

### **Newham Company Information**

Newham Company is a publicly traded company operating in the “personal product” industry. Newham manufactures cosmetic and body-care products. These products are sold to large department chain stores, such as Target and Walmart, to be sold and distributed to the final consumer. Competitors include Revlon, Inc. (REV – NYSE) and Avon Products, Inc. (AVP - NYSE).

Newham Company has experienced steady growth over the past several years. Recently, there has been a change in executive management, including the CEO and CFO. The change was sparked by questionable bonus payments that were paid to the executive management team based on the company’s performance. In addition, a recent lawsuit has been filed based on claims that a new product was not properly advertised, leading many customers to experience allergic reactions.

### **Sales and Accounts Receivable**

A sample of weekly sales invoices shall be analyzed from the sales report by product category. All sales are on account. Sales are classified into four product categories: cosmetics, skin care, fragrance, and personal care. Charges to customer accounts should be dated with the date of shipment.

Sales invoices are prepared in batches on a daily basis using numbered sales invoices. Sales invoice numbers are automatically generated by the company’s computer system. The accounts receivable clerk does not have appropriate computer rights to override the computer-generated invoice number. Upon preparing sales invoices, the accounts receivable clerk verifies that the first invoice number of the batch is consistent with the last invoice number of the previous batch. Inconsistencies or skipped sales invoice numbers are investigated and resolved before new sales invoices are prepared. The items shipped are compared to the items billed for proper quantity, price, and other sales order terms.

The accounting department supervisor compares and reconciles a copy of the daily sales invoice batch report to the daily accounts posting report indicating the individual accounts. The daily account posting report is prepared and sent by the accounts receivable department. Discrepancies are investigated and resolved to help assure that the customer subsidiary accounts are posted for the same total amount posted to the control account.

At the end of each month, the total of the trial balance of customer account balances (prepared by the accounts receivable department) are reconciled to the general ledger control account by the accounting department supervisor.

Sales invoice batches are dated with the date of shipment, and totals of each batches are accumulated each month and recorded in the accounts receivable control and sales revenue accounts. The accounting department supervisor approves all monthly summary entries before posting to the general ledger.

The controller approves all cash refunds and allowance credit memos for sales returns, after initiation by customer service.

### **Cash Management**

The monthly bank statements are mailed to the controller's office. Duplicate deposit slips are retained and used when bank deposits are made, the cash receipts journal listing, and the cash disbursements listing to reconcile the general bank accounts. The payroll bank account is also reconciled, utilizing the payroll register retained by the controller's office.

The assistant controller oversees all cash management and activity, including the performance of the bank account reconciliation for each bank account held by the company. The assistant controller compares the cash receipts journal and daily deposit records with the bank deposits and duplicate deposit slips during the bank account reconciliation.

Internal auditors will randomly review the bank account reconciliations.

### **Cash Receipts and Accounts Receivable Processing**

All cash receipts from customers related to sales are credited to accounts receivable individual and control accounts. Cash receipts are received by mail and opened by the office secretary. The office secretary prepares the cash receipt listing and daily deposit. A copy of the cash receipt listing and duplicate deposit slip is sent to the controller's office. Another copy of the cash receipt listing and the remittance advice are sent to the accounts receivable clerk for posting.

The accounts receivable department posts credits to individual customer accounts, dating the entries with the date of the remittance advice and cash receipt listing received.

Statements of accounts receivable balances are mailed to customers each month by the accounts receivable accounting department. Customers' reports of disputes or differences shall be handled by customer service.

## Cash Disbursements

All disbursements are made by check, signed by the controller.

### Create Sample Audit Program

The following sections should be

- **Business Risk Analysis:** Identifying risk in an organization and the environment in which it operates is the first step in approaching a potential audit and designing an effective audit program. To analyze business risk, you must:
  - Gain an understanding of Newham
  - Investigate the industry in which Newham operates
  - Analyze and assess the risk, including fraud, involved in the company and industry
  - Identify the relevant PCAOB audit standards and address their relevance to the Newham audit risk assessment
- **Sample Audit Program:** An audit program involves compiling a list (program) of procedures for the auditors to perform in order to obtain evidence and reasonable assurance that internal controls are operating properly and thus producing accurate financial statements. To compile a sample audit program, you have been provided with tests of control in revenue and inventory.

You must identify the relevant PCAOB audit standards and address their relevance to the Newham audit program. Include other elements as applicable to Newham.

- **Report of Recommendations:** Based on an auditor's experiences and knowledge of accounting, finance, and common errors or pitfalls, it is common for an auditor to provide recommendations. The sample audit program addressed here is merely a small sample, not a comprehensive program. Thus, recommendations for further risk analysis, sample methods, and other concerns should be offered. In your report of recommendations to the head of the new audit team, include the following sections:
  - Explanation of findings in the risk analysis
  - Sarbanes–Oxley concerns or requirements
  - Recommendations on appropriate sampling methods
  - Recommendations for preparation and success in the external audit