Key audit matters

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**Key audit matters**

Audit assertion is explicit or implicit claims made the management of an organization regarding the preparation of financial statements about the appropriateness of the various particulars of financial statements and their disclosures (Basu, 2009). Usually, audit assertion is done to assess certain assets that might be at risk.

**Key assertions at risk in relation to inventories**

In the case of Computing Solution Limited, there are critical assertions regarding inventory that are at risk. Existence of stock is the crucial first assertion that can be made in this case. According to this assertion, the management of the company can raise claims regarding the existence of inventories as recorded in the financial statements (Basu, 2009). Moving the company's stocks to six new regional warehouses can affect their existence. Usually, it is assumed that all assets recorded in the balance sheet should exist for a specific period. Similarly, in the case of Computing Solution Limited, the management expects all inventories and other assets are kept in the same warehouse. The latter will help to ensure easy recognition and evaluation of the existence of assets in an organization.

Valuation is another assertion that can be made regarding the inventories of Computing Solution Limited. According to this assertion, the management makes claims when stocks are recognized at a lower cost and net realizable value (Basu, 2009). For instance, according to the company's financial reports, inventory turned over an average of 5.2 times in 2018 and 3.8 time in 2019. The latter implies that there are possibilities that stocks were not recognized according to guidelines of the International Accounting Standards 2 about the recognition of assets and liabilities. The declaration made about the inventories in 2018 and 2019 may imply that some cost were not reasonably allocated to the cost production. As a result, this might put the company at risk.

**Substantive audit procedures**

Typically, auditing is conducted in an organization to ascertain whether the information reported in the financial statement reflects the right and fair value of the firm. Similarly, in the case of Computing Solution Limited, there is a need to conduct an audit to assess the assertion at risk in relation to inventory (Smith & Westkamp, 2017). First, evaluate the existence of stock through observation and inspection, which requires a thorough audit to confirm the presence of inventories recorded in the financial statements. The performing audit process for the existence of stocks in an organization takes four main methods.

The first step involves inventory count before, which involves reviewing what is presented in the financial statements. The process involves proper sequencing counting of the available inventories to ascertain whether the information the financial report shows an accurate and fair value of the inventories (Smith & Westkamp, 2017). Besides, the inventory count during the transfer process should be done to ensure that all stocks are moved to different warehouses at their actual value. Also, an audit process will assess if the transfer process was done according to the policies of International Accounting Standards.

Lastly, accounting for inventories after moving them to different warehouses should also be done appropriately (Smith & Parr, 2014). The process involves calculating the unit cost of inventories to determine whether the stock was moved to different warehouses at actual values.

On the other, performing analytical review for valuation of inventories of Computing Solution Limited is another process that should be performed appropriately. The inventory valuation process involves various activities that are done sequentially. In this case, a cutoff analysis should be done by auditors. It involves examining whether all inventories were moved to different warehouses at their actual values (Smith & Parr, 2014). In the process, a value test will be done to stocks moved to each warehouse to assess whether the transfer value reported in the financial statement is the same to value of inventories available in the warehouse.

Observing the physical inventory count is another crucial step that should be done. Valuation of inventories should involve physical observing and counting of available stocks in the new warehouses. In doing so, auditors will check if the value reported in the financial statements is the same as the available inventories in the warehouses. The process involves discussing and deciding on the most appropriate counting method that should be used to accurately determine the actual value of stocks transferred to the six warehouses.

Furthermore, auditing for valuation of inventories involves reconciling the inventory count to the general ledger. The process entails tracking the cost of stocks accumulated from the physical inventory computation to the company’s general ledger. Usually, this process is done to verify the counted balances from the central warehouse were carried forward to the respective new warehouses (Smith & Parr, 2014). In doing so, the management will be able to know if the transferred inventories to the new warehouses were done appropriately, and the transferred values are correct.

Lastly, testing high-value inventories is another crucial process that should be done when auditing for valuation of stocks. This process involves assessing how valuable stocks were recorded in the financial statements. In doing so, auditors will examine if all the inventories are recorded correctly. As such, there is a need for auditors to perform a thorough audit process by assessing all information about the value of all inventories and how they were treated.

