



# **Financial audit simulation of Autobuses Costa Azahar's annual accounts**

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# Abstract

In this research work, we will perform a financial audit simulation of the annual accounts of the fictitious company Autobuses Costa Azahar, which is engaged in passenger road transport.

Based on the annual accounts of Autobuses Costa Azahar in 2020, we will analyze the company and the sector in which it operates, review its internal control system and perform a financial analysis to know its economic-financial situation and know which areas deserve more attention from the auditor.

After understanding the operation of the company, we will be able to delimit the risk areas and we will start the field work with the audit tests required by each area in order to obtain sufficient and adequate evidence. Once the field work has been carried out, we will be able to issue the final report and we will have fulfilled the objective of this research work, which is to get an opinion in our judgment about if the annual accounts of Autobuses Costa Azahar have been prepared in accordance with the current accounting regulatory framework and represent a true and fair view.

## 1. Introduction.

According to article 1 of Law 22/2015 of July 20, 2015 on account auditing, account auditing consists of "the review and verification of the annual accounts, as well as other financial statements or accounting documents, prepared in accordance with the regulatory framework for financial information that may be applicable, provided that such activity is aimed at get a report on the reliability of such documents that may have effects on third parties". The auditor, once the necessary documents have been reviewed, must issue a report with his opinion assessing the reliability of such information, that is, he must assess if the company reflects a true and fair view of its net worth in accordance with the accounting regulatory framework.

In Spain, financial auditing has been compulsory since 1990, a very late period compared to countries such as the United Kingdom, which began to have professional auditors in the 19th century due to the rise of capitalist companies during the Industrial Revolution and the demand from investors, shareholders and other

users who wanted to avoid accounting fraud in their companies. In fact, auditing in Spain was born with the company Price Waterhouse, currently one of the *BigFour*, that is, one of the four largest consulting and auditing companies in the world, which settled in our country in 1929 due to the settlement of british companies in the Basque Country. Each time, large multinational companies arrived and brought with them auditing firms so they could be controlled by the parent company, so that the volume of auditors increased during the 20th century until, as we have already mentioned, in 1990 it became compulsory due to the entry into force of commercial company law.

## 2. Reason

During the last course of the career, I have had a subject called *Auditoría Financiera*, which I liked a lot and in which they have taught us how is the audit process, as well as the evaluation of financial statements and adjust the possible deviations that we could find. On the other hand, I have done my internship in an auditing firm, where I have improved my knowledge on this subject and reviewed the annual accounts of many companies.

The objective of this work is to perform a financial audit simulation of the fictitious transport company Autobuses Costa Azahar in order to evaluate its financial statements and see if they reflect a true and fair view of its assets and financial situation, in accordance with the accounting regulatory framework. For this purpose, I will apply the theoretical and practical knowledge that I am currently learning and I will develop all the account auditing procedures necessary to carry out my research. These procedures can be divided into four phases: The request, the planning, the obtaining and analysis of evidence and finally the audit report.

### **3. Methodology.**

If we want to have a good research work we must have an adequate methodology in order to be able to achieve the planned objectives. The methodology consists of defining the methods that we are going to use to carry out our work, so that external users can evaluate the validity and reliability of our research.

This methodology can be of two types, qualitative or quantitative. Qualitative research focuses on descriptive and narrative terms, collecting speeches on a topic and then proceeding to its interpretation, focusing on understanding the social context and people's attributes, rather than numbers. As Taylor and Bogan (1984) said, "the qualitative method seeks to understand what people think and say". On the other hand, quantitative methodology is the set of strategies for obtaining and processing information using numerical magnitudes, as well as statistical techniques to carry out its analysis and obtain its conclusions.

For the realization of an accounts audit, it may seem that only a quantitative study is made, since our mission is to review the accounting of the company, where we only have numbers. However, an auditor is unable to review all the company's accounts because he has limited resources and time. Therefore, when planning the audit, a study of the company and the sector is carried out to understand the context in which it operates, which we will see later, as well as to identify the possible risks it may incur. If we look at the planning of an audit, one technique used is to interview managers, directors and employees. The interview is one of the most commonly used techniques in qualitative research. In addition, the auditor must issue an opinion in the audit report based on his judgment, since he has sufficient empirical knowledge for the issuance of an opinion. Therefore, for the performance of this work we have based ourselves on the International Standards on Auditing (ISA) and the General Accounting Plan.

In short, although the process of an audit may appear to be a quantitative study since we analyze a lot of numbers, qualitative research is equally or more important than quantitative research.

## 4. Audit process.

Although the financial audit of accounts is a very important process for users to know the real situation of a company, it is not mandatory for all companies. According to article 263 of the Royal Legislative Decree 1/2010, of July 2, there are some assumptions that, in case of fulfilling them, an audit must be carried out in a mandatory way, such as, among others:

- Have total assets bigger than 2.85 million euros, a net turnover greater than 5.7 million euros or an average number of employees bigger than 50. Two of these three requirements must be met for two consecutive years.
- That it is requested by the company's shareholders, provided that they represent at least 5% of the capital stock.
- By requirement of a Judge.
- For carrying out an activity of public interest, such as companies registered with the Ministry of Economy and Finance or financial intermediation entities.

However, there are companies that are not obliged to be audited as they do not meet the necessary requirements and that perform voluntary audits due to the current importance of being a transparent organization and having a good image for external users and being able to attract future investors. In the case we are investigating Autobuses Costa Azahar, as we can see in Table 1, the company complies with two of the three necessary requirements for two consecutive years, therefore, the annual accounts of Autobuses Costa Azahar must be reviewed by an auditor on a mandatory basis.

	2019	2020	Does it exceed the limits?
Net sales	5.638.977,86 €	6.270.664,70 €	No
Total assets	10.513.463,90 €	11.687.635,94 €	Yes
Average workforce	65	71	Yes

*Table 1. Requirements for compulsory audit of Autobuses Costa Azahar*

For the audit of their annual accounts, the directors of Autobuses Costa Azahar contact our firm, Audiburr S.L.P., which is formed by 10 employees.



<b>Name</b>	<b>Position</b>	<b>Experience</b>
Elias Matrabi	Partner	20 years
Maria Calvo	Partner	15 years
Ángel Rodríguez	Manager	12 years
Ana Aguilar	Manager	12 years
Mohamed Saadani	Senior	6 years
Abdelaziz Olio	Senior	6 years
Isabel Beltran	Senior	5 years
Miguel Tirado	Junior	2 years
Inés García	Junior	1 year
José Giménez	Junior	1 year

*Table 2. Organization chart of Audiburr S.L.P*

Each component of the firm, depending on its hierarchy, has different functions. The three juniors perform the audit field work and support the seniors. Their tasks consist of executing the tasks planned in the Global Audit Plan, such as the review of taxes, bank reconciliation, account receivable and payable, as well as the review of the physical inventory or invoices, among many other tasks.

On the other hand, the seniors are the ones who plan, execute and finalize the audit. They must assign, supervise and review the work of the juniors, in order to avoid possible failures, so in complicated areas the field work is done by them. They are responsible for obtaining the evidence and ensuring that it is sufficient and appropriate, to subsequently include it in the working papers and for the juniors to start working.

The two managers of the firm are the intermediaries between the partners and the work team. They are in charge of assigning tasks to the team members and reviewing the final work. Once the contract is signed, they define the schedule according to the needs of each client, as well as the procedures to follow in order to comply with the established standards and deadlines. They are also in charge of the commercial side of our company, so they are responsible for attracting new clients and managing the portfolio of companies to be audited.

Finally, the partners of the firm are the visible face of our firm to the outside world. They are in charge of approving and reviewing the Global Audit Plan, and they review the final work to ensure that it has been performed in accordance with accounting and auditing standards. This is the difference between the manager's review and the partner's review. The manager does a numerical review, and the partner does a review of standards and processes. They maintain direct contact with

the client, and advise the client of progress and possible mishaps. When the audit work is done, they review the evidence obtained and sign the audit report.

#### **4.1 Audit request letter**

Before submitting the Global Audit Plan, we must draft and sign the request letter in order to define the scope and objective of our work. To this end, prior to signing, we must clarify certain aspects, as indicated in ISA 210 "Agreement on the terms of the audit engagement". These aspects are:

- The determination of whether certain conditions precedent to the audit are met, such as the acceptability of the financial reporting framework or the understanding by the company's management of its responsibility in the event that the financial statements are not properly prepared or it does not provide the auditor with all the relevant information.
- Confirmation that both the auditor and the company's management have understood the terms of the audit engagement.

If these conditions are met, Audiburr partners will draft the request letter in which we will agree on the terms of the audit engagement, such as the objective and scope of the audit, the responsibilities of the auditor and the company's management, the time frame for completion or the fees.

Once everything is agreed and drafted, we send the company the engagement letter specifying the terms of the contract, which we can see in Annex 1. Our firm agrees with the company to carry out the audit of its annual accounts for an initial period of 3 years, which is the minimum required by the regulations. This period will cover the years ending between January 1, 2020 and December 31, 2022. In this paper we will focus on the audit of the 2020 financial year.

## 4.2 Planning

When the directors are satisfied with the Audit request letter and sign it, they send us the company's annual accounts, which I attach in Annex 2, to study the company's situation and start planning all the work in order to carry it out as efficiently as possible, as indicated in ISA 300 "Planning the Audit of Financial Statements". This stage is the most important because in order to know which areas of the annual accounts require more attention, what and how many tests to perform and at what time, proper planning must be carried out to optimize all the work, since trying to cover as many areas as possible does not guarantee that the work will be done better.

