경영자 부정의 방지 및 탐지에 관한 사전적, 사후적 조치

Preventive and Detective Measures for Management Fraud

이 기 열 (Lee, Gi oul)*

ABSTRACT

경영자의 책임 하에 발표되는 기업의 재무보고서에 대한 신뢰성은 기업의 이해 당사자들의 의사결정뿐만 아니라, 금융시장이 제 본연의 기능을 발휘하는데 필수적이다. 그러나 부패한 경영자의 허위 재무보고는 정보이용자의 합리적인 의사결정을 왜곡 시킬 뿐만 아니라, 기업의 수많은 이해관계자 들에게 피해를 끼친다. 또한 사회전반의 재무보고서에 대한 신뢰파괴로 인해 금융시장이 혼란에 빠지며, 이는 경영자 부정에 연루되지 않은 기업까지 자본비용을 증가 시키게끔 한다. 이는 궁극적으로 금융시장의 마비, 나아가서 국가경제의 파탄을 불러올 수 있다.

본 연구는 경영자 부정의 방지 및 탐지책으로서 사전적 조치와 사후적 조치를 들고있다. 사전적 조치는 경영자가 부정을 저지를 수 있는 기회를 미리 차단하는 효과를 가진 것으로서, 기업의 재무보고서가 작성이 되어지는 기업환경과 연관이 있으며, 사후적 조치는 부정이 자행되었을 때 적발할 수 있는 조치 이다. 사전적 조치로는 이사회 및 감사위원회, 기업의 통제환경 및 내부감사제도를 들고 있으며, 사후적 조치로는 외부 감사인이 감사절차에서, 자료들 사이의 관계를 이용하는 분석적 절차를 적극 활용할 것과 분기별 재무보고서를 수시로 상세하게 검토할 것을 권하고 있다. 이렇게 함으로서 재무보고서에 대한 신뢰성제고는 합리적인 정보이용자의 의사결정을 도울 뿐만 아니라, 금융시장의 활성화에 기여를 함으로서 국가경제의 발전에도 일익을 담당할 수 있을 것 이다.

색인어: 경영자 부정, 사전적 조치, 사후적 조치, 감사위원회, 분석적 절차

Keywords : management fraud, Detective measure, audit committee

* 단국대학교 경상대학 회계학전공 부교수

Ⅰ. Introduction

Enron was a multinational company that had been created as a merger of Houston Natural Gas and Inter North of Omaha, Nebraska. It reported $101 billion of revenue in the fiscal year of 2000 after 6 years of operation, making it Fortune's the most admiring company. In that year, the Company had 21,000 employees worldwide. Over the past few years before bankrupt, Enron's revenue was jumped to over $100 billion from $31 billion in 1998, making it the 7th-ranked company of the Fortune 500. Upon smoke of the management fraud, its stock price was pummeled to less than $1 from the upper 90's in a matter of days. Enron reinstated its income statement for the past few years before bankrupt by about $586 million, amounting 20 percent of its profits. As its management fraud became publicly known, its investors lost billions of dollars. In addition, its auditing firm, a "Big-5"CPA firm, instructed its auditors to destroy their working papers, which eventually led the firm to be dissolved.

Another illustration is Cendant Corporation, a marketing and franchising giant of consumer, travel, and real estate services, whichwas formed on December 1997 as a result of merger between CUC International and HFS Inc. When the chief executive officer(CEO) of the newly formed Cendant Corporation revealed that CUC International, a merged unit, had committed management fraud before it was merged, its stock price was dropped 46 percent in one day of April of 1998. In July when the top management of the Corporation announced that CUC's management fraud was deeper than initially estimated, the Corporation's stock price was beaten another 20 percent, losing more than $14 billion market value in one day. The top management reported that CUC International had created fictitious revenue of more than $500 million and cooked up earnings totaling $200 million during the past three years. Investors are getting panicked by the word "management fraud". One analyst said, "Where there is accounting smoke, investors should watch for the fire. When you hear an announcement of a small problem in accounting, there are no small problems in accounting. They are all big problems." Numerous companies, naming a few such as Sunbeam, Waste Management, Informix, and Phar Mor, admitted all management fraud.

