KPMG Audit Virtual Experience Program

A large multinational manufacturer, Ashbourne Industries Inc. (Ashbourne), engaged KPMG to conduct their external audit.
I was reporting to Swapnil Pandya who is the KPMG Senior Associate leading the audit.
The final result of the audit engagement was to deliver an audit opinion
The primary goal of the independent audit is for KPMG to provide an opinion(third party) on whether Ashbourne's financial statements accurately represent their financial position.

This opinion is the ultimate deliverable of the independent audit that KPMG will provide to Ashbourne's board of directors.

The opinion is a statement that includes:

- KPMG's conclusion on whether Ashbourne's financial statements are correct or not; and
- KPMG's opinion on Ashbourne's management system of internal control, which is required for Securities and Exchange Commission (SEC) registrants.

When writing an opinion, certain elements are required to be addressed. These requirements are guided by:

- The Generally Accepted Accounting Principles, and
- The Public Company Accounting Oversight Board which has provisions for public companies.

There are four types of audit opinions: (1) **unqualified (or clean)**, (2) **qualified**, (3) **adverse**, or (4) **disclaimer**.

KPMG LLP, the auditing firm, reviewed the consolidated financial statements of Ashbourne Industries, Incorporated and its subsidiaries for the years ending December 31, 2020 and 2019. In their opinion, the financial statements present a fair representation of the company's financial position, results of operations, and cash flows in accordance with U.S. generally accepted accounting principles.

KPMG LLP also audited the company's internal control over financial reporting and expressed an **unqualified opinion** on its effectiveness.

The company changed its method of accounting for leases starting from January 1, 2019, due to the adoption of ASU 2016-02, Leases.

The auditors' responsibility was to obtain reasonable assurance about the absence of material misstatements in the financial statements, whether due to error or fraud. They conducted their audits in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB).

Two critical audit matters were identified and communicated to the audit committee:

- Sufficiency of audit evidence over net sales: The evaluation of the adequacy of audit evidence for net sales was a critical audit matter due to the geographical dispersion of the company's sales activities. The auditors applied subjective judgment to determine the procedures to be performed and assessed the design and operating effectiveness of internal controls related to net sales. They also reviewed supporting documentation and assessed the sufficiency of the audit evidence obtained.

- Assessment of collectability of customer receivables: The auditors focused on the company's estimation of the expected loss on uncollectible accounts receivable. They examined historical loss experience, adjustments for specific customer circumstances and changes in the aging of accounts receivable balances. They also performed substantive procedures and tested controls related to uncollectible accounts receivable.

-The **first step was to plan the audit** - as a first-year associate, I played an essential role in this process!
-Planning the audit involved accessing Ashbourne's General Ledger and determining which of Ashbourne's accounts are material.
-Most companies keep their general ledger data in an "ERP", or Enterprise Resource Program. Sophisticated ERP systems can keep track of data and provide information to users across the entire enterprise.

When conducting an audit, we must first identify what's important to audit.
There can be millions of pieces of data that make up a general ledger and it's often not possible to audit everything.
So, a critical part of the planning process was to determine which of Ashbourne's accounts are material.

An account can be considered '**material**' if it is significant enough that it would impact how someone would interpret a company's financial report.

There were several types of materiality, but we focused on determining "performance materiality" for Ashbourne, which we defined as the accounts that were important for us to audit.

After reviewing Ashbourne's General Ledger, our KPMG team determined a materiality threshold of 1% of pre-tax net income. This means that only account balances in the general ledger that are larger than 1% of pre-tax net income are considered material.

When conducting the audit and determining materiality, there are several things our KPMG audit team watched out for:

- *Have any earnings been manipulated by Ashbourne?*
- *Is there any evidence of misstatements on trends such as profitability?*

- *Is it possible that a misstatement has artificially increased Ashbourne's share price?*
- *Is there a risk that there may be undetected misstatements?*
- *Do we detect any fraud or fraud indicators?*
- *How accurate and reliable is their accounting system?*

Materiality in this audit was based on the annual account balances so there was no need to use the monthly trial balance (TB) amounts, only the annual (December) amount.

In the next task, we used confirmations for material accounts as a way to validate if they are accurate since **Confirmations** are an important tool in the audit process.

In the process after confirmation, we had to follow up with third parties to ask them if their records match what Ashbourne is reporting. Third parties include external stakeholders to Ashbourne such as suppliers or customers.

