MACQUARIE UNIVERSITY

POSTGRADUATE DIPLOMA
IN ACCOUNTING
and
MASTER OF ACCOUNTING

UNIT OUTLINE

ACCG856 AUDITING &
ASSURANCE SERVICES

Trimester 1, 2009
MACQUARIE UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
UNIT OUTLINE ACCG856

Year and Trimester: 2009 Trimester 1

Unit convenor: Victoria Lakis

Prerequisites: ACCG853, ACCG855, ACCG861, ACCG862

Students in this unit should read this unit outline carefully at the start of the trimester. It contains important information about the unit. If anything in it is unclear, please consult one of the teaching staff in the unit.

UNIT DESCRIPTION

This unit is structured within the framework of the audit risk model and thus begins with a discussion of the main components of that model - inherent risk, control risk and detection risk. After analysis and discussion of auditing standards and responsibilities, the unit seeks to examine the manner in which auditors gather evidence in the evaluation of inherent risk and control risk, and in other audit procedures necessary within the framework of the audit risk model. Included in this explanation is material on some of the techniques used by auditors in carrying out evaluations and other audit procedures. The unit concludes with the completion stage of the audit, being that part of the audit concerned with evaluation of audit evidence collected during the audit and the subsequent issue of the audit report.

This unit is primarily concerned with the external audit of corporate financial statements. The lectures presented are structured to correspond with audit methodology used in practice and integrate Australian Auditing Standards.

TEACHING STAFF

Victoria Lakis (Unit Convenor)
Email:

Adrian Klamer
Email:

David Silipo
Email:

Please note that staff will only respond to emails that are sent by students from their Macquarie University email address.
CLASSES

The timetable for classes in Trimester 1, 2009 are as follows (http://www.accg.mq.edu.au/ss/macc/timetables):

<table>
<thead>
<tr>
<th>Time</th>
<th>Venue</th>
</tr>
</thead>
<tbody>
<tr>
<td>9am-12pm</td>
<td>E7B 200</td>
</tr>
<tr>
<td>12pm-3pm</td>
<td>E7B 200</td>
</tr>
<tr>
<td>3pm-6pm</td>
<td>C4A 315</td>
</tr>
<tr>
<td>6pm-9pm</td>
<td>C5A 301</td>
</tr>
<tr>
<td>3pm-6pm</td>
<td>C4A 315</td>
</tr>
</tbody>
</table>

You MUST attend the scheduled class into which you are enrolled.

REQUIRED AND RECOMMENDED TEXTS

All students should purchase from the Co-op Bookshop the following:


The following texts are useful as additional references:


UNIT WEB PAGE

Students can access the Web site for ACCG856 from either their home/office (via modem) or at University computers.

The url is: http://learn.mq.edu.au

LEARNING OUTCOMES

This unit seeks to develop student’s generic skills through critical analysis, problem solving and creative thinking.
TEACHING AND LEARNING STRATEGY

The lectures mainly deal with the concepts underlying the methodology, while the tutorial material is designed to demonstrate how the methodology is applied in practical situations.

Attendance at lectures is highly recommended. There will be practical explanations and examples given in lectures which supplement the text material and tutorial questions. If you choose not to attend lectures, it would be wise to be aware of any announcements made in lectures that could affect your study.

During 2007 the Master of Accounting program engaged in a significant research project that was designed to investigate and find ways to enhance student participation in the classroom.

**Students** who were interviewed during the research project stated that participating in classroom discussions, answering lecturer’s questions and engaging in meaningful discussion with colleagues when directed by the lecturer:

- assists them in retaining information and maintaining interest and concentration
- allows them to clarify or check their understanding
- provides opportunities to enhance and reinforce knowledge and learn from other students
- improves their English proficiency
- supports their development of communication skills
- develops skills needed in professional practice

**Lecturers** expect students to participate in class as it:

- provides opportunities for students to review or clarify lecture content and benefit from the experience of other students
- assists students to think about concepts and test whether their understanding is correct
- develops confidence in speaking
- provides opportunities to think in a different way

