CFRR

Centre for Financial Reporting Reform

WORLD BANK GROUP

GROUP EXERCISE

Agreed-Upon Procedures

Audit Training of Trainers

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- Institute of Authorized Charted Auditors of Albania (IEKA)
- Association of Accountants and Auditors of Republika Srpska (AAARS)
- Union of Accountants, Auditors and Financial Workers of Federation of Bosnia and Herzegovina (SRRF-FBH)
- Auditors Chamber in the Federation of Bosnia and Herzegovina
- Institute of Certified Public Accountants of Bulgaria
- Croatian Audit Chamber
- Estonian Auditors' Association
- Society of Certified Accountants and Auditors of Kosovo (SCAAK)
- Institute of Certified Auditors of the Republic of Macedonia (ICARM)
- Council for Advancement and Oversight of the Audit (CAOA)
- Institute of Certified Accountants of Montenegro (ICAM)
- Philippines Board of Accountancy
- Chamber of Financial Auditors of Romania (CAFR)
- Chamber of Authorized Auditors of Serbia (CAA)
- Serbian Association of Accountants and Auditors (SAAA)

Introduction

Objective

The Agreed-Upon Procedure (AUP) engagement can be used in a variety of circumstances that involve both financial and non-financial information engagements and cover public and private sector entities. More recently, due to the increasing audit thresholds for smaller entities, the AUP engagement may affect the demand of stakeholders seeking alternatives to audit, such as lenders, and because of the flexibility this type of engagement offers, it can be tailored to different circumstances and focused on individual items of financial data.

The objective of this group exercise is to enhance participants knowledge about the AUP engagement and illustrate it's use in a variety of contexts to the benefit of a wide range of stakeholders.

Background Information

International Standard on Related Services (ISRS) 4400, "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" provides standards and guidance when audit practitioners and/or professional accountants perform AUP engagements. The standard also provides illustrations of an Engagement Letter for the AUP engagement and an Report on Factual Findings.

Characteristics of an AUP engagement

The characteristics of an AUP engagement involve:

- Carrying out specific procedures by the practitioner that have been agreed with the entity and/or with appropriate third parties.

- The practitioner provides a report of factual findings of the agreed-upon procedures. Sufficient detail of errors and exceptions found should be provided in the report.

- No assurance is expressed and users draw their own conclusions from the practitioners' report.

- The report is usually not made public and its use is restricted to those who have agreed to perform the procedures, although in certain instances the report may be made available to a wide range of users.

- Independence is not a requirement for an AUP engagement, however the practitioner should comply with the IESBA Code of Ethics. When the practitioner is not

independent, a statement should be made to that effect in the report of factual findings.

Financial vs Non-financial information

ISRS 4400 is primarily directed towards financial information AUP engagements, however provided the practitioner has adequate knowledge in the subject matter, the standard provides guidance that can be applied to non-financial information AUP engagements. In practice, AUP engagements are commonly performed on both financial and non-financial information driven by either regulation or demand.

Expected Revisions to ISRS 4400

In September 2017, the IAASB approved a standard setting project proposal to revise ISRS 4400. The proposal to revise ISRS 4400 followed inputs received from practitioners on the IAASB discussion paper: Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards. Practitioners were requested to provide input on the extent to which the existing requirements are helpful or challenging and these inputs helped IAASB to understand how reports on factual findings are used to determine the needs of users, and to explore the demand for engagements that combine reasonable assurance, limited assurance, and non-assurance engagements.

Useful Resources

The International Federation of Accountants has released a new publication, "Agreed-Upon Procedures (AUP) Engagements A Growth and Value Opportunity". This publication provides useful guidance about AUP engagements, highlights the growing demand for AUP engagements from a variety of user's perspectives as well as the benefits to clients of offering such services and when it is appropriate. It covers examples of financial and non-financial information AUP engagements and provides six short case studies with example procedures that might be applied.

Approach and Format

This group exercise further builds on the facts presented in the simulated audit client case study "PejaSko Cheese Ltd.", that is used throughout the Audit Training of Trainers modules.

