

# Audit of lynas corporation limited (lyc)



## **INTRODUCTION:**

The audit is about ensuring the working process and system of economic activity which is related to decision making as valid. Completed activities of any business organization need to be monitored and checked by an auditor to understand the potentiality and reliability of the information's included as accounts and management system. The activities of any business organizations can be measured by auditing and the duty of an auditor is to ensure this measurement by following some specific rules and regulations. The company Lynas Corporation Limited (LYC) is one of the biggest mining companies in Western Australia which was founded in 1983. As an auditor, the materiality of this company will be measured by checking error and risk assessment of this business organization.

## **SECTION 1:**

Materiality is a financial reporting that an auditor needs to consider while auditing any business organization (Caroselli, 2003). Through this materiality reporting an auditor can identify the misstatement of any financial statement of LYC limited. This is an assessment of identifying the risk of finance of the particular business organization.

**ISA 320 standard for materiality (2016-version) describes the framework of financial reporting expresses the theory of materiality with the presentation as well as preparation context of the financial statement (Caroselli, 2003).**

**According to the framework of financial reporting materiality is explained as:**

- Misstatement of the financial report
- Omissions in report
- Elements that influence the economic decision

- Materiality judgment depends on the nature and the size or the both of misstatement.
- Misstatement can happen on any individual user or client (Caroselli, 2003).

#### Revenue:

The revenue of LYC limited, after deducting the service commission was \$257 million in the year 2017 which was increased amount compared with the revenue of 2016 which was \$191 million. This increased revenue reflects on the production volume positively (Caroselli, 2003). This positive impact on revenue benefits the company to develop a strong strategic relationship with the customers.

#### **Loss before tax:**

The loss before tax of LYC in the year 2017 was \$35. 6 million. In previous years from the startup of the company, LYC always faced negative EBIT which reduced tremendously in the year 2017 compared with the loss of 2016 which was \$94. 1 million (Caroselli, 2003). This company is facing losses for the last few years and but the ratio of loss decreased in the year 2017.

#### **Current assets:**

The current asset of LYC limited is \$108. 835 million in the year 2017 which increased from the current assets of the year 2016 and the amount was \$102. 196 million. The number of current assets increased from 2016 to 2017 which is positive for the business (Eliot, 2016). That means the company LYC has bought some new assets in the year 2017 which is why the amount increased (Eliot, 2016).

Yes, the EBIT of LYC was volatile and fairly stable which was \$36. 64 million.

This company was on the loss for the last few years from the startup of the business. In 2017 they reduce the loss of 2016 \$ 94. 11 million to \$36.

64 million in the year 2017 by increasing revenue from sales. The calculation is clear comparing the EBIT of 2016 with the EBIT of 2017 (Eliot, 2016).

At the time of auditing the business LYC limited, above financial statements were found about the year 2017.

Particulars	Amount (in million \$)
Sales Revenue	257
Profit or loss before tax	(36)
Profit and loss after tax	(15)
Total assets	716. 38
Net assets	91. 40
Net operating cash flow	33. 99
Net debt	22. 9

In order to determine the materiality, there is a need of appropriate base. The base can be selected from income statement and balance sheet. Income statement base includes profit before tax, revenue or gross profit and balance sheet base consists total assets and equity. In the case of Lynas, a company is experiencing loss so that profit before tax cannot be appropriate base so revenue can be used as an appropriate base.

Here, the group materiality for Lynas is 0.5% of total revenue i. e. 0.5% of \$ 256,976,000 equals to \$ 1,284,880. We used total revenue base because the company is bearing net loss in the year 2017.

## SECTION 2:

The ratio is a comparison of the different value in number. The proportion of one number will be compared with another number according to their value is called ratio (Eliot, 2016). The value of one number will be calculated with another number but they will be compared with each other. In any business organization ratio analysis is very important to understand the progress within respective years which is an essential part of auditing (Eliot, 2016). In this part of the assessment, the ratio analysis of LYC Limited will be analyzed for the year 2014 to 2017.

Ratio Analysis	2017	2016	2015	2014
CA ratio	1.079969437	0.903238351	0.367810276	0.679374521
Debt ratio	0.872413042	0.0	0.7832863	0.0

		909522327		645636866
Gross profit ratio	0. 057347768	-0.	-0.	-0.
		10706655	16424382	20301998
Return on Asset ratio	-0. 04975279	-0.	-0.	-0.
		11958274	14022387	40527086
Return on Equity ratio	-0. 38995197	-1.	-0.	-1.
		32168235	64704662	14365978
Dividend payout ratio	No dividend has been paid since past	-	-	-

The current ratio is found out by dividing current assets from the current liabilities of the organization LYC. From the above comparative analysis, it can be seen that clearly in 2017 their CA ratio is good because it is slightly more than 1 and others are lower than this year because of receiving more cash in 2017 (Grant, Sen & Spring, n. d.).