**Requirements of ASA 701 communicating crucial audit matters concerning inventories**

Typically, various vital audit requirements must be considered concerning communicating Key Audit Matters in the Auditor's reports. It is essential to put more consideration on these requirements to ensure that convey information is accurate and fair. According to ASA 701, auditor's reports should meet the minimum standards while communicating crucial audit matters.

First, areas of higher assessed risk of resources misstatement are one of the critical requirement that must be considered in the communication of key audit matters. According to ASA 701, auditors must put into consideration when communicating key audit matters. Generally, making consideration on the areas of higher risk is very critical because they are likely to affect the operation of an organization. As such auditors should ensure that information communicates on their reports considers the sensitivity of the information shared (Bouchoux, 2018). For auditors to perform their work appropriately, they should ensure that areas of higher risks are only disclosed to responsible stakeholders to protect the image of the company. In doing so, auditors will be able to meet the requirements of ASA about communicating vital Audit Matters in the auditor report.

Making a significant audit judgment relating to organizational financial statements is another requirement of the ASA 701 to auditors regarding the communication made in the auditor reports (Bouchoux, 2018). Typically, the International Accounting Standards requires auditors to meet informed judgments in critical areas in the financial statements. Making significant judgments by auditors can help to ensure that auditors report contains accurate and correct information. Also, it will help to know more details about critical matters being communicated in the auditor's reports. Making of significant audit judgment is vital audit matter because it helps to ensure that information in the auditor's report is true thus can be used for decision making. As such, the auditors should ensure that they disclose such essential information the right users how use them for decision making.

Furthermore, compliance with the International Accounting Standards is another critical requirement of ASA 701 communicating crucial matters in the auditor's report. Generally, auditors must comply with regulatory requirements when communicating key issues. Compliance with the statutory requirement will ensure that all information about the vital matter is properly disclosed (Bouchoux, 2018). Therefore, there is a need for auditors to ensure compliance with auditing standard while making auditing report. In doing users of accounting information will believe in all accounting reports, thus making auditing reports valid and relevant.

**Question 2**

Typically, there are various assertions at risk about different types of the company's assets, liabilities as well as intellectual properties. In the case of Beautiful Hair's salon, there are some claims that the management has about recognition of the company's intellectual property intangible assets. Rights and obligation are one of the assertions at risk in relation to intellectual properties. Overall, any business entity has the right to ownership and used its intellectual property intangible assets without limitation to its use.

**Key assertions**

First, owning intellectual property intangible assets by Beautiful Hair's salon is the company's right, and thus the management should ensure that all information about their intellectual property intangible assets is kept discrete (Bouchoux, 2018). As such, all the information recorded in the financial statements in relation should be kept safe and only disclosed to authorized persons. Generally, the company should have full control over its intellectual property, intangible assets right and should control them. In doing so, the management should ensure that all financial statement contains information about is intellectual property intangible assets. In case the company fail to protect its intellectual property intangible assets, they can be disclosed to their competitors. Consequently, this can put the company at risk because it might lose all its rights.

Similarly, in this case, the management of Beautiful Hair's salon should ensure that all information about its intellectual property intangible assets is recorded correctly in the financial statements. Therefore, the management should the all information presented in the financial statements about the company's intellectual property intangible assets reflect the trues and fair value of those assets.

Existence is another fundamental assertion most at risk in relative to the intellectual property intangible assets. In most instance, some companies report in their financial statement some particulars that do not exist. As such, existence is an essential assertion at risk that must be considered. Generally, intellectual property intangible assets are not physically available in a company but a legal right that companies used to run their business activities. Therefore, the management of the company should ensure that intellectual property intangible assets exist as recorded in the financial statements. Even though the company should keep its intellectual property intangible assets discrete, keeping the information with then-owner only put the company at risk (Bouchoux, 2018). The main reason is that if anything happens to the owner, then the company will not be able to create its products. As such, the owner of the entity needs to share the legal right about the designing of the product with some members of the board of management. Therefore, the owner of the salon should share the secret of product creation to prevent loss of information in case of anything.