*The research concluded that the benefits of participation include:*

- *enhancing the learning process*
- *meeting lecturers’ expectations of students*
- *helping to increase communication skills.*
RELATIONSHIP BETWEEN ASSESSMENT AND LEARNING OUTCOMES

The following forms of assessment will be undertaken during the trimester:

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mid-trimester test</td>
<td>35%</td>
</tr>
<tr>
<td>Tutorial Assignments (5 in total)</td>
<td>10%</td>
</tr>
<tr>
<td>In-class Presentation</td>
<td>5%</td>
</tr>
<tr>
<td>Final examination</td>
<td>50%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Mid-Trimester Test

The mid-trimester test will be held on **Saturday 7th March 2009**. The test will last approximately 90 minutes, with ten minutes of reading time. It will encompass topics covered in **weeks 1 to 6 inclusive**.

Tutorial Assignments

The objective of tutorial assignments is to apply audit theory to practical situations. These MUST be attempted on a weekly basis. Students are expected to have pre-prepared these questions before each tutorial.

Five (5) tutorial assignments (each worth a maximum of two (2) marks) will be collected at random and graded accordingly:

(i) **2 marks** for each assignment completed satisfactorily (that is, all questions reasonably attempted);
(ii) **1 mark** for assignments not completed satisfactorily (that is, incomplete answers or questions not answered); and,
(iii) **0 marks** for assignments either not handed in or where questions poorly attempted.

You MUST attend your allocated lecture and hand in your tutorial assignments to your lecturer. **Late submissions will not be accepted. Half-marks will NOT be given. All assignments MUST be handwritten.**

As tutorial solutions will NOT be posted on the ACCG856 website, all discussions of tutorial questions will occur in class following each presentation.

In-class Presentation

Students will be selected each week and allocated a tutorial question to present in class the following week. In-class presentations will commence in Week 2. Your mark will be given to you in the week following your presentation by your lecturer together with feedback. All presentations are to be limited in duration to no longer than 10 minutes each.
Marks will be based on technical content and presentation skills.

**Final Examination**

The final exam will be 2 1/2 hours with ten minutes reading time. Note that marks are deducted for poor grammar, spelling and expression.

Material that is examinable is
- all material presented at lectures,
- all material included in the prescribed text readings (including all questions at the end of each chapter),
- all tutorial assignment questions,
- and material in the Auditing Handbook that is referred to in the lecture notes or that relates to tutorial assignment questions.

The university examination period for Trimester 1 2009 is from 14 April to 20 April. You are expected to present yourself for examination at the time and place designated in the Examination Timetable. The timetable will be available in Draft form approximately eight weeks before the commencement of the examinations and in Final form approximately four weeks before the commencement of the examinations.

http://www.accg.mq.edu.au/ss/macc/examinations

The only exception to not sitting an examination at the designated time is because of documented illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration. Information about unavoidable disruption and the special consideration process is available at:
http://www.accg.mq.edu.au/ss/macc/examinations

If a Supplementary Examination is granted as a result of Special Consideration process the examination will be scheduled after the conclusion of the official examination period.

You are advised that it is Macquarie University policy not to set early examinations for individuals or groups of students. All students are expected to ensure that they are available until the end of the teaching trimester, that is the final day of the official examination period.

**CHEATING AND PLAGIARISM**

To cheat in the context of university assignments, tests and examinations is to attempt to gain an unfair advantage by violating the principles of intellectual and scholarly integrity. Cheating also encompasses plagiarism, which is the appropriation or imitation of another person’s ideas and manner of expressing them.

**WHAT IS CHEATING?**

You will be guilty of cheating if you do any of the following:
1. Copy from another student during a test or examination. This is cheating whether or not there is collusion between the students involved. Collusion with another student who
wishes to cheat from you exposes both parties to penalties under University Regulations.
2. Use or paraphrase the work of others, including any document, audio-visual or computer-based material, when preparing an assignment or writing an examination, and pretend it is your own work by not acknowledging where it came from.
3. Copy from another student’s coursework whether that copying is with or without the knowledge of that student. This includes:
   - copying all or part of someone else’s assignment
   - allowing someone else to copy all or part of your assignment
   - providing your assignment (or other materials for an assignment) to another student
   - having someone else do all or part of an assignment for you
   - doing all or part of someone else’s assignment for them.
4. Make up data and fabricate results in research assignments.
5. Impersonate someone else in an examination or test, or arrange such impersonation.
6. Use forbidden material in a test or examination, whether in printed or electronic form. For example, attempting to use a non-standard calculator in a restricted calculator examination.