Thus, for the preparation of the Global Audit Plan of the company Autobuses Costa Azahar, we will carry out an analysis of the company in order to design a general strategy, in which we will see the type of business, the organization chart and we will carry out an analysis of the sector, a financial analysis and a preliminary phase to better understand the company and the environment in which it operates.

### 4.2.1 Preliminary phase

This preliminary phase is essential because, as mentioned in ISA 300.6 "Planning the audit of financial statements", in this phase we create the "establishment of an agreement on the terms of the work", that is, the basis for good planning. In order to know the reliability of the company's accounting, we will perform a preliminary phase in which we will analyze three areas of the profit and loss statement. This phase starts in September, and consists of a purchase test, a sales test and a payroll test to check whether the company is following proper accounting procedures. A bad result in this preliminary phase will indicate that the company has not properly accounted for the different operations and therefore these errors can be extrapolated to other more significant areas, having to analyze all areas in more detail.

To begin with, we have to ask the company for the necessary documents to be able to verify the information. These are:

- Balance sheet in Excel format as of 09/30/2020.
- Excel format journal as of 09/30/2020.
- Detailed balance of customers and suppliers as of 09/30/20.

- Input and output VAT registration.
- List of the settlement of contributions (TC1) paid to date.
- Nominal list of workers (TC2) of some random month. We select the month of March.
- Copy of payments related to March payroll.

Once we have obtained all the information we have requested, we start by performing the payroll test. To do this, we have randomly selected the month of March to check if the payrolls for that month are correctly accounted for. We square the group 64 accounts for the month of March with the liquid to be paid according to the Nominal List of Workers, currently called TC2, which is a document that we have to deliver to the Social Security in which we can see the nominal relationship we have with the workers based on their contribution. In addition, we have to select several employees at random to review their pay slips, checking their inclusion in the TC2 or if the IRPF withholding is correctly done. As we observe in Table 3, the differences between the accounting and the TC2 is minimal, therefore we classify it as Pass, that is, insignificant difference, and we can say that the procedures when accounting for wages and salaries are fine.

Personnel expenses according to accounting	198.800,00	<b>1</b>
Personnel expenses according to Social Security	198.000,00	<b>2</b>
Difference	800,00	Pass

**1** Data taken from the accounts 64. Personnel expenses during the month of March  
**2** Data extracted from the Nominal List of Workers (TC2) for the month of March.

*Table 3. Payroll test*

Subsequently, we will work on the purchases and sales test, in which we will select a random month to review, in this case May. For the purchases test, we compare the balance of the group 60 accounts for the month of May with the input VAT balance in the VAT register, and for the sales test we compare the balance of the group 70 accounts with the output VAT balance in the VAT register, also for May. We do not only check that the company has accounted for the data correctly, but we also check proofs of purchase or sales, such as invoices or delivery notes. We check that, apart from the amount, the invoice number, the name of the supplier or the date of the transaction are correct. We also have to see the bank receipts of the transactions and verify that everything is correct. As we can see, the differences are minimal and therefore we can say that the company applies the accounting procedures correctly.

Purchasing expenses according to accounting	135.286,85	<b>1</b>
Purchasing expenses according to VAT registration	135.850,22	<b>2</b>
Difference	-563,37	Pass

**1** Data extracted from accounts 60. Purchases  
**2** Data extracted from the VAT registration book.

*Table 4. Purchases test*

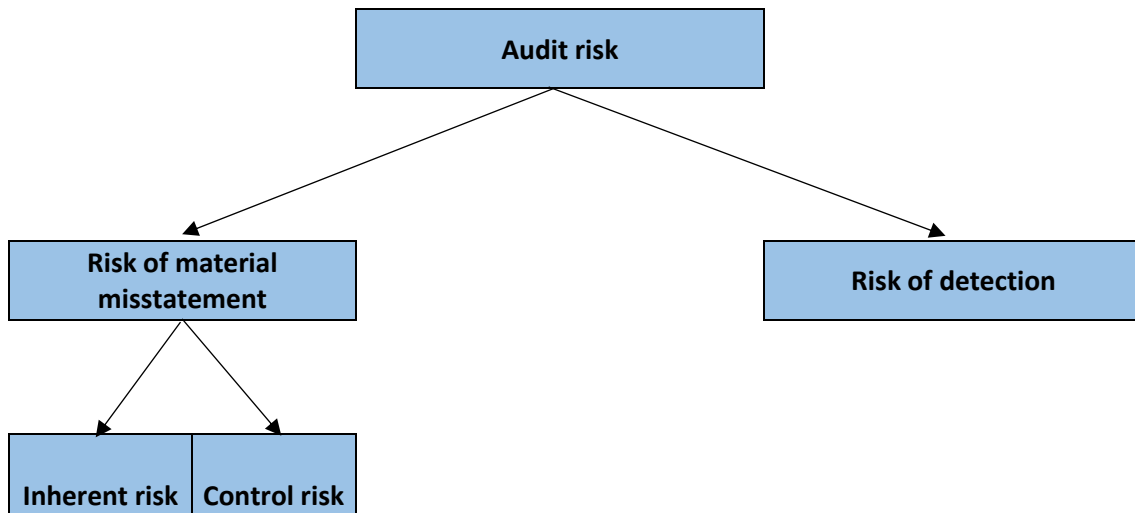
Selling revenues according to accounting	642.358,50	<b>1</b>
Selling revenues according to VAT registration	644.851,60	<b>2</b>
Difference	-2.493,10	Pass

**1** Data extracted from accounts 70. Sales  
**2** Data extracted from the VAT registration book.

*Table 5. Sales test*

In this preliminary phase, we should also perform the internal control of the company, as indicated in ISA 315 "Identifying and Assessing the Risks of Material Misstatement through Knowledge of the Entity and its Environment", which states "The auditor obtains an understanding of internal control relevant to the audit". The auditor should check the honesty and behavior of management, as well as the control elements they have stipulated. This point is important because if the company does not have adequate internal control, the auditor will have to work harder as there are likely to be errors in most areas. In order to verify that the internal control is well designed, we have carried out a questionnaire which is attached in Annex 3.

Following the guidelines of ISA 315, the auditor should also identify and assess the risks of the company by analyzing the entity and its environment, in order to design an appropriate planning. Audit risk is generated when the auditor issues erroneous information due to a failure to detect obvious errors that would completely change his opinion. These errors can occur at different levels, so we will see how each level can affect the audit risk.



*Illustration 1. Audit risks*

- Inherent risk: This type of risk is related to the economic activity of the company. It consists of the possibility of material misstatements in the company's financial statements due to the misapplication of accounting procedures by employees, so this risk is beyond the auditor's control. There are many factors that may influence this risk, such as the nature of the business and the sector, accounting procedures, situations that may influence management or the economic-financial situation of the company, among many other factors.
- Control risk: This is linked to the internal control systems implemented in the company and, as mentioned above, if the company does not have a good internal control system, it is very likely that there will be significant errors in the entity.
- Detection risk: This is the only type of risk that is indeed linked to the auditor, and consists of the auditor's failure to detect errors during the performance of his work. It is very important because, if the auditor applies appropriate procedures and manages to reduce the audit risk, he will also reduce the control and inherent risk of the company.

#### **4.2.2 Type of business**

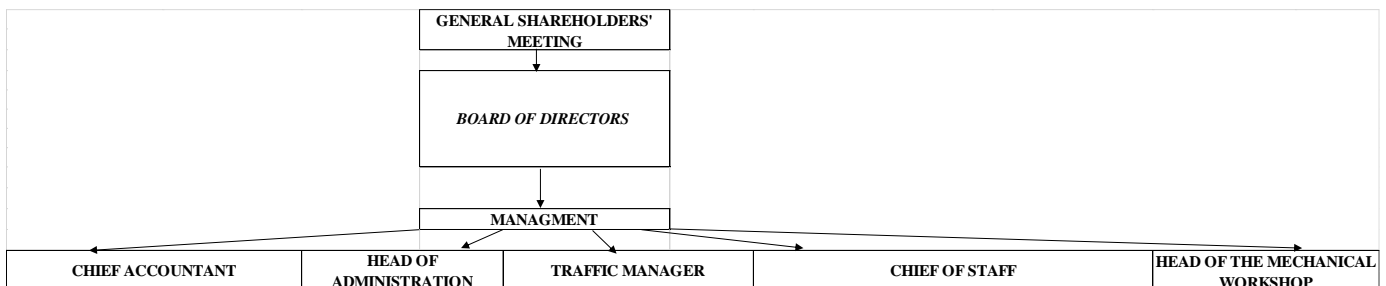
Autobuses Costa Azahar is a company engaged in the transportation of passengers by road that was incorporated as a public limited company on March 22, 1962 in Castellón de la Plana and has a capital stock of €168,346.66. In addition to

offering bus rental services with driver, it is a concessionaire of regular lines in the province of Castellón.

The company manages routes throughout the national territory, but it is in the province of Castellón where it has more volume of work, operating not only in the private sector, but also in the public sector through the concession of regular lines by the municipalities, as mentioned above.

### 4.2.3 Organization chart

Since it is a public limited company, control of the company and decision-making power lies with the general meeting of shareholders. If we look at the structure of the organization, we see that it is a vertical organization chart, in which the distribution of hierarchies is distributed from top to bottom. Specifically, it is a pyramidal organization chart, as shown in Figure 2, in which the maximum power over the company is at the top of the pyramid.



