Draft of Risk Factors

Name

Instructor

Course

Date

**Draft of Risk Factors**

**Analysis of Income Statement for Risk Factors**

Performing analytical procedures is necessary to establish unusual or unexpected relationships that may indicate misstatement s due to fraud. As a result, a comparison of sales volume with expenses was performed to establish the accuracy of the financial information. An increase in sales volume goes hand in hand with an increase in expenses. Similarly, Amazon’s sales increased from $232,887 in 2018 to $280,522 in 2019. Similarly, operating expenses increased from $220,466 to $265,981 during the same period (Sec.gov, 2019, p. 38). It is also necessary to evaluate certain classes of classifications that have high levels of inherent risk as they are susceptible to manipulation by the management. The report provided by the public accounting firm indicated that auditors were unable to calculate the net profit for orders on consumer products for certain individuals located in Iran. The entities purchasing the products are covered by the Iran Threat Reduction and Syria Human Rights Act. (Sec.gov, 2019, p. 72). Therefore, auditors were unable to determine whether the financial information provided by the management was accurate.

**Analysis of Balance Sheet for Risk Factors**

The analysis of the balance sheet demonstrates inherent risk, particularly in the determination of the value of certain assets. Items are said to have a high level of judgment risk if they rely on estimates made by the management’s judgment (Simon, Smith, & Zimbelman, 2018). The management of Amazon has the discretion to determine the fair value of financial instruments. The management describes fair value as the price at which an asset would be sold, or a liability transferred between market participants at the measurement date. The management identifies three techniques used to determine the fair value. One of the techniques is the valuation based on quoted prices for similar prices in active markets. The second method is the valuation based on observable inputs other than quoted prices. The third method, which is under contention, is the valuation based on unobservable inputs. The valuation method is based on the assumption of the management as well as the assumption made by other market participants. As a result, it is hard to determine the value of the assets whose value is determined by the management’s assumption (Sec.gov, 2019, p.45). Nonetheless, there is no significant variation between 2019 and 2018 results.

**Analysis of Cash and Revenue for Potential Risk Factors**

Cash and revenue require considerable judgment to record the account balances and transactions correctly. An analysis of Amazon’s cash and revenues does not showcase any potential risk factors. According to Murdock (2016), the four processes to evaluate the company’s cash and revenues include existence, completeness, accuracy, and valuation. Amazon’s cash and revenues exist, are compete, are accurate, and are valued fairly. Amazon uses software to track billings, which minimizes manual input and enhances the accuracy of the financial statements. However, cash and revenue information are consistent with the company’s performance in the previous year.

**Population and How it was Identified**

The population was identified using the stratified random selection method. According to Kocevska and Dimitrova (2018), the rule of thumb in determining the population for the audit sample is selecting 10% of the population. Amazon has numerous items, and as a result, it would not have been possible to examine the entire population. The sampling technique included categorizing the entire population into subgroups and performing a random selection from each of the subgroups. Similarly, when performing the audit, transactions were randomly selected from each of the financial statements for review. The sample population under examination was representative of the entire population.

**Sampling Program for the Population**

Systematic sampling is a technique that involves the use of a rational technique to pick a sample from a population. The systematic sampling method ensured a higher likelihood of the sample being a representative of the general population (Abidin, 2017). The method involves starting sampling from a particular point and selecting items after a certain interval. For instance, when the organization has numerous invoices needed to be audited, every tenth invoice should be selected. Invoices should be selected after getting to the 10, 20th, 30th, 40th invoice, and so on.

**Audit Testing Procedure**

The most preferable audit testing procedure that could be used to test the sampled items is test of controls. The technique includes a 5-step process. The first step involves observation, where auditors observe the cash and revenue transactions to make sure that the transactions exist, and that the right procedures and policies were applied when making the transactions. The second step involves performing inspection, which includes a review of the actual documents and financial information. The results from the review are compared with the revenue and cash transactions recorded in the financial statements. The third step is reperformance, where auditors reperform the controls performed by customers. For instance, the aging of the accounts receivables would be reperformed to determine if the process would provide similar results as those indicated in the financial records. Auditors then recalculate the financial transactions to determine if they tally with the values indicated on the financial records (Ulrich & Blouch, 2018).

References

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