

Account	Transaction Class That		Account Balance Control Risk Assessment		
	Increases Account	Decreases Account	Existence and Occurrence	Completeness	Valuation or Allocation
Credit Sales	Accounts Receivable Sales		Low	Low	Low
Collections from Customers	Cash	Accounts Receivable	Low	Moderate	Low
Sales Returns & Allowances		Accounts Receivable Sales	Low	Moderate	Moderate
Purchases	Accounts Payable	Cash	Low	High	Low
Cash Disbursements		Cash	Low	Low	Low
Purchase Returns	Cash	Accounts Payable	Low	Moderate	Low

Team B
CASE 11-31

Solution

11-31. (Estimated time - 20 minutes)

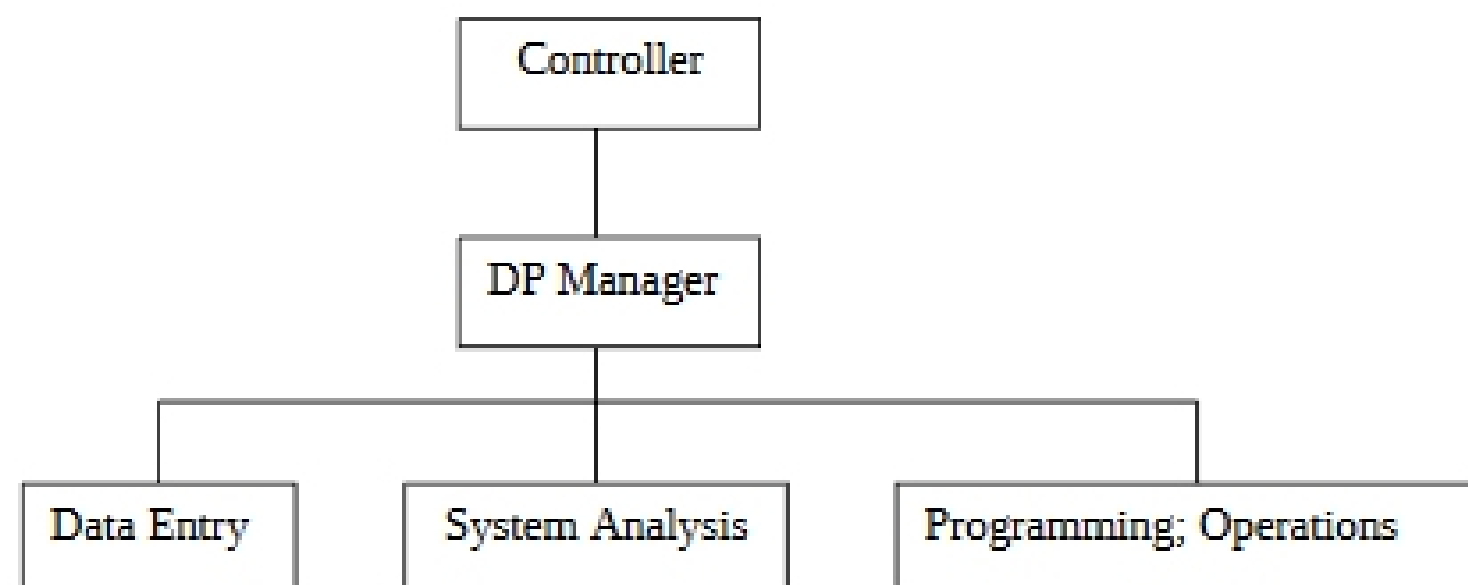
To determine detection risk for an account balance assertion, the auditor should determine a combined control risk assessment for the assertion by considering the control risk assessments for relevant assertions pertaining to the transaction classes that affect (increase or decrease) the account balance. The appropriate relationships are shown in the following tabulation.

