

# Business risk approach

Business



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## Business Risk Approach

### Internal Control Weaknesses

#### Specific risk of fraud or error

Reporting of financial status of the company is experiencing ineffectiveness and internal control by those who are responsible for the management of the enterprise. The manager of the factory by the name John Jones only prepares a Purchase Requisition in respect of the raw materials required. It specifies three items of information about the necessary materials, the quantity required, and the chemical description. There is no evidence where he does financial reporting and internal control over the company (Rittenberg, Karla, Johnstone, and Audrey, Gramling, p. 22).

The specific risk of fraud or error that might occur will be the error of omission of individual transactions. The accountants (Rittenberg, Karla, Johnstone, and Audrey, Gramling, p. 22) make the errors in the financial statements.

The identification of the internal auditor of the misstatement of a material in the financial statements for the particular period under audit. There is a possibility that it was initially identified by the internal control of the entity. It includes misstatements that involve judgment and estimation by which an auditor detects the likely adjustments of material and corrections of the amounts recorded (Rittenberg, Karla, Johnstone, and Audrey, Gramling, p. 22).

Here there is the presence of the fraud resulting from material misstatements especially on the part of the senior management. It will affect the company financial capacity at the end (Rittenberg, Karla, Johnstone, and Audrey, Gramling, p. 22).

The risks assessment and companies internal auditing has also been reported to be quite ineffective (Rittenberg, Karla, Johnstone, and Audrey, Gramling, p. 22).

The company will be at precarious of reporting inventory impairments compared to businesses that have adequate internal controls (Rittenberg, Karla, Johnstone, and Audrey, Gramling, p. 22).

There is a very ineffective regulatory compliance function in the company (Rittenberg, Karla, Johnstone, and Audrey, Gramling, p. 22).

The company will be at risk of having lower inventory turnover ratios (Rittenberg, Karla, Johnstone, and Audrey, Gramling, p. 22).

There is also the failure by the management or those who have the responsibility to assess deficiency impacts that were communicated earlier to them. They have a responsibility of either to remedy it or assert that no rectification will be made (Rittenberg, Karla, Johnstone, and Audrey, Gramling, p. 22).

The company will be at risk of making that inefficiency a culture that will be very difficult to be stopped in the future (Rittenberg, Karla, Johnstone, and Audrey, Gramling, p. 22).

There is also the presence of an ineffective control environment. Weak control of the various aspects of the internal control could result in an incorrect judgment by the auditor. He could conclude that there exists a significant deficiency or weakness of the material in the control environment (Rittenberg, Karla, Johnstone, and Audrey, Gramling, p. 22).

The company will also be at risk of having lower inventory turnover ratios

There is also the restatement of financial statements that were issued previously to reflect the correction of a material misstatement. The

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correction of a misstatement entails those errors due to frauds or error. It does not require restatements that indicate a significant change in the principle of accounting to be in line with a new principle of accounting. In addition, to be in line with a voluntary change of one accepted principle of accounting to the other accepted principle of accounting (Rittenberg, Karla, Johnstone, and Audrey, Gramling, p. 22).

Here there is also the presence of the fraud resulting from material misstatements especially on the part of the senior management. It will affect organization financial capability, in the long run (Rittenberg, Karla, Johnstone, and Audrey, Gramling, p. 22).

#### Work Cited

Rittenberg, Larry E, Karla M. Johnstone, and Audrey A. Gramling. Auditing: A Business Risk Approach. Melbourne, Vic.: South-Western Cengage Learning, 2012. Print.