

Audit case study

Business



It was not enough to show that the loss suffered by the claimant was reasonably foreseeable. In the case of *Hadley Byrne and Co vs. Header and Partners Ltd*, where there was a special relationship between parties, there could be a duty of care for financial loss caused by a negligent misstatement.

However, there was a valid disclaimer as the advice given by Heeler was headed without responsibility and the defendant was not liable. In this case, Allan & Co were not liable since there is no special relationship between parties and the advice given by

Amman & Co was headed without responsibility. 4. A) 4 precautions by auditor to avoid/ minimize the consequences of lawsuit : 1 . Deal only with clients possessing integrity 2.

Obtain an engagement and representation letter 3. Follow the standards of the profession 4. Maintain independence b) Expectation Gap is the different between the actual and expected performance of an auditor. It can be defined as the difference between what the public and financial statement users believe the auditors are responsible for and what auditors themselves believe their responsibilities are.

Factors contribute to Expectation Gap: 1 .

Auditor's Deficient Performance Deficient performance includes lack of experience, knowledge and care. 2. Deficient Standard Deficient standard gap is the gap arising due to difference between what auditors can reasonably be expected to do and what they are required to do by the

current standards. Egg: investors are expecting auditors to detect fraud while auditor's duty to detect fraud is limited. 3. Unreasonable Expectation unreasonable expectation is when public is expecting auditors to do what they are to required by the standards.

It is mostly caused by the public ignorance and inexperience on the auditor's duties. There are confusions concerning auditors duties in fraud detecting and reporting. 4. Lack of Auditor's Independence compromise. It is important since it adds credibility to the report and is the basis of an audit work.

Its inadequate can lead to the auditor's opinion to be questioned. C) Steps to be taken to bridge Expectation Gap: 1 . Expansion of Auditors' duties and responsibilities Expansion of auditors' duties will help to reduce the gap.

It is impossible for the community to discard their expectation that auditor is a fraud detective. All auditors should possess basic knowledge of fraud detection in order to better position themselves to detect red flags during an audit. Auditors can start by developing basic understanding of fraud schemes and scenarios as well as reasons why people commit fraud.

2. Awareness of the Public Explanation of audit function and limitations to the public can help to reduce the gap. This can be done in Annual General Meeting or be included as part of the audit report.

This will help to reduce the unreasonable expectation gap since the public will be aware that their expectations are unrealistic. 3.

Provision of more Clarity Auditing Standards Auditing standards should be adjusted to make rules and regulations clearer to both public and auditor.

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Egg: The standard may show the clear statement about auditor's duties and responsibilities. But, it not as clear as to the publics view since they have no auditing background. Therefore, the auditing standards should be clear with situations where auditors will and wont have duties such as going concern and fraud.