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WORLD BANK GROUP
Governance

CASE
STUDY

PejaSko Cheese Ltd.
Volume I: Audit Simulation

Audit Training of Trainers



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Contents

Acknowledgments.....	2
Introduction	3
About Volume I – Audit Simulation	4
Other education and teaching resources	5
Preliminary engagement activities	6
Assignments	8
Understanding the entity.....	9
External conditions.....	11
Internal factors	12
Assignments	13
Planning the engagement.....	14
Planning analytics	14
Materiality	15
Risk analysis and approach.....	17
Assignments	18
Further audit procedures.....	19
Revenue	19
Purchase of goods	21
Payroll.....	24
Various processes.....	25
Bank & Cash.....	27
Sampling Guidance	28
Assignments	30
Closing audit procedures	31
Year-end closing process	31
Audit closing process.....	31
Assignments	32

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- Chamber of Authorized Auditors of Serbia (CAA)
- Serbian Association of Accountants and Auditors (SAAA)

Introduction

The PejaScko Cheese Case Study was developed to facilitate the Audit Training of Trainers (Audit ToT) workshops under the EU REPARIS¹ Program and simulates a small audit client.

The Audit ToT workshops focus on Small and Medium Practices (SMP) and aim to develop the capacity of the audit profession to deliver targeted high-quality training to SMPs and provide continuing professional development (CPD) programs based on International Standards on Auditing (ISA). The workshops also develop practical tools and solutions to help SMPs implement ISAs, and maintain quality audit documentation from the quality assurance perspective at the firm and engagement levels. Please visit the program's homepage for more details: <http://go.worldbank.org/D6CT7QUHM0>

The workshops topics covered are logically sequenced in the context of the audit cycle, as shown in the graph. The approach and format of the workshops is designed to be highly interactive and enable shared learning and peer exchange among countries in the region and members of the Community of Practice.



¹ Road to Europe: Program of Accounting Reform and Institutional Strengthening.

This Case Study is a core teaching resource during the Audit ToT workshops and its aim is to provide an opportunity to bridge the gap between theory and the practical application of ISA by simulating a small audit client scenario. Audit documentation templates and examples form part of the case study and allow the audience to go through a real-life business situation, and tackle and solve some real-life problems.

The Case Study is structured into three volumes that should be used simultaneously:

- **Volume I – Audit Simulation**

This volume represents a summary of the PejaSko Cheese scenario providing the background information about the audit case and also including references to the assignments that participants are expected to work through during the training sessions.

- **Volume II – Documentation Templates and Examples**

Volume II is a collection of documentation templates that should be used by participants when completing the assignments of the audit simulation. This section also includes a few examples aiming to assist participants to work through the Case Study.

- **Volume III – Trainers Guide**

The proposed solutions and examples outlined in Volume III - Trainers guide, have been compiled based on the discussions and exchange of opinions among the members of the Audit ToT Community of Practice. Any audit engagement is however unique and subject to the exercise of professional judgment on behalf of the auditor. The proposed approach and examples shown on this client are therefore just one way to approach challenges related to performing an effective small audit.

About Volume I – Audit Simulation

The Audit Simulation case scenario is organized in several parts, logically sequenced in the context of the audit cycle and corresponding to topic covered during Audit Training of Trainers modules / workshops, including:

- Preliminary Engagement Activities
- Understanding the Entity
- Planning the Engagement
- Further Audit Procedures
- Closing Audit Procedures

At the end of each section there are Assignments that should be completed by using Volume II – Documentation Templates and Examples. Volume III – Trainers Guide should be referred to for suggested approach and proposed answers as discussed by the participating trainers Community of Practice.

Other education and teaching resources

In addition to the three volume PejaSko Cheese Ltd. Case Study, the Audit Training of Trainers program offers other available teaching resources and exercises that supplement the modules / workshops and in some instances, build further on the PejaSko Cheese Ltd. Scenario. These can be found at the Audit Training of Trainers web site: <http://go.worldbank.org/D6CT7QUHM0>, and include:

- [The Ethical Dilemmas Board Game](#)
- [Group Challenge: Most Inspiring Audit Trainer](#)
- [Role Play Exercise: Developing Effective Interview Skills](#)
- [Simulated Client Meeting: Developing Client Relationship Skills](#)
- [Group Exercise: Going Concern Judgements](#)
- [Group Challenge: The PejaSko Quiz](#)

Preliminary engagement activities

You are hired as an assistant auditor with Best Audit Ltd. and are responsible for participating in the planning and conducting of an audit of PejaSko Cheese Ltd. (“PejaSjo” or “PC”).

PC is a small sized producer of pasteurized and unpasteurized sheep and goat cheese, which produces its own cheese to sell locally and for exportation. Customers vary from medium size grocery store chains to smaller independent stores. Exports to neighboring countries account for approximately 20 percent of the company’s sales. The company has a share capital with a nominal value of EUR 20,000 equivalent in local currency. The Chairman of the board and the company’s founder — Svetozar Brankomat — owns 85 percent of the company’s shares while a group of 10 local farmers owns the remaining 15 percent.

The company’s board also consists of Vesna Nebesna (Chief Accountant) and Gego Bioncev (lawyer). Certified Public Accountant Dejan Vuk, partner at Best Audit Ltd., has been approached by Svetozar Brankomat, who has requested an audit of PC’s financial statements. This is a voluntary audit and the major users of the statements will be the company’s bankers.

Table 1. The company’s key figures are as follows (last year's financial results and budget):

In Euro million (converted from local currency)	Last year results	Last year budget
Revenue	1,30	1,60
Cost of sales	0,60	0,50
Payroll	0,25	0,20
Other operating expenses	0,20	0,15
Depreciation	0,12	0,12
EBIT*	0,13	0,63
Net financial costs	0,05	0,03
Income taxes	0,01	0,10
Net profit	0,07	0,50
Fixed assets	0,30	0,42
Current assets	0,60	0,45
Equity	0,10	0,10
Long term liabilities	0,20	0,30
Short term debt	0,10	0,21
Other liabilities	0,50	0,26

* *Earnings Before Interest and Tax.*

The current year's financial performance has not been great for PC: sales have continued to decrease this year, given the slow movement in the economy and the increased competition in the market segment. Mr. Brankomat is confident that this is just a temporary situation as the quality of the cheese and the company's reputation is impressive.

The company's organization number is 235711-13. PC is located in a rural area, approximately 40 km from the country's second biggest city. Its internet address is www.PejaSko-syr.com. Its legal address and contact details are as follows: Coban street 1; tel 555 11/fax 5555 12.

