

# [Jack greenberg, inc.](https://assignbuster.com/jack-greenberg-inc/)

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Familyowned business is a business that is owned by one family, most of the shareholders are from the same family. One of the major problems in this type of business is a conflict in interests among the family’s member. The auditor should be careful and observe the type of the relationship among the family’s member. There should be a written agreement to specify rights, duties, and obligations for each member, the auditor should read those documents for further information.

One issue that faced the auditor is to understand the attitude of each member, the risk of manipulating facts can be existed due to the close relationship. In the case of Jack Greenberg, the son has manipulated the numbers in the record for his father’s sake and no one would be able to prevent him since he is one of the owners. The possibility of hiding facts is high in this kind of business because of the close relationship among the family’s member.

I believethe family owned business demands more effort from the auditor to check and discover misstatements. 2. For the prepaid inventory I would recommend that the auditor should focus on the following objectives; existing, occurrence, valuation and allocation, completeness, and right and obligation. Prepaid items represent a complete listing of the company’s costs that are allocable to future periods and that can reasonably be expected to be realized through future operations.

As for the merchandise, the auditor should physically observe the inventory to verify the amount recorded, the most important part of theobservationof inventory is to determine whether the physical count is being taken in accordance with the client’s instructions. The audit objective related to merchandise are; \* Existence: Inventory as recorded on tags exists. \* Completeness: Existing inventory is counted and tagged. \* Accuracy: Inventory is counted accurately. \* Realizable value: Obsolete and unusable inventory items are excluded or noted. Rights: The client has rights to inventory recorded on tags. \* Classification: Inventory is classified correctly on the tags. \* Cutoff: Transactions are recorded in the proper period. 3. Internal evidence is created, used, and retained within the client’s organization and without the help of outside parties for example; sales invoices duplicate copy, employees’ time reports, inventory reports, and purchase requisitions. On the other hand, external evidence originates outside the client’s organization for example; bank statement.

This type of documents generally prepared in the ordinary course of business activities and form part of its records whether of accounting or non-accounting nature. Sometimes obtained directly from source such as bank, debtors, and creditors confirmations. External evidence and the internally generated evidence circulated externally are more reliable than the internal evidence. 4. Walkthrough is simply the act of tracing a transaction through organizational records and procedures, a commonsense approach to learning how a process works.

The purpose of walkthrough procedure is to evaluate the reliability of the client's accounting system. The auditor looks at the supporting documentation for a transaction from its starting point and then proceeds to examine the accounting system steps thereafter until ultimate disposition of the item. The walk-through examination is one of the tests that is important for the auditor to obtain an understanding of the client’s business. The U. S.

Public Company Accounting Oversight Board (PCAOB) has drawn attention to a fundamental audit procedures, one that is so common that auditors may take it for granted is the walkthrough procedure. Most auditors traditionally have viewed walkthroughs as the procedure of choice when attempting to develop an understanding of key processes and internal controls of a client. Now, walkthroughs are required when certifying financial reporting controls under Section 404 of the U. S. Sarbanes-Oxley Act of 2002. As it relates to Audit Standard No. from the PCAOB, the standard includes a requirement that the auditor must perform a walkthrough for each of the company’s significant processes. 5. I would highly recommend that the auditor should extend the scope of substantive test and increase the sample size in order to discover other misstatements that existed. The auditor also could trace documents to testify whether the inventory has been listed accurately. Analytical procedure and test of detail as part of substantive test to find the relationship between the inventory account and other accounts in the financial statements.

Cut off test with physical observation to the inventory would help to discover fraud and any misstatement in the inventory account. In addition, the auditor may use confirmation to confirm amount listed in the record with third parties. 6. I think the audit firmresponsibilityis to inform the client that there are weaknesses in their current internal control however the audit firm does not have the right to force the client to do some action regarding those deficiencies. The auditor should try to persuade the client and reveal the risks of having such a weak internal control system.

In case the client did not cooperate with the auditor, the auditor should resign from performing audit services to the client; he or she should disclose that decision. The general Accepted Auditing Standards -AU 150 paragraph 2- require the auditor to maintain independence as a general rule, the auditor must also exercise due professional care in the performance of the audit and the preparation of the report therefore, in order to maintain the auditor independence, the auditor should have his or her own voice and not just follow the client’s rule.