Auditing and Accounting Cases

Investigating Issues of Fraud and Professional Ethics

Third Edition

Dr. Jay C. Thibodeau

Deborah Freier
Table of Contents

SECTION ONE
FRAUD CASES: VIOLATIONS OF ACCOUNTING PRINCIPLES 1

Case 1.1
Waste Management: The Matching Principle 3

Case 1.2
WorldCom: The Revenue Recognition Principle 7

Case 1.3
Qwest: The Full Disclosure Principle 11

Case 1.4
Sunbeam: The Revenue Recognition Principle 17

Case 1.5
Waste Management: The Definition of an Asset 21

Case 1.6
Enron: The Revenue Recognition Principle 25

Case 1.7
WorldCom: The Matching Principle 29

Case 1.8
The Fund of Funds: The Conservatism Constraint 33

Case 1.9
Qwest: The Revenue Recognition Principle 41

Case 1.10
The Baptist Foundation of Arizona: The Conservatism Constraint 45

Case 1.11
WorldCom: The Definition of an Asset 49
SECTION TWO
ETHICS AND PROFESSIONAL RESPONSIBILITY CASES  53

Case 2.1
Enron: Independence  55

Case 2.2
Waste Management: Due Care  59

Case 2.3
WorldCom: Professional Responsibility  63

Case 2.4
Enron: Quality Assurance  67

Case 2.5
Sunbeam: Due Care  71

Case 2.6
The Fund of Funds: Independence  75

Case 2.7
Bernard L. Madoff Investment and Securities: A Focus on Auditors’ Legal Liability and Due Care  79

Case 2.8
Enron: Audit Documentation  83

SECTION THREE
FRAUD AND INHERENT RISK ASSESSMENT CASES  87

Case 3.1
Enron: Understanding the Client’s Business and Industry  89

Case 3.2
The Baptist Foundation of Arizona: Related Party Transactions  93

Case 3.3
WorldCom: Significant Business Acquisitions  97

Case 3.4
Sunbeam: Incentives and Pressure to Commit Fraud  101
Case 3.5
Qwest: Understanding the Client’s Business and Industry 105

Case 3.6
The Fund of Funds: Related Party Transactions 109

Case 3.7
Waste Management: Understanding the Client’s Business and Industry 115

SECTION FOUR
INTERNAL CONTROL SYSTEMS: ENTITY-LEVEL CONTROL CASES 121

Case 4.1
Enron: The Control Environment 123

Case 4.2
Waste Management: General Computing Controls 127

Case 4.3
The Baptist Foundation of Arizona: The Whistleblower Hotline 131

Case 4.4
WorldCom: The Internal Audit Function 135

Case 4.5
Waste Management: Top-Side Adjusting Journal Entries 139

SECTION FIVE
INTERNAL CONTROL SYSTEMS: CONTROL ACTIVITY CASES 143

Case 5.1
The Fund of Funds: Valuation of Investments 145

Case 5.2
Enron: Presentation and Disclosure of Special Purpose Entities 149

Case 5.3
Sunbeam: Completeness of the Restructuring Reserve 155
Case 5.4
Qwest: Occurrence of Revenue  159

Case 5.5
The Baptist Foundation of Arizona: Presentation and Disclosure of Related Parties  165

Case 5.6
Waste Management: Valuation of Fixed Assets  169

Case 5.7
Qwest: Occurrence of Revenue  175

APPENDIX
COMPANY CASES  179

Case A.1
Enron  181

Case A.2
Waste Management  195

Case A.3
WorldCom  211

Case A.4
Sunbeam  225

Case A.5
Qwest  237

Case A.6
The Baptist Foundation of Arizona  251

Case A.7
The Fund of Funds  263