MEMORANDUM

To: Steve Ludwig

From: Maegan Reynolds, Kassidy Jensen, Diego Fasani, Chelsy Meek

Re: Audit Plan Team Project

Date: November 19, 2019

Uber's Background

Uber Technologies, Inc. is an American, multinational, app-based transportation platform, offering services that include peer-to-peer ridesharing, ride service hailing, food delivery, and a bicycle-sharing system. The company is based in San Francisco and has operations in over 785 metropolitan areas, worldwide. Uber's mission statement is "transportation as smooth as running water" and its platforms is its mobile apps. As of 2019, Uber is estimated to have 110 million worldwide users, a 69% market share in the United States for ride-sharing, and a 25% market share for food delivery. Along with other transportation network companies, Uber has been criticized for unfair treatment of drivers, for disrupting the taxicab business, and for increasing traffic congestion. The business has also been criticized for its aggressive strategy in dealing with regulators and for other unlawful practices.

Lyft's Background

Uber's top competitor, Lyft, Inc. is a ridesharing company based in San Francisco, California, and operating in 640 cities in the United States and 9 cities in Canada. It develops, markets, and operates the Lyft mobile app. The mobile app offers car rides, scooters, and a bicycle-sharing system. The mission statement that guides their business is "improve people's lives with the world's best transportation."

Uber's Industry Background

Uber and Lyft are a part of the transportation industry. The transportation industry covers everything related to transport; including road, railways, marine, and air. Within this industry employees transport people, raw materials, goods, etc. Ground passenger transportation has a 53% growth rate, which is mostly due from Uber and Lyft. Uber affects the taxi business, it is not really in competition with trucking and airplanes because these people are employed in cities and set their distances relatively short. Uber allows people to pay for their ride in advance so that it is guaranteed rather than waiting and hoping for an open taxi. This is where the network part of transportation comes in. The ability to make cashless payments and the addition of technology is what sets them apart. Even though the ability to make cashless payments and technology helps give Uber a competitive advantage, the tools could potentially increase Uber's audit risk.

Audit Risk

Audit risk is the risk that the auditor will express an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is broken into three categories; these include control risk, inherent risk, and detection risk.

Control Risk

Control risk is the risk that a misstatement could occur in an assertion about a class of transactions, account balances, or disclosures. They have is a high potential they will not be prevented, or detected and corrected, on a timely basis by an entity's internal control. When considering Uber's internal control we set it as low. Uber charges fares per minute, fares per mile, power driver bonuses, and fees that vary from location to location. The company deducts an Uber Fee of 25% of the total fare and a flat booking fee of $1.75 from the portion of the fares paid to drivers. However, these fees are subject to change at any time without customer or employee knowledge. The lack of transparency and arbitrary nature of the company's fares and fees calculations is often cited by drivers as a major point of frustration. With the lack of internal controls it decreases our level of detection risk.

Detection Risk

Detection risk is the risk that the procedures performed by the auditor, to reduce risk to an acceptably low level, will not detect a misstatement that exists, and that could be material. With the evidence proving the internal control as low, this causes low detection risk and increases the inherent risk.

Inherent Risk

Inherent risk is the susceptibility of an assertion about a class of transactions, account balances, or disclosures to a misstatement that could be material, before consideration of any related controls. Uber's inherent risk is high with the control risk and detection risk at a very low level. This increases the risk for more accounts to be miscalculated. Inherent risk consists of five factors that help with this assessment.

- The first one is the account balance, this represents an asset that is relatively easily stolen. From the employee and customer side the cash, cash equivalents, revenue, and assets (car) are easily stolen from Uber with the fees and thefts for the cars.
- The second one is the account balance is made up of complex transactions. This factor holds little value on our assessment of Uber's inherent risk because the business has more nonroutine transactions rather than complex transactions.
- The third factor is the account balance requires a high level of judgment or estimation values. Each transaction has many components to it. These include mileage, timing, and other fees that Uber may or may not include.

- The fourth factor is the account balance is subject to adjustments not in the ordinary processing routine. The process for ordering services comes from many different platforms and has to be customized to each platform. No transaction is the same.
- The last factor is the account balance is composed of high volume of non routine transactions. The majority of Uber's account transactions are composed of nonroutine transactions, because they are made from many different locations and off of many different platforms. This makes it harder on when to account for revenue and how to apply fees to customers. The overall inherent risk leads to how we will conduct our preliminary analytical procedures.

Analytical Procedures

Analytical procedures are the evaluations we use to assess the risk of material misstatements. The accounts that we deemed to have the highest risk are cash and cash equivalents. Some procedures used to see if this cash balance is accurate or if it is overstated are; confirming cash balances, vouch reconciling items to the subsequent month's bank statement, ask if all bank accounts are included on the general ledger, and inspect final deposits and disbursements for proper cutoff. These accounts have doubled more than half from this time last year to this time this year. Uber has ran a loss for the past three years, and when looking at that trend, we can notice how low the expenses are compared to past years and how much cash has increased. Uber is also known to conceal information and not show their true financials so that the losses do not appear as large. Another indication that cash is overstated is by comparing the quick ratio of Uber and Lyft and seeing that it is also doubled. This is out of the ordinary because Lyft has a more stable business and has been a float longer. For the random changing of fees we can run a reasonable test by comparing the employees compensation and number of employees and compare it to the total for the quarter in this case and have Uber describe the differences. Overall we will test the obligations and completeness of expenses and the valuation and allocation for the cash and cash equivalents. With Uber's risky financial statements, the users of the financial statements can heavily influence decisions made by those users. The overstatement of the assets is partially material.

Materiality

Materiality relates to the significance or the importance of an item. Materiality includes a matter of professional judgement, depending on the needs of a reasonable person relying on the information, and involves both quantitative and qualitative considerations. Materiality judgements are made for the purpose of audit planning and finding evidence after the audit procedures are complete. We determined Uber's overall materiality to be moderate. With the uncertainty of fees it is easier to overstate revenue, and understating expenses also makes the net income appear bigger than it actually is due to the wrong account balances. The increase in revenue makes the company appear to be doing better than they actually are and affects investors and management decisions. After consideration of the overall materiality we do not consider any of this to be due to fraud from theft of the company.