Case 7.8 first securities company

Business

From the time Ladislas Nay arrived to United States at a young age of 18, he learned that this was the land of opportunity, this sense of hope allowed him to achieve " success.

" However, his " success" led him to not only cheat and steal people out of their money; it also led him to steal a life filled with happiness for himself and his family. Living with this guilt, and no longer could bear the burden of deceiving widowers out of their money he committed suicide, by not only killing himself but his wife as well.

This all began with Ladislas Nay working in a small brokerage firm; he worked hard learning the ropes of the business. From there he went on to work for a few more businesses before landing his final job working for the brokerage firm of Ryan-Nichols & Company. This is where it all began for Ladislas Nay, after a few years of working for Ryan-Nichols and Company; he achieved the status of becoming President of the company and had more than 90 percent of the company's outstanding common stock. He was very well known; he had many friends and was liked by all his clients.

Ladislas Nay began his manipulation by telling his clients to invest into a fund that he was in charge of. He then turned around and used the funds to lend to other companies; these companies would pay interest on the money loaned. However, Ladislas Nay own company was not aware of him taking people's money and loaning it to other companies. He was scamming friends and widowers into investing large amount of money into this so called " fund. " After 30 years this all came to a final end, and Nay's scam was exposed.

Everyone became aware of Nay’s so called “ fund,” and how he had achieved in scheming friends out of their money.

He left them with nothing, and even left one widower “ penniless. ” However, investors were not happy with this and decided to file a civil lawsuit in order to retrieve their millions of dollars of money they had invested with Nay. Investors felt that if Ladislas Nay’s company where investigated properly this whole scam could have been prevented. However, the courts weren’t hearing this and felt the company was investigated properly.

Investors would not give up and pursued in trying to get their money back. They were in and out of court rooms, until finally the investors decided to go after the previous accounting firm.

The investors filed suit against Ernst & Ernst, their defense was negligence, investors felt this type of negligence could have been avoided if only they did their jobs correctly. The accounting firm failed to comply with the General Standards rule 201, which states that agencies must exercise due professional care, professional competence, planning and supervision and having sufficient relevant data.

In order for Nay to keep himself from being detected of committing fraud he had established a “ mail rule,” where no one was allowed to open or touch any letters that was for him or sent to him. Auditors relied on internal evidence as their source of evidence on documents provided in order to base their opinion. Nay’s illegal act caused financial statements to be materially misstated and external auditors were not aware of his illegal acts.

This type of ineffective internal control risk would have been detected by auditors if only they did their job correctly.

An audit team's responsibility is to design procedures to provide reasonable assurance that material frauds that might misstate the financial statements are detected. This would have raised a red flag and they would have approached Nay with a professional skepticism. They would have requested all documents as evidence, in order to validate whether what he was saying and stating in fact was true. Auditors would have traced all documents to test whether all events are recorded, which would have established a state of completeness.

However, due to false documents, the auditors would have found Ladislas Nays of committing fraud.

The courts felt differently and dismissed the case stating there was no substantive evidence to support the allegation. Investors were unhappy with this and decided to appeal this, the SEC became involved and also stated that the investors were entitled to documents that were of true statements, and the duty of the auditor is to provide this. The courts felt the auditor's intention was not of negligence or fraudulent behavior, and decided there was not enough evidence to hold them liable for this and the court dismissed the case.