

# [Auditing-purchasing and inventory cycles](https://assignbuster.com/auditing-purchasing-and-inventory-cycles/)

Running head: AUDITING INVENTORY CYCLES Auditing-Purchasing and Inventory Cycles of of study the assignment is due   
The production, inventory and cost accounting departments should ensure that the production transactions, recording of transactions and the physical custody of inventories are delegated to the authorizing parties in the specific department. Duties should be segregated among the different staff in the departments (Kumar and Sharma, 2009). Recording of transactions should be accurately done in separate accounts for easier auditing as an audit trail can be established. The production order document provides control over materials used in production as it gives real-time data that enables the staff to react quickly to changes in materials availability, customer delivery dates and work centers. Populations of documents are used to sample whether activities are authorized, production was completed and placed in inventory or written off as scrap and that finished goods inventory was produced and properly costed. Examples include; stock records, purchases ledger, goods returned note, goods produced note and check for the signature authorization by the responsible authority.   
The auditor examines the travel and expense accounts to verify the supporting documents to determine whether the transactions are correctly stated. The higher authority might abuse the travel and entertainment expenses for personal benefits. The auditor determines whether the expenses were incurred for business purposes and not for personal benefits (Ricchuite, 2005). The poor controls regarding executive reimbursement hinders the purpose of evaluating and reporting on internal control. The evaluation of the internal control will lead to the disclosure of the weak areas in the reimbursement of the top managers. The auditor can use various auditing procedures for auditing various expense accounts including miscellaneous expenses. This assists the auditor in verifying whether the expenses recorded were incurred and that they were accurately recorded in the correct accounting period. The procedures include obtaining all the relevant receipts and documents and checking for authorization and accuracy in recording as explained by Bragg (2009).   
The purchasing manager can use their position to defraud the company in multiple ways and the company should install a strong ICS to detect such activities (Kumar and Sharma, 2009). The purchasing managers can collude with third parties (buyers and sellers) to defraud the company. The managers can include unusual purchases that are not included in the operating budget. They can vary the purchase order proficiency rates among buyers with comparable workloads. The managers can increase the cost of purchases beyond the inflation rate. The purchases should be authorized and only the genuine ones are recorded (Ricchuite 2005). The purchases invoices should be processed by the accounting system and all transactions should be recorded in the correct accounting period. The auditor should ascertain whether the invoices correspond with the order form and the goods received note. Evidence of these frauds can be obtained by analyzing the invoices to confirm the date, name of the supplier, the client and authorization.   
  
References   
Bragg, S. M. (2009). Just-in-time accounting: How to decrease costs and increase efficiency. (3rd ed.). John Wiley and Sons.   
Kumar, Ravinder & Sharma Virender. (2006). Auditing: Principles and practice.   
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Ricchuite, D. R. (2005). Auditing. (8th ed.). South-Western/Thomson Learning.