You are an audit manager in Hound & Co, responsible for the audit of Parker Co, a new audit client of your firm. You are planning the audit of Parker Co's financial statements for the year ending 30 June 2013, and you have just attended a meeting with Ruth Collie, the finance director of Parker Co, where she gave you the projected results for the year. Parker Co designs and manufactures health and beauty products including cosmetics.

You have just received an email from Harry Shepherd, the audit engagement partner:

To: Audit manager
From: Harry Shepherd, Partner
Subject: Parker Co

Hello

I understand you met with Ruth Collie at Parker Co recently and that you are planning the forthcoming audit. To bring me up to date on this new client, I would like you to use the information obtained in your meeting to prepare briefing notes for my use in which you:

Perform preliminary analytical procedures and evaluate the audit risks to be considered in planning the audit of the financial statements, and identify and explain any additional information that would be relevant to your evaluation; and (24 marks)

Thank you.

Parker Co – Statement of profit or loss and other comprehensive income

	notes	**30 jun 2013**	**30 jun 2012**
		projected	**actual**
		$'000	**$'000**
revenue		7800	8500
cost of sales	1	(5680)	(5800)
		---------	---------
gross profit		2120	2700
operating expenses		(1230)	(1378)
		---------	---------
operating profit		890	1322
finance costs		(155)	(125)
		---------	---------
profit before tax		735	1197
taxation		(70)	(300)
		---------	---------
profit for the year		665	897
		---------	---------

Note 1: Cost of sales includes $250,000 relating to a provision for a potential fine payable. The advertising regulatory authority has issued a notice of a $450,000 fine payable by Parker Co due to alleged inappropriate claims made in an advertising campaign. The fine is being disputed and the matter should be resolved in August 2013.

Parker Co – Statement of financial position

	notes	30 jun 2013	30 jun 2012
		projected	**actual**
		$'000	**$'000**
non-current assets			
property, plant and equipment		21500	19400
intangible asset - development costs	2	2250	---
		---------	---------
		23750	19400
current assets			
inventory		2600	2165
trade receivables		900	800
cash		---	1000
		---------	---------
		3500	3965
		---------	---------
total assets		27250	23365
		=====	=====
equity			
share capital		8000	8000
revaluation reserve	3	2500	2000
retained earnings		1275	1455
		---------	---------
		11775	11455
non-current liabilities			
2% preference shares		3125	3125
bank loan		3800	2600
obligations under finance leases		4900	4000
		---------	---------
		11825	9725

current liabilities		
trade payables	1340	1000
taxation	50	300
obligations under finance leases	860	865
provisions	500	200
overdraft	900	---
	---------	---------
	3650	2185
	---------	---------
total equity and liabilities	27250	23365
	=====	=====

Note 2: The development costs relate to a new range of organic cosmetics.

Note 3: All of the company's properties were revalued on 1 January 2013 by an independent, professionally qualified expert.

Notes from your meeting with Ruth Collie

Business review

Parker Co is facing difficult trading conditions. Consumer spending is depressed due to recession in the economy. The health and beauty market remains very competitive and a major competitor launched a very successful new cosmetics range during the year, which led to a significant decline in sales of one of Parker Co's most successful brands.

It has been necessary to cut prices on some of the company's product ranges in an attempt to maintain market share. However, a new brand using organic ingredients is being developed and is due to launch in September 2013.

Financial matters

Cash flow has been a problem this year, largely due to the cash spent on developing the new product range. Cash was also needed to pay dividends to both equity and preference shareholders. To help to reduce cash outflows, some new assets were acquired under finance leases and an extension to the company's bank loan was negotiated in December 2012.

Human resources

In December 2012 Parker Co's internal audit team performed a review of the operation of controls over the processing of overtime payments in the human resources department. The review found that the company's specified internal controls procedures in relation to the processing of overtime payments and associated tax payments were not always being followed.

Until December 2012 this processing was split between the human resources and finance departments. Since then, the processing has been entirely carried out by the finance department.

Expansion plans

Management is planning to expand Parker Co's operations into a new market relating to beauty salons. This is a growing market, and there is synergy because Parker Co's products can be sold and used in the salons.

Expansion would be through the acquisition of an existing company which operates beauty salons. A potential target, Beauty Boost Co, has been identified and preliminary discussions have taken place between the management of the two companies.

Parker Co's managing director has asked for our firm's advice about the potential acquisition, and specifically regarding the financing of the transaction. Beauty Boost Co is an audit client of our firm, so we have considerable knowledge of its business.

Required:

Respond to the email from the audit partner.