

# Beginning the audit report

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Senior Partner From: Kim Cummings Re: Apollo Shoes Audit Dear Senior Partner: As you know, our firm has been selected to perform the Apollo Shoes audit. The planning process has been the most delicate stage as we want to ensure we have a solid audit approach. The team I select will be dedicated in meeting the objectives and strategies for completing the audit. I will briefly explain to you how I plan to begin the audit process.

Now that Apollo Shoes has selected our firm, the initial planning process has begun. Our team must make every effort to understand Apollo Shoes' business and industry. We will assess the client business risk before performing any preliminary analytical procedures. Our audit team will work hard to understand what type of documentation is required, collect documents from previous audits and gather all preliminary statements from all involved parties. Our team will start with a review of the company's policies and procedures to establish our objectives.

Our audit team will set materiality and review acceptable audit risk and acquired risk. It is our responsibility to understand the internal control and assess the type of risk each control holds. By doing this, we must understand each and every process of Apollo Shoes. This may include reviewing any area workflow and identifying key controls in those area processes. Our audit team will sit down with department heads to gather a detailed understanding of each process so nothing is misinterpreted in our review.

Once we have a clear understanding of the internal controls and have assessed their risk, we will begin to collect information to assess fraud risks. The last part of our plan and design phase of the audit process will be to

develop an overall audit strategy and audit program. With this step, we will determine the guidelines of our audit review and the best technology to use for this client. The scope of our audit will be planned during this phase as well as setting our objectives. I have attached some key documents related to the Apollo Shoes audit.

These documents cover how the audit objectives, responsibilities, and strategies for completing the audit will be accomplished. I have also included an explanation of how analytical procedures will be used to plan, conduct and complete the audit. An explanation of how our team will consider materiality and risk in designing the audit is also attached along with the technology we plan to use in the audit. I have attached an engagement checklist and a rough draft of the client engagement letter for your review. The outline of timeshares and milestones for the Apollo Shoes audit has also been included for your review.

Should you have any questions regarding the beginning stages of our audit process or any changes or comments related to the engagement checklist, engagement letter and timeshares, please let me know so we can discuss further. Sincerely, Kim Cummings

**Audit Objectives, Responsibilities, and Strategies for Audit Completion**

The primary objective of an audit is to review a company's procedures, the original data to determine procedure compliance, and form an audit opinion on the data presented and level of compliance.

The four main objectives are to outline and test controls; validate proper procedure was followed; establish the risk of audit error; and write an audit

opinion. A control objective is established to ensure procedure is in place to prevent staff from not following policy. It is important to verify a procedure has been followed. To do this, an auditor will take a random collection of the documents from the data set. The auditor can use statistics to establish how many documents need to be tested and the risk of an error in the data set.

A specialized computer program is used by the auditors to select a document and compare the document against company policy to ensure compliance. The level of compliance is assessed against the data size group and degree of compliance failure. The risk of audit error is the probability an auditor has reached an inaccurate conclusion, which is why the auditor must review all workflow, policies and procedures prior to drawing any conclusion from the samples they have pulled. A Ritter auditor's opinion is a report published by the auditor to ascertain company procedures used, the audit scope, and the results from testing.

Many interested parties, such as business owners and investors, review this report. The auditors are responsible in finding errors, cut costs, and improve the overall general accounting used by a company. The auditor is to verify company records against the information the company has provided. It is important for auditors to plan and execute the audit to achieve reasonable assurance. The main strategy of completing the audit is to obtain an understanding of the linnet's financial statements, operating processes, and governance policies.

The auditor must adopt a blueprint to determine the external factors that could adversely affect the company's operations. The auditor needs to

evaluate regulatory practice and ongoing litigation events. With these strategies in place, the audit should be easily streamlined to stay on track and completed in the designated timeshare. Analytical Procedures Used to Plan, Conduct and Complete the Audit Analytical procedures are used to identify items associated with uncommon transactions and events, amounts and developments that may point towards items that have financial statement and audit planning complications. The analytical procedures used in planning the audit generally use data aggregated at a high level (www. Baobabs. Org). " Procedures may consist of reviewing changes in account balances from the prior year to the current year using an unadjusted working trial balance or general ledger balance. Procedures may involve an extensive analysis of company's quarterly financial statements. The analytical process used in the overall preview phase of the audit " will assist the auditor in assessing conclusions reached and in the evaluation of the overall financial statement presentation (www. Scabrous. Org). " A wide variety of analytical procedures may be used for this purpose. The procedures our team will use consist of reading financial statement and notes, consider adequacy of the evidence gathered, and consider unusual or unexpected balances.

