

FOSTER

Master of
Professional Accounting



MISSTATEMENT RISK

(AND INTERNAL CONTROLS)

Advanced Cases in Assurance Services (ACCTG 521)
Class 5 | MPAcc class of 2025



Agenda

Review

Overview

- Internal Controls Testing and Governance

Labs

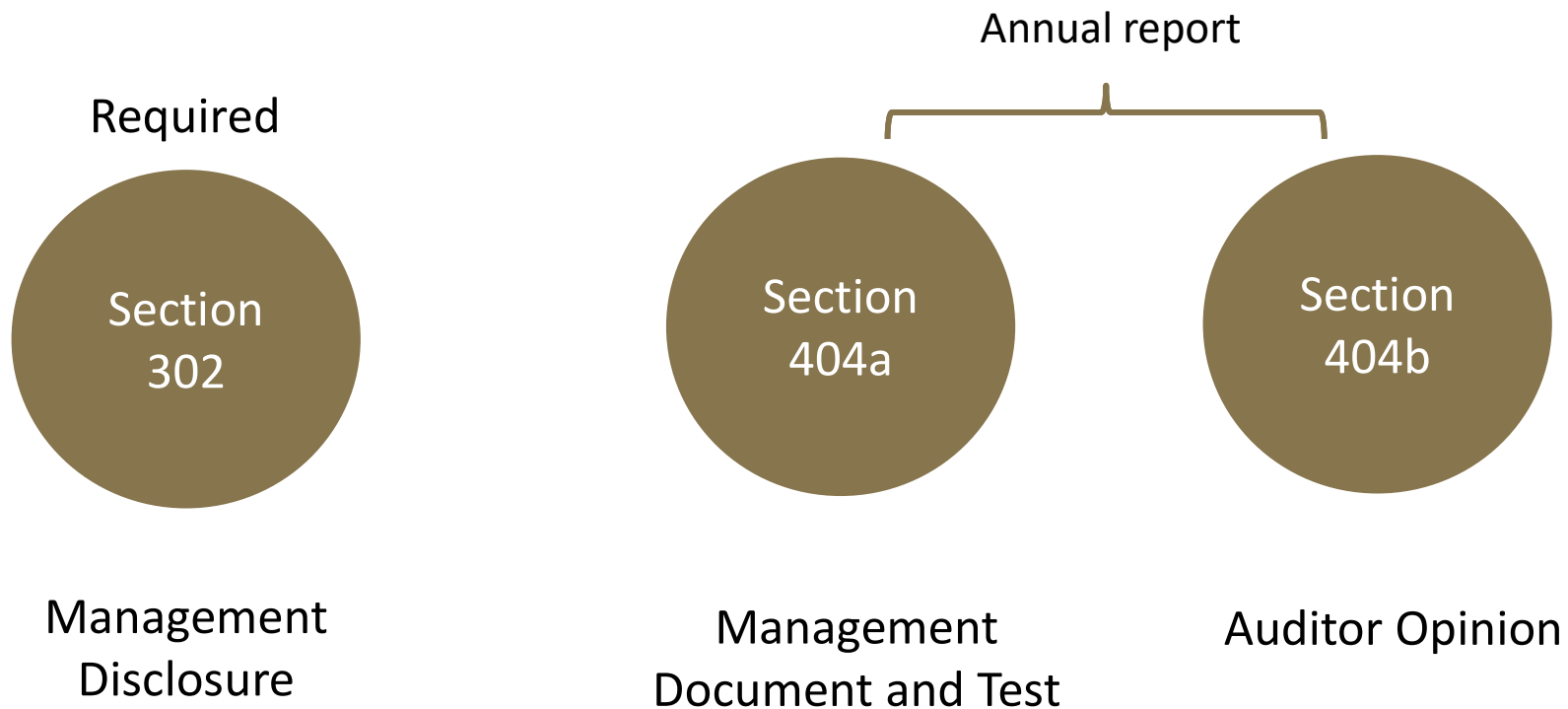
- Transaction Analysis

Market response to restating firm



- Average abnormal returns below negative 9%
- Why might investors perceive a restatement as bad news?

Disclosure requirements



Material Weaknesses and Financial Reporting Quality

- Are Material Weaknesses Correlated with Restatements?
 - Internal control weaknesses predict restatements
- Why doesn't substantive testing fix this?
 - It does, sometimes. When the material weaknesses are account specific, they do NOT have more restatements (i.e., substantive testing works)
 - BUT when the problem is more general (e.g., segregation of duties, IT weaknesses), it is hard to know where to apply additional substantive testing. (Ge et al. 2007)

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Overview

Transaction analytics

Today we will start analyzing transaction data:

- Central to both the **external audit** function and **internal audit** function.
- Transaction analysis can also be used by **management** to assess operational decisions.

