



AUDITING AND ASSURANCE ASSIGNMENT



By student name

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Executive Summary

In the given assignment, a report needs to be prepared on the company named Double Ink Printers Limited. The report shows why it is required to take the help of the external experts and their services in order to audit DIPL. The factors and reason for the same has been established and shown below. Besides that, few factors have been identified which will help in the determination of the preliminary figure for materiality of the year 2017. This has been identified so that the audit planning process can be carried out basis the overall materiality figure.

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Question 1

In the given case of Double Ink Printers limited, there is an immense need of taking help of the expert in order to conduct the audit as it is driven by the system of demand based printing of the books, which means that the publisher will only publish the books as per the demand or the order placed by the retailers. The company follows the process of matching the demand with the supplies of the books and this may entail a couple of business days (Bizfluent, 2017). Furthermore, the company is having an online library where it maintains a stock of online e books. The same can be downloaded by the public anytime and anywhere. So the company presently is having two sources of income namely through printing of books and download of e books. The company also follows a complex method of maintaining the overall inventory of the company and how the same is being processed. It does not follow the concept of work in progress because of which the inventory levels would always be wrong and incorrect as WIP changes the material positioning of the company. The company has also incorporated an automatic system for maintaining the credit records of the publishers and as soon as the highest limit of credit would be reached in the system, further orders would be stopped from getting published (Chron, 2017). Therefore, the main aim is to check and verify the relevance and suitability of the system and whether it is efficient and reliable enough to manage the financial system of the company. Since it is based on IT, it has a lot of security and other issues, which makes it necessary and important to appoint the experts to manage the same.

The procedure in which the electronic revenue is credited to the publisher also needs to be checked and there are a lot of system checking which needs to be done by the auditor in this regard. The expert needs to check on the sample basis that whether the payment has been correctly and all the parties are getting their respective dues, whether the credit terms are correctly fed in the system and whether the payment is being stopped from being processed once the credit limit has been reached. In case of the cash receipts, it is credited in the account as soon as the mail is opened hence here the issue is if the mail is being opened by someone else. Most of the receipts are being made through electronic fund transfer, hence, it also needs to be seen that proper regulations have been made. The company has taken loans to manage the business therefore, it also needs to be regulated and regularized in the system, and the company is due to take necessary action in this regard (Kuhn & Morris, 2016). All the relevant and applicable accounting principles and frameworks need to be followed while presenting the data and the same needs to be checked by the auditor. The other major issue is that the company has installed the new IT system in 2017 which was done in a haphazard way and no prior testings' and

reconciliations were done previously to check its accuracy and results. Therefore, the appointment of the IT expert is a must to check the work done by IT system and whether it is working accurately and showing correct results. Therefore, the main reasons for appointment of expert are:

- Complexity in the overall inventory management system, acceptance of deposits, disbursing the payments and segregation of work.
- The above issues hints towards the fact that the company is not having effective internal control policies in place and thus the expert and auditor needs to suggest the changes and guide the management towards its implementation.
- The company took a hasteful decision of implementing new IT system without prior checking and confirmation hence the expert needs to help on this project so that the accounting system doesn't shows wrong results (Tysiac, 2017).
- The books of accounts to be audited is also not regularised because of above issues. The expert also needs to help the company in this aspect.
- Management of the company can assist the experts in ascertaining whether the overall operations of the company are running smoothly and whether the financial statements are showing true and fair view of affairs of business.

Question 2(a)

Materiality can be defined as the minimum amount or the slab which affects the financial information and statements of the company and the overall profit and companies do ensure that these elements falling above the materiality level are given due importance and audited properly. In view of the same, five factors which highlight the materiality of organization have been highlighted below:

1. Cash receipts are the one that affect the overall revenue of the company. The same is automatically recorded in the mail register as soon as the mail is opened. There is a huge risk involved in this as it affects the overall financial position of the company and hence the same should necessarily form the basis of deriving the materiality aspect for the audit of the DIPL.
2. With regards to inventory too, the company follows the complex process of accounting, recording and maintaining it. In case of the balance sheet line item, certain allowance for the obsolete inventory is being provided for as write off from books. This also needs to be considered while evaluating the materiality level of the company as it affects the overall value of the company (Vieira, O'Dwyer, & Schneider, 2017).
3. The company should see the overall cost of installation of the IT system that has been incurred and how it is affecting the overall financial position of the company and the company thereby should take necessary steps to ensure that the same is audited properly. The same should also be considered for evaluating the materiality level of the company considering the gigantic impact it is having on the overall costs of the company.
4. Another important factor that needs to be considered while arriving at the materiality level of the company is the lack of effective internal control policies and procedures being maintained at the company. The company is not having proper system to manage the work and there is no segregation of the duties. It is a big question on the viability and the reliability of the systems and thus the auditor must check the same such that the overall financials of the company are not affected (Raiborn, Butler, & Martin, 2016).
5. The fifth and the last factor that the company can consider for ascertaining the preliminary figure for materiality of company is use of online portals for taking orders and managing the e-books online for download by the end customers. This is one of the most critical aspects that needs to be checked upon by the auditor. Being online, there may be many security issues that must be followed and whether there are proper controls in place to have a check on them.

Question 2(b)

The factors mentioned above are very critical and significant for calculating the preliminary figure for ascertaining the overall materiality as explained below via reasons:

1. The cash receipts is forming the part of overall revenues as well as the overall financials of the company and we can see from the financials of the last year that the cash balance is not steady. Therefore, it needs to be necessarily considered while calculating the initial figure and the company is also not having the secure system to record the cash receipts of organization.
2. The inventory balance also forms one of the important part of the balance sheet and the current assets. We can see that there is an uneven movement in the same too and the company has provided for the obsolete inventory. Therefore, the auditor needs to have a detailed checking that whether the inventory recorded in the financial books is genuine and actually exists and the company do follows a proper system to record, maintain and value the same. In addition, the write off the inventory policy needs to be checked for its basis or it is just a way or withering the profits of company. As from the apparent discussion, the company's procedure of recording the inventory flow doesn't seems to be full proof as it is not released in a sequential manner and it may be detrimental to the materiality aspect of the company.
3. The company has installed a huge IT system incurring a huge investment without making provisions for proper checking testing of the same under undue pressure. There is a high chance that fraud may be involved in the same and the company's management is having wrong intentions in the same for personal profits. Thus, the auditors must audit it and the pre-established results must be checked with the actual results so that the discrepancies may be noted and brought to the notice of the management (Svahn, Mathiassen, & Lindgren, 2017).
4. The existence of internal control in any organization is very important. In case the internal control is strong, there are less chances of fraud and this can be seen from the materiality point of view. Thus, it needs to be checked by the auditor and he needs to comment on the overall efficiency of the internal control system in the company. In case it is not functioning correctly, the same needs to be informed to the management (Defond & Lennox, 2017).
5. Online portals entail a lot of risk to the organization in the form of hacking and theft of critical and important data, thereby having the security concerns. In case the same is handled well by the IT professionals, the company would be able to function well and the risk would be minimised. Therefore, it needs to form part of the preliminary figure for internal control.

Question 2(c)

Audit planning is one of the most significant steps being taken by the auditors while starting the audit. It takes help of the many audit tools and techniques to arrive at the audit planning. To determine the audit materiality level is a matter of professional judgement and estimate and it helps the auditor to plan the audit and what will be the workflow (Alexander, 2016). In case of DIPL, once the factors affecting the overall materiality is identified, the auditor can decide the workflow and how the audit could be done based on importance. The auditor will then take help of the various analytical and substantive procedures to carry out the audit. With the use of materiality limit, the auditor will be able to know the areas, which needs to be, focused more and then the auditor can divide the work and focus more on the key result areas. It is very important that during the preliminary investigation stage, that the critical and significant points to be checked are identified and the same to be focused to complete the work effectively within the stipulated time. In the given case of DIPL, the key preliminary factors that affect the overall materiality have been identified above and now the auditor can focus on the key areas to find out the shortcomings and the discrepancies. Depending on the quantum and type of discrepancy, the auditor will issue the audit report – clean, qualified, disclaimer of opinion, modified and adverse report. Thus, it is clear that before conducting the audit, important factors needs to be identified so that the overall work of the auditor can be made easy and the work can be done in an organized manner. This is how the identification of the factors will influence the preliminary figure for overall materiality in the planning of audit process (Félix, 2017).

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