

The following problems surfaced when the new payroll system was placed in operation:

1. A worker received a direct deposit for \$1,531.80 when it should have been \$153.81. It was determined that the wage rate was overstated by a magnitude of 10 because it was entered incorrectly in the payroll system.
2. One worker complained that a direct deposit was not made to his account, and this error was not detected. As it turned out, the payment was made to another individual because the wrong bank account number was on file.
3. One worker received a paycheck for an amount considerably larger than she should have. Investigation revealed that a worker was paid \$21.75 per hour rather than \$12.75 per hour because of an input error when changing the employee's wage rate on the master file.
4. In processing non-routine changes, an HR assistant included a pay rate increase for one of his friends in the factory. This was discovered by chance when a foreman was reviewing charges to his department.

**\*C12.4 (LO 13) Challenging Internal control evaluation—payroll** *Analysis and evaluation:* Identify the control deficiencies in the payroll process for The Vane Corporation. Recommend the changes necessary to improve the control structure. Arrange your answer in the following columnar format:

Control Deficiencies	Recommendations
	(ICMA)

### Cloud 9 - Continuing Case

Answer the following questions based on the information for Cloud 9 presented in the appendix to this text and the current and earlier chapters. You should also consider your answers to the case study questions in earlier chapters. The following information focuses on evaluating inherent risk, control risk and detection risk for purchase transactions and accounts payable.

**Required**

- a. After reviewing the trial balance, calculate the following ratios for Cloud 9 as of 1/31/2021, 1/31/2022, and 10/31/2022:
  1. Accounts payable turnover in days (use ending balance rather than average balance for accounts payable).
  2. Cost of goods sold to average accounts payable.
  3. Payables as a % of total assets.
  4. Current ratio.
  5. Any other ratios and information that you believe would be appropriate to evaluating inherent risk for purchase transactions and accounts payable balances.
- b. Based on your analysis of information gathered:
  1. Identify high inherent risk assertions for purchases transactions and accounts payable.
  2. Evaluate inherent risk for purchase transactions and accounts payable. Explain why you have identified various assertions as high or maximum risk for accounts payable.

- c. Analyze and draw conclusions about the nature and extent of tests of controls:
  1. For each assertion that you identify as high or maximum inherent risk, identify an internal control, or a combination of internal controls, that would control that risk.
  2. Explain the nature and extent of tests of controls you would need to perform to assess control risk as low, for the controls you identified in (c)1 above.
- d. Analyze and draw conclusions about the nature, timing, and extent of substantive procedures:
  1. Given your conclusions about inherent risk and assuming that tests of controls show that internal controls are effective, what are your conclusions about detection risk for the assertions identified as high or maximum inherent risk? Explain your conclusions.
  2. For the assertions you identified as high or maximum inherent risk, what is the substantive procedure you would suggest performing (nature of the test)? Explain your conclusions.
  3. For the assertions you identified as high or maximum inherent risk, when do you suggest performing the substantive procedure (timing of the test)? Explain your conclusions.
  4. For the assertions you identified as high or maximum inherent risk, how extensively should the auditor test these assertions (extent of the test)? Explain your conclusions.