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Accounting fraud motivation

Yuquan (Frank) Yu

College of Saint Benedict/Saint John's University

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ACCOUNTING FRAUD MOTIVATION

Yuquan (Frank) Yu

Accounting' 15

Why focus on Accounting Fraud?

- Accounting fraud is a hot topic in the 21st century, and this phenomenon still exist, especially in the early of 21th century. Each fraud caused investors, employees and stockholders at heavy cost.

For Audiences

- Accounting Students
- Accounting Firm Auditors, Managers and Employees
- Students doing research on accounting fraud

Research Questions

- What are the common themes of these accounting scandals?

Key Papers or Articles

- *“The 10 Worst Corporate Accounting Scandals of All Time”* The evaluation of the major scandal
- *“Freddie Mac, Four Former Executives Settle SEC Action Relating to Multi-Billion Dollar Accounting Fraud”* By SEC
- *“Waste Management Founder, Five Other Former Top Officers Sued for Massive Fraud”* By SEC
- *“The Accounting Fraud @ WorldCom: The causes, the characteristics, the consequences, and the lessons learned ”* By Javiriyah Ashraf

Research Methodology

- Find and analysis the report from SEC and other scholars
- Find the news of those fraud cases
- Collect the information and compare each fraud cases and analysis them based on the fraud triangle

MOTIVATION

Major Accounting Scandal

- Freddie Mac
- Waste Management
- WorldCom
- Xerox
- HealthSouth
- Enron
- Lehman Brothers
- Olympus
- Satyam

Fraud Triangle



Pressure

Financial Difficulty

**Customers and investors'
expectation**

**Lose Corporation position and
statues to the Public**

Financial Difficulty

Lehman Brothers
Founded in 1850



Hide over
\$50 billion in loans
disguised as sales



Under pressure of
2008 financial crisis

Satyam
Founded in 1987



Falsely boost
revenue by
\$1.5 billion



Under pressure in
the financial crisis
in 2008-2009

Enron
Founded in 1968



Shareholders lost
\$74 billion



Burdened with
debt and money-
losing in business

Customers and investors' expectation

WorldCom
Founded in 1983



Inflated assets
of **\$11 billion**
in 2002



CEO under pressure to meet expectations of analysts at Wall Street and pressure pay his luxury lifestyle

HealthSouth
Founded in 1984



Inflated
\$1.4 billion in earnings to meet stockholders' requirement



Pressure to meet the stockholders' requirement

Xerox
Founded in 1906



Overstated its revenues during the past five years by almost **\$2 billion**



Got pressure on selling, they want to meet customers and investors expectation

Lose Corporation position and statues to the
Public

Freddie Mac
Founded in 1970



Intentionally
misstated
\$5 billion in
earnings in 2003



SEC investigated
they **under**
pressure to have a
predictable and
growing earnings
to customer

**Waste
Management**
Founded in 1971



Reported
\$1.7 billion
in fake earning in
1998



Greed and pressure
a to retain their
corporate positions
and status to the
public

Olympus
Founded in 1919



Hide near **\$1.5**
billion loss



Olympus loss
almost ¥1,300
billion in
investment. They
do not want to
show the loss to the
public

Opportunity

**Poor Audit System and
Internal Control**

**Ethics and Technique
Issue**

Cultural Issue

Poor Audit System and Internal Control

HealthSouth



Lack of strong internal control

Lehman Brothers



Inside of Lehman, there was a unit called the Product Control Group did a terrible job

Xerox



Terrible internal control

Ethics and Technique Issue

Freddie Mac



1. Accountants lack of sufficient accounting expertise
2. Internal control and management weaknesses

Waste Management



1. The manager offer auditors opportunity to earn additional fees through “special work”
2. Auditors and workers ethical standard are low

Enron



1. Financial officials lacked the background for their jobs
2. The tracking of daily cash was lax. Internal controls were inadequate; contingent liabilities were not disclosed.

Cultural Issue

WorldCom



1. Lack of a culture that rewards integrity and honesty
2. Lack of strong internal control

Olympus



1. Terrible internal control
2. Audit system is not perfect
3. The company is so “Asian”

Satyam



In Indian culture, the employee cannot challenge and question the manager

Rationalization

- Rationalization is a company's excuse. That can help company to transform their illegal behavior reasonable

WorldCom



1. It is a one-time act, the economy will get better
2. I have a reputation to maintain, I must be a proper role model for the people
3. “No one will get hurt”

Olympus



The company only follow the CEO

Enron



The famous rationalization at Enron was, “What do we have accounting rules in this country for, if you do not use them.”

HealthSouth



“It happened over time as we lied a little bit more and more and rationalized it every time.”

Satyam



“Given that, it’s easy to rationalize that while we’re just a little short on the numbers now, we will make it up in the future, and nobody will know.”

Xerox



The senior executives thought that the non-GAAP recognition of revenue would just be a short-term thing and eventually fixed in the long run

Waste Management



They think themselves would
honor their agreement and
make the adjustments

Lehman Brothers



“Lehman needed to do it to
keep the business alive and
“protect” the stakeholders.”

Conclusion

- The common themes of major fraud:
 1. The companies need the to make fraud to release pressure
 2. Lack of the internal control
 3. Unethical employees and managers
 4. Do not have a strong company culture
 5. The employee do not have a good ethical standard
 6. The management team of the company believe that they would not be caught because they just false report a little amount money each time

Further Research and Limitation of Existing Research

- I will expand the topic more about other factor such as external factors, employees' mental status
- Find more cases in all over the world, and compare them country by country
- Doing research on how to prevent the accounting scandal, and make conclusion of those companies preventing experience

Questions?

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Thank You