

Inherent risk

- Complexity; arising from the information itself or the way the info is prepared
- Subjectivity; where the info being prepared includes some element of subjectivity either a judgement or an estimate
- Change; where regulatory requirements or rules might change between reporting periods which would affect estimates
- Uncertainty; when it's not possible to provide precise info through observation

Responses overall: conduct an analytical review, discuss any changes/improvements to be made, assess the client's ability to continue as a going concern by examining docs and assess the reasonableness of the assumptions used in the forecasts.

Internal controls scenario - Identify controls weakness/deficiencies and suggest recommendations/controls

*see sample answers

Recommendation:

- What needs to be done; ex. orders should be sequentially numbered
- Who needs to do it; by an independent person, by a responsible official, by the financial director, etc
- How often should they do it; weekly, bi-yearly, etc

Internal controls scenario - Identify controls and suggest tests of control to check they are effective

*see sample answers

Answer template:

- Control: 1) state the control 2) how does this control reduce the risk of errors 3) what does it actually reduce
- Test of control: 1) state what should be done 2) state the objective of the test

Tests of controls:

- *often checking for a signature/initial is enough.
- Purchase Invoices/Orders
 - Sequence check / numbering - calculations check, account coding, initials, signed
 - Evidence of approval (signature)
 - Adherence to authority limits
- Sales invoices
 - sequencing/numbering
 - Matching dispatch note and order
 - Initials / signature
- Goods received notes

Duties

Report to shareholders whether accounts show a true and fair view and comply with Companies Act and other relevant legislation.

Responsibilities

- Statement on leaving
- Resign if ineligible

What does the auditor do?

The auditor's job is to gather evidence to prove that:

- Profits and losses are properly stated
- Assets and liabilities belong to the company and are shown at their correct values
- Accounting entries are properly recorded in the correct accounting period

To do this they:

- Review the accounting records and controls
- Ask for explanations
- Obtain details from third parties

Other Benefits of the Financial Audit

During the course of their work auditors may be involved in:

- Discovering weaknesses in financial systems
- Checking compliance with laws and accounting standards
- Discovering frauds and errors

Ethical principles

Integrity; A professional accountant should be straightforward and honest in all professional and business relationships

Objectivity; A professional accountant should not allow bias, conflict of interest or undue influence of others.

Professional Competence and Due Care; A professional accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques. A professional accountant should act diligently and in accordance with applicable technical and professional standards when providing professional services.

Confidentiality; A professional accountant should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. Confidential information acquired as a

Why?

From a practical standpoint, this letter assures the auditor that management has given them all pertinent information.

Procedures when the firm is NOT going concern

- Discuss the situation again with directors. Consider whether additional disclosures are required in the financial statements or whether the financial statements should be prepared on the break-up basis.
- Explain to the directors that if additional disclosure or restatement of the financial statements is not made then the auditor will have to modify the audit opinion.
- Consider implications for the auditor's report. Where the directors provide adequate disclosure of the going concern situation of Smithson Co, then a section should be included in the auditor's report headed 'Material Uncertainty Related to Going Concern' to draw attention to the going concern disclosures.
- Where the directors do not make adequate disclosure of the going concern situation then modify the audit opinion due to material misstatement due to inadequate disclosure. The modification will be an 'except for' qualification or an adverse opinion depending on whether the issue is material or material and pervasive. The 'Basis for Opinion' section will be amended to 'Basis for Adverse Opinion' or 'Basis for Qualified Opinion' to explain the reason for the modified opinion.

Week 9 - Audit Reporting

About

The auditor's report is the output of the audit.

It contains the auditor's opinion as to whether the financial statements give a true and fair view.

Elements of an audit report:

- Title
- Addressee
- Auditor's opinion
- Basis for opinion
- Key audit matters
- Management responsibilities
- Auditor responsibilities
- Other reporting responsibilities
- Name of the engagement partner
- Signature
- Auditor's address
- Date

Types of audit opinion

Unmodified - the auditor will give an unmodified opinion when they conclude that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.