



AUDIT TRAINING 12 | REFRESHER SESSION

Journal Entry Testing, Fraud Risks & Management Override Refresher

CAS 240 refresher for audit teams

Practical scenarios, review findings and a working paper walkthrough

Start with the firm's fraud risk assessment template



Standard template reminder, factors 1 to 13 are mandatory for every client:

“Where a factor is marked Yes, which side of the fraud triangle, incentive/pressure, opportunity or attitude/rationalisation, does it sit on, and what does that mean for our response?”

FRAUD RISK PER THE TEMPLATE	WHAT COULD GO WRONG	FRAUD TRIANGLE FACTOR
Management override	Fictitious or unsupported entries, biased estimates	Opportunity: authority to post outside the process
Revenue recognition	Early or fictitious revenue, side letters, cut-off	Incentive / pressure: market and internal revenue targets
Misappropriation of assets	Skimming, duplicate vendors, payroll and expense abuse	Opportunity: weak asset controls, driven by personal financial pressure
Related parties and SUTs	Undisclosed relationships, non-arm's-length pricing	Opportunity: through influence and control
Judgments and estimates	One-directional releases, optimistic provisions	Attitude / rationalisation: judgement kept within an acceptable range

The 13 mandatory factors in the standard template



Governance & attitude

- 1 Governance
- 2 Management attitudes
- 12 Auditor / management relations



Structure & process

- 3 Complex structure and unusual transactions
- 9 Major changes in business activities
- 11 The financial reporting process



Policy & judgement

- 4 Regulatory environment
- 5 Accounting policies
- 10 Judgments, estimates and disclosures



Pressure & assets

- 6 Industry conditions
- 7 Financial conditions
- 8 Rapid business growth
- 13 Potential for misappropriation

How it works: Mark each factor Yes / No / N/A with a reason, then map opportunity, incentive and rationalisation and the client's mitigating factors.

Then: Every “Yes” pulls an expected course of action from the Fraud Factor Action Library and a JET criterion into the JET Testing Criteria tab.

Quick quiz: Client is growing fast and has just changed its revenue policy. Which factors from above will be marked as Yes ?

CAS 240 presumes a risk of management override

CAS 240 requires auditors to design procedures that address the presumed risk of management override of controls.

Management override can occur despite otherwise effective controls, because management may be able to:

- Post entries outside normal business processes
- Influence accounting estimates and reserves
- Circumvent approval processes
- Direct employees to process inappropriate adjustments
- Record top-side adjustments outside the general ledger



Fraud triangle: pressure, opportunity and rationalisation converge where controls can be overridden.



Common review comments



No linkage between fraud risk and JE selection



Entries selected solely because of amount



Support attached but not analysed



No explanation of how testing addressed management override



Risk categories identified but never tested

How we get from the controls to the conclusion

01 Start with the controls

Discuss with the client, see how an entry actually gets raised, reviewed and posted, and draw the flow as it really works, not as the manual says.

02 Ask where it could be overridden

Take the fraud factors you marked Yes and ask the obvious question: if management wanted to force an entry through, where would they do it?

03 Walk one through yourself

Pick a real entry and follow it from start to finish. Look at the document, re-do the check. Asking someone if they do it isn't a walkthrough.

04 Let the risks pick the sample

The criteria should come from this year's risks, manual, post-close, top-side, senior users, not from last year's filters.

05 Plan all three responses

Journal entries are only one of them. Estimates get reviewed for bias and unusual transactions get challenged, or the response isn't complete.

06 Say what it all means

Write the conclusion on management override itself, not just on the entries you tested, and point to the evidence behind it.

Journal entries are one of three required responses



Test journal entries

Test the appropriateness of entries recorded in the general ledger and other adjustments made in preparing the financial statements, including inquiry of those involved in financial reporting.



Review estimates for bias

Review judgements and assumptions for indicators of bias and perform a retrospective review of prior-period estimates against actual outcomes.



Evaluate unusual transactions

For significant transactions outside the normal course of business, evaluate whether the business rationale suggests they were entered into to misstate or conceal.

Quick quiz: The team tested 40 entries and found nothing. Is the override response complete?

