

History Exam Question Analysis09年ACCA_CAT考试 PDF转换
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https://www.100test.com/kao_ti2020/625/2021_2022_History_Ex_c52_625721.htm (a) Explain the purpose of a management representation letter. (5 marks) (b) You are the manager in charge of the audit of Crighton-Ward, a public limited liability company which manufactures specialist cars and other motor vehicles for use in films. Audited turnover is £ 140 million with profit before tax of \$75 million. All audit work up to, but not including, the obtaining of management representations has been completed. A review of the audit file has disclosed the following outstanding points: Lion ' s Roar The company is facing a potential legal claim from Lion ' s Roar plc in respect of a defective vehicle that was supplied for one of their films. Lion ' s Roar maintain that the vehicle was not built strongly enough while the directors of Crighton-Ward argue that the specification was not sufficiently detailed. Dropping a vehicle 50 metres into a river and expecting it to continue to remain in working condition would be unusual, but this is what Lion ' s Roar expected. Solicitors are unable to determine liability at the present time. A claim for £ 4 million being the cost of a replacement vehicle and lost production time has been received by Crighton-Ward from Lion ' s Roar. The directors ' opinion is that the claim is not justified. Depreciation Depreciation of specialist production equipment has been included in the financial statements at the amount of 10% pa based on reducing balance. However, the treatment is consistent with prior accounting periods (which

received an unqualified auditors' report) and other companies in the same industry and sales of old equipment show negligible profit or loss on sale. The audit senior, who is new to the audit, feels that depreciation is being undercharged in the financial statements.

Required: For each of the above matters: (i) discuss whether or not a paragraph is required in the representation letter. and (ii) if appropriate, draft the paragraph for inclusion in the representation letter. (10 marks) (c) A suggested format for the letter of

representation has been sent by the auditors to the directors of Crighton-Ward. The directors have stated that they will not sign the letter of representation this year on the grounds that they believe the additional evidence that it provides is not required by the auditor.

Required: Discuss the actions the auditor may take as a result of the decision made by the directors not to sign the letter of representation. (5 marks) (20 marks) (A-Q5/J2002)

5. Towards the end of an audit, it is common for the external auditor to seek a letter of representation (written representations) from the management of the client company. Required: (a) Explain

why auditors seek letters of representation. (5 marks) (b) List the matters commonly included in the letter of representation. (6

marks) (c) Explain why it is important to discuss the content of the letter of representation at an early stage during the audit. (3

marks) (d) Explain why management is sometimes unwilling to sign a letter of representation and describe the actions an external auditor can take if management refuses to sign a letter of

representation. (6 marks) (20 marks) 答案 : (a) Letter of

representation (i) Auditors seek a letter of representation in order to obtain written audit evidence on matters that are material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist (ISA 580 ‘ Management Representations ’) . (ii) Representations may be the only evidence which can reasonably be expected to be available, but they cannot be a substitute for other audit evidence that could reasonably be expected to be available. Such matters may include management ’ s intention to hold an item for long-term appreciation. (iii) The letter also ensures that directors acknowledge their collective responsibility for the presentation and approval of the financial statements. The letter is signed by those with knowledge of the matters concerned, on behalf of management. (b) Common categories of matters included in the letter of representation (i) Confirmation of responsibility for, and approval of, the financial statements. (ii) Confirmation that all of the accounting records, and all related documentation (such as minutes of management and shareholder meetings) have been made available, and that company transactions have been properly reflected therein. (iii) Confirmation of the expected outcome of legal claims. (iv) Confirmation of company plans in relation to certain tax provisions. (v) Confirmation of the completeness of disclosure of related party transactions. (vi) Confirmation that there have been no post-balance sheet events that require revisions to the financial statements. (c) Discussion of the content of the letter (i) It is important to discuss the contents of the letter at an early stage

