

# AICPA ISSUES AUDIT RISK ALERT

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In December 1999 the American Institute of CPAs (AICPA) issued Audit Risk Alert - 1999/2000. Although the Audit Risk Alert - 1999/2000 is a general document applicable to all industries, every CPA performing audit services for homeowners association should be aware of this new document. This document runs 102 pages, and is broken into the following sections:

- Economic Environment
- **Audit Issues** (discussed in detail below)
- On the Horizon – *Improving the effectiveness of audit committees, and Continuous auditing*
- Beyond the Audit – *Assurance services*
- New Auditing and Attestation Pronouncements
- Recent GAAP Pronouncements – *FASB Pronouncements, AICPA Statements of Position, EITF Consensus Positions*
- Independence and Other Ethics Standards
- PITF Practice Alerts
- Recent Exposure Drafts – *AICPA Audit and Accounting Guides, AICPA Industry Audit Risk Alerts*
- Other Accounting and Auditing Team Publications
- **Auditing Practice Releases** (discussed in detail below)

The **Audit Issues** section is comprised of the following elements:

1. Planning the audit – Discusses such matters as *Client Acceptance, Assessing Independence, Engagement Letters, Planning and Supervision, Client Fraud/Illegal Acts, Audit risk and Materiality, Internal Control, Year 2000 Issues, and Analytical Procedures*, and directs the reader

to the specific standards and professional literature available to assist the auditor in these areas.

2. Independence
3. COSO's Fraud Research Report – In March 1999 the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released its report Fraudulent Financial Reporting 1987-1997, An Analysis of U.S. Public Companies. The report provides valuable insights into financial reporting fraud by identifying who commits fraud, what kind of fraud, how it was committed, and the implications for the auditor. Most companies involved were small, at least by the standards of publicly held companies. Upper management was involved in 83% of the 200 cases examined. Only 25% of the companies had audit committees, and most of those met only once a year. The cumulative amounts of fraud were material in most cases. The frauds overlapped at least two fiscal years in most cases. Most fraudulent reporting was covered up by falsification of inventory, sales, and shipping records. 55% of the companies received unqualified opinions from their auditors for the years that the fraud existed. 56% of the companies were audited by Big five CPA firms. 29% of the CPA firms were ultimately named for involvement in the fraud or for negligent auditing.
4. The year 2000 issue
5. Materiality
6. Peer Review – Common Engagement Deficiencies – The most common deficiencies noted were included:
  - Failure to assess risk of fraud
  - Failure to document the auditor's consideration of internal control



### *AICPA Issues Audit Risk Alert (cont'd)*

- Failure to use written audit programs
- Failure to obtain legal representation letter
- Failure to obtain management representation letter
- Reporting deficiencies
  1. Audit Sampling
  2. Audit committees

**Auditing Practice Releases** are a relatively new series of nonauthoritative publications designed to help the auditor understand complex audit issues and suggest procedures to accomplish audit objectives. The list now includes:

- Audit Implications of Electronic Data Interchange
- The Information Technology Age: Evidential Matter in the Electronic Environment
- Confirmation of Accounts Receivable

### *Audit Practice Releases (cont'd)*

- Audit Implications of Electronic Document Management
- Analytical Procedures
- Auditing in Common Computer Environments
- Auditing With Computers
- Consideration of Internal Control Structure in a Computer Environment
- Audits of Inventories
- Audit Sampling

This new audit risk alert is an excellent guide for auditors in the present business environment, and is a must for staying at the cutting edge of the profession.

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