Participants are asked to read through the Scenario (Part A) and then to use the relevant facts provided to complete a set of AUP procedures provided (Part B) relating to different engagements aiming to address various user needs and circumstances. Participants work in their table groups (for up to 60 minutes) to complete a short power point presentation

summarizing the findings on those procedures, followed by a presentation of the results of their work (10 minutes presentation time per each table group).

The different AUP engagements, include:

- Buyers Due Diligence;
- Sellers Due Diligence;
- Compliance with financial covenants of a borrowing agreement for lenders;
- Report for Minority Shareholders on specific items of the financial information;
- Report to Donor agency on financial and non-financial aspects of a grant.

Part C: Trainers' Guide summarizes proposed solutions to the AUP engagements that have been complied based on the presentations delivered by the members of the Audit ToT Community of Practice during the April 12, 2018 workshop when this group exercise was piloted.

Expected Outcomes

- Develop and enhance participants' knowledge about the AUP engagement;
- Enhance participants skills related to preparation and presentation of reports on factual findings;
- Illustrate the use of the AUP engagement in a variety of contexts useful for a wide range of stakeholders.

Part A: Scenario

PejaSko Cheese Ltd. ("PejaSko" or "PC") is a small sized producer of pasteurized and unpasteurized sheep and goat cheese, which produces its own cheese to sell locally and for exportation. The company started as a family business in 1995 and has expanded since then. The current shareholding structure is as follows: Chairman of the board and the company's founder — Mr. Svetozar Brankomat — owns 85 percent of the company's shares and the remaining 15 percent of the company's shares are owned by a group of 10 local farmers. The company's board also consists of Vesna Nebesna (Chief Accountant), who has been with PejaSko since its establishment, and Gego Bioncev (lawyer), who is employed with the company on a part time basis.

While performing the AUP procedures, the following information comes to your attention:

- The market for cheese is very much divided between different producers – customers tend to change their preferences quite often – so the company's market share is estimated at 6.5 percent.
- The company's revenues have decreased over the last six years mainly due to increased competition and unfavorable economic conditions. Customers are not particularly loyal to one brand of cheese or to one producer and there are many players so the market could be volatile, especially in cases of bad press or issues with product quality.
- The current year's financial performance has not been great for PC: sales have continued to decrease this year, given the slow movement in the economy and the increased competition in the market segment. Mr. Brankomat is confident that this is just a temporary situation as the quality of the cheese and the company's reputation is impressive.
- The company is considering expanding its export sales to neighboring countries and entering its products into the EU market by expanding its cooperation with international grocery chains. Management is aware that to do so, the company needs to invest in new technologies to improve the cheese preparation process, while taking into account the improvement of health and security (HACCP). There is also an expectation that the company will have to invest in new machinery and equipment, which have to be purchased in the EU.
- The company is also hoping to expand its sales using the trend for healthy lifestyles and new diets: more people are aware of a lactose intolerance to cheese made from cow's milk, and the fact that sheep and goat cheese contain less fat, etc. However, this expansion will also need an investment in advanced technology and know-how, which at present is not available in house.

- Mr. Brankomat, Chairman of the Board and founder of PejaSko, is a well-known community benefactor and a respected businessman. In a recent local newspaper article, Mr. Brankomat was featured in an interview speaking about his great deeds for the local community, such as financing a small monument of their patron in front of the local school which was designed by a talented artist who happens to be Mr. Brankomat son. In the interview he also explained how the company has donated a certain amount of cheese to local families in need. Mr. Brankomat has also financed a few children's playgrounds for the local community featuring logos of the various cheese brands produced by PC. He is also considering initiating a larger project in the future: a PejaSko Cheese amusement park for children featuring the great nutritional qualities of local milk and cheese products.
- PejaSko's financial statements are prepared in accordance with International Financial Reporting Standards (i.e. the IFRS for SMEs) and have been audited in the past three years with unqualified reports being issued by the auditors following their audits conducted in accordance with International Standards on Auditing (ISAs).
- The table below shows summary financial information for the last three years sourced from PC's audited financial statements:

