

# Good example of auditing case study

[Business](#), [Employee](#)



### **If Lee had not been seen taking employees out in a limousine, how else could she have been caught?**

If Lee had not been seen taking employees out in a limousine, she would have been caught by the audit of balances. Verification of claims through external sources could easily lead to the detection of fraud in this case. Furthermore, mailing addresses of three doctors were same which could have created the suspicion for the auditor. The investigation of these mailing addresses would lead to Martha's husband's address from where she could have easily be caught after further investigations.

The auditor should investigate the details of doctors to whom the claims were paid by the company. It could be done by obtaining the list of doctors and looking up their details in the directory of authorized medical practitioners. Sampling could be done of few doctor's addresses where the auditor should go physically to confirm whether or not they are valid business addresses.

### **How would a policy of mandatory vacations have helped discover the Beta Fraud?**

The falsified claim forms were filed in Beta's records which included all the fictitious details of fake employee names, signatures, doctor's bills and addresses of fictitious doctors. Since Martha never went on vacations, the data was always guarded by her and no one took notice of it. Had there been mandatory vacations, the auditor could have easily checked the data in her absence and could have found the embezzlements through the audit trail.

## **What Key Control was missing at Argus Production?**

The primary control that was missing at Argus Productions was the segregation of duties. There were no separate departments set for the purchasing and accounting duties and all this work was done by the Welby, which provided him the opportunity to commit fraud.

A number of copies of script required should be authorized by the production manager who should also receive them and sign the bill for payment. Thus production manager should be given the authority to work as a receiving department. The main benefit that would be obtained through this procedure would be that no extra copies of script would be received and hence it will reduce the overall production cost for the company.

## **What evidence could the verbal inquiry audit procedure provide in Printing Copying Money?**

Verbal inquiry could prove to be the valuable procedure for the sake of obtaining understanding of the clients business and preliminary audit evidence. The procedure of verbal inquiries may produce the multiple types of information. It could help the auditor in understanding the responsibilities of employees. The auditor could seek understanding of who is responsible to authorize the purchasing of scripts and who is authorized to receive scripts and approve payment of bills.

## **In the case of The Canny Cashier, name one control that could have revealed the signs of embezzlement?**

Segregation of duties should have been applied to reveal the signs of embezzlement in the Canny Cashier case. Segregation of duties means the work is to be done between two or more individuals so that the work done by

one individual act as a check on the work of others. This reduces the risk of errors or fraud. If several individuals are involved in the completion of an overall task, there is then likelihood that errors will be detected when they are made.

In the case of Canny Cashier, Bakel performed all the duties from receipt of cash to preparing bank reconciliation statement. It provided him the chance to commit easily fraud. Secondly, he also enjoyed the blind trust of the President of the company who gave him the excessive control.

Receiving of cash and custody of cash should be performed by separate individuals. Similarly preparing cash books and reconciliation of bank statements should be performed as a separate duty. Senior managers should also be involved in the in the supervision of the work. They should perform a detailed review of the cash controls and workings to detect the possibility of errors or fraud.

What features could SEI have installed in its cash receipts internal control that would have been expected to prevent the cash receipts journal and recorded cash sales from reflecting more than the amount shown on the daily deposit slips?

- Sports equipment Inc. should place the segregation of duties. The handling of cash should be kept separate from other accounting and administrative functions.
- Opening of cash mails should be supervised by a senior manager or any other authorized personnel. Listing should be made of all the money received, and mail and cheques should be date stamped.
- Cash tills and till records should be used to record cash sales and restricted

a number of employees should be allowed to receive cash. After the receipt of cash, another employee should recheck the cash received from the total of till roll.

- If the till rolls are not produced, receipts should be provided for cash receipts, and all the receipts should be sequentially numbered.
- For banking transactions, the amount of cash payments received should be recorded and sequentially checked against the amount deposited in the bank.
- There should be properly established procedures to open new bank account. Furthermore, SEC should restrict individuals to authorize and prepare cheque.
- There should be IT control over banking transactions. Batch and control totals should be used to have control over cheque numbers.
- SEC should keep cheque requisition forms that should be used request payments. They should also be backed up by the supporting documents.
- There should be established authority levels for cheque-signing in SEC. Payments must be recorded promptly and all the cheques should be sequentially numbered.
- Employee who process orders should be different from the employee who carry out the credit reference check on existing customers. Credit limit for all the customers should be authorized.

• **The customer should not be given discounts without proper authorization.**

What are the goals of dual direction testing regarding an audit of the account receivable and cash collection system?

Dual direction testing means obtaining audit evidence about control over completeness in one direction, and control over occurrence another direction. The primary goal of dual direction testing is to obtain audit evidence of both controls and substantive matters.

In case of receivables, a sample of receivables is selected to send confirmations to ascertain that they exist. On the other direction, the auditor can recalculate a number of receivables and irrecoverable debts to ensure valuation assertion.

For cash collections, the auditor sends confirmation letters to banks to confirm bank balances for existence and rights and obligations assertion. On the other direction, auditor can prepare bank reconciliations, and count cash to ensure the completeness assertions.

In conclusion, all audit procedures have a dual purpose. When the error is found in the test, there will always be the breakdown in controls. Sample of transactions selected to test controls will always result in the dual direction testing