

Report on financial statement fraud scheme case study

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As our company is in process of conducting investigation to detect any financial statement fraud or abuse, I have come across the case where expenses were recorded in the financial statement under the period it was disbursed to vendor and actual services occurred in next or other financial year period.

It's against the regulation of SEC and GAAP guidelines. In this particular case the repair were completed in current year and vendor was prepaid for services in full last year financial period, which a violation by recording expenses in the wrong period. No one took the funds and commit fraud but it shows inaccurate expenses and revenue in financial statement for both current and past years. It was done to maintain the repair budget for last year as there was room to spend more last year , so the plant supervisor and purchase manager decided to pay in advance last year and actual services were occurred this year.

As per scope of examination a company can lose a substantial amount of revenue through occupational fraud and abuse. There is several deterrence methods can be implemented by a company to avoid frauds and abuse by employees. This misleading financial statement fraud may impact our company's investment potential, credit worthiness, business operation, and employee morale (Wells, 2005). The SEC Acts of 1933 and 1934 were passed by Congress of United States to provide sources of potential liability for accountants to ensure protection for investors and for facilitation of orderly capital markets (Lowers, Ramsey, Sinason & Strawser, 2007).

These acts enforce accountability on accountants to practice integrity when working for clients and financial institutions by reporting misstatement
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disclosures in financial statements. As a forensic auditor I collect evidence from company's employees, customers, vendors, and anonymous sources. The sampling tools and techniques used in this investigation consists systematic random selection of data from selected sources. The forensic accountant use computer forensics, data analytics and interviews to allow them to assemble much of the required evidence for an investigation.

This abuse was detected when we see the invoice of heavy amount paid by end of the last year without any inspection report or repair completion document in file. The further investigation showed it was done later this year. No employee took any funds to commit financial fraud or larceny but the financial statement were misleading to the users of those statements. A company may experience such type of abuse or corruption schemes developed at any given time, more than one area or all over the company.

Corruption can be performed by fraudster employees who intentionally and wrongfully use their influence to gain personal financial gain from company business transaction. It can be limited to a particular department or it may exist in all structural levels. It is vital for a company to review financial status routinely to ensure proper accounting and reporting procedures are followed in entirety of company business transactions. It is extremely important to review before an end of year transactions with heavy amounts to ensure validity of amount and services occurred in that financial year.

There are many other red flags an investigator or auditor can find to detect such recording of expenses in wrong period. For example when there is an abnormal growth in number of day's sales in receivable or decline in day's purchases in accounts payable. These abnormalities and abuse can be <https://assignbuster.com/report-on-financial-statement-fraud-scheme-case-study/>

avoided through reviewing acquisitions journal, general ledger and accounts payable master file to ensure that there are no large or unusual amounts. Also review vendors' invoices, receiving reports, purchase orders and purchase requisitions to verify that they are valid and are for reasonable amounts.

Trace inventory acquisitions to the inventory master file to verify that items recorded as inventory are all valid. Trace receiving reports and vendors' invoices to the acquisitions journal to verify that all received goods have been properly recorded. Compare transactions recorded in the acquisitions journal to the vendors' invoices, receiving reports, purchase orders, and purchase requisitions to verify that they have been recorded at their correct amounts, date, and quantities.

Other factors that aided in this investigation are from checking cash, and disbursement journal entries to be dated with the date of the check. The related monthly general ledger summary entries shall carry the date of the month summarized. Procedures that need to be implemented to ensure that fraudulent processing of vendor invoices does not exist would consist of:

- Only original invoices being processed for payment
- Proper authorization obtained for price differences on invoices
Proper authorization obtained for quantity differences on invoices
- Invoices received from authorized vendors
- Check stock should have pre-printed sequential numbers and logged in a register
- Separation of duty for printing and mailing of vendor checks
- Separation of duty for computer vendor master's listing and updates

- Ensure merchandise is properly delivered to a company facility.
- Reviewing general ledger entries for unusual amount and date of the year.

The substantive procedures to test effectiveness of internal controls for recording expense is to examine accounting records, reports, documents, control related activities, and client procedures. The implementation of above mentioned procedures will decrease the risk of fraud and abuse in an organization.

References

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2. Hoboken, NJ: McGraw-Hill. Mulford, C. W. , & Comiskey, E. E. (2002). The Financial Numbers Game. Hoboken, NJ: John Wiley & Sons, Inc.