Account	Transaction Class That		Account Balance Control Risk Assessment		
	Increases Account	Decreases Account	Existence or occurrence	Completeness	Valuation or Allocation
Cash	Cash receipts	Cash disbursements	Low (1)	Moderate (5)	Low (9)
Accounts receivable	Credit sales	Cash receipts & Sales Adjustments	Moderate (2)	Low (6)	Moderate (10)
Accounts payable	Purchases	Cash disbursements and Purchase Returns	Low (3)	Low (7)	Low (11)
Sales	Credit Sales		Low (4)	Low (8)	Low (12)

- (1) This is the most conservative of the control risk assessments for occurrence of cash receipts (low) and the completeness of cash disbursements (low).
- (2) This is the most conservative of the control risk assessments for occurrence of credit sales (low), the completeness of cash receipts (moderate), and the completeness of sales returns and allowances (moderate).
- (3) This is the most conservative of the control risk assessments for occurrence of purchases (low), the completeness of cash disbursements (low), and the completeness of purchase returns (moderate).
- (4) This is just the control risk assessment for the occurrence of credit sales (low).
- (5) This is the most conservative of the control risk assessments for the completeness of cash receipts (moderate), and the occurrence of cash disbursements (low).
- (6) This is the most conservative of the control risk assessments for the completeness of credit sales (low), the occurrence of cash receipts (low) and the occurrence of sales returns and allowance (low).
- (7) This is the most conservative of the control risk assessments for the completeness of purchases (low), the occurrence of cash disbursements (low) and the occurrence of purchase returns (low).
- (8) This is just the control risk assessment for the completeness of credit sales (low).
- (9) This is the most conservative combination of the valuation or allocation assertions for cash receipts (low) and cash disbursements (low).
- (10) This is the most conservative combination of the valuation or allocation assertions for credit sales (low), cash receipts (low), and sales returns (moderate).
- (11) This is the most conservative combination of the valuation or allocation assertions for purchases (low), cash disbursements (low), and purchases returns (low).
- (12) This is just the control risk assessment for the valuation of credit sales (low).

11-32. (Estimated Time - 50 minutes)

a.



b.

Weakness

1. Organization and operation
The EDP manager reports to a significant user department.
There is improper segregation of functions between programming and computer operations.

Recommended Improvement

- EDP manager should report to president or some other nonuser officer.
- Programming and computer operations should be separated.

b.	Weakness	Recommended Improvement
	There is no data control group.	A data control group should be established.
2.	<p>Systems development and documentation controls Program documentation is inadequate. An operator's manual is not provided.</p> <p>Operators can change programs.</p> <p>User department is not involved in the design or approval of new systems.</p> <p>Undocumented "patch" changes are made in programs by a programmer.</p>	<p>All programs should be fully documented. An operator's manual should be provided to facilitate the running of computer programs. Only programmers should be able to change programs.</p> <p>User department representatives should be included in system design, and system specifications should be reviewed and approved by user department.</p> <p>All program changes should be documented and approved by the EDP manager or a designated supervisor.</p>
3.	<p>Hardware controls and systems software controls There is no mention of the existence of these controls.</p>	<p>Essential hardware controls such as dual read, parity check, echo check, and read after write should be installed.</p>
4.	<p>Access Controls EDP department is located above an explosive chemical department.</p>	<p>EDP should have separate facilities with special protection against theft, vandalism, and possible disasters.</p>
4.	<p>Information on program and data tape files is stored in machine room.</p> <p>Too many people are permitted in the machine room.</p> <p>Operators have unlimited access to data, files, etc.</p>	<p>Such information should be stored in a locked and fireproof library with restricted access.</p> <p>Only authorized operators and supervisory personnel should be allowed into the machine room, which should be locked at all times.</p> <p>Operators should only have restricted access to tape files, programs, and operating instructions.</p>
5.	<p>Data and procedural controls Operators are not properly supervised and their work is not reviewed. Operators can make changes in operating procedures when they encounter difficulties. No back-up equipment is provided.</p> <p>There is no definite retention plan.</p>	<p>Console sheets should be reviewed and a log of machine activity should be maintained. Changes in operating procedures should be approved by a supervisor or the EDP manager.</p> <p>Back-up equipment should be provided at another location and the capability of such equipment should be tested periodically. A definite plan, such as the grandfather-father-son, should be implemented.</p>