

## Week 6 Accounting 2303 Resource

### Chapter 4 Part 1: Fraud

Hello everyone! This week will be talking about fraud. Additionally, I will be providing Accounting group tutoring sessions from 6:30-7:30pm on Tuesdays over Microsoft Teams each week. If you would like to attend those sessions or want to schedule a 1-on-1 appointment with one of our fantastic accounting tutors, please visit [www.baylor.edu/tutoring](http://www.baylor.edu/tutoring) to make an appointment!

-Jerry

#### Questions:

##### What is fraud?

Fraud is any intentional misrepresentation of facts. This usually causes some sort of injury or damage to another party

##### What are the types of accounting fraud?

Misappropriation of Assets	Fraudulent Financial Reporting
<ul style="list-style-type: none"><li>◆ Committed by employees</li><li>◆ Theft of money or inventory</li><li>◆ Bribery or kickback schemes</li><li>◆ Overstate expense reimbursement</li></ul>	<ul style="list-style-type: none"><li>◆ Committed by managers</li><li>◆ False and misleading entries in the books</li><li>◆ Deceives investors and creditors</li></ul>

(Source: Pearson Education 2015)

##### What is the fraud triangle?

The fraud triangle illustrates the three most common reasons people commit fraud in organizations.

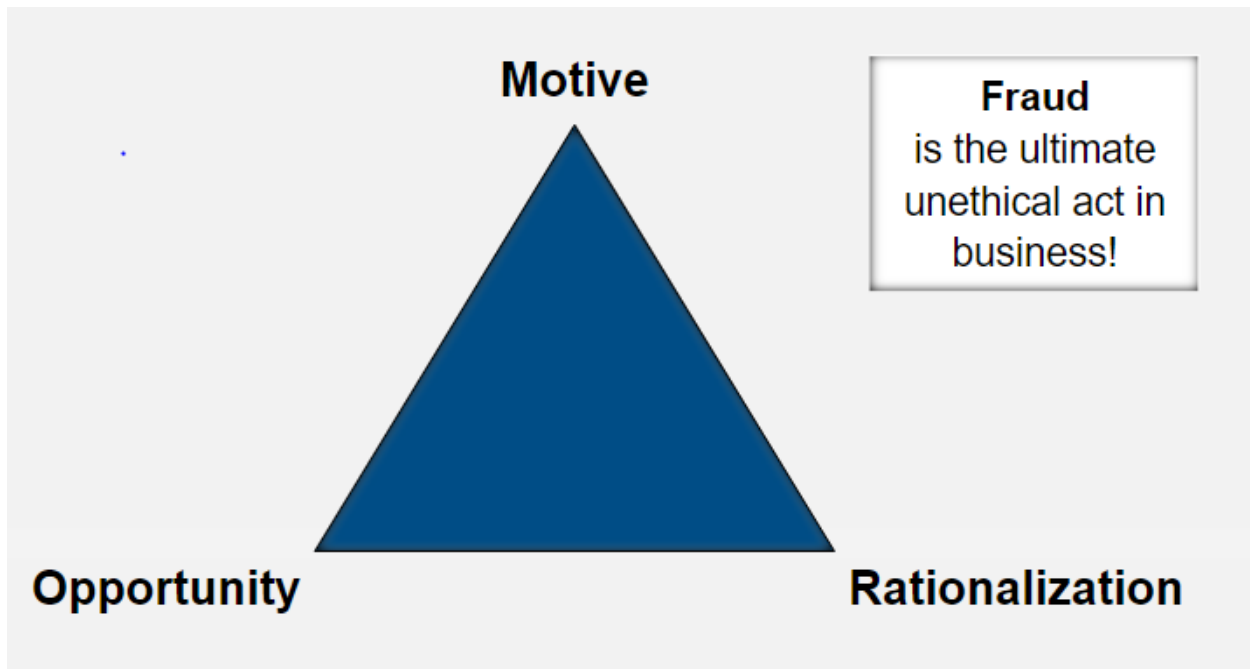
The three reasons are:

**Opportunity to Commit Fraud:** Management leaves holes in company procedure allowing people to commit fraud

**Rationalization:** People give a justification for why committing fraud is ok (For example: "It's just one time and I am short on cash")

**Motive:** External and internal factors push people towards fraud (e.g. underpaid staff)

The Fraud Triangle:



(Source: Pearson Education 2015)

The following video give a more in-depth description of the fraud triangle:

<https://www.youtube.com/watch?v=4nZtnU4fUFs&feature=youtu.be>

#### What are internal controls?

Internal controls are policies and procedures that minimize the pull of the elements in the fraud triangle to try and prevent fraud.

Internal Controls are implemented by managers and the Board of Directors.

Internal Controls minimize fraud by **preventing, detecting, and correcting** errors and fraud

Internal controls also hone in on making an operation more effective



(Source: Pearson Education 2015)

### **What is Sarbanes-Oxley (SOX) and what does it do?**

This legislation requires that publicly traded companies keep robust internal control systems and report on the internal controls to external entities

This legislation also created the Public Company Accounting Oversight Board

The following video is 10 minutes long but does a great job of explaining the SOX legislation and its background:

<https://www.youtube.com/watch?v=eeQagPytR-o&feature=youtu.be>

### **What are internal control procedures?**

Smart Hiring Practices: Conduct background checks, quality training, and competitive salaries

Separation of Duties: Keep custody, approval, and recording separate (Remember this through the word CAR!)

Comparison and Compliance Monitoring: Conduct routine audits

Adequate Records: use prenumbered documents, record details of transactions, use hard copy or have an electronic copy of business data

Limited Access: limit access to assets through lock boxes, passwords, encryption

Proper Approvals: Require management, purchasing, receiving, and credit departments to approve certain actions

### **Works Cited**

<https://www.edspira.com/>

Financial Accounting by Harrison, Horngren, and Thomas, 12th Edition, Prentice Hall via Pearson Education 2015