Free sarbox scooter, inc. case study case study example

[Business](), [Company]()

PART A

Question 1

When determining whether an account ought to be considered significant, the auditor should consider planning materiality threshold. An account whose financial statement surpasses the planning materiality ought to be considered significant for both the financial statement audit, as well as, internal control over the financial reporting audit. In essence, the accounts that exceed the planning materiality more should be greatly considered significant.

The qualitative factors that can cause an account, which is otherwise quite small quantitatively to be considered significant according to AS5 include:

Susceptibility to misstatement as a result of fraud or errors;

The composition and size of the account;

Nature of the disclosure or account;

Exposure to losses on the account;

Likelihood of significant contingent liabilities originating from the activities that the disclosure or account reflects;

Changes from the prior period in the characteristics of the account or disclosure;

Presence of related party transactions within the account;

Reporting and accounting complexities related to the disclosure or account, and

Complexity, activity volume, and homogeneity of specific transactions that are reflected in the disclosure or processed via the account.

c) The qualitative factors that might cause an account, which is greater than materiality to be considered not significant include low susceptibility to errors or fraud and lack of complexities in nature.

Question 2

A quantitative planning materiality according to Delmoss Watergrant LLP Audit Policy will fall in the range of 3 to 5 percent of pretax earnings or 1 to 2 percent of the sales. Sarbox Scooter's total pretax earnings amount to $589, 602. Thus, 3-5 percent of the company's pretax earnings are $17, 688. 06 to $ 29, 480. 1 respectively. Sarbox Scooter's sales revenue is $1, 987, 174. For this reason, 1 to 2 percent of the company's sales is $19, 871. 94 to $39, 743. 48 respectively. For this reason, a planning materiality threshold to use to identify Sarbox Scooter's significant accounts is 5 percent of the pretax earnings, $ 29, 480. 1 because it is less than 2 percent of the sales, $39, 743. 48.

The accounts on the Sarbox Scooters financial statements, which exceeds planning materiality and which ought not to be considered significant include non-current liabilities and Fixed, non-current assets. The non-current liabilities should not be considered significant because of their relative simplicity of evaluation and minimal exposure to the reporting errors. The fixed, non-current assets should not be considered significant due to their minimal exposure to error or manipulation.

The accounts that are not quantitatively significant, but that ought to be deemed significant as a result of qualitative factors include the amortization expense account and cash account. The amortization expense account

depends on one’s judgment and can easily be used for earning manipulation. In addition, the cash account offers extra evidence about inventory balance’s accuracy and completeness assertions and include a substantial volume of activity hence should be deemed significant.

Consequently, relating to the total net income, the business locations’ materiality threshold of the company is $38, 479. 6 (0. 1*$384, 796). With regards to the total assets of a business unit, the materiality threshold of the company is 342, 206 . 7 (0. 1*3, 422, 067). From the $38, 479. 6 materiality threshold, Mexico and US Northeast would not be considered quantitatively significant. However, Mexico would render the unit significant regardless of its quantitative size.

e) The business unit I would eliminate is US Northeast because it is the only location that is not deemed individually significant.

Question 3

The examples of entry-level controls as described in Paragraph 22 of PCAOB Auditing Standards No. 5 include:

Risk assessment process for a company

Controls to monitor operations’ results

Centralized controls and processing

Controls over the management override

Controls over the period-end financial reporting process

Significant risk management practices and business control policies

Controls to monitor the other controls

According to Paragraphs 26 and 27 of PCAOB Auditing Standards No. 5, the

auditor ought to evaluate the process of period-end financial reporting that includes:

Procedures for preparing quarterly and annual financial statements, as well as, related disclosures.

Procedures used to start, permit, record, and process the journal entries in the general ledger.

Procedures utilized to record non-recurring and recurring adjustments to the quarterly and annual financial statements.

Procedures interrelated to the selection and use of the accounting policies.

Procedures that are used to enter the transaction totalities into the general ledger.

PART B

Question 1

According to AS5, a deficiency in the internal control over the financial reporting occurs when the operation of a control fail to allow the employees or management of a company to detect or prevent the misstatements on time. A significant deficiency is essentially a deficiency in the internal control over the financial reporting, which is less austere compared to a material weakness, but significant enough for those whose responsibility is to oversight the financial reporting of a company to consider. A material weakness is essentially a deficiency in the internal control over the financial reporting, in that there is a possibility that a company’s interim or annual financial statements’ material misstatement will not be

discovered or avoided in a timely manner. Among the three, the external auditor is supposed to include a material weakness in the audit report as

stated in the AS 5.

Question 2

The case represents a significant deficiency. The 2. 3 million US dollars are less than the 2. 35 million US dollars ‘ not significant’ threshold that Delmoss Watergrant’s firm policy requires for the magnitude to be more than insignificant. As a result, the scenario, in this case, seems to represent a control deficiency.

The case represents a significant deficiency. The gross exposure is $198, 717, 400 ($1, 987, 174, 000*0. 1) and adjusted exposure equals $17, 884, 566 (198, 717, 400*0. 9). The adjusted exposure is below materiality but over inconsequential hence it is a significant deficiency.

The scenario represents a material weakness since the compensating controls described, in this case, cannot be considered effective in decreasing the deficiency’s potential magnitude below a material level. In essence, these controls do not seem to be adequately detailed to decrease the magnitude levels and possibility less than that of a material weakness. In addition, these controls are only performed on a quarterly basis hence they are not timely.

Works Cited

PCAOB. " Auditing Standard No. 5." Public Company Accounting Oversight Board. Public Company Accounting Oversight Board, 2007. Web.

18 Apr. 2015. .