*Illustration 2. Autobuses Costa Azahar's organization chart*

### 4.2.4 Sector analysis

The land transport sector in Spain is a very important area in our society due to the wide road network we have. Specifically, we will focus on the land transport of people since the company we are investigating, Autobuses Costa Azahar, belongs to this subsector. As ecology is taking shape in our society, public transport must gain ground over private transport in order to reduce pollution in the world. As we can see in Illustration 3, and according to the European Environment Agency, the bus is one of the most environmentally friendly means of transport, and we can say that it is the most environmentally friendly gasoline-powered means of transport, second only to walking

or cycling, which are powered by our own power, and the streetcar, which is powered by electric energy. Therefore, users are becoming increasingly aware of the vital importance of having a good transport network to achieve environmentally friendly mobility.

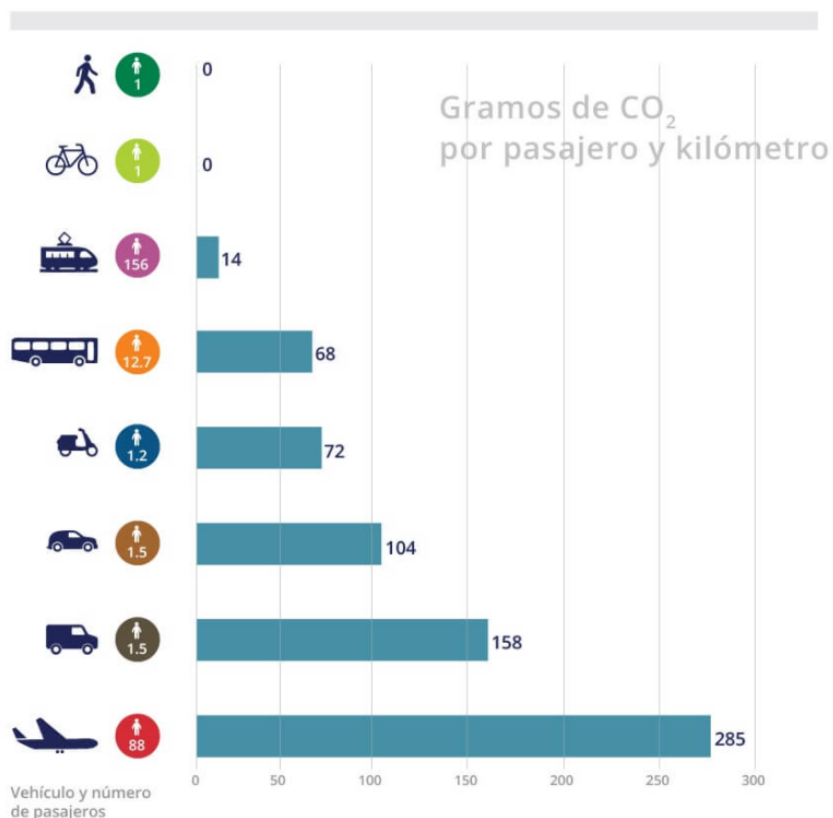


Illustration 3. Grams of carbon dioxide per passenger per kilometer

According to a study by the Ministry of Public Works, the sector is highly fragmented, as almost 90% of the companies in this sector are small and medium enterprises. However, the largest volume of turnover is accounted for by large companies, around 70% of the sector's total turnover. With regard to the balance sheet structure of the companies in the sector, there is a predominance of long-term assets due to the purchase of vehicles, and therefore long-term financing is sought for the purchase of these assets. Thus, small and medium enterprises in this sector will not have many problems with liquidity since current assets will comfortably exceed current liabilities, as we will see later in the financial analysis. This study also reveals the cost structure, in which we see that the items with the highest expenses are personnel - around 50% of income-, supplies and other operating expenses.



Analyzing data from a study conducted by Informa's DBK Sector Observatory, the bus transport sector increased its turnover in 2019 by 4.5%, reaching 3.6 billion euros. However, forecasts predict a slowdown in growth due to the competitive prices of rail transport and the rise of car sharing, in which BlaBlaCar is the maximum exponent.

#### 4.2.5 Financial analysis

In order to know the financial situation of the company and to be able to delimit the risk areas with which we will start working, we will perform a financial analysis of the company.

	Normal value	2019	Annual change	2020
<b>Working capital</b>	>0	3.420.527,12 €	-42,29%	1.974.064,15 €
<b>Liquidity</b>	=2	6,58	-64,91%	2,31
<b>Acid test</b>	=1	6,52	-65,00%	2,28
<b>Cash Flow</b>	0,3 - 0,4	4,39	-82,84%	0,75
<b>Indebtedness</b>	0,5 - 0,6	0,06	133,36%	0,15

*Table 6. Short-term solvency and debt ratios*

As we can see, the company is in a very good short-term financial position. In 2019, we see that the working capital is 3.420.527 €, that is, most of the company's short-term assets are financed with long-term debt, so the company may have more resources available in the short term. If we look at the liquidity ratio, the acid test or the cash flow ratio, which are indicators that show whether a company is able to pay off its short-term debts by selling its assets, they indicate the same thing, that the company has a lot of short-term resources available because it is mainly in long-term debt. The problem is not only that it has many available resources, but that it has too many and therefore these resources are not being used, that is, they are idle resources that mean that the company is not getting all the profitability it could obtain.

In 2020 these ratios drop drastically, however, this drop in the indicators is beneficial for the company as they are now at more normal levels, without so much idle resource. This drop is due to the fact that the company has started to take on short-term debt, with an increase of almost 150% with respect to 2019 as we can see in Table 7. On the other hand, the idle resources that the company had in 2019 have been invested

in group companies, increasing this item by 40% with respect to 2019. According to the study of the Ministry of Public Works, the working capital of this type of companies is positive and the liquidity ratio in high values, since, as we have mentioned above, when buying long-term assets such as buses, they are financed in the long term.

	2019	Annual change	2020
<b>Current liabilities</b>	613.313,00 €	146,06%	1.509.125,22 €
<b>Investments in group and associated companies</b>	3.145.196,72 €	39,76%	4.395.858,58 €

*Table 7. Distribution of 2019 idle resources*

Thus, in Table 8 we see how the company's returns have grown exponentially in 2020, and this is mainly due to what we have discussed above, that the company has monetized the idle resources it had in 2019.

	2019	Annual change	2020
<b>Financial profitability (ROE)</b>	1,10%	161,92%	2,88%
<b>Economic profitability (ROA)</b>	1,29%	157,31%	3,31%

*Table 8. Profitability of Autobuses Costa Azahar*

Once the company and its environment have been analyzed, we have seen which are the areas of work that require more attention for the auditor and will be the ones we will select to start the final work, since an auditor cannot cover all areas due to limited time.

The areas we have selected are those shown in Table 9. Due to its type of activity (transport of people by road), the company has a large fleet of vehicles, so property, plant and equipment is a significant area for the company. We will also analyze the accounts receivable because the balance is quite high for the sales operation they have, since, like many passenger transport companies, in order for the consumer to receive the service he must first purchase the tickets, so in this type of company the trade debtors should be low.

Another quite significant area that we will review is the treasury, because thanks to our experience as auditors we know that if there are significant errors in this area, they could "contaminate" other areas and create serious problems for the company. And

finally we will also select the area of accounts payable or suppliers because, although the balance is not very high, it is an area that we select in all the audits we perform.

Area	Balance
Property, plant and equipment	3.938.346,10 €
Accounts receivable and clients	2.064.427,00 €
Treasury	1.135.733,74 €
Accounts payable and suppliers	462.992,94 €

*Table 9. Areas to be audited*

## 4.3 Obtaining and analyzing evidence

Once the financial year has been closed and the company's journal with the accounting as of December 31 has been received, we can begin the final work of the audit.

### 4.3.1 Property, plant and equipment

Following the guidelines of the audit program, the first area to be audited is property, plant and equipment. If we look at table 10, we see how tangible fixed assets have increased during this year, so we have to verify the existence of the assets that have increased the balance, as well as check their correct valuation and property registration, among many other tasks.

	2019	2020	Variation
<b>Property, plant and equipment</b>	3.299.642,74 €	3.938.346,10 €	19,36%

*Table 10. Variation in property, plant and equipment*

The objectives we pursue when working in the property, plant and equipment area are as follows:

- Verify the existence of new tangible fixed assets, as well as their correct valuation.

- Check that the buses are owned by the company.
- Review that the company's accounting policy is in accordance with general accounting principles.
- Examine that additions to fixed assets are real and in a usable condition, and that retirements or disposals have been separated from fixed assets together with their accumulated depreciation or amortization.

After reviewing all the necessary documents, we have observed that the company has made two errors when accounting for its tangible fixed assets. If we look at table 11, the bus 5401XYZ has an acquisition price according to the accounting of 275.000 €. However, when reviewing the invoice, we noticed that the acquisition price was 260.000 €, so when we asked the company the reason for this difference, they told us that they had included maintenance costs of 15.000 €, since the bus will last for its entire useful life.

<b>Reference</b>	5401XYZ
<b>Invoiced price</b>	222.000 €
<b>VIP customer discount</b>	-11.100 €
<b>Transportation</b>	1.000 €
<b>Insurance</b>	1.480 €
<b>Non-deductible VAT</b>	46.620 €
<b>Maintenance expenses</b>	15.000 €
<b>Price according to company</b>	275.000 €

*Table 11. Acquisition price art.5401XYZ*

The other error is due to the fact that the accountant has made a mistake in accounting for the sale of a bus that the company had, with registration number 6208YFS. The company sold the bus on December 1, so during that year the effective depreciation is 11 months, and the accountant has taken the 12 months.

