

Anonymous caller auditing case study essay sample



**ASSIGN
BUSTER**

1 a) What would you recommend to the caller if you were Dr. Mitchell?

Since it appears that the firm's top executives are all apart of the fraud and don't plan on correcting their unethical action. I recommend that the anonymous caller completely remove himself/herself from the situation by resigning or by reporting the situation to the firm's board of directors or a governmental agency.

b) What are the risks of continuing to work with the company?

There are many risk involved with staying with the firm. If the caller decides to stay with the company and the bank finds out about the fraudulent entries, as the controller of the company, the caller would take most of the blame for allowing the fraud to occur even if she/he had nothing to do with the fraud. The caller could potential face jail time, lose her CPA license, or be forced to pay large sum in fines.

c) What are the risks of resigning immediately?

If the bank does find out about the false entries, then they might view the caller's immediate resignation as very suspicious. And the firm's executives could just lie and blame the caller for the false entries.

2) What responsibility, if any, does the caller have to report this situation directly to the bank involved? Before you respond, think about the risks present if the caller does inform the bank and it later turns out that the caller's assessment of the situation was inaccurate.

As an accountant the caller had legal and ethical responsibility to inform the bank about the fraudulent financial statements. If the caller's assessment of the situation is wrong, then he/she faces the possibility of getting fired by the company.

3 a) What other parties, if any, should be notified in addition to the bank?

Two other parties that should be notified in addition to the bank are the companies' board of directors and the firm's external auditors. By contacting the board of directors and external auditors the caller can verify if the fraudulent activity is really a common practice or if this is the first time the firms has engaged in such actions.

b) What concerns do you have about notifying the external auditors?

The only concern I have about notifying the external auditors is that the caller might get in trouble too. Because as the controller of the firm, it is the callers job to make sure that fraudulent accounting practices do not occur.

4 a) Do you think situations like this (i. e., aggressive accounting or even financial statement fraud) are common practice?

Unfortunately, I do believe that aggressive accounting and financial statement fraud are a common practice. I don't think it's to far fetch to believe that companies use projections and other types of false data to fool banks especially when they have huge incentives to do so.

b) What pressures or factors will executives use to encourage accounting managers and staff to go along?

More than likely, executives will use the threat of firing the accounting managers and staff as a way to get them to do what the executives want.

c) What arguments can you use to resist those pressures?

Accounting managers and staff can overcome the pressure put on them by executives, by remembering their ethical and legal duties expressed by various accounting ethical standards , regulations and laws.

5) Describe example of incentive, opportunity, and attitude conditions that were present in the situation

Incentive:

The company was facing a severe cash flow shortage, and the bank had stopped funding the companies' line of credit until the company could present its most recent operating results. However, the company was operating at a net loss for a while and so if the company had presented its real financial statements the bank would have stop funding the firm's line of credit. So the firm's senior executive members decided to overstate the firm's sales and receivables accounts.

Opportunity:

Because the firm is not publically traded, external auditing is only performed on the firm's annual reports. The firm's creditors have no access to the authenticity of the firms quarterly report. Another opportunity for this fraud came when the firm's controller stepped out of the office for a couple of days.

Attitude:

The firm's top executives believe that companies engage in aggressive accounting or fraudulent practices all the time, so it's no big deal if the firm bends the rule a little every once in a while.

6) How did the company violate the revenue recognition criteria established by Staff Accounting Bulletin No. 101?

With Staff Accounting Bulletin No. 101, the SEC established that revenue is realized or realizable and earned when all of the following criteria are met: *

Persuasive evidence of an arrangement exists

* Delivery has occurred or services have been rendered

* The seller's price to the buyer is fixed or determinable * Collectability is reasonably assured.

By recording revenue before the sales actually occurred and creating transactions out of thin air, the company violated the revenue recognition criteria established by Staff Accounting Bulletin No. 101.

7 a) Which financial Statement assertion related to sales transactions did management violate when it issued the falsified financial statements?

By recording expected future transactions in the present, in order to boost sale and revenue figures. The firm violated the financial statements assertions of

* Occurrence: The transactions recorded never actually took place *

Completeness: The company recorded transactions that should not have

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been recorded * Accuracy: The fraudulent transactions resulted in the revenues in the financial statements being reported at a higher amount than they should be. * Cutoff: The firm was recording sales it expected to achieve in future periods in the present period.

b) What type of audit procedures could an external auditor perform that might help the auditor detect this fraudulent activity?

An external auditor could evaluate account receivables by confirming each receivable payment by contacting the firm's clients directly. They could also check sale orders, customer purchase orders, sale invoices and shipping documents. Some more procedures include, testing invoices listed in receivable report, tracing receivable report to the general ledger and tracing sales to the shipment log.