Auditing of Receivables

Name

University

Auditing of Receivables

In auditing of financial statements, the auditors may find out deficiencies in the internal control of the company over reports of the financial statements. This deficiency occurs when the design and the operations of the company does not allow their management and the employees in finding out the misstatements on the effective time. In Universal Air, there has been deficiencies in their operations because the sold tickets are booked online and their entries are made by debiting receivables accounts and crediting the sales, making it problematic because these are just normal entries and there should be a specific entry for the tickets different from all other operations. The Universal Air emails their customers on their cancellations, which is not effective, as not every customer checks their emails frequently and this may cause major losses to the company. The most possible way to communicate is through a formal writing to the management and the audit committee who will in return communicate with the customer about the cancellations. These will assist the audit department to know the weaknesses in advance to assist them in compiling their results (Ricci, 2011). The auditors will now be able to differentiate between the major deficiencies and the material weaknesses that the company may be facing. These problems should be communicated to the audit committee before the financial statements are read out.

A significant deficiency can be defined as the combination of control deficiencies that will affect the company’s capability to authorizing, recording, processing, initiating and reporting the external financial data in a controlled manner according to the generally accepted principles. When there is no accounting journal entry recorded and no refund is given to the customer until they request in writing, it shows the weaknesses the company has in dealing with their records, they are not able to find out whom the refunds should belong to (Bielokoz, 2011).

If these refunds are not requested, the company does not communicate with the customer but in return the receivables are billed to the credit card and collected thus the company may end up losing their customers if they find out about the billing of refunds.

The Universal Air external financial reporting and the internal control by their audit committee are not effective. These should therefore be seen as the most significant deficiency that the company is facing and it can also be viewed as a material weakness that the company has not been able to address internally when writing their financial reports. There is no outright requirement for the company to file their reports to the audit committee about their financial statements but it is advisable so that the company may understand their way forward and find out their weaknesses. If the auditing committee finds out that their reporting is ineffective, they are supposed to communicate to the board of directors of the company in writing (Bonner, 1990).

When a significant deficiency was found in Universal Air company, a committee should be notified on the matter. However, in the case of Universal Air, no such committee exists and therefore, Auditing Standards provide that all the references to the audit committee should apply to the board of directors of such company. Since the securities of the company are not listed in the national securities exchange or any other automated inter-dealer quotation systems of a national securities association, it is not necessary to have independent directors in the committee.

However, the significant deficiency should be addressed to the directors of the company who will further agree on the way forward based on the recommendations enclosed in the report. Essentially, such scenarios should always be reported to the audit committee or the independent directors. Therefore, in this case scenario, the auditor should understand and explain the references to a subsidiary registrant, which acts as an equivalent body. In case of the lack of a properly structured financial reporting system, the auditor is obliged to interpret the terms

"Board of Directors" and "Audit Committee", as per the provisions of the Audit Standards, to be consistent with these provisions (Ricci, 2011).

Financial reporting therefore requires a company to report significant deficiencies to the directors or audit committee in order to facilitate the action plan. In this case, Universal Air should ensure that after the directors have received the communication they would implement an immediate action plan with respect to the policy as well as the refund structure of the cancelled tickets. The lack of a written refund request as compared to the journal entry and the cancelled tickets form also prove the inefficiency of the company in disclosing full information about its financial transactions, which is against the Generally Accepted Accounting Standards.

While reporting the significant deficiency, the communication should be in written form and should cover the definition of the term significant deficiency, material weakness and distinguish the category to which the deficiencies being communicated fall under. Alongside the written communication, the audit should make it clear that the objective was to report about the financial statements and not the assurance of the internal controls of Universal Air. While ensuring the above guidelines are followed, the effects of the proposed policy will be fully kept on check and hence ensure that the management, the board of directors as well as the stakeholders have their opinions taken into consideration (Bielokoz, 2011). The policy will therefore ensure that the audit has been carried out effectively in line with the Auditing Standards. The policy is not illegal but should not be used as a scapegoat by the company in defense of the unclaimed refunds. Instead, it should be made mandatory in order to ensure that there is uniformity in the auditing and financial reporting processes.

References

Bielokoz, O. I. (2011). Internal auditing for receivables and payables of trading companies. *Ekonomichnyi analiz (Economic Analysis)*, *9*(1), 36-39

Bonner, S. E. (1990). Experience effects in auditing: The role of task-specific knowledge. *Accounting Review*, 72-92.

Ricci, C. W. (2011). Manipulating Receivables: A Comparison Using the SEC's Accounting and Auditing Enforcement Releases. *The Journal of Applied Business and Economics*, *12*(5), 35