Prove the population is complete and accurate

What we ask for

- Full-year GL at line level, not a summary by account
- Entry number, posting date and effective date
- Description or narration field
- Extracted in our presence, with the extraction parameters recorded

How we prove it

- Record count and control totals agree to the system report
- Entry numbers sequential, gaps and duplicates investigated
- Blank or vague narrations listed and queried
- Debits equal credits and the extract ties to the trial balance

Also in scope: Adjustments made outside the ledger, consolidation, translation and top-side entries, are a second population.

High-risk entries and the analytics that find them



Timing

- Posted near period end
- Posted after close
- Weekend and after-hours postings
- Effective date before posting date



User

- CFO and Controller postings
- Users with elevated access
- Shared or generic IDs
- Same person prepared and approved



Nature

- Manual entries
- Top-side adjustments
- Unusual account combinations
- Entries reversed soon after posting



Amount

- Significant values
- Round-dollar entries
- Just below approval thresholds
- Repeating digits

Professional Skepticism: Do not rely on one filter. Look at who posted the entry, when they posted it, what the description says and how it compares with last year. One entry that ticks several of these boxes is the one to look at.

Unpredictability in practice: This year, pull a random sample of small, system-generated postings from a division we did not visit last year, extend the window into the first two weeks after year end, and ask for the extract on the day, with criteria not shared in advance.

Quick quiz: The GL extract ties to the trial balance. Is the population good to test?

From selection rationale to written conclusion

Weak selection rationale

“Selected because amount exceeded \$500,000.”

Strong selection rationale

“Selected because it was manually posted by the Controller on December 31 to a revenue account associated with the identified revenue overstatement fraud risk.”

Four questions every JE workpaper answers:



Why was it selected?



What was tested?



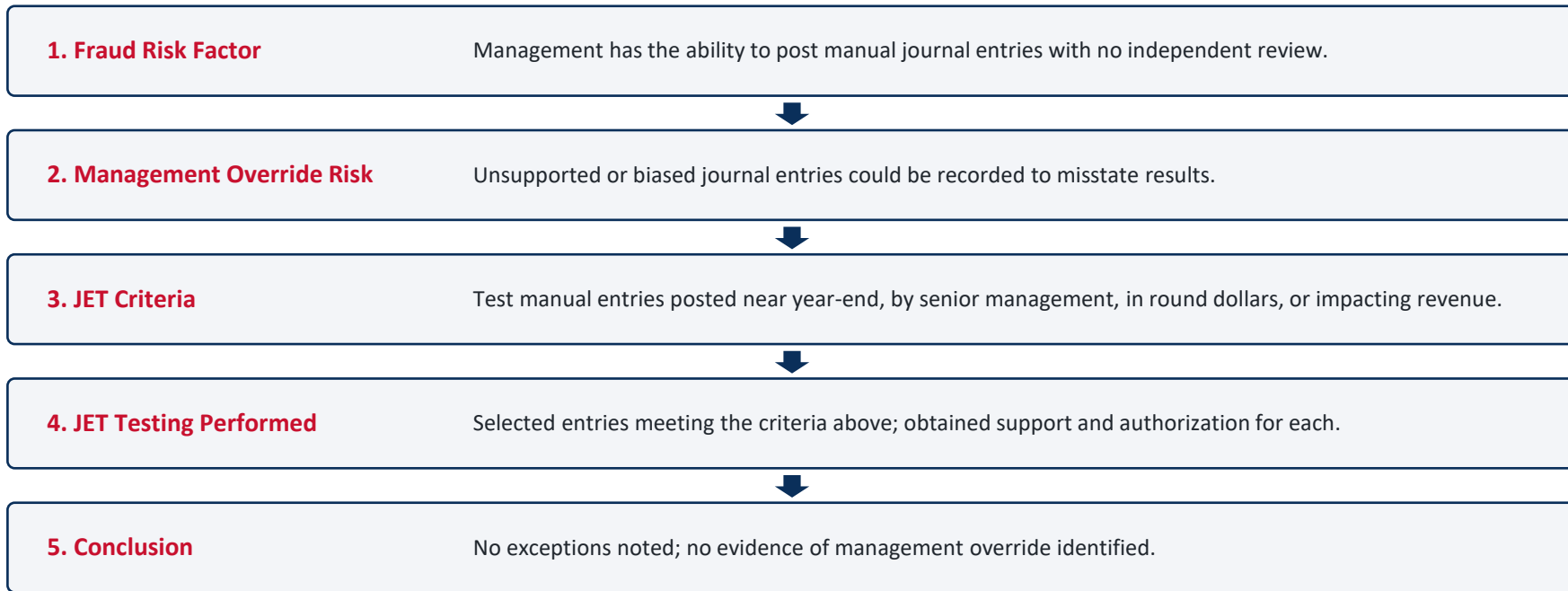
What evidence was obtained?