The confirmation process generally works like this:

- *Select the items we need to confirm (material items which you've identified in Task 2)*
- *Write the confirmation request.*
- *Send the confirmation request to the relevant third party.*
- *Receive and review the confirmation to see if it is complete and matches the balances Ashbourne reported.*

There are several types of confirmations that can be sent to the third party:

1. **Positive.** The recipient responds directly to the auditor stating whether they agree or disagree with the information provided, or providing the requested information.
2. **Negative.** This type asks recipients to reply directly to the auditor only if they disagree with the information presented on the confirmations.
3. **Blank.** This type doesn't state an amount or other information on the request. Instead, the recipients are asked to complete the form and return it directly to the auditor.

The confirmation process can be challenging because suppliers or customers aren't always responsive, and of course, the information doesn't always match up.

It was our responsibility as the auditor to follow up with the client and attempt to obtain other evidence about the account balance. The auditor must also track and follow up on missing confirms. We used an Excel spreadsheet to keep track of our follow-ups.
I was asked to send out a confirmation to Great Manufacturing, one of Ashbourne's customers.

I sent off the confirmation, and Great Manufacturing responded which was great.

In Task 3, I learned about different confirmation types, and why confirmations are important to auditing management's assertions, such as completeness and accuracy of the Accounts

Receivable account. General ledger accounts often have hundreds or thousands of individual entries in them, with hundreds of confirms sent.

I built on my previous task by tracking the status of the confirmation process. Managing client responses, engagement team tasks, third-party data, and deadlines are all part of an often complex audit process

I reviewed the data to see how your team is progressing. You've found that:

- The total Trial Balance shows $138,207,286 of A/R which is made up of 39 confirms
- You’ve sent out 37 of the 39 confirms - and of the 37 confirms sent, you’ve received 14 back (38%).
- For the final 2 confirms, you’ve drafted the communications to send to the relevant customer. However, you first need the client to approve what you've written.

Swap has asked me to put the above information in an email to the client in a text box provided. Below is a copy of the email I wrote.

Date: 12-06-2023

Email From: Edgar Jandi, KPMG

To: Corporate Controller@AshbourneIndustries.com

CC: Audit Senior, Audit Manager

Re: Status of Outstanding A/R Confirms

Dear Customer,

I hope this email finds you well. I wanted to provide you with an update on our progress regarding the accounts receivable (A/R) confirmations for your company.

According to our records, the total Trial Balance currently shows an A/R balance of $138,207,286. We have already sent out 37 of the 39 required A/R confirmations. Of the 37 confirms sent, we have received 14 responses back from customers, representing approximately 38% of the total confirms sent.

For the remaining two outstanding confirms, we have drafted the communications that need to be sent to the relevant customers. However, before we proceed with sending these communications, we kindly request your approval of the content we have prepared. Your input and approval are essential to ensure accurate and effective communication with the customers.

Once we receive your approval, we will promptly send out the final two A/R confirmations to the respective customers. We greatly appreciate your cooperation and assistance in this matter.

If you have any questions or require further clarification, please do not hesitate to reach out. Thank you for your attention to this important matter.

Best regards,
Edgar Jandi

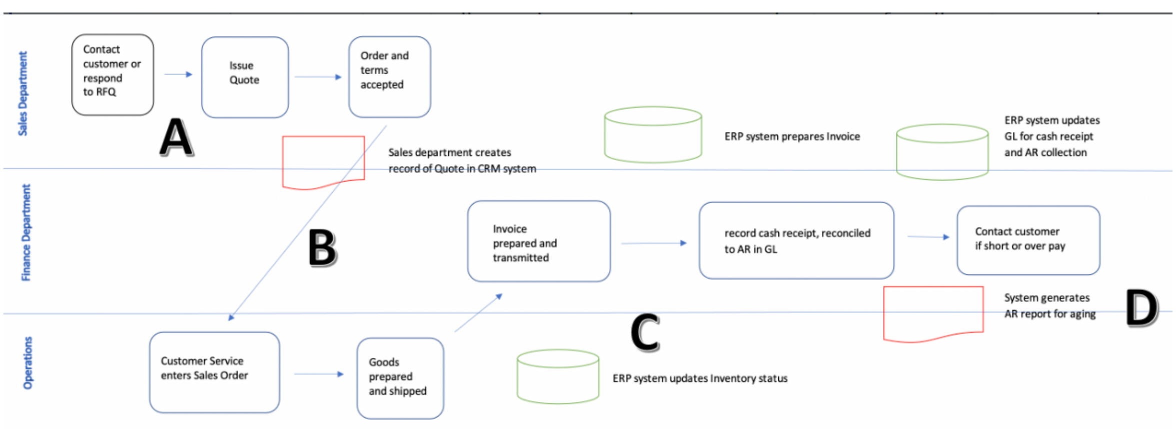
Ashbourne's System of Internal Controls

Internal controls are specific steps in a business process to ensure the process is working as it should. There are many types of internal controls, but they all attempt to do the following:

- *Help the reliability and integrity of information*
- *Comply with policies, plans, procedures, laws, or regulations*
- *Protect assets*
- *Ensure that Ashbourne's funds are spent as intended*
- *Meet the established objectives and goals for operations or programs*

After the walkthrough, your client at Ashbourne sent me a flow chart below that showed the business process containing the Accounts Receivable (A/R) function.