<b>Reference</b>	6208YFS
<b>Acquisition price</b>	300.000 €
<b>Date of purchase</b>	01/01/2018
<b>Shelf life</b>	15 years
<b>Date of sale</b>	01/11/2020
<b>Book value</b>	240.000 €

*Table 12. Sale of art. 6208YFS*

Therefore, after analyzing the errors and seeing where they could come from, we have made two adjustments to correct these errors and have proposed two accounting entries to the company, which can be seen in table 13, 14 and 15.

<b>Reference</b>	5401XYZ	6208YFS
<b>Price according to company</b>	275.000 €	240.000 €
<b>Price according to auditor</b>	260.000 €	241.667 €
<b>Adjustment</b>	15.000 €	-1.667 €

*Table 13. Adjustment to property, plant and equipment*

<b>Account</b>	<b>Debit</b>	<b>Credit</b>
622. Repairs and maintenance	15.000	
213. Machinery		15.000

*Table 14. Adjustment of the accounting entry art. 5401XYZ*

<b>Account</b>	<b>Debit</b>	<b>Credit</b>
681. Machinery amortization		1.667
2813. Accumulated machinery amortization	1.667	

*Table 15. Adjustment of the accounting entry art. 6208YFS*

#### **4.3.2 Accounts receivable**

Once the tangible fixed assets have been completed, the next area we will start to work with is the accounts receivable or trade debtors. Using sampling techniques, we are going to select 5 of the company's customers to confirm whether they agree with the balance that the company has recorded. This process, known as balance circularization, is very important because, depending on the answer, we will have to proceed in one way or another. If the customer replies that he does not agree with the balance, we will perform a balance reconciliation to see where the differences come from and to be able to propose the necessary adjustments. In the event that the customer does not reply, we will apply alternative procedures where we will verify the validity of the balance on our own.

Account	Customer	Balance according to accounting	Balance according to response	Difference	Alternative
430001	Selecline S.L	65.000	59.000	6.000	
430005	Castellón City Council	650.000	642.500	7.500	
430006	Villamar Group	48.000	-		48.000
430009	Villarreal CF	400.000	400.000	0	
430012	FIB Benicassim	45.000	45.000	0	

*Table 16. Circularization of clients*

Once the circularization of the clients has been carried out, we notice that there are 3 customers who either do not agree with the balance or have not replied to our letter. If the customer is not satisfied with the balance, we ask him to send us the general ledger in order to detect where the possible differences are. By reviewing the customer's general ledger and talking to the company, we are able to find out where the differences come from.

In the case of Selecline, if we look at Annex 4, we observe that Autobuses Costa Azahar provided services on December 30 and 31, but the invoice was issued on January 2, 2021, therefore, Selecline does not have them accounted for in 2020 despite having received the service that year. Following the accrual principle, transactions should be booked in the fiscal year in which they actually occur, therefore, the company has the correct balance since these last two invoices should be booked in 2020 and not in 2021 as Selecline has done. As the balance is correctly accounted for, we do not propose an adjustment, even if there are differences because the error comes from the customer, not the company.

As far as the Castellón City Council is concerned, according to what the company has told us, the difference is due to an invoice cancelled by the Public Administration itself. The City Council organized a festival in Grao of Castellón and hired the services of Autobuses Costa Azahar to transport the attendees from Castellón to Grao for several days. However, due to low ticket sales, a few days before the festival was cancelled. The company is claiming this amount since it reserved and conditioned several buses for the event, not being able to provide service to other events that contacted the company because the festival was not cancelled sufficiently in advance. The City Council for its part has not accounted for this amount since, as the event has not taken place, it has not been necessary for the company to provide service to the Public Administration. In this case we are faced with a clash of interests that will have to be resolved judicially, in

which a provision will probably have to be made, but in accounting terms the City Council is right, since a transaction cannot be recorded if it has not taken place.

Therefore, we will propose to the company the adjustment shown in table 17, cancelling account 430 with the services that have not been rendered.

Account	Debit	Credit
430005. Castellón City Council		7.500
705. Services rendered	7.500	

*Table 17. Adjustment of the accounting entry Castellón City Council*

The case of the Villamar Group is different because we cannot perform a reconciliation since we have not received any response, so we have to perform an alternative test, which we see in Annex 5, to check that the company's book balance is correct. When performing an alternative test, we have to look at the company's general ledger and select the invoices that make up the balance of the highest amount. If we look at Annex 5, the transactions with the red tick on the right are the ones we have selected for review. Once selected, we have to review the physical invoice, to check that the client, the amount, the number or the date are well registered; as well as the bank receipt in case of invoices already paid. In case all invoices are OK, we approve the alternative proof and we can say that the balance is in accordance with the company's accounting.

### 4.3.3 Treasury

The study of the treasury area during our audit is important because it will allow us to know the transparency and reliability of the transactions carried out by the company. As shown in Table 18, the company's cash is divided between cash and banks.

<b>Cash and cash equivalents</b>	<b>1.135.733,74 €</b>
Cash (€)	42.640,91 €
Banks	1.093.092,83 €

*Table 18. Cash flow breakdown*

For the cash flow analysis, we will perform two analytical tests to verify that this area reflects a true and fair view, a cash count and a bank reconciliation.

The cash count is a technique used to verify that the amounts reflected in the cash account actually correspond to immediately available resources. Under the supervision of the accountant, we access the cash on December 22 to confirm the amount. During the process, we find in the cashbox bank receipts that are not immediately available to the company, such as invoices, checks or lottery tickets, as shown in Table 19.

Concept	Amount	Detail	Comments
Coins and bills in cash	26.590,50 €	10 bills of 500 € 27 bills of 200 € 58 bills of 100 € 96 bills of 50 € 155 bills of 20 € 180 bills of 10 € 102 bills of 5 € 36 coins of 2 € 51 coins of 1 € 115 coins of 0,5 €.	They assume immediate availability. They are cash. No adjustment required.
Invoice	6.550,00 €	Mechanical repair of vehicles	They are not cash. We propose payment through banks.
Invoice	175,00 €	Shed's electricity	
Check	1.850,00 €	Advance to an employee	Checks are not cash. We propose an adjustment.
Check	3.800,00 €	Payment to supplier	
Lottery ticket	2.200,00 €	Winning ticket	It does not imply immediate availability. It is not cash.
Foreign currency	\$1.800,00		It is cash, but it should not be mixed with the euro cash. We propose an adjustment.

Table 19. Cash count



	According to company	According to auditor	Difference
Cash	42.640,91 €	26.590,50 €	16.050,41 €

Table 20. Cash adjustment

After performing the cash count, and once we have seen which documents are cash and which are not, we suggest that the company adopt a more efficient cash control system, since documents that are not immediately available have been entered. We also recommend that they use banks preferably for their transactions, leaving the cash for unforeseen events, as well as not mixing different types of currencies in the same cashbox since, if we read the General Accounting Plan, in group 57 we have the cash in euros and the cash for foreign currency. The accounting entry that we propose to the company is the one shown in table 21.

Account	Debit	Credit
570. Cash, euros		16.050,41
460. Advances to employees	1.850,00	
571. Cash, foreign currency	1.475,41	
410. Creditors for services rendered	6.725,00	
400. Suppliers	3.800,00	
572. Banks	2.200,00	

Table 21. Adjustment of the cash accounting entry

For the preparation of the bank reconciliation, the accountant tells us that they have a current account in two banks, BBMA and Banco Castellón. In this case, we can make a circularization so that the banks confirm us if they agree with the balances, however, due to the digitalization of the sector we can take the bank statement from the online banking to know what the balance is according to the bank and save time. Subsequently, we enter the company's general ledger to know the balance they have registered in accounting as of December 31. Once we have the balance according to the bank and according to the company, we can see if there are differences and find out their origin.

Account	Customer	Balance according to accounting	Balance according to response	Difference
5720001	BBMA	72.113	79.591	-7.478
5720002	Castellon Bank	323.320	323.320	0

Table 22. Bank reconciliation

As can be seen in Table 22, the balance between accounting and BBMA's response does not match, there being a difference of 7,478 €. If we look at the detail of account 5720001, which I attach in Annex 6, we see that there is a check drawn and not cashed by the company Haas on October 31, 2020 for an amount of 7,478 € that the company has accounted for but that the bank has not recorded because it has not yet been discounted by the supplier, so that is where the difference comes from. As the difference exists because the bank has not yet recorded the transaction, we do not propose an adjustment since the company has correctly recorded the transaction.

#### 4.3.4 Accounts payable

To analyze the area of accounts payable or trade creditors, we must follow the same process as with trade debtors. We have to select 5 suppliers of the company and send them a letter with the balance that the company has recorded to confirm if that it is correct or, in case it is not correct, that they answer us with their general ledger to see the movements and the balance that they have recorded. As we have mentioned before, this process is known as balance circularization.

Account	Supplier	Balance according to accounting	Balance according to response	Difference	Alternative
400003	HICID	6.300	6.327	-27	
400004	ALSA	8.432	8.432	0	
400008	Autodoc USA	11.750	12.636	-886	
400010	Recambios Ordoñez	13.258	17.550	-4.292	
400012	Carglass	8.850	8.850	0	

Table 23. Circularization of suppliers

At the end of the balance circularization, we see that we have received a reply from all the circularized suppliers, so we do not have to perform alternative tests.

In the case of HICID, we observed that there are differences but they are minimal, therefore, we can qualify this difference as *Pass* since it is insignificant.

There are several mechanical parts that are special for buses and that are only manufactured in the United States, so Autobuses Costa Azahar buys these parts from

Autodoc USA. As we can see in table 23, the difference between both balances is 886 €. This difference is not necessarily an error, since these are two companies that operate in two different currencies, and could be due to differences in the euro/dollar exchange rate.

