurance is a negative form of expression (Moroney, Campbell & Hamilton, 2011, p. 15).

(c) Answer:

First of all, the review of a company's financial report is a limited assurance engagement. However, the audit of a company's financial report is a reasonable assurance. Therefore, the latter (reasonable assurance) has the higher level of assurance than the former (limited assurance) (Moroney, Campbell & Hamilton, 2011, p. 11).

Secondly, from the case we can find that Chip is interested in purchasing the shoes of McLellan. Therefore, as the investor and chip should analysis of the historical and forecasted profitability. As compared to reviewed financial report. Only audited financial report is required to perform verification and substantiation procedures. Then, Chip can rely on audited financial report

information to make a variety of decision. At the same time, Chip can use the report to assess the performance of company.

Moreover, chip demand audited financial reports only due to their desire for reliable information to some extent from the relevant information. This is because Ron McLellan ran his business as a sole trader; therefore there is no remote user, like shareholders or lenders. In addition, his business is not very complex because the information is only the basic accounting records. In the meantime, Ron is the owner and the manager of McLellan's shoes and thus has no competing incentive. Consequently, Chip need rely on the credible information of financial report because reliable information can aid users make decisions and assess the future viability of the company (Moroney, Campbell & Hamilton, 2011, p. 27). Therefore, it is very crucial that the information contained in the financial report is reliable and free from any material misstatements. From another perspective, the audited financial report has the more reliable information than reviewed financial report.

Lastly, besides these reasons above, the demand of audited financial report as well can be proved by some theories in this case, which are information hypothesis and insurance hypothesis respectively (Moroney, Campbell & Hamilton, 2011, p. 28). Regarding to the information hypothesis, it is obvious that financial report users require access to high-quality information to make a variety of decisions. Therefore, this theory shows us because of the demand for faithful and effective information; the uses will demand the audited financial report to assist the decision-making (Moroney, Campbell & Hamilton, 2011, p. 15). Another theory is the insurance hypothesis. Similarly, this theory as well demonstrates that investors will demand audited financial

report as a way of insuring against some of their loss should their investment fail (Moroney, Campbell & Hamilton, 2011, p. 15).

(d) Answer:

The factors that Ron should consider can be reflected in four aspects, which are the professional ability of auditor in the accounting firm, the quality of report information conducted by the accounting firm, as well the size of accounting firm and the fees.

With respect to the professional ability of the auditor, Ron should consider the auditor of accounting firm has reasonability relating to the audit. That is, the audit should have professional skepticism, professional judgment and due care (Moroney, Campbell & Hamilton, 2011, p. 23). Specifically, Fazal (2011) claims that ' professional skepticism is an attitude that auditors should have questioning mind; watch out for possible misstatement due to error or fraud, and a critical assessment of audit evidence '(p. 1).

As a result, auditors should value problem critically without being overly suspicious or cynical. After that, a qualified auditor is required to maintain an attitude of professional judgment while performing an audit. Fazal (2011) claims that professional judgment' is a skill that auditor should possess relevant expertise; training and knowledge while performing the audit work' (p. 1). For this reason, application of professional judgment is essential when auditor evaluate whether sufficient appropriate has been obtained or whether the information source is reliable. Last but not least, due care is also crucial to an outstanding auditor. The professional auditor should exercise due care in the performance of the audit and the preparation of the report. In <https://assignbuster.com/auditing-case-essay-sample/>

other words, the auditor should apply reasonable care and diligence during the audit process (Moroney, Campbell & Hamilton, 2011, p. 24).

When it comes to the information contained in the financial report. It is significant that the information contained in the financial report is relevant, reliable, comparable, understandable and true and fair (Moroney, Campbell & Hamilton, 2011, p. 22). To be more precise, the information included in the financial report should be relevant to the users. This is because users can use relevant information to evaluate past decisions and predict future events relating to the entity (Moroney, Campbell & Hamilton, 2011, p. 22). Then, the information should be reliable and unbiased because users can use reliable information to make decision.

The next is the information should be comparable, the advantage is comparable information can aid users trace the company's performance to identify any trends that may impact the entity (Moroney, Campbell & Hamilton, 2011, p. 22). For this reason, the information should be presented consistently across time and across entities. After that the information should be understandable. It is obvious that understandable information can assist users comprehend clearly so as to make appropriate decisions. The last one is true and fair. It means accounting information conducted is consistent with the financial reporting framework. These help auditors to assess the relevance, reliability, comparability and understandability of the information presented in the financial report (Moroney, Campbell & Hamilton, 2011, p. 22).

The last aspect is the size of accounting firm. As can be seen from the case, it is apparent that Ron's business is relatively small; therefore Ron should choose a suitable accounting firm. In general, there are three tiers of assurance providers in Australia. The first tier is the Big-4. The second tier comprises of firms with significant presence nationally and most have international affiliations. The last tier made up of regional and local accounting firms (Moroney, Campbell & Hamilton, 2011, p. 24). For instance, larger companies should choose a Big-4 auditor because the other companies are too small to maintain the independence. As a result, Ron should choose a local smaller audit firm. Meanwhile, the fees of audit are generally less expensive.

Chapter 2

(a) Answer:

The first relevant information:

From the first relevant information, we can find that David Collier indeed married with the partner of W&S audit firm. However, it is a distant relation. In practice the familiarity threat is a close relationship between the auditor and the client (Moroney, Campbell & Hamilton, 2011, p. 52). Therefore, it does not satisfy the requirement and pose a familiarity threat.

