

You are the audit supervisor of Maple & Co and are currently planning the audit of an existing client, Sycamore Science Co (Sycamore), whose year end was 30 April 2015. Sycamore is a pharmaceutical company, which manufactures and supplies a wide range of medical supplies. The draft financial statements show revenue of \$35.6 million and profit before tax of \$5.9 million.

Sycamore's previous finance director left the company in December 2014 after it was discovered that he had been claiming fraudulent expenses from the company for a significant period of time. A new finance director was appointed in January 2015 who was previously a financial controller of a bank, and she has expressed surprise that Maple & Co had not uncovered the fraud during last year's audit.

During the year Sycamore has spent \$1.8 million on developing several new products. These projects are at different stages of development and the draft financial statements show the full amount of \$1.8 million within intangible assets. In order to fund this development, \$2.0 million was borrowed from the bank and is due for repayment over a ten-year period. The bank has attached minimum profit targets as part of the loan covenants.

The new finance director has informed the audit partner that since the year end there has been an increased number of sales returns and that in the month of May over \$0.5 million of goods sold in April were returned.

Maple & Co attended the year-end inventory count at Sycamore's warehouse. The auditor present raised concerns that during the count there were movements of goods in and out the warehouse and this process did not seem well controlled.

During the year, a review of plant and equipment in the factory was undertaken and surplus plant was sold, resulting in a profit on disposal of \$210,000.

Required:

(a) State Maples & Co's responsibilities in relation to the prevention and detection of fraud and error. (4 marks)

Examiners Report

This 20-mark question was based on a pharmaceutical company Sycamore Sciences Co (Sycamore).

This question tested the areas of fraud and error, audit risks and responses and review engagements. Part (a) for four marks required an explanation of auditor's responsibilities in relation to the prevention and detection of fraud and error.

This question was answered unsatisfactorily and candidates need to be better prepared to tackle questions on core auditor responsibilities.

The question required candidates to discuss the auditor's responsibilities in this area; it did not require an explanation of directors' responsibilities. Unfortunately many candidates wasted time providing this and there were no marks available for this.

In addition some answers strayed into providing procedures for detecting fraud and error rather than just addressing responsibilities. Candidates are again reminded to read the question carefully and to ensure that they are answering the question that has been set.

The majority of candidates were able to gain marks for reporting fraud to management or those charged with governance, for the auditors' general responsibility to detect material misstatements caused by fraud or error or that the auditors are not responsible for preventing fraud or error.