



AAA Conference - 2010

The Search For Risk...

from audit to fraud

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vision

The Search for Risk

What is not seen?



The Search for Risk

- *Why Should We Be Concerned About Risk?*
- *What is Risk?*
- *How Do We Search for Risk?*
- *Our Obligation to Search...for Risk*



The Search for Risk

- *Why should we be concerned about risk?*
 - Fulfill professional requirement.
 - *Professional standards*
 - Fulfill duties imposed by law.
 - *Tax laws*
 - Better practice management.
 - *Practical considerations*



The Search for Risk

- Fulfill professional requirement.
 - *Professional standards*
 - CPAs and CAs need to satisfy professional standards and requirements
 - Demonstration of competence
 - Demonstration of independence
 - On-going client acceptance procedures



The Search for Risk

- Fulfill duties imposed by law.
 - *Tax laws impose due care standards*
 - Often statutes require tax professionals to perform procedures to satisfy appropriate due diligence
 - A review for the risk of understatement or overstatement
 - Inadvertent Participation in a fraud
 - *Securities laws impose duty to investigate*
 - IPO
 - Audit
 - Valuation, Impairment Issues



The Search for Risk

- Better practice management.
 - *Practical considerations*
 - Up-front retainers/deposits
 - Client retention policies
 - On-going losses
 - Credit problems
 - Significant asset devaluations
 - Custody problems
 - Management caused losses
 - Currency valuations



The Search for Risk

- *What is risk?*
- Risk is the sum of questions that result in an indicator that –
 - *the business is having problems, or*
 - *may soon have serious problems*



The Search for Risk

- ***What is Risk?***
- Definitions –
 - *Hazard – a source of danger*
 - *A possibility of incurring loss or misfortune*
 - *Be exposed to a chance of loss*

- *Will this business fail?*



The Search for Risk

- How do we search for Risk?
- *The psychology of Fraud*

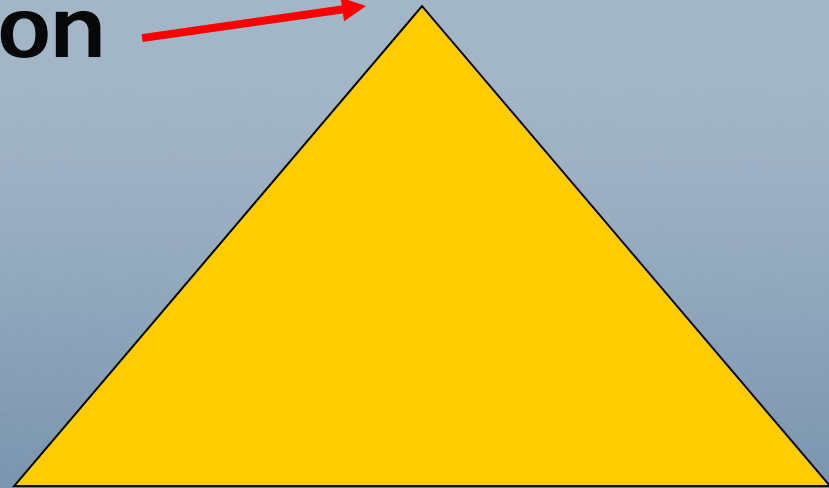
Rationalization



Opportunity



Needs





- What do people steal?
 - Cash
 - Receipts
 - Cash register
 - Accounts receivable
 - Other assets
 - Inventory, scrapping, excess purchases
 - Fixed assets
 - Use of company assets
 - Credit



The Search for Risk

- **How do we search for risk?**
- Tools – The things we know already become forensic tools
 - Books and records
 - Bank reconciliations
 - Where are the checks kept?
 - Where are bank statements kept?
 - Electronic signatures?
 - Multiple bank accounts
 - Who can sign checks?



The Search for Risk

- **How do we search for risk?**
- Tools – *multi-year* ratio analysis (5)
 - *Liquidity*
 - *Turn over*
 - *Profitability*
 - *Management ability*
 - *Stability*
- Compare to Industry When Possible



The Search for Risk

- **How do we search for risk?**
- The 39 most common fraud schemes
 - How many can you identify?
 - Auditors are not trained!
- Z-score analysis



The Search for Risk

- Don't forget to look down, and around you!
- *Our Obligation To Search For...*

RISK



The Search for Risk

Questions....?

Thank you!

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