WHY IS IT WRONG?
If you take and use the work of another person without clearly stating or acknowledging your source, you are falsely claiming that material as your own work and committing an act of plagiarism. This is wrong because it:
   - violates the principle of intellectual and scholarly integrity;
   - devalues the grades and qualifications gained legitimately by other students; and
   - fails to allow you demonstrate your own understanding of the material.

PREVENTING CHEATING
All students and staff have a responsibility to prevent, discourage and report cheating.

Typically students cheat because they are having difficulty with the unit content, the language of the unit, or both. Cheating and/or plagiarism can be a temptation when students are experiencing difficulty with a heavy workload in the unit and seek to save time by using others’ work.

To avoid having students resort to cheating, the University provides many services to help students with their course or to make thoughtful decisions about whether to continue. Within the Division of Economic and Financial Studies, students should first seek assistance from their lecturer. Staff at the Centre for Macquarie English are also an excellent resource for plagiarism questions and language issues. The University also offers help through the Dean of Students or the University Health and Counseling Services.

There is a difference between getting help and cheating. You are encouraged to get help if you need assistance to understand the material and any set work so that you are in a better position to create your own answers. You might also want to have group discussions with your colleagues to debate the different issues surrounding a form of assessment. However the work you submit for your assessment must be in your own words and must not be those of another person.
HOW TO PLAY SAFE
To maintain good academic practice, so that you may be given credit for your own efforts, and so that your own contribution can be properly appreciated and evaluated, you should acknowledge your sources and you should ALWAYS:
(i) State clearly in the appropriate form where you found the material on which you have based your work, using the system of reference specified by the Division in which your assignment was set;
(ii) Acknowledge the people whose concepts, experiments or results you have extracted, developed or summarised, even if you put these ideas into your own words;
(iii) Avoid excessive copying of passages by another author, even where the source is acknowledged. Find another form of words to show that you have thought about the material and understood it, but remember to state clearly where you found the ideas.

There is nothing wrong with working with other students in a group; indeed sometimes you will be encouraged to do so. But after a certain point, each student must work on their own to produce their own written answers. If no specific guidelines for group-work have been given, a reasonable interpretation is that it is acceptable for two or more students to discuss a problem among themselves or with a staff member. The group may then agree that the answer should include certain points. But then each member of the group must independently write their own answer to the problem.

PENALTIES
Offences of plagiarism will attract penalties which at a minimum, will result in the deduction of marks for the test and/or assignment, to ultimately a failure in the unit and reference to the University Discipline Committee. The penalty will depend upon the extent of the plagiarism, whether it is a first or repeated offence, whether there is evidence of deliberate deceit and whether advantage has been taken of another student. In some cases this can result in the suspension of the student from enrolment in the university. In all cases however, a record of any offence and/or incident, along with correspondence, will be placed permanently on the students’ individual record file held at the university.

DETERMINATION OF OVERALL GRADE
To obtain a pass in the course, it is necessary to:
(a) attempt ALL assessment components, and
(b) obtain a pass in the final examination, and
(c) obtain an overall passing grade for the course.

STUDENT SUPPORT SERVICES
Macquarie University provides a range of Academic Student Support Services. Details of these services can be accessed at http://www.student.mq.edu.au
## DETAILED COURSE OUTLINE

