Audit Assignment : Bhp Billiton

**Question**

**Required:** Based on your analysis of the auditors’ sections and other areas pertaining to the auditor, as included within the Annual Report, submit a report which summarises and evaluates the auditor’s assurance services performed for the client company.

As part of your review of the assurance services provided, consider the following

* Has the auditor complied with Independence requirements?
* If there were non-audit services provided, what was the nature of such services?
* Provide an analysis of the Auditor’s remuneration in a table with prior year comparisons. Include percentage changes and explanations of the remuneration.
* In relation to the key audit matters, which audit procedures were performed to provide assurance over each matter? Summarise and paraphrase each key audit matter. Correctly classify each audit procedure listed as: tests of controls, substantive tests of detail, substantive test of balances or analytical procedures.
* Is there an Audit committee? Are there any non-executive directors on the audit committee? Is there an Audit Committee Charter? If so, summarise the main points of the charter including: the structure, function and responsibilities of the Audit Committee
* What type of Audit Opinion was expressed?
* How do the Directors’ and Management’s responsibilities differ from the Auditor’s responsibilities in relation to the financial report?
* Were there any material subsequent events? If so, briefly outline them and paraphrase and summarise how they were treated.
* As an interested third party stakeholder, make an assessment of the effectiveness of the material information reported by the Auditor in your conclusion.
* Consider whether there is any material information which could be missing, under-reported and/or not fully explained or disclosed in an effective way for the intended users?
* What follow-up questions would you ask the Auditor at the company’s Annual General Meeting?

**Answer**

**Introduction**  
The presence of an auditor in a company is something of great significance because it is in direct association with the laws and the processes followed by the company. The legal and the most satisfactory execution depends on the auditor of the company. It must also be noticed that it is the auditor who attracts the shareholders to invest in the company through his financial reports. For this audit assignment, BHP has been chosen which is listed in the ASX and the company auditing processes and plan will be studied thoroughly. The story has been included with an introduction to the auditing department which is then taken over by the rights of the auditor, the plans that they follow, and the method of execution. Many other topics which are either directly or indirectly related to the auditing field in association with various workings of the company has also been explained.

**Compliance with the independent needs**  
If the company is clean and fair enough with its actions and has been hardworking, then the same is reflected in the auditing reports prepared by the auditors. BHP has been noticed to be fair and square with its operations and has been doing the job of the auditing department very influentially. A very systematic and record-able clean network and the working tactic have been put up by the auditing department. Audit standard and Corporation Act 2001 has been recognised and fully followed by the company from the very starting. Crucial much data associations with the auditing field including remuneration, auditing techniques, executions, and many other detailed explanations are given in the audit assignment in the latter half which will shed light on the auditing department.

**Non-audit services**  
It can be seen from the records that the company has been taking help from external auditors to do some of their sensitive and private hobs which are the non-audit services because of the pressure to meet the objective of the company but there stands a limit to which the company is allowed to take this kind of external help. The RAC approval is the only document that can make a company to take up external auditors help legally for non-audit matters (BHP Billiton, 2017). There are also matters that the company wants the external auditors to handle which are not at all listed. This matter where legally to be solved by the approved auditing firms and their accountants. The external auditor can also play the role of an advocate for the company if the authority wants. It also has been listed in the allowance section of the RAC support which is related to the various services. The policies of the companies must include the rights and rules according to the RAC ensuring the independence of the external auditors.

**Auditor remuneration**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Auditor fees | 2017 | 2016 | % | % |
| Audit and review of financial reports |  |  |  |  |
| Audit of annual report | 3381 | 3.126 | 21308.38 | 19.73236 |
|  |  |  |
| Subsidiaries audit | 7.04 | 7.715 | 44.36882 | 48.69966 |
| Services of Assurance | 3.597 | 3.493 | 22.66969 | 22.04898 |
| other services | 1,849 | 1.508 | 11653.12 | 9.519 |
|  |  |  |  |  |
| Total | 15.867 | 15.842 |  |  |
|  |  |  |  |  |
| Corporate finance services | 0.042 | 0.276 | 6.656101 | 25.29789 |
| others | 0.589 | 0.815 | 93.3439 | 74.70211 |
| Total | 0.631 | 1.091 |  |  |
| TOTAL | 16498 | 16.933 |  |  |

**Nature of the non-audit services**  
The external auditors also seem to have respect for the rules and regulations as they undertook no work from the company that was not listed in the policy issued by the company for specific tasks to be followed.