All these stories illustrate devastating effects of management fraud on the fairness of the financial statements and on those involved. According to the Association of Certified Fraud Examiners' 2002 Report to the Nation on Occupational Fraud and Abuse, most companies lose 6 percent of their revenues ,on average, due to insiders' fraud(ACFE 2002). If those figures were multiplied by the U.S. Gross Domestic Product, the cost of occupational fraud amounts $600 billion annually. This $600 billion would be ultimately absorbed by consumers and taxpayers, which will ;in turn, slow down the national economy.

Management, entrusted with duties of managing stockholders' wealth, is responsible for adopting sound accounting policies, maintaining internal control procedures, and making fair presentation of the financial statements in accordance with established criteria, which is generally accepted accounting principles(GAAP). But management often commitsfraud due to various motives. Such motives include desire to obtain higher stock price, favorable bond offering, postpone financial difficulties that his company may encounter, or meet stock analyst's expectation. Management fraud often shakes the public's confidence in the integrity of financial reporting, resulting in deteriorating effective functioning of the financial market as well as hampering the information users' rational decision making. The current study is aimed at finding ways to prevent and detect management fraud and is organized as follows: Characteristics of fraud is discussed in the next section, followed by causes of fraud. Section Ⅳ discusses preventive and detective measures for management fraud and followed by conclusion in section Ⅴ.

Ⅱ. Nature of Fraud

Management is responsible for the fair presentation of the financial statements in accordance with established criteria which is generally accepted accounting principles(GAAP). On the other hand, the auditor has responsibilities to accumulate and evaluate evidence about information embodied in the financial statements to ascertain and report on the degree of correspondence between the information and GAAP. Adopting sound accounting policies and maintaining an adequate internal control systems rest with management rather than with the auditor. The auditor's responsibility is to provide reasonable assurance that the financial statements are not materially misstated, whether caused by error or fraud. Accounting Standards Board(FASB) Concept 2 defines materiality as "the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, make it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

Auditing profession distinguishes two types of misstatements: error and fraud. An error is an "unintentional misstatement", while fraud is an "intentional misstatement". The word "fraud" is often used interchangeably with that of "irregularity", because irregularity involves the intention to deceive. A few occurrence of error does not harm the integrity of the financial statements as badly as fraud, since individuals perpetratingfraud have intention to deceive significant amounts. Statements on Auditing Standards(SAS) no.82 distinguishes between two types of fraud: employee fraud (often called employee defalcation or misappropriation of assets) and management fraud (often called fraudulent financial reporting). An example of employee fraud is a sales clerk taking cash at the time of sale, while not entering the sale in the cash register. Examples of management fraud(fraudulent financial reporting) are the intentional overstatement of sales near the end of fiscal year to increase earnings, the embezzlement of assets, or any types to deceive information users. Management fraud is more difficult to uncover than employee fraud because the management is in a position to override the internal control systems or collude with others to make falsified or fictitious documents. Auditing profession has continually strived to look for ways of detecting management fraud because of its significant and decisive effect on the fairness of financial information and all the parties involved including auditors.

A research study reveals that management fraud contributes more than 30 percent of bank failures(Treadway Commission(1987). The Treadway Commission's Study shows that management fraud is accountable for more than a half of bankruptcies and that 20 percent of bankrupt companies brought suits against the independent auditors. Not only investors are victims of fraudulent financial reporting but numerous others such as the followings are victims:

i) Creditors such as banks and financial institution who lend money to the company that went bankrupt
ii) Client who look to the company to perform its contractual obligations
iii) Insurance companies that experience large claims
iv) Financial analysts who give investment advice about the company
v) Independent auditors

Some of these victims, particularly independent auditors, suffer both monetary and reputation damages.Instead of seeking to recover monetary damages from the insolvent company, victims of fraudulent financial reporting may look to independent auditors.

Public confidence to the individual auditor or to the auditing firms will be shattered as a result of lawsuit. When the management commits fraudulent financial reporting, employees of the company may become victims as well. Fraudulent financial reporting has a more detrimental effect on the society: loss of public confidence. Public confidence in the fairness of financial reporting is critical for the securities market to function properly. But a single incidence of fraudulent financial reporting may shake public confidence to the integrity of financial reporting, thus resulting in collapse of the securities marketand nation's economy ultimately.

