

ESV

Accounting Fraud

Case Studies and Practical Implications

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Preface

Probably ever since the infamous McKesson & Robbins case in 1938, accounting fraud has been a topic of great discussion, not only among accountants, but also among regulators, legislators and the general public. Over the years, numerous books and articles have been written about accounting fraud in general. Moreover, there is a forest of literature about corporate governance and, for example, the roles of social norms, ethics, corporate culture, incentive-based compensation, emphasis on short-term profits, audit committees, audit standards, audit firm conflicts of interests, reporting rules, securities laws, and regulatory oversight.

Most of these publications, however, miss one basic aspect: they fail to provide a clear picture of what really happened in the high-profile accounting scandals. This effort will be made in the case studies of this book. Of course, the case studies do not claim to be comprehensive. But they illuminate the most prevalent types of accounting fraud, detail the motives of the perpetrators, and explain how things turned sour. These are the stories of the world's biggest accounting scandals – stories that involve events that even now may seem difficult to believe. But they are all true. Corporate executives who were once respected and trusted businessmen revealed themselves as morally corrupt fraudsters.

The objective of this book is to bring light to the “dark side of business”. It was written, first and foremost, to help readers avoid being misled by financial statements that have been altered with creative accounting practices. The book provides a clear explanation of the ways in which management can stretch, bend, and break accounting rules to reach the desired bottom line. Thus, it will assist readers to identify those situations where reported results may not be what they seem. The more we know about accounting fraud, the less likely we are to become victims.

Besides, the authors are hopeful that this book will not only enhance fraud awareness, but also persuade corporations to move faster on the road to fraud prevention and risk mitigation. The case studies highlight the urgent need for action against fraud; they are an awful warning of what can happen if poor leadership results in fraudulent business practices. Fraud may have disastrous effects on the finances of a company, and it may also cause irreversible and often irreparable damage to the image and reputation of a company.

Writing a book such as this is never an easy task, and the authors could not have completed it without the assistance and encouragement of others. We take this opportunity to express our gratitude to all those who provided suggestions, ideas for content, and constructive feedback. Special thanks go to Karl-Herbert Hofmann, who spent countless hours reviewing the manuscript. We are also grateful to the professional services firms and corporations that have provided us with opportunities to enrich our fraud experience and background. Finally, a note of thanks goes to our editors in Berlin, Dr. Joachim Schmidt and Sebastian Engler, for guiding us through the publishing process and making this book a successful and professional product. Of course, we accept final responsibility for every word, right or wrong, and we welcome your comments, questions, and suggestions for improvement.

The book is dedicated to all those fraud-fighters who want to make a better world by reducing fraud, and to all those whistleblowers who have the guts to stand up when illegal acts have been committed.

Nuremberg, September 2010

Professor Dr. Klaus Henselmann
Dr. Stefan Hofmann

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