Recambios Ordoñez is the largest supplier of mechanical parts that Autobuses Costa Azahar has. Whenever one of the buses in its fleet has a mechanical problem, the company contacts Recambios Ordoñez to obtain the part they need. When analyzing the accounting statement of account 400010, we have not been able to find out where the difference could come from, however, when asking the accountant, he tells us that they are currently in the process of returning several parts that are not suitable for their buses and that, due to the excellent business relationship they have, they assume that they will accept the return. Autobuses Costa Azahar in this case makes two mistakes. The first one is to assume something that has not happened. Recambios Ordoñez has a strict return policy, so, despite the great business relationship they have, the return is not 100% certain. The second error is that, assuming the return is certain, they have not made the return entry for the purchase, so the accounting will not reflect any return.

In view of the accounting errors that Autobuses Costa Azahar has made, we are going to propose two adjustments so that it can correctly account for these transactions. The accounting entry in table 24 is the one that the company should make now so that the balance matches that of Recambios Ordoñez, since the parts have not yet been returned.

Account	Debit	Credit
602. Supplies purchases	4.292	
400010. Recambios Ordoñez		4.292

*Table 24. Adjustment of parts purchase accounting entry*

The accounting entry shown in table 25 is proposed to the company in case the supplier accepts the return.

Account	Debit	Credit
608. Purchase returns		4.292
400010. Recambios Ordoñez	4.292	

*Table 25. Adjustment of return accounting entry*

## **4.4 Final audit report**

The auditor's objective is to form an opinion on whether the financial statements have been prepared in accordance with the applicable financial reporting framework, as indicated in ISA 700.10 "Forming an Opinion and Issuing an Auditor's Report on Financial Statements".

Throughout this work, we have been dedicated to obtaining sufficient and appropriate evidence to be able to issue an opinion on the annual accounts of Autobuses Costa Azahar. After performing an analysis of the company and the sector, we have selected several areas to review since an auditor cannot obtain evidence from all areas due to time limit. To work on these areas, we have used audit techniques such as reconciliations, cash counts, document review or conversations with the accountant. Once all the tests have been carried out, we can affirm that the company complies with the accounting regulatory framework and its annual accounts reflect a true and fair view of its equity, despite the various errors that we have found, so in Annex 7 we present the audit report of the company Autobuses Costa Azahar prepared by our firm, Audiburr, for the fiscal year 2020 and in which we issue a modified opinion with qualifications.

With respect to the accounting errors that we have found, and following the guidelines of ISA 320 "Materiality in Planning and Performing the Audit" and ISA 450 "Evaluating Misstatements Identified in the course of the Audit", we conclude that such misstatements are not material and that the financial statements of Autobuses Costa Azahar are free from material misstatement.

## **5 Conclusion.**

In this TFG we have been able to find out how is the process of a financial audit of annual accounts. For this purpose, we have carried out a simulation in which we have followed all the necessary steps to issue the final report.

After my internship in an audit firm, I have seen firsthand how auditors work the different areas of a company, as well as I have done audit field work such as reconciliations of customers, suppliers and banks, or analysis of the deviations found. For this reason, I have applied the knowledge I have acquired during my internship in this TFG and I knew the steps I had to follow at all times to obtain sufficient evidence.

The process we followed in the office where I did my internship is very similar to the one I have followed for the realization of this work.

Although I have seen how my coworkers, senior auditors, performed the entire audit process, I have never had the opportunity to do it myself, since you must have several years of experience to do it because you must have a good training, and I had just started my internship.

This TFG has given me the opportunity to carry out the whole process by myself, doing the same work that my workmates were doing, and it has been a rewarding experience for me since I wanted to have the opportunity to be responsible for an audit and to be the one who plans and executes the work.

As we have seen, the financial audit is a process that, starting from the annual accounts, we can find out if the company is doing things right or wrong, and not only from the accounting point of view, since we also review the internal control of the company, which in my humble opinion, is the most important factor for a company because if there is not a good internal control system, there may be important errors in many areas of the company.

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International Standard on Auditing 450 "Evaluation of misstatements identified during the performance of the audit", adapted for application in Spain by Resolution of the Instituto de Contabilidad y Auditoría de Cuentas, dated October 15, 2013.

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# ANNEXES

## ANNEX 1. AUDIT REQUEST LETTER

As of September 15, 2020

Addressed to the appropriate representative of the management or those responsible for the governance of the company Autobuses Costa Azahar.

Dear Ladies and Gentlemen:

We have been asked to audit the annual accounts of the company Autobuses Costa Azahar, S.A., which comprise the balance sheet and the profit and loss statement, for a period of 3 years, including, therefore, the auditing of the annual accounts corresponding to all the fiscal years of the company Autobuses Costa Azahar, S.A. that close on December 31.

Upon completion of the audit, we will issue our report containing our technical opinion on the annual accounts examined and on the consistency of the accounting information contemplated in the management report with the contents of the corresponding annual accounts.

We will perform our work in accordance with the legal provisions in force, as well as with the auditing standards in force published by the Instituto de Contabilidad y Auditoría de Cuentas, as a result of the adaptation of the ISAs for their application in Spain (NIA-ES), as well as the complementary technical standards published by the ICAC and which are in force. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud (as defined in ISA 240, *The Auditor's Responsibilities for the Audit of Financial Statements with respect to Fraud*, paragraph 11) or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of the audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even when the audit is properly planned and performed in accordance with ISA.

In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we shall disclose to you in writing any significant deficiencies in internal control relevant to our audit of the financial statements that we identify in the course of performing our audit.

We will conduct the audit based on the premise that the directors of Autobuses Costa Azahar recognize and understand that they are responsible for:

- a) the preparation of the financial statements that give a true and fair view in accordance with the applicable Financial Reporting Framework, which, according to the information you have provided us, is as set forth in the following table:
  - Code of Commerce and other commercial legislation.
  - General Accounting Plan and its sectorial adaptations.
  - The mandatory standards approved by the Instituto de Contabilidad y Auditoría de Cuentas in development of the General Accounting Plan and its complementary standards.
  - All other applicable Spanish accounting regulations.
- b) such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and c) provide us with such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error:
  - i access to all information known to management that is relevant to the preparation of the financial statements, such as books, accounting records or accounting systems, documentation and other material;
  - ii additional information that we may request from management for audit purposes; and
  - iii unrestricted access to persons within the entity from whom we deem it necessary to obtain audit evidence.

We will also comply with the provisions of the regulations governing the auditing of accounts with respect to communication with management and directors. In compliance with these obligations, we will contact the members of the Board of Directors directly during our audit if circumstances so require.

We look forward to the full cooperation of your employees during our audit.



Once our report has been issued and until the date of publication of the financial statements, they undertake to inform us of any events that may affect the financial statements that come to their attention after they have been prepared.

If you intend to publish the annual accounts together with our auditor's report in a document containing other information, you undertake to: (a) provide us with a draft of the document for our perusal, and (b) obtain our consent to the inclusion therein of our auditor's report, before such document is published and distributed.

### ***Fees and Billing.***

Our fees for the audit of annual accounts are fixed on the basis of the time spent on the work and our audit hourly rates in force each year, by professional category, applied on a general basis. Our fees for the examination of the financial statements for the year ended December 31, 2020, amount to 5,500 euros. To this amount will be added the expenses we incur on your behalf and the corresponding VAT.

This estimate was made on the basis of the following assumptions:

- The Company will deliver to us its annual accounts duly prepared by the Directors within the period established by law.
- The company will give us its full cooperation in the preparation of certain work, such as analysis of accounts, reconciliations of balance differences, search for vouchers and records, etc. These works as well as the letters of request for confirmation that we select will be made available to us within a period of time to be fixed by mutual agreement.

If during the performance of our work we observe changes in the circumstances on the basis of which this agreement has been made, such as mergers, takeovers, changes in corporate purpose, changes in turnover or net worth, changes in accounting criteria, circumstances that make it necessary to reissue reports, errors in those details that we have requested, changes in the accounting system and other similar circumstances, we will notify you, explaining the reasons that require us to vary the estimated fees, based on the number of hours to be performed due to the changes that have taken place.

For each of the following years, our fees, based on the total amount indicated for the 2020 fiscal year, will be modified annually in accordance with our hourly audit rates by a percentage equivalent to the CPI of the services sector (excluding rents).

The structure and content of the audit reports are established in the current regulations governing the auditing of accounts. Specifically, the report models are found in the ISA of the 700 series, published by Resolution of October 15, 2013, of the Instituto de

Contabilidad y Auditoría de Cuentas, which publishes the new Technical Auditing Standards, resulting from the adaptation of the International Auditing Standards for their application in Spain. In accordance with the content of the aforementioned standards, the content of the reports may be modified in the event of situations and circumstances that so require.

The main purpose pursued by the Board of Directors in contracting our services as auditors is to comply with the content of Chapter IV of Title VII of the Capital Companies Act regarding the obligations of verification of the accounts by the auditor. Consequently, and in accordance with the content of the aforementioned legal text, our audit report will be delivered to you prior to the date of the call of the General Meeting in which the approval of the annual accounts is included as an agenda, provided that we have obtained evidence of the formulation of said accounts, as well as, if applicable, the corresponding management report, by the members of the Board of Directors, within the term established in article 270.1 of the LSC, and we have been able to complete our work prior to said date.

