See the irony, for Satyam Fraud case, class action suit have been filed in US whereas in India still CBI, SFIO inquiry is going on. But even after fair trails how the investor in India will be compensated due to massive nature of fraud. Whereas in US due to class action suit, investor will at least recoup part of the losses if won the same in court. Should India also have such kind of law to prevent management disaster like Satyam fraud. Need much political will.. but may happen in future.

Was wondering how many options would be available to do financial statement fraud. Read in various website that financial statement fraud often called as occupational fraud can be categorised into the following three category
a) Financial Statement fraud
b) Misappropriation of assets and
c) Corruption & Bribery.

There are various ways in which the financial statement fraud can be done. SEC has lots of history and also various research has been done on the same topic identifying various methods. Some of this type of risk can be categorised as follows (courtesy SEC- AAER's filing)

- Manipulation of Receivables
- Misappropriation of Asset
- Manipulation of Assets
- Bribery & Kickbacks
- Manipulation of Expenses
- Goodwill
- Manipulation of Liabilities
- Improper Disclosures
- Manipulation of Reserves
- Investments
- Revenue Recognition

Revenue recognition is one of the important and most used way of doing financial statement fraud.

Even in Revenue recognition it can be

a) Recognizing inappropriate amount of revenue
b) Recognition of revenue from sales transactions billed, but not shipped
c) Recognition of revenue where there are contingencies associated with the transaction that have not yet been resolved
d) Improper accounting for or failure to establish appropriate reserves for returns
e) Recognition of revenue when products or services are not delivered

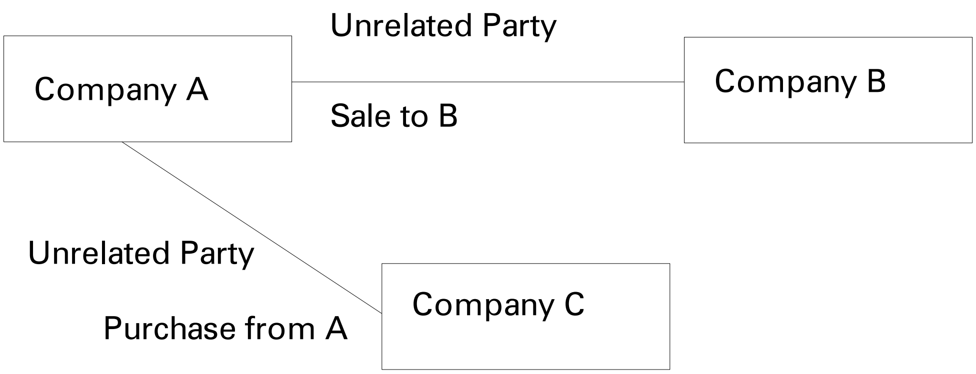
Thus there are various schemes devised so far and will be devised in future as more and more people are resorting to financial statements fraud to achieve the desire objective not achieved.

However one thought came in my mind. Do this people doesn't know that there is high probability of getting caught sooner than latter. Then also there is along list.. is the legal, accounting system is not effective enough to prevent such thing with big losses..

Devising a way by which the chance of getting caught is minimal is more important. I was thinking what would be possible way to do whereby statement dressing is possible with less detection which the auditors and the investors should beware..

Here are some examples which can lie undetected if not observed properly by auditors and or investors.

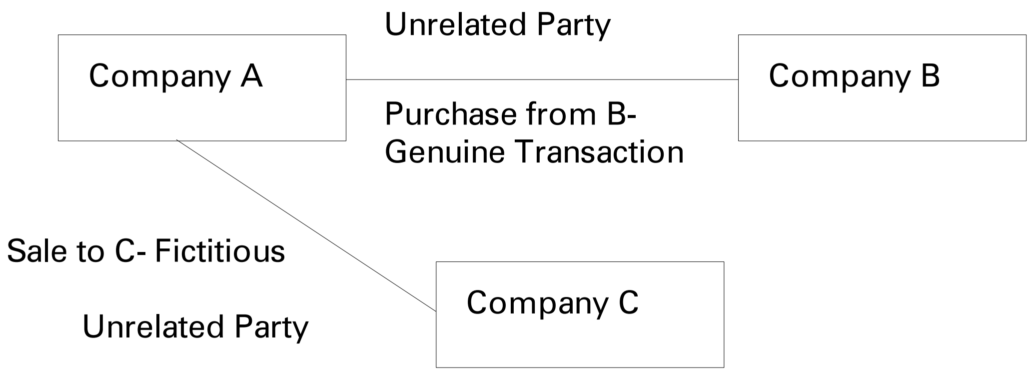
Scheme No 1.



Imagine now if Company B & C merged than what will happen to the fictitious sales & purchase balance in both the books and how Company A would be benefited is just a matter of permutation and combination. The things can be made more complicated if more and more companies are involved and the nature of transaction could not be ascertained. Thus the concern is how do we detect such fabrication .. things are not that complicated as it looks.

The auditor just need to check whether in Company A books there is journal entry which offset the account of two parties. When such entries are identified then a thorough investigation needs to be done if the amount is material to the Company A size.

Scheme No 2.



If Company C & Company B get merged, how Company A will be benefited. Magic indeed not to pay any money for purchase and increases sales and profit also. How such type of arrangement can be detected by the auditors. by far the scheme mentioned above is one of the safest way of playing with a number and also without any means to get caught. The auditors need to think in the direction of detecting fraud like this.

There can be various such scheme which can be thought of in order to get the desired result and to meet the market expectation or one's own desire and need. To identify these schemes and to prevent is not a complete and full proof solutions. The need of the hour is the deterrence through criminal,civil law should be stringent which creates a required deterrence to prevent any individual in doing the same.

According to me , apart from legal,civil,criminal liability there should also be society liability which means the person involved in fraud and causing losses to various people like employee,shareholder, government, investor should not be accepted in society and be aleniated. Unless this happens the fraud will continue....

Disclaimers : The views mentioned are the personal views. Any reference should be at own risk. The author is not any way responsible for any action taken based on the content of the article.

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