



## TPE 2023 – Mock 2

### Darkfurn – Case Study Sample Solution

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## Briefing paper

For: Michaela Xa, Managing Director of Darkfurn

Subject: Analysis and Evaluation of Performance of Darkfurn and consideration of contract with WHM

Prepared by: Artemis, CA, Brunel Clifton Blaise & Partners Ltd (BCB)

This Briefing Paper has been prepared on Darkfurn, analysing its underlying trading performance and providing recommendations and views on areas that can be improved, and which stores to be closed. This paper will then consider Darkfurn's contract with WHM and provide suggestions for improvement and arguments that will assist Michaela with negotiations.

## Performance of Darkfurn

### *Financial*

It must be noted that the Financial figures provided for the year ended 30 September Yr52 are draft figures, and therefore impacts the analysis of the Stores' financial information. It must also be recognised that a statement of financial position has not been provided, which limits the scope of the analysis which can be performed. Overall and store specific financial analysis has been performed. See workings within the Appendix to the paper.

### *Overall Financial*

The turnover and gross profit follow a similar pattern, decreasing in Yr49 to Yr50 and Yr51, before increasing in Yr52 to above Yr50 levels. The turnover of £396m in Yr52 is £39.3m smaller than the Yr49 turnover. The £159.3m gross profit is £41m lower than gross profit in Yr49. This trend is likely due to the struggles the non-essential retail sector faced during the Covid-19 pandemic. However, despite the similar trend, the gross profit margin has steadily decreased year on year, from 46% in Yr49 to 40% in Yr52. This means the profitability of the company's trading is reducing each year and could likely be due to the increase in mark-up that is being applied by WHM on goods sold to Darkfurn.

While there has been a gross profit each year, there has been an overall trading loss in Yr50, Yr51 and Yr52, with trading profit margins of -5%, -16% and -8%. The company was profitable in Yr49, however the trading profit margin was only 3%. Furthermore, this trading profit or loss excludes the management charges from WHM, which would've reduced the Yr49 profit by 50%, and would have added to the losses in the following years.

The store variable costs each year has been 10% of turnover. This consistency is to be expected due to delivery costs and labour being a fixed percentage of turnover. On the other hand, store fixed costs as a percentage of turnover increased from Yr49 to Yr51, before decreasing in Yr52. This too is likely due to the Covid Pandemic, however, store fixed costs in Yr52 are still over £4m higher than in Yr49.

These store fixed costs are a major contributor to the trading losses in Yr50 to Yr52. It is possible that rising energy costs in the UK have contributed to this increase.

### *Stores Financial*

The north stores have both the lowest turnover and gross profit for both small and large store, while the southern stores have the both the highest turnover and gross profit for both small and large stores. The midlands stores are closer to the southern stores' performance, with £0.4m less turnover per small store, £1.5m less turnover per large store, £0.32m less gross profit per small store, and £1.03m less gross profit per large store. The northern stores have £1m less turnover per small store than the South, £5.8m less turnover per large store, £0.62m less gross profit per small store, and £3.05m less gross profit per large store. Clearly, the better performing stores are the more southern stores.

The large stores are performing far better than the small stores. In all locations, the large turnover or gross profit per store is between 4.34 and 5.26 multiple of the small figures.

### *Improvements to Operations*

There are numerous potential improvements to operations that we have identified. One of the key options identified by Darkfurn is to close down certain stores, this will be considered separately in the following section. This section will focus on the other potential improvements which have been identified.

It is clear that the store fixed costs are very high, in particular Yr51 where it exceeded the gross profit. I recommend that Darkfurn aim to reduce these costs. This could be achieved by attempting to renegotiate the rent and rates costs. If these costs are due to rising energy costs, Darkfurn should investigate whether any Government assistance is available. Furthermore, a large portion of these costs are salary costs for full time store manager, an assistant manager in the large stores and sales assistants. While insufficient data has been provided to determine the exact number of staff required, having 10 sales assistants in the small stores may be excessive. Furthermore, having an assistant manager in the large stores may be excessive. This should be formally investigated as to whether staffing can be reduced. It is likely that the sales assistants are on a large salary, as they are university graduates. Darkfurn should consider whether less qualified employees could be hired at a cheaper cost, without much of an impact on performance.