because directors may disagree with what the auditors wish them to sign. (ii) It is important in such cases for negotiations to take place and the letter to be redrafted until it is acceptable to both auditor and client. (iii) The management representation letter is often regarded as a critical piece of audit evidence and if it is left to a late stage in the audit, when there is pressure on auditors and clients alike, negotiations may be difficult. (d) Management unwilling to sign and actions if management refuses to sign (i) Management is sometimes unwilling to sign because they feel that auditors should be able to obtain independent evidence in relation to the relevant matters. Alternatively, they may feel that the auditors are trying to shift responsibility for the audit to them. (ii) Sometimes, management is genuinely uncertain about whether it is sure of the matters included. However, there are occasions on which management is trying to ' hide ' from the auditors the fact that the income recorded is incomplete, or the fact that there is an outstanding undisclosed legal claim against the company, for example. (iii) Auditors should attempt to negotiate an agreement, as noted above. A formal letter may not be necessary, if management is able to provide some other written confirmation, such as a note of a meeting. Alternatively, a list of issues may be taken to the client to establish exactly which representations are causing the problem, and the letter redrafted. (iv) If management still refuses to sign, and the auditor feels that the matter is critical to the financial statements, it may be necessary to qualify the audit report with an ' except for ' (or even disclaimer of) opinion, on the basis of a limitation in the

scope of the audit. (a) Management representations are a form of audit evidence. They are contained in a letter, written by the company ' s directors and sent to the auditor, just prior to the completion of audit work and before the audit report is signed. Representations are required for two reasons: Firstly, so the directors can acknowledge their collective responsibility for the preparation of the financial statements and to confirm that they have approved those statements. Secondly, to confirm any matters, which are material to the financial statements where representations are crucial to obtaining sufficient and appropriate audit evidence. In the latter situation, other forms of audit evidence are normally unavailable because knowledge of the facts is confined to management and the matter is one of judgement or opinion. Obtaining representations does not mean that other evidence does not have to be obtained. Audit evidence will still be collected and the representation will support that evidence. Any contradiction between sources of evidence should, as always, be investigated. (b) Lion ' s Roar The amount of the claim is material being 50% of profit before taxation. There is also a lack of definitive supporting evidence for the claim. The two main pieces of evidence available are the claim from Lion ' s Roar itself and the legal advice from Crighton Ward ' s solicitors. However, any claim amount cannot be accurately determined because the dispute has not been settled. The directors have stated that they believe the claim not to be justified, which is one possible outcome of the dispute. However, in order to obtain sufficient evidence to show how the treatment of the potential claim

was decided for the financial statements, the auditor must obtain this opinion in writing. Reference must therefore be made to the claim in the representation letter. Paragraph for inclusion in representation letter. ' A legal claim against Crighton-Ward plc by Lion ' s Roar plc has been estimated at £ 4 million by Lion ' s Roar. However, the directors are of the opinion that the claim is not justified on the grounds of breach of product specification. No provision has been made in the financial statements, although disclosure of the situation is adequate. No similar claims have been received or are expected to be received. ' Depreciation This matter is unlikely to be included in the letter of representation because the auditor appears to have obtained sufficient evidence to confirm the accounting treatment. The lack of profit or loss on sale confirms that the depreciation charge is appropriate large profits would indicate over-depreciation and large losses, under-depreciation. The amount also meets industry standards confirming that Crighton-Ward ' s accounting policy is acceptable. Including the point in the representation letter is inappropriate because the matter is not crucial and does not appear to be based on judgment or opinion. The only opinion here appears to be that of the auditor unless the ' feelings ' can be turned into some appropriate audit evidence, the matter should be closed. (c) Lack of representation letter The auditor may take the following actions: Discuss the situation with the directors to try and resolve the issue that the directors have raised. The auditor will need to explain the need for the representation letter again (and note that the signing of the letter was mentioned in the engagement letter) .

Ascertain exact reasons why the directors will not sign the letter. Consider whether amendments can be made to the letter to incorporate the directors' concerns that will still provide the auditor with appropriate and sufficient audit evidence. The discussion must clearly explain the fact that if the auditor does not receive sufficient and appropriate audit evidence, then the audit report will have to be modified. The reason for the audit qualification will be uncertainty regarding the amounts and disclosures in the financial statements. An 'except for' qualification for the material uncertainty is likely, although a disclaimer may be required, especially if the legal claim is thought to require a provision. Even if the letter is subsequently signed, the auditor must still evaluate the reliability of the evidence. If, in the auditors' opinion, the letter no longer provides sufficient or reliable evidence, then a qualification may still be required. 100Test 下载频道开通，各类考试题目直接下载。详细请访问 www.100test.com