In euro million (converted from local currency)	Current year	Last year	Year before last
Revenue	1,15	1,30	1,51
Cost of sales	0,45	0,60	0,75
Payroll	0,24	0,25	0,20
Other operating expenses	0,30	0,20	0,24
Depreciation	0,08	0,12	0,12
EBIT*	0,08	0,13	0,20
Net financial costs	0,04	0,05	0,04
Income taxes	0,01	0,01	0,01
Net profit	0,03	0,07	0,15
Fixed assets	0,20	0,30	0,40
Current assets	0,70	0,60	0,20
Including inventory	*0,40*	*0,24*	*0,10*
Equity	0,10	0,10	0,10
Long term liabilities	0,10	0,20	0,15
Short term debt	0,15	0,10	0,15
Other liabilities	0,55	0,50	0,20

**Earnings Before Interest and Tax.*

- Customers vary from medium size grocery store chains to smaller independent stores. Exports to neighboring countries comprise approximately 20 percent of sales. The company also sells wool obtained from sheep shearing and this revenue comprises approximately 10 percent of the company's total sales.
- Customers for the company's cheeses include: an international grocery chain which accounts for 100 percent of export sales; two local grocery chains, which account for 70 percent of domestic sales; and approximately 30 different family owned shops and supermarkets around the country, which account for 30 percent of domestic revenue. The customers for unprocessed wool include 10 different local clients – producers of woolen blankets, toys and tourist memorabilia.
- Current assets comprise mainly from finished goods inventories and accounts receivable. The company has not experienced any problems with any obsolete inventory in the past, but the hard cheese production process requires some ageing. Accounts receivable are recorded at nominal value and the finished goods inventory at the selling price.
- The collection of accounts receivables has always been a problem for the company. Grocery chains have long payment terms – 60 days and they rarely pay on time. Individual shop owners have much shorter payment terms – the standard is 14 days, but they too never pay on time and major payment delays are not unusual.
- The receivables ageing profile for the current year is shown in the table below:

Receivables in Euro million (converted from local currency)	Current year – EUR million	Current year - %
Up to 1 month *	0,21	70%
Between 1 – 6 months	0,02	7%
Between 6 – 12 months	0,02	7%
Above 1 year	0,05	17%
Total	**0,30**	**100%**

** Receivables from insurance company of EUR 200.000 concerning damages claimed relating to fire in one of the barns are included in the outstanding balances up to 1 months.*

- The milk for the production of cheese has traditionally been used from sheep and goat from the company's own farms. Over the years, the company has been able to acquire some pastures and meadows, but the area is very mountainous – surrounded by many gorges and hills – which prevents any further expansion of the land. The animals roam around freely and come to the main barn to feed and for milking. The owner does not know the exact number of the livestock he owns at any given time. This was always an issue for the company since it was not possible to verify the precise value or quantity of the livestock in the company's accounting records.

- Purchases include food for the livestock (grain and hay for the winter, specialized vitamins and additives), specialized bacteria colonies used in the production of cheese (most of them are imported) and some raw milk – the company has to purchase additional milk on the market in order to fulfill the planned production volumes. Suppliers of the additional milk mainly include minority shareholders – i.e. the 10 local farmers.
- Other operating expenses include the cost of business trips for Mr. Brankomat and his family to various West European locations in order to "investigate potential export opportunities and market exploration". These trips are consistent with strategy to expand export sales to EU markets.
- The company employs 12 people, of whom 10 are full time employees. The staff involved in the company's administration are: Svetozar Brankomat (Chairman of the Board and founder); Vesna Nebesna (Chief Accountant); and Gego Bioncev (Lawyer, part time). Nine people work in the production process and the maintenance of livestock, including one person who works part time.
- Net finance costs include interest income of EUR 10.000 for the current year (EUR 10.000 for last year).
- Fixed assets comprise office furniture, vehicles, and production equipment purchased in 2000. The company also owns some land and buildings, including production buildings and barns for the livestock. Fixed assets are valued at cost and depreciated over their useful lives, as estimated by Mr. Brankomat based on information provided by the Chief Accountant. Valuation of the buildings and land has always been an issue – the predecessor auditor questioned the low valuation (buildings were almost fully depreciated), but the owner defended the figures by referring to the report of the local real estate agent who performed the valuation.
- Livestock is valued at initial recognition and at subsequent reporting dates at fair value less estimated costs to sell, unless fair value cannot be reliably measured. The livestock is valuated as a biological asset (in accordance with IAS 41) only when the entity controls the asset as a result of past events and it is probable that future economic benefits will flow to the entity, and the fair value of the asset can be measured reliably. The change in fair value of biological assets that is part physical change (growth, etc.) and part unit price change is not separately disclosed (IAS 41 encourages separate disclosure but it is not required).
- Other current liabilities include dividends declared of EUR 27.000 for the current year (EUR 63.000 for prior year) and withholding tax on those dividends of EUR 3.000 for the current year (EUR 7.000 for prior year). These amounts have been accrued based on calculation of the maximum dividend that was approved subsequent to year end during the Annual Shareholding Meeting. As of the date of the AUP procedures, EUR 35.000 remain as approved but unpaid dividends to shareholders due to liquidity shortfall.

