

Topic G1 Audit Reports (二) 09年ACCA_CAT考试 PDF转换可能丢失图片或格式，建议阅读原文

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3. Other information disclosed in the annual report

3.1 Introduction There are three relatively small areas which are particularly relevant near the conclusion of an audit, as they relate to financial information which may be disclosed in the Annual Report: opening balances prior year figures other information issued with audited financial statements.

3.2 Opening balances ISA 510 Initial Engagements Opening Balances requires that when auditors take on a new client, they must ensure that : opening balances do not contain misstatements that materially affect the current period financial statements prior period closing balances have been correctly brought forward or restated appropriate accounting policies have been consistently applied, or changes adequately disclosed. Where the prior period was audited by another auditor, the current auditor may be able to gain sufficient appropriate evidence from a review of their working papers. The current auditor should obviously consider the professional competence and independence of the predecessor auditor. The predecessor may or may not be willing to cooperate in practice and is under no ethical obligation to open their files to another auditor. If the prior period audit report was modified with an emphasis of matter or a qualification, particular attention should be paid to the modification. Where the prior period was not audited, or was not adequately audited, some evidence can be obtained from current audit procedures such as the checking of receipts and

payments of cash to substantiate receivables and payables figures. Inventories are more difficult and additional procedures may be necessary. These may include: The observation of current physical inventory counting and reconciliation back to opening quantities Testing of opening figures The review of gross margins For non-current assets and liabilities, underlying documentation can be checked. Where there is insufficient evidence, the auditor issues an 'except for' or 'disclaimer' of opinion. Where misstatements on opening balances are not properly accounted for or adequately disclosed, and where accounting policies have not been consistently applied or restated, an 'except for' or adverse opinion is issued.

3.3 Comparatives ISA 710 Comparatives

ISA 710 Comparatives requires that comparatives comply in all material respects with the identified financial reporting framework. The IASB's Framework for the preparation and Presentation of Financial Statements and IAS 1 Presentation of Financial Statements both require that financial statements show comparatives. Two categories of comparatives exist: corresponding figures comparative financial statements. Corresponding figures Comparative figures are an integral part of the current period's financial statements and are not intended to stand alone. The audit report in this case only refers to the financial statements of the current period which encompasses the prior period figures, and does not refer specifically to corresponding figures. Audit work in respect of corresponding figures is significantly less than that required for the current period. It is limited to ensuring that corresponding figures have been correctly reported or restated and appropriately

classified. If a matter in respect of which the prior period audit report was qualified is unresolved, the current audit report should also be qualified in respect of corresponding figures. Where the matter is resolved, an emphasis of matter paragraph may still be appropriate. If prior period financial statements turn out to be materially misstated, and the corresponding figures are properly restated in the current period, an ' emphasis of matter ' paragraph may also be appropriate. Local regulations sometimes permit a reference to the fact that the prior period was audited by another auditor. If prior period financial statements were not audited at all, the audit report should state that fact. If the corresponding figures are materially misstated, a qualified audit report should be given. Comparative financial statements These are included for comparison with the current period but do not form part of the current period ' s financial statements. The audit report here refers specifically to each period presented (as in the US, three years for the income statement and two years for the balance sheet) . The auditors assess whether the accounting policies are consistent with the prior period or have been properly adjusted and disclosed. They also ensure that prior period figures agree with prior period financial statements or have been properly adjusted. It is perfectly possible for the opinion on one set of financial statements to be different from that on the others. If an opinion different to one previously issued is given in any year, an ' emphasis of matter ' paragraph should be given. When prior periods were audited by another auditor, the predecessor auditor may reissue the audit report on the prior year in the current

year, or the incoming auditor should indicate that the prior period was audited by another auditor and give details of the report issued. Where prior period financial statements audited by another auditor require restatement, either the predecessor auditor issues a report on the revised financial statements, or the incoming auditor states in their report that adjustments to the prior period financial statements have been made and that they have been audited. Where prior period financial statements have not been audited, the audit report should state that fact.

