# Q53 ROBSTER (JUNE 2009)

MATTERS TO CONSIDER → AUDIT RISKS

EVIDENCE YOU EXPECT TO FIND → AUDIT TESTS TO PROVE BALANCE

- LEASES (8 MARKS)
- FINANCIAL ASSETS (5 MARKS)

# LEASES

## MATTERS TO CONSIDER

IN ACCORDANCE WITH IAS 17 A LEASE NEEDS TO BE CLASSIFIED AS AN OPERATING LEASE OR A FINANCE LEASE, BASED UPON THE RISKS & REWARDS OF OWNERSHIP OF THE LEASED ASSET. IF THE MAJORITY OF R&R'S HAVE BEEN TRANSFERRED, THE ASSET SHOULD BE CLASSIFIED AS A FINANCE LEASE

- THERE IS A RISK THAT THE LEASE HAS BEEN INCORRECTLY CLASSIFIED IN THE F/S AS A FINANCE LEASE → THIS IS A SIGNIFICANT RISK AS THE BALANCE IS MATERIAL TO THE F/S

- IF INCORRECTLY CLASSIFIED, THE ASSET & F/L LIABILITY WILL NEED TO BE REMOVED FROM THE B/S, AND THE DEPRECIATION & F/L INTEREST REMOVED FROM THE I/S / P&L

- THE BALANCE WILL BE REPLACED BY AN OPERATING LEASE RENTAL EXPENSE IN THE I/S / P&L

- IF THE LEASE HAS BEEN CLASSIFIED CORRECTLY, THE F/L LIABILITY IN THE B/S NEEDS TO BE SPLIT APPROPRIATELY BETWEEN CURRENT & NON-CURRENT LIABILITIES

- THE ASSET NEEDS TO BE DEPRECIATED OVER THE SHORTER OF THE LEASE TERM OR THE ASSETS UEL

## EVIDENCE

- PERFORM A REVIEW OF THE LEASE AGREEMENT TO DETERMINE THE T&C'S OF THE LEASE TO DETERMINE WHO HOLDS THE R&R'S OF OWNERSHIP (eg, WHO IS RESPONSIBLE FOR R&M?, WHO OBTAINS LEGAL TITLE AT THE END OF THE LEASE TERM, CALCULATE IF PVMLP ≃ FV)

- RECALCULATE F/L INTEREST & AGREE INTEREST % BACK TO LEASE AGREEMENT. RECALCULATE INT % USING AN IRR CALCULATION TO VERIFY THE % IS CORRECT.

- ENSURE LEASE IS APPROPRIATELY DISCLOSED IN F/S & ALLOCATED APPROPRIATELY IN B/S BY PERFORMING A DISCLOSURE CHECKLIST

- DISCUSS UEL OF ASSET WITH MANAGEMENT & COMPARE TO LEASE TERM TO ENSURE ASSET IS BEING DEPRECIATED APPROPRIATELY. ALSO RECALCULATE EXPENSE & AGREE TO CHARGE IN P&L / I/S

## FINANCIAL ASSETS

IN ACCORDANCE WITH IAS 32 THE SHARES SHOULD BE CLASSIFIED AS 'HELD FOR TRADING' IF THE DIRECTORS INTENTION IS TO SELL THE SHARES WHEN AN APPROPRIATE PROFIT MAKING OPPORTUNITY COMES ALONG

THE SHARES SHOULD BE CLASSIFIED AS A CURRENT ASSET, & CHANGES IN FV SHOULD BE RECOGNISED IN P/L

## RISKS

THERE IS A RISK THAT ROBSTOR HAS:

- INCORRECTLY CLASSIFIED THE SHARES AS HFT INSTEAD OF AFS
- CLASSIFIED SHARES WITHIN NCA INSTEAD OF CA
- RECOGNISED THE FV GAIN IN P/L INSTEAD OF RESERVES (IF AFS FA)
- NOT APPROPRIATELY DISCLOSED THE FA'S IN THE A/CS

## TESTS/EVIDENCE

- OBTAIN A COPY OF SHARE CERTIFICATES TO VERIFY SHARES EXIST & THE SHARES BELONG TO ROBSTOR
- VERIFY THE FV OF SHARES @ YR END DATE BY AGREEING VALUE TO A REPUTABLE FINANCIAL SITE (eg, FT, BLOOMBERG)
- RECALCULATE THE GAIN & ENSURE IT HAS BEEN APPROPRIATELY RECOGNISED IN THE F/S
- REVIEW BOARD MINS TO VERIFY THE DIRECTORS INTENTIONS WHEN PURCHASING SHARES (SHORT TERM VS LONG TERM INVESTMENT) & CONFIRM CORRECT CLASSIFICATION
- PERFORM A DISCLOSURE CHECKLIST TO VERIFY ALL DISCLOSURE REQUIREMENTS FOR HFT FA HAVE BEEN MET IN ACCORDANCE WITH IFRS7