The second relevant information:

As can be seen from the case, the consulting department at W&S partners tendered for an IT installation project at Cloud 9. If the tender is successful, the fees would be twice. It is obvious that there is a business relationship between auditor and client. Therefore, it constitutes a self-interest threat to

independence. A self-interest threat is a financial interest in a client.

Moreover, if the tender is successful, the price of audit fee will be twice. This will cause market competition and affect the image of audit.

The third relevant information:

Approximate 30% audit staffs at W&S partners purchased the products of Cloud 9, like basketball. This phenomenon cannot meet explanation of any threat to independence. Therefore, there is no specific influence on this piece of information.

The fourth relevant information:

Four members of the IT department at W&S partners have shares in retailers that sell Cloud 9's products. It is apparent that share owned in the client and there is a business relationship between auditor and client. Therefore, it also constitutes a self-interest threat to independence.

The fifth relevant information:

This piece of information is associated with the reputation. From the case, it is reported by an article that Cloud 9 Pty has unethical activities. However, Cloud 9 Pty confutes seriously with the article. We can analysis the influence from two sides.

First of all, if the report of article is true, then the Cloud 9 is not dishonest and it will form threats to the fundamental principles of professional ethics. For this reason, an audit firm will refuse accepting the entity as a client because of the illegal activities and dishonest (Moroney, Campbell &

Hamilton, 2011, p. 66). In addition, the assessment of reputation will decline gravely. Furthermore, it will cause severe litigation.

Then, if the information of article is false, it will clarify some facts.

Nevertheless, it also will influence the reputation for a while.

(b) Answer:

Without a doubt, there are five suggestions can be referred before making client acceptance to Wadley.

First of all, auditors should assess the integrity of client; this can help auditors avoid the litigation to some extent. In additional, this activity also can make auditors realize whether auditors should continue decision or refuse. Specifically, if the integrity of client is low, then we should refuse. Otherwise, we can accept the client.

In the second place, auditors should consider the behaviors of client whether compliance with the fundamental principles of professional ethics (Moroney, Campbell & Hamilton, 2011, p. 66). This is because there will be some threats affect the accuracy of report if the client is deceptive. The audit firm should refuse this entity if there are illegal activities or aggressive in the interpretations of accounting rules.

Thirdly, before making client acceptance, it is also considerable that whether our audit firm has enough professional staff to complete the audit. The audit firm should ensure that the staff not only has professional knowledge and competence (Moroney, Campbell & Hamilton, 2011, p. 66), the auditors but also have access to independent experts in some situations.

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Moreover, we should review the threats to independence, described earlier and make certain that safeguards are put in place to limit those threats. To be more precise, some safeguards can be created by the profession, legislation or regulation or can be

The last step is the auditor can prepare an engagement letter earlier for the related client to minimize any possible misconceiving between auditor and the client (Moroney, Campbell & Hamilton, 2011, p. 66). Furthermore, when accepting a new client, the engagement letter can play a crucial role in solidifying audit arrangements. Meanwhile, the engagement letter as well serves as the contract, detailing the obligations on either side.

(c) Answer:

Engagement letter

Name of auditor: Raul Shi

Firm name: W&S Partners

Address: Australia

Client Name: Cloud 9 PTY LTD

Address: America

Dear Mr. McLellan

Thank you for the opportunity to meet with you. I welcome the opportunity to work with you as your financial planner. This engagement letter outlines the specific terms of the financial planning engagement between.

[The objective and scope of the audit]

You have requested that we audit the financial report of Cloud 9 Pty Ltd Company which comprises the income statement at 31 December 2010 and the balance sheet for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of expressing an opinion on the financial report.

[The responsibilities of the auditor]

We will perform our audit in accordance with Australian Auditing Standards and the code of ethics. Generally, the responsibilities of an auditor mainly contain three sides, which are the professional skepticism, professional judgment and due care.

[The function of the report]

The purpose of an audit is to form a view on whether the information presented in the financial report, taken as a whole, reflects the financial position of the organisation at a given date

[The fees of the audit]

Our fees and costs will be billed monthly, and are payable upon receipt. Invoices unpaid 30 days past the billing date may be deemed delinquent, and are subject to an interest charge of 1.0% per month. We reserve the right to suspend our services or to withdraw from this engagement in the event that any of our invoices are deemed delinquent

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[The independence of the auditor]

We confirm that our auditors will comply with the ethical principles to act with integrity, objectively and professional skepticism. Meanwhile, we will abide by the specific requirements on the employment relationship between auditors and clients to avoid the self-interest threat, self-review threat, advocacy threat, familiarity threat and intimidation threat.

[Annual General Meetings]

We request you provide to us written questions submitted to you by shareholders as soon as practicable after the question is received and no later than five business days before the Annual General Meeting, regardless of whether you believe them to be irrelevant.

Any litigation arising out of this engagement, except actions by us to enforce payment of our professional invoices, must be filed within one year from the completion of the engagement, notwithstanding any statutory provision to the contrary.

If, after full consideration and consultation with counsel if so desired, you agree that the foregoing terms shall govern this engagement, please sign this letter in the space provided and return the original signed letter to me, keeping a fully-executed copy for your records.

Thank you for your attention to this matter, and please contact me with any questions that you may have.

Very truly yours,

Yours faithfully

. Raul Shi

Partner

Jo Wadley

Date

August 5, 2013

Reference

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