**PUBLIC SECTOR AUDITING**

**PAF4535**

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**TERM PAPER**

**March 14, 2023**

**Due Date: April 13, 2023**

##### For this assignment, you may work in groups of 2 or 3 students. You are advised to start the assignment as soon as we have covered the material in class. Do not hesitate to ask me questions as you are working on this assignment. Answers should be typed in size 12 fonts.

Question 1(10 points). Consider the following scenarios:

Jameson & Company are registered auditors. It is a medium-sized audit firm employing 50 staff 20 of which are qualified auditors and the rest are admin staff. The following issues relate to Jameson & Co:

1. Jameson & Co. has 12 client firms for which they provide audit services. The revenues from these clients amount to **$3,000,000** per annum. This amount of revenues is just enough to keep Jameson & Co. going as a business.
2. Jameson & Co. has some demanding clients. Four clients **demand** each year that it provides a “clean” audit report. Jameson & Co. complies with the clients’ requests. If they didn’t, the clients threaten to replace Jameson & Co. with another medium size auditor.
3. Jameson & Co. provides some non-audit services to DMS LLC. These include acting as managers as well as developing DMS’s computer systems as well as the company’s accounting system. Jameson & Co. relies heavily on non-audit work revenues from its clients.
4. Recently a number of clients have asked Jameson & Co. for legal advice which the auditor has been keen to provide as it generates much needed revenues. However, one client relied on the legal advice provided by Jameson & Co. which was not good legal advice and consequently the client suffered as a result. The client has demanded that Jameson & Co. pay for the losses suffered.
5. Jameson & Co. has been auditor for Aztec LLC for the past 12 years and the audit partners of Jameson & Co. are on good friendly terms with the directors of Aztec Ltd. The directors of Aztec LLC are not very clear with their explanations for some questions that Jameson & Co. asked when conducting the audit work for Aztec LLC. This has troubled Jameson & Co. for some times.
6. Jameson & Co. has investments in three companies for which it is an auditor. The investments are for substantial amounts. Recently, one of the companies in which Jameson & Co. has investments in, Vangroup LLC, has applied for a substantial bank loan of **$7 million**. There are some business problems within Vangroup LLC. The company needs to have a clean audit to secure the loan. Jameson & Co. is under pressure to provide a clean audit.

**REQUIRED:**

From the scenarios presented above:

1. Identify the type of audit risk/threat with reason(s) for each item,
2. Suggest a solution as to how each risk/threat can be overcome/mitigated,
3. Prepare an audit report for Jameson & Co,
4. If you come back in six months’ time to perform another audit and all the mistakes in the above scenario have been corrected, prepare another audit report for the company.

2. List the seven parts of a standard unqualified audit report and explain the meaning of each part. How do the parts compare with those found in a qualified report? (3 points)

3. Explain the concept of materiality in auditing. What conditions will affect an auditor’s determination of materiality? (3 points.)

4.Use the information provided to complete the Preliminary Judgment about Materiality Table below. Assume $3,000 direct projection for Cash with no sampling error, and a 50% sampling error for accounts receivable and inventory. (4 points)

Estimated Misstatement Amount

Account Tolerable Misstatement Direct Projection Sampling Error Total

Cash $6,700

Acct. Receiv. $22,000

Inventory $38,000

Assume that during an audit of inventory, you found $5,500 of overstatement in a sample of 75,000 out of a population of 650,000. You also found a $7,000 overstatement in a sample of 60,000 out of a population of 470,000 in the account receivable audit. If there is a sampling error of 40%, calculate the total estimated misstatement amount. Based on your analysis, should the financial statements be accepted or rejected?