

Contents

Preface	vii
1 Introduction	1
1.1 Staying out of trouble	1
1.2 The forensic accountant's role	2
1.3 Maintaining impartiality	3
1.4 The disciplines of expert witness work	3
1.5 Conduct that is 'reasonably competent'	4
1.6 The disciplinary arena	4
1.7 Litigation in the current climate	6
2 Auditors' Failure to Detect Theft, Embezzlement and Financial Crime	9
2.1 Summary of types of fraud	9
2.2 Introduction	10
2.3 Auditors' responsibility for fraud detection	11
2.4 Limiting liability	12
2.5 Perspectives on fraud – respective responsibilities of management and auditors	12
2.6 Disclosure of management fraud	14
2.7 Monitoring the client's regulatory conduct	16
2.8 Fraud by employees	17
A. Failure to carry out basic procedures	18
B. Failure to recognise a client's excessive reliance on a trusted employee	28
C. General failure to recognise internal control weaknesses	42

D.	Inappropriate delegation of key audit tests	50
E.	Failure to follow up suspicious circumstances	53
2.9	Using the company as an instrument of fraud by senior management	59
F.	Lack of independence	60
G.	Lack of resources	64
H.	Failure to obtain third party verification	67
I.	Improper reliance on management representations	70
J.	Risks of international affiliations and inappropriate reliance on the work of others	76
K.	Failure of analytical review	81
L.	Lack of awareness of risk	84
M.	The practice ethical problem	86
N.	Would any audit have picked this up?	88
2.10	Summary of key lessons	90
3	Negligent Audit Work Not Involving Theft of Company Assets	93
3.1	Introduction	93
3.2	Fundamental auditing pitfalls	94
A.	Failure to carry out basic procedures	94
B.	Risks of undertaking work outside the scope of the auditor's expertise	98
C.	Improper reliance on management representations	105
D.	Failure of analytical review	108
E.	Inadequate assessment of going concern	111
F.	Succumbing to client pressure	117
G.	Risks associated with group structures and entities under common control	125
H.	Risks inherent in subcontracting arrangements and joint audits	129
I.	Risks associated with disappointing acquisitions	134
3.3	Summary of key lessons	145
4	Professional Pitfalls for Accountants	147
4.1	Importance of engagement letters	147
4.2	Comparison with the USA	147
4.3	Liability exposure to third parties	149
A.	Preparation of unaudited accounts	150
B.	Preparation of independent reports	155

C.	Counterclaims following pursuit of outstanding fees	158
D.	Dangers of administrative foul-ups	161
E.	Coping with clients whose record-keeping is chaotic	166
F.	Conflicts of interest	169
G.	Unwittingly becoming a shadow director	174
H.	Negligent certification of creditworthiness	177
I.	Vicarious liability following actions of consultants and staff	179
J.	Provision of advice outside the scope of an accountant's expertise	195
K.	Accountants acting as trustees	198
L.	Allegations of negligent valuation	201
M.	The aftermath of disappointing acquisitions	204
4.4	Summary of key lessons	219
5	Tax Related Claims	221
5.1	Introduction	221
5.2	Provision of incorrect or inadequate advice	223
A.	Failure properly to investigate a client's circumstances	223
B.	Danger of not keeping abreast of changing circumstances	224
C.	Failure to define responsibility following an engagement	226
D.	Consequences of giving casual advice that proves to be inappropriate	230
E.	Absence of advice may be negligent	237
F.	Danger of giving advice that falls outside one's expertise	239
5.3	Failed practice administration	242
G.	Failure of accountant to keep records of client contact	242
H.	Failure of internal systems within practice administration	245
I.	Know your partners. . .	251
J.	. . . and your employees!	255
5.4	Summary of key lessons	258

6 The Disciplinary Framework	261
6.1 Introduction	261
6.2 Structure and procedures	261
6.3 Costs	263
A. Conflicts of interest	263
B. Dangers of introducing clients to third party advisers	265
C. Dangers of not keeping up to date	267
D. Non-executive directorships	269
E. Complaints from official sources	272
F. How to respond to a formal complaint – the dangers	274
6.4 Summary of key lessons	277
Appendix: From the archives	279
The astonishing story of the ‘salad oil swindle’	281
The Equity Funding story	294
Glossary	309
Index	315

<http://www.pbookshop.com>