**DMU, Dep’t of Accounting and Finance**

Auditing Principles and Practices I **(**AcFn 3161)

**Group Assignment (20 %)**

1. What is management assertion? Explain the differences among management assertions about classes of transactions and events, management assertions about account balances, and management assertions about presentation and disclosure.
2. Distinguish among tests of details of balances, tests of controls, and substantive tests of transactions for any transaction cycle
3. What is audit risk? Distinguish among detection risk, control risk and inherent risk
4. Assume you have audited the financial statements of XYZ bank for the last five (5) years and you have issued **unqualified audit report**. At the conclusion of each audit you have suggested improvements in the banks internal control over the loans. However, the management of the bank has failed to make the recommended improvements in internal control over the loans. Recently it was discovered that a loan officer of the bank had embezzled Birr 300,000 through the creation of fictitious loan.

If XYZ bank files suit against you for negligence in the performance of your audit ;

1. How do you defend yourselves as auditor?
2. What is your responsibility with regard to detection of embezzlement?
3. How can the plaintiff prove to obtain the judgment in favor of him?
4. Ray, the owner of a small company, asked Holmes, a CPA, to conduct an audit of the company’s records. Ray told Holmes that an audit was to be completed in time to submit audited ﬁnancial statements to a bank as part of a loan application. Holmes immediately accepted the engagement and agreed to provide an auditor’s report within 3 weeks. Ray agreed to pay Holmes a ﬁxed fee plus a bonus if the loan was granted. Holmes hired two accounting students to conduct the audit and spent several hours telling them exactly what to do. Holmes told the students not to spend time reviewing internal controls but instead to concentrate on proving the mathematical accuracy of the ledger accounts and summarizing the data in the accounting records that support Ray’s ﬁnancial statements. The students followed Holmes’s instructions and after 2 weeks gave Holmes the ﬁnancial statements, which did not include footnotes. Holmes reviewed the statements and prepared an unqualiﬁed auditor’s report. The report did not refer to generally accepted accounting principles or to the consistent application of such principles.

**Required**

Brieﬂy describe each of the 10 generally accepted auditing standards and indicate how the action(s) of Holmes resulted in a failure to comply with each standard.

Organize your answer as follows:

**Holmes’ Actions Resulting in Failure**

**Brief Description of GAAS to Comply with GAAS**

1. Assume that you are the partner of a certain CPA firm, which is entitled “by your own first name” and now, you are required to write an engagement letter which is proposed to be sent to any client you like.