Audit Assignment Report On IOOf Holding Ltd

**Question**

**Task :**Assume that the audit for IOOF Holdings Limited, a financial services company, will be coming up for tender. You and your colleagues are required to prepare a client evaluation report based on your research for the senior partners of your audit firm. Your report should provide preliminary information as to whether or not your audit firm should consider tendering for the audit of IOOF.

You should conduct extensive research and perform an analysis of the annual report of IOOF for the year 2018 and any other relevant information that you have obtained (Hint: this includes the company’s financial results, financial press and other business media).

In your report, you must address the following issues:

1. What are the areas in which IOOF conducts its operations?
2. Identify and explain THREE business risks that could have impact on the audit of IOOF.
3. Based on your business risk analysis and understanding of IOOF group and its environment, list and explain THREE accounts that could be at risk of material misstatements. You also need to identify the key assertion at risk for each account identified. Do not use the same accounts reported in the Key Audit Matter section in the audit report.
4. Based on the 2018 IOOF annual report and information available on the company’s website, explain whether you can conclude that IOOF complies with the Principle 4 of the ASX Corporate Governance Council’s corporate governance principles and recommendations?
5. Based on your understanding of the client and assessment of the client’s business and audit risks, would you undertake the audit? Explain your decision.

The answers for above questions should reflect your in depth understanding of how the IOOF operates.

**Answer**

**Executive Summary**  
The audit risk assignment is primarily based on IOOF that is a financial services company. This report is primarily based upon IOOF, the conduct of operations, business risks associated with the company and the manner it affects the audit. Further, the corporate governance principles are highlighted and the decision to undertake the audit is based on the audit risk assignment. ?

**Introduction**  
IOOF Holding Ltd is a financial services company that is based in Australia. It offers a wide range of products, as well as services that comprise of financial advice, superannuation, and other investment management services. The audit assignment report stress upon the company profile of IOOF. The main reason to conduct this analysis is whether the audit should be undertaken. The company has acquired several groups in the past years for growth purposes and will continue to do so, on an opportunistic basis within the sector it has been operating. The IOOF Group aims at expansion and considers an acquisition only if it seems beneficial and results in the growth audit assignment report of the same (IOOF, 2018).?

**1. IOOF area of operation:** IOOF operates in the area of wealth management and financial service. Funds in the Wealth Management sector are ever increasing and are stimulated through government compulsion. The sector has also multiple regulatory and technological barriers that disallow the newcomers to enter into the industry. Existing members are most likely concerned with leaving their competitors behind by increasing their FUMAS. This shall allow the portion of the gross margin that is derived from asset balances to increase with FUMAS proportionately. The competitive pressure on management fee rates along with the impact of differentiated product pricing may affect this proportionate rise (IOOF, 2018). So, the agenda is to hold a cost base that is mostly constant with the scale of Funds under Management, Administration, Advice, and Supervision.

The acquisitions are to be funded by means of determining the actual cost of funding sources that are available and the overall impact it would make on the balance sheet of the company.

**2. Three business risks:** To ascertain the operating situation of the client, it is imperative that the business reporting should be of top notch. Such a practice will help in knowing the accounts that can have a higher level of risk for material misstatements. It is important that the business risks of the client needs to be evaluated so that it supports the auditor to verify and ascertain whether the financial statements are in tune with the standards of Accounting (IOOF, 2018). The main reason for the assessment in this audit assignment of the business risk is that the planning decision can be impacted by business risks (Gay & Simnet, 2015). For IOOF, the major source of revenue comes from the services of financial advice and investment management plans to safeguard the wealth of the client and provides them with options of investment like shares, properties and cash assets. The banking and finance industry is heavily affected by the Royal Commission because the same in support with the government has enhanced the level of regulation and have higher insight into the licenses and the manner of operations. This can be termed as a regulatory risk when it comes to IOOF. The stringent regulations discussed in this audit assignment will impact the business operation of IOOF that will put a limitation on the service and products that might end up having a negative result on the revenue. It needs to be noted that IOOF has a higher level of risk on investment advice provision. As per the disclosure in IOOF annual report, the provision accounted for $116/335 million of the total amount of liabilities and comprises of three accounts that is orenous contracts, employee entitlement, and others. When it comes to onerous contracts, it is utilized to compensate the clients who lost profits on investment as improper financial advice are made by the advisers of the IOOF. Furthermore, it needs to be highlighted that the provision account was more in 2018 as compared to the year 2017. The figure of 2018 stood at $47.86 million in contrast to the figure of 2017 that I $1.83 million. Hence, it can be observed that the difference in the amount was significantly higher in nature. the management failed to provide any justification or explanation that this can be a result of some litigations but it needs to be ensured that it strikes a major risk to the business, as well as the accuracy of the business account because this can easily be misstated.