<table>
<thead>
<tr>
<th>Week No</th>
<th>Week Commencing</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>19 January</td>
<td>Introduction to audit and assurance services and the auditing profession</td>
</tr>
<tr>
<td>2</td>
<td>26 January</td>
<td>Elements of the financial reporting audit process</td>
</tr>
<tr>
<td>3</td>
<td>2 February</td>
<td>Knowledge of the business and evaluating strategic business risk</td>
</tr>
<tr>
<td>4</td>
<td>9 February</td>
<td>Inherent risk assessment and materiality</td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>(Video: 4 Corners – HIH Report)</em></td>
</tr>
<tr>
<td>5</td>
<td>16 February</td>
<td>CME <em>(first 90 minutes only)</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Internal control structure and assessing control risk</td>
</tr>
<tr>
<td>6</td>
<td>23 February</td>
<td>Test of controls</td>
</tr>
<tr>
<td>7</td>
<td>2 March</td>
<td>Substantive tests of transactions and balances</td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>MID TERM EXAM Saturday 7 March</em></td>
</tr>
<tr>
<td>8</td>
<td>9 March</td>
<td>Completing the audit</td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>(Video: The auditor in Court)</em></td>
</tr>
<tr>
<td>9</td>
<td>16 March</td>
<td>Opinion Formulation</td>
</tr>
<tr>
<td>10</td>
<td>23 March</td>
<td>Ethics, Independence and corporate governance</td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>(Video: How to Detect and Prevent Financial Statement Fraud)</em></td>
</tr>
<tr>
<td>11</td>
<td>30 March</td>
<td>Legal liability of Auditors</td>
</tr>
<tr>
<td>12</td>
<td>6 April</td>
<td>Other Assurance Services</td>
</tr>
<tr>
<td>13</td>
<td>13 April</td>
<td>Exam week</td>
</tr>
</tbody>
</table>
Lecture 1
Introduction to audit and assurance services and the auditing profession

References:

Gay and Simnett Chapters 1 and 2

ASA 200 Objective and General Principles Governing an Audit of a Financial Report
ASA 220 Quality Control for Audits of Historical Financial Information

Tutorial Questions:
1.6, 1.13, 1.16, 1.28, 2.15, 2.22

Lecture 2
Elements of the Financial Reporting Audit Process

References:

Gay and Simnett Chapter 5

ASA 230: Audit Documentation
ASA 315: Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement
ASA 500: Audit Evidence

Tutorial Questions:
5.20, 5.22, 5.27, 5.28

Lecture 3
Knowledge of the Business and Evaluating Strategic Business Risk

References:

Gay and Simnett Chapter 6

ASA 210: Terms of Audit Engagements
ASA 300: Planning an Audit of a Financial Report
ASA 315: Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement
ASA 510: Initial Engagement – Opening Balances
ASA 520: Analytical Procedures
Tutorial Questions:
6.17, 6.21, 6.24, 6.31
Lecture 4
Inherent Risk Assessment and Materiality

Video:
HIH Report

References:
Gay and Simnett Chapter 7

ASA 300: Planning an Audit of a Financial Report
ASA 320: Materiality and Audit Adjustments
ASA 315: Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement
ASA 570: Going Concern

Tutorial Questions:
7.12, 7.15, 7.22, 7.23

Lecture 5
Internal Control Structure and Assessing Control Risk

References:
Gay and Simnett Chapter 8

ASA 315: Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement
ASA 402: Audit Considerations Relating to Entities using Service Organisations
ASA 610: Considering the work of Internal Audit

Tutorial Questions:
8.14, 8.19, 8.20, 8.27
Lecture 6  
Tests of Controls

References:

Gay and Simnett Chapter 9

ASA 315: Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement
ASA 500: Audit Evidence
AGS 1060 Computer Assisted Audit Techniques

Tutorial Questions:
9.19, 9.20, 9.26, 9.27 (Part b only)

Lecture 7  
Substantive Tests of Transactions and Balances

References:

Gay and Simnett Chapter 10

ASA 500: Audit Evidence
ASA 505: External Confirmations
ASA 501: Existence and Valuation of Inventory
AGS 1002: Bank Confirmation Requests

Tutorial Questions:
10.17, 10.21, 10.27, 10.30
Lecture 8
Completing the Audit

Video:

*The Auditor in Court*

References:

Gay and Simnett Chapter 12
ASA 580: Management Representations
ASA 560: Subsequent Events
ASA 570: Going Concern

Tutorial Questions:
12.15, 12.17, 12.19, 12.22

Lecture 9
Opinion Formulation

References:

Gay and Simnett Chapter 13

Tutorial Questions:
13.24, 13.25, 13.26, 13.28
Lecture 10
Ethics, independence and corporate governance

