Module: Auditing

Business Risk

Seminar Question week 6

The Grindsbrook Clothing Company is a family-owned company that manufactures and sells high quality clothes by mail order. It has been in business for nearly ten years and has made a small profit during the last five years.

The company has a small, modern factory and employs some 150 staff including clerical staff who take orders over the telephone and prepare the accounting records. The accounting hardware and software are out of date and slow. Credit management and management of receivables and payables generally is poor.

The company does not yet have a presence on the Internet. The company’s chief buyer, who is the managing director’s son, buys high quality fabrics all over the world. He is an expert in fabrics but he pays too little attention to either the consistency of supply or the cost. As a result, budgeting is difficult and some lines of clothing are made and sold at very little profit, or even a loss.

The company out-sources the production of the company catalogue and does not spend a significant amount on other advertising because the managing director does not consider that it is necessary. He has consistently refused to employ a professional marketing manager. There are an increasing number of competitors in this profitable market and despite the fact that the market is growing overall, the company’s market share is declining, although turnover is rising slowly.

The company is financed partly by the managing director and his wife (who are the only shareholders), and partly by short and long-term bank loans. The managing director’s son does not have any investment in the business, because his father wishes to retain control of the company. The bank loans are small by comparison with the family’s investment. The long-term bank loan is small by comparison with the short-term bank loan. It is intended that control of the business will pass to the managing director’s wife, two daughters, and his son. The two daughters are not involved in the business. There are some disagreements among family members about how the business should be run.

The company’s accounts have been prepared and audited by a series of firms of auditors. The managing director has refused to employ a qualified accountant. The company’s budgets and statutory financial statements have been of poor quality and have often been produced late.

You are a very busy Chartered Certified Accountant working in practice on your own and the managing director’s wife is your sister. You have considerable experience of providing advice to this type of business because you were once employed as internal auditor to a similar, but
larger, clothing company. Your sister has decided that if the business is to prosper, outside professional help is needed.

The managing director’s wife, your sister, considers that your previous experience as an internal auditor may be useful to the Grindsbrook Clothing Company. She has asked you to assess the risks facing the business and to make suggestions as to how these risks should be managed.

**Required:**

(a) List the factors you will take into account in deciding whether or not to accept the assignment from your sister.

(b) List the specific issues facing the business under appropriate headings such as external risks, financial risks, operational risks, and compliance risks. Describe the actions that could be taken by the company to deal with each issue you identify.