3.4 Other information in documents containing audited financial statements ISA 720 Other Information in Documents Containing Audited Financial Statements requires that ‘ the auditor should read the other information to identify material inconsistencies with the audited financial statements ’ .

Material inconsistencies contradict and therefore undermine the contents of audited financial statements. The financial statements of many large companies are issued in glossy brochures that contain information in addition to audited information such as employee reports, five year summaries and management commentaries on operations. Some of this is required under local regulations. some of it is not. Where it is required, auditors are often specifically required to review it in some way and to comment in the audit report if there are deficiencies. Auditors should therefore ensure that they have timely access to the other information. Where there are inconsistencies that cannot be resolved, the auditor should consider using an ‘ emphasis of matter ’ paragraph to highlight this fact. Where auditors become aware of material misstatements of fact

(that are not also inconsistencies) , and the matter cannot be resolved, they should advise their client to take legal advice and to the same themselves. They should also consider steps such as notifying all those responsible for the overall direction of the entity in writing. They may have legal rights to communicate with shareholders.

4. Other reports

4.1 Engagements to review financial statements

Engagements to review financial statements (the subject of ISRE2400) are designed to give negative assurance. The auditor forms an opinion as to whether anything has come to their attention to indicate that the financial statements do not give a ‘ true and fair view ’ , or do not ‘ present fairly ’ the financial position. The evidence will come primarily from enquiry and analytical procedures.

Terms As with an audit, the auditor should comply with ethical requirements and the terms of the engagement should be formalized in an engagement letter which should involve consideration of the following matters: the objective of the service management ’ s responsibility for the financial statements the scope of the review, which may be based on the ISRE, or on national practices the auditor ’ s access to information the form of report to be issued the fact that the review cannot be relied on to detect fraud or error the fact that an audit is not being performed.

Procedures The auditor should plan the work to perform an effective engagement. Documentation should support the report of factual findings and show that the engagement was carried out properly. Procedures generally will be less rigorous than for a ‘ normal ’ audit. they will involve less in depth verification, more analytical procedures

(rather than detailer testing of transactions and balances) , and more consideration of the reasonableness of information in the light of the auditor ' s knowledge of the business. You may wish to refer back to Chapter 6 which dealt with the planning and procedural aspects of review engagements. Report The report may of course be qualified if matters do come to the auditor ' s attention to indicate that the financial statements do not give a ' true and fair ' view or do not ' present fairly ' the financial position.

4.2 Negative assurance

As mentioned earlier, the form of assurance provided for this type of assignment is referred to as ' negative assurance ' (i.e. nothing has come to the auditor ' s attention) . For an audit, the auditor will provide a positive assurance about the truth and fairness of the accounts. Although the auditor cannot give absolute assurance on audited financial statements, the work carried out and the level of evidence obtained during the audit work should be sufficient to allow him to provide a high level of assurance that the financial statements are free from material misstatements. In contrast, the negative assurance will provide some comfort to the intended user. In most cases, the auditor will be able to identify any material anomalies/errors or at least highlight risks in particular areas.

History Exam Question Analysis (B-Q5/J2005)

5 You are the audit manager of Hood Enterprises Ltd. The company ' s annual turnover is over £ 10 million. Required: (a) Compare the responsibilities of directors and auditors regarding the published financial statements of Hood Enterprises Ltd. (6 marks) (b) An extract from the draft audit report, produced by an audit junior, is given below. Basis

of Opinion ‘ We conducted our audit in accordance with Auditing Standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of all the estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company ’ s circumstances, consistently applied and adequately disclosed. ‘ We planned and performed our audit so as to obtain as much information and explanation as possible given the time available for the audit. We confirm that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. The directors however are wholly responsible for the accuracy of the financial statements and no liability for errors can be accepted by the auditor. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the company ’ s annual report. ’ Required: Identify and explain the errors in the above extract. NOTE you are not required to redraft the report. (10 marks) (c) The directors of Hood Enterprises Ltd have prepared a cash flow forecast for submission to the bank. They have asked you as the auditor to provide a negative assurance report on this forecast. Required: Briefly explain the difference between positive and negative assurance, outlining the advantages to the directors of providing negative assurance on their cash flow forecast. (4 marks) (20 marks) 5 (a) Preparation of financial statements The directors are normally required to prepare the financial statements of the company using the appropriate law of