Credit risk is another risk that counterparty fails to meet the obligations of contractual nature that can result in financial losses arising from receivables, loans, and other receivables (Blay et.a l, 2011). Moreover, it needs to be noted that the counterparties of the IOOF group does not have an independent credit rating and this is one of the major pitfall observed in the group. In this scenario, the IOOF group evaluates the debtor’s credit quality considering the financial position, the past experiences with the debtor and other information that pertains to credit risk. In this case, the auditor will face an uphill task because the credit rating is not present.

Thirdly, the company to project a strong balance sheet might create a rosy picture of the financial assets owing to heavy rivalry in the market. Such practice impacts the audit as the proper figure needs to be derived.

**3. Key assertion:** The company has various inherent business risks which expose the company to the risk of material misstatements in the financial statements of the company. The company is under continuous pressure to perform and deliver results so this also forces them to take unnecessary risks (Coram et. al, 2011). Hence every company is facing some inherent and some business-oriented risks. On the basis of business risk analysis in this audit assignment of the company IOOF Group, following are a few examples of accounts with potential misstatements and the key assertions at risk:

1. **Revenue or Incomes Account-** This account holds the maximum possibilities of misstatements owing to heavy competition in the market. The shareholders and investors want to see financial growth which also creates an undue pressure to perform. Another reason for possibility is the window dressing of financial statements to make to them presentable and attractive to the investors, users of financial statements and other stakeholders of the company.  
   In the case of IOOF Group, the key assertions at risk are Management and Service fees revenue. These are the revenue which is charged by IOOF Group from the units trusts and funds which are operated by IOOF Group at nominal rates. There is a possibility that the revenue might be shown as inflated by the management of the company and corresponding increase in expenditure of the unit trusts and funds may be shown (Livne, 2015). Hence there are chances that the revenue figures may be materially misstated. Similar misstatement might be present in other kinds of incomes also such as income from non-related entities.
2. **Operating Expenses Account-** the operating expenses include the common recurring expenses which are incurred throughout the year. The chances of misstatements are high in case of expenses also as the increase in expenses will reduce the net taxable profits of the company and hence reduced taxes. Further, the staff may also merge their personal expenses in the expenses of the company and may claim reimbursement for the same such as travel and food exp. Many small such transactions might lead to a material misstatement in the financial figures. Overcharging and inflated bills also create dummy expenses and sometimes even management is involved in over-charging of expenses (Niemi & Sundgren, 2012).  
   In the case of IOOF Group, the key assertions at risk include Salary and related employee expenses, Occupancy related expenses, etc. Such expenses have possibilities of manipulation where the salaries or incentives to the employees are given through other than bank transfers or account payee cheques which can be a very regular feature in case of incentives given in small parts to the employees (Wood, 2011). The Sales department team may manipulate these expenses at their ease along with the salary expenses and occupancy related expenses.
3. **Payables Account -** The manipulation of payable account may help the company in increasing its cash in the books of accounts. The staff may also involve in payments of bills twice or booking of the same amount more than once in an account. The company should have strong internal controls about booking and payment of bills or expenses. Further, the risk of leakage of information and details about creditors may also worsen the situation. This is possible due to weak IT security system of a company. As the company IOOF Group is also prone to cyber threats, there are chances that the financial details of the company may get leaked such as discount rates offered by the creditors, creditors’ personal information, etc. The company may lose bulk discounts and negotiable deals due to leakage of confidential information. Hence the accounts department may manipulate the payables account to hide such irregularities caused. Further, the reduction in payables will result in an increase in liquid assets in the books of accounts which shows a very positive picture of the financial position of the company (Roach, 2010).

**4. ASX Corporate Governance:** Principle 4 of Corporate Governance Principles and Recommendations explains Safeguard integrity in Financial Reporting. On the basis of study of Annual Report and other reports of the company, following are the observations about compliance with Principle 4 of Corporate Governance Principles and Recommendations:

i. According to this principle, the first recommendation is that the Board should establish an Audit Committee. The company IOOF Group has an established Audit Committee which complies with the purposes as mentioned in the recommendations. The main purpose of such recommendations is reviewing the integrity of financial statements and overseeing the risk management functioning and internal control compliances by the board (Rezaee & Kediaa, 2012). The company IOOF Group complies with this recommendation ass can be seen from the extract of one of the reports of the company.

**Objectives :** The primary objectives of the Committee are to:

* Review the integrity of the financial reports set out in section 2.
* Oversee and make recommendations in relation to the unit pricing framework and policies.
* Oversee that there is a sound system of risk management, compliance and internal control framework relating to the financial risks relating to the Products.

ii. According to this principle, the second recommendation is that the Board should have a specified structure as follows :

**Recommendation:** The audit committee should be structured so that it.

* Consists only of non-executive directors
* Consists of a majority of independent directors
* Is chaired by an independent chair who is not chair of the board
* Has at least three members

**Commentary**  
**Composition of an audio committee:** The audit committee should be of sufficient size, independents and technologically expertise to discharge its mandate effectively.