- When accounting in foreign currency, the daily rates from the central bank are used as a reference. Monetary items denominated in foreign currencies are reevaluated at the exchange rate at year end. Fluctuations in exchange rates have led to foreign exchange losses and gains when settling accounts payables and receivables.
- The company has an open line of credit with one of the local banks – Farmers Bank – which it uses to finance any current deficits and the repayment of current liabilities, including liabilities for raw milk from local farmers. The company has a long-term credit facility with another local bank – Investment Bank – which was used to finance the purchase of equipment and machinery. The remaining life of the loan is five years. The company also has a third current account with Balkan Bank that has been dormant for the past year.
- The credit facilities with Farmers Bank and Investment Bank are secured with a pledge placed by PejaSko's Chairman and majority shareholder that involves land owned by the Brankomat family which serves as security in case of borrowing default.
- The bank loan covenants stipulate the following requirements:
  - *The borrower shall furnish to the Bank as soon as available, but in any case, not later than five months after the end of the fiscal year: certified copies of its financial statements and the report of auditors.*
  - *The borrower shall maintain a debt service coverage ratio (computed as EBIT / interest expense) of not less than 2x.*
  - *The borrower shall maintain a current ratio (computed as current assets / current liabilities) of not less than 1.*
  - *Except as the Bank shall otherwise agree, the borrower shall not sell, transfer, lease or otherwise dispose substantial parts of its assets.*
- The financial covenant calculation for the current and prior year prepared by the company's Chief Accountant and furnished to the banks is provided below:

In Euro million (converted from local currency)	Current year	Last year
EBIT	0,08	0,13
Net financial costs	0,04	0,05
Debt Service Ratio	**2,0x**	**2,6x**
Current assets	0,70	0,60
Short term debt	0,15	0,10
Other liabilities	0,55	0,50
Current Ratio	**1,0**	**1,0**

- On 5 January, part of the inventory of unpasteurized goat cheese was returned to the company by a couple of local stores. The cheese was counted and included in the inventory balance at the year-end and included in the stock-take on 31 December. According to the explanation provided, this inventory was returned because the shop owners complained that their customers had experienced stomach problems after eating cheese from a particular batch. The company owners maintained that the stomach problems had been caused by "too much celebrating on New Year's Eve, as usual", rather than the quality of product, especially since "this has never happened in the past". The company is planning to rebrand the cheese from this batch and resell it at a discounted price to a local grocery chain in mid-January.
- On 30 December one of the barns, which was being renovated, caught fire and completely burned down. Luckily, this happened during the day when the animals were outside so no major damage occurred to the livestock. The barn was insured and PejaSko included the expected receivable amount of EUR 200,000 from the insurance company in the financial statements. As of the date of the AUP procedures the claim remains receivable as the insurance company is still performing investigation of circumstances related to the damage.
- Because of the issue with the barn, the company decided not to physically count the sheep and goats this year and instead to value the livestock at the same amount as last year. Counting live animals is always problematic as they prefer to roam around and some never return to the barn.
- Segregating duties is a key issue for the company, due to the small size of the company and the limited number of employees. Payments for raw milk and other production supplies are made using electronic banking with the three banks with which the company has accounts. The payments are authorized by both Mr. Brankomat and the Chief Accountant. In some cases, especially during Mr. Brankomat's holidays, the Chief Accountant authorizes the payments using her password and that of Mr. Brankomat. According to the Chief Accountant: "The payments cannot wait and the suppliers are getting anxious since they want to get their money as soon as possible." Mr. Brankomat allegedly controls all such payments made from the company's main account after he is back in the office.
- In the case of cash payments to smaller sundry suppliers, the Chief Accounting is responsible for both approving cash payments (below EUR 300), authorizing small requisitions (below EUR 500), recording these payments and handling the cash balance.
- The Chief Accountant prepares a limited scope quarterly financial statement which is presented to the Chairman/owner. In some instances, the Chairman requests explanations of certain figures and budget variances from the Chief Accountant.
- The minority shareholders do not receive any financial information during the year. They receive the company's audited financial statements but they have limited knowledge and

