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Accomplishing the unexpected

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Accomplishing the Unexpected

ONE test of a good auditor is his ability to apply his technical knowledge in a given situation and to grasp the meaning of the results. It is of no avail for the auditor to prove footings, reconcile bank accounts, and otherwise verify the correctness of the accounts of a business if he is not able to recognize an irregularity when it appears. The ability to "catch the significance," which may lead to the discovery of an irregularity, is one of the cardinal virtues of an auditor.

Any auditor, worthy of the name, will be able to detect irregularities commonly known as open shortages, detectible through the verification of balances at a given date. Any auditor truly keen should sense the possibility of fraud in any given situation. Thus, he may develop and expose concealed fraud which would not have been detected by strict application of the procedure originally contemplated in connection with the engagement.

The procedure used in a general audit or in a cash audit is expected to uncover cases of concealed as well as unconcealed fraud, since, in addition to the verification of cash balances, these two types of service comprehend a reasonable verification of the cash transactions. On the other hand, the procedure for examinations of financial condition and for general examinations does not contemplate the discovery of concealed irregularities affecting cash, since it does not embrace a verification of the cash transactions. However, while the discovery of a concealed shortage may not be expected in an examination of financial condition or in a general examination, it is not impossible of accomplishment in certain instances by an accountant who is alert and able to grasp the leads which come to his attention.

For instance, suppose the following case existed. An employe of a certain company had been defrauding the company by

manipulating pay-rolls. Checks were made out for employes who had left the company or who had been absent for the week covered by a manipulated pay-roll and the endorsements of pay-roll checks had been forged. The checks were cashed at the bank without the endorsement of the person presenting them for payment. There were no clock cards for the men for whom fraudulent checks were drawn and their names did not appear on the pay-rolls. The pay-rolls were over-footed to agree with the total amount of pay-roll checks drawn.

In such a case there would be perhaps only one possibility of an accountant discovering the fraud in the course of a general examination or an examination of financial condition, unless he were able to detect the forged endorsements, which is unlikely. If the accountant reconciles the bank balance at a date following the balance sheet date, and if the embezzler has manipulated the pay-roll for a week or weeks ending within the period from the balance sheet date to the date of the bank reconciliation, there is a possibility that the accountant might discover the fraud at the time of making the bank reconciliements.

After reconciling the cash balance as shown by the bank with that shown by the company's books at the date of reconciliation, it is necessary for the auditor to audit the cash transactions from that date back to the balance-sheet date in order to arrive at the balance of cash shown in the balance sheet. While auditing the cash transactions the auditor would trace the paid checks back to the original records, and would compare the paid pay-roll checks with the pay-roll. In so doing he might discover that the names of the payees on some of the pay-roll checks did not appear on the pay-roll. It would be unnatural for the auditor to regard such a discovery as an error in the pay-roll. If

he were alert and able to grasp the meaning of such a discrepancy he would suspect fraud and, upon further investigation of employment records and other sources of information, would be able to convince himself and the officers of the company that a shortage existed, if such were the case.

Nevertheless, the possibility of discovering such a condition hinges upon whether the defaulter manipulated the pay-roll for any week ending within the period from the balance sheet date to the date of the bank reconciliation, and whether pay-rolls are paid by check or in currency. Further, it is not to be expected that all pay-rolls will be completely audited where a long period has elapsed between the balance sheet date and the date of counting and reconciling the cash balances. Accordingly, the chances of the auditor discovering pay-roll fraud under these circumstances are slight, and the procedure inci-

dent to the verification of balances only at a given date cannot be relied upon by a client if he wishes to have any and all existing fraud disclosed.

The chances of having a cash irregularity appear in this manner are so slight that perhaps some accountants might not recognize it on sight as an irregularity. Consequently, it is gratifying to hear of accountants who, because of their alertness, have been able to grasp the single thread which led to the disclosure of an embezzlement that they would not ordinarily be expected to discover. It is the unexpected and unusual that attracts applause. Compliments are due to the Saint Louis office for having exposed an embezzler in a case such as has been described, where the bank accounts were reconciled on January 10, and a part of the irregularity appeared in the pay-roll of January 7.

Tenth Anniversary

TEN years ago this month the first issue of the BULLETIN was published with considerable apprehension and speculation as to whether it would survive the first four or five months of publication. Since that time it has been published regularly every month and has filled a distinct need in our growing organization.

In the earlier years of the organization the members of the staff were in close contact with the members of the firm and with each other. With the growth and expansion of the organization, personal contact with all the members of the organization became impossible. The BULLETIN has served to bridge the gap and bring the organization closer together by acquainting the staff with the policies and professional ideals as well as the activities of the firm.

The articles in the BULLETIN always have been along technical and professional lines. They have furnished the staff accountant with valuable information on the problems

which arise in the field. In certain controversial matters of accounting theory, the firm has shown its preference for one theory over another by means of a BULLETIN article. The value of personal news of a professional character has been recognized, but items of a purely personal nature have not been used in the BULLETIN.

The BULLETIN is not regarded as an advertising medium. It is published for distribution within the organization only, although at times, when it has contained articles of interest to business men generally, it has been sent to our clients. Hundreds of requests have been received from people who wished to subscribe for the BULLETIN, but these requests have been denied, since the BULLETIN is not on a subscription basis.

Judging from the results accomplished, it appears that the BULLETIN has now become an established institution in our organization.