Ⅲ. Characteristics of Fraud

This section discusses the external and internal environment in which financial reporting systems are influenced and regulated, followed by causes of fraud.

A company's financial reporting systems are influenced by three major groups: Management, Independent auditors, Supervisory bodies. The management isthe key player in the financial reporting systems: it bears the ultimate responsibility for the fair presentation of the financial statements. The company's management engages independent auditors to let them examine the fairness of the financial statements in conformity with generally accepted accounting principles. In addition, several supervisory bodies which establish financial reporting standards and monitor compliance with those standards also influence the reporting function.Those supervisory bodies include Securities and Exchange Commission(SEC), Financial Accounting Standards Board(FASB) of the American Institute of Certified Public Accountants(AICPA), accounting profession, and courts. The Security and Exchange Commission (SEC) is responsible for administeringthe securities laws and disclosure requirements. The company looks to accounting principles set by the Financial Accounting Standard Board (FASB) of the American Institute of Certified Public Accountants (AICPA) when it prepares the financial statements.On the other hand, the company's accounting department is responsible for the preparation of financial statements. The chain of command supervising this function goes from the controller to the chief financial officer(CFO) and then to the chief executive officer(CEO). The legal department administers the company's compliance with the applicable laws and regulations. The internal audit department performs a watchdog function to examine, analyze, and recommend on the company's financial reporting function. The board of directors is responsible to the company's stockholders for monitoring the management function. The board of directors generally delegates this responsibility to the audit committee. All these internal functions of the three groups influence the company's financial reporting processes.

The Treadway Commission reports that certain environmental, institutional, or individual forces and opportunities allure individuals and companies to engage in fraudulent financial reporting and those forces and opportunities are present to some degree in all companies. Key suspects for management fraud are desires to obtain higher prices from stock or favorable bond offerings or to meet investors or stock analysts' expectation. Another culprits may be the management's desire to postpone dealings with financial difficulties and thus avoid, for example, a restrictive debt covenant. Or the management may be motivated by personal gain such as additional compensation basedon operating results, promotion, or avoidance of penalty for poor performance. The Commission also reports that situational pressures on the company or individual manager may also lead to fraudulent financial reporting. Examples of such situational pressures are:

- Sudden decreases in revenue or market value of stock
- Unrealistic budget pressures set by the corporate headquarter without considering actual conditions
- Financial pressure from bonus plan which depends on the performance, especially when it is significant compared to individual's compensation

The management may also commit fraudulent financial reporting when it is easier to commit and harder to be detected. These opportunities arise from:

- The absence of board of directors or audit committee that vigilantly oversees the financial reporting process
- Weak or non-existing internal accounting controls
- Unusual or complex transactions such as the consolidation, divestiture, or closing of a specific unit
- Accounting estimates requiring the management's subjective judgment such as reserves for loan losses or estimates for warranty expenses
- Ineffective internal audit functions resulting from inadequate staff size or limited audit scope

In addition, weak corporate ethical standards may aggravate these situations. The Treadway Commission reports that majority of fraudulent financial reporting cases were perpetrated by the top management such as CEO, president, or CFO, even though an individual at any rank can perpetrate it. The top management may also deliberately misrepresent facts to the independent auditors by providing fictitious or manipulated documents. Preventive and detective measures for management fraud will be discussed in the next section

Ⅳ. Preventive and Detective Measures for Management Fraud

The Treadway Commission reports that management fraud often occurs in response to the presence of certain environmental, institutional, and individual pressures. Those pressures make fraud different from randomly occurring unintentional errors. Management fraud cases filed with the Securities and Exchange Commission(SEC) show management's involvement in improper revenue recognition, asset overstatement, or improper deferral of expenses. Because fraud often entails forgery, creation of falsified documents, or collusion with third parties, even the auditor may find it difficult to detect through audit. To reduce the opportunities of not uncovering fraud, the auditor needs to consider preventive and detective features before planning and performing audit procedures. Preventive measures are the procedures designed to prevent theft, misuse, or defalcation of assets, while detective measures are the ones to detect those incidences when occurred.Preventive measures are related to the environment in which accounting reports are produced, whereas detective measures focus on examining accounting reports in accordance with generally accepted accounting principles(GAAP). The current study will discuss board of directors and audit committee, corporate environment, internal audits as preventive means and independent audit as detective means.