their country and in accordance with Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs) . The auditors are normally required to check or audit those financial statements, again in accordance with company law and Statements of Auditing Standards. Fraud and error The directors are responsible for preventing and detecting fraud and error in the financial statements, no matter how immaterial this may be. Auditors are responsible for ensuring that the financial statements show a true and fair view. in other words that the financial statements are materially correct. Auditors are not required to detect immaterial fraud or error. Disclosure The directors must ensure that there is adequate disclosure of all matters required by statute or SSAPs or FRSs in the financial statements. The auditor will check that disclosure provisions have been complied with, and where certain disclosures have not been made (e.g. regarding related party transactions) provide this information in the audit report. Going concern The directors are responsible for ensuring that the company will continue in operational existence for the foreseeable future, and report to the members in the published financial statements if this is unlikely to be the case. The auditor will check the accuracy of the directors ' workings and assumptions and if these are considered incorrect or inappropriate, then the audit report may be qualified to bring the situation to the attention of the members of the company.

(b) The basis of opinion paragraph may not meet the requirements of SAS 600 for the following reasons: The use of the term Auditing Standards is not clear, because the report does not

state which auditing standards have been used. This provides uncertainty regarding the actual standard of work performed. The assessment of estimates and judgements made by the directors normally relates to significant amounts only, rather than all of those estimates and judgements. The use of the word all implies that the audit was more thorough than it probably was. Replacing the word all with the word significant will show that there was some limit to the audit testing. Stating that time was a factor in obtaining information and explanations for the audit is not correct as this implies some factor which could have been avoided and that the audit may therefore be incomplete. The auditor has to plan the audit carefully and ensure that all the information and explanations considered necessary are obtained to form an opinion, not simply stop work when time runs out. The auditor does not confirm that the financial statements are free from material misstatement as this implies a degree of accuracy that the auditor simply cannot provide. Making the statement could also leave the auditor liable to claims from members or third parties should errors be found in the financial statements later. Rather than make such a categorical statement, the auditor provides reasonable assurance that the financial statements are free from material misstatement, which clearly implies that audit techniques are limited. The disclaimer regarding errors appears to be useful in that it limits the auditor ' s liability. However, it does not belong in the basis of opinion paragraph as it appears to severely limit the basis of the auditor ' s opinion to stating that the directors are responsible for all errors. Directors ' responsibilities are also clearly

outlined in another section of the report, and this statement also appears to extend those responsibilities making the audit report overall less clear. This could also imply that the auditor has done little or no work. As the auditor is not required to audit the whole of the annual report of a company, it is inappropriate to refer to disclosure in that report when checking overall adequacy of presentation.

Adequacy of presentation can only be confirmed regarding items actually audited, which is basically the financial statements. (c) A positive assurance report means that the auditor has carried out sufficient work to be able to state that financial information is free from material error. A negative assurance report means that nothing has come to the attention of the audit, which indicates the financial information being reported on has errors in it. However, the extent of the work carried out is normally less, which means that less reliance can be placed on this report. The advantages of providing negative assurance include: The user of the financial information receives some comfort that the information is correct, even though that assurance is less than positive assurance. The report adds some credibility to the financial information because it has been reviewed by a professional accountant. For the preparer, the report will be more cost effective than obtaining a full positive assurance report. 4.

Other reports 4.1 Engagements to review financial statements

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free from material misstatement, whether caused by fraud or other irregularity or error. The directors however are wholly responsible for the accuracy of the financial statements and no liability for errors can be accepted by the auditor. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the company ' s annual report. ' Required: Identify and explain the errors in the above extract. NOTE you are not required to redraft the report. (10 marks)

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