

# Cuc cendant corporation: fraudulent financial reporting assignment



**ASSIGN  
BUSTER**

First, the management may be pressurized or encouraged to commit fraudulent financial reporting within or beyond the entity in order to match the expected earnings target. (Monomer, R. , Campbell, F. , & Hamilton, J. 2011). Second, a perceived opportunity to commit fraud may exist when an individual believes internal control can be overridden. This can be shown if an individual is in a position of trust or has knowledge of specific deficiencies in internal control. (Monomer, R. , Campbell, F. , & Hamilton, J. 2011). Third, attitudes and rationalization contribute to commitment of a fraudulent act y Individuals.

Some Individuals have a set of ethical values, an attitude or characters that allow them to commit fraudulent act knowingly and Intentionally. However, even honest Individuals may be tempted to commit fraud In an environment that pressurized them tremendously. (Ramose, 2003) 3) Which factors existed during the 1995 through 1997 audits of CUE that created an environment conducive for fraud? From the case study, seeking incentive or pressure to commit fraud can be shown through the Cuss's revenue has dramatically increase from \$31 million in 1995 to \$million in 1996 and \$million in 1997.

The fraudulent of the company's revenue is due to the reason that to merge or acquire other companies, the profit of the company has to keep Increasing in order to meet the analysts' expectation. The managements of CUE have pressures to fraud the financial figures and create more profits In order to meet the analysts' expectation. In case study, the perceived opportunity to perpetrate a fraud also happen In which CUE has made various year-end

adjustments to incorporate the misstatements requirements to amend its financial statements by the Securities and Exchange

Commission several times, CUE has fraud the financial figures for year-end reporting purposes. Finally, the attitudes and rationalization to Justify a fraud also shown in the case study where the top management of CUE showed high enthusiasm to maximize the share price of the company to shown that it is a profit-making company. AAA) What responsibility does an auditor have related to each of these five components? Auditors are responsible for the evaluation of whether a culture of ethical behavior and honesty have been created and maintained by the management.

They are squired to determine the ability of the control environment to form the basis for other components in internal control and whether those components are impaired by deficiencies in internal control (“ CA Paper”, 2012). If an entity has established a process of intensifying business risks, estimating their significance and probability and responsive actions to deal with the risks, the auditor has to grasp the full process. Conversely, auditors should confront management on identification of relevant business risk and necessary responsive actions on absence of the process (“ CA Paper”, 2012).

Regarding information system, auditors have to comprehend the entity communication of financial reporting roles and responsibilities and significant matters relating to financial reporting. This is to assist them to evaluate the accuracy and reliability of information from different areas such as Journal entries, classes of transactions, accounting records and systems procedures

(" CA Paper", 2012). Auditors have to understand and evaluate effectiveness of control activities in preventing, detecting and correcting errors.

They have to determine the control ability to reduce risk and ensure policies are enforced within business processes. Following that, their implementation can be determined via walk-through method. Thirdly, auditors have to evaluate whether those controls are performing according to the plan (Singleton, 2007). Auditors are required to ascertain main activities that are utilized by an entity to monitor internal control over financial reporting and audits. In addition, they have to identify corrective measures that will be imposed by the entity to the deficiencies in internal controls.

Auditors also have to understand the sources of input information for monitoring activities and evaluate its reliability (" CA Paper", 2012). B) One component of internal control is the entity control environment. What factors should an auditor consider when evaluating the control environment? The first factor involves enforcement and communication of integrity and ethical values. Existing of such values and effective communication will enhance the confidence in control administration, monitoring and design with lower material misstatement risk (" CA paper", 2012).

The following factor is commitment of the entity to employees' competency. This refers to management's consideration of competence levels for specific Jobs and its renovations into necessary knowledge and skills. Assignment of complex duties to inexperienced or incompetent staff will diminish the effectiveness of internal controls (" CA paper", 2012). Considered. They should be a discrete entity with the management. Their effectiveness is

dependent on their experience, extent of involvement and scrutiny of activities and interaction with the auditors (“ CA Paper”, 2012).