**Key audit matters**  
This section contains the sensitive data analysis that only experts can rate opinions and is very important for the financial status of the company. A study has also been done to include the facts that are associated with loopholes and material misstatements recognised by the auditor which will impact the whole working and execution of the company. In 2016 and 2017 the company has kept its targets and processing in alignment (BHP Billiton, 2017).

Management of future flows of cash for cash-generating units which is duly used to scan the PPE’s recoverable value associated with the financial plans of the company is the first big deal to handle. Also, the estimates of the company about the future flows of cash can be proved wrong when the real figures show up. All the units must be handled and executed with precision (Baldwin, 2010). The crucial next audit matter about BHP Billiton is the valuation of assets. In this case, also the company has chosen the future flows of cash topic as the base because the scenario of seventy-two per cent assets of the company comes into play which is utilised to gather information about the recoverable holdings on the part of the company. The company has also been operating in countries where the taxation processes are in control (BHP Billiton, 2017). Corporation tax, employment tax, royalties, production-based tax are some o the applicable taxes on the company due to its massive reign and empire. The operations of the company in different companies have made the understanding of the charges in a sophisticated manner where all the matters are duly influenced by the funds, provisions and also the contingent liabilities in a way that requires the view and opinion of an expert. The needs, demands and the policies of the company are the managers of the closure and rehabilitation sectors of the company (BHP Billiton, 2017). Discount rates put up to bring back the materials to their original price, the depth of the matter and the timing and exposure of the case are the points which come under the supervision and the understanding of the company’s task about the rehabilitation owing to the life of reserves. The company has most of its assets which are viewed for a long-term basis and so the doubts about the future flows of cash can be neglected or minimised (Cappelleto, 2010). This matter was chosen in because of the enormous capital and also the reputation and the financial position of the company associated with it. Also, this includes the processes and the amount of attention that has to be paid for the clearance of such loopholes and even the matter to bring back the product rates to their original values by applying the discount on a daily basis.

**The contrast between the management and auditors responsibilities**  
The responsibility of the management with regards to company’s financial report is to make sure that such statements are regularly updated while the auditor’s job is to analyse these reports and provide opinions that depict the right and fair view of the company’s performance. One of the most important responsibilities of an auditor is to look whether the financial statements of the company represent the right and fair view of the company’s affairs and the transparency of the financial condition of the company. The management concerning accounting should make sure that the organisation is benefitting from its policies, decisions and portfolios and evaluate whether the results of such systems, arrangements and collections are satisfying. This will probably assist the auditors in performing their jobs without any hassle to keep the transparency in the performance of the organisation intact (Elder et al., 2010). When all such responsibilities are performed by the company’s management and its auditors efficiently, the final financial report of the organisation is most likely to be positively affected (BHP Billiton, 2017).

It is substantial for an organisation to present in its financial reports all the records and transactions. There should not be any manipulation of sales while recording in the accounts. All the transactions recorded are required to be true. As the recording of operations is the responsibility of the management, therefore, it is the management who is liable to make sure that all the sales, related assets and liabilities are recorded at their most exact values in the books (Gay & Simnet, 2015). An auditor is most likely to gain knowledge in two phases, firstly in the initial period when the management itself shares the information and expertise and lastly during the process of performing an audit in the company (Geoffrey et al., 2016).

The management of the organisation is solely responsible for maintaining the transparency of the financial records disclosed to the auditor along with the statistics presented in the financial report. The auditor can either take suggestions with regards to the statistics and the pattern shown in the financial statement or can part by part release and plan the financial statement depending on the records made available by the management (BHP Billiton, 2017). The documents disclosed by the organisation along with the suggestions, opinions and decisions of the auditor together aids in the presentation of an organisation’s financial report.

Considering the case of BHP Billiton, it was noticed that the auditors were only bothered about detecting material misstatements that were as a result of errors or frauds and did not care to participate in structuring the organisation’s financial report and creating records for audit. The auditors were only seemed to be concerned about tracing material manipulation or misstatements in BHP Billiton rather than preparing and structuring financial report. This highlights the contrast in working pattern of BHP Billiton’s management and its auditors and their responsibilities (Hoffelder, 2012).