1. Preventive Measures

1) Board of Directors and Audit Committee

Principals(stockholders) hire agents(management) to perform tasks for their wealth. When hired, agent often tries to maximize his own utility rather than those of the principals. The agent would prefer to see the company's resources directed in away to improve his own welfare, even if it does not benefit that of principals to the same degree. In this case, agency cost arises when management has opportunities to increase his own wealth to the detriment of the stockholders' interests. Hence principals (stockholders) need to protectthemselves against such wealth transfers. The inherent conflict of interest exists between principals and agents, which is exacerbated by inability of the principals to directly observe the agent's performance. The need to monitor agent's performance stem from the divergence of interests between management and stockholders(Jensen and Meckling 1976). The higher the management's ownership stake in the company, the greater the alignment between management's and stockholder's interests. Hence, lesser need to monitor management exists. But a decrease in management's holding of ownership interests increases the stockholders' need to monitor management's actions.

Stockholders delegate responsibilities to oversee management's overall performance to the board of directors. The board of directors itself is a monitoring mechanism for management's performance. Theoretically, the presence of outsiders on the board of directors should increase the quality of monitoring. Because they are not affiliated with the management or the company, the outsiders can be independent representatives for the stockholders'interests. However their willingness to work for the stockholders may face limitations, because information asymmetry exists between outsiders and insiders(management). Outsiders have less information on the organization's operational activities than insiders. This information asymmetry hinders the board of directors' ability to serve as a monitoring mechanism for management. The board delegates responsibilities for overseeing and monitoring financial reporting process to the audit committee. The committee members may become acquainted with significant matters affecting financial reporting, such as accounting policies and principles, accounting estimates, internal controls, contingent liabilities, etc., by participating in theentire financial reporting process. The audit committee, in turn, helps the board of directors enhance its capabilities to act as a control mechanism for management by providing detailed information the committee has learned through the participation of financial reporting process. The audit committee may often be the first non-management group to find the management fraud. The Treadway Commission notes that "an informed and vigilant audit committee represent one of the most effective influence for minimizing fraudulent financial reporting."(The Treadway Commission, 1987 p.183) Pincus et al.(1989) note that the audit committee is viewed as a monitoring mechanism to improve quality of information flow between principals(stockholders) and agent(management). In addition, the Securities and Exchange Commission(SEC) encouraged the firms to establish the audit committee composed of outside directors to shield investors relying on the financial statements from management fraud. This regulatory agency show importance of the audit committee composed of the independent members.

2) Corporate Environment

Top management must establish the proper environment in which financial reporting processes are developed, i.e., one in which fraud is less likely to occur and more likely to be detected, if it happens. The corporate culture is one of the most important aspects contributing to the integrity of the financial information. The corporate control environment should include management philosophy and operating style, organizational structure, and personnel management. Furthermore, a code of corporate ethical conduct is vital to the company's prosperity. In addition, top management should devise and maintain systems of internal control sufficient to provide reasonable assurance that transactions are authorized by management, transactions are properly recorded, access to assets is limited to authorized personnel, and existing assets are compared with records regularly and appropriate action is taken with respect to any discrepancies. The corporate control environment has a pervasive impact on the entire financial reporting process by which the financial statements are prepared.

3) Internal Audit Systems

Properly operated internal audit function monitors the developing processes of financial information. But for the internal audit department to perform its responsibility without any interference, top management and the audit committee should acknowledge and support its activity and independence. To insure internal auditor's independence and objectivity, internal auditors should be allowed to report their findings directly to the audit committee, not to the management.

2. Detective Measures

The purpose of financial statements audit is to express an opinion on the fairness of financial statements in conformity with generally accepted accounting principles(GAAP).

The auditor is responsible to plan and perform the audit to obtain reasonable assurance that financial statements are free of material misstatements, which caused by error or fraud. However, the auditor cannot obtain absolute assurance that all of material misstatements in the financial statements will be detected. To survive in a competitive audit market, the auditor should minimize the cost incurred in the audit process. In addition, even a properly performed audit may not detect a material misstatement caused by fraud because of the management's concealment effortsof fraudulent activity through collusion or creation of falsified documents. Due to these natures, the auditor obtains only·reasonable assurance that misstatements in the financial statements are detected. To perform efficient and effective audit, the auditor must first understand and evaluate preventive measure. To achieve that purpose, the auditor should carefully evaluate the followings :

- Top management establishes the overall corporate environment in which financial reporting occurs(Corporate Environment).
- Examine the effectiveness of the internal audit function in carrying out its responsibilities(Internal Audit Systems).
- Evaluate role of the audit committee(Audit Committee).