At present, the furniture in stores is only for display purposes. It is recognised that this rule is part of the trading agreement between WHM and Darkfurn. However, this arrangement may be hurting sales. Some customers may not have the patience to wait for delivery and may choose competitors. I recommend that Darkfurn hold some stock for immediate sale, if they can obtain permission from WHM.

## Closure of Under-performing Stores

### Location

As identified in the Store financial analysis, the midlands and southern stores are performing better than the Northern stores on an average basis.

There are however some financial benefits in the North, with lower fixed costs per store.

When deciding which store to close, northern stores would be the main area to begin with. However, the analysis performed has been on an average basis, and therefore each store would need to be analysed individually to identify the worst performing store.

As a retailer of premium-priced dark-wood furniture, it must be recognised that these goods may not be considered essential to many households, either during a pandemic or a cost of living crisis. Therefore, the demographics of the store locations should also be considered when deciding which stores to keep, and which to close. In general, the south of England is more affluent than the midlands and northern areas.

It would however be important to retain some presence in the Northern area, so that customers in that area are still accessible.

### Size of Store

Per the financial analysis, the large stores are performing significantly better than the smaller stores. This is likely due to the ability of large stores to demonstrate a larger selections of items, and give off a more professional impression to potential customers. Large stores would also provide greater facilities for holding stock, if Darkfurn decided to offer the immediate sale of goods. This would therefore reduce potential future costs as additional storage may not be required.

### Recommendation

I recommend that Darkfurn focus on small, Northern stores when choosing which stores to close. They must however retain some stores in the North.

## Contract with WHM

### *Appraisal of main clauses and suggestions for Improvement*

#### *Goods for Resale*

Clause 1.1 in the trading agreement states that all the goods purchased by Darkfurn will be made from WHM. This was likely introduced as a way for WHM to ensure the quality of Darkfurn's goods. However, as of Yr44, WHM closed all but one of their factories and subcontract out the production of furniture to manufacturers with cheaper materials and very cheap employees. This clause is clearly out of date. If goods are not to be made by WHM, then Darkfurn should be involved in the decision making of the subcontractors, as cheap materials and very cheap employees could indicate ethical issues which could hurt the reputation of Darkfurn.

Clause 1.2 of the contract acknowledges that the mark-up will be no less than 25% and no more than 75%. This doesn't immediately appear unreasonable however it is quite a large range of mark-ups. With WHM increasing their mark up each year, Darkfurn should monitor whether this clause is still being met by WHM.

Per Clause 1.3, WHM will give Darkfurn a minimum notice of 3 months to any future change of mark-up. This notice is quite short, considering Darkfurn will want to perform cash and financial projections on a yearly basis, and these results could be sensitive to the mark up from WHM. This is especially true in the case of an audit where 12 months projections are required for Going Concern work, which is important when Darkfurn are suffering cash flow issues.

As discussed in the previous section, Darkfurn's retail stores are not able to make any goods available for immediate dispatch per clause 1.4. With the improvements to supply chains efficiencies from the date of incorporation to Yr52, Darkfurn should be able to deliver goods immediately, and be able to re-order to replenish the displays if required. It is therefore recommended that this clause is updated to allow immediate dispatch.

Clause 1.5 indicates that goods will be delivered to Darkfurn within 7 days from when the order is received. However, at present, customers of Darkfurn are receiving goods within a month of placing the order.

Per Clause 1.6, any costs to return the goods are borne by Darkfurn. Considering this is the customer's decision, and the goods are provided by WHM, it appears unfair that it is Darkfurn who borne the cost of returns. I suggest either WHM or customers borne this cost in the future.

Clauses 1.5 to 1.7 appears reasonable. 45 days credit term is not a low number of days, however Darkfurn would likely benefit from this being extended due to their cash flow difficulties. However, this is unlikely as WHM are suffering cash flow difficulties of their own.

