Question 1

1.1)

a) This would inprove the current ratio

1.2)

Your firm should consider this because:

There is a risk of confidentiality being breeched between the two companies by your firm.

Your firm will need to consider the liklihood of the outcome to ensure that Nessie are accounting for the provision correctly

The patent infringement may have happened prior to the year end, so this should be condsidered for the audit.

1.3)

Conclusion expressed in the examining of prospective financial information:

This will be exp[ressed negativley

Limited level of assurance would be provided

Based on limited information abailablethat can be provided for prospective financial information (What the client has chosen to give you)

Less time available

Opinion expressed in an external auditors report

Reasonable level of assurance

Expressed positivley

Based on the higher level of information abailable to substasiate grounds for giving a reasonable level of assurance

There is more time available to back up information as true and fair

1.4)

The recivables balance is 2.6% of the total assets and 15% of pforit before tax so it is a material lack of information provided.

It is material but not pervasive as it is isolated to that contract for trade recievables.

The opinion would be modified: Qualified opinion

The basis for opinion paragraph would change to "Basis for qualified opinion"

The basis for opinion paragraph would describe the material lack of inforamtion provided by the client for the contract with Orc.

1.5)

The ethic partner is responsible for:

Ensuring that the staff are appropriatley teained on their ethics responsibilities.

Documenting any breeches in ethical principals.

Ensuring that there are ethical procedures in place that are kept up to date.

Ensuring that there are regular reviews of ethical principals and KPI's of ethical proceedings.

1.6)

The misstatement in the P&L is 1.3% of profit before tax and 0.09% of revenue which is not material

Actions to take place:

Inform the firms MLRO as this could be money laundering

Avoid tipping off as this could be a criminal offence

Confirm that this amount is money owed for taxes.

Contact the ICAEW helpline

Report to the relevent authorities.

Question 2

2.1) Matters to consider before accepting the appointment:

Consider why the previous auditors have left or why they have changed auditors.

Request permission from the client to contact the previous auditors.

If they do not allow you to contact the previous auditors, then you should question why and condider turning down the enguagement.

Consider the risk of the industry that the client is in prior to acceptance as you do not want to audit a company that is too risky.

Consider the fee that your firm will be recieving and if it is too high, you need to consider the risk of objectivity. You dont want to be too relient on that income.

You should consider the clients gouing concern status as this will effect their ability to pay you.

Comnsider who else may be relying on the Audit. e.g The bank are requesting the audited statements by 31st December to support a loan application. This would increase the risk as the bank are placing relience on your work and the time pressure will cause increased risk. 1 Month from year end is very time pressured.

2.2)

Volume based supplier rebates:

Chosen as a key risk area because:

Rebates are paid by suppliers based on % of purchases in the year depending on the contract. There is a risk that the client is overstating the amount to be recieved from the rebates.

Dragon maintaines a rebate management system developed by the IT sdepartment to culculate the rebates. There is a risk that this is not kept up to date.

Dragons operations managers prepare revenue forecasts for revenue and that is used to estimate annual volume of purchases from each supplier. There is a risk that the revenue could be overstated and therefore the purchases overstated and then the rebates inaccurate.

The rebates are paid in arreas at different times of the year for different suppliers. There is a risk that this is account for incorrectly for any contracts that end close to the year end of shortly after the year end.

Rebates have increased by 69% from the prior year when purchases have only increased by 21%. There is a risk that these rebates are being overstated.

Procedures that should be in place to address those risks:

Select a sample of contracts with suppliers and make sure that the rebates attained from that client agree to the contract information provided on rebates for that client.

Cross reference a sample of contracts to the IT system that culculates rebates to ensure that the IT systems ar in line with the contracts.

Review the revenue forecast produced by the operations managers to ensure that the forecasts are accurate.

Reculculate various rebates payments included close to the year end and make sure that the correct amount has been included in the year end financial statemnents.