Transaction analytics

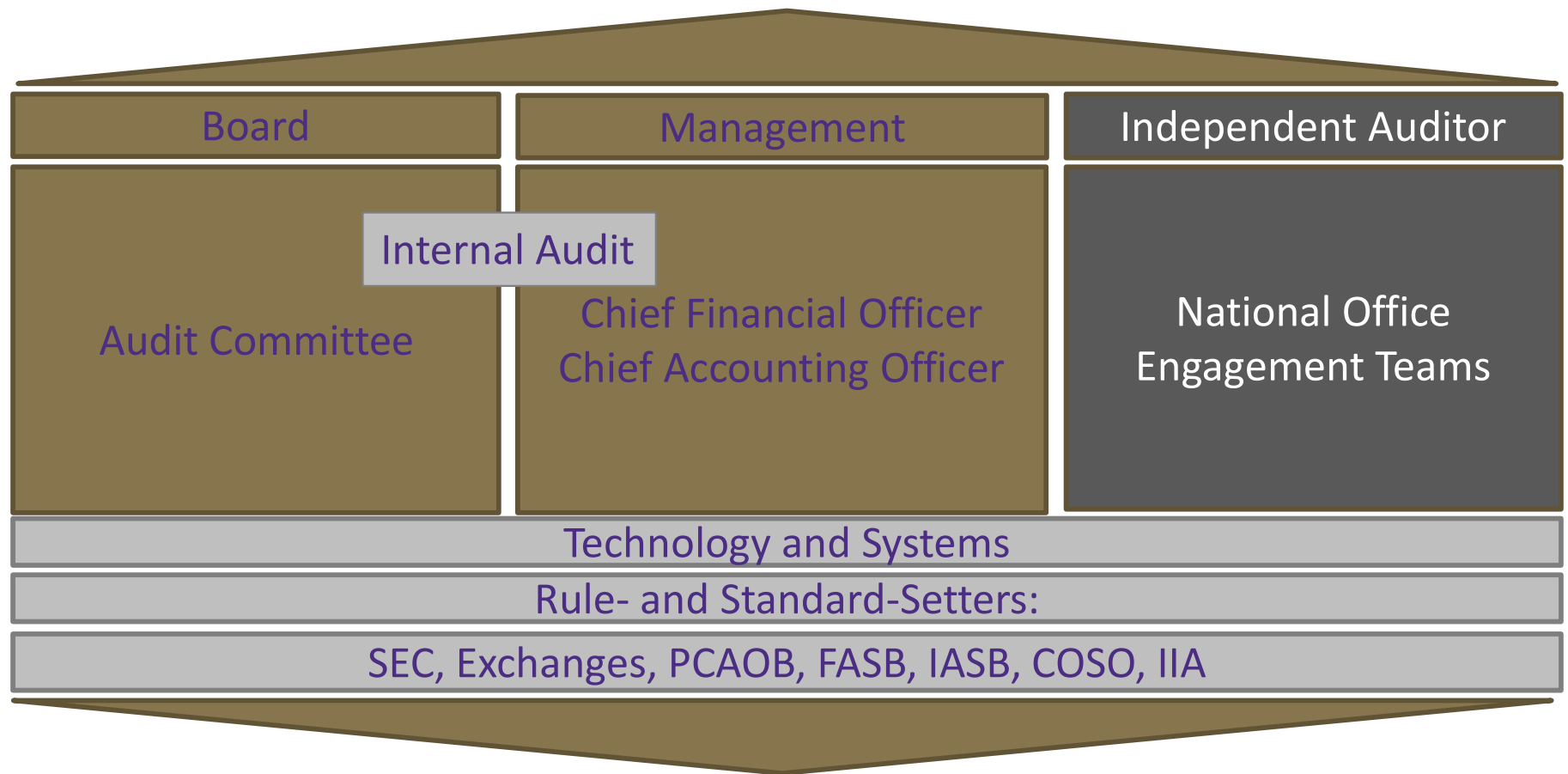
- External auditors provide opinions a company's financial statements are **presented fairly**, in all material respects, in accordance with financial reporting framework (such as GAAP).
 - External auditors can also provide advisory services to help the company become more financially secure/agile, among other areas.
- Internal auditors ensure that company policies and procedures are followed and that the company is financially efficient.

Transaction analytics

- Internal auditors ensure that company **policies** and **procedures** are followed and that the company is financially efficient.

**Why is transaction analysis
important?**

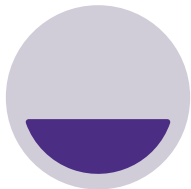
Effective Financial Reporting Governance



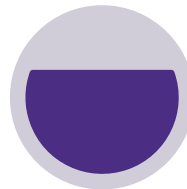
Sound Financial Reporting

Management

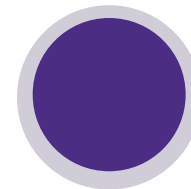
Audit



First Line of Defense



Second Line of Defense



Third Line of Defense

Management Control

The Business / Operations

Enterprise Risk Management

Legal & Privacy

Physical Security

Third Party Risk Management

Cybersecurity

Business Continuity
Management

Compliance

Internal Audit

Why is transaction analysis important?

- **Better financial reporting governance leads to better quality financial reporting.**
 - One potential avenue is from detecting and preventing fraud.
 - **Transaction analytics** for fraud prevention and detection is seen as a major step **towards efficiently reducing fraud.**

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Transaction Analysis: Pcard

Conclusion

- **Better financial reporting governance leads to better quality financial reporting.**
 - One potential avenue is from detecting and preventing fraud.
 - **Transaction analytics** for fraud prevention and detection is seen as a major step **towards efficiently reducing fraud.**

Thank you!

