

## **CASE 1: Joanne Joanna**

Comments and Guidance

Role: Engagement Partner

Context: Client is unhappy because the fraud was not discovered by the audit team

Required: Write Notes (memo) in the audit file to analyze the situation and determine what is the effect for the audit and also add a little note about “ How to smooth things with clients”

Main elements of the case:

- 1) Analyze the circumstances of fraud (using the fraud triangle concepts)
- 2) Discuss the fact that they work done about internal controls was insufficient and that reliance on the internal control is probably not appropriate, also issues with sampling method used for a/r confirmation as the largest client was not selected for confirmation.
- 3) And the list what further substantive testing needs to be done about a/r. (Use the risk model concepts to justify): increase Control risk and fraud risk means we want to lower the PDR and hence do more audit testing. Indicate to the audit team what additional work has to be done: test more a/r accounts (with confirmations or other means) in particular a/r with cash collections issues;
- 4) Students should also discuss “ how to smooth things with client” for instance schedule a meeting or conversation with the client to explain the auditors and clients respective responsibilities regarding fraud to indicate that the audit was not over as the audit file was not yet reviewed by the partner (you) and that more work was yet to be done. Talk about the importance of segregation of duties.

## **CASE 2: Bad guys**

Context: new audit client with high fraud risk

Require: write a memo (to the audit file or the audit partner to indicate the course of action.

Comment: the case is pretty theory based, but students should try to relate the theory to the case facts, is is not the testing phase (not the client engagement or risk assessment) so it is not time to talk to the predecessor auditor any more

### Main elements

- 1) Summarize the main fraud related issues found (to document them in the audit file.)
- 2) Indicate the effect of the findings on the audit (update the risk assessment, change materiality level?) Conduct more audit tests, in particular on some specific areas such as revenue recognition, debt covenant related accounts, Investigate the bill and hold system.
- 3) Discuss the opportunity to bring in forensic auditors, to escalate the issue with the audit committee evaluate whether we should withdraw from the engagement

### **CASE 3: Who's the Boss**

Role: Auditor (senior or manager level)

Context: Bossy client wanting to interfere with the audit planning.

Comment: The case deals with both a/r and a/p, accounts receivable confirmations is a topic covered in Acco 450, therefore a great occasion to review these concepts.

Required: write a memo (to the audit file) to indicate (and justify) the decisions taken regarding each the clients "requests" and list additional tests

Main Elements:

1. Clear responses to each client's request
  - a. Clients could ask us NOT to confirm certain accounts if there is a VALID reason (Such as a dispute/ lawsuit with the customer) or else you can doubt their integrity)
  - b. I think students should try to convince the client about the importance of the A/R Confirmations and the sapling section
    - i. Accounts Receivable
      1. Client with credit balance: the argument is not valid: so refuse it.
      2. 0 balance account, explain why they are useful (completeness) and I would suggest to refuse the request of the client (if not we can always try to do alternative procedures)
      3. Large A/R Client: Upset, discuss customer dispute valid reason? (could accept NOT to confirm, is we can satisfy ourselves with alternative procedures) otherwise it could become a material scope limitation (leading to a qualified Opinion)
      4. Add 30 additional confirmation to scare client: not a valid reason, not ethical it is not the role of the auditor, not in the initial sample (not part of engagement, discuss extra fees to do this additional work: REFUSE
    - ii. Accounts Payable
      1. Explain the letter of rep. is not enough, the important of testing subsequent payments. Explain that you could use the work of internal auditors to some extent (after assessing their work, testing it , still need to do our own tests ) REFUSE
2. Provide procedures for unrecorded AR and AP (so here we expect a few specific tests, well applied to case context, that specifically targets the completeness assertion
3. Finally, I think it is important in this case to discuss the implication of such a bossy attitude for the rest of the audit. Discuss need to remain independent, management integrity

## **CASE 4: SMART CONTROLS**

Role: Auditor (we can assume senior or manager level)

Specificity of the case: it is not a classic audit engagement, so some students will wonder how to position themselves here, I think that for the debrief of this case, it is important to underline the fact that during the course of the audit, auditors also evaluate the design of the internal controls in order to assess the control risk (overall by control objective), and decide if they can eventually