Case 10-6

Care For Kids Inc.

You are the senior manager or audit engagement partner on Care For Kids Inc., a not-for-profit organization that has a December 31 year-end.

While performing year-end substantive procedures, the engagement team identified an error in the entity's year-end adjusting entries. Care For Kids Inc. had inadvertently not recorded an unrealized gain of $5 million in one of its many investment portfolios. The investments total approximately $200 million. Through inquiry of client management, the engagement team learned that the accounting department had not reviewed the broker's statement for this particular portfolio. The portfolio, which consisted of traded securities, had increased in market value by $5 million. Materiality for the audit was $10 million.

As part of the audit, you must assess the operating effectiveness of controls related to the misstatement.

Required:

- What factors would you consider to determine if a deficiency, significant deficiency, or material weakness exists?
- What additional information, if any, is needed to complete your assessment?
- What, if any, communications would you be required to make to those charged with governance?

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