There are 12 people employed by the company, of whom 10 are full time employees.

The auditor's main contacts at PC are Vesna Nebesna (Chief Accountant) and Gego Bioncev (lawyer). Mr. Brankomat is also often available.

The preconditions for the audit were clarified and an updated version of the engagement letter was sent to the client in April; one week later, a copy signed by the Chairman was returned via post. Mr. Vuk explained that the Client/Engagement Acceptance Form was initiated in March by another assistant auditor working on the assignment but since he had left rather unexpectedly and joined another audit firm, not all of the documentation is complete.

During the audit firm's annual budget meeting, it was clarified that the audit team has the necessary capabilities, competence, experience and resources to perform the engagement. During the same meeting, it was confirmed that there are no independence issues related to the engagement.

Communications with the predecessor auditor revealed that there have not been any ethical issues in the past related to engagement, and the client's personnel are still considered to demonstrate integrity. The predecessor auditor did not mention a specific reason for the rotation, other than the fact that the audit was tendered after a five-year contract and the lowest bid was selected.

The company's statutes stipulate that its aim is to create shareholder value through the development of a range of quality cheeses sold to retailers and small shop owners at competitive prices. The company was founded in 1995 as a family business and has slowly expanded its business locally to become one of the major suppliers of pasteurized and unpasteurized sheep and goat cheese in the local market. The milk for the production of cheese has traditionally been used from sheep and goat from the company's own farms. Over the years, the company has been able to acquire some pastures and meadows, but the area is very mountainous – surrounded by many gorges and hills – which prevents any further expansion of the land. The animals roam around freely and come to the main barn to feed and for milking. The owner does not know the exact number of the livestock he owns at any given time. This was always an issue for the predecessor auditor since it was not possible to verify the precise value or quantity of the livestock in the company's accounting records.

The market for cheese is very much divided between different producers – customers tend to change their preferences quite often – so the company's market share is estimated at 6.5 percent. The company is considering expanding its export sales: approximately 20 percent of its current sales comprise exports to neighboring countries. The company is also considering entering its products into the EU market. The company assumes that it will have to meet some additional health and safety requirements in this case, but it is unsure about the details. There is also an expectation that the company will have to invest in new machinery and equipment, which have to be purchased in the EU. Current and future export sales and planned purchases of machinery and equipment would be denominated in Euros, which would result in fluctuating operating margins.

Although the production and sales of cheese seems to be the main activity of PC Ltd., the company also sells wool obtained from sheep shearing. The revenue derived from this activity comprises approximately 10 percent of the company's total revenue. Sheep shearing is especially difficult with the lambs, which tend to roam around, do not come for milking, and their precise numbers are unclear.

Communications with the predecessor auditor revealed that audit fees have increased as the company expanded its activity. Although there was a marginal delay in the fee collection, there were no audit fees outstanding at the time of the inquiry. Discussions with management have confirmed this. Last year PC paid EUR 6,000 for the statutory audit and EUR 2,000 for technical assistance relating to the preparation of financial statements and tax returns.

The audit team has estimated that the engagement partner in charge would account for about 15 percent of the total time spent on the project, while more junior auditors would carry out the rest of the work. Based on their previous experience with similar clients, the team does not expect to spend more than two weeks on this audit engagement altogether.

The planning of the engagement should be completed and reviewed during the first six months of the accounting year, and the interim audit should be performed and reviewed before the end of the accounting year. It is planned that the year-end audit be conducted and reviewed by the end of April following the accounting year and the auditor's report should be dated no later than one month after that.

Assignments

For the assignments below, please refer to Volume II – Documentation Templates and Examples:

- (i) Review the Example 1: Engagement Letter
- (ii) Based on the information provided complete the Template 2: Client/Engagement Acceptance Form.

Understanding the entity

PC is a small sized producer of pasteurized and unpasteurized sheep and goat cheese, which produces its own cheese to sell locally and for exportation. The company started as a family business in 1995 and has expanded since then. The current shareholding structure is as follows: Chairman of the board and founder — Svetozar Brankomat — owns 85 percent of the company, while a group of 10 local farmers owns the remaining 15 percent of the shares. Customers vary from medium size grocery store chains to smaller independent stores. Exports to neighboring countries comprise approximately 20 percent of sales. Sales of unprocessed wool comprise 10 percent of the total revenue.

Customers for the company's cheeses include: an international grocery chain which accounts for 100 percent of export sales; two local grocery chain, which account for 70 percent of domestic sales; and approximately 30 different family owned shops and supermarkets around the country, which account for 30 percent of domestic revenue. The customers for unprocessed wool include 10 different local clients – producers of woolen blankets, toys and tourist memorabilia.

Purchases include food for the livestock (grain and hay for the winter, specialized vitamins and additives), specialized bacteria colonies used in the production of cheese (most of them are imported) and some raw milk – the company has to purchase additional milk on the market in order to fulfill the planned production volumes. Suppliers of the additional milk mainly include minority shareholders – i.e. the 10 local farmers.

The company is planning to expand its activities and to enter the European Union (EU) market by expanding its cooperation with international grocery chains. Management is aware that in order to do so, the company needs to invest in new technologies to improve the cheese preparation process, while taking into account the improvement of health and security (HACCP). Details of the improvements required and how much it would cost the company is currently unknown. The company is considering hiring an external specialized firm to help with this process.

The company employs 12 people, of whom 10 are full time employees. The staff involved in the company's administration are: Svetozar Brankomat (Chairman of the Board and founder); Vesna Nebesna (Chief Accountant); and Gego Bioncev (Lawyer, part time). Nine people work in the production process and the maintenance of livestock, including one person who works part time.

Other operating expenses include the cost of business trips for Mr Brankomat and his family to various West European locations in order to “investigate potential export opportunities and market investigation”.

Fixed assets comprise office furniture, vehicles, and production equipment purchased in 2000. The company also owns some land and buildings, including production buildings and

barns for the livestock. Fixed assets are valued at cost and depreciated over their useful lives, as estimated by Mr. Brankomat based on information provided by the Chief Accountant. Valuation of the buildings and land has always been an issue – the predecessor auditor questioned the low valuation (buildings were almost fully depreciated), but the owner defended the figures by referring to the report of the local real estate agent who performed the valuation.

Current assets comprise mainly from finished goods inventories and accounts receivable. Accounts receivable are recorded at nominal value and the finished goods inventory at the selling price. The company has not experienced any problems with any obsolete inventory in the past, but the hard cheese production process requires some ageing. The collection of accounts receivables has always been a problem for the company. PC has two main types of customers: grocery chains and individual shop owners. Grocery chains have long payment terms – 60 days and they rarely pay on time. Individual shop owners have much shorter payment terms – the standard is 14 days, but they also never pay on time and major payment delays are not unusual.