Video:

*How to Detect and Prevent Financial Statement Fraud*

References:

Gay and Simnett Chapter 3

CPC Joint Code of Professional Conduct
ASA 240: The Auditor’s Responsibility to Consider Fraud and Error in an Audit of a Financial Report

Tutorial Questions:
3.19, 3.21, 3.22, 3.31

Lecture 11
Legal liability of Auditors

References:

Gay and Simnett Chapter 4

CPC Joint Code of Professional Conduct
ASA 240 The Auditor’s Responsibility to Consider Fraud and Error in an Audit of a Financial Report
AGS 1014 Privity Letter Requests

Tutorial Questions:
4.17, 4.20, 4.23, 4.26
Lecture 12
Other Assurance Services

References:

Gay and Simnett Chapter 14
ASA 800: The Auditor’s Report on Special Purpose Audit Engagements

Tutorial Questions:
14.5, 14.13, 14.23, 14.25
The Auditor in Court

Issues to consider while watching the tape

Part 1. Planning Supervision and Control

The auditor failed to comply with the requirement that the auditor should properly plan, supervise and control the audit and keep a full record of the work done.

A) List as many errors the auditors made as you can.
B) How can they be avoided?

Part 2. Accounting Systems and Internal controls

There are two different systems on which the auditor wrongly placed reliance.

A) What were the two systems?
B) How did they fail?
C) What was the extent of misstatement?

Part 3. Audit Evidence

The auditors failed to carry out procedures designed to gather sufficient appropriate evidence resulting in failure to discover four errors.

A) What were the 4 errors?
B) What was the audit failure?

We will not watch part 4 of the tape.
WHERE WERE THE AUDITORS?

When the scale of the Crazy Eddie fraud was revealed to the public, the question on the minds of many investors, creditors, and other interested parties was, "Where were the auditors?" when all this chicanery was occurring. Four different accounting firms audited Crazy Eddie's financial statements over its turbulent history. Antar dismissed Crazy Eddie's first accounting firm, a local firm, before he took the company public. The underwriting firm that managed Crazy Eddie's initial public offering urged Antar to retain a more prestigious accounting firm to increase the company's confidence in the company's financial statements. As a result, Antar retained Main Hurdman to serve as Crazy Eddie's audit firm. Main Hurdman had a nationwide accounting practice with several prominent clients in the consumer electronics industry. In the mid-1980s, Peat Marwick became Crazy Eddie's audit firm when it merged with Main Hurdman. Following the corporate takeover of Crazy Eddie in 1987, Peat Marwick was replaced by Touche Ross.

Much of the criticism stemming from the Crazy Eddie scandal focused on Main Hurdman and its successor, Peat Marwick. Published reports suggest that the audit fees charged Crazy Eddie by Main Hurdman were unreasonably low. In one year, the accounting firm reportedly charged Crazy Eddie only $85,000 for a full-scope independent audit—an audit of a firm that had several hundred million dollars of revenues. A leading critic of major accounting firms alleged that Main Hurdman had "lowballed" to obtain the Crazy Eddie audit, realizing that it could make up for any lost audit revenue by selling the company consulting services.

In one year, Main Hurdman charged only $85,000 to do a complete audit of Crazy Eddie—a business with hundreds of millions of dollars in reported revenues, dozens of retail stores, and two large warehouses. At the very same time that Main Hurdman was charging the bargain basement price of $85,000 for supposedly conducting an audit, its consulting division was charging Crazy Eddie millions of dollars to computerize Crazy Eddie's inventory system.  

Extract from:

This same individual questioned Main Hurdman’s ability to objectively audit an inventory system that it had effectively developed. Main Hurdman’s independence was also questioned because many of Crazy Eddie’s accountants were former members of that accounting firm. Critics charge that a company that hires one or more of its former auditors can more easily conceal fraudulent activities during the course of subsequent audits. That is, a former auditor may help his or her new employer undermine subsequent audits. Crazy Eddie’s hiring of several of its former auditors was not unusual; auditors often accept positions with former clients when they leave public accounting. Many accounting firms actually arrange such “placements,” a practice that has been widely challenged.

