

# [Auditing2 analysis](https://assignbuster.com/auditing2-analysis/)

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Insert Auditing Case Analysis Business management remains one of the most dynamic activities in a given economy and thus most prone to many risks. Being dynamic brings along some risks to the business. Arguably there are several risk factors that require to be addressed by the management of an organization such as inherent risks in the case of management changeover. Inherent risk in a broad sense is the risk a business is exposed to when there are no other circumstantial factors in place (Rawindara, Kumāra, and Virender, 213). A basic example of an inherent risk is to be hit by a truck when crossing a road. Therefore for a business to address this issue, it has to put in place control measures that will reduce the number of risks the business is exposed to. This is not a fool proof measure but rather ways of mitigating the extent of loss in case the business suffers. This paper therefore seeks to identify the inherent risks in the case presented, point out internal control weaknesses, the best sampling techniques to use in testing the reasonableness of the various departments.
1. In the case given, the CFO and CEO worked together in the previous company. There is an inherent risk that they are incompetent in discharging their duties and had to leave the company. This is a risk that HFC needs to be aware of and put in place measures to identify and mitigate any loss that may arise due to their incompetence. The order and shipping department has the potential to incur inherent risk whereby the quality of the goods may not meet the required standards to satisfy customers. Another risk is in credit approval. Currently, once a customer is approved, they remain credit worthy until the cease doing business. The inherent risk here is that the customer may leave a bad and irrecoverable debt to the company. This clearly is a risk that can be mitigated by introducing an internal control policy to do a background check on customers before approval. The company can also set limits to the amount that a customer can be advanced by the business.
2. An internal weakness simply means the possibility of the internal checks to detect or deter any fraudulent activities either willingly or not willingly. There are several weaknesses in the company such as placing orders over the internet and via phone calls. It poses a threat to loss of stock since this is an asset with high liquidity. With the advancement of technology, there is a risk of receiving fake orders coupled with the weak controls in credit approval, and consequently loosing cash in form of stocks. There is also the risk of outsourcing goods to customers. There is the risk of loss of the goods while in voyage. The company needs to be insured against such loss. The fact that credit is advanced to approved customers only, there is a weakness in the system of approval. The credit manager and the controller can conspire and give credit to customers who don’t qualify for such a facility. A business with its capital ties to debt faces the risk of misrepresenting their year-end financial status.
3. In conducting an audit exercise on the credit approval, it would be best to use a random sample. It eliminates any biasness and conducts the activity in the most independent and professional manner (Russel, 109). The steps in doing so include, selecting the timeframe of study which can be the last three months and extract the data. This is then arranged according to the dates and a level of confidence to work with is selected and thereafter the sample study picked. This sample is reviewed in reference to the set procedures of the credit approval policy of the company. A report of the findings is given and recommendations for improvement given thereof.
4. Accounts receivables sample can be selected randomly after choosing the audit period, e. g previous three months. Confirmations, either positive or negative can be sent to customers who have done bought before. This is for them to confirm that actual transactions took place.
Works cited:
Rawindara, Kumāra, and Virender Sharma. Auditing: Principles and Prctice. , 2011. Print.
Russell, J P. The Process Auditing Techniques Guide. Milwaukee: ASQ Quality Press, 2003. Print.