



ZZZZ BEST COMPANY INC

AUDIT CASE

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➤ Barry Minkow

- California – 1982
- Carpet cleaning company
- Charming con artist
- Multimillionaire at age 21



COMPANY OVERVIEW

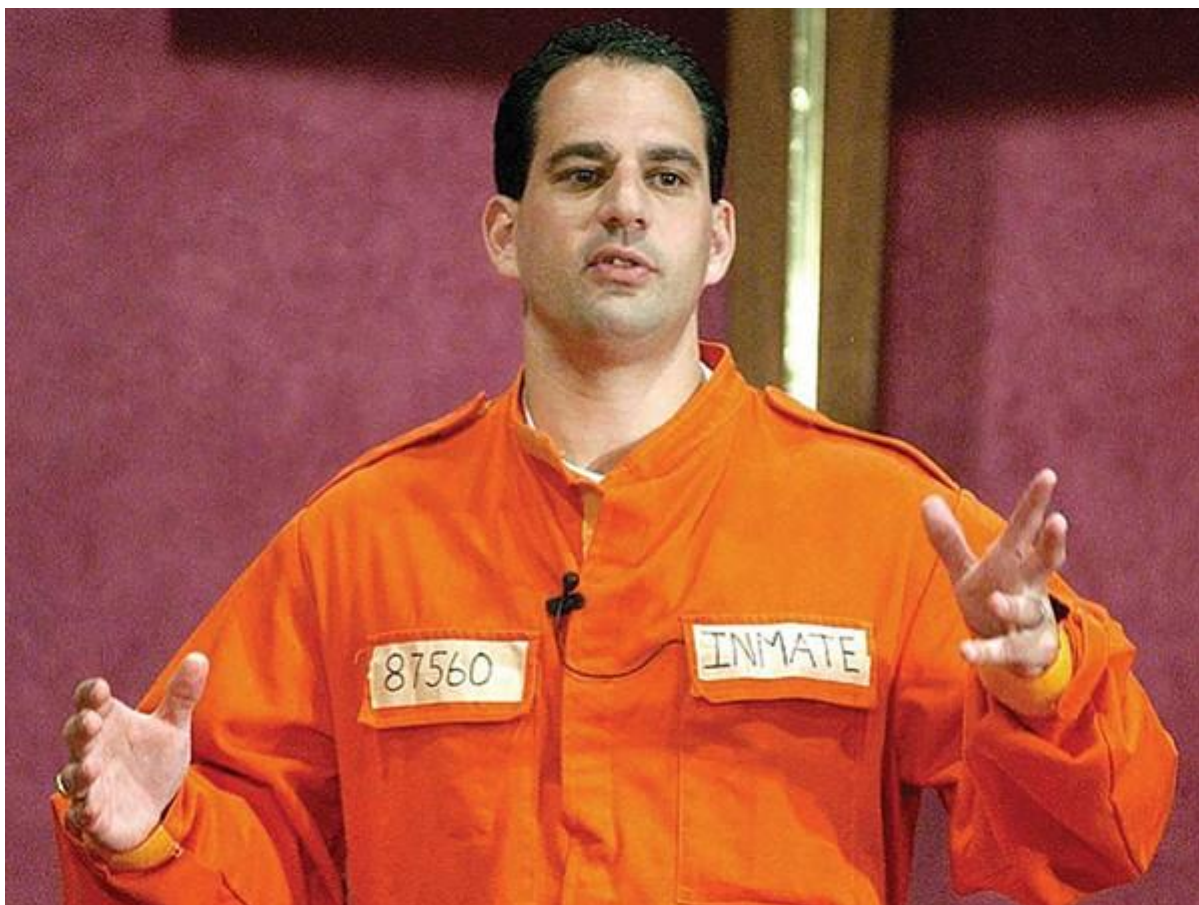
- ✓ Company revenue:
1984: USD 200,000
1987: USD 5000,000
- ✓ Zee Best went public in 1986

- ✓ Fancy house and expensive cars
- ✓ Famous millionaire child of USA – example for young generations