**Importance of independence:** The ability of the audit committee to exercise independent judgement is vital. International practice is moving towards an audit committee comprised of only independent directors.

The company IOOF Group has specified the selection and appointment of members which seems to be in accordance with the recommendations of the principle. Also the company has appointed well qualified and technical members to affirm to their respective roles and responsibilities.

**Membership**

* Members of the Committee are appointed by the ARE Boads. The Chief of the ARE Boards shall recommend the appointment or reapportionment of each member of the Committee. Other entities within the IOOF Group cannot appoint members of the Committee.
* The ARE Boards will annuaIIy confirm the membership end Chair of the Committee. Election and removal of members by the ARE Boards will be by majority vote.
* The Committee must consist of at least three members who each possess the necessary technical knowledge and a sufficient understanding of the industry m which the entry operates, to be able to discharge the Committee's mandate effectively.
* Save in exceptional circumstances and as approved by APRA, all members of the Committee must be independent, non-executive directors of the AREs The Chair of the Committee must be independent and nat the Chair of the Board or the AREs.
* Members of the Committee should have a diverse range of backgrounds, skills and experiences. All members of the Committee must be financially literate. The Committee ts required to have at least one member with accounting or financial expertise (i.e. a qualified accountant or other financial professional with appropriate experience of financial and accounting matters).
* New Committee members will undertake a robust orientation process to enable them to understand their role and responsibilities. Ongoing training will be provided as required.
* The Managing Director and Chief Financial Officer cannot be members of the Committee.
* The Managing Director, Chief Financial Officer, internal and external auditors and Group General Counsel are expected to attend meetings, or relevant parts thereof. at the standing invitation of the ‘Chair. Representatives from management of others as deemed necessary will attend meetings at the invitation of the Committee Chair and provide such reports and information as the Committee requires.

iii. According to this principle discussed in this audit assignment report, the third recommendation is that the Audit Committee should have a formal Charter. The Charter should set out the roles and responsibilities of the audit committee, its composition, structure, membership requirements, the procedures for inviting non-committee members of the company for attending meetings. Further, the reporting requirements by the audit committee to the board are also specified. The Company reports discussed in this audit assignment report clearly mentions all the above specifications. The roles and responsibilities of the committee and the reporting by the committee have been reported by the company in its special report (IOOF CG, 2018).

iv. According to this principle in this audit assignment report, the fourth recommendation is that the Corporate Governance Statement of the company should include Guide to reporting. The guide to reporting should include the points given in the below extract:

**Recommendation:** Companies should provide the information indicated in the Guide to reporting on Principle4.

**Guide to reporting on Principle 4:** The following maternal should be included in the corporate governance statement in the annual report:

* the names and qualifications of those appointed to the audit committee and their attendance at meetings of the committee, or, where a company does not have an Audit committee, how the functions of an audit committee are carried out
* the number of meetings of the audit. committee
* explanation of any departures from Recommendations 4.1, 4.2, 4.3 or 4.4.

The following maternal should be made publicly available, ideally by posting & to the company's website in 9 clearly marked corporate governance section

* the audit committee charter
* information on procedures for the selection and appointment of the external auditor and for the rotation of external audit engagement. partners.

The Company IOOF Group has reported the names and qualifications of committee member in its Corporate Governance Statement, the extract of which is given below. Other requirements are also disclosed in the Corporate Governance Statement of the company:

Hence, it can be said that the company complies with the Principle 4 of the Corporate Governance Principles and Recommendations.

**5. Audit Undertaking**  
Yes, there is different level of risk associated with the company however; the same are not of high risk. Such risks can be accurately evaluated and with the audit principles and tools these can be negated (Baldwin, 2010). The vital point to be noted is that the audit must be done after getting proper evidence of each and every entry. This will ensure that all the accounts are verified and the financial statements are free from error. The audit should be performed with due care because there are many deficiencies involved and only with the aid of proper evidence, the auditor should provide a clear opinion.

**Conclusion**  
From the above discussion in this audit assignment report based on IOOF, it can be commented that the company has frailties in many sections. However, the same cannot be considered as a basis for rejection in this audit assignment report. With proper audit tools and mechanism, the same can be rectified. The company comprises of business risks and audit risk, however the auditor should ensure that the valid evidence is present as it helps in gaining the proper knowledge. If the evidence in this audit assignment report is not present the same should be reported and qualified opinion should be provided and footnote must be provided for the evidence not traced. Audit assignments are being prepared by our [auditing homework help](https://www.totalassignmenthelp.com/auditing-assignment-help) experts from top universities which let us to provide you a reliable [assignment online help](https://www.totalassignmenthelp.com/assignment-help-online) service.

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