Lehman brothers: fraudulent financial

Finance

Lehman Brothers: Fraudulent Financial

Lehman brothers deliberately influenced their accounting with the motive of deceiving their regulators, investors and rating agencies. Due to this, it led to the largest company bankruptcy in the United States history. There were various failures in company governance and financial and auditing controls (Henning, 2010). It was observed that Lehman brothers repetitively increased its company's internal risk controls and limits. In addition, Lehman brothers collapsed because of different terrible decisions made by the management.

Lehman brothers used Repo 105 in changing the company's balance sheet. Repo 105 is a financial accounting device mostly used by corporates. During the first and second quarters of 2008, Lehman removed $50 billion of deadly assets off its balance sheet, instead of the company selling and recording these deadly assets at a loss (Henning, 2010). Also, Enron did the same thing done by Lehman brothers with some specific assets like the notorious Nigerian barge deal.

Through a gap and a loophole, accounting rules enabled Lehman brothers to treat the transactions of Repo 105 as sales instead of financings. The chief financial officer in Lehman brothers was involved in emails that stated that the main purpose of Repo 105 was to decrease the balance sheet's liabilities. On the other hand, Repo 105 was not disclosed to investors, board of directors in Lehman brothers, rating agencies and government regulators (Henning, 2010).

In conclusion, when a 50% equity return was reported by Lehman brothers, the regulators did not investigate what was wrong. In the finance and risk management world, it is self-evident that any company or bank that is far away profitable than the others must be conducting unlawful business (Henning, 2010). Like in the Enron prosecution, in making a security fraud case against the executives of Lehman brothers, witnesses who will explain the primary transactions and offer testimony of the events that took place will be needed. In identifying fraud, the company could estimate all its financial statements. This is a good way for accountants to look for fraud.

Reference

Henning, P. J. (2010, March 12). In Lehman's Demise, Some Shades of Enron. The New York Times. Retrieved April 18, 2014, from http://dealbook. nytimes. com/2010/03/12/in-lehmans-demise-some-shades-of-enron/