You would think that if an auditor wanted to leave a public accounting firm, he or she would be discouraged from going to work for clients they had audited. Instead, just the opposite is true with big accounting firms encouraging their personnel to work for clients in the apparent belief that it helps cement the accountant-client relationship.  

Most of the criticism directed at Crazy Eddie’s auditors stemmed from their failure to uncover the huge overstatement of the company’s inventory and the related understatement of accounts payable. Third parties who filed suit against the auditors charged them with “aiding and abetting” the fraud by failing to thoroughly investigate numerous suspicious circumstances they discovered. Of particular concern were several reported instances in which the auditors requested client documents, only to be told that those documents had been lost or inadvertently destroyed.

In Peat Marwick and Main Hurdman’s defense, Antar and his associates engaged in a large-scale plan to deceive the auditors. For example, after discovering which inventory sites the auditors would be visiting at year-end, Antar would ship sufficient inventory to those stores or warehouses to conceal any shortages. Likewise, Crazy Eddie personnel systematically destroyed incriminating documents to conceal inventory shortages from the auditors. Antar also ordered his employees to stop using the sophisticated, computer-based inventory system designed by Main Hurdman. Instead, the accounting personnel were required to return to an archaic manual inventory system previously used by the company. The absence of a computer-based inventory system made it much more difficult for the auditors to determine exactly how much inventory the firm had at any point in time.

A particularly disturbing aspect of the Crazy Eddie scandal was the involvement of several key accounting employees in the various fraudulent schemes. Among the parties who were charged with participating in the fraud or being aware of it were the director of the internal audit staff, the acting controller, and the director of accounts payable. Past experience has proven that a fraud involving the collusion of numerous client executives, particularly key accounting personnel, is extremely difficult for auditors to uncover.

6. Ibid., 42.
CRAZY EDDIE'S
How to Detect and Prevent Financial Statement Fraud

- **Asset/Revenue Understatements**
  eg: to reduce income taxes
  - skimming money
  - no internal control / no documentation

- **Assessing the Risk of Fraud**
  - Domination of board / management
  - Reduce Tax Liability
  - Increase Profitability
  - Weak Monitoring I/C
  - Weak internal controls
  - Non financial personnel in accounting function
  - High obsolescence
  - Significant banking transactions overseas

- **Misstatements as a result of:**
  Understated | Liabilities
  Expenses
  overstated | Assets
  Revenues

- **Achieved by:**
  1) **Timing Difference (recording in wrong period)**

    (a) Early revenue recognition (record July Sales in June)
    (b) Delay expense recognition (record June Exp in July)

    **Steps to detect**
    - Cut off examination of journals etc. especially bank account
      eg: deposits in transit
    - Verify dates outside company
    - Inquire of staff regarding dates

  2) **Fictitious Income (false sales)**

    **Steps to detect**
    - Examine all significant or unusual journal entries
    - Confirm sales and sales documentation
    - Examine unusual sales transactions

  3) **Returns Allowance and Warranties**

    **Steps to detect**
    - Examine Warehouse
    - Offsite storage
    - Analytical Review
- Contact customers
- Interview vendors to confirm returns

4) Concealment of Liabilities and Expense
   (a) Fail to record liabilities
       Conceal liabilities (in a draw)

Steps to detect
- Search for unrecorded liabilities
- Examine payment after balance sheet date
- Interview suppliers
- Examine draws
- Interview employees

(b) Record Expense as an asset

Steps to detect
- Ensure adequate classifications

5) Improper Valuation of Asset
   (a) Inventory
      eg: False inventory counts

Steps to detect
- Unit price reasonable - check invoice price
- Check alteration of price / counts
- Compare prior years
- Be alert! Care with work papers

(b) Accounts Receivable

Steps to detect
- Look for unusual transactions
- Look customers up in the phone book

(c) Fixed Assets (overvalue assets)

Steps to detect
- Detection of capitalized Expense
- Examine source documents
- Check classification - particularly S/T → L/T
- Interview

6) Improper Disclosures
   - Liability omission eg: warranties contingency
   - Related Party transactions
   - Change in accounting policy

Steps to detect
- Require personal financial disclosures from management