The fourth factor is management’s operating style and philosophy. This involves their attitude in dealing with business risk, financial reporting and accounting policies. An aggressive management is prone to manipulation and window-dressing. Their roles in information processing, accounting and personnel functions should be considered as they may affect the reliability of relevant information (“ The Control”, n. D. ). Auditors should consider organizational structure which is the framework for entities to plan, execute, control and review objectives.

It highlights the key areas of responsibilities and authority of management and sets proper reporting lines. This is vital as inherent risk is positively correlated to complexity of an entity’s operation “ The Control”, n. D. ). The following factor involves assignment of responsibility and authority to appropriate personnel. The management has to ensure sufficient reporting relationship and proper authorization hierarchy. Failure to do so will lead to faulty decisions and subsequently greater risk of material misstatements (“ The Control”, Lastly, human resource policies and practices should be taken into account.

This includes recruitment, evaluating, training, compensation and remedial actions. This factor is vital in design and implementation of broad range of matters by reducing inefficiencies and errors (“ CA Paper”, 2012). C) What red flags were present during the 1995 through 1997 audits of CUE that may have suggested weaknesses in Cuss’s control environment? Red flags that

reflect Cuss's bad control environment presented during 1995 through 1997 which is stated in the case study where the Water Forbes, chairman and CEO of CUE together with Kirk Shelton, COO of CUE did not create a control environment.

There was lack of appropriate oversight of board due to the four Cuss's directors were financial tied close through other Joint investments in start-up companies with Water Forbes. Besides that, due to the aggressive accounting practiced by management of CUE, Securities and Exchange Commission's previous requirement suggested CUE to change or restate their financial statements also reflect the weaknesses in Cuss's control environment. CUE incurred misstatement technique through various year-end adjustments.

Another statement that indicates Cuss's bad control environment is where Cuss's management was suggested by its emphasis to meet with analyst expectation. To meet Wall Street analyst' earning expectation, revenues were increased and expenses created fictitiously in order inflated Cuss's stock prices and also for future stock issuance through the opportunities to merge with others. Management of CUE was indicated as lacked of control environment where it didn't meet with the proper attitudes, awareness and the action of management that should be shown by a company which is carrying integrity and ethical values. A) Provide an example where management override occurred in the Ascendant fraud. Financial information and made decision which is antithetical with the internal control policy (Vitae, 2015). Normally the override will happen when the management hind that they are able to defend committing fraud, the management have an <https://assignbuster.com/cuc-cendant-corporation-fraudulent-financial-reporting-assignment/>

incentive or under pressure and have the capability to operate outside of the internal controls in order to meet the expectation from publics or shareholders (PEPCO, 2015).

There is some situations that the management override normally take place which are backdating financial documents, inappropriately classifying information based on the financial condition and modify the entries when the financial close process (Vital, 2015). In CUE, the management override was happened when the management delay the connection of customers' membership cancellations of benefit programs and the bank rejection of charges that made to members' credit card accounts to increase company current reporting period's revenues and profits. B) What are the required auditor responses to further address the risk of management override of internal controls? Even the internal control is well-designed and effective control over the financial report but the management override still take place in many companies. The management is in a distinct position to carry out fraud this is due to their capability to directly and indirectly manipulate accounting records ND prepare fraudulent financial statement. Management override of control can happen in an unpredictable ways (PEPCO, 2015).

According to Auditing Standards (AU) Section 316, the standards has requires auditors to perform three procedures in audit in order to further address the risk of management override of controls. First, inspect the Journal entries and other adjustments to find evidence for the possible material misstatement as result of fraud. Auditor should construct some procedures to test the appropriateness of the journal records and other adjustments in the financial statements. Second, inspect the accounting <https://assignbuster.com/cuc-cendant-corporation-fraudulent-financial-reporting-assignment/>

estimates for biases which could consequence in material misstatement due to fraud.

Auditor need to consider the differences between the estimates which support by audit evidence and the estimates that include in the financial statement if they are not showing the same result auditor need to find out the possible bias. Third, assess the business rationale for significant unusual transactions. Auditor should understand the business rationale for the transaction and is it rationale show that the transactions might involved in fraudulent financial reporting (PEPCO, 2015).