

ACCA December 2013 (4): Chester & Co audit firm

You are an audit manager in Chester & Co (audit firm), and you are reviewing three situations which have recently arisen with respect to potential and existing audit clients of your firm.

Tetbury Co's managing director, Juan Stanton, has approached Chester & Co to invite the firm to tender for its audit. Tetbury Co is a small, owner-managed company providing financial services such as arranging mortgages and advising on pension plans. The company's previous auditors recently resigned. Juan Stanton states that this was due to '*a disagreement on the accounting treatment of commission earned, and because they thought our controls were not very good.*' You are aware that Tetbury Co has been investigated by the financial services authority for alleged non-compliance with its regulations. As well as performing the audit, Juan would like Chester & Co to give business development advice.

The audit of **Stratford Co's** financial statements for the year ended 30 November 2013 will commence shortly. You are aware that the company is in financial difficulties. Stratford Co's managing director, Colin Charlecote, has requested that the audit engagement partner accompanies him to a meeting with the bank where a new loan will be discussed, and the draft financial statements reviewed. Colin has hinted that if the partner does not accompany him to the meeting, he will put the audit out to tender. In addition, an invoice relating to interim audit work performed in August 2013 has not yet been paid.

Banbury Co is a listed entity, and its audit committee has asked Chester & Co to perform an actuarial valuation on the company's defined benefit pension plan. One of the audit partners is a qualified actuary and has the necessary skills and expertise to perform the service. Banbury Co has a year ending 28 February 2014, and the audit planning is due to commence next week. Its financial statements for the year ended 28 February 2013, in respect of which the audit report was unmodified, included total assets of \$35 million and a pension liability of \$105,000.

Required:

Identify and discuss the ethical and other professional issues raised, and recommend any actions that should be taken in respect of:

- (a) **Tetbury Co;**
- (b) **Stratford Co; and**
- (c) **Banbury Co.**