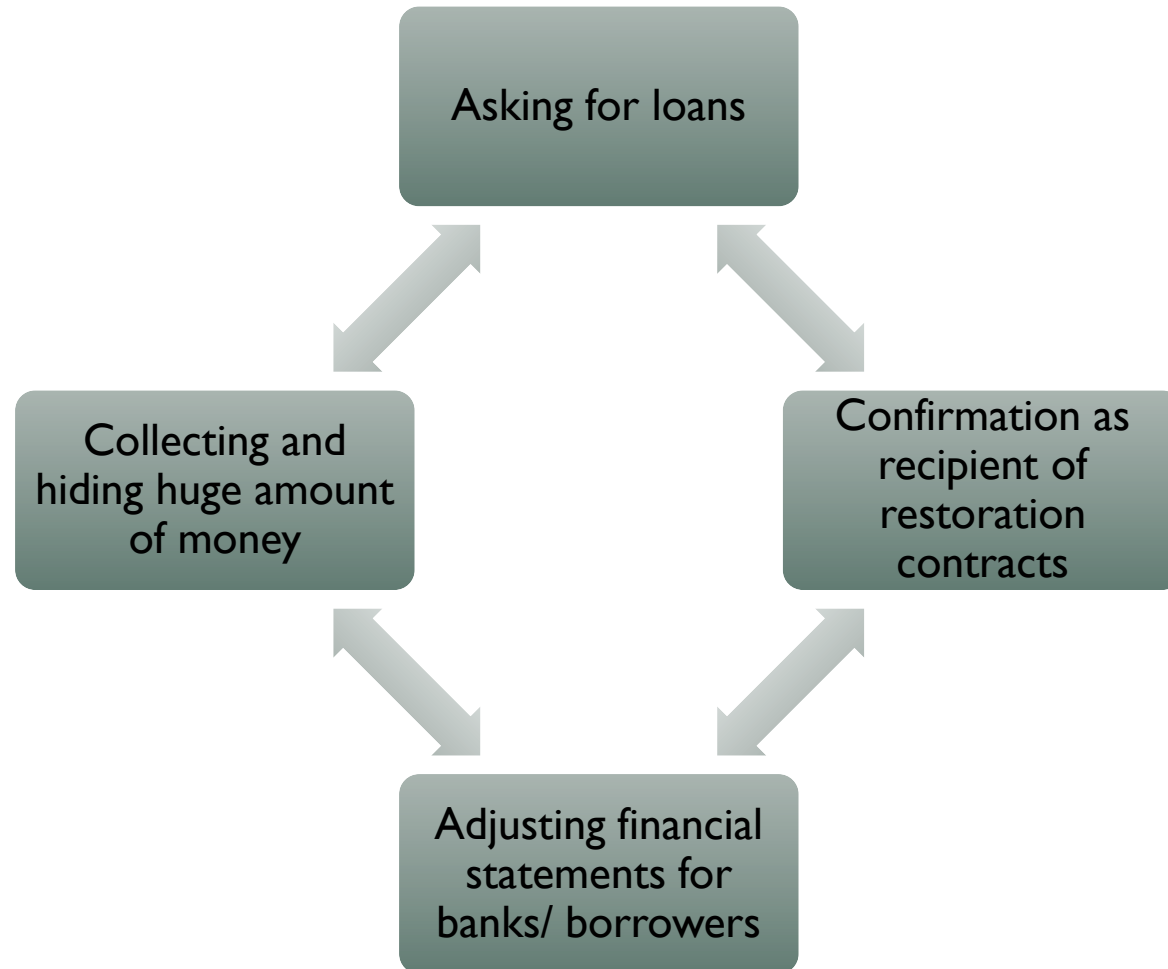
BUSINESS EVOLUTION: THINK BIG, BE BIG!
THE SKY IS THE LIMIT!

BUT... THERE IS A LIMIT BEFORE THE SKY



- ❖ Swindle of USD 100,000,000
- ❖ PONZI scheme:
 - Non existing profits reported (no cash)
 - Large imaginary restoration contracts
- Sentence to the prison for 25 years

FRAUD CIRCLE



AUDIT EXPERTISE

Audit 1

- Confirmed the existence of restoration contracts

Audit 2

- Review FS – Jul 1986
- Prep registration to SEC
- Comfort letters to Co's underwriters
- Full scope of audit - 1987

Audit 3

- Adjusted financial data for SEC

AUDIT FINDINGS

- Visit to restoration sites (i.e. Sacramento)
- 90% of profit from imaginary restoration contracts
- Several checks were cancelled

AUDIT Q&A

1. Audit review vs. Audit report

Audit review:

- Limited assurance
- Based on understanding of Co and Industry
- No investigation of internal control
- No testing accounting records
- Recommendations for financial adjustments

Audit report:

- Assurance that FS are free from material misstatements
- Assess the risk
- Physical observation and 3rd party confirmations
- Issue opinion with skepticism

2. Limitations on the evidence regarding management assertion of occurrence

- insufficiency to support the occurrence, reliability of events and transactions
- prohibitions imposed by the client to inspect or review the financial situations

AUDIT Q&A

3

Improper conclusion of auditors

- Auditors confirmed the transactions payments without seeing any existing contracts between the parties
- E&W didn't receive external confirmation directly from the clients – Blind trust

4

Predecessor – successor auditor communications

- Successor auditor is responsible to initiate the communications
- Predecessor auditor should confirm the management integrity, frauds and non-compliances observed, weaknesses of internal control.

6

Professional standards

- Professional standards do not oblige auditors perform procedures when reviewing pre-audit report but post year end earnings press release
- Each audit client should allow the auditor review the post year end press release before releasing it.

AUDIT Q&A

5. E&Y was not able to perform proper audit procedures and couldn't give correct opinion on FS

- *Confidential agreements (public and competition reason)

- *Confidential agreement limited the auditors from obtaining 3rd party confirmations

- * Client limitations can affect the final opinion when auditor is unable to collect enough supporting information

- * Disclaimer of opinion or issue adverse opinion due to auditing limitation

BONUS

- ❖ Win the client
- ❖ Consider acceptance procedures
- ❖ Discuss the scope of work and proposal, taking into account all the risks and consequences in the beginning
- ❖ Engagement Letter and organise the team
- ❖ 8 eyes review
- ❖ Internal and 3rd party confirmations
- ❖ Never sure 100%
- ❖ The report and opinion go public
- ❖ Consistent integrity, objectivity and independence

CONCLUSION

Auditor

- Always be suspicious
- Don't trust before proof
- Keep up to date with regulations and client's business
- Don't be afraid to take responsibilities
- Integrity, objectivity and independence

Company under review

- Cooperate
- Review of audit report
- Be ready for unexpected check ups



THANK YOU