Non-Current assets - Delivery vehicles

Chosen as a key risk area because:

Dragon capatalise all costts associated with modifying and purchasing the vehicles. There is a risk that the asssets are overstated due to costs being capatalised that are not directly attributable to getting the vehicle to its running state.

Dragon depreciate the vehicles over 6 years which is how long they keep them before replacing them. There is a risk that the deprectiation policy is inappropriate if they are always selling them for a profit on disposal.

With vehicles there is always the risk that the assets are being overstated by includibng assets that either dont exist or have not been appropriatley impaired in the financial statements.

There has been an 80% increase in the loss on sale of delivery vehicles. There is a risk that the depreciation policy id inappropriate of they are selling their vehicles to their workes for favorable prices.

The depreciation charge for vehicles has decreased by 14%. This would be expected to rise as the Deliver vehicle carrying value has increased by 19%. This is a risk that depreciation is being incorrectly culculated.

Procedures that should be in place to address those risks:

The depreciation policy should be tested for reasonableness by seeing the historic profit/loss on disposal generated from the sale of the vehicles. They should be depreciated over their remaining useful life.

For a sample of vehicles, the costs that have been capatalised should be questioned to ensure that only directly attributable costs are capatalised.

A sample of vehicles should be selected and physically verified with VRN's checked to ensure that the assets do exist.

38 A sample of vehicles should be selected and physically verified with VRN's checked to ensure that the assets do exist.

42 **Non-current assets - Food distribution centres.**

43 **Chosen as a key risk area because:**

44 The directors wish to recognise the new valuation in the financial statements for the year ended 30 November 2018. There is a risk that the accounting treatment for the revaluation is accounted for incorrectly as it is complex.

45 If there is land included in the assets, they should not be depreciated. There is a risk that the land is depreciated as well.

46 There is a risk that NCA is overstated by including assets that do not exist of have been sold.

47 They have only revalued 5 out of the 10 buildings. There is a risk that they have only valued these because they were clearly more valuable. The other 5 unvalued buildings could be impaired.

49 **Procedures that should be in place to address those risks:**

50 The treatment of the revaluation should be revied to ensure that the excess made on revaliation is included in OCI or Revaliuation surplus.

51 There should be an annual teransfer between Revaluation surplus and Retained earnings o account for the excess depreciation as a result of ther revaluation.

52 A physical inspection of the assets should be coducted to ensure that they do exist.

53 There should be an enquiory into what percentage of the asset is land and ensure that this element is not being depreciated.

54 There should be a land registory search to ensure that the property held is in the companiey name and therefore qwned by Dragon.

55 All assets in a class need to have the same accounting treatment so the other 5 buildings should be revalued. Query with the client if they plan to do so.

	A
1	Question 3
2	3.1)
3	**Why it was identified:**
4	This was outlined because in order to effectivley audit a company, the auditors need to have an understanding of the client and its business.
5	This meeting would usually lay out the key risk areas to focus on for the audit.
6	**Matters to discuss in the audit briefing:**
7	Discuss the key risk areas of the audit.
8	An outline of the company, its industry and the risks of that industry.
9	
10	
11	
12	
13	3.2)
14	**Why it was identified:**
15	The sample selected for direct conformation was only 6.7% of the trade recievables balance.
16	The error identified was not extrapolated. It was the error in the sample they collected but that needs to be apportioned to the entire Trade payabled balance.
17	The firm have a responsibility as part of quality control to have work reviewed by a more senior member of staff. The is no guarantee that this happened if an enguagement quality control reviewweer was not appointed.
18	
19	**Procedures to have been undertaken:**
20	Ensure that the samply selected for Trade recievables was bais towards the higher values and makes up the substantial trade recievables balance.
21	Check the trade recievables balance for any Credit figures that should be included in Trade payables.
22	Perform cutt-off testing by checking the first 3 invoices recieved after year end and the last 3 invoices recieved prior to year end. Ensure they were included in the correct financial year.
23	
24	

3.3)

There should have been a budget forecast review to ensure that the company would be able to trade for at least 12 months from year enf (IFRS) and 12 months of the date of signing off the accounts (UK GAAP).

