

AUDIT ANALYTICS 2

Advanced Cases in Assurance Services (ACCTG 521)
Class 9 | MPAcc class of 2026

Agenda

Review & Overview

- **Internal Controls and Fraud**

Labs (in assessment teams)

- Required deliverables (pre-, post-, meeting memos, meeting)
- Helix Audit and assessment of ***potential*** control weakness/deficiency, or even fraud.
- With time to draft your pre-meeting memo

Auditors' responsibility

Plan and perform the audit to obtain **reasonable assurance** about whether the financial statements are free of **material misstatement, whether caused by fraud or error**

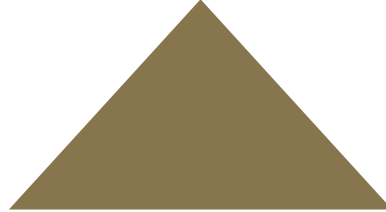
- Absolute assurance is not attainable and, thus, even a properly planned and performed audit may not detect material misstatement resulting from fraud

Exercise Professional Skepticism: a questioning mind and a critical assessment of audit evidence

- Mindset that recognizes the possibility that a material misstatement due to fraud could be present, regardless of any past experience with the entity and regardless of the auditor's belief about management's honesty and integrity
- Ongoing questioning of whether the information and evidence obtained suggest a material misstatement due to fraud occurred

Fraud triangle

Incentive or pressure providing a *reason* to commit fraud



Ability to rationalize committing fraud, e.g., an *attitude*, character or set of unethical values allow person to intentionally commit dishonest act; but even otherwise honest individuals commit fraud in an environment imposing sufficient pressure

Circumstances exist, e.g., absence of controls, ineffective controls or ability of management to override controls, providing an *opportunity* for fraud

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Incentive / pressure

Opportunity / circumstances exists

rationalization

Fraud may be concealed by

- Withholding evidence or misrepresenting information.
- Collusion among management, employees or third parties, e.g., consistent misleading explanations by more than one individual.
- Hiding through multiple steps or entries.
- Each entry on its own may not appear unusual, but when you look at them collectively or “follow the cash,” you find an illogical set of transactions.

Multiple steps

1. PP&E \$100

Sales \$100

This entry on its own would look suspicious.



- Usually concealed through multiple steps or entries
- Individually not interesting or unique, but together don't make sense
- > THIS entry would look weird, right?

Multiple steps

1. PP&E \$100

Sales \$100

To “better” conceal this, multiple journal entries could be recorded that appear more “normal,” but result in the same financial impact.

Additionally, you can see that neither the accounts payable nor accounts receivable transactions close to cash.

1. PP&E	\$100	
Accounts payable		\$100
2. Accounts receivable	\$100	
Sales		\$100
3. Accounts payable	\$100	
Accounts receivable		\$100

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You can get to the same point through a couple of additional entries

>AR will close to cash and when you close out all the entries, you're left with PPE, sales, and cash

Audit procedures to detect fraud

Test the effectiveness of controls over journal entries.
Perform substantive analytical procedures in response to assessed fraud risks.

Examples might include:

- Comparing revenue reported by month and by product line or business segment during the current reporting period with comparable prior periods
- Comparing gross profit or operating margins by location, line of business or month to auditor-developed expectations

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- Controls
- Substantive procedures
 - Trending of activity
 - Profit margins
 - Gross margins
 - Relationship analyses between accounts (e.g., depreciation v. asset costs, etc.)

Journal entry testing considerations to detect fraud

Nature and complexity of the accounts and transactions

- Complex or unusual transactions
- Significant estimates and period-end adjustments
- Prone to errors in the past
- Have not been reconciled on a timely basis
- Contain intercompany transactions
- Associated with an identified fraud risk: revenue is always a fraud risk

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ASK what kind of characteristics of a JE might be susceptible to fraud ?

Journal entry testing considerations to detect fraud

Characteristics of fraudulent entries

- Manual journal entries
- Made to unrelated, unusual or seldom-used accounts
- Made by individuals who are not approved to make journal entries
- Made by individuals who do not typically make journal entries
- Recorded at the end of the period or as post-closing entries that have little or no explanation or description
- Made either before or during the preparation of the financial statements and do not have account numbers
- Contain round numbers or a consistent ending number
- Have a description that might be unique or absent
- Recorded outside the normal course of business
 - Nonrecurring transactions (e.g., a business combination)
 - Nonrecurring estimates (e.g., an asset impairment)



REVENUE is always a fraud risk

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Peach State University Hotel

Three parts:

1. Introduction and Revenue (Done - Tuesday)
- 2. Extended Audit Investigation (Today)**
3. Client Interview (Next Tuesday)

Deliverables

- Pre-meeting memo: Based on evidence your team finds in this class using
 - “Analytics_mindset_case_studies_PSU_Hotels_fraud” tableau workbook.
- Memo is internal to the audit firm, addressed to the partner.
 - A very brief introduction of the purpose of the memo (hint: to highlight any concerns arising from the audit of PSU Hotel).
 - A succinct description of the main concerns arising from the audit.
 - A discussion of the controls that the team is going to assess in the Client Interview.

Meeting (Simulation)

Each group will meet with the instructor individually to simulate a meeting with the client to follow-up on issues raised during the audit. Students will play the audit team assigned to undertake an initial control walkthrough meeting with the client. Consider the following key elements of the meeting:

- The key learning objective is to be able to effectively communicate in a professional setting, including asking the right questions, obtaining necessary information with time constraints, incorporating evidence to focus the conversation, and avoiding or resolving conflict respectfully.
- I will be playing the role of **James Brown**.

Post-Meeting

Internal memo to audit partner:

- A discussion of your findings regarding the internal controls of PSU Hotel.
- What additional documentation, if any, is needed for the completion of the testing of controls over financial reporting.
- If you have an estimate of the potential effect on revenue or net income of the control weaknesses (i.e., extent of potential misstatement), include that amount. (If not, don't stress about this requirement.)
- A conclusion stating clearly whether your team's assessment of PSU Hotels points to either a material weakness or significant deficiency in any controls over financial reporting, and if so, which specific control (or controls) has the weakness or deficiency.

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Audit assertions and tests

E.g., from the handout:

Assertion	Auditing objectives	What could go wrong?	Mitigating controls	General ledger audit analytics procedures
Occurrence	Determine that the amounts reported in the financial statements represent valid dining sales transactions.	Dining sales revenue is recorded without including any meals or catering services provided.	▶ All dining sales transactions only originate from the credit card or cash receipts systems. ▶ An event contract and charge summary, which is signed by the customer, is generated for every event and reconciled with the recorded dining sales transactions.	1A – Verify that all dining sales transactions only originate from the following system sources: ▶ CREDIT CARD RECEIPT ▶ CASH RECEIPT 1B – Verify that the every dining sales transaction recorded reconciles with the cash posted.

Thank you!

