Exhibit 1 – Email from audit engagement partner

To: Audit manager
From: Mo Iqbal, Group audit engagement partner
Subject: Ryder Group audit planning
Date: 1 July 20X5

Hello

You need to start planning the Ryder Group (the Group) audit, and to help with this I have provided you with some relevant information. I met with the Group finance director yesterday to discuss a number of matters including some recent business developments. I also spoke with a representative from the Group audit committee regarding several issues.

Using all the information provided, I require you to prepare briefing notes for my own use, in which you:

(a) Evaluate the significant audit risks to be considered in planning the Group audit for the financial year ending 30 September 20X5. Given the planned Group restructuring, you should evaluate audit risks relating to disclosure issues at this stage in the audit planning. (24 marks)

(b) Identify the additional information which should be requested from management in order to effectively audit the disposal of Primal Burgers Ltd, and explain why this information is required. (4 marks)

(c) Design the principal audit procedures to be performed in respect of:

(i) The classification of the £48 million investment in Peppers Ltd, and
(ii) The government grant of £20 million received in January 20X5. (8 marks)

(d) Using the notes from the audit committee phone call in Exhibit 5, discuss any ethical issues relevant to the Group audit, and recommend appropriate actions to be taken by our firm. (10 marks)

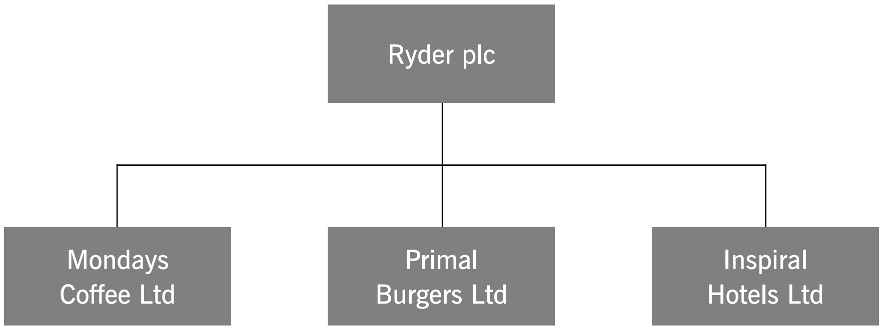
Thank you.

Exhibit 2 – Background information about the Group

The Ryder Group is one of the UK's leading hospitality providers. Over the last 15 years, the Group has grown steadily and has a range of successful hospitality brands, each brand being operated by a separate, wholly owned, subsidiary of the Group.

The Group is planning some restructuring, which is discussed in the notes from the client meeting (Exhibit 3). The Group structure shown below is the Group's existing structure, before any restructuring takes place.

Existing Group structure:



Information about each of the Group companies is given below:

Ryder plc is the parent company of the group, a listed company, which does not trade, and holds the shares in each subsidiary company.

Mondays Coffee Ltd operates one of the leading coffee shop chains in the country under the 'Mondays Coffee' brand. It enjoys a strong market share and operates more than 1,200 coffee shops across the UK.

Primal Burgers Ltd operates over 150 fast food restaurants. In recent years, revenue from Primal Burgers Ltd has declined, but it still provides approximately 30% of Group revenue.

Inspiral Hotels Ltd is a successful hotel business, with over 75 hotels across the UK. The Group acquired Inspiral Hotels Ltd three years ago, as part of a growth strategy based on diversification.

Exhibit 3 – Notes from client meeting

Group restructuring

The Group is restructuring, as part of a strategy for continued growth in revenue and profitability. As part of this strategy, the Group is investing £48 million in a newly formed company, Peppers Ltd, representing 50% of the share capital of the company. The remaining 50% shareholding is owned by Smiths Ltd, a property development company. The contract behind this investment states that the Group and Smiths Ltd will work together to develop six new hotels, all based at major UK airports. The investment in Peppers Ltd is likely to take place in August 20X5.

Partly to provide some of the finance needed for the restructuring, and partly because of its declining revenue, the Group is planning to dispose of Primal Burgers Ltd. The board approved this disposal in March 20X5. Vendor's due diligence has been carried out by Usami & Co, a firm of Chartered Certified Accountants. Usami & Co conducted an independent review of the company's financial position and future prospects and produced a report on their findings, which is made available to potential buyers. At today's date, several potential buyers have expressed an interest and the Group expects that the disposal will take place just after the financial year end.

