

- Operating managers
 - Staff or operating personnel
- c. Does management need independent testing of the controls in order to issue a public report on internal control over financial reporting? Explain.

LO 5,6

5-56 (Reporting on Internal Control) Various parties are taking an increased interest in the quality of an entity's internal controls. Management and the auditor must coordinate their reports on internal control.

Required

- a. Briefly explain the difference between the broad concept of internal control as developed in the chapter and internal control over financial reporting. What are the major distinctions?
- b. The Sarbanes-Oxley Act requires public reporting on the quality of internal controls over financial reporting. What are the primary benefits of such reporting?
- c. Why might a company's trading partner be interested in the quality of an organization's internal controls, particularly its computerized controls?
- d. How would a negative report on internal controls over financial reporting likely affect stock prices?
- e. Would a report on internal control have to assess the "control environment" and the "tone at the top," or could it just rely on tests of the controls over the processing of transactions?

LO 6

5-57 (Assessing Controls) Assume that you were given these five options to describe the tone at the top:

- Excellent
- Moderate
- Indifferent
- Nonexistent
- Machiavellian (do whatever it takes)

Required

- a. How would the auditor go about assessing which of the terms best describes the tone at the top?
- b. What effect would each label have on the preparation of a report on the quality of a company's internal controls?

LO 6

5-58 (Segregation of Duties) For each of the following situations, evaluate the segregation of duties described and indicate the following:

- a. Any deficiency in the segregation of duties described (indicate *None* if no deficiency is present)
- b. The potential errors or irregularities that might occur because of the inadequate segregation of duties
- c. Compensating, or additional, controls that might be added to the process to mitigate potential misstatements
- d. A specific audit test that ought to be performed to determine whether the potential misstatement had occurred

Situations:

1. The company's payroll is computerized and is handled by one person in charge of payroll who is responsible for keying all weekly time reports into the computer system. The payroll system is password protected so that only the payroll person can change pay rates or add/delete company personnel to the payroll file. Payroll checks are prepared weekly, and the payroll person batches the checks by supervisor or department head for subsequent distribution to employees.
2. XYZ is a relatively small organization but has segregated the duties of cash receipts and cash disbursements. However, the employee responsible for handling cash receipts also reconciles the monthly bank account.