The company has an open line of credit with one of the local banks – Farmers Bank – which it uses to finance any current deficits and the repayment of current liabilities, including liabilities for raw milk from local farmers. The company has a long term credit facility with one of the local banks – Investment Bank – which was used to finance the purchase of equipment and machinery. The remaining life of the loan is five years. The company also has a third current account with Balkan Bank.

There were limited amount of issues in previous audits related to the assessment of depreciation and impairment on receivables. There are no reasons to indicate any changes this year.

When accounting in foreign currency, the daily rates from the central bank are used as a reference. Monetary items denominated in foreign currencies are reevaluated at the exchange rate at year end. Fluctuations in exchange rates have led to foreign exchange losses and gains when settling accounts payables and receivables.

On 5 January, part of the inventory of unpasteurized goat cheese was returned to the company by a couple of local stores. The cheese was counted and included in the inventory balance at the year-end and included in the stock-take on 31 December. According to the explanation provided, this inventory was brought back because the shop owners complained that their customers had experienced stomach problems after eating cheese from a particular batch. The company owners maintained that the stomach problems had been caused by “too much celebrating on New Year’s Eve, as usual”, rather than the quality of product, especially since “this has never happened in the past”. The company is planning to rebrand the cheese from this batch and resell it at a discounted price to a local grocery chain in mid-January.

On 30 December one of the barns which was being renovated caught on fire and completely burned down. Luckily, this happened during the day when the animals were outside so no major damage occurred to the livestock. The barn was insured and PC included the expected receivable amount of EUR 200,000 from the insurance company in the financial statements.

Because of the issue with the barn, the company decided not to physically count the sheep and goats this year and instead to value the livestock at the same amount as last year. Counting live animals is always problematic as they prefer to roam around and some never return to the barn. The company is relying on auditors to come up with ideas about how to count the animals more accurately.

External conditions

The market for cheese is largely divided between different producers – customers tend to change their preferences quite often – so PC's local market share is estimated at 6.5 percent. The company's revenues have decreased over the last six years mainly due to increased competition and unfavorable economic conditions. The customers are not particularly loyal to one brand of cheese or to one producer and there are many players so the market could be volatile, especially in cases of bad press or issues with product quality.

The company is hoping to expand its sales using the trend for healthy lifestyles and new diets: more people are aware of a lactose intolerance to cheese made from cow's milk, and the fact that sheep and goat cheese contain less fat, etc. However, this expansion will also need an investment in advanced technology and know-how, which at present is not available in house.

In a recent local newspaper article, Mr. Brankomat was featured in an interview speaking about his great deeds for the local community, such as financing a small monument of their patron in front of the local school which was designed by a talented artist who happens to be Mr. Brankomat son. In the interview he also explained how the company has donated a certain amount of cheese to local families in need. Mr. Brankomat has also financed a few children's playgrounds for the local community featuring logos of the various cheese brands produced by PC. He is also considering initiating a larger project in the future: a PejaSko Cheese amusement park for children featuring the great nutritional qualities of local milk and cheese products.

There have been some recent changes in the Personal Income Tax law but it is unclear at present how the company will be affected. The changes need to be implemented by February following the current year-end. The company's lawyer is currently conducting some investigations regarding these matters, mainly by approaching other companies in similar situations and inquiring how they propose to address these changes in the law.

The company is subject to the country's laws relating to its operations and reporting through the Accounting Act, Tax Act, VAT Act and Bookkeeping Act.

Internal factors

The predecessor auditors explained that the company's Chairman is closely involved in the company's operations - he likes to have the final word regarding any decision affecting the operations. He is middle aged and has a son and a daughter who could potentially follow in his footsteps in the future. At the moment, they are mainly interested in art and travel and are not really engaged in the business. Mr. Brankomat's state of health is unknown, but there are some indications that he should take a closer look at these aspects in the future. When he broke his leg two years ago it caused a lot of inertia in the company's decision-making process. Luckily, this happened in the low-season so the business was not too adversely affected.

It seems that Vesna Nebesna (Chief Accountant) is suitably qualified to carry out the assigned responsibilities of combined Chief Accountant and HR manager, especially since she has been working for the company from the beginning. The final operational and financial decisions regarding the company are made by the Chairman of the board and founder, Svetozar Brankomat, who is also solely responsible for developing the company's strategy. Mr. Brankomat is well experienced in running the business and knows the production process well. However, he finds issues related to accounting and auditing overwhelming and although he likes to have the final word on everything, he relies on advice from the company's Chief Accountant.

Segregating duties is a key issue for the company, which means that auditors cannot rely entirely on internal controls in the audit. The predecessor statutory auditor revealed that in the past there had been instances when the Chairman overused the company's funds (hospitality, representation, petty gifts), but so far these expenses could always be justified businesswise. The auditor has therefore never been overly concerned about the ethical issues within the company since the practice at PC was no different to other audit clients.

The Chief Accountant is generally regarded as very competent, although she tends to make estimates that are too approximate and mostly undervalued (this seems to be because of the majority shareholder's influence). The predecessor auditor also supports these assessments. Some technical assistance will be necessary in connection with the preparation of the financial statements, although it is mainly the Chief Accountant is who responsible for this process (the annual report and financial statements).

The Chief Accountant prepares a limited scope quarterly financial statement which is presented to the Chairman/owner. The Chairman has a limited understanding about the data contained in the statement; he is only interested in the amount of taxation that the company pays (possibly minimal). In some instances, the Chairman requests explanations of certain figures and budget variances from the Chief Accountant. In addition, every six months the company reports the limited financial performance indicators (unaudited) to the banks that loaned the money. The loan covenants stipulate that the audited year-end financial

statements must be presented to the bank within five months following year-end. The minority shareholders do not receive any financial information during the year. They receive the company's audited financial statements but they have limited knowledge and interest in financial matters – they are only concerned about maximizing the amount of dividend which they will receive (this is usually the issue which causes many disputes) and minimizing the amount of tax which the company pays.

The biggest threat for the company in the short term is to lose one or two of the chains which collectively account for about 50 percent of PC's turnover. Work is therefore focused on reducing PC's dependency of these chains by securing more small retail companies and increasing exports.