The auditor can reduce or expand audit procedures based on the effectiveness of preventive measures he evaluated.

KPMG Peat Marwick, one of Big Six(at then) accounting firms, reveals the following symptomsfor the management fraud:

- Poor or neglected internal control systems
- Large amount of inventory losses
- Management's overlooking on internal and external audit results
- Unusual banking activities
- Exceptionally large amounts of expenses and purchases

If the auditor notices any of the above warning signs, he should take appropriate audit procedures such as assigning experienced staffs to those suspected areas or performing more detailed tests.

To render audit opinion on the fairness of the financial statements, the auditor gathers and evaluates evidential matter regarding management's assertions embodied in the financial statements. Theauditor can validate the amounts reported in the financial statements by tests of details or analytical procedures. Tests of details focus on the details of transactions or balances reported on the financial statements, whereas analytical procedures do on the overall reasonableness of transactions or balances by utilizing relationship among data. Past research(Wallace 1983, Coglitore and Berryman 1988 Albrecht 2003) show that analytical procedures is more effective than tests of details to detect management fraud, because themanagement is in a position to override internal control procedures, manipulate documents, or collude with third parties to create fictitious documents to hide his wrongdoing. On the other hand, analytical procedures are very effective tools to discover the fraud, since they mainly use relationships among data. Analytical procedures are discussed next.

1) Analytical Procedures

Analytical procedures focus on the overall reasonableness of reported amounts in relation to surrounding circumstances. Auditors use analytical procedures to identify misstatements by examining interrelationships among financial, operational, and other data. Three major types of analytical procedures are trend, ratio, and statistical analyses. Trend analysis is to examine the trend of account balances as a basis for determining whether the current period data are out of trend, which may signal misstatements. Trend analysis technique ranges from the simple two period comparisons to statistics-based time-series models. On the other hand, ratio analysis refers to procedure that involves simultaneous comparisonof two or more accounts. The assumption behind ratio analysis is relatively stable relationships between or among accounts over time. A variation in ratio signals underlying unusual circumstances to the auditor. The unusual condition may indicate simple error, fraud, or result of changing environment. Ratio analysis is potentially a very useful method for detecting fraud than trend analysis, because ratio analysis uses the stable relations between data, while trend analysis looks at the behavior of only a single account over time. Because of this nature, the auditor may find ratio analysis to be very much effective for detecting management fraud. The behavior of ratio is expected to be stable, even though a single account balance may fluctuate over time for a number of reasons without necessarily implying any error or fraud. A statistical modeling technique can be even more effective for fraud detection than trend or ratio analysis because of its attempts to identify meaningful and stable relations among financial, operational, and other data. Statistical modeling aims at the reasonableness of an account balance by employing operating, financial, and other internal or external data. Especially a multiple regression modeling technique is a superb method to detect any fraud because of its capacity to embrace vast amounts of relevant data. Inother words, the auditor can predict account balance more accurately by employing operating and non-operating data in a multiple regression model due to the model's superiority to accommodate any variables having statistical relations between each other. Difference between reported and predicted amounts may hint the auditor about error or fraud. The advantage of a statistical modeling comes from a remote possibility that a perpetrator manipulates simultaneously various data such as operational, non-operational, and financial information. In other words, he may find it difficult to disguise, create, or falsify various documents used in a statistical modeling. Due to this nature, a statistical modeling technique can be the most effective means to detect management fraud.