**Significant events in BHP Billiton**  
After the date of reporting, certain events occurred in BHP Billiton that were significant. These events were materially subsequent for BHP Billiton. These significant events could have impacted the organisation’s performance if reported earlier and it is why these events are termed material for the organisation. To develop Spence Growth Option, BHP Billiton declared an investment scheme of 2.5$ which also included the development of a copper concentrator (BHP Billiton, 2017). Construction of a copper concentrator could expand and extend mine life for not less than five decades. BHP Billiton along with its management and directors analysed its onshore US assets. They found that these onshore US assets were non-core and therefore, looked for the alternatives and specific options to release these assets. BHP Billiton announced that it had boosted the value of global aggregate capitalisation that it bought for $2.5 billion to $2.9 billion. Purchasing these bonds with a global aggregate capitalisation was the company’s multi-currency repurchase plan (BHP Billiton, 2017).

As all such material subsequent events occurred after the date of reporting, therefore, there was no significant influence of the same on the performance of BHP Billiton and its financial statements. These events were so substantial and subsequent that if these occurred before the date of reporting, the financial statements and the company’s performance as a whole might have been unlike the actual. The past cannot be changed, but if the impact of these subsequent events is taken care of in the reporting period for the coming years, it can be seen that the company’s performance and its financial statements will get affected. All these subsequent material events were significant for the company and were the reason behind the regular review of BHP’s performance. However, performing such options shall take some time by the company. Also, the company has failed at evaluating the future transactions and assessing the financial impact on it.

**The efficiency of the auditor’s material information**  
The financial report of the company presented by its auditors lacked fairness, transparency and had various shortcomings despite the claims made by the auditors of preparing it as per the Corporations Act 2001 and complying with other standards. The financial report presented by the auditors did not represent the accurate and fair view of the company’s performance (BHP Billiton, 2017). One of the essential reasons attributing to these shortcomings in the financial report and failure of the company’s auditors was that the auditors majorly focused on looking for material misstatements and classifying it as either fraud or unintentional errors. Also, the auditors solely concentrate on a few critical points of the rules and elaborated these actions over others for an unexplained reason (Kaplan, 2011).

The auditors chose to consider and depict certain points in the company’s financial report for which they did not provide any reason. However, amongst all these blunders, the auditors of the company at least explained the process that they considered and executed to follow some rules. It projected an efficacious side of the auditing.

The investors of the company always aim for the company to make surplus profits. Therefore, it calls for the transparency of the financial reports made available to the investors that depict the right and fair view of the company’s performance (Lapsley, 2012). It is the responsibility of the auditor to keep the investors in mind while performing the audit for an organisation to maintain the transparency of the company’s performance in the financial reports and providing an accurate and fair view of the same (Tadros, 2017). However, the auditors of BHP Billiton failed to showcase the correct and honest picture of the organisation’s performance and concealed its transparency in their financial reports which impacted the users from taking appropriate investment decisions. Although the auditors were irresponsible in considering essential points yet they have highlighted in the financial statements, required footnotes and notes for the same purpose (BHP Billiton, 2017). Therefore, it can be said that the financial reports presented by the auditors of an organisation need not be always accurate and it is the responsibility of the users to evaluate the story in the best way possible and make appropriate decisions after some research.

**Under-reported or is it missing?**  
The financial statements of the company have certain footnotes and notes attached to it with regards to specific important information that were required to be presented in the report itself. Highlighting such significant details in the notes and footnotes to an extent covers up for the blunder caused by the auditors for not disclosing the same in the financial statements of the company where it was required and necessary (Mallin, 2011). Adding footnotes is of great utility to the users but missing of the same from the reports at the same time can even confuse the users and impact their decision making (Manoharan, 2011). Also, the notes in the financial statements are not adequately mentioned which can also affect the users in taking appropriate decisions (BHP Billiton, 2017). As the company disclosed two income statements in the same year, therefore, the profit and loss presented by BHP Billiton are suspiciously reported which can confuse the users.

Instead of providing significant information in the footnotes, if the company reported the same in the financial statements, it would have hugely assisted the users in decision making (Sikka, 2009). However, the positive side to the report is that it represents other required significant information. This assignment is prepared by our accounting experts from top universities which let us to provide you a reliable accounting assignment help service.

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