interest in financial matters – they are only concerned about maximizing the amount of dividend which they will receive (this is usually the issue which causes many disputes) and minimizing the amount of tax which the company pays.

- According to the company's Articles of Association, the company has a share capital with a nominal value of EUR 20,000 equivalent in local currency and to date, 50 percent, or EUR 10,000 has been paid in.
- PejaSko's Articles of Association stipulate that the dividend payout in any calendar year cannot exceed the maximum profit achieved in each financial year, as audited and confirmed by independent external auditors.
- The table below provides analysis of the current and last year's actual vs budgeted financial information:

In Euro million (converted from local currency)	Current year Actual	Current year Budget	Last year Actual	Last year Budget
Revenue	1,15	1,50	1,30	1,60
Cost of sales	0,45	0,55	0,60	0,50
Payroll	0,24	0,25	0,25	0,20
Other operating expenses	0,30	0,40	0,20	0,15
Depreciation	0,08	0,12	0,12	0,12
EBIT	0,08	0,18	0,13	0,63
Net financial costs	0,04	0,03	0,05	0,03
Income taxes	0,01	0,01	0,01	0,10
Net profit	0,03	0,14	0,07	0,50
Fixed assets	0,20	0,30	0,30	0,42
Current assets	0,70	0,75	0,60	0,45
Equity	0,10	0,10	0,10	0,10
Long term liabilities	0,10	0,20	0,20	0,30
Short term debt	0,15	0,10	0,10	0,21
Other liabilities	0,55	0,65	0,50	0,26

- PejaSko received a small business development grant from a fund administered by the Ministry of Economy aiming to support SME development in rural areas. This is the first time the company has receives any grant and the Chief Accountant does not have much experience with grant reporting requirements.

- The Grant agreement stipulates the following requirements:
  - *Both Goods and Services are eligible to be funded from the Grant proceeds. Ineligible expenses include: staff costs, entertainment, and market research costs.*
  - *Any long-lived assets procured under the grant that will be used in longer production cycles must be counted and verified for existence at year end.*
  - *The Company is required to maintain adequate system of segregation of duties regarding all payments made to procure goods and services financed from the grant proceeds.*
- The schedule below shows the details of procurements made from the SME business development grant:

Description	Source document	Amount (in EUR)	Payment means
Livestock	invoices	1.000	bank
Raw materials (food for livestock, bacteria colonies and other)	invoices	5.000	bank
Raw milk	delivery notes	4.700	bank
Sundry suppliers	various bills	450	cash
Total		**11.150**	

- Subsequent to year-end, a group of unhappy customers who experienced severe stomach problems after consuming unpasteurized goat cheese from the PejaSko brand, have filed a group law suit against the company claiming damages for hospital bills sustained and seeking compensations due to long term negative consequences to their health. The claimants have widely publicized the incident through TV, social media, and in newspapers attracting lots of damaging publicity for PejaSko. Rumors have spread expressing concerns with the quality of PC's products. Based on legal advice obtained, management will soon be filing a counter law suit for damage of reputation and lost business in equivalent amount. Management is confident that no losses will be sustained in respect of this litigation and the company will successfully defend the ongoing case.

Part B: AUP Engagements

Five different AUP engagements are provided in this section that address various user needs. Participants should work in groups and use the information provided in Part A: Scenario to document findings supporting the AUP procedures provided under each scenario. Each table participant group works on a different scenario as assigned by the facilitator.