The company uses a standard IT-based accounting and reporting system - "Buchalter"- to record, process and report relevant financial data. The system is integrated with the company's key processes for purchasing, sales and payroll, with necessary individual customizations conducted in cooperation with the system's provider. Payments for raw milk and other production supplies are made using electronic banking with the three banks with which the company has accounts. The payments are authorized by both Mr. Brankomat and the Chief Accountant. In some cases, especially during Mr. Brankomat's holidays, the Chief Accountant authorizes the payments using her password and that of Mr. Brankomat. According to the Chief Accountant: "The payments cannot wait and the suppliers are getting anxious since they want to get their money as soon as possible." Mr. Brankomat allegedly controls all such payments made from the company's main account after he is back in the office. In the event of Mr. Brankomat checking other, less important and less material payments, the effectiveness of such a control and verification system is under question and the auditor should investigate this further.

The IT system is maintained by an external IT consultant, although all the data is stored at the company's premises. The physical accounting records are also stored with the company (in one of its barn buildings) for the duration required by the local Accounting Act.

Assignments

For the assignments below, please refer to Volume II – Documentation Templates and Examples:

- (i) Based on the information provided, complete Template 3: Understand the Entity and its Environment.
- (ii) Based on the information provided, complete Template 4: Entity level Control Form. Document your conclusion on the overall effectiveness of the entity level environment in PC.
- (iii) Refer to Template 5: Fraud Considerations and document your findings.

Planning the engagement

Planning analytics

The current year's financial results are not available yet and are currently under preparation. PC's interim financial performance has not been great as sales have continued to decrease in the current year given the slow movement in the economy and the increased competition in the market segment. Mr. Brankomat is confident that this is just a temporary situation as the quality of the cheese and the company's reputation are impressive.

Table 2 and Table 3 show the development of key figures over the last two years and last year's results against the budget.

Table 2. The company's key figures are as follows (last year's financial results and budget):

In Euro million (converted from local currency)	Last year - Actual	Last year - Budget	Act. vs Budget (mEUR)	Act. vs Budget (%)
Revenue	1,30	1,60	(0,30)	(19%)
Cost of sales	0,60	0,50	0,10	20%
Payroll	0,25	0,20	0,05	25%
Other operating expenses	0,20	0,15	0,05	33%
Depreciation	0,12	0,12	-	0%
EBIT	0,13	0,63	(0,50)	(79%)
Net financial costs	0,05	0,03	0,02	67%
Income taxes	0,01	0,10	(0,09)	(90%)
Net profit	0,07	0,50	(0,43)	(86%)
Fixed assets	0,30	0,42	(0,12)	(29%)
Current assets	0,60	0,45	0,15	33%
Equity	0,10	0,10	-	0%
Long term liabilities	0,20	0,30	(0,10)	(33%)
Short term debt	0,10	0,21	(0,11)	(52%)
Other liabilities	0,50	0,26	0,24	92%

Table 3. The company's key figures are as follows (last year's financial results versus previous year actual results):

In Euro million (converted from local currency)	Last year – Actual	Year before last - Actual	Act. vs Act. (mEUR)	Act. vs. Act. (%)
Revenue	1,30	1,51	(0,21)	(14%)
Cost of sales	0,60	0,60	-	0%
Payroll	0,25	0,20	0,05	25%
Other operating expenses	0,20	0,24	(0,04)	(17%)
Depreciation	0,12	0,12	-	0%
EBIT	0,13	0,35	(0,22)	(63%)
Net financial costs	0,05	0,04	0,01	25%
Income taxes	0,01	0,01	-	0%
Net profit	0,07	0,30	(0,23)	(77%)
Fixed assets	0,30	0,40	(0,10)	(33%)
Current assets	0,60	0,20	0,40	67%
<i>Including inventory</i>	<i>0,24</i>	<i>0,10</i>	<i>0,14</i>	<i>58%</i>
Equity	0,10	0,10	-	0%
Long term liabilities	0,20	0,15	0,05	25%
Short term debt	0,10	0,15	(0,05)	(50%)
Other liabilities	0,50	0,20	0,30	60%

Materiality

Policy

The audit methodology followed by Best Audit Ltd. requires the establishment of planning materiality prior to the commencement of detailed testing, i.e. at the planning stage. The methodology requires that materiality is revised if information is revealed in the course of the audit assignment that would have caused the auditor to set a lower materiality. In practice, the need to re-assess materiality is considered during the conclusion of the audit, prior to issuing the opinion (final materiality).

In order to reduce the risk that the aggregate total of uncorrected misstatements could be material to the financial statements, Best Audit Ltd. establishes performance materiality as an amount that is less than the materiality for the financial statements as a whole; this includes materiality that is applied to particular transactions, account balances or disclosures.

The performance materiality threshold is set in the range between 50 and 75 percent of materiality for the financial statements, based on expectations of errors in the financial statements. A high limit means less room for non-exposed (possible) and uncorrected (known and probable) errors. It is highly unusual to use the higher end to set performance materiality thresholds in first year audits.

The limit of trivial errors is normally 10 percent of the performance materiality. All errors of this amount — individually or on aggregate — are considered when forming the audit opinion.

Calculation

Determining materiality involves exercising professional judgment. A percentage is often applied to a chosen benchmark that could be either: profit before tax; total revenue; gross profit and total expenses; total equity; or net asset value. If a benchmark other than profit before tax is considered, then the reason for this needs to be documented.

The following percentages are provided as indications of possible ranges for materiality:

- 0.5% to 1% of gross revenue;
- 1% to 2% of total assets;
- 1% to 2% of gross profit;
- 2% to 5% of shareholders' equity;
- 5% to 10% of net profit.

Best Audit Ltd. normally considers the following factors that may affect the identification of an appropriate benchmark for calculating materiality: (i) the nature of the entity and the industry; (ii) the economic environment in which the entity operates; (iii) the entity's ownership structure and the way it is financed (financed by debt vs equity); (iv) volatility of the benchmark; (v) whether there are items of more attention to the users of the entity's financial statements (e.g. profit, revenue or net assets).

Profit sharing, including dividend payments to the Chairman and minority shareholders, is considered a specific circumstance where possible errors lower than the overall materiality limits can be expected to affect users' economic decisions. This indicates that there is a need for greater precision, i.e. a lower specific materiality threshold (with associated performance materiality threshold) for the revenue transactions, and related disclosures.

From the correspondence obtained from previous auditors, it is evident that insignificant errors have been corrected by management in the past if they are uncovered by the auditors.

