

CA FINAL
RISK MANAGEMENT
CASE STUDY
IN-HOUSE BY SSEI

Powered By -



CASE STUDY 1

The year under audit is Year 4.

For each independent situation below, click in the associated cell and select from the option list provided the type of fraud, fraud factor, and appropriate audit procedure to detect misstatement due to fraud. A selection may be used once, more than once, or not at all. If there is no fraud committed, select "Not Applicable" for type of fraud, fraud factor, and appropriate audit procedure to detect misstatement due to fraud.

FRAUD INCIDENT 1

MotoPhone produces two products: cell phones and computer tablets. MotoPhone utilizes expensive quality materials to create the Blackjerry. In addition, Blackjerry pays top wages for its workforce to assemble the cell phone. As a result, in Year 1 and Year 2, MotoPhone dominated the market in cells phones and had substantial profits related to its Blackjerry phone which offered exceptional quality and several unique features that were not offered by any other cell phones. The Blackjerry phone accounted for 70% of revenue in Year 1 and Year 2. On January 1, Year 3, a new product released by a competitor, Mobiphone, made their most popular model of cell phones, Blackjerry phones, obsolete.

Management is about to release their annual results for the year ended December 31, Year 3, and has decided to ignore any of the competition's effect on their inventory. Management has not recorded any fictitious sales.

Type of Fraud	<p>A. Fraudulent Financial Reporting</p> <p>B. Misappropriation of Assets</p> <p>C. Not Applicable</p>
Fraud Factor	<p>A. Incentive/Pressure</p> <p>B. Opportunities</p> <p>C. Attitudes/Rationalization</p> <p>D. Not Applicable</p>
Audit Procedure to detect Misstatement due to Fraud.	<ul style="list-style-type: none"> • Observe inventory counts at all warehouse locations on the same day • Conduct inventory counts at the end of the reporting period • Request to examine inventory boxes on the day of the inventory count • Analyze inventory turnover ratio • Review prices of similar products • Vouch a sample of items from the inventory report sheet to the corresponding prenumbered inventory tags • Examine vendor invoices (i.e. materials) to determine whether inventory is valued correctly • Review disbursements and agree to the related support (i.e. invoice, timecard) • Verify that the appropriate cost method is disclosed (i.e. FIFO, LIFO) • Trace the inventory amount on the general ledger to the trial balance • Observe distribution of paychecks • Verify that timecards are approved • Review personnel file and recalculate salary amount based on time • Trace the disbursement check amount to the payroll expense file • Inspect sales contracts to determine whether the customer has rights to return the merchandise • Trace a sample of shipping documents to corresponding sales invoices, and to the sales journal and accounts

receivable ledger

- Vouch the sales journal to a sample of shipping documents
- Not Applicable

SSEI

FRAUD INCIDENT 2

The payroll manager of MVY enterprises is upset at his latest performance review and lack of salary increase. The payroll manager feels his salary is below market. As a result, the payroll manager colluded with a payroll staff to add a fictitious employee to the payroll in Year 2. The payroll manager created a fictitious paper file for the employee and had the payroll staff enter the fictitious employee information into the system. The weekly time cards are approved by the payroll manager. The paycheck of the fictitious employee was split 70/30 between the payroll manager and the payroll staff. The amount paid is immaterial to the company at 520,000 but it does put the payroll manager's salary at market value. When management performs a reasonableness check, the amount goes undetected as the financial statements are rounded to the nearest million.

Type of Fraud	<ul style="list-style-type: none"> A. Fraudulent Financial Reporting B. Misappropriation of Assets C. Not Applicable
Fraud Factor	<ul style="list-style-type: none"> A. Incentive/Pressure B. Opportunities C. Attitudes/Rationalization D. Not Applicable
Audit Procedure to detect Misstatement due to Fraud.	<ul style="list-style-type: none"> • Observe inventory counts at all warehouse locations on the same day • Conduct inventory counts at the end of the reporting period • Request to examine inventory boxes on the day of the inventory count • Analyze inventory turnover ratio • Review prices of similar products • Vouch a sample of items from the inventory report sheet to the corresponding prenumbered inventory tags • Examine vendor invoices (i.e. materials) to determine whether inventory is valued correctly • Review disbursements and agree to the related support (i.e. invoice, timecard)

- Verify that the appropriate cost method is disclosed (i.e. FIFO, LIFO)
- Trace the inventory amount on the general ledger to the trial balance
- Observe distribution of paychecks
- Verify that timecards are approved
- Review personnel file and recalculate salary amount based on time
- Trace the disbursement check amount to the payroll expense file
- Inspect sales contracts to determine whether the customer has rights to return the merchandise
- Trace a sample of shipping documents to corresponding sales invoices, and to the sales journal and accounts receivable ledger
- Vouch the sales journal to a sample of shipping documents
- Not Applicable

FRAUD INCIDENT 3

The inventory purchasing manager is solely responsible for the purchasing of inventory in its Shopstore. When the purchasing manager sees that the inventory of towels is low in its Shopstore, the purchasing manager buys more inventory. In both Year 2 and Year 3, the purchasing manager consistently paid significantly higher than market value for inventory received from their vendor, Digiproducts. Digiproducts had an oral agreement with the purchasing manager to pay commission to the purchasing manager of 8% of the sales price. Shopstore is unaware of this agreement and the purchasing manager utilizes the commission from Digiproducts for personal use. The commissions amounted to \$40,000 and the company has \$125,000,000 in revenue.

Type of Fraud	<p>A. Fraudulent Financial Reporting</p> <p>B. Misappropriation of Assets</p> <p>C. Not Applicable</p>
Fraud Factor	<p>A. Incentive/Pressure</p> <p>B. Opportunities</p> <p>C. Attitudes/Rationalization</p> <p>D. Not Applicable</p>
Audit Procedure to detect Misstatement due to Fraud.	<ul style="list-style-type: none"> • Observe inventory counts at all warehouse locations on the same day • Conduct inventory counts at the end of the reporting period • Request to examine inventory boxes on the day of the inventory count • Analyze inventory turnover ratio • Review prices of similar products • Vouch a sample of items from the inventory report sheet to the corresponding prenumbered inventory tags • Examine vendor invoices (i.e. materials) to determine whether inventory is valued correctly • Review disbursements and agree to the related support (i.e. invoice, timecard) • Verify that the appropriate cost method is disclosed (i.e.

FIFO, LIFO)

- Trace the inventory amount on the general ledger to the trial balance
- Observe distribution of paychecks
- Verify that timecards are approved
- Review personnel file and recalculate salary amount based on time
- Trace the disbursement check amount to the payroll expense file
- Inspect sales contracts to determine whether the customer has rights to return the merchandise
- Trace a sample of shipping documents to corresponding sales invoices, and to the sales journal and accounts receivable ledger
- Vouch the sales journal to a sample of shipping documents
- Not Applicable