Assignment 1: Buyers Due Diligence

A foreign investor has expressed interested in acquiring a shareholding in PejaSko. A few months ago, an official visit to PejaSko took place when initial negotiations took place and one week ago the foreign investor delivered a letter of interest to the company Chairman and majority shareholder Mr. Svetozar Brankomat. Upon acceptance of the letter of interest, your firm Star Auditing Ltd., has been hired to perform buyer's due diligence procedures and report to the potential foreign investor the findings of those procedures.

The AUP procedures include:

- Review the company accounting policies and audited financial statements and comment on whether the accounting policies and practices adopted by PejaSko are appropriate, consistently applied and in line with industry practice (especially key judgement areas and potential impairment of long-lived assets);
- Inquire of all related parties and the nature of transactions with related parties;
- Inquire and provide analysis of any assets under lien or pledge;
- Inquire and provide analysis of any identified off-balance sheet contingencies and/or commitments.

Assignment 2: Sellers Due Diligence

The Chairman of the board and the company's founder — Mr. Svetozar Brankomat — who owns 85 percent of the company's shares decided to seek interested investors who would be interested to acquire share capital of PejaSko. Mr. Brankomat hired Best Audit Ltd. – who are also the company's auditors - to perform seller's due diligence procedures and prepare a report elaborating the findings of those procedures. The report will be shared with potential interested investors.

The AUP procedures include:

- Review the profit and loss account items for the past three years and inquire management on significant variances in revenues, gross profit and EBIT;

- Inquire of the company's key customers, their concentration and reconcile the ageing of receivables to the audited financial information;
- Review management business planning and forecasts for the last two years and comment on the robustness of the forecasting / budgeting process;
- Inquire and provide analysis of any subsequent events that have taken place since the financial year end.

Assignment 3: Financial Covenants of a Borrowing Agreement

PejaSko has short and long-term credit facilities with local banks. Every six months the company reports the limited financial performance indicators (unaudited) to the banks that loaned the money. The loan covenants stipulate that the audited year-end financial statements must be presented to the bank within five months following year-end. Your firm, Best Audit Ltd. – who are also the company's auditors - have been hired to perform procedures regarding financial covenants of a loan agreement for lenders.

The AUP procedures include:

- Reconcile the data used in the financial covenant calculation for the current and prior year to the audited financial information provided;
- Re-compute and check the mathematical accuracy of the calculations for the current and prior period;
- Confirm that the calculation is compliant with the definitions in the financial covenants set out in the borrowing agreement;
- Identify any exceptions when financial covenants have not been met in the current period.

Assignment 4: Specific Items of Financial Statements

Traditionally, PejaSko has been mainly profitable and has been able to provide its shareholders with solid and profitable earnings. However, due to strong competition and saturation of the local market, the profits in the last couple of years have downward trend, which disturbs all shareholders as dividend payout has declined. The Chief Accountant gets technical assistance from the auditors every year to calculate the maximum dividends, which are presented to the shareholders, who determine the size of the dividend for the accounting year. At the last meeting of shareholders, a group or minority shareholders raised concerns regarding the maximum dividends available for distribution. Your accountancy firm - Star Auditing Ltd. – has been hired to perform AUP procedures on specific items of the financial information and prepare a report for the group of minority shareholders.

The AUP procedures include:

- Reconcile the data used in the maximum dividend calculation for the current and prior year to the audited financial information provided;
- Re-compute and check the mathematical accuracy of the maximum dividend calculations and withholding taxes for the current and prior period;
- Confirm that the calculation is compliant with the dividend payout policy as stated in PejaSko's Articles of Association;
- Inquire if the dividend has been paid out subsequent to year end.

Assignment 5: Financial and Non-financial aspects of a Grant

Two years ago, PejaSko was awarded a grant from a local development fund administered by the Ministry of Economy and aiming to support small business in rural areas. The conditions of the grant require that upon successful completion of the grant period, an AUP engagement to be performed by independent audit practitioners who report to the Donor agency on financial and non-financial aspects of the grant. Your accountancy firm – Balkan Auditors Ltd. – has been selected to perform such AUP engagement.