Risk analysis and approach

The following routine and non-routine classes of transactions, inherent risk factors and related audit areas have been identified:

Table 4. Identified routine and non-routine classes of transactions, inherent risk factors and related audit areas

Processes	Process type	Inherent risk: Significance	Inherent risk: Likelihood	Related audit area
Sale of goods	Routine	High	Medium	Revenue, receivables, estimates
Purchase of goods	Routine	High	Medium	Cost of sales, inventory, fixed assets, Other operating expenses, Payables
Payroll	Routine	Medium	Small	Payroll
Various financial processes	Non-Routine	Small	Small	Financial transactions
Various financial processes	Non-Routine	Medium	Medium	Taxation
Various financial processes	Non-Routine	Small	Small	Transactions of equity and dividend payments
Estimates	Non-Routine	Medium	Medium	Provision for bad debt, depreciation, claims provision, Inventory obsolescence, claims provision
Proceeds	Routine	Medium	Small	Bank and cash, receivables
Payments	Routine	High	Medium	Bank and cash, payables

Classes of Transactions are a classification in the financial statements in natural groups of transactions and related events that have common characteristics. The process comprises a group of logically related activities that transform inputs into outputs, which has a process owner (a person who is ultimately responsible for the process), process inputs (e.g. the material, capital, human resources and information that a business process receives and acts

upon in order to transform it into its output), process activity (a specific deed, action or function designed on its own or with other related activities to turn input into output) and process outputs (items transformed by a process for the benefit of the customer or for use as an input in a later process or activity). Routine processes are those that happen often – for example, they might occur every day and are standardized in nature. Transactions that are similar in nature and value could be automated. Non-routine transactions are non-frequent or even rare and are non-standardized in nature; they could require the preparers and approvers of financial statements to use their professional judgment. Non-routine transactions could also be challenged by other stakeholders, as they involve opinions and human judgement which could prioritize different arguments when reaching a conclusion.

The inherent risk can be broken down into significance and likelihood. A high degree of significance means that the inherent risk of errors at the assertion level is of such a nature that material misstatement may occur regardless of internal controls. The probability or likelihood is that the inherent risks referred to above will occur and will result in a material misstatement.

The table below provides information about the identified fraud risk factors:

Table 5. Identified fraud risk factors

Classes of transactions	Process type	Inherent risk: Significance	Inherent risk: Likelihood	Related audit Area
Revenue recognition	Routine	High	Medium	Revenue, receivables, estimates

Assignments

For the assignments below, please refer to Volume II – Documentation Templates and Examples:

- (i) Complete the documentation required in Section 1 of the Audit Planning Memorandum Template 6;
- (ii) Complete the documentation required in Section 2 of the Audit Planning Memorandum Template 6;
- (iii) Complete the documentation required in Section 3 of the Audit Planning Memorandum Template 6;
- (iv) Refer to Example 7 Internal Control Review Example and H8 Walkthrough documenting the work on Payments.

Further audit procedures

Through the inquiry and inspection procedures, you will become familiar with PejaSko's processes and classes of transactions, as described in the following section.

Revenue

Sales orders

The sales orders placed by grocery chains are received by e-mail, usually once or twice a week, with the detailed schedule of expected pickups and orders entered into the order system. The sales orders from local shops are received by phone and are also entered into the order system. All orders are entered into the system by the warehouse manager who also performs a role in the sales department. Orders received must be authorized electronically in the system by the Chairman, who has information about the current balance of outstanding receivables and the amount of revenue from the customers within the last three months, the last six months, and the last year. While Mr. Brankomat is on holidays, the Company Lawyer approves sales orders for him. These orders are counter approved by Mr. Brankomat, once he is back from his holidays.

The warehouse personnel print the approved order, which is sent to the customer via email or fax. If the customer has not provided further feedback within three days prior to shipping, the order is automatically given the status "sale orders ready for delivery".

If the order is from a new customer, the Chief Accountant performs a credit rating. The customer files a standardized form for credit assessment, attaching the necessary legal documents and financial data. The financial data is assessed by the Chief Accountant and the legal documents are checked by the company's lawyer. Once the documents have undergone this scrutiny, final approval is required from the Chairman, who also grants payment terms (including the sales prices, payment terms, etc.) and is involved in negotiating the prices and other terms of trade with the customer.

The Chairman updates the sales prices in the accounting software: the Chairman and the company's lawyer are the two people in the company authorized to make these changes. The company decided not to establish credit limits because "it is too much hassle to review them periodically". Mr. Brankomat also cross-references the prices and payment terms periodically by comparing the sample of actual sales invoices with the prices recorded and authorized in the accounting software. This is done in order to eliminate the risk of manipulating sales prices and changing them without management's authorization. The person responsible for collecting outstanding debts and contacting the customers is the Chief Accountant. In the case of larger outstanding balances, the Chairman is also involved in the process.

At the time of delivery, the warehouse employees print the order confirmation from the sales order system, collect the goods from storage and load them into the delivery van. Before shipping, all items are scanned and the status of the order is changed to "order shipped, not invoiced". In the case of deliveries to individual shop owners, the goods are delivered by PC. In the case of orders placed by grocery chains, they organize transport to collect the inventory.

The orders are invoiced by the Chief Accountant periodically and - even on a daily basis if required. The sales invoices to individual shop owners are printed and delivered along with the inventory. The shop owner or shop assistant confirms the quantity delivered by signing the delivery note, collects the original sales invoice and confirms (via signature) the copy of the sales invoice that is taken back to PC's accounting department. After obtaining the signed copy of the sales invoice, the Chief Accountant changes the status of the order in the system to "order shipped and invoiced". The printed version of the order is kept together with the accompanying copy of the invoice (for bookkeeping purposes) numerically in a separate voucher binder. Once a month, the Chief Accountant performs a review of the "orders shipped not invoiced" with the warehouse manager to make sure that all invoices and revenues are properly recorded.

Invoices for the grocery chains are issued after physical delivery based on the signed delivery note and posted to the clients.

Estimates

Provision for bad debt: the Chief Accountant reviews the accounts receivable once a year before preparing the annual financial statements to assess the need to offset for bad debts and make an estimate for bad debt provisions in the financial statements. The list with the suggested amount of provisions is then given to the Chairman, who approves the final assessment. Obvious bad debts are recognized and based on experience from previous years, 5 percent of the total balance at 31 December is booked as provisions for bad debts, if there are no indicators of larger losses.

Claims Provision: Each year the Chief Accountant, the company's lawyer and Svetozar Brankomat discuss the need for this type of provision. However, in the end no amount has been provided due to the absence of possible claims.

Inventory obsolescence: Due to the nature of quick circulating inventory, PC has no formal policy for provisioning its products. The warehouse manager reviews the inventory levels twice a week and identifies the stock that could have expired. Due to the nature of PC's business, it is very rare for the warehouse manager to identify expired inventory. However, in such situations, the warehouse manager informs the Chief Accountant, who estimates the level of provision, if necessary. No formal procedure exists.