This process is commonly called the **order-to-cash (OTC) cycle** - and covers the activities from when a customer places and order all the way to Ashbourne collecting the cash.



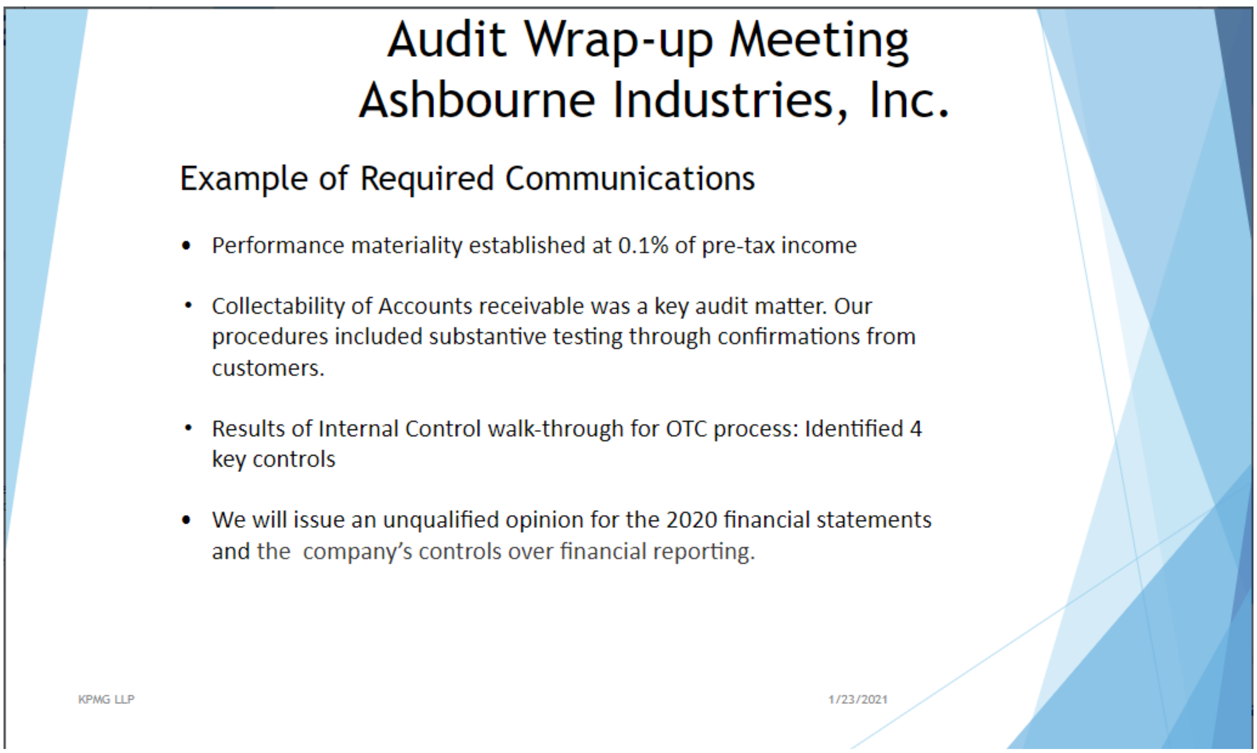
- *The rectangles in the flow chart describe the process, such as preparing an invoice or entering the customer's order in the ERP system.*
- *Processes are grouped by the three relevant internal functions within Ashbourne: sales department, finance department, and operations.*
- *The red symbols represent documents created that are not directly part of the ERP system.*
- *The green ovals represent entries or transactions recorded within the ERP system itself.*

During the course of the audit, KPMG communicated the status, issues, or results of their work to the client.

Nothing replaces a short, effective presentation to capture management's attention. As a first-year associate, I prepared client presentations and helped present our findings both internally and externally.

I gave a clear and honest presentation that reflects part of the KPMG culture, and our clients expect such from KPMG.

PRESENTATION



I finished off the audit with the presentation of findings and recommendations in a video recording and after the recording I had completed the given assignment.