

Loopholes in the audit procedure

Finance



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If Gray had more knowledge regarding JAZZ Best, he would have realized that this was an evident situation where an independent specialist should have been used to perform the audit procedure. These problems hindered the gathering of several types of audit evidence. Because Larry Gray did not do an adequate job getting to know Barry Mellow and JAZZ Best, the evidence gathered through "client inquiry" was not reliable. This type of evidence requires personnel to answer the auditor's questions. Because Gray did not do enough research, he did not reveal the fact that Minnow was fraudulent and dishonest.

Client inquiry is rarely adequate as the only supporting piece of evidence for an audit objective and usually must be backed up by additional evidence. However, because Minnows and JAZZ Bests integrity were such a problem, basically every other piece of evidence gathered was untrustworthy. The evidence gathered through "confirmation" was greatly impacted as well. This evidence is obtained with questions asked by the auditor, either written or oral, to a third party and the answers are given directly to the auditor.

However, this evidence was made useless because Assured Property Management Inc. and Interstate Appraisal Services directly affiliated with JAZZ Best for the sole purpose of generating fake restoration contracts. However, Gray did not do enough research to figure this out. Furthermore, evidence gathered through "physical examination of tangible assets" and "documentation or inspection of records and documents" were rendered useless because they were fraudulent and not independent of the provider.

The management assertions relating to this evidence is existence/occurrence and rights and obligations. Rights and Obligations is how management asserts that the recorded and disclosed assets are the rights of the entity and the liabilities are the obligations of the entity at a given date.

Existence/Occurrence is when management asserts that the recorded assets or liabilities of the entity that are disclosed on the balance sheet exist at a given date and that the recorded transactions disclosed on the income statement have actually occurred during a given period.

The fabricated occurrence of the restoration activity, and the rights and obligations to the building could have been uncovered if Gray had done more research on JAZZ Bests internal controls and Minnows integrity. The evidence obtained during their visit to the restoration site was unreliable due to independence of the provider, a factor of competent evidence. When information is obtained from someone independent of the company and transactions being investigated, the evidence is more reliable. Assured Property Management Inc. And

Interstate Appraisal Services were created by Minnow for the sole purpose of generating fake restoration contracts. However, Gray did not do enough research to figure this out. This influenced the tour of the restoration site in Sacramento, CA because they were not independent of the provider. Another problem that lacked independence of the provider was the evidence Gray obtained regarding documents. Because these three companies were directly associated to each other's fraudulent activity, none of the documents received were reliable. Evidently, independence of the provider is a crucial factor and this was lacking in this audit procedure.

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