

Sunflower Stores Co (Sunflower) operates 25 food supermarkets. The company's year end is 31 December 2012. The audit manager and partner recently attended a planning meeting with the finance director and have provided you with the planning notes below.

You are the audit senior, and this is your first year on this audit. In order to familiarise yourself with Sunflower, the audit manager has asked you to undertake some research in order to gain an understanding of Sunflower, so that you are able to assist in the planning process. He has then asked that you identify relevant audit risks from the notes below and also consider how the team should respond to these risks.

Sunflower has spent \$1.6 million in refurbishing all of its supermarkets; as part of this refurbishment programme their central warehouse has been extended and a smaller warehouse, which was only occasionally used, has been disposed of at a profit. In order to finance this refurbishment, a sum of \$1.5 million was borrowed from the bank. This is due to be repaid over five years.

The company will be performing a year-end inventory count at the central warehouse as well as at all 25 supermarkets on 31 December. Inventory is valued at selling price less an average profit margin as the finance director believes that this is a close approximation to cost.

Prior to 2012, each of the supermarkets maintained their own financial records and submitted returns monthly to head office. During 2012 all accounting records have been centralised within head office.

Therefore at the beginning of the year, each supermarket's opening balances were transferred into head office's accounting records. The increased workload at head office has led to some changes in the finance department and in November 2012 the financial controller left. His replacement will start in late December.

Required:

List FIVE sources of information that would be of use in gaining an understanding of Sunflower Stores Co, and for each source describe what you would expect to obtain. (5 marks)

Examiners Report

This 20-mark question was based on Sunflower Stores Co (Sunflower) which operated 25 food stores. The question tested the areas of understanding an entity, audit risks and responses and internal audit.

Part (a) for 5 marks required a list of five sources of information for gaining an understanding of Sunflower and what each source would be used for. Candidates' performance on this question was unsatisfactory.

A significant proportion of candidates did not seem to understand what was required from them for this question.

They did not seem to understand what a "source of information" was and so failed to list where they would obtain information from such as prior year financial statements or last year's audit file. Some were able to explain what they would want to gain knowledge on e.g. audit risks or accounting policies but did not tie this into the source of information.

In addition the question requirement related to gaining an understanding of Sunflower, this is part of the planning process, however a significant proportion of candidates gave sources of information relevant to carrying out the audit fieldwork, such as bank letters, written representations or receivables circularisation.

Most candidates' confused requirements 3a and 3b and so gave sources of information relevant to auditing the risks from requirement 3b. These points were not relevant to gaining an understanding of Sunflower and hence scored no marks.