

Case 19-9c

Dandelion Company

Background

The audit engagement team for Dandelion Company (Dandelion or the “Company”) is in the planning stages of performing risk assessment procedures related to the investment account balance. The team has prepared a memorandum documenting its preliminary understanding of the investment account balance as of the close of Q3 (as of September 30, 20Y2) in order to plan its approach for the year-end audit (as of December 31, 20Y2). An excerpt of this risk assessment memorandum is presented in Handout 1.

Required

1. Read Handout 1 and discuss what you learned about Dandelion and its investments.
2. Now that you have a preliminary understanding of Dandelion’s investment account balance, open Handout 2.

The audit manager has informed you that in the prior year the following risk of material misstatement (RoMM) related to the **valuation** assertion associated with the investments has been identified:

Investment securities held at fair value (Level 2 securities) are incorrectly valued because the selected method, data, and/or assumptions that form the estimate have been inappropriately determined or applied. [RoMM #1]

In addition, the following risk of material misstatement related to the **presentation and disclosure** of investments has been identified:

The Company’s classification of securities is inconsistent with the fair value hierarchy (e.g., it classifies a security as Level 2 rather than Level 3). [RoMM #2]

None of these risks were determined to be significant.

Note that the above risks have been selected for the purpose of this exercise. An actual engagement would most likely have additional risks of material misstatement identified.

The audit manager has provided you with visualizations (created using visualization software) that present additional analytical information about Dandelion’s investment portfolio. She has asked you to review the visualizations to determine what each shows and how the information might affect our risk assessment. She has also asked that, when determining the impact on our risk assessment, you specify whether the information obtained from the visualization assisted you or could assist you in (1) identifying a new

risk of material misstatement, (2) assessing or reassessing the risk level of the risks of material misstatement already identified, (3) designing tailored audit procedures, or (4) providing fact-based evidence to support your current risk assessment. In addition, the audit manager has questions about certain visualizations (included in Handout 2).

Use Handout 2 to jot down your responses and discuss those responses with the group.