The AUP procedures include:

- Obtain the schedule of grant expenditure presented to justify expenses financed by the grant and check the source documents to ensure expenditures constitute eligible items in accordance with the grant;
- Verify that all items presented in the schedule of grant expenditures have been paid by checking payment details;
- Review that the company has adequate segregation of duties when it comes to cash disbursements;
- Inquire if the company has been receiving any other grants for similar project expenditures.

Part C: Trainers' Guide

Before the workshop, the group exercise is provided to participants as part of the preparation materials and they are asked to be familiar with the Scenario (Part A) and the AUP procedures provided (Part B). At the workshop, a short (15 minute) presentation is delivered by the facilitators covering the key characteristics of AUP engagements as provided in ISRS 4400.

Following the presentations, participants are divided into five table groups, each group of up to 8 participants. Participants are asked to use the information from the Scenario (Part A) to complete a set of AUP procedures provided (Part B). Each table participant group works on a different scenario as assigned by the facilitator.

Participants work in their table groups (for up to 60 minutes) to complete a short power point presentation summarizing the findings on the AUP procedures, followed by a presentation of the results of their work (10 minutes presentation time per each table group).

Assignment 1: Buyers Due Diligence

Key takeaways from the participant group presentation include:

AUP:	Factual Finding:
Review the company accounting policies and audited financial statements and comment on whether the accounting policies and practices adopted by PejaSko are appropriate, consistently applied and in line with industry practice (especially key judgement areas and potential impairment of long-lived assets).	With respect to this AUP, it was found that the company's accounting policies have been consistently applied and are in line with IFRS for SMEs. Unqualified auditors' opinions have been issued for the past three years. Items to be highlighted may include the valuation of buildings, difficulties with counting the live-stock, and possible misstatements with respect to accounting estimates.
Inquire of all related parties and the nature of transactions with related parties.	With respect to this AUP, it was found that related party transactions occur with minority shareholders for the purchase of raw milk and these are in the normal course of business and under standard terms.
Inquire and provide analysis of any assets under lien or pledge.	With respect to this AUP, it was found that the company has no assets under lien or pledge and that the credit facilities with Farmers Bank and Investment Bank are secured with a pledge placed

	by PejaSko's Chairman and majority shareholder that involves land owned by the Brankomat family.
Inquire and provide analysis of any identified off-balance sheet contingencies and/or commitments.	With respect to this AUP, the following could be analyzed: (i) collectability of receivables from insurance company for fire damages sustained, (ii) returns of cheese after year end recorded in inventory and (ii) litigation by group of unhappy customers claiming damages.

Assignment 2: Sellers Due Diligence

Key takeaways from the participant group presentation include:

AUP:	Factual Finding:
Review the profit and loss account items for the past three years and inquire management on significant variances in revenues, gross profit and EBIT.	With respect to this AUP, declining revenues, gross profits and EBIT should be highlighted due to increased competition and unfavorable economic conditions. The Chairman's confidence that this is just a temporary situation should be provided, as well as plans to expand in foreign / EU markets and in health product lines.
Inquire of the company's key customers, their concentration and reconcile the ageing of receivables to the audited financial information.	With respect to this AUP, concentrations with few customers (being the foreign and two domestic grocery chains) should be disclosed and potential issues with receivable ageing (over 1 year) discussed.
Review management business planning and forecasts for the last two years and comment on the robustness of the forecasting / budgeting process.	With respect to this AUP, analysis of budgeted vs actual financial information should be provided. At a high level, the business forecasting / budgeting process appears to be overly optimistic for both the current and previous year.
Inquire and provide analysis of any subsequent events that have taken place since the financial year end.	With respect to this AUP, the following could be analyzed: (i) collectability of receivables from insurance company for fire damages sustained, (ii) returns of cheese after year end recorded in inventory and (ii) litigation by group of unhappy customers claiming damages.

The factual findings report should disclose the fact that the practitioner performing the AUP procedures has also audited the financial statements of the company for the current period.

