Programming independence essentially protects the auditor s ability accounting es...

Programming independence essentially protects the auditor's ability to select the most appropriate strategy when conducting an audit. Auditors must be fair to approach a piece of work in whatever manner they consider best. As a client company grows and conducts new activities, the auditor's approach will likely have to adapt to account for these. In addition, the auditing profession is a dynamic one, with new techniques constantly being developed and upgraded which the auditor may decide to use.

While investigative independence protects the auditor's ability to implement the strategies in whatever manner they consider necessary. Basically, auditors must have unlimited access to all company information. Any queries regarding a company's business and accounting treatment must be answered by the company. The collection of audit evidence is an essential process, and cannot be restricted in any way by the client company.

Reporting independence protects the auditors' ability to choose to reveal to the public any information they believe should be disclosed. If company managers have been misleading shareholders by falsifying accounting information, they will strive to prevent the auditors from reporting this. It is in situations like this when auditor independence is most likely to be compromised.

Independence is fundamental to the reliability of auditors' reports. Those reports would not be credible, investors and creditors would have confidence with them, if auditors were not independent in both fact and appearance. To be credible, an auditor's opinion must be based on an objective and disinterested assessment of whether the financial statements are presented fairly in conformity with generally accepted accounting principles. On the other hand, Frank claimed that “ Auditor independence helps to ensure quality audits and contributes to financial statement users’ reliance on the financial reporting process. An auditor who is independent in fact has the ability to make independent audit decisions even if there is a perceived lack of independence or if the auditor is placed in a potentially compromising position.”(2007) Nonetheless, even when the auditor is in fact independent, one or more factors may lead the public to believe the auditor does not appear independent. This may cause users of financial statements to believe they cannot rely on financial information. At mean time, auditor should take responsibilities for detecting material errors and material fraud. Because in Xerox, they are many accounting manipulations can easily cause fraud, the audit should find out those fraud, identified and reported those fraud risk.

Q6: The first questionable accounting manipulation is acceleration of lease revenue recognition from bundled leases. This manipulation will affect revenues account, because Xerox accelerated the lease revenue recognition by allocating a higher portion of the lease payment to the equipment instead of the service or financing activity. By reallocating revenues from the finance and service activity to the equipment, Xerox was able to recognize greater revenues in the current reporting period instead of deferring revenue recognize to future periods. There are two auditor procedures can suit for this environment. First is use internal procedure, recalculation: checking the mathematical accuracy of documents or records. Second it external procedure, confirmation: the process of obtaining a representation from a third party.

For questionable accelerated of lease revenue from lease price increase & extensions, increase in the residual values of leased equipment and acceleration of revenues from portfolio asset strategy transactions. All those three manipulation will increase revenue account and income statement. Because in short term it will immediate increase reverse, but it sacrifice the long term profit. To protect company long term profit, auditor should observation all the processes and procedure the performed. On the other hand auditor should re-performance, it means the auditor's independence execution of procedures previously performed by entity staff.

For questionable manipulation of reserves. This manipulation will affect equity account. Because Xerox established an acquisition reserve for unknown business risk and unrelated business to the reserve account to inflate earning. It means Xerox put money in equity account to prevent potential risk, but it unrelated to expenses. It easy causes fraud. Auditor can use observation procedure, to looking at processes and procedures being performed or use inquiry procedure, to seeking information from knowledgeable persons.

For questionable manipulation of other income. This manipulation will affect cost and expenses account. Because Xerox elect to recognize most of the interest income during period years. The cost and expenses account will reduce in period years, and meantime make that year's report look better. To appropriateness of this practice, audit should use analytical procedure. Compare the date with similar prior-period date, to keep the report justice.

For questionable failure to disclose factoring transactions. This manipulation will affect revenues account and asset account. From material, we can know Xerox sold future cash from receivable account to local banks for immediate cash. It made Xerox have a strong cash position in the present year, like the revenues account will increase, on the other hand sold receivables to bank must take some lost. The asset account must decrease. It also easy cost fraud. Audits can use inspection of tangible assets and analytical procedures. Inspection of tangible assets can find out the total asset increase or decrease. Xerox company failure to disclose factoring transaction should record in annual report, so use analytical procedure will disclose this problem.

REF:

Arens., Best., Shailer., Fiedler., Elder., Beasley. (2010). Essentials of Auditing, Assurance Services & Ethics in Australia. Chris Richardson

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