

Some things to Memorize for the Final Exam:

Financial Statement Fraud is:

The **INTENTIONAL** misstatement of financial statements through omission of critical facts or disclosures, misstatement of amounts or misapplication of accepted accounting principles. Usually committed by CEO on “behalf” of the company to keep stock price high, obtain bank loans, win bonuses, hit target earnings.

FRAUD EXPOSURE RECTANGLE = “FIRM”: where to begin looking

- 1) **F**inancials: financial results and operating characteristics: Financial Analysis needed
- 2) **I**ndustry: organization and industry, Benchmarking: compare to similar organizations in same industry
- 3) **R**elationships: relationships with others (Organizations and Individuals, i.e. collusion)
- 4) **M**anagement: understand what is motivating management & background checks

FRAUD TRIANGLE “MOR”

- 1) **M**otivation or Pressure
- 2) **O**ppportunity
- 3) **R**ationalization

WHAT SYMPTOMS TO YOU LOOK FOR WHEN YOUR SUSPECT WON'T “TALK”?

- 1) **T**ips, complaints
- 2) **A**nalyze accounting data (compare, trend analysis, common size, ratios) and documentary evidence
- 3) **L**ifestyle and Behavior
- 4) **K**ontrol issues