

Ignore the Error?

Topic: Auditing/Materiality

Characters: Kelsey, Senior accountant for a local CPA firm
Bruce, Audit manager for the same CPA firm

Kelsey, a senior accountant at a multi-office CPA firm, is assigned to the audit of Compo Corporation. Compo is a closely held corporation and a major client of the firm. During the audit, Kelsey finds a material cutoff error which causes Compo's income to be significantly misstated. Kelsey is aware that the CPA firm's policy clearly states the audit senior must document any potential material adjustment in the work papers. The final determination of materiality is then made by the partner in charge of the audit. Kelsey also knows Compo does not want to make the adjustment.

Before wrapping up the field work, the audit manager, Bruce, tells Kelsey, "Let's not mention this adjustment in the work papers. Since Compo is closely held and there are not tax implications, the partner has decided not to force an adjustment. Compo is our largest client. We need to get the Compo work up to the partner as soon as possible."

Kelsey is concerned and upset after the conversation with Bruce. Failure to document such a material amount just does not seem right.

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