Materiality and Risk in Audit Design Materiality is essential when considering the appropriate type of report for a given set of circumstances. Audit risk is the risk the auditor may unintentionally " fail to appropriately modify his or her opinion on financial statements that are materially misstated (www. WAC. Org). Materiality is considered by auditors when planning and evaluating the results of an audit. Audit risk and materiality affect the applications of generally accepted auditing standards, particularly the measures of field work and reporting. " Audit risk and materiality need to be considered

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together in designing the nature, timing, and extent of audit procedures and in evaluating the results of those procedures (mm. '. PWS. Org). " Technology Incorporated Into Audit There are numerous data analysis tools to use for an audit such as Microsoft Excel, Audit Command Language (CAL), and Monarch.

Microsoft Excel is an office application that is easy to use. It comes with a data-analysis toolkit and built-in functions with a capacity of 65, 536 rows by 256 columns and 255 chars per field. CAL has an unlimited capacity. It requires basic training and is menu based. CAL has analytic capabilities and a complete set of preprogrammed analysis. Monarch is a 1, 000, 000 input page capacity. Training is required, and Monarch provides basic analytic capabilities. Data analysis software is useful in distinguishing fraud of assets and fraudulent reporting.

It permits an infinite number of analytical interactions to e measured within sizeable databases. The use of data analysis software will test objectives, ascertain data, request test data, enhance the test data if results are poor and request full data if results are good. The use of filters, sorting statistics, gaps, classification, and samples are just a few tools to be used in the audit process. The data analysis methodology we will use will be to define, validate, execute, and retain data.

Engagement Checklist Learn about the ControlEnvironmentOperating Processes Corporate Procedures Regulatory Compliance Test Internal Controls Detailed Steps in Task Performance Sampling of Company Documents Rank Controls and Risk High and medium - may cost the

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business a substantial loss in operating activities Low - corrective measures provided by Department Heads and Managers Issue the Final Report Senior Auditor reviews solutions provided by senior leaders for high and medium risks. Note risk mitigation progress in the risk and control assessment reports prepared by department heads.

Rough Draft of Audit Engagement Letter Anderson, Olds, and Watershed  
1234 Audit Trail way panama City, FL 32405 January 18, 2015 Larry  
Lancaster President and CEO Apollo Shoes, Inc. Showdown, ME 12345 Re:  
Audit Engagement Dear Mr.. Lancaster, This letter confirms our prior  
discussion regarding the agreement for our firm to audit the financial  
statements of Apollo Shoes, Inc. Our firm will audit Apollo Shoes balance  
sheet as of 12/31/07, as well as related Statement of Income, Retained  
Earnings and Cash Flow Statements for all of 2007.

We will provide our professional opinion based on this audit. The financial  
statements will be the responsibility of the Apollo Shoes management team.  
The opinion on the financial statements based on our audit is the  
responsibility of the audit team. Our team will conduct the audit process in  
accordance with generally accepted auditing standards. These standards  
require our team to "conduct the audit in order to obtain reasonable  
assurance if the financial statements are free of false and misleading  
statements (wry. NCSC. Deed). This type of audit will measure the  
accounting principles used by your company along with any assessments  
made by your management team. Our firm's audit will deliver the basis of  
our opinion. The practices we will use include tests of documented data  
provided to support all of your company transactions documented n your  
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company accounts. We will also test documents related to your receivables and liabilities through randomly selected customer accounts and creditors. The audit we will perform cannot be relied upon to detect irregularities or all fraud.

We will notify you of any material errors we find as well as any illegal acts that grab our attention throughout the audit process. If the financial statements are going to be published or reproduced with reference made to the audit our firm conducted, you must agree to give us the statement proofs for our approval prior to publication. As part of the audit engagement for the year ending in 2007, a review of your company's state and federal tax returns will be conducted for Apollo Shoes.

The fees our firm charges Apollo Shoes will be billed as the work is performed and based on the time it is needed to fulfill each deliverable plus any acquired out of pocket expenses. The invoices will be due upon receipt. After your review, please sign the enclosed copy and return it to our firm promptly. Our firm appreciates the opportunity to perform the Apollo Shoes' audit and looks forward to working with you. Sincerely, Timeshares and Milestones References Arena, Alvin; Elder, Randal; and Basely, Mark(2014).