

Golden bear golf



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1. The assertions relevant to Paragon include the occurrence and accuracy of transactions, the valuation and allocation of account balances, and also the occurrence, classification and understandability and also accuracy and valuation of presentation and disclosure. In order to verify the occurrence and accuracy of transactions, Arthur Anderson should have sent out accounts receivable confirmations for the unbilled transactions included in their revenues and also to those with whom they had contracts that were inflated in their accounts to reconcile differences between the books and the contracts.

This would have not only shown that many of the revenues they had booked were not only inaccurate, but that many of them had been fabricated completely or recognized without commitment. This could have also shown that Paragon was billing their clients on a cost-to-cost basis that would have shown that the valuation and allocation of account balances were misstated. Visits to job sites would have also helped to identify the progress toward completion which could have shown the auditors that they valuation and allocation was misstated for their construction projects.

2. I believe that the SEC's use of the phrase " audit failures" refers to Sullivan's repeated failure to exhibit professional skepticism and perform the necessary audit procedures to verify that the balances and transactions in the revenue accounts were accurate. Sullivan repeatedly relied upon oral evidence from the client itself when it came to disputes and failed to ever fully reconcile account balances with Paragon's clients. Essentially, via a lack of thoroughness in the audit process, Sullivan failed to recognize the blatant fraud at Paragon. I do not believe that Sullivan, alone, was responsible.

There is no mention of further tests having been conducted to verify account balances or to obtain documentation regarding special contracts or things of that nature, the blame should rest upon the entire team, but should focus on Sullivan.

3. I believe that, on principle, an audit team's responsibilities should not necessarily differ in their approach on a high-risk audit because they should approach every audit as if it were high-risk and with an appropriate level of professional skepticism; however, on an actual audit that is high-risk, I believe that auditors should take the extra step to obtain the appropriate evidence to back up their opinion, and they should perform all of the necessary tests. Settling for oral evidence and assertions of the client's management does not suffice.

4. Auditors do have a responsibility to refer to the guides for specialized industries; otherwise they may be incompetent on an audit engagement. I do not believe that these guides override nor do they replace the SAS; rather I believe that they supplement and an auditor should exercise judgment for proper treatment of a situation when necessary.

5. The change in applying the percentage-of-completion was a change in accounting principle because it was a change in an accounting method used. For a change in accounting principle, the full disclosure of the justification and financial effects of the change should be included in the footnotes of the financial statements. This requires retrospective application, or the restatement of comparative financial statements as if the method had been applied that way through the length of the project or item. For a change in an accounting estimate, such as recalculating the active life of a depreciable

asset, the change is handled prospectively and disclosed as it effects net income and correlated earnings per share calculations.