

The Solitary Auditor

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Contents

Preface	vii
Chapter 1 · Tuesday, October 15	3
Chapter 2 · Monday, October 28	12
Chapter 3 · Thursday, October 31	19
Chapter 4 · Friday, November 15	27
Chapter 5 · Monday, December 2	40
Chapter 6 · Monday, December 16	50
Chapter 7 · Friday, December 20	65
Chapter 8 · Monday, December 23	71
Chapter 9 · Tuesday, December 31	80
Chapter 10 · Thursday, January 9	87
Chapter 11 · Friday, January 17	93
Chapter 12 · Wednesday, January 22	98
Chapter 13 · Saturday, January 25	103
Chapter 14 · Friday, January 31	114
Chapter 15 · Tuesday, February 4	124
Chapter 16 · Thursday, February 6	132
Chapter 17 · Saturday, February 8	141
Chapter 18 · Friday, February 14	147
Epilogue	168

Preface

Since Congress passed the federal securities laws in the early 1930s, independent auditors have served as the appointed watchdogs for our nation's capital markets. The investing and lending public trusts auditors to pierce the veil of secrecy surrounding modern corporations and ferret out window-dressed financial statements intended to dupe the unsuspecting. Unfortunately, the long roll call of financial scandals that includes Enron, WorldCom, Madoff Securities, and Lehman Brothers, among many others, suggests that trust has often been misplaced. Each successive scandal imposed multi-billion dollar losses on investors, further undercut the public's confidence in our nation's capital markets, and raised increasing levels of doubt regarding the competence and diligence of independent auditors.

Just as damaging to the psyche of the investing public has been the litany of insider trading scandals that have rocked Wall Street in recent years. Shockingly, several of those scandals have involved independent auditors, including the vice chairman of a Big Four accounting firm. In another case, the FBI captured on videotape a senior partner in the West Coast audit practice of another Big Four firm accepting bricks of \$100 bills in payment for confidential information that he had given to a golfing buddy. The prison sentences handed down to those partners by the federal courts did nothing to salvage the investing public's trust in the integrity of independent auditors.

Before identifying measures to strengthen the independent audit function and enhance its credibility, it is first imperative that we better understand the pressure-packed and secretive work environment of independent auditors. *The Solitary Auditor* pulls back the curtains on that shadowy work environment and reveals the inner workings of independent audits and the circumstances that often diminish, if not destroy, the quality and usefulness of those audits. Although a fictional work, the storyline of *The Solitary Auditor* relies almost exclusively on specific circumstances and events drawn from the hundreds of problem audits and audit failures that I have spent 35 years studying and documenting in my academic career.

The Solitary Auditor storyline revolves around a newly-minted audit senior, Michael Bishop, who learns that his client's senior executives have engineered an elaborate accounting fraud to boost their company's reported revenues and profits. To save the jobs, if not careers, of the senior BRIC accountants who have been browbeaten into participating in the fraud, Bishop agrees to cooperate with a plan developed by those accountants to end the fraud. But the plan backfires

and Bishop becomes a pawn in a three-handed cat-and-mouse game involving the fraudsters, federal law enforcement authorities, and a shadowy syndicate of inside traders who intend to make a “killing” in the stock market when the accounting fraud is exposed.

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