*University of Phoenix Material*

Week 3 Team Assignment Document

You are a senior manager for the highly successful regional CPA firm of *Fine, Dee, Evah, Dense, LLP* (Fine). Since its inception nearly 30 years ago, Fine’s audit practice has exclusively consisted of auditing private and not-for-profit organizations. Recently, the partners have been considering an opportunity to audit a publically-traded company for the company your team has selected.

The primary reason Fine has not heretofore ventured into auditing publically-traded companies is because of the potential risk and legal liability associated with auditing public companies. However, Fine has been a bit stagnant, business-wise, for the past few years, and some of the older and more risk-adverse partners are beginning to retire. Consequently, the lure of the often-lucrative and prestigious opportunity to audit a public company has become too hard to resist, so the partners have decided to pursue the chance to audit this company.

On a beautiful early-September morning you are called into the senior partner’s office and told you and your team have been selected to lead the first-ever effort to audit a publically-traded company for Fine. You are honored, but also know auditing a public company is a bit more tricky and complicated than auditing private and not-for-profit organizations. Fortunately, the senior partner had considerable experience early in his career with another firm in auditing public companies and told you he would be with you all the way. Relieved, you asked him what he wanted you to do. He tossed you the most recent Form 10-K of the company you selectedand gave you the following assignments:

**Review and discuss** the Form 10-K for the company you have selected.

**Create** a report that will have 4 sections.

Section 1, Initial Risk Assessment.

Hint: The business and risk information is usually found in the first part of the Form 10-K. However, for the risks, do not simply restate what is in the Form 10-K. Think like a senior manager at a CPA firm – what accounts (Cash, A/R, Revenue, Inventory, etc.) might be the most potentially risky and why? For example, an airline might not have the same inventory considerations found with a retail outlet like Wal-Mart.

In700-to 1,050-words:

**Describe** the business briefly.

**Assess** any risks you may encounter in auditing this company.

General Audit Concerns

* The requisite background you and your team will need to adequately audit this company.
* Time it will take to adequately audit this client.

General Business Concerns

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* Has the company you’re auditing recently increased or decreased their operations due to mergers or sales of parts of the business?
* Are they a conglomerate with lots of disparate kinds of goods and services, or are they a simple straight-forward type of business operating in a relatively small location?
* Are operating supplies (such as jet fuel or specialty plastics) in short supply or subject to wild pricing swings on the open market?
* What about overseas operations – are they operating in dangerous parts of the world?
* How robust or intense is the competition in this particular industry?
* Has their top management recently been replaced and if so, why?
* Is seasonality a factor for this company? How does that affect revenue and other operations?

**Describe** the following issues:

Ethics and Legal Issues

* The ethics and sophistication of top management and cultures where the company operates.
* Have there been significant auditing or accounting issues raised in the recent past?
* Did they have disputes with their previous audit firm?
* Is this company or industry particularly susceptible to lawsuits or other legal proceedings?

**Evaluate** the regulatory and compliance requirements of this company:

Regulatory and Compliance Concerns

* The compliance requirements of this company.
* Is it subject to a high-level of governmental regulation?
* Are employees unionized? Are they generally compliant with Sarbanes-Oxley and other regulatory rules?

Section 2, Analytical Procedures

Based on *TABLE 8-1, p. 220 Examples of Planning Analytical Procedures* and the sections on Analytical Procedures in the text, select three ratios (e.g. Current Ratio, Inventory Turnover, Debt to Equity, Return on Assets, etc.), **calculate** these ratios for your company and a competitor for the most recent year, and **compare** the results.

**Write** a 350-to 525-word **analysis** of your findings. Note that these ratios are found in the Common Financial Ratios section of Chapter 8.

Section 3, Materiality and Risk

The senior partner wants to confirm your understanding of key concepts.

**Summarize** each concept 90-175-words each.

* Materiality
* Misstatement
* Audit Risk
* Audit Risk Model
* Inherent Risk
* Relationship of Risk to Audit Evidence

Section 4, Audit Tests

The reading in Chapter 13 (p. 402-407) describes five types of audit tests of financial statements:

1. Risk Assessment Procedures
2. Test of Controls
3. Substantive Tests of Transactions
4. Analytical Procedures
5. Tests of Details of Balances.

In 350- to 700-words:

**Identify** which tests are best suited for the company you selected and why.

**Explain** why some tests are not suitable.