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**Question 1**

Summary and appropriate justification of the auditor’s responsibility regarding the governance of an audit client

ASA315 focusses on the requirement establishment and providing guidance as to how the auditor shall proceed to have a better understanding of the client entity and the environment in which the entity is working and how a possible misstatement of fact and otherwise would have a negative impact on the audit report of the entity.

The ASA 315 requires the auditor to undertake procedures for risk assessment for making sure the audit team understands the basic risk involves in the audit work and how the internal control environment is in shape and working to provide adequate and reliable data for audit conformance. The auditor and his tams owe to the client to engage sufficiently in the discussion of the possible susceptibility of the client’s financial statements to fraudulent transactions, item and material misstatements owing the proper internal controls (KNAPP, 2014).

The responsibility lies on the auditor to fully understand the specific aspects of business dealings and financial transactions and the business environment under which operations are taking lace and how the internal control methods were put in place to identify misstatements and frauds etc. Auditor would also be expected to assess the possible impact of the material misstatements if any at the level of assertion. In the situations where only the substantive procedures are not found to be sufficient the auditor would be expected to identify the risks which are significant. The auditor is also expected to ethically communicate to the managers and reams charged with corporate governance the details regarding the possible weaknesses in the internal control procedures and which are identified by the auditor or come to the audit team’s attention during audit process (HOGAN, 2014).

The auditor in all circumstances is expected to understand and analyses the business and economic environment of the clients entity and the same would help the auditor to understand and establish materiality of business transactions for the entity. The understanding of the environment of operation of the client would be expected to help the auditor in finding the appropriateness of the accounting policy selection and also finding the areas in which substantive processes and specific audit consideration would be applicable. The Auditors would also be helping the cause of the client by understanding fully the economic and business environment and finding whether the audit evidence is established with sufficiency and appropriately.

o Table explaining the impact of ASIC identified CB issues of governance and concerned audit risk.

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| **Issue** | **Impact on raising audit risk** | **Recommendation** | **Reduction in audit risk because of the recommendation** |
| Insufficient rigour and urgency of the Board matters | The board meetings did not sufficiently discuss the matters raised by the audit committee reports owing to lack of times allotted and because these items were last on the listed agenda. | Board meetings be held in a manner and timings be allotted for making sure all the details raised by the agenda is allotted required time. The agenda times might be allotted lesser or higher time frame depending upon the urgency of the item. | If the items mentioned were sufficiently discussed the same would be able to make resolutions on the issues raised and reduce the effect of these issues. |
| Shortcomings in BRC operations of the Commonwealth Bank | The ASIC Panel observed during its investigation that the BRC historically paid little or no attention to how the internal control is working and instead focused more to the market risks and interest risks and other financial risks. This enquiry also revealed that the BRC worked upon those matters in which it had more expertise and which it can more effectively control (Dagwell, 2014). | BRC lacked participation by the skilled people who can deal with operational items such as internal controls etc. and must be reconstituted with immediate effect. | Each and every item of importance is required to be addressed on a property basis and thus experienced managers and directors are needed to be drafted into the BRC. |
| BRC relied heavily on a few key individuals | BRC has been traditionally heavily relied upon the CRO of the business to identify and determine the scale of the risk involved and the same is reported back to the Board. | The BAC shall strive to enhance the direct engagement in relation to every business unit with reference to the issues which are significant and to hold the business unit managers responsible for the effective and timely mitigation of the same issues (Deegan, 2015). | The BAC would be less influence by what the CRO and other business heads say and report and is able to handle the ground realities better which incases reporting of issues in manner which can be defined as less risky. |
| Inadequate communication between Board Committees | Despite many committees formed by the CB whose memberships often overlapped with same individuals, there was a general lack of coordination among the committee such as BAC, BRC and the Remuneration Committee. | Roles must be defined, and control gas be plugged with define roles and authority by the committee members. Also, the risk profiles be shared among different board committee to apprise them of risk management strategies etc. which can be and are currently undertaken. | The recommendation would make sure the risk profile of the mortgage portfolio and others are considered and the same shall be reported back to various committee against the Board’s stated credit risk tolerances etc. |

**Question 2**

Outlining of the concerned ethical issues & decision by using the American Accounting Association decision model as per the given template.

