

Case Studies In Audit Failures and Remedies

Introduction

- Why Accountants Should Lose Sleep At Night
- What We Can Do About It.
- Understand The Situation
- Have A Plan Of Action
- Focus On The Objective

A. Understanding the Situation of Accountants Today

Today's Environment

- Aftermath of Enron
- Impact of Sarbanes-Oxley
- Registration
- Annual Inspection
- Disciplinary Proceedings/Referrals to State Boards
- AICPA: Increased Ethics Enforcement

Non-SEC Impact of Sarbanes-Oxley

- Lender Expectations
- State Boards of Accountancy
- Judging Accountants
- What Jurors Will Do.

B. Case Studies In Financial Statement Fraud, Client Dishonesty, Embezzlement and Self-Inflicted Pain

- What Is It Like Defending The Accountant
- Client Dishonesty & Financial Statement Fraud
- Personal Expenses charged to Business for tax deductions
- Late Reconciliations & Disregarded Recommendation Letters
- Unexpected Tax Extensions

Client Dishonesty & Financial Statement Fraud

- “Write Down” Resistance
- Deposits In Transit (Cutoff Issues)
- Powerful, Wealthy Client with Strong Personality.
- Embezzlement

- The gambling CFO
- Inadequate Cash Controls / Lax Bank Reconciliations

Self-Inflicted Pain

- Construction Accounting and Evidence of Percentage Completion
- Doing Battle With The Malpractice Insurer

C. Remedies: Preventative Measures

Get Help When You Need It

- Know & Respect Your Limitations

Remedies: Resource Management

- Goal: Detect Embezzlement and Financial Statement Fraud *Before* Issuance of Audit Opinion

- Establish a risk management culture amongst your staff (resource management)

- Engage in periodic in-house training

Remedies: Educate Your Team

- Access current ideas to learn from other's mistakes
- Make it easy for staff to obtain legal counsel

D. Remedies: Create Favorable Evidence and Preserve The Evidence

Create Favorable Evidence

- Goal: Have Evidence With Which To Defend.

- Importance of Engagement Letters, Management Representation Letters, Management Advice Letters, Third Party Reliance Letters

- Consider the Unstated Audience

Communicate Better: To Whom?

- What if the owner, CEO, CFO is dishonest?

- Impact on Engagement Letter

- Impact on Management Representations

- Impact on Management Recommendations Letters

- Consider multiple contacts for each engagement

Communicate Better: Third Parties

- Buyers of a business

- Third party lenders

Communicate Better: Known Third Parties

- require third party agreement

- describe defensive issues

- dispute resolution clause

Communicate Better: Unknown Users

- language tying user to engagement letter
- language requiring accountant consent
- describe defensive issues
- dispute resolution clause

Preserve the evidence: Protect Workpapers

- Goal: Enhance your defensive position if you are sued
- Importance of Protecting Workpapers
- Expiration of IRS Statute of Limitations (Attachment 12)
- Workpaper “Cleanup” (Attachment 13)

Get Help When You Need It : Legal Help

- When To Resign An Engagement.
- How To Resign An Engagement
- How To Use Legal Counsel

Get Help When You Need It: Insurance Company

- When To Notify Your Insurer
- What’s Next
- How to implement what you learned today.