Upon review, you have noted the following internal controls in the routine that you believe reduce the assessed risk of material misstatement regarding the completeness of the assertions, the accuracy of the amounts recorded on the account balance of sales, and the existence and valuation of account balances of receivables:

- Credit assessment and granting of trade terms (all new customers are subject to a credit rating);
- Orders sent but not invoiced; reconciliation performed by the Chief Accountant;
- Establishing the terms of trade and monitoring of prices, payment terms.

Purchase of goods

Orders

The purchase of goods includes food for the livestock (grain and hay for the winter, specialized vitamins and additives), specialized bacteria colonies used in the production of cheese (most of which are imported) and some raw milk – the company has to purchase additional milk in order to fulfill the planned production volumes. The suppliers of the additional milk comes mostly from the 10 local farmers who are also minority shareholders of PC.

The main technologist is responsible for purchasing the raw milk and additives used in the production process. The raw milk is delivered every day by farmers. There is no requirement for a special ordering process for raw milk. The technologist confirms the quantities of milk upon delivery and collects its samples, which are then sent to the external lab for sanitary control. In the meantime, the milk is sent to the production process while the samples are being checked. The sanitary conditions have been checked many times on site and farmers have undergone several training courses in the sanitary procedures. The strict rules have ensured that the company has never experienced any major issues regarding the quality of the raw milk purchased.

The technologist confirms the quantity of milk delivered on the delivery note, which is also signed by the farmer. Once all deliveries have been made, the delivery notes are forwarded to the Chief Accountant, who collects them. Deliveries during the weekend are confirmed by the designated person in charge of the production process over the weekend. Every 10 days, the Chief Accountant prepares a summary for each farmer based on the daily delivery notes from the last 10 days and makes the payment for the raw milk. The farmers obtain a summary from the technologist with the following delivery. In case of any dispute, the farmers deal with the technologist regarding issues of quantity, or with the Chief Accountant concerning prices or payment conditions. Disputes are rare in practice.

The main technologist controls the inventory of additives used in the production process and makes the purchase orders accordingly in the system. The purchase order is approved electronically by the Chairman. After this stage, the warehouse manager records the purchase

order in the warehouse system as "ordered, not received" with respect to quantity and agreed price and terms. The main technologist then makes the order with the supplier. Orders are placed based on the technologist's previous experience as a result of the production plan. There is no maximum order level in place.

Purchases of other goods and services are placed by staff in charge of specific area of the business and are generally made in writing, but also via telephone, internet or e-mail. All orders above EUR 500 must be approved by Mr. Brankomat, while smaller orders below EUR 500 can be approved by the Chief Accountant.

Receipt of goods

The technologist confirms the quantity of raw milk upon receipt of the delivery note, which is also signed by the farmer. Physical copies of the delivery notes are forwarded to the Chief Accountant.

Upon delivery of other inventory items, the warehouse manager matches the quantity of the delivery to the purchase order. He then updates the delivery note in the system with the quantity and changes the status to: "ordered, received".

When poor quality items are received or if items are missing from the order, the warehouse manager makes relevant notes in the system and on the delivery note, and also informs staff involved in the purchase process accordingly.

The company has a number of small and medium-sized suppliers in the EU so some accounts payable are denominated in Euro, and unrealized and realized foreign exchange differences can arise.

Receipt of Invoice and bookkeeping

The Chief Accountant enters the purchase invoices received by post into the accounting system. Purchase invoices have already been confirmed (by stamp and signature) by the warehouse (quantity) and the production/technology department (price, quantity wanted). If the invoice relates to production inputs, the price file and the cost of goods are updated at the same time. Invoices are organized in the journal for invoices in a separate binder for inbound invoices.

Fixed assets

Fixed assets comprise office furniture, vehicles, and production equipment purchased in 2000. The company also owns some land and buildings: production buildings and barns for the livestock. The valuation of the buildings and land has always been an issue with the company – the predecessor auditor questioned the low valuation (buildings were almost fully

depreciated) but Mr. Brankomat defended the figures by referring to the report of the local real estate agent, who performed the valuation.

The company's policy states that purchased fixed assets with a value of over 1,000 EUR are registered in the fixed assets register if the economic life exceeds one year. Purchases of items of fixed assets with a value equivalent to 1,000 EUR and an economic life span of less than one year are expensed directly. Fixed assets are valued at cost and depreciated over their useful lives, as estimated by Mr. Brankomat based on information provided by the Chief Accountant. In some cases the company may — for simplicity — use depreciation rates and limits allowable for tax purposes, which do not always reflect the economic life of the assets.

Live-stock is valued at initial recognition and at subsequent reporting dates at fair value less estimated costs to sell, unless fair value cannot be reliably measured. The live-stock is valued as a biological asset (in accordance with IAS 41) only when the entity controls the asset as a result of past events and it is probable that future economic benefits will flow to the entity, and the fair value of the asset can be measured reliably. The change in fair value of biological assets that is part physical change (growth, etc.) and part unit price change is not separately disclosed (IAS 41 encourages separate disclosure but it is not required).

Physical inventory count

The company has prepared inventory count instructions, which include matters that must be planned and considered when the count is carried out, including the timing of product input and output during the count.

Fixed assets are counted once a year – usually at the end of the year – around December 31.

An inventory count is performed once a year – usually at the end the year – around December 31. At the time of stocktaking, deliveries and goods to be dispatched are put on hold. The warehouse manager performs a physical inventory count of dairy products in the warehouse which entails finished goods, items of inventory used in the production process, and food for the livestock. Firstly, he performs a physical inventory count and then reconciles the result with the inventory register. The technologist is also present during the count – he selects the sample of items that have already been counted and recounts them for control purposes and to ensure the greatest accuracy of the figures. During the count, the technologist takes a closer look at the quality of production and tries to identify any obsolete items. This is carried out based on the following: the technologist's inspection experience (looking, smelling, comparing); information from the lab about the characteristics of the selected batch of work-in-progress; finished goods; and verifying the tags of products with expiry dates. The production process continues during the physical count. Items of the finished and unfinished inventory at the production line are counted at the end of the stock-count process and only then finished items are moved to the warehouse. The results of the physical count are verified by the warehouse manager and the technologist, who both sign off before forwarding the

results to the Chief Accountant, who enters them into the accounting register. There the difference between the real inventory and the hypothetical; accounting balances of the inventory are recorded. Any major discrepancies are investigated before correcting them in the accounting software.

