
APPENDIX B

AUDITING AND THE RISK ASSESSMENT PROCESS

Detecting Fraud, Illegal Acts, Errors and Abuse

AICPA Statements on Auditing Standards provide guidance on the auditor's responsibility to detect fraud and illegal acts.

The *Audit Manual* and the Contract to Audit Accounts require the auditor, upon discovery, to **promptly report in writing** to the Comptroller of the Treasury any reasonable suspicion of fraud, (regardless of materiality) or other unlawful acts including, but not limited to, theft, forgery, credit/debit card fraud, or any other act of unlawful taking, waste, or abuse of, or official misconduct, as defined in Tennessee Code Annotated, § 39-16-402, involving public money, property, or services.

The Department of Audit conducts special-purpose examinations of governmental entities previously audited by certified public accounting firms and conducts working paper reviews of government audits performed by certified public accounting firms. These examinations and reviews often result in the discovery of fraud that was not detected by the previously performed audits. The Comptroller of the Treasury has identified several areas, summarized below, where undetected fraud has occurred most often. Auditors should consider these areas when performing risk assessment procedures and designing the nature, timing, and extent of further audit procedures. The Department of Audit will determine if these areas were considered when it conducts working paper reviews of governmental audits performed by public accounting firms.

1. Cash Collections

The Department of Audit has found certain audit procedures to be highly effective in detecting schemes involving misappropriation of cash. The procedures are suggested but not required. If the following procedures are already being performed, consider expanding their extent.

- Review the makeup of deposits and determine that the cash and check ratio agrees with source documents (cash and checks collected).
- Review deposit slips and determine that receipts itemized on the deposit slips are recorded in the receipt books.

- Determine that deposits are being made intact and at least daily. (State law requires that deposits be made within three days of receipt).
 - Perform surprise cash counts.
 - Send third-party confirmations for significant revenues received in the mail.
2. **Unrecorded bank accounts**
 3. **Vending machine revenues**
 4. **Unauthorized or fraudulent cash disbursements**
 5. **Purchasing**
 6. **Travel expenses and reimbursements**
 7. **Credit cards and procurement cards**
 8. **Use of government equipment, labor, materials and supplies**
 9. **Use of government owned vehicles**
 10. **Gasoline usage**