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| **American Accounting Association Model** | **Decision making process** |
| 1. Determine the facts | The facts are ... that a particular team member(john) has been found to have indulged in false statements and have used excuses like sickness to take a leave when the team needed the team member to be present and work.  This is also pointing towards no reliability issues and how the team member could have indulged in activities which is detrimental to team goals. |
| 2. Define the ethical issues | Ethical issues involved are:   1. Non-reliability 2. Negligent behavior by team member 3. Indulging in false statements. 4. Taking undue credit for work done by other members of the team etc. |
| 3. Identify the major principles, rules and values | Major principals involved are:   1. Acting to enhance the value and reputation of team. 2. Working towards achieving of the team goals and sharing information truthfully. 3. Communicating the needful in a transparent manner. |
| 4. Specify the alternatives | The options or alternatives are as follows:   1. Ignore the unethical behavior of the team member and go on. 2. Report the unethical behavior of the team member to the team members and the group leader and initiate actions warning the member the consequences of repetition of the behavior might lead to. |
| 5. Compare values and alternatives | The best course of action would be to seek action on the undesired behavior of the team member and let him face the consequences. This would apprise him of the frailties of unethical considerations in a team environment. |
| 6. Assess the consequences | Option 1:  The team member would not realize how he has caused distrust in the team and usurped the good work and credit done by other team members.  Option 2:  He would face action for his behavior and face being expelled form the team for a period of time and credit due to others won’t be given to him for future allocation of projects and works. |
| 7. Make your decision | Decision of mine is as follows:  Report the unethical behavior of the team member to the team members and the group leader and initiate actions warning the member the consequences of repetition of the behavior might lead to. |

# Question 3

Auditors liability can arise for the statutory auditors of a company as a result of their negligent behaviors, default , apparent breach of contract or duty and a general breach of trust. The auditor can be held liable for these breaches if proven in a transparent manner. However, in recent times because of the increase in the market capitalization of companies enormously along with increased international exposure as a result of doing business in a number of diverse economies and a general lack of insurance has increased the liability risk of auditors as well. As the risk is increasing all the time and its negative impact on the auditors and client relationships, there has been an trend and also the need to limit the liability of company auditors.

Auditors liability can be limited through any of the methods such as:

1. Contractual stipulations regarding probable liabilities and Setting a cap on the statutory compensation
2. Through the adoption of a proportionate rule of liability and
3. Through association of accountants or auditors in a LLC.

Most of the times the agreements use the statutory cap on the auditor’s liability.

## Incorporation of auditors

Under the provision of section 1279(1) of corporation law the auditors can register as natural persons and as a result of which the auditors can register themselves as either sole proprietors or as partnership firms but not LLCs. Enabling the incorporation would limit the claims towards the assets of the concerned corporations and this includes the insurance claims and amounts as well and thus would protect the innocent partners interests. As per the arguments put forward by analysts the incorporation of the auditors would undermine the audit reports credibility. However there has bene muted support towards the incorporation of the auditors. This view expressed their opinion that incorporation can work even for liability risk covering only if the audit incorporations are bound to maintain certain amount of ( level of minimum amount) net worth.

## Statutory cap on auditors’ Liability

The statutory cap involves imposing a limit on the liability which can be imposed on the auditors. The mechanism of estimating the cap on the auditor’s liability can differ vastly in different forms of calculations and generally on the audit fees involved in the case and the equity being held by the auditor in the partnership and also the insurance cover being held. The liability of the auditor can also be linked to the worth of the performed tasks and it has been generally acknowledged that a scheme devised for capping would mean that the auditor charges a lower fee and the same can have a direct impact on the liming of the liability for the auditor even in the face of a varying degree of liability.

Only a few countries have affected fixed caps on audit liability and in most of the countries many auditing firms and its partners are already asking for increase in the cap. Such an act exists in Australia in New south wales and later western Australia also proclaimed such an ordinance to limit the liability. In the case of the New South Wales legislation, the provisions of the ordinance require that any scheme which is proposed to be adopted needs to be approved by the occupational associations. Under the provisions of the act the scheme proposed and adopted would have the power to limit the liability in two methods:

1. It can fix and state a dollar amount specifically.
2. The scheme can adopt and specify a multiple which can be used with the reasonable charge associated with the works being performed or to which it relates.
3. Professionals working under this provisions effect can also be allowed to undertake insurance of indemnity to minimize their risks further or they can even be asked to maintain a minimum amount of assets or net worth (Free, 2009).

However, the ordinance in force requires that the concerned occupational association which is currently seeking the enforcement of a capping scheme would have to provide a detial of the appropriate risk management strategy to the Professional Standards Council. However most of the liability capping regulations and proposals are criticized for being arbitrary in its provisions and such mechanisms are viewed as to fetter the discretion of the courts in these matters as well. The regulations are also criticized for not accommodating flexibility in its approach and not considering individual circumstances. The capping of the limit of liability is also seen as a way to affect the problem of excessive damages issue and in no way works towards reducing the costs related to litigations etc. and overall undermines the audit reports credibility as well (Markovic & Langton, 2005).