In relation to the above, Autobuses Costa Azahar shall communicate to AudiBurr S.L.P. with sufficient advance notice of the date scheduled for the convening of the General Meeting in which the aforementioned annual accounts will be approved. Likewise, AudiBurr S.L.P. shall inform Autobuses Costa Azahar of any significant incident in the course of the work that could lead to a delay in the issuance of the corresponding report.

If you agree with the terms set forth herein, we would be grateful if you would return the attached copy duly signed.

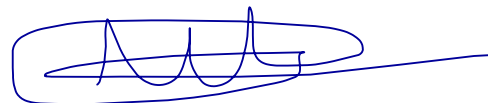
We are pleased to have the opportunity to provide you with our professional services and we assure you that we will devote our utmost attention to this work.

As of September 15, 2020



Autobuses Costa Azahar

Lucía Miralvent, Chief Financial Officer



AudiBurr S.L.P.

Elías Matrabi, Partner

## ANNEX 2. AUTOBUSES COSTA AZAHAR'S ANNUAL ACCOUNTS

### - BALANCE SHEET

	<u>31/12/2020</u>	<u>31/12/2019</u>
<b>A) Non-current assets</b>	<b>8.204.446,57</b>	<b>6.479.623,78</b>
<b>I. Intangible assets</b>	<b>64.668,65</b>	<b>69.950,83</b>
1. Development.	0,00	0,00
2. Concessions.	0,00	0,00
3. Patents, licenses, trademarks and similar.	0,00	0,00
4. Goodwill.	0,00	0,00
5. Computer software.	296,62	671,80
6. Research	0,00	0,00
7. Industrial Property	0,00	0,00
8. Other intangible assets	64.372,03	69.279,03
<b>II. Property, plant and equipment</b>	<b>3.938.346,10</b>	<b>3.299.642,74</b>
1. Land and buildings.	58.005,88	59.447,88
2. Technical installations and other tangible fixed assets.	3.880.340,22	3.240.194,86
3. Fixed assets under construction and advances.	0,00	0,00
<b>III. Investment property</b>	<b>0,00</b>	<b>0,00</b>
1. Land.	0,00	0,00
2. Buildings.	0,00	0,00
<b>IV. Investments in group and associated companies in the long-term</b>	<b>4.162.245,76</b>	<b>3.057.495,92</b>
1. Equity instruments.	2.377.245,76	992.495,92
2. Loans to companies.	1.785.000,00	2.065.000,00
3. Debt securities.	0,00	0,00
4. Derivatives.	0,00	0,00
5. Other financial assets.	0,00	0,00
6. Other investments.	0,00	0,00
<b>V. Long-term financial investments</b>	<b>1.814,58</b>	<b>1.814,58</b>

1. Equity instruments.	880,45	880,45
2. Loans to third parties	0,00	0,00
3. Debt securities.	0,00	0,00
4. Derivatives.	0,00	0,00
5. Other financial assets.	934,13	934,13
6. Other investments	0,00	0,00
<b>VI. Deferred tax assets</b>	<b>37.371,48</b>	<b>50.719,71</b>
<b>VII. Non-current trade payables</b>	<b>0,00</b>	<b>0,00</b>
<b>B) Current assets</b>	<b>3.483.189,37</b>	<b>4.033.840,12</b>
<b>I. Non-current assets held for sale</b>	<b>0,00</b>	<b>0,00</b>
<b>II. Inventories</b>	<b>41.809,47</b>	<b>38.062,70</b>
1. Commercial inventories. Raw materials and other supplies.	0,00	0,00
3. 3. Work in progress.	41.809,47	38.062,70
a) Long production cycle	0,00	0,00
b) Short production cycle	0,00	0,00
4. Finished products.	0,00	0,00
a) Long production cycle	0,00	0,00
b) Short production cycle	0,00	0,00
5. By-products, wastes and recovered materials.	0,00	0,00
6. Advances to suppliers.	0,00	0,00
<b>III. Trade and other receivables</b>	<b>2.064.427,00</b>	<b>1.210.197,76</b>
1. Trade receivables for sales and services rendered.	1.779.308,10	836.216,64
a) Trade accounts receivable for long-term sales and services.	0,00	0,00
b) Trade accounts receivable for short-term sales and services.	1.779.308,10	836.216,64
2. Trade receivables from group and associated companies.	71.071,54	59.266,98
3. Sundry accounts receivable.	577,19	15.234,18
4. Personnel.	0,00	0,00
5. Current tax assets.	4.956,32	954,63
6. Other receivables from public authorities.	208.513,85	298.525,33
7. Shareholders (partners) for required disbursements.	0,00	0,00

<b>IV. Short-term investments in group and associated companies.</b>	<b>233.612,82</b>	<b>87.700,80</b>
1. Equity instruments.	0,00	0,00
2. Loans to companies.	233.612,82	87.700,80
3. Debt securities.	0,00	0,00
4. Derivatives.	0,00	0,00
5. Other financial assets.	0,00	0,00
6. Other investments.	0,00	0,00
<b>V. Short-term financial investments</b>	<b>6.957,02</b>	<b>6.957,02</b>
1. Equity instruments.	0,00	0,00
2. Loans to companies.	0,00	0,00
3. Debt securities.	0,00	0,00
4. Derivatives.	0,00	0,00
5. Other financial assets.	6.957,02	6.957,02
6. Other investments.	0,00	0,00
<b>VI. Short-term accruals and deferrals</b>	<b>649,32</b>	<b>611,46</b>
<b>VII. Cash and cash equivalents</b>	<b>1.135.733,74</b>	<b>2.690.310,38</b>
1. Cash and cash equivalents.	1.135.733,74	2.690.310,38
2. Other cash equivalents.	0,00	0,00
<b><u>TOTAL ASSETS</u></b>	<b><u>11.687.635,94</u></b>	<b><u>10.513.463,90</u></b>

	<b><u>31/12/2020</u></b>	<b><u>31/12/2019</u></b>
<b>A) Shareholders' equity</b>	<b>10.178.510,72</b>	<b>9.885.402,37</b>
<b>A-1) Shareholders' equity.</b>	<b>10.178.510,72</b>	<b>9.885.402,37</b>
<b>I. Capital</b>	<b>168.346,66</b>	<b>168.346,66</b>
1. Registered capital.	168.346,66	168.346,66
2. (Uncalled capital).	0,00	0,00
<b>II. Additional paid-in capital</b>	<b>0,00</b>	<b>0,00</b>
<b>III. Reserves</b>	<b>9.717.055,71</b>	<b>9.608.372,49</b>
1. Legal and statutory reserves.	33.669,33	33.669,33

2. Other reserves.	9.530.045,43	9.433.086,46
3. Revaluation reserve.	0,00	0,00
4. Capitalization reserve.	153.340,95	141.616,70
<b>IV. (Treasury stock and equity interests)</b>	<b>0,00</b>	<b>0,00</b>
<b>V. Results of previous years</b>	<b>0,00</b>	<b>0,00</b>
1. Retained earnings.	0,00	0,00
2. (Negative results of previous years).	0,00	0,00
<b>VI. Other contributions from members</b>	<b>0,00</b>	<b>0,00</b>
<b>VII. Profit for the year</b>	<b>293.108,35</b>	<b>108.683,22</b>
<b>VIII. (Interim dividend)</b>	<b>0,00</b>	<b>0,00</b>
<b>IX. Other equity instruments</b>	<b>0,00</b>	<b>0,00</b>
<b>A-2) Adjustments for change in value.</b>	<b>0,00</b>	<b>0,00</b>
<b>I. Available-for-sale financial assets</b>	<b>0,00</b>	<b>0,00</b>
<b>II. Hedging transactions</b>	<b>0,00</b>	<b>0,00</b>
<b>III. Non-current assets and related liabilities, held for sale</b>	<b>0,00</b>	<b>0,00</b>
<b>IV. Translation differences</b>	<b>0,00</b>	<b>0,00</b>
<b>V. Others</b>	<b>0,00</b>	<b>0,00</b>
<b>A-3) Grants, donations and legacies received.</b>	<b>0,00</b>	<b>0,00</b>
<b>B) Non-current liabilities</b>	<b>0,00</b>	<b>14.748,53</b>
<b>I. Long-term provisions</b>	<b>0,00</b>	<b>0,00</b>
1. Long-term employee benefit obligations.	0,00	0,00
2. Environmental actions.	0,00	0,00
3. Provisions for restructuring.	0,00	0,00
4. Other provisions.	0,00	0,00
LA HISPANO DEL CID, S.A.		
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>43.830,00</b>	<b>43.465,00</b>
<b>II. Long-term debt</b>	<b>0,00</b>	<b>14.748,53</b>
1. Debentures and other marketable securities.	0,00	0,00
2. Debts with credit institutions	0,00	0,00
3. Creditors for financial leasing	0,00	0,00
4. Derivatives.	0,00	0,00
5. Other financial liabilities.	0,00	14.748,53
<b>III. Long-term debt with group and associated companies.</b>	<b>0,00</b>	<b>0,00</b>
<b>IV. Deferred tax liabilities</b>	<b>0,00</b>	<b>0,00</b>

