You are the audit senior of Holtby & Co and are planning the audit of Walters Co (Walters) for the year ended 31 December 2014. The company produces printers and has been a client of your firm for two years; your audit manager has already had a planning meeting with the finance director. He has provided you with the following notes of his meeting and financial statement extracts.

Walters's management were disappointed with the 2013 results and so in 2014 undertook a number of strategies to improve the trading results. This included the introduction of a generous sales-related bonus scheme for their salesmen and a high profile advertising campaign. In addition, as market conditions are difficult for their customers, they have extended the credit period given to them.

The finance director of Walters has reviewed the inventory valuation policy and has included additional overheads incurred this year as he considers them to be production related.

The finance director has calculated a few key ratios for Walters; the gross profit margin has increased from 44·4% to 52·2% and receivables days have increased from 61 days to 71 days. He is happy with the 2014 results and feels that they are a good reflection of the improved trading levels.

Financial statement extracts for year ended 31 December

	DRAFT 2014 $m	**ACTUAL 2013 $m**
Revenue	23·0	18·0
Cost of sales	(11·0)	(10·0)
Gross profit	12·0	8·0
Operating expenses	(7·5)	(4·0)
Profit before interest and taxation	4·5	4·0
Inventory	2·1	1·6
Receivables	4·5	3·0
Cash	–	2·3
Trade payables	1·6	1·2
Overdraft	0·9	–

Required:

(a) Using the information above:

(i) Calculate an additional THREE ratios, for BOTH years, which would assist the audit senior in planning the audit; and (3 marks)

(ii) From a review of the above information and the ratios calculated, describe SIX audit risks and explain the auditor's response to each risk in planning the audit of Walters Co. (12 marks)

(b) Describe the procedures that the auditor of Walters Co should perform in assessing whether or not the company is a going concern. (5 marks)