

## Cloud 9 - Continuing Case

### Part 1: Gain an Understanding of the Client

W&S Partners began the planning phase of the Cloud 9 audit. As part of the risk assessment phase for the new audit, the audit team needs to gain an understanding of Cloud 9's structure and its business environment, determine materiality, and assess inherent risk. This will assist the team in developing an audit strategy and designing the nature, extent, and timing of audit procedures.

#### Required

Answer the following questions based on the additional information about Cloud 9 presented in the appendix to this text and the current and earlier chapters. You should also consider your answer to the case study questions in earlier chapters where relevant.

Your task is to research the retail and wholesale footwear industries and report back to the audit team. Your report will form part of the overall understanding of Cloud 9's structure and its environment.

You should concentrate your research on providing findings from those areas that have a financial reporting impact and are

considered probable given Cloud 9's operations. Use the factors listed in Illustrations 4.2 and 4.3 as a guide for your research.

### Part 2: Analytical Procedures

#### Required

Answer the following questions based on the information presented for Cloud 9 in the appendix to this text and the current and earlier chapters. You should also consider your answers to the case study questions in earlier chapters.

- a. Using analytical procedures and the information provided in the appendix, perform an analysis of Cloud 9's financial position and its business risks. Discuss the ratios indicating a significant or an unexpected fluctuation.
- b. Which specific areas do you believe should receive special emphasis during your audit? Consider your discussion of the analytical procedures results as well as your preliminary estimate of materiality. Prepare a memorandum to Suzie Pickering outlining potential problem areas (that is, where possible material misstatements in the financial statements exist) and any other special concerns.