What conclusion was reached?

Fraud risk to management override to JET

How one identified fraud risk factor flows through to a JET conclusion



Quick quiz: The file lists JET criteria but no link back to a fraud risk. What will the reviewer say?

Answer: Step 2 is missing, so nothing connects the criteria to the identified risk.

What comes back on Partner and Post-issuance reviews

Reviewer's question	What clears it
Did the team test completeness and accuracy of the population?	Tie-out of the GL extract to the trial balance, record counts and debit/credit agreement, referenced in the file
Were fraud discussion, WCGWs and significant risks used to set criteria?	A criteria tab cross-referencing the fraud risk assessment line by line
Was supporting evidence obtained for the sampling?	Signed or system-generated support for each selection, with preparer and approver identified
Were all risk-based categories actually tested?	Every criterion marked relevant has testing behind it, or a documented reason it was not applied

The eight-point self-review



Population proven complete and accurate, with the tie-out referenced



Every criterion traced to a fraud risk factor or identified risk



Criteria considered but not applied are explained, not dropped



Element of unpredictability built in, varied from last year and documented in the sample summary



Each tested entry shows preparer, approver, rationale and support



Below-threshold and residual population evaluated and concluded



Estimates reviewed for bias and unusual transactions evaluated



Conclusion stated on management override, not just entries tested

Ten minutes: Running this over your own file removes most of the comments you would otherwise receive.

Quick quiz: You skipped one criterion because it was not relevant. Is that a problem?

One scenario, three questions

The scenario: Brightline Ltd is a distributor in a year of strong expansion. Revenue was running behind plan at Q3 but finished the year on budget. Management has a new incentive scheme tied to full-year results. The final week of December was busy: several year-end adjustments were posted by the finance team, and the warranty provision came down after management 'refreshed' its assumptions.

1 THE FRAUD TRIANGLE

Using the fraud triangle, which signs of each element can you spot in the scenario?

2 BEYOND THE LEDGER

Suppose your year-end entry testing comes back clean. Is there anything left to do before you conclude?

3 PICKING THE SAMPLE

Which of the December adjustments would you want to look at first, and what would you ask for?

Your turn: Take three minutes in pairs and note your answers.

What the scenario was really testing

The scenario: Brightline Ltd is a distributor in a year of strong expansion. Revenue was running behind plan at Q3 but finished the year on budget. Management has a new incentive scheme tied to full-year results. The final week of December was busy: several year-end adjustments were posted by the finance team, and the warranty provision came down after management 'refreshed' its assumptions.

1 THE FRAUD TRIANGLE

Using the fraud triangle, which signs of each element can you spot in the scenario?

Answer: Incentive / pressure: the Q3 shortfall and a new results-based scheme. Opportunity: year-end adjustments posted by finance. Attitude / rationalisation: the warranty cut justified as a 'refresh' of assumptions.

2 BEYOND THE LEDGER

Suppose your year-end entry testing comes back clean. Is there anything left to do before you conclude?

Answer: Yes. Find out how the Q3 shortfall was closed: evaluate large or unusual Q4 revenue deals for business rationale and review the warranty 'refresh' for bias with a look-back at prior estimates. Then conclude on override itself.

3 PICKING THE SAMPLE

Which of the December adjustments would you want to look at first, and what would you ask for?

Answer: Manual revenue entries from Q3 onwards, especially by senior users or with vague narrations. Ask for contracts, delivery proof and cash received, and check January credit notes and reversals that undo Q4 sales.

Thank you for listening

Any questions