

Exhibit 1 – Email from the audit engagement partner

To: Audit manager

From: Norma Star, Audit engagement partner

Subject: Audit planning for the Crux Group

Date: 1 July 20X5

Hello

I have provided you with some information which you should use to help you with planning the audit of our new client, the Crux Group (the Group), for the financial year ending 30 September 20X5.

I require you to prepare briefing notes for my own use, in which you:

- (a) Using the information in all exhibits, evaluate the audit risks to be considered in planning the Group audit.

Note: You are NOT required to consider audit risks relating to foreign exchange transactions and balances as this will be planned separately. (26 marks)

- (b) Design the principal audit procedures to be performed on the segmental information relating to the Group's revenue. (5 marks)

Using the information in the audit team meeting notes (Exhibit 4):

- (c) Evaluate the matters to be considered in deciding whether Pegasus & Co should accept the engagement to provide advice on the Group's social and environmental information. (10 marks)

- (d) Respond to my request regarding the use of audit data analytics to enhance audit efficiency, effectiveness and quality in the Group audit. (5 marks)

Thank you.

Exhibit 2 – Background information

Group operations

The Group operates cruises under three brands which offer passengers a variety of cruise itineraries with a wide choice of destinations. Cruises typically last for two weeks, though some last for up to six weeks.

The brands are internally generated and therefore are not recognised as intangible assets within the Group financial statements.

Information about the three brands operated by the Group is as follows:

Sunseeker Cruises – Cruises which visit beach destinations in the Caribbean, Europe and North America.

Explorer Cruises – Cruises which focus on visiting cities and landmarks around the world.

Pioneer Cruises – Cruises which take in areas of natural beauty including the Antarctic and Alaska.

Business developments in the year

Sunseeker Cruises

In this financial year, the Group will spend \$75 million on upgrading and maintenance of the Sunseeker Cruise ships. These luxury ships have to adhere to a very high standard, so the Group regularly incurs high expenditure on their maintenance. As well as refurbishment, several ships have been enhanced by the installation of new entertainment facilities including cinemas and gyms. Equipment in the gyms will need to be replaced on average every three years.

Explorer Cruises

The Explorer Cruise ships, while still luxurious, are the oldest ships in the fleet, and the Group is gradually replacing these with new ships. During this financial year, two new ships with a total cost of \$110 million will come into use. The ships took three years to build, and were constructed by Vela Shipbuilders Co, a company which is not owned by the Group. However, the chairman of the Group, Max Draco, is also the chairman of Vela Shipbuilders Co, and his son is the company's chief executive officer. The purchase of the ships was financed through a \$110 million loan with a fixed interest rate of 6% per annum. A further three ships are currently under construction by Vela Shipbuilders Co. The Group has taken out a loan of \$180 million with a 6.5% fixed interest rate to finance this capital expenditure.

Pioneer Cruises

These cruises are for more adventurous travellers and are growing in popularity. In order to visit certain destinations on these specialist cruises, the Group has to acquire operating licences from the local governments. The cost of licence acquisition is capitalised as an intangible asset.

Exhibit 3 – Selected financial information

		Projected to 30 September 20X5	Actual to 30 September 20X4
	Note	\$ million	\$ million
Group revenue	1	764	670
Operating profit		145	101
Profit before tax		81	65
Total assets		1,800	1,780
Included in total assets:			
Intangible assets – operating licences	2	56	57
Property, plant and equipment	3	1,520	1,510

Note 1

Revenue includes passenger ticket sales, which accounts for approximately 85% of revenue. When customers book a cruise they are required to pay a refundable 20% deposit, which is initially recognised as deferred revenue. The balance of 80% is paid at least six weeks before the cruise commences and at that point it is also recognised as deferred revenue. The full amount of the ticket price is transferred to revenue when the cruise starts irrespective of the duration of the cruise.

The remaining 15% of revenue is derived from on-board sales of food, drinks, entertainment and other items to passengers. Management monitor this revenue stream closely as it achieves a high gross profit margin, and staff are encouraged to maximise these sales to customers.

Revenue is presented on a segmental basis in the notes to the financial statements, with segments based on the three brands of the Group:

Revenue per operating segment	Projected to 30 September 20X5	Actual to 30 September 20X4
	\$ million	\$ million
Sunseeker Cruises	320	288
Explorer Cruises	180	190
Pioneer Cruises	264	192
Total	764	670

Note 2

Operating licences are required for the Pioneer Cruise ships to visit certain destinations. Licences are amortised over the specific period to which each licence relates.

Note 3

Property, plant and equipment is comprised as follows:

Property, plant and equipment	Projected to 30 September 20X5	Actual to 30 September 20X4
	\$ million	\$ million
Ships in use	2,041	2,010
Ships under construction	83	62
Other property, plant and equipment	180	173
	2,304	2,245
Accumulated depreciation	(784)	(735)
Carrying amount	1,520	1,510

Exhibit 4 – Extract from Audit team meeting notes

A meeting took place yesterday in which the audit engagement partner discussed several issues:

Recent development affecting Pioneer Cruises

Last week, the governments of several countries which form a major part of the Pioneer Cruise itineraries withdrew their operating licences with immediate effect. The governments have stated that this is likely to be a temporary measure being put in place to limit the number of tourists visiting areas of natural beauty, but they will not confirm when the Group can resume operations in these countries.

Cyber-security attack

Last month, the Group suffered a cyber-security attack in which the personal information of 1,400 customers, including their credit card details, were stolen. According to a representative of the Group audit committee, the Group's internal audit team had not properly assessed the risks relating to cyber-security, which is a requirement of recently introduced data protection legislation in the jurisdiction in which the Group operates. The issue which led to the cyber-security attack has now been resolved.

Social and environmental information

The Group audit committee has enquired whether Pegasus & Co can provide an additional service, to advise management on how to measure certain social and environmental information which is to be published on the Group's website and is required by new regulations in the industry and is required to be submitted to regulatory authorities. The social and environmental information relates to matters such as water efficiency, energy consumption, charitable donations and initiatives which support diversity in the workplace. In recognition that this work is quite urgent, as the deadline for submission to the regulatory authorities falls within the next month, the Group audit committee has stated it is willing to pay an 'enhanced fee' for this service.

Audit data analytics

The increased use of audit data analytics by many audit firms to provide several benefits including more efficient and effective audit work and enhanced audit quality was discussed. The audit engagement partner asked the team to prepare information describing how the use of data analytics can bring these benefits to an audit like that of the Crux Group.