### **Overheads**

Per clauses 2.1 and 2.2, WHM charge Darkfurn a significant management charge per quarter, however Darkfurn are responsible for arranging and paying many costs of the business, including payroll. Considering Darkfurn perform many of the administrative functions themselves, a management charge of 50% of trading profit seems very high. This is especially the case as WHM only own 51% of Darkfurn, unlike the 100% at the date the clauses were drawn up. I therefore recommend that Darkfurn negotiate a reduction in management charges.

### **Sales**

Clause 3.1 is fairly reasonable in the sense that similar prices in UK and Republic of Ireland should prevent customers ordering goods from the other country to save costs, as this would increase the delivery burden on Darkfurn. However, with rising inflation in the UK at present, it must be considered whether this margin is appropriate. Furthermore, the Republic of Ireland no uses the Euro, and this 10% margin could be breached purely by exchange rate movements. I therefore recommend that this margin is increased or adjusted to take into account exchange rate and inflation.

Clauses 3.2 and 3.3 appear reasonable. Credit should only be offered to customers who have been checked previously. It is also reasonable that credit isn't offered on goods under £100 as this would be an administrative burden chasing payment for small amounts.

Clause 3.4 ensure that all amounts Darkfurn owe WHM are subtracted off Darkfurn's earnings. This is very restrictive, especially when Darkfurn are only 51% owned by WHM. This will make Darkfurn's cash flow problems worse as they only receive their cash every month from WHM, and don't have any say in when they make their payments to WHM. I recommend that Darkfurn get control of their own sales proceeds.

### **Arguments that would assist in Negotiations with WHM**

I first recommend that you, Michael, present the benefits to WHM of re-negotiating the contract with WHM. The benefits such as reducing their administrative burden and responsibility should be emphasised to make it look more appealing.

I also recommend that you acknowledge that WHM are in breach of some of the clauses, such as making all the goods and delivering within seven days. An acknowledgement of this would likely make WHM more open to adjusting the contract so they are no longer in breach.

Finally, it should be acknowledged that WHM only own 51% of Darkfurn now, and therefore circumstances have changed. As Partner of Aventus, you will have even greater influence. If WHM refused to alter the contract, Aventus would be able to dispute this, due to their large investment and holdings.

## APPENDIX

	Yr52	Yr51	Yr50	Yr49
Turnover	396	265.3	365	435.3
Gross profit	159.3	108.8	157.3	200.2
Gross profit margin	40%	41%	43%	46%
Trading profit or loss	-31.4	-42.7	-17.4	11.5
Trading profit/loss margin	-8%	-16%	-5%	3%
Store variable costs	39.6	26.5	36.6	43.5
% of turnover	10%	10%	10%	10%
Store fixed costs	135.1	109.2	122.4	129.7
% of turnover	34.1%	41.2%	33.5%	29.8%

		Small	Large				
North Turnover	£m	18.9	39.6				
North Gross Profit	£m	7	13.5				
North No. of Stores		9	4		Large Turnover/GP as a multiple of Small Turnover/GP		
Turnover per store	£m	2.10	9.90			4.71	
Gross Profit per Store	£m	0.78	3.38			4.34	
Midlands Turnover	£m	35.1	71				
Midlands Gross Profit	£m	14	27				
Midlands No. of Stores		13	5				
Turnover per store	£m	2.70	14.20			5.26	
Gross Profit per Store	£m	1.08	5.40			5.01	
South Turnover	£m	74.4	157				
South Gross Profit	£m	33.5	64.3				
South No. of stores		24	10				
Turnover per store	£m	3.10	15.70			5.06	
Gross Profit per Store	£m	1.40	6.43			4.61	



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## **Report on Darkfurn's New Strategy and Operations**

**REPORT TO Michaela Xa**

**By: Artemis, Brunel Clifton Blaise & Partners Ltd**

**Date: November Yr52**

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## 1. Introduction

This report is intended only for the purpose of providing information and advice to Michaela Xa, Managing Director of Darkfurn, and should not be relied upon by any third parties.

