

# HOLMES

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## INSTITUTE



### **HI6026 Audit, Assurance and Compliance TRIMESTER 1, 2017 INDIVIDUAL ASSIGNMENT 1**

**Assessment Value: 20%**  
**Instructions:**

- This assignment is to be submitted in accordance with assessment policy stated in the Subject Outline and Student Handbook.
- It is the responsibility of the student who is submitting the work, to ensure that the work is in fact her/his own work. Incorporating another's work or ideas into one's own work without appropriate acknowledgement is an academic offence. Students should submit all assignments for plagiarism checking on Blackboard before final submission in the subject. For further details, please refer to the Subject Outline and Student Handbook.
- Answer all questions.
- Maximum marks available: 20 marks.
- Due date of submission: Week 6, Friday.

## Assignment Question (1) (10 Marks)

You are an audit manager with Clarke & Johnson (CJ). For the past years CJ has been the auditor of luxury Travel Holidays LTD (LTH), a travel company. Geoff, the audit partner, has asked you to contact Chris, LTH's CEO, with a view to CJ being re-engaged as the auditor for the upcoming audit of the 30 June 2015 financial report.

Geoff has also indicated that he intends to allocate Michael, a first-year accountant, and Annette, an accountant in CJ's tax advisory department, to the LTH audit for the first time. Geoff suggested that you discuss the audit with each of these staff, with a view to identifying any independence issues. You held talks with Chris, Michael and Annette of these conversations were as follows:

### 1. Conversation with Chris, situation 1

Chris stated: 'The board of directors were impressed with last year's audit and would like to propose reappointing CJ as the auditor of the 30 June 2015 financial report audit. The board would also like to invite Geoff to give a speech about LTH at the next travel agency seminar, to assist in promoting LTH's business to attract more investors. I understand that this is outside CJ's normal practice; however, the board expressed the view that it will be very difficult for LTH to continue any business engagements with CJ should Geoff refuse to provide such assistance'.

### 2. Conversation with Chris, situation 2

Chris stated: 'To express our sincerity towards CJ and Geoff, and to maintain the good relationship in anticipation of another smooth audit for 2015, LTH would like to present a complimentary 14-day holiday package voucher for four people to the Greek isles for both Geoff's and your family. All expenses, including accommodation and travelling cost, will be paid by LTH'.

### 3. Conversation with Michael

Michael stated: 'I am very excited to be part of the audit team. I believe that I will be a valuable asset to the team, as my dad is LTH's financial controller. He is responsible for the preparation of LTH's financial report.'

### 4. Conversation with Annette

Annette stated: 'I am glad that I have been allocated to this year's LTH's audit team. It's going to be a very efficient audit this year! I was on a temporary assignment at LTH's just a month ago, helping LTH with its tax calculations and preparing accounting entries that will be reflected in the 30 June 2015 financial report, so I don't think there will be much audit work required around the tax accounts. It will be great to catch up with everybody at LTH again, as they are so easy to work with.'

#### **Required:**

- (a) For each situation, identify and evaluate any threats in relation to auditor independence ( 5 Marks).
- (b) Identify any safeguards to those threats identified above( 5 Marks).

#### **Assignment Question (2) (10 Marks)**

You are an audit senior with Crampton and Hasaad and you are planning the audit of Mining supplies LTD (MSL) for the year ended 30 June 2015. MSL sells mining equipment and spare parts to mining companies across Australia. MSL has operational centres in Perth, Newcastle, and Mt. Isa. Each operational centre warehouses the equipment and spare parts and provides sales and maintenance services. MSL's head office is located in Melbourne where finance, IT and other corporate services are provided.

MSL has equipment purchase order contracts with a number of manufacturing suppliers based in Europe, Us and China. These manufactures build the specialised, made- to-order equipment and spare parts and ship them to MSL's operational centres.

Each item of equipment purchased by a customer comes with a two-year spare parts and labour warranty from MSL. The warranty entitles the customer to a maximum of one free maintenance service per year during the warranty period.

Depending on the type of equipment and customer's location, a maintenance service can take between one day and one week. MSL uses contracted mobile mechanics who travel to the customer's location to carry out all maintenance services. Some services require the mechanic to travel long distances, due to the remote locations. Any maintenance services that are inside that are outside the warranty conditions are billed to the customer. The billing covers a daily labour rate for the mechanic's time, any parts replaced and reimbursement for travel, accommodation and living expenses incurred by the mechanic.

**Required:**

- (a) In relation to the purchasing of equipment and spare parts, describe two business risks to MSL that Crampton and Hasaad will consider in planning the 2015 audit( 5 Marks).
- (b) For each business risk identified in (a) describe a specific audit risk that could arise. Each responses should include the identification of account balances that are impacted directly by the audit risk ( 5 Marks).