The second ratio is debt ratio that finds out possible ratio by calculating total debts from total assets. These two elements are being used to express the ratio and the less is the ratio the better is for the organization because it indicates lower debt in the period (Grant, Sen & Spring, n. d.). But from 2014-2017 their debt ratio is increasing at a high rate which is not good for them in the future because they may have to face lower fund problems.

Gross profit ratio is calculated by dividing gross profit by total assets and from the table, it can be said that LYC gross profit ratio is in good position on 2017 only because remaining years are showing negative number because of gross loss (Grant, Sen & Spring, n. d.).

Return on assets of LYC Company is not in a good position at all because in the past four years they are facing losses due to loss before tax amount. It is not good for the organization and this is the reason management needs to make improvement and increase sales so that they can recover loss situation from profitability (Houghton & Campbell, 2005).

Return on equity is in an exactly same situation as like Return on assets because all amounts are getting a negative view because of loss account in income statement which must be recovered by them. at last dividend payout ratio is being discussed where it can be seen that there is no dividend paid out since last three years. This is the reason the row of this ratio is written as no dividend has been paid since past (Houghton & Campbell, 2005).

The assertions about the classes of cash receipts and cash payments are described below:

For occurrence there should be documents that support the sight (sight remittance advice for cash receipts and documents supporting payment). For completeness there should be a check of detailed transaction, advice on remittance and cheques. Accuracy is other assertions in which supporting document to verify dollar amount of the transaction is needed. Before balance date cash receipts and payments should be checked and after the balance date cash receipts and payments in the correct period there is cutoff

assertions. Classification is the last assertions in which the cash is recorded according to the chart of accounts.

### SECTION 3:

In terms of accounting and business organizational aspects, cash flow is perceived as the difference in amounts that take place in cash available at the very initiation of a certain period such as- opening balance and at the end of a period such as- closing balance (Jeffrey, 2008). There are two kinds of cash flows- cash inflows and outflows. Cash inflows are cash flows that the company achieves by increasing their cash position. Cash outflows are cash flows which get decreased in the company (Jeffrey, 2008).

#### **Cash inflow includes:**

- ☛ Cash sales
- ☛ Receipts from trade customers
- ☛ Receipts from government grants
- ☛ Personal fund investments (Stanwick & Stanwick, n. d.).

#### **Cash outflowsincludes:**

- ☛ Wages
- ☛ Salaries
- ☛ Purchase of raw materials
- ☛ Income tax/vat (Stanwick & Stanwick, n. d.).



**Cash flow interpretation of LYC Company:**

The cash flow statement showed that LYC is having high net operating cash flow in 2017 than 2016 because of high cash receipt in 2017 which are really exceptional (Verschoor, 2008). Highest net cash inflow generated by the company is in 2017 that is \$33, 993 and the highest cash out from the organization incurs in 2016 because of higher investing and financing that is \$10, 275. But their net cash used amount is more in 2016 rather than 2017. But it is fair because in 2016 their operation is done more and it is the reason in 2016 they incur high net cash used in investing. The cash receipt of LYC company includes received from trade customers and interest received whereas cash payment comprise of Payment for property, plant and equipment, payment to suppliers and employees, royalties paid and income tax paid. The primary cash receipts is \$34. 1 billion and primary cash payment is \$6. 9 billion. In financing activities, they invest more cash in 2017 because long-term borrowing was high in 2017 compared to 2016 (Verschoor, 2008). Their operating cash inflow is \$34. 10 billion in 2017 and in 2016 it was \$4. 10 billion. At the end of the discussion, it can be seen that in 2016 the amount of net cash flow becomes in hand at \$63, 925 where in 2016 it was \$43, 348 because of negative cash equivalent on 2016. So, at last, it can be said that the cash flow statement is the most important part of an organization as it helps to maintain how much cash generated in the organization and how much management send for investing and financing people and how much in hand at the end of the year (Verschoor, 2008).

**Going concern relates that the business has the enough fund that it requires at the time of day to day activities of an organization for a definite period of time. Going concern assumption has been used for preparing the financial report. There is a net loss and net cash inflow from the operation in the Fiscal year 2017. There are a number of key assumptions that affect the business. They are: foreign currency exchange rate, prices for real earth product, forecast production volume, continuing improvements in cost performance etc. As per section ASA 570 (ISA 570) if an auditor finds any factors of risk which says that the going concern assumption is in risk then the following procedures such as assessment of cash flow, revenue and expense items, interim financial report, identification and assessment of mitigating factors etc.**

### **Conclusion:**

In this assessment, the auditing activity of the company LYC has been completed and required risk has been identified. The cash flow analysis and ratio analysis has been completed and the interpretation of cash flow has been shown. The aggressive risk and materiality check has been completed by the auditor and the level of materiality has been identified.

### **References**

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