The livestock are counted once a year – usually at the end the year – around December 31. However, because of the issue with the barn this year, the company decided not to physically count the sheep and goats and instead value the livestock at the same amount as last year. Counting live animals is always problematic as they prefer to roam around and some never return to the barn. The company is relying on auditors for ideas regarding the most effective ways to count the animals and improve the counting method of the livestock, possibly using the most technologically advanced tools or services that are currently available (geo tagging, GPS based solutions, etc.).

Upon review, you have noted the following internal controls in the system that you believe reduce the assessed risk of material misstatement regarding the assertion of existence and accuracy of the recorded amounts on the account balance of purchases and other expenses, and the existence and valuation of account balances for fixed assets, inventories and payables:

- Approval of orders for goods and other orders above EUR 500 by the Chairman (authorization control);
- Control of receipt of goods (reconciliation and measurement of quantities, matching quantity delivered to purchase orders);
- Ingoing invoice review (confirming the quantity of purchase invoices by the warehouse and the price/quality by the technologist);
- Price and conditions review (confirming purchase invoices quantity by warehouse and price / quality by technologist);
- Inventory count and reconciliation of the inventory system;
- Obsolescence checks during the count.

Payroll

Each of the company's 12 employees draw a fixed salary. The Chief Accountant is, in addition, entitled to a bonus and personnel are entitled to a fixed salary with overtime pay.

Remuneration is a fixed advance (approximately half a month's salary) paid on the 20th of each month, while the remaining fixed salary, inclusive of any overtime hours, is paid on the 5th of the following month.

The Chairman has a fixed salary and is entitled to profit sharing in the form of a dividend, based on the company's annual results.

The payroll calculation, including overtime, is performed by the Chief Accountant. The payroll list, including the calculation of overtime, is approved by the Chairman before the payment. Overtime hours for production workers are approved by production manager. Overtime for other departments is approved by line managers or by Mr. Brankomat directly.

Employment contracts, tax information and other personnel information are collected and stored in the accounting office, which also plays the role of the HR department.

Every month, the system produces a deviation report showing differences between the actual payroll costs for the current month versus the costs for the previous month and the costs for the same month the previous year. Any differences above 10 percent are investigated.

The fixed salary is normally reviewed for adjustments before the end of June every year, until the end of the month. The reviewed salary is determined by the Chairman together with the line manager and the company's lawyer, with Mr. Brankomat authorizing the documents that have a salary adjustment. The salaries of Mr. Brankomat, the Chief Accountant and company's lawyer are reviewed and confirmed by Mr. Brankomat in his capacity as Chairman. The company's lawyer updates the change log from the payroll system which shows both the old and new salaries. The log is reviewed and signed by Mr. Brankomat.

The bookkeeping of wages, including social security tax, and holiday pay, is done in the payroll module of the accounting software. Records are kept in the accounting department for five years (for the calculation of wages, including social security tax, and holiday pay) and indefinitely (for employment contracts, including salary adjustments).

Upon review, you have noted the following internal controls in the system that you believe reduce the assessed risk of material misstatement regarding the occurrence assertions and accuracy of the amounts recorded in the payroll's account balance:

- Deviation report (major differences between the actual payroll costs of the current month are being investigated versus the cost of the previous month and the cost of the same month the previous year; reported internally to the Chairman, commented on or followed up, if needed);
- Change log (the Chairman reviews and signs the changes in the fixed salary of the employees).

Various processes

Taxes

Corporate Income Tax is 20 percent. The Chief Accountant calculates the company's taxes quarterly throughout the year; the final Corporate Income Tax return is made for the entire

year until 31 March of the following year. Despite the fact that the Chief Accountant is highly intelligent and experienced in the field, she needs some guidance from the auditors regarding recent changes in the Personal Income Tax. This tax requires the company to withhold tax from individual suppliers of raw milk in certain circumstances. It is unclear at present how the company will be affected and whether a provision for withholding tax is due. The changes need to be implemented by February. The company's Lawyer is currently conducting some investigations regarding these matters, mainly by approaching other companies in similar situations and asking them how they plan to proceed.

The other tax related issues concern withholding taxes on dividend payments. The company pays such a withholding tax to its shareholders who are not very familiar with tax laws and are therefore unable to verify the accuracy of the calculations. Although this area is relatively immaterial, due to its non-routine nature, the Chief Accountant has requested that it be audited.

Value Added Tax

PejaSko calculates the output VAT on its sales and has the right to deduct input VAT on its purchases. Based on the correct VAT code, the accounting system produces a basis for preparing the quarterly VAT reports. The VAT declarations are reconciled by the Chief Accountant against the amounts stated in the accounting records (on a quarterly basis) and against the amounts showed in the financial statements for VAT before reporting them to the tax authorities (when preparing financial statements).

Short- term and long-term debt

The company has a short term debt – an open line of credit with one of the local banks, Farmers Bank – which it uses to finance any current deficits and repayment of current liabilities, including liabilities for raw milk from local farmers.

The company has a long term credit facility with one of the local banks – Investment Bank – which was used to finance the purchase of equipment and machinery. The remaining life of the loan is five years.

The company has a third current account with Balkan Bank but the Chief Accountant explained that this account is dormant and the balance is currently zero since there have been no transactions on this account for almost one year, the reason being unfavorable banking terms offered by Balkan Bank.

The Chief Accountant provides for the payment of interest and principal when due and accrues for unpaid interest at the year-end, which are disclosed in the financial statements.

Equity

The current shareholding structure is as follows: The Chairman of the board and founder, Svetozar Brankomat, owns 85 percent of the company while the group of 10 local farmers owns the remaining 15 percent of the shares. Traditionally, the company has been mainly profitable and has been able to provide its shareholders with solid and profitable earnings. However, due to strong competition and saturation of the local market, the profits in the last couple of years have downward trend, which disturbs all shareholders. The Chief Accountant gets technical assistance from the auditors every year to calculate the maximum dividends, which are presented to the shareholders, who determine the size of the dividend for the accounting year.

Bank & Cash

Bank Deposits

The company's liquidity position is stable although it has temporary cash-flow problems, which is why an overdraft facility - an open line of credit - was established. The overdraft is being used to finance any current deficits and the repayment of current liabilities, including liabilities for purchasing raw milk from local farmers.

The company has three bank accounts in three banks and Mr. Brankomat is the authorized signature in each case.

In addition, there is a petty cash box of up to EUR 1,000 available at any time.

Payment Procedures

Proceeds from trade and other receivables are made by electronic payment, so that the payment goes directly into the bank account. In most cases, payments to suppliers for goods or services are also made by electronic payment.

Payments to suppliers are based on a weekly proposal produced by the accounting system based on the registered due dates of invoices. Payments are made via electronic banking with the three different banks with which the company has accounts. The payments are authorized by both Mr. Brankomat and the Chief Accountant.

