**Course 4600-01**

**Winter 2021**

**Prof. Don Jones**

**Case Project A**

**(30 marks due February 11, 2021 to the instructor by email at djones@uwindsor.ca by 6 pm EST).**

Submissions must be typed, font 12, double spaced and not exceed ten (10) pages in length excluding a cover page including the name and student I.D. number. All student case submissions deemed by the instructor in his sole discretion to be copies of each other will be assigned a grade of zero. Since this course is essentially a pre-professional course, t**his grading standard will be strictly enforced by the instructor without exception**

**The Case of Dan James and Jack Knows Best LLP**

Dan James obtained his CPA designation 3 months ago after articling with a local CPA firm, Jack Knows Best LLP. Due to his outstanding abilities and to recognize Dan’s accomplishments, Mr. Wally Jack CPA, senior audit partner, assigned Dan James as the audit senior on the audit firm’s new and first credit union account, Windsor Electrical Credit Union, for the year ended December 31, 2020. The client had been referred to Mr. Jack the previous week by a professional acquaintance. Windsor Electrical Credit Union was the largest credit union in the City of Windsor, Ontario . Dan James’ past audit experience was with a small automotive manufacturer for two years as the audit team’s junior audit assistant.

Windsor Electrical Credit Union had advised Mr. Jack that the Credit Union had changed computer systems in 2020. In early January 2021, as he was leaving for an overseas vacation on an Afircan safari for three weeks, Mr. Jack briefly met with Dan James and advised him to contact the former credit union auditors, review the previous auditor’s file, organize the audit team and follow the approach in the 2020 credit union audit that was used in the 2019 audit, and to have the audit file and draft financial statements completed within three weeks when Mr. Jack returned.

Upon his return, Mr. Jack, who was under a very tight reporting deadline from Windsor Electrical Credit Union, reviewed and approved the draft financial statements prepared by Dan James for delivery that same afternoon. Although a number of incomplete audit procedures were noted in the audit file, including the bank reconciliation , quality assurance review, and receipt of the legal inquiry letter, Mr. Jack asked Dan James to submit the file to the quality assurance control group who would take care of any audit concerns and outstanding issues that day. Mr. Jack took comfort in knowing that the risk associated with the Credit Union audit was low since the Credit Union had its own internal audit group consisting of various credit union member volunteers whom he understood checked things out quite regularly and thoroughly.Due to his great confidence in his audit team’s ability to complete any required procedures and documentation, Mr. Jack delivered the final signed financial statements to the Board of Directors of the Credit Union that same evening upon his return to the office.

Six months after the financial statements were released, a material error was discovered in the financial statement . Mr. Jack received a call from the Credit Union’s general manager advising Mr. Jack that there appeared to be some problems connected to the bank account and related general ledger accounts in terms of member deposits and member share capital. In addition, collection issues had occurred with respect to a 2020 material loan made to the brother of Mr. Jack. The general manager noted that the Credit Union Bpard of Directors, as a result of these and other related audit issues, was now concerned about its ability to continue in business.

**Required:**

You have been retained as an advisor by the audit firm’s chairman, Mr.Howie, to write a report to the audit firm which gives your opinion as an experienced practitioner on the following questions:

1; Were any CPA professional standards breached during the conduct of this audit ? If so, which standards were breached ? Briefly explain your rationale for believing that a specific standard was breached. (12 marks)

2. Has the audit firm potentially incurred any specific legal liabilities as a result of the performance of this audit engagement? Explain your rationale as to which legal liabilities may result from the performance of this audit. (6 marks)

3.What specific additional procedures or processes in the circumstances would you have performed or changed to increase the quality of the performance of this audit. Explain your rationale for any new or changed procedures or processes proposed . (12 marks)