The bank loan convenance should have been reviewed

The bank overdraft facility agreement should have been reviewed to ensure that they were keeping in line with payments and not in breach.

The Cash and reserves should be analysed against trade payables to make sure that the company can pay its debts when they fall due.

The directors opinion on the going concern status should be requested and reviewed.

3.4)

a)

In this case I would not modify the audit opinion.

The auditors opinion would change to being based on the break up basis.

The opinion would not be modified but a modified report would need to be added:

The basis of not continuing as a going concern paragraph woul be included which would describe the companies lack of ablity to continue an a going concern with reference to the relevent disclosure in the financial statement.

This would have to state that the opinion is not modified in this respect.

This paragraph gives the users the relevent information to understand the financial statements basis for continuing as a going co0ncern

b)

In this case the opinion would be modified to an Adverse opinion.

The financial statements weould be materially misstated and pervasive due to the lack of disclosure of the companies ability to continue as a going concern.

The Basis for opinion paragraph would change to " Basis for Adverse opinion"

The basis for adverse opinion would describe the companies failure to disclose the inability to continue as a going concern.

The directors have a responsibility to disclose thecorrect cgoing concern status.

3.5)

3.5)

The firm could be sued for their lack of competence by the company that they audited.

They could be fined by the relevent authorities for not performing their responsibilioties as an auditor.

Thir partners licence to perforn audits could be taken away by the ICAEW.

The firm would suffer big reputational dammage and could lose many clients.

The partners on the audit could be personally hels accountable and could face criminal action.

The firm may lose employees through loss of reputation

They may go bankrupt from the fines and legal action against them for not performing their reesponsibilities.

4.1)

1 a)

What could have been included in the report (Consequenses of defficiency):

50% of the contracts costs to date and expected future costs were not compared at month end.

This could lead to costs of a contract being far higher than expectation due to lack of knowledge of situation at month end.

This could lead to contracts not staying within expected budget.

This could lead to the company entering into contracts that do not achieve best value for money as they are not being thoroughly assessed.

Recommendations to address deficiency:

Ensure that the staff are adequatley trained on the procedure to comparee contracts costs to budget at each month end.

Have concequenses of procedures in place for any managers that do not follows this company policy.

1b)

What could have been included in the report (Consequenses of defficiency):

If the correct procedure is not followed, Zombie may end up paying for flights or hotel fees that do not form part of their staffs work.

They mayend up paying more for flights than required and not get best value for money if staff book themselvs.

Zombie will use up resources trying to monitor expense clainms if the staff do it manually thermselvs rather than following the procedure.

Recommendations to address deficiency:

Ensure that all staff have been trained to use the travel website.

Have consequenses for any consultants that do not use the correct procedure

Try to keep the website user friendly

Have procedures in place to only accept expense claims through the correct website.

4.2)

Threts:

There is a familiarity threat to objectivity beacuse of the relation built up between Griffin and Nicola.

There is also a

Response:

The firm should ensure that Nicola does not stay on for any longer than 7 years.

This is only allowed to happen due to the change in CEO so that the company can use Nicola to assitst efficiency in the audit.

The firm could appoint another partner to review the work performed by Nicola as a cold review

4.3)

a)

Threats:

There is a management threat to objectivity because management should be responsible for the decision making. Not the firm.

To address the threats:

Ensure that the final decision is always that of management and that they take the responsibility for it so that the firm are not acting as management.

b)

Threat:

There is a self-review threat to objectivity as the payroll will be audited in the audit of the financial statements.

To address the threat:

Ensure that there are physical barriers between the team that perform the audit and the team that perform the payroll services so that they do not communicate and assist eachother on work performed by one another.

Ensure that there are no team members performing both services so that nobody id reviewing their own work.

Ensure that there is no communication between the two teams regarding the work or assistance.

4.4)

Ensure that they do not discuss any information about one of the comapnies to the other (Confidentiality procedure)

They need to have a procedure ion place for communication