The two monthly wage payments and other benefits are approved in a similar manner. The documents and records are archived in their own voucher binder for the current year in date order according to the bank statements.

Once a payment is received (accounts receivables) or made (accounts payables), the document from the bank (bank statements) is accounted for in the accounting software as a receipt or payment.

If the payment made is in foreign currency, the foreign exchange difference between the transaction value in the supplier specification and value of the payment is booked as financial costs/income. Exchange rates are automatically uploaded in the system.

Bank Reconciliation

The Chief Accountant reconciles monthly bank statements against the account balance of the general ledger and explains differences or unexplained items between the bank statements and the general ledger. The bank reconciliation is then submitted to Mr. Brankomat for review and approval of the reconciliation.

Cash expenses

Expenses under EUR 300 can be paid in cash. The Chief Accountant usually makes cash withdrawals once a week when visiting the bank and keeps the proceeds locked in a secure safe at PC's premises. The key to the cash box is only available to the Chief Accountant and Mr. Brankomat.

Consider testing the following:

- Authorizing payments (all payments made in the online banking system shall be approved by another person with authorization),
- Bank reconciliation (the bank is reconciled each month and open items are explained),
- Automated upload of exchange rates in the accounting system (automated control).

Sampling Guidance

The audit methodology followed by Best Audit recognizes that an auditor may choose between a statistical and a non-statistical approach to audit sampling. Most often auditors are required to utilize a randomly selected sample to gain comfort over the population, however when the auditor aims to conclude on a population in monetary amounts, rather than the rate of occurrence, then monetary unit sampling (MUS) is used. The MUS sample is selected based on each item having a chance of selection proportional to its size and is most often used when sampling to test accounts receivable, inventory or loans receivable.

Sampling intervals are calculated with the use of performance materiality levels previously agreed, which are then adjusted (divided by) for confidence (risk) factors taken from the IFAC "Guide to using ISAs in the audit s of small and medium sized entities". The following table is used for this purpose:

Table 6. Calculating sampling intervals

Risk Reduction Required	Confidence Level	Confidence Factor
High	95%	3,0
Moderate	80-90%	1,6 – 2,3
Low	65-75%	1,1 – 1,4

For example with the 95% confidence level, the confidence factor to be used would be 3.

Further, when testing internal control over compliance, as the auditor is primarily concerned about the rates of deviations from a prescribed control, or in tests of compliance, the auditor is concerned about whether or not there is evidence of compliance, attribute sampling is applied. Attribute sampling involves selecting a small number of transactions and making assumptions about how their characteristics represent the full population of which the selected items are a part.

The tables below provide suggested minimum samples sizes for control testing:

Table 7. Minimum sample size: large sample size (above 250 items) and “0” deviations expected

Inherent Risk: Significance	Inherent Risk: Likelihood	Minimum Sample Size
High	High	60
High	Medium	40
Medium	High	40
Medium	Small	25

Table 8. Minimum sample size: small sample size (below 250 items) and “0” deviations expected

Frequency	Minimum Sample Size
Quarterly	2
Monthly	2-4
Semi-monthly	3-8
Weekly	5-9

Assignments

For the assignments below, please refer to Volume II – Documentation Templates and Examples:

- i) Calculate the sample for confirming accounts receivable using the information provided in Template 9;
- ii) Use Template 10 to select controls for testing and required sample sizes;
- iii) Use Template 11 to design substantive procedures of fixed assets, receivables, cash and bank, revenues, and cost of sales.
- iv) Use Template 12 to design audit procedures to test estimates;

Closing audit procedures

Year-end closing process

The Chairman and the company's lawyer perform a review regarding any claims and liabilities that may have changed or occurred after year end.

The financial statements are prepared by the Chief Accountant and are submitted to the Chairman for signature. A short report is prepared by the Chief Accountant explaining variances against the budget after gathering input from the relevant departments and Mr. Brankomat.

Audit closing process

Compliance with accounting regulations, preparation of tax returns, financial statements and notes have been reviewed and concluded to be adequate.

The Chairman and the company's lawyer discuss the assessment of going concern, which has not been problematic in the past because of decent results in previous years and a relatively stable liquidity position.

The company does not have any board minutes. Meetings between the Chairman and the lawyer are documented in the form of short notice if they relate to issues that are vital for the existence or operations of the company.

Review these notes and take note of any significant matters for follow-up. Obtain financial statements/accounting reports for the period after the year-end. Look for unusual fluctuations, unusual transactions, or other unexpected items.

Consider whether any experts are used and perform required audit procedures.

Review significant entries in the year-end closing process and test unusual and significant entries.

According to ISA 580, management should also provide you with a management representation letter.

During the audit a few audit differences had been noted arising from accounts receivable circularization that cumulatively represent less than 0,05% of net profit. Prepare a summary of audit differences and consider their effects on the financial statements (the summary of audit differences forms part of the representation letter and should be signed for acknowledgement by management).

Perform a final analytical review to check if there are any indications of trends, relationships and other key ratios that indicate that the financial statements contain material errors.

Document your work in a Summary Review Memorandum and conclude on the audit.

Table 9. The company's closing figures as presented in the financial statements are as follows (current year's financial results versus previous year actual results):

In Euro million (converted from local currency)	Current year - Actual	Last year - Actual	Act. vs Act. (mEUR)	Act. vs. Act. (%)
Revenue	1,15	1,30	(0,15)	(12%)
Cost of sales	0,45	0,60	(0,15)	(25%)
Payroll	0,24	0,25	(0,01)	(4%)
Other operating expenses	0,30	0,20	0,10	50%
Depreciation	0,08	0,12	(0,04)	(33%)
EBIT	0,08	0,13	(0,05)	(38%)
Net financial costs	0,04	0,05	(0,01)	(20%)
Income taxes	0,01	0,01	-	0%
Net profit	0,03	0,07	(0,04)	(57%)
Fixed assets	0,20	0,30	(0,10)	(33%)
Current assets	0,70	0,60	0,10	17%
<i>Including inventory</i>	<i>0,40</i>	<i>0,24</i>	<i>0,16</i>	<i>67%</i>
Equity	0,10	0,10	-	0%
Long term liabilities	0,10	0,20	(0,10)	(50%)
Short term debt	0,15	0,10	0,05	50%
Other liabilities	0,55	0,50	0,05	10%

Assignments

For the assignments below, please refer to Volume II – Documentation Templates and Examples:

- (i) Use Template 13 to prepare sections of the Audit Conclusion Memorandum.

