Internal control risks essay sample

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Identified in Apollo Shoes Assessing control risk is the process of evaluating the design and operating effectiveness of a company's internal controls as to how it prevents or detects material misstatements in the financial statement assertions of management (Hayes, Dassen, Schilder, & Wallage, 2005). The conclusion reached as a result of assessing control risk is referred to as the assessed level of control risk.

When assessing controls the auditor looks for weaknesses in a company's internal controls or two reasons: to determine the nature and extent of the substantive tests the auditor will perform and to formulate constructive suggestions for improvements (Hayes, Dassen, Schilder, & Wallage, 2005). At the beginning of our audit assessment of Apollo Shoes' internal control, the auditors filled out an internal control questionnaire based on information provided by the internal audit department, on the process of sales transactions.

Unfortunately, information was not forthcoming regarding the type of sales transactions processed by Apollo Shoes and hether the same control procedures were applied to all sales transactions. Apollo Shoes had several internal control risks that were Identified when the auditors were assessing control risk for the revenue and collection cycle. In the Apollos revenue and collection cycle, there were several control risks Identified. Apollo Shoes only had an abbreviated accounting and control manual, which had not been kept up to date.

Management and employees described accounting and control procedures informally under the heading of several transaction cycles. The auditors

found sales transactions were not Identified correctly and the types of processes were not distinguished so they could be processed correctly. Transactions In the sales and collection cycle should be classified Into 5 categories: sales (cash and sales on account), cash receipts, sales return and allowance, write-off of uncollectible accounts and estimate of bad debt expense (Arens, Elder, & Beasley, 2012).

Apollo Shoes didn’t have pre-numbered checks, Invoices and shipping documents were not pre- umbered, so the auditors had a difficult time determining If there were any missing transactions. Pre-numberlng Is meant to prevent both the failure to bill or record sales and the occurrence of duplicate billings and recordings. However, It does not do much good to have pre-numbered documents unless they are properly accounted for.

To use this control effectively, a billing clerk should file a copy of all shipping documents In sequential order after each shipment Is billed, while another employee should periodically account for all numbers and Investigate the reason for any issing documents (Arens, Elder, & Beasley, 2012). The sales order forms were kept In the sales clerk’s working area where many people passed through during the day. Estimated dollar amounts were prepared by sales clerks and written on the order forms.

The sales orders are then hand carried to the credit manager, who Is In the treasurer’s department. Typically, the computer automatically prepares the sales Invoice after the customer number; quantity, destination of goods shipped, and sales terms are entered (Arens, Elder, & Beasley, 2012). The

computer calculates the Invoice extensions and total sales amount using the Information entered, along with prices in the inventory master file.

The issues specified leave room for fraud and misstatements in sales, accounts receivable and revenue. Therefore, the auditors concluded they could not rely on Apollos controls over accounts receivable and revenue. Most, if not all of the accounts receivable balances would need confirmations. Positive confirmations would be mailed to customers with accounts reater than $1 million and negative confirmations to customers with balances less than $1 million.