

Information on recipient and sender and topic

Begins with the facts and scope. Indicates cover note for a more lengthy document

Task Description

Recommendations

Identifies action (optional, depending on the nature of the task)

**MEMO**

TO: AuditManager  
FROM: Audit Senior  
DATE: 19/10/2016  
SUBJECT: BNZ Limited  
YEAR: 20XX

**Facts and Scope:**

I have just completed a preliminary assessment as a part of the planning phase of BNZ's audit. Attached for your information is a detailed report on the risk assessment, key accounts/assertions affected, recommended audit plan and procedures. In this memo, I will be outlining the key risks at the assertion and financial reporting levels for BNZ limited identified using the criteria laid down in ASA 315 'Identifying and Assessing the Risks of Material Misstatements through Understanding the Entity and its Environment'. Based on the criteria outlined in ASA 300 'Planning an Audit of a Financial Report', I will also be recommending the preferred audit approach to be adopted.

**Risk Assessment:**

The entry of a new competitor has resulted in the selling prices of BNZ to fall significantly which has adversely affected the financial position/performance of the company. This increases inherent risk and the possibility of a going concern risk for the company. The downsizing approach adopted by the company to balance costs is likely to increase control risk as well as fraud risk. These risks suggest that a range of key accounts including sales, accounts receivables, cost of goods sold and inventory may need to be investigated for their reliability.

**Recommended Audit Approach:**

I recommend the adoption of a pre-dominant substantive approach with most substantive procedures performed at or near the year-end. There needs to be a greater focus placed on substantive procedures such as tests of details on material balances such as inventory items which might have become slow moving/obsolete as a result of increased competition and are overvalued in the balance sheet. I also recommend extensive procedures to be conducted to further investigate the going concern risk as per ASA 570 'Going Concern' as well as the fraud risk as per ASA 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report'.

Please let me know if you are happy with the approach recommended.