Due to the success of the Inspiral Hotels brand, the Group plans to expand its hotel offering, and a target company for acquisition has been identified. The Group aims to acquire Valentine Ltd, which operates the successful Valentine Hotel chain. Negotiations are underway, and it is likely that the acquisition will go ahead in the first quarter of the next financial year. The purchase price has yet to be agreed, but is likely to be around £100 million. Due diligence performed on Valentine Ltd indicates that the fair value of its identifiable net assets is £85 million.

Mondays Coffee drive-through

The Group has previously trialled 20 drive-through coffee shops situated on busy roads, which offer customers the convenience of purchasing coffee without leaving their cars. This year the Group opened 50 new drive-through coffee shops, open 24 hours a day, seven days a week, which have proven to be extremely popular with customers. The associated capital expenditure recognised in property, plant and equipment was £43 million, which, according to the Group finance director, includes the cost of constructing the coffee shops amounting to £28 million, and the cost of acquiring three-year licences to allow 24-hour trading, at a cost of £15 million. The Group's accounting policy is to depreciate property over 20 years, and a full year's worth of depreciation will be charged in the year to 30 September 20X5 in respect of the £43 million capitalised.

According to the Group finance director, the new drive-through coffee shops are projected to account for almost all of the increase in revenue generated from the Mondays Coffee brand in the year. His comment is based on data produced from the management information system which separately records revenue generated from the drive-through coffee shops so that management can assess its performance and determine the return on the £43 million of capital expenditure.

Government grant

The UK government provides grants to organisations which commit to investing in properties to reduce carbon emissions and energy consumption. Grants are also available to organisations to promote the benefits of recycling to their customers.

In January 20X5, Ryder plc received a grant of £20 million. The only condition attached to the grant is that half of the amount must be used to upgrade existing assets to make them more environmentally friendly. None of the amount received has yet been spent, but it is planned that it will be used to finance capital expenditure across the Group's property portfolio. The other half of the grant will be used to fund an advertising campaign.

According to the Group finance director, the full £20 million is included within operating profit in the projected Group statement of profit or loss for the year (Exhibit 4).

Exhibit 4 – Selected financial projections

Subsidiary	Projected to 30 September 20X5 £ million Revenue	Projected to 30 September 20X5 £ million Assets	Actual to 30 September 20X4 £ million Revenue	Actual to 30 September 20X4 £ million Assets
Mondays Coffee Ltd	155	200	110	160
Primal Burgers Ltd	99	110	103	113
Inspiral Hotels Ltd	66	140	62	125
Total	**320**	**450**	**275**	**398**

The table above is based on management information which forms the basis of the segmental reporting disclosed in the notes to the financial statements.

Other financial information for the Group as a whole is given below:

	Projected to 30 September 20X5 £ million	Actual to 30 September 20X4 £ million
Operating profit	76	72
Profit before tax	**20**	**18**
Total assets	**475**	**450**

Exhibit 5 – Notes from audit committee call

The Group currently has three non-executive directors, who form the Group audit committee. Until January 20X5, there was a fourth non-executive director who was also the financial reporting expert of the Group audit committee. The Group is looking to find a replacement, but is finding it difficult to recruit for this position, and has requested that a senior partner from Squire & Co become a member of the Group audit committee while a replacement is being sought.

In addition, the Group audit committee is looking to appoint a firm of professional accountants to perform corporate finance work in relation to the planned Group restructuring. The audit committee understands that Squire & Co cannot provide this non-audit service as it would create a significant threat to auditor objectivity. However, the audit committee has asked if our firm can recommend another firm to perform the work.

Following the call, the managing partner of Squire & Co has suggested that the firm recommend Ranger Associates, an unconnected firm, to carry out the work. If Ranger Associates is appointed, Squire & Co will charge Ranger Associates a referral fee equivalent to 10% of the fee for the corporate finance engagement.

In addition, the audit committee has asked Squire & Co to work with the Group internal audit team to design internal controls over the part of the accounting system which deals with revenue, and also evaluate the operating effectiveness of the internal controls.