

ACC300 – AUDITING AND ASSURANCE

TRIMESTER 3 2013 - ASSIGNMENT

You have recently been appointed as auditor of 6 Star Ltd which is a company that runs cinema complexes in Australia and has been in operation since 1985. The company has a 30 June balance date.

During the preliminary planning for the audit you gather the below facts regarding the business and its operational processes.

Business Background

6 Star Ltd over the past few years has experienced challenges within their operations that have impacted their ability to turn over a profit. Events such as the Writers Guild of America strike in 2008, an increase of video piracy and demand for newer cinema technology (3D screens) has reduced what was a business that already had low margins.

The 2013 financial year saw 6 Star Ltd experience a number of business challenges as they try to remain competitive with the rest of the market. The most notable operational challenges 6 Star faced in 2012/2013 were but not limited to:

- Change in minimum release period of movies from Cinema to DVD has been shortened from 3 months to 1 month
- More and more people are waiting to download movies for free rather than attend the cinemas.
- Two of 6 Star Ltd's major competitors "Silver Harvest" and "Grasshopper" have merged becoming "Silver Grasshopper" and actively reduced ticket prices to increase market share. "Silver Grasshopper" have actively expanded and have opened more suburban cinemas
- Availability of new technology for projectors so that more movies can be shown in 3D has resulted in significant additions and disposals in 2012/2013. 4k High Definition technology has been announced to be released in 2013 and 6 Star expects to upgrade all projectors once again when technology becomes available.
- There has been a change in the modern industrial award which has resulted in a pay increase to all cinema workers.
- The above statutory increase in wages has caused 6 Star to think about its staffing with a view to reducing staff numbers and increasing operational frequency. One idea that has been implemented was the purchase of popcorn vending machines and front kiosk machines which facilitate movie ticket sales and money at the cinema.
- Change of accounting system from "Legacy" to "ASAP" half way during the year. ASAP went live on 1 January 2013 and 6 Star Ltd's Finance staff still remain unfamiliar with ASAP. There have been a number of issues reconciling between daily sales from the front office system (i.e. the cash register) and the ASAP general ledger. ASAP has also been calculating PAYG income tax and superannuation incorrectly on staff payroll.
- Further cases of popcorn inventory (sold at a very high margin) being pilfered by staff, eating on popcorn on the job that has led to a higher number of staff being dismissed

- Overbooking of seats for particular showings.
- Purchase of 5 popcorn making machines from Lee Bing (\$200 each) that are for non-commercial use, as the commercial grade popcorn making machines were deemed too expensive (\$20,000 each).

Operational Processes

6 Star generates sales from the following sources:

- movie ticket sales sold online prior to film showing
- movie ticket sales sold at the cinema (the traditional way)
- popcorn and condiments sales at the cinema

Online sales are all paid by customer credit card that provides details through the online booking system. Ticket, popcorn and condiments sales at the movies are received in either cash or through EFTPOS.

On 20 June 2013, 6 Star announce that it would be releasing *Star Wars X* which critics have praised as the greatest movie ever made. The movie was released for showing from 1 July 2013. This led to an immediate surge in online ticket sales on 20 June 2013 for screenings over the next 3 months resulting in the movie being sold out over that 3 month period.

Customers that purchase online tickets must print out an online ticket which they are required to present to the usher on entry into the cinema. Once satisfied the usher allows the customer to see the movie at the cinema.

Due to the initiative of 6 Star in cutting staff, they have been too few ushers available to vigilantly check printed online movie tickets for authenticity as it is common for customers to photocopy tickets and give them to friends who have not purchased a ticket.

Sales register kiosks have been placed at the front of cinema so that customers that enter need to use them in order to purchase a ticket prior to entry. There is generally only one attendant from 6 Star who is administering the process and assisting customers with using the kiosk.

Because the kiosk system had only been implemented part way through 2012/13, there have been multiple issues experienced by customers in purchasing a ticket. There have been issues with the system identifying the availability of films as well as the pricing of tickets. As a consequence the one attendant has had to spend a lot of time in helping each customer purchase a ticket.

As a result of the above, the following situations have occurred:

1. The attendant has had to override the system (so that the line of people keeps moving) in order to generate a ticket which has generally been at no charge or at a charge which has no reference to the sale being made to the customer for a particular film.

2. Customers have just been walking into the cinema for free because the attendant has been too busy.

At the end of each day's trading the attendance opens the Kiosk with a key held only by him and empties the Kiosk of cash. The attendant then prints a sales report from the Kiosk (which acts as the point of sale front office system).

The attendant counts the cash and reconciles the amount counted to the sales report. The reconciliation is documented on a pre-numbered reconciliation form identified to each specific date the reconciliation was performed on.

Once the reconciliation is completed the attendant signs off and prepares a banking deposit slip for the amount to be banked into 6 Stars bank account. The attendant takes the reconciliation and the banking deposit slip to the store manager who is required to sign off on both documents. The store manager is generally not an accountant but an usher that has been promoted. Because of his lack of understanding of reconciliation he generally just signs off particularly since this is presented to him at the end of days trading (cinemas can closed past midnight depending on screenings).

Once signed off the attendant takes the funds and deposits it at the bank the next day.

Based upon earlier observation of staff it is noted that the usher, the store manager and the attendant are permanent staff and the remainder are casuals who work on an adhoc basis within the cinema.

The casuals who work within the cinema are hired and brought in by the store manager. The store manager is responsible for drafting up the employment contract, keying the pay rates into the payroll system, establishes the weekly roster, keying in the timesheets of the hours worked for the staffs shift and signs off the weekly pay for all staff and initiates the payroll run.

Used the text book name given below for this assignment:

Title: Auditing and Assurance Services in Australia, 5th Edition

Author: Gay G. and Simnett R.

Publisher: McGraw-Hill

QUESTIONS (3000 word limit)

PART A (21 Marks)

- (a) Identify three account balances which are at risk of misstatement (3 marks)
- (b) Identify two internal control weaknesses relating to each account balance identified at (a). Explain your answer. (6 marks)
- (c) Based on the control weaknesses, evaluate the control risk (High/Medium/Low) relating to each of the three account balances identified. Upon evaluating all three account balances, decide the most appropriate audit strategy (test of controls or test of details) required for each account balance. (6 marks)
- (d) Provide the assertions at risk for each account balance as a result of each internal control weakness identified in (b). Explain your answer. (6 marks)

PART B (10 Marks)

- (a) For each of the internal control weaknesses identified in Part B, outline the substantive procedure (test of detail) that is specifically responsive to the audit risks caused by each internal control weakness. Include the type of documentation you would request from the payroll clerk in order to undertake the procedure.

PART C (4 Marks)

- (a) Based on the above please make four recommendations to management on completion of audit.