Assignment 3: Financial Covenants of a Borrowing Agreement

Key takeaways from the participant group presentation include:

AUP:	Factual Finding:
Reconcile the data used in the financial covenant calculation for the current and prior year to the audited financial information provided.	With respect to this AUP, it was found that the data used in the financial covenant calculation for the current and prior period reconciled to the audited financial statements, with exception that interest income for the current and prior year of EUR 10.000 was not added back to the net financial costs in order to arrive to a gross interest expense item.
Re-compute and check the mathematical accuracy of the calculations for the current and prior period.	As with the prior point, it was found that the mathematical accuracy of the calculations for the current and prior period was correct, with exception that interest income for the current and prior year of EUR 10.000 was not added back to the net financial costs in order to arrive to a gross interest expense item.
Confirm that the calculation is compliant with the definitions in the financial covenants set out in the borrowing agreement.	With respect to this AUP, it was found that the calculation was compliant with the definition of the current ratio, while the debt to service coverage ratio denominator was misstated as the interest income for the current and prior year of EUR 10.000 was not added back to arrive to a gross interest expense item.
Identify any exceptions when financial covenants have not been met in the current period.	Provided the interest income is added back then the debt to service coverage ratio for the current year does not meet the financial covenant requirement of not less than 2x*. ** EBIT of EUR 0.08 million / (EUR 0.04 million net financial costs + EUR 0.01 million interest income) = 1,6x.*

The factual findings report should disclose the fact that the practitioner performing the AUP procedures has also audited the financial statements of the company for the current period.

Assignment 4: Specific Items of Financial Statements

Key takeaways from the participant group presentation include:

AUP:	Factual Finding:
Reconcile the data used in the maximum dividend calculation for the current and prior year to the audited financial information provided.	With respect to this AUP, it was found that the data used in the maximum dividend calculation for the current and prior period reconciled to the audited financial statements.
Re-compute and check the mathematical accuracy of the maximum dividend calculations and withholding taxes for the current and prior period	With respect to this AUP, the team found an exception in the mathematical accuracy of the calculations. The monetary effect of this error was overstatement of the withholding tax calculation for EUR 273* for the current year (EUR 636** for the period period) and understatement of the dividend payable for the same amount. ** Current year profit: EUR 30.000 / 1.1 tax rate = EUR 27.273 vs 27.000, or difference of EUR 273;* *** Prior year profit: EUR 70.000 / 1.1 tax rate = EUR 63.636 vs 63.000, or difference of EUR 636.*
Confirm that the calculation is compliant with the dividend payout policy as stated in PejaSko's Articles of Association.	With respect to this AUP, the team found that the calculation is complaint with PejaSko's Articles of Association as the maximum dividend does not exceed the profit achieved in each financial year, as audited and confirmed by independent external auditors.
Inquire if the dividend has been paid out subsequent to year end.	With respect to this AUP, the team found that EUR 35.000 remain as approved but unpaid dividends to shareholders due to liquidity shortfall.

Assignment 5: Financial and Non-financial aspects of a Grant

Key takeaways from the participant group presentation include:

AUP:	Factual Finding:
Obtain the schedule of grant expenditure presented to justify expenses financed by the grant and check the source documents to ensure expenditures constitute eligible items in accordance with the grant.	With respect to this AUP, the schedule of grant expenditures was obtained and source documents made available to verify occurrence of all the expenditure. All expenditures have been found eligible. Exception was noted relative to the grant terms concerning acquired livestock in value of EUR 1.000 (or 9% of the total grant financed expenditures) that could not be verified physically at the end of the grant period.
Verify that all items presented in the schedule of grant expenditures have been paid by checking payment details.	With respect to this AUP, the team found that all items presented in the schedule of grant expenditures have been paid for either via bank transfer, or via cash.
Review that the company has adequate segregation of duties when it comes to cash disbursements.	With respect to this AUP, the team found that when it comes to cash payments for sundry supplies below EUR 500, there is insufficient segregation of duties as the responsibility for approving, recording, and handling cash is concentrated in one individual. During the grant period, sundry expenses of EUR 450 (or 4% of the total grant expenditures) have been incurred through such cash disbursement procedures.
Inquire if the company has been receiving any other grants for similar project expenditures.	With respect to this AUP, the team found that the grant from the SME development fund administered by the Ministry of Economy is the only grant utilized by PejaSko and no other grants have been available to the company since its establishment.