

Accounting fraud



Fraudulent acts are common in many organizations spread all over the world. Majority of the organizations have got some employees who are self centered and their objectives is usually attaining their selfish gains at the expense of others. Their scandalous acts take the form of fund misappropriations, overstatement of company's revenues, disclosing the organization's expenses partially, and underreporting the existence of the companies' liabilities. These acts have been reported common amongst those individuals in the top management. However, it is obvious that their intentions are fully executed with the corporation of other few affiliates within the firm who share a common interest (Zack, 2009).

The main cause of organization failure is that of fund misappropriation and inequitable distribution of resources. Existence and growth is always one of the goals that many organizations aim to achieve. This objective of existence is only made possible by handling the incomes and other capitals professionally. Recruiting competent personnel who can be entrusted to handle the organization's finances is more often a challenge to many companies. It is therefore not astonishing to learn on many organizations contemplating shutdown decisions due to bankruptcy.

Accounting fraud has come to a rescue of many companies which would have failed in the competitive market shares. Accounting frauds help to reveal the misdeeds of corrupt and self interested personnel within the organizations. Currently, there are specific audit firms that perform the task of accounting frauds. Most firms are external and independent from the organizations under study. In case the stockholders feels dissatisfied of the accounting reports presented by their own accountants, it is their duty to

hire external audit firms to counter check the reports presented. A good example of the external audit firm is that of Ernest and Young.

One of the current topics on accounting fraud in New York Times is that of Lehman Brothers Holdings Inc. since its inception early 1850s, Lehman Brothers Holdings had developed and nourished in the market share. It majorly dealt with financial investments and banking. This company engaged in fraudulent act of concealing their bad investments and understating their assets. Further, the company is reported to have been underreporting its liabilities thus revealing a falsified statement of financial position to the public. In essence, Lehman Brothers Holdings used accounting tricks whenever it encountered serious losses and decline in operations (Perler & Schilit, 2010).

The tricks used by this company were however short lived. A comprehensive report was tabled out in March 2010, revealing the gimmicks used by the company to conceal the information that was important to the entire public. This report concluded that the failure of the firm was attributable to bad mortgage holdings and excess outstanding debts. Ernst & young audit firm was sued by the New York attorney for falsely representing its client which amounted to a large accounting fraud. It was very wrong for the audit firm to mislead the shareholders about the well being of the bank.

Decline of the Lehman Brothers Holdings could have possibly been reverted by using appropriate principles of internal controls. Such principles include detective controls, preventive controls, fraud prevention, and automated controls. Usually, the primary objective of internal control is to prevent fraud

occurrences. Had the company used the automated principle of controlling fraud, it could have not been a victim of circumstances. This involves the use of machineries such as computers programmed using mathematical algorithms to keep accurate information on the companies' operations. The machineries are in a position to detect flaws hence allowing the company to take appropriate actions. Alternatively, The Company could have used the control measure of preventing frauds. Prevention involves discouraging those individuals engaging in fraudulent activities. Detective controls facilitate the accomplishment of the preventive measures.