Case on International Auditing Standards

Auditing 630
Professor Mayhew

Overview

You are a group of interns assigned to the audit of Bumbleberry Chocolates. Bumbleberry is an international maker of fine chocolates with distribution and production facilities all over the world. Bumbleberry just purchased a large cheese company based in Chicago. It plans to develop and sell chocolate covered cheese throughout the world. They believe this product will be especially welcomed in some small African countries they currently do not have a market presence. Given the stock market’s obsession with world-wide market shares, Bumbleberry feels compelled to have a presence in every market in the world no matter how large or small. Chocolate cheese will let them penetrate these two small countries’ markets and gain global chocolate domination. They may also be able to sell the cheese globally, especially in Wisconsin.

Your audit firm is part of an international audit firm that audits Bumbleberry. Your firm will be issuing an audit opinion on the cheese company Bumbleberry purchased. However, the audit must meet both domestic and international auditing standards since the International arm of your firm will be issuing the overall audit opinion on the consolidated Bumbleberry Empire.

Required

The lead audit partner asks your group to research international auditing standards to see what, if anything, your firm needs to do beyond U.S. auditing standards to audit the revenue and purchases cycles. She specifically wants into audit procedures around accounts receivable and inventory, for the two cycles respectively.

Please prepare a memo summarizing the similarities and differences between international and U.S. standards as they apply to the revenue or purchases cycle. The class will be split in half. The left half of the class will do revenue, and the right half will do purchases (direction based on facing the front board). To keep this task manageable, please address the following key points.

1. Identify sources of U.S. and international audit standards?
2. Pick two or more audit standards that apply to your assigned area. Read the international standard and the U.S. standard. The group should pick at least two standards that may apply to your assigned area. It is acceptable to research at least one general standard such as audit risk or materiality. But, you should also try to find something in the standards that applies more specifically to your
accounts. Do your best, there is not necessarily “Revenue” and “Purchases” auditing standards. (Hint: look at the evidence standards.)

3. Summarize similarities and differences between the SAS and ISA’s you pick. Highlight what your firm may have to do differently to satisfy the ISA’s standards that it may not have otherwise done if following just the SAS’s, or vice versa.

4. Research and summarize the impact, if any, of differences in U.S. GAAP and IFRS for your assigned cycle and the implications for auditing the accounts. Summaries of key differences in IFRS are available at all the Big4 websites, and may also be available from FASB or IASB.

Be prepared in class to discuss on Monday. Your group will have to be ready to respond to one or more of the above questions.

US Auditing Standards (SAS’s) are available at www.AICPA.org and at http://www.pcaobus.org/Standards/index.aspx. Note that for purposes of this case, it is sufficient to use the AICPA based standards. The only significant difference in PCAOB standards relates to the integrated audit, which we covered in class. PCAOB standards still largely refer to AICPA standards (labeled interim standards at its website).

International Standards on Auditing (ISA’s) are available at http://www.ifac.org/IAASB/