This report sets out to critically appraise the new proposed strategy by Darkfurn, including advice on the new manufacturing location. It evaluates the contents of the internal audit report and provides suggestions as to how a treasury department would operate within Darkfurn.

In creating this report, we have relied on the information provided to us to produce our advice.

This includes the reliance on an external Marketing Survey and a report from WHM's internal audit department. Thus, the limitations of this information should be considered before relying on the report for any decision-making purpose. Should any of this information be incorrect we shall not be responsible for any consequent errors in our advice.

Any information relating to tax described in this report is relevant at the time and should be reviewed closer to any decisions made for any changes in tax regulations.

## 2. Executive summary

- It is recommended that Darkfurn pursue a larger and wider product range, with cheaper options. However, research and due diligence must be performed on the resources required and the potential re-branding.
- It is recommended that the new Manufacturing Operations are set up in the UK mainly because there will be greater control over employee working conditions and the environmental behaviour, and less currency risk.
- Darkfurn must improve evidence of overseas sales, controls over customs duties & VAT, and information systems. They should also write down bad debt due to them.
- A treasury department would provide greater awareness of cash flow difficulties and increase ability to chase bad debt. It would also aid with reducing exposure to currency risks. If affordable, Darkfurn would benefit from implementing their own Treasury Department.

### 3. Critical Appraisal of the new strategy

The proposed new strategy for Darkfurn has multiple components, and therefore these have been considered separately below, before providing general considerations and suggestions.

#### 3.1 Product Range

The proposal is to change the product range, by introducing a product range with a greater number of items, a greater variety of wood, the majority of which would be sold flat packed. Furthermore, customers would be able to pick up furniture from the store.

Previously, Darkfurn only provided premium dark-wood furniture. Per the Marketing Survey carried out in September Yr52, the percentage of consumers that prefer dark furniture was only 10%, falling 5% from the 15% as of Yr50. This low figure as far back as Yr50 is likely part of the reason Darkfurn has struggled for profitability in the last 3 years. 55% of consumers preferred medium wood and 35% prefer light wood, with both showing slight increases from the Yr50 figures. Therefore, the proposed strategy to provide a greater variety of wood appears to be sensible, and should allow Darkfurn to attract a greater number of customers.

Per the survey, 85% of consumers, an increase of 6% compared to Yr50, would prefer to collect their furniture at the time of sale, rather than pay for delivery. This is the vast majority of consumers, and therefore the proposed strategy of allowing customers to pick up furniture should be beneficial and attract far more customers.

This strategy would mean that the majority of goods would be flat packed. Per the survey, around two thirds of consumers would not expect flat packed goods to be flat packed. However, two thirds of consumers would prefer flat packed non premium goods than pre-assembled non-premium goods if there was a reasonable price saving. Therefore, it is recommended that the remaining stock of the premium furniture is not flat packed, but that flat packing is provided on the less premium goods, with a price saving included. Per the Marketing survey, 50% of consumers would pay for flat pack furniture to be assembled at their home. This could provide additional revenue for Darkfurn. However, consumers preferred that this be performed by Darkfurn's own employees. It would need to be investigated financially whether this service would be beneficial to Darkfurn.

#### 3.2 Pricing Points

This strategy aims to provide a wider range of low-cost furniture, as well as additional value for money furniture made of cheaper materials like chipboard and laminate.

The provision of these cheaper options may allow Darkfurn to obtain a greater market share, than only providing premium goods. Due to the cost of living crisis, consumers are trying to find many ways to cut

costs. Therefore, they are more likely to purchase more low-cost furniture. This is in line with the results from the Marketing Survey whereby unemployed people cannot afford premium price furniture. However, it is recommended that the most popular premium furniture is included in the product offering so that that the more expensive element of the market is not lost completely.

The provision of low-cost furniture will include furniture that can be used as desks. Darkfurn would therefore be able to profit from the increased demand for desks now that a large portion of the UK's workforce work from home. Consumers would be less likely to use the premium furniture for such reasons.

### **3.3 Rebranding of Company**

The proposed strategy suggests a rebrand of Darkfurn, including a rename.

