

ACC 645 Milestone Three Guidelines and Rubric

Overview: For the final project, you will work through components of a case study in which you will assume the role of a lead auditor at [Willis & Adams](#). Your firm has been approached by [EarthWear Clothiers](#) to perform an audit. In your role as lead auditor, you will evaluate internal and external factors to determine client engagement, develop an audit plan, determine recommendations for improving internal controls, and communicate the audit opinion. For this milestone, you will create the report on internal controls over financial statements.

Prompt: For this milestone, you will evaluate the following components within EarthWear Clothiers for gaps in internal controls and explain how each can be improved: control environment, risk assessment, information system, control activities, monitoring activities.

The items below were found while reviewing internal control during your evaluation. Consider whether the item is a significant deficiency or a material weakness based on the other facts presented in the case and the materiality limits set in Milestone Two:

- There were several instances of transactions that were not properly recorded in subsidiary ledgers; transactions were not material, either individually or in aggregate.
- There are a significant number of intercompany transactions monthly. The transactions are related to transfers of inventory between warehouses and the allocation of marketing costs between the business units. The intercompany transactions are frequently material. There is a formal management policy that requires monthly reconciliation of the intercompany accounts; however, there is no process to ensure that the procedures are performed consistently. The result is a lack of timely reconciliations, and differences in intercompany accounts that are frequent and significant.
- Accounts receivable subsidiary ledgers are not reconciled to the general ledger account in a timely and accurate manner. There is a formal policy, however, there is no formal process or procedure that is followed to complete this task. The differences between the subsidiaries and ledger accounts required an audit adjustment of \$376,000.
- There was a lack of adequate cut-off procedures to ensure the timely recording of certain period-end accruals. This resulted in an audit adjustment of \$3,578,000.

Specifically, the following **critical elements** must be addressed:

- III. **Internal Control:** Evaluate the following components within an organization for gaps in internal controls, and explain how each can be improved:
 - A. **Control environment**
 - B. **Risk assessment**
 - C. **Information system**
 - D. **Control activities**
 - E. **Monitoring activities**

Rubric

Guidelines for Submission: Your report on internal control must be 2 to 3 pages in length (plus a cover page and references), with double spacing, 12-point Times New Roman font, and one-inch margins. You should use current APA style guidelines for your citations and reference list.

Critical Elements	Proficient (100%)	Needs Improvement (70%)	Not Evident (0%)	Value
Internal Control: Control Environment	Evaluates the control environment within an organization for gaps in internal controls and explains how they can be improved	Evaluates the control environment within an organization for gaps in internal controls and explains how they can be improved, but explanation is cursory or contains inaccuracies	Does not evaluate the control environment within an organization for gaps in internal controls	18
Internal Control: Risk Assessment	Evaluates the risk assessment within an organization for gaps in internal controls and explains how they can be improved	Evaluates the risk assessment within an organization for gaps in internal controls and explains how they can be improved, but explanation is cursory or contains inaccuracies	Does not evaluate the risk assessment within an organization for gaps in internal controls	18
Internal Control: Information System	Evaluates the information system within an organization for gaps in internal controls and explains how they can be improved	Evaluates the information system within an organization for gaps in internal controls and explains how they can be improved, but explanation is cursory or contains inaccuracies	Does not evaluate the information system within an organization for gaps in internal controls	18
Internal Control: Control Activities	Evaluates the control activities within an organization for gaps in internal controls and explains how they can be improved	Evaluates the control activities within an organization for gaps in internal controls and explains how they can be improved, but explanation is cursory or contains inaccuracies	Does not evaluate the control activities within an organization for gaps in internal controls	18
Internal Control: Monitoring Activities	Evaluates the monitoring activities within an organization for gaps in internal controls and explains how they can be improved	Evaluates the monitoring activities within an organization for gaps in internal controls and explains how they can be improved, but explanation is cursory or contains inaccuracies	Does not evaluate the monitoring activities within an organization for gaps in internal controls	18

Southern New Hampshire University

Articulation of Response	Submission has no major errors related to citations, grammar, spelling, syntax, or organization	Submission has major errors related to citations, grammar, spelling, syntax, or organization that negatively impact readability and articulation of main ideas	Submission has critical errors related to citations, grammar, spelling, syntax, or organization that prevent understanding of ideas	10
Total				100%