

# Good example of article review on data

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## **Where Auditors Fear to Tread Article Review**

In the article *Where Auditors Fear to Tread*, Paul M. Clikeman brings to light the issue of earnings management. Clikeman argues that earnings management should be classified in the same category as fraud because both earnings management and fraud have one thing in common: misrepresenting the organization's financial performance. Clikeman goes further to allege that the flexibility within GAAP (General Accepted Accounting Principles) allows this subtle form of fraud to take place. He further asserts that this unethical practice is either ignored or even encouraged.

The article also gives some of the reasons as to why managers may be tempted to manipulate earnings. One, managers may worry that the market will react negatively when the company performs below forecasts. Secondly, the organization may be under pressure to "smooth" earnings such that subsequent earnings will not look poor in comparison. Thirdly, companies may falsify their earnings for regulatory motives. Clikeman, however, warns that managing earnings may have long-term implications for the company. For example, there may be sanctions against the enterprise and erosion of ethical standards within the business.

The points raised by the author are important to the audit profession because it is a wake-up call to auditors to be more vigilant when auditing financial reports of any organization. The article is also appropriate to the audit profession because the author gives important insights that may be useful in noticing management of earnings within an organization. For example, checking for substantial year-end transactions and reviewing the

organization's trends may assist in noticing any anomalies.

I agree with Clikeman that earnings management is something that auditors may tend to overlook, though it is the equivalent of fraud. However, I disagree with Clikeman that earnings management is accomplished because of weaknesses of the current accounting principles such as GAAP. Almost every accounting principle requires concise and clear reporting financial reporting and no accounting standard would condone falsification of financial reports. To mention a few, the ASB (Accounting Standards Board) and IIA (Institute of Internal Auditors), for example, stress the importance of maintaining integrity when assessing financial documents.