CA FINAL

RISK MANAGEMENT

CASE STUDY

IN-HOUSE BY SSEI

Answer to Case Study 1

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CASE STUDY 1
Answer

FRAUD INCIDENT 1

Type of Fraud	Fraud Factor	Audit Procedure to detect Misstatement due to Fraud.
Fraudulent Financial Reporting	Incentive/Pressure	Analyze inventory turnover ratio
Explanation :		
Profitability threatened by industry conditions, such as product obsolescence, can create pressure for management to misstate the financial statements. Management should be aware that competitor products can affect the value of inventory. Obsolete inventory should be written down to its new value, which would result in a debit to the income statement for the loss and a credit to inventory to bring the value of inventory to its new value. Analysis of inventory turnover would show a much lower turnover of inventory as compared to prior years. This decrease in the ratio would lead the auditor to investigate the reason why inventory turnover decreased, which would prompt the auditor to review the inventory valuation.		

FRAUD INCIDENT 2

Type of Fraud	Fraud Factor	Audit Procedure to detect Misstatement due to Fraud.
Misappropriation of Assets	Attitudes/Rationalization	Observe distribution of paychecks
Explanation:		

Misappropriation of assets | Attitudes/Rationalization | Observe distribution of paychecks

The payroll manager rationalizes that he should get paid market value, so he fraudulently increases his salary by creating a fictitious employee. The theft of assets (cash) is considered misappropriation of assets. The auditor would be able to uncover this fraud by observing the distribution of paychecks and noting that the fictitious employee does not exist.

FRAUD INCIDENT 3

Type of Fraud	Fraud Factor	Audit Procedure to detect Misstatement due to Fraud.
Misappropriation of Assets	Opportunities	Review prices of similar products

Explanation :

Misappropriation of assets | Opportunities | Review prices of similar products

The inventory purchasing manager has the opportunity to pay higher than market value for inventory because there are important internal controls missing, such as obtaining competitive bids from various suppliers and obtaining proper approval for purchase. This situation represents misappropriation of assets as the company should be paying less for the products. The auditor can detect this fraud scheme by reviewing prices of similar products.