**Substantive audit procedures**

Auditing process refers to a process that involves the examination of the financial statement to assess whether they reflect the true and fair value of the company's resource. Correspondingly, in the case of Beautiful Hair's salon, there is a need to conduct a thorough audit in relations to its intellectual property intangible assets. Intrinsically, the company should ensure that appropriate measures are done concerning the company's legal rights. In doing so, it will be possible to know that the information presented in the financial statement reflects the right and fair value of the firm's intellectual property intangible assets.

Analytical analysis is the initial audit process that should conduct to assess the existence of intellectual property intangible assets. It involves confirming whether the entity has legal documents that reveal that it owns such rights (Bouchoux, 2018). This process is done by checking when the entity acquired the rights to possess its intellectual property intangible assets. Doing so help to ensure that all intellectual property intangible assets belonging to Beautiful Hair's salon are authentic. Another audit process involves checking how the entity has been using its intellectual property intangible assets. Assessing how the company use its intellectual property intangible assets helps to ensure that all legal right are well protected. The latter will enable the company to run its activities efficiently.

Lastly, auditors should consider all legal documents were used to acquire intellectual property intangible assets to confirm if it reflects the value recorded in the financial statements. Checking of such documents will help to ensure the documents are valid and can be used to claim the rights of such assets.

Secondly, ownership issues audit is another type of review that should perform about intellectual property intangible assets. Usually, this process is done to assess whether the company or an organization has legal rights and obligation concerning some of its assets and liabilities. As well, in the case of Beautiful Hair's salon, the ownership audit process will be done to ascertain if the owner possesses legal rights and obligations to use those assets. It involves assessing the procedures the owner used to acquire the rights of those intangible assets.

**Requirements of ASA 701 communicating critical audit matters concerning intellectual property assets**

Technically, various essential audit requirements must be met concerning communicating Key Audit Matters in the Auditor's reports. It is vital to put more consideration on these legal requirements to ensure appropriate communication of audit information in auditor's report (Henderson, 2018). According to ASA 701, auditor's reports should meet the minimum requirements while communicating critical audit matters and must be reported according to guidelines of the International Accounting Standards.

Primarily, auditors should consider areas of higher assessed risk of resources misstatement is one of the critical requirement that must be considered in the communication of key audit matters. The ASA 701 requires auditors to pay more attention when communicating key audit matters. In general, bearing in mind the areas of higher risk is very critical because they can easily affect the operation of an organization. As such auditors should ensure that information communicates on their reports addresses vital issues about owners the intellectual property intangible assets (Henderson, 2018). Therefore, auditors to perform their work appropriately, they should ensure that areas of higher risks are only shared with responsible members of the organization to protect the image of the company. In doing so, auditors will be able to meet the requirements of ASA concerning communicating critical Audit Matters in the auditor report.

Additionally, compliance with the International Accounting Standards is another crucial requirement of ASA 701 communicating key matters in the auditor's report. Generally, auditors must comply with regulatory requirements when communicating key issues. Compliance with the statutory requirement will ensure that all information about the key matters is properly disclosed (Henderson, 2018). Therefore, there is a need for auditors to ensure compliance with auditing standard while making auditing report. In doing users of accounting information will believe in all accounting reports, thus making auditing reports valid and relevant.

Lastly, making a significant audit judgment relating to organizational financial statements is another requirement of the ASA 701 to auditors regarding the communication made in the auditor reports. Typically, the International Accounting Standards requires auditors to meet informed judgments in crucial areas in the financial statements (Henderson, 2018). Making significant judgments by auditors about intellectual property intangible assets can help to ensure that auditors report contains accurate and correct information. Also, it will help to know more details about crucial matters being communicated in the auditor's reports. Making of significant audit judgment is key audit matter because it helps to ensure that information in the auditor's report is true thus can be used for decision making. As such, the auditors should ensure that they disclose such essential information the right users how use them for decision making.

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