If the auditor finds difference between the reported and audited amounts, he should find out the cause of difference, i.e., caused by errors or fraud. If the difference is caused by errors, the auditor may ask adjustment to the client. But if by fraud, its effect on the financial statements may go beyond the monetary effect. If he determined that fraud had been committed but its effect on the financial statements is immaterial, the auditor should bring the matter to the appropriate level of management which is at least one level above those involved and consider the implication of the fraud on the other aspects of the audit. On the other hand, the auditor should do the followings if material:

i) Consider its implication on the other aspects of audit.
ii) Discuss the matter and the approach to investigate further with the appropriate level of management at least at a level higher than those involved.
iii) Try to obtain evidence to determine the material effect on the financial statements and the auditor's report thereon.
iv) Suggest to consult with legal counsel.
v) Bring the matter to the audit committee.

2) Timely Review of Quarterly Information

Investors rely heavily on and react quickly to quarterly financial information even though that information is not audited or reviewed by the auditor on a timely basis. Although the Securities and Exchange Commission(SEC) requires public companies to include summarized quarterly data in their annual reports, those data are reviewed retrospectively in connection with year-end audit work. The Treadway Commission recommends the auditor toreview quarterly data on a timely basis to prevent and detect management fraud. Hence, the auditor's timely involvement can enhance the reliability of quarterly reports.

V. Conclusions

Management is responsible for fair presentation of the financial statements in accordance with generally accepted accounting principles(GAAP). But he often commitsfraud due to environmental, institutional, or individual factors. Such factors may include his personal desire to obtain more bonuses based on bogus earning, higher stock prices, favorable bond offering, or avoid financial stress his company may face. Such a management fraud may hamper not only information users' rational decision making, but shakes public confidence in the integrity of financial information. Public confidence in the fairness of financial reporting is critical to the effective functioning of the securities market. Loss of public confidence can increase the costs of capital even for those companies not involved in the management fraud, resulting in ultimate collapse of the nation's economy. The current study examined ways to prevent and detect management fraud. As preventive measures, the role of audit committee is vital in the financial reporting process. As the result, the audit committee may have been heralded as a major deterrent to the atmosphere that would permit management fraud to happen. Because outside directors of the board of directors have less information than inside directors, information asymmetries exist, hindering the effective function of the board to monitor the management's performance. Because the audit committee has direct access to internal and external auditors and other financial information, the audit committee may help to reduce information asymmetries between insiders and outsiders by providing information the committee has been acquainted with to the board. Hence the committee assists the board in fulfilling its responsibilities for monitoring management. The audit committee may also benefit external auditors by facilitating their independence, allowing more extensive exploration of problems, and establishing a formal procedure for the auditors' recommendations. As a part of oversight functions, the committee asks questions to both auditors and management, thus blocking opportunities that management perpetrates fraud. In addition, corporate environment in which financial reports are prepared and internal audit function in which they are internally examined are equally important.

This study also discussed the role of independent audit as a detective measure for fraud. The auditor's responsibility is limited to materiality and to provide reasonable, not absolute, assurance that the financial statements are free of material misstatements, whether caused by error or fraud. Even though the auditor's responsibility for fraud detection is limited to material amounts, he should carefully plan and perform his audit procedures to detect fraud even involving immaterial amounts because of its unforeseen effect on the integrity of the financial information. Before planning and performing audit procedures, the auditor should understand and evaluate the corporate environment from which financial information is developed. The corporate environment may include the management's integrity, internal control environment, effectiveness of internal audit systems, and audit committee. As a detective measure for fraud occurrence, the auditor can apply analytical procedures and review quarterly information on a timely basis. Three major types of analytical procedures are trend, ratio, and statistical modeling analyses. The auditor can benefit from statistical modeling, especially a multiple regression model, in detecting material error or fraud because of the model's capacity to embrace huge amounts of related data in predicting a specific account balance. Even if the auditor decides that misstatements due to fraud are not material to the financial statements, he should report the matter to appropriate level of management at least one level higher than those involved. For the case of material fraud, theauditor should discuss the matter and any further investigation with an appropriate level of management and determine its effect on the financial statements and the auditor's report thereon. In addition, he should bring the matter to the audit committee.

REFERENCES

Albrecht, W.S., *Fraud Examination*(South-Western Publishing Co. 2003)

American Institute of Certified Public Accountants, Statement on Auditing Standards No.53 : *The Auditor's Responsibility to Detect and Report Errors and Irregularities*, New York: AICPA, 1985

American Institute of Certified Public Accountants, Statement on Auditing StandardsNo.56 : *Analytical Procedures*, New York: AICPA, 1987