<b>V. Long-term accruals and deferrals</b>	<b>0,00</b>	<b>0,00</b>
<b>VI. Non-current trade payables</b>	<b>0,00</b>	<b>0,00</b>
<b>VII. Long-term debt with special characteristics</b>	<b>0,00</b>	<b>0,00</b>
<b>C) Current liabilities</b>	<b>1.509.125,22</b>	<b>613.313,00</b>
<b>I. Liabilities related to non-current assets held for sale</b>	<b>0,00</b>	<b>0,00</b>
<b>II. Short-term provisions</b>	<b>0,00</b>	<b>0,00</b>
1. Provisions for greenhouse gas emission allowances	0,00	0,00
2. Other provisions	0,00	0,00
<b>III. Short-term liabilities</b>	<b>1.046.132,28</b>	<b>43.071,29</b>
1. Debentures and other marketable securities.	0,00	0,00
2. Debts with credit institutions	0,00	0,00
3. Creditors for financial leasing	0,00	0,00
4. Derivatives.	0,00	0,00
5. Other financial liabilities.	1.046.132,28	43.071,29
<b>IV. Short-term payables to group and associated companies.</b>	<b>0,00</b>	<b>0,00</b>
<b>V. Trade and other accounts payable</b>	<b>462.992,94</b>	<b>570.241,71</b>
1. Suppliers.	153.333,28	210.979,10
a) Long-term suppliers	0,00	0,00
b) Short-term suppliers	153.333,28	210.979,10
2. Suppliers, group and associated companies.	1.026,35	78.398,21
3. Sundry creditors.	62.097,61	75.311,29
4. Personnel (remunerations pending payment).	135.483,20	108.386,28
5. Current tax liabilities.	0,00	0,00
6. Other debts with Public Administrations.	111.052,50	97.166,83
7. Advances from customers.	0,00	0,00
<b>VI. Short-term accruals and deferrals</b>	<b>0,00</b>	<b>0,00</b>
<b>VII. Short-term debt with special characteristics</b>	<b>0,00</b>	<b>0,00</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b><u>11.687.635,94</u></b>	<b><u>10.513.463,90</u></b>

- PROFIT AND LOSS STATEMENT

	<b>31/12/2020</b>	<b>31/12/2019</b>
1. Net sales.	6.270.664,70	5.638.977,86
2. Variation in inventories of finished products and products in process of manufacture.	0,00	0,00
3. Work carried out by the company for its assets.	0,00	0,00
4. Procurements.	-1.735.467,74	-2.057.930,19
5. Other operating income.	195.071,63	254.066,65
6. Personnel expenses.	-3.038.387,85	-2.664.557,57
7. Other operating expenses.	-905.229,73	-875.406,64
8. Depreciation of fixed assets.	-498.579,28	-391.071,03
9. Allocation of non-financial fixed asset subsidies and others.	0,00	0,00
10. Excess of provisions.	0,00	0,00
11. Impairment and gain or loss on disposal of fixed assets.	18.000,00	79.173,35
12. Negative difference on business combinations.	0,00	0,00
13. Other results	18.512,31	78.220,09
<b>A. OPERATING INCOME (LOSS)</b>	<b>324.584,04</b>	<b>61.472,52</b>
14. Financial income.	65.752,04	76.788,53
a) Allocation of grants, donations and legacies of a financial nature.	0,00	0,00
b) Other financial income	65.752,04	76.788,53
15. Financial expenses.	-2.974,38	-2.843,61
16. Variation in fair value of financial instruments.	0,00	0,00
17. Exchange differences.	0,00	0,00
18. Impairment and gain or loss on disposal of financial instruments.	0,00	0,00
19. Other financial income and expenses.	0,00	0,00



a) Capitalization of financial expenses.	0,00	0,00
b) Financial income derived from creditors' agreements.	0,00	0,00
c) Other income and expenses.	0,00	0,00
<b>B. FINANCIAL RESULTS</b>	<b>62.777,66</b>	<b>73.944,92</b>
<b>C. INCOME BEFORE TAXES (A+B)</b>	<b>387.361,70</b>	<b>135.417,44</b>
20. Income taxes.	-94.253,35	-26.734,22
<b>D. PROFIT FOR THE YEAR</b>	<b>293.108,35</b>	<b>108.683,22</b>

## ANNEX 3. INTERNAL CONTROL QUESTIONNAIRE

This questionnaire is divided into different control processes; some may not be applicable to all departments. A "NO" response indicates a potential weakness in the specific internal control referred to in that question. Action should be taken to resolve any weaknesses. If your department has any questions or concerns about internal controls please contact the Partner of Audiburr S.L.P at elias.matrabi@audiburr.es

General: The following items are intended to provide general information to aid understanding of the overall accounting and internal control system.

1. Are prior internal control questionnaires and auditors' recommendations available? Yes  No
2. Have recommendations of prior reports on internal controls been implemented? Yes  No
3. Is a complete and current chart of accounts, listing all accounts and their respective account numbers available? Yes  No
4. Is there an accounting policy and procedure manual? Is it up to date? Yes  No
5. Is a current edition of this manual available? Yes  No
6. Is the accounting system using a double-entry bookkeeping method? Yes  No
7. Have the findings of external auditors been reported to the accountant? Yes  No

Budget: The development and use of a budget is a critical management tool that will aid in the stewardship and administration of company resources and program.

1. Is the budget approved by the accountant? Yes  No
2. Are all changes to the budget authorized by the accountant and recorded in the minutes of the meetings? Yes  No
3. Is there a periodic review of the budget by the accountant? Yes  No

Reporting: The best accounting system is of little value, unless it communicates the information it contains to those responsible. Although there may be variations, certain minimum standards exist to assure adequate communication of the financial information.

1. Is a Treasurer's report submitted to the accountant or accounting committee each month? Yes  No
2. Is the Treasurer's report presented in sufficient detail to inform the reader about the nature of the various income and disbursement items? Yes  No

3. Does the report present the current actual financial data compared with the approved budget? Yes  No
4. Is there periodic reporting, at least quarterly, of all other funds and activities, including designated or restricted funds? Yes  No

Cash Receipts: Clearly stated policies and procedures regarding the handling of cash and other receipts help not only to protect from loss, but also assure that all receipts are properly recorded in the records.

1. Are there safeguards to protect the collections from theft or misplacement from the time of receipt until the time the funds are counted and deposited?  
Yes  No
2. Are the collection receipts counted and deposited so that the deposit equals the entire amount of receipts on a timely basis, i.e., at least weekly?  
Yes  No
3. Are there at least two unrelated persons responsible for counting and depositing the collections? Yes  No
4. Are the persons responsible for counting receipts rotated on a periodic basis?  
Yes  No
- Do the counters have a standardized form for recording the deposit information?  
Yes  No
5. Are the counters' sheets retained and reconciled with actual deposits, and are all discrepancies investigated? Yes  No
6. Is there a control prohibiting the cashing of checks from the currency received?  
Yes  No
7. Are all of the pledge envelopes or other memoranda retained and reconciled to the recorded amounts? Yes  No
8. Are all other cash receipts recorded and deposited on a timely basis?  
Yes  No
9. Are all checks received restrictively endorsed "for deposit only" immediately upon receipt? Yes  No
10. Are all cash receipts deposited into account? Yes  No
11. Are there procedures that will highlight, or bring to someone's attention the fact that all receipts or income have not been received or recorded? Yes  No
12. Are all discrepancies investigated? Yes  No

Cash Disbursements: The following procedures will assist in assuring that all payments are properly approved, recorded, and supported by appropriate documentation.

1. Are all disbursements made by check, except for small expenditures made from petty cash? Yes  No
2. Are all checks pre-numbered and used in sequence? Yes  No
3. Is there a clearly defined approval process for all disbursements? Yes  No
4. Are all voided checks properly cancelled and retained? Yes  No
5. Are all checks made payable to specified payees and not to cash or to bearer? Yes  No
6. Are all disbursements supported by original documentation? Yes  No
7. Is the original vendor's invoice or other documentation cancelled at the time of signature to prevent duplicate payment? Yes  No
8. Check signing:
  - a. Is signing blank checks prohibited? Yes  No
  - b. Is using a signature stamp or pre-printed signatures prohibited? Yes  No
  - c. Does all supporting documentation accompany checks presented for signature? Yes  No
  - d. Are all account signers authorized by the accountant? Yes  No
  - e. Is more than one signature required for any check? Yes  No
  - f. If not, do checks for more than 500 € require more than one signature? Yes  No
  - g. If signature imprint machines are used, are the keys kept under lock and key except when in use? Yes  No
9. Are there adequate controls and segregation of duties regarding electronic funds transfers? Yes  No

**Journal Entries:** Journal entries offer a special opportunity to make adjustments to accounting records. The general journal is an equally important book of original entry as the cash receipts and cash disbursements journals.

1. Is there an appropriate explanation accompanying each journal entry? Yes  No
2. Are all journal entries approved by a knowledgeable authority other than the person initiating the entry? Yes  No
3. Is adequate documentation maintained to support each journal entry? Yes  No

**Bank Account Reconciliation:** The monthly reconciliation of all bank accounts is a primary tool for assuring the proper recording and accounting for all cash account activity

1. Are all bank accounts reconciled within 10 days of receipt of bank statement? Yes  No
2. Do two different people perform the tasks of opening and reconciling the bank statement? Yes  No

3. Does someone complete the bank account reconciliations other than the person who participates in the receipt or disbursement of cash?    Yes  No
4. Do the reconciliation procedures provide for:
  - a. Comparison between the bank statement and the cash receipts journal of dates and amounts of deposits?    Yes  No
  - b. Investigation of bank transfers to determine that both sides of the transactions have been recorded?    Yes  No
  - c. Investigation of all bank debit and credit memos?    Yes  No
  - d. Review of all checks outstanding more than 90 days?    Yes  No
  - e. Are checks more than 180 days outstanding voided during the year-end reconciliation?    Yes  No
  - f. Is the bank immediately notified of all changes of authorized check-signers?    Yes  No
5. Are all journal entries for bank charges and bank account interest recorded routinely?    Yes  No
- 6.

Petty Cash: The following controls are intended to provide a timely recording of cash expenditures in the accounting system.