If the new strategy goes ahead, the name change would make sense, as it does indicate Dark furniture, rather than the wider variety of goods. However, it is recommended that a Marketing firm would be consulted with regards to the name change, to help ensure the best possible name. Uventus would also likely need to approve the new name. Furthermore, it would need to be considered whether the name change could mean a loss of customers who don't realise the name has changed, or potential losses of suppliers. A rebranding would need to be a thoroughly researched and extensive process.

### **3.4 General Considerations**

Per the marketing survey, 55% of consumers prefer the internet for most furniture, and 84% prefer to purchase larger furniture in smaller stores. Therefore, it is recommended that Darkfurn increase their online presence and allow online sales, if the resources are available to implement this. Furthermore, when considering which stores are to remain open, this suggests that the larger stores are preferable.

If WHM are to remain the principal supplier of goods for Darkfurn, it needs to be considered whether they are able to provide this larger variety of furniture. This supplier arrangement may be part of the terms of the sale, and therefore could prevent this strategy.

It must also be considered whether the company's systems would need improved to cope with the larger product offering.

### **3.5 Conclusion**

Per the strategy for the product range and pricing, it is recommended that a larger product range is pursued, with lower cost options and the provision of flat pack furniture. For the rebrand, experts should be consulted before any final decisions are made. However, before the strategy is implemented, due diligence must be performed on the agreement with WHM and the funding required to implement the strategy, and financial projections should be performed to determine potential profitability.

## **4. Location of Manufacturing Operation**

There are many factors which should be considered when determining the best location for manufacturing operation. The key factors have been considered below.

### **4.1 Employees**

Setting up a manufacturing operation to produce furniture will require many employees, with skills and expertise. An operation in the UK would allow Darkfurn to have better control of the employees and their pay and working conditions. If the operations were in the Asian Country, Darkfurn would need to rely on Managers in that country to ensure good working conditions. This lack of control has hurt large companies in the past such as Apple, where their manufacturing staff were working in bad conditions.

In the UK, due to national minimum wage requirements, it is likely that the employees would need to be paid more than in the Asian Country, which would reduce profitability. However, this additional cost would likely be worth more than reputational damage that can occur due to poor working conditions.

### **4.2 Location of Factory**

If planning permission is required for the Manufacturing operation, this should be easier to obtain in the UK. These legal documents are very long and complex to the average person. Therefore, it could be very difficult to properly arrange this in a foreign country, with a different language. However, Darkfurn are a large company and would be able to hire translators and legal experts if required.

Historically, some factories have not behaved ethically with regards to their waste and in protecting the environment. Having manufacturing operations in UK would make it easier for Darkfurn to have a greater oversight of these operations, to help reduce the chance of negative press and loss of customers that can arise due to this.

### **4.3 Local Reputation**

The implementation of Manufacturing Operations provides many jobs, wherever the location is. The provision of jobs would boost Darkfurn's reputation in the local community, and therefore could increase the potential sales.

### **4.4 Imports and Currency Risk**

If Darkfurn were to set up operations in the Asian Country, imports of the goods into the UK would suffer customs duties, which would increase the costs of Darkfurn. Furthermore, Darkfurn would be exposed to currency risk as many of the manufacturing operations costs would be in a foreign currency. These fluctuations could reduce profitability, as well as increase it. Darkfurn could decide to make use of currency risk management policies in order to prevent this. The sales of the goods would not be in the

foreign currency, so matching would be difficult. Derivatives could be used but this would increase the burden on Darkfurn's finance team.

## **4.5 Conclusion**

Based on the above factors, it is strongly recommended that the location of the manufacturing operations is in the UK. This would allow better control of environmental behaviour and employee working conditions. It would also reduce the administration required for permission from the area and would prevent the need to try to reduce currency risk. The staff costs would be more expensive however, this would be worth the greater control especially as it could increase sales in the local area due to an improvement in the business' reputation.

## **5. Evaluation of Internal Audit Report**

Each of the key areas in the internal audit report produced by the WHM Internal Audit Department have been considered below, with recommendations made, while considering that Darkfurn has been subsequently sold by WHM.

