



SELECTED EXCERPTS

“Inside theft is an accounting term for the fraudulent transfer of value from owners, undertaken by employees for their own benefit or that of their accomplices. It consists fundamentally of the *theft act* but is usually combined with *concealment manipulations*, and frequently also with *conversional manipulations*. Inside thefts are divided into four grand divisions: (1) Theft by Transfer of Possession (the *larcenous thefts*); (2) Thefts by Misrepresentation (the *manipulative thefts*); (3) Thefts by Transfer of Legal Title (the *legal thefts*); and, (4) the *miscellaneous thefts*.”

“The imposition of a burden of discovery and action on the employer is the essence of the accounting concept of the theft act. The theft act creates a situation whereby, without any further fraudulent act by the thief, the employer will suffer loss unless he takes action (a) to effect recovery from the thief or (b) to arrest a fraudulent chain of routine that has been put into motion by the thief.”

“Recorded bookkeeping debits and credits are concepts familiar to students of accounting, but recorded debits and credits are only one variety of fraudulent manipulations, and are combined with the unrecorded debits and credits of omitted entries to produce total manipulation. The total manipulation may, therefore, consist of recorded debits and credits (positive manipulations), of unrecorded debits and credits (negative manipulations), or of combinations of recorded and unrecorded debits and credits. ... The theoretical concepts of audit surveillance are not clear unless we think in terms of manipulative debits and credits, not in the familiar dimension of bookkeeping debits and credits. ... Moreover, **we must accept the reciprocals of omitted entries as realities** in our thought process and cease trying to reason in terms of the omitted bookkeeping debits and credits.”

“The *fictional manipulations* of the accounts fall into four general groups, comprised of seven distinct categories, which are found in endless local variations of both *permanent transfers* and *temporary transfers*. This profusion of fictional manipulations, combined with *restitutional* and *conversional manipulations*, and with many forms of *disassociation* and *ancillary concealment* ... produces an infinite variety of theft sequences. However, infinite variety per se will not confuse the craftsman who knows well the principles of his art.”

PRINCIPLES OF AUDIT SURVEILLANCE

“Manipulations of the books is basically the concealment of the complements, either in simultaneous combination with theft (the manipulative thefts) or in pure concealment. Complements are concealed by movement, for each move is designed to move the complement to a better hiding place where, chameleon-like, the complement assumes the outward appearance ...”

“... a further fact that is of primary importance in test auditing: The highest probability of detection – in relation to the effort expended – lies in the very first tests that are made!”

“... consider that a specific test seldom represents the total protection against a particular theft pattern – that a fraudulent transaction or manipulation usually runs the risks of several scrutinies as different phases of the theft sequence are included in different test areas.”

“Once a test of an entry or transaction is begun, the surveillance auditor must marshal all of his skill and perseverance to complete it, and must permit nothing – no difficulty, no person, and no circumstance – to stop him. This dogged persistence is dictated by pure objective logic, not suspicion.”

“The auditor does not reopen and probe these situations from an attitude of suspicion, but in an objective discharge of a routine duty of surveillance – as objectively as an inspector in a shoe factory examines a pair of shoes on an assembly line.”

“Collusion between employees, or between employees and outside parties, can circumvent internal controls with such ease that it can be categorically stated that internal controls are not a defense against collusive thefts.”

The purpose of audit surveillance is to “locate conclusive evidence of a single fraudulent manipulation which will change routine surveillance into an unrestricted search for theft.”

“A strong deterrent, that does not now exist, will come into being when potentially dishonest employees come to realize that every public and private auditor, regardless of grade, has a training in theft detection and knows the ramifications of theft patterns.”

“To the public accounting profession, *Principles of Audit Surveillance* presents a challenge to reappraise its position with regard to inside theft and to assume additional duties, responsibilities, and liabilities in an area where only the accountant is qualified to function and has routine access to the confidential records where evidence of a crime is concealed.”