1. Is the responsibility for the petty cash fund assigned to one person?    Yes  No
2. Are all petty cash funds maintained on an imprest basis, i.e., the total amount of vouchers paid or disbursed, plus cash, always equal the amount of the fund?    Yes  No
3. Is adequate review made of documentation before the fund is reimbursed?    Yes  No
4. Is the petty cash fund reimbursed at least monthly?    Yes  No
5. Are check cashing and making loans to employees prohibited?    Yes  No
6. Is the actual petty cash protected from theft or misplacement?    Yes  No

Investments: Procedures for proper recording and control of all investment instruments will help to assure that all assets and related income are accounted for and properly reported.

1. Are all investment instruments held in the name of the company only?    Yes  No
2. Is authorization for the sale and/or purchase of investments provided for by the accountant or authorized investment committee?    Yes  No

3. Are all investment instruments adequately protected from fire, theft, or misplacement? Yes  No
4. Is the income/dividends/interest recorded? Yes  No
5. Are all investment accounts included in financial reports to the accountant? Yes  No

Property and Equipment: Certain procedures involving the physical assets of the company will aid in detecting, Identifying, and preventing losses.

1. Is formal approval of the accountant required for all property and equipment additions and dispositions? Yes  No
2. Is a detailed inventory of all property, furniture, fixtures, and equipment maintained showing:
  - a. Date acquired? Yes  No
  - b. Detailed description Yes  No
  - c. Cost or fair market value at time of donation? Yes  No
  - d. Any funding source restrictions Yes  No
3. Is a periodic review conducted to compare the actual property, furniture and fixtures, and equipment with the recorded inventory listing? Yes  No
4. Is there a safe deposit box? Yes  No 
  - a. Is there an inventory of its contents? Yes  No
  - b. Who is authorized to enter it

---
5. Are permanent records such as articles of incorporation, if applicable, by-laws and real estate deeds kept in a safe place? Yes  No
6. Are they up to date? Yes  No

Insurance: Insurance should be maintained that is adequate to protect against all reasonable risks of loss.

1. Is a periodic review conducted to ensure the adequacy of the insurance coverage for:
  - a. Property? Yes  No
  - b. Liability? Yes  No
  - c. Fidelity bond? Yes  No
  - d. Sexual misconduct? Yes  No
  - e. Directors and officers liability? Yes  No
  - f. Workers' compensation? Yes  No
2. Is there a policy related to sexual misconduct? Yes  No

3. Is a periodic review conducted to ensure that adequate controls are in place to prevent loss?    Yes  No

Liabilities and Other Debt: All liabilities and other debt must be clearly reported, and all provisions or restrictions complied with.

1. Does the accountant authorize all borrowing or indebtedness?    Yes  No
2. Are all loan agreements and/or lease agreements in writing and properly safeguarded?    Yes  No
3. Are there periodic reviews conducted to determine compliance with any debt/lease provisions?    Yes  No
4. Are all liabilities noted on Financial Reports to accountant?    Yes  No

Payroll: The application of policies and procedures involving the employment of individuals assures compliance with payroll tax reporting to the various governmental entities.

1. Are personnel files maintained to include:
  - a.      Employment application and/or letter of employment?    Yes  No
  - b.      Authorizations of pay rates and effective dates?    Yes  No
  - c.      New hire reporting?    Yes  No
2. Is there a written record of hours worked, approved by a supervisor when applicable?    Yes  No
3. Are there adequate records to:
  - a.      Show computation of gross pay?    Yes  No
  - b.      Account for all deductions from gross pay?    Yes  No
4. Are payroll tax returns filed on a timely basis?    Yes  No
5. Are payroll tax deposits made on a timely basis?    Yes  No
6. Are clergy housing allowances recorded in the minutes of the accountant no later than the first meeting of the year?    Yes  No

Computer Systems: The use of computers creates the need for additional procedures to safeguard the system and data.

1. Are current or duplicate copies of the operating system and programs maintained off premises?    Yes  No
2. Are the files backed up daily and the backups maintained off premises?    Yes  No
3. Is access to the computer and computer programs limited to authorized persons?    Yes  No

4. Is there adequate documentation, including user manuals, available on-site for all computer programs? Yes  No
5. Is a printed copy retained of all journals, general ledger, financial statements and any other computerized records? Yes  No
6. Is there a plan for recovery of data and continuation of operations in the event of a disaster? Yes  No
7. Is a virus control system used and updated with new definitions on a weekly or bi-weekly basis? Yes  No





## ANNEX 5. ALTERNATIVE TEST VILLAMAR GROUP

### 430006. VILLAMAR GROUP

CURRENT BALANCE

48.000,00 €

N.º	DATE	ACCOUNT	DEBIT	CREDIT	BALANCE
1	1/23/20	Bus rental 54 passengers 12 hours	3.600,00		3.600,00
	1/24/20	Payment operation nº1		3.600,00	<b>0,00</b>
2	2/15/20	Rent 2 minibuses 28 passengers 12 hours	4.800,00		4.800,00
	2/16/20	Payment operation nº2		4.800,00	<b>0,00</b>
3	3/22/20	Bus rental 54 passengers 12 hours	3.600,00		3.600,00
	3/23/20	Payment operation nº3		3.600,00	<b>0,00</b>
4	4/21/20	Rent 2 minibuses 28 passengers 12 hours	4.800,00		4.800,00
5	6/15/20	Minibus rental 2 minibuses 28 passengers 12 hours	4.800,00		9.600,00
6	7/24/20	Bus rental 54 passengers + minibus rental 28 passengers 24 hours	12.000,00		21.600,00
7	9/1/20	Minibus rental 2 minibuses 28 passengers 12 hours	4.800,00		26.400,00
8	10/15/20	Minibus rental 2 minibuses 28 passengers 12 hours	4.800,00		31.200,00
9	11/22/20	Minibus rental 2 minibuses 28 passengers 12 hours	4.800,00		36.000,00
10	12/16/20	Bus rental 54 passengers + minibus rental 28 passengers 24 hours	12.000,00		48.000,00

## ANNEX 6. BBMA BANK'S GENERAL LEDGER

**5720001. BBMA**

CURRENT BALANCE

72.113,00 €

N.º	DATE	ACCOUNT	DEBIT	CREDIT	BALANCE
		PREVIOUS BALANCE			<b>51.786,00</b>
1	4/2/20	Collection Castellón City Council	4.500,00		<b>56.286,00</b>
2	4/16/20	Payment Adventure Works		745,00	<b>55.541,00</b>
3	5/7/20	Payment Norauto		2.200,00	<b>53.341,00</b>
4	6/1/20	Collection Universitat Jaume I	3.000,00		<b>56.341,00</b>
5	6/22/20	Payment Nursing Home	1.500,00		<b>57.841,00</b>
6	7/15/20	Payment Villarreal CF	6.300,00		<b>64.141,00</b>
7	7/20/20	Payment Hicid		2.000,00	<b>62.141,00</b>
8	9/5/20	Tax payment		1.800,00	<b>63.941,00</b>
9	10/15/20	Collection IES Columbretes	3.000,00		<b>66.941,00</b>
10	10/31/20	Haas check payment		7.478,00	<b>59.463,00</b>
10	11/6/20	Payment Foreigners Association	1.750,00		<b>61.213,00</b>
11	11/22/20	Payment Norauto		2.200,00	<b>59.013,00</b>
12	12/8/20	Collection Porcelanosa	7.500,00		<b>66.513,00</b>
13	12/23/20	Collection Torrecid	5.600,00		<b>72.113,00</b>

## ANNEX 7. FINAL AUDIT REPORT

**AUDIBURR S.L.P**  
**El Escorredor, 22, Burriana**

### **INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL ACCOUNTS**

To the shareholders of Autobuses Costa Azahar:

#### **Report on the annual accounts.**

We have audited the accompanying financial statements of Autobuses Costa Azahar, which comprise the balance sheet as of December 31, 2020 and the income statement for the year then ended.

#### **Directors ' liability in relation to the annual accounts.**

The directors are responsible for preparing the accompanying financial statements so that they present fairly the net worth, financial position and results of Autobuses Costa Azahar S.A., in accordance with the regulatory financial reporting framework applicable to the entity in Spain, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on the accompanying financial statements based on our audit. We conducted our audit in accordance with Spanish auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's

internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

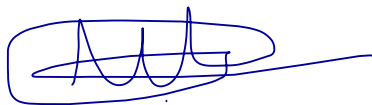
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

#### **Basis for the qualified opinion**

- Limitation to the scope: During the circularization of customer balances, we did not receive a reply from "Villamar Group", so we had to check the balance by means of an alternative test.
- Accounting error: The company has recorded the maintenance expenses of a fixed asset as if it were a higher acquisition cost.
- Accounting error: We have found errors in the book value of an asset due to a miscalculation of depreciation.
- Accounting error: The company has recorded the rendering of services to one of its customers without having actually rendered them.
- Accounting error: They have also posted a return without the supplier having accepted it.
- Procedural error: We have found many documents in the cashbox that should not be there as they are not immediately available.

#### **Qualified opinion**

In our opinion, except for the effects of the events described in the paragraphs of "Basis for the qualified opinion", the accompanying financial statements present, in all material respects, a true and fair view of the net worth and financial position of Autobuses Costa Azahar S.A. as of December 31, 2020, for the year then ended, in accordance with the applicable financial reporting framework and, in particular, with the accounting principles and criteria contained therein.



Elías Matrabi, Partner of Audiburr S.L.P

As of April 15, 2021

ROAC Member N<sup>o</sup>.: 2504944