### **5.1 Sales of Good for export**

The internal audit department identified that documentary evidence in Darkfurn in had not been recorded and maintained to evidence that goods had been sold Overseas.

Goods sold overseas are not subject to the output tax that would apply to goods sold within the UK. HMRC are therefore wary of the fact some companies could pretend to sell overseas, in order to reduce their VAT liability. There are approximately 500 overseas customers, making up 0.5% of the Sales. 0.5% of the Turnover in Yr52 is £1.98m, and the VAT liability on these sales, if sales were made to the UK would be £0.396m<sup>1</sup>. This is a significant sum, and therefore it is essential that Darkfurn maintain evidence that overseas sales were in fact overseas, so that there is no way that a VAT liability on the sales could be deemed to exist.

### **5.2 Sale of Consultancy Services to Chinese Company**

The outstanding amount due from the Chinese company has been unpaid for seven months. While the WHM Credit controller cannot chase up this debt anymore, Darkfurn should ensure that there is a role in place to chase this up. To be prudent, this debt should be written down in the financial statements if there is no sign of payment.

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<sup>1</sup> 20% of £1.98m = £0.396m



### **5.3 Purchase of goods from UK Suppliers**

Darkfurn have claimed VAT on goods purchased from a UK Supplier where the invoices did not show a VAT number. This must be investigated by Darkfurn to determine whether VAT was included in this purchase. If the supplier was not VAT registered, input VAT cannot be claimed on this purchase. HMRC must be informed if an error has been included on this VAT return, so this situation can be resolved. It is essential that HMRC are informed as quickly as possible, so as to limit the potential fines or penalties.

### **5.4 Purchase of goods from Malaysian supplier**

Darkfurn have purchased a significant value of goods (£500,000) from a Malaysian Supplier. However, these goods have been described as conifer wood, with a customs duty of 5%. However, the goods are actually made from rare hardwood, and therefore the correct Customs duty payable would be 40%. See appendix for detailed calculation of what is discussed below.

This error in customs duty means that there has been an underpayment of customs duty of £175,000, and assuming import VAT was 20%, a £35,000 under recognition of input VAT.

This error must be reported to HMRC. Furthermore, Darkfurn must consider whether this issue is more widespread, and report to HMRC any more issues identified. Darkfurn must identify whether someone within the company has deliberately used this incorrect information and prevent it from happening again.

### **5.5 Big Data**

At present, the information system to identify tax issues and recording of financial information per store and location is poorly structured. It is essential that Darkfurn invest in improving these systems. This would also benefit Darkfurn if they decide to implement the new strategy, as the system will need to cope with a larger product range.

## **6. Treasury Department within Darkfurn**

### **6.1 Overall**

A treasury department within Darkfurn would have the responsibility of managing money and financial risks to the company. It would aim to aid with liquidity while developing long term financial policies.

### **6.2 Current and New Strategy**

The Treasury Department could perform some tasks, regardless of whether the current or new strategy was implemented.

It would be able to spend time evaluating the cash flow of Darkfurn, identifying certain periods where there are working capital difficulties. This would allow Darkfurn to identify ways to improve cash flow in these periods, like reducing stock held or re-negotiating credit terms.

It would be able to take on the role of chasing bad or doubtful debt, such as the bad debt identified in the Internal Audit Report. When successful, this would aid the cash flow of the business and profitability. This would ease the burden on Olly, the current financial controller. It is beneficial to alleviate the finance department's workload as this should reduce employee turnover.

### **6.3 Specific to New Strategy**

Part of the new strategy plans included potentially having manufacturing operations in an Asian Country. The treasury department would be able to monitor currency fluctuations and aim to implement policies which can reduce the currency risk. However, this would still be difficult due to the unpredictability of currency.

The treasury department could aid with regards to correctly recognising import duties, to prevent situations as identified in the Internal Audit Report.

### **6.4 Conclusion**

It is recommended that the Treasury Department is implemented, provided staff of an adequate skillset are hired. However, the pros of this department must be considered along with the costs before any final decision is made.

## Appendix

### Calculation of Import Duty Error

Goods Value (£)	Customs Duty (5%)	Customs Duty (40%)	Difference
500,000.00	25,000.00	200,000.00	175,000.00
	Potential Import VAT (20%)	Potential Import VAT (20%)	Difference
	5,000.00	40,000.00	35,000.00



## Ethical Briefing Note

**For: Britney**

**Subject: Darkfurn Ethical Issues**

**Prepared by: Artemis**

This Briefing Paper has been prepared on ethical issues involved in the Darkfurn Briefing paper and Board Report Assignments. This first section of the report includes extracts which can be included in a letter to Michaela. The second section includes further areas to pay attention to.

## Extracts

### Theft from Store Managers

As has been identified by Darkfurn, some store managers have been pocketing cash from the tills prior to sending to head office. These store managers are not exhibiting professional behaviour, nor integrity, principles within the ICAS code of Ethics.

This is an issue as they are committing the crime of theft, as they are stealing from Darkfurn. This obviously takes cash away from Darkfurn, and therefore is likely exacerbating some of the cash flow problems experienced and reducing profits. Furthermore, this type of behaviour from senior staff members can create a negative culture within Darkfurn, meaning more junior staff may also behave unethically or cut corners.

Darkfurn must perform an investigation into this behaviour from store managers, and determine how widespread the issue is, and how long it has been going on for. Darkfurn should consider firing these employees, or at the very least placing them under disciplinary action.

### Gender of Employees in Stores

Historically within Darkfurn, all the store managers have been male, and sales assistants have been female.

This is an ethical issue as it indicates that job candidates are potentially being discriminated based on their sex. This is a breach of the ICAS code of objectivity, as candidates are not being judged fairly, as well as a breach of professional behaviour. Sex is a protected characteristic under the Equalities Act 2010. If Darkfurn are breaching this, they could face potential charges and fines.

Darkfurn must investigate recruitment procedures currently in place, and update them if discrimination is occurring. Darkfurn must ensure that they develop an Equal Opportunities Policy.

## **Outsourcing of Employees**

Prior to WHM's sale of their holdings in Darkfurn, WHM subcontracted out production to manufacturers who had very cheap employees. Following the sale from WHM, Darkfurn are considering implementing a manufacturing operation, potentially in an Asia Country.

The initial outsourcing is an ethical issue as it suggests some employees used by the subcontractors weren't being paid a fair wage for their work. This is a breach of the ICAS principle of integrity and professional behaviour. Involvement in situations like this could damage the reputation of Darkfurn. It is also the case that often in Asian countries, there is cheaper labour than in the UK.

Darkfurn must ensure that they avoid taking advantage of any unfairly cheap labour and must put processes in place to continually monitor this, especially if they decide to operate in an Asian country.

## **Additional Areas for Britney's attention**

### **Michaela arranging gifts of furniture**

Michael has arranged to gift expensive bespoke furniture to all senior members of the audit team. Furthermore, she has offered expensive furniture to yourself and I.

This is an ethical issue as it is in breach of Audit Independence rules. Auditors must be independent in both mind and appearance. This gift comprises the auditor's objectivity, and acceptance of this gift does not show professional behaviour. If the auditors are compromised, then they won't perform work to the level of professional competence required.

While we are not currently working as auditors, these gifts could be considered a Bribe under the Bribery Act 2010 as Michaela may be trying to influence the findings of our report.

We must refuse all gifts from Michaela and inform her that providing gifts to SIA & Co is not allowed.

## **Working in Management Consultancy Team after being Part of Audit Team**

I am currently working on the Darkfurn management consultancy engagement, after already working on the external audit of the same company.

There are strict audit independence rules, and working in an advisory role for the same company I audited may breach these. This is a breach of objectivity. Furthermore, it is possible that I could mistakenly reveal details of the audit with other members of the consultancy team. This would be a breach of the ICAS principle of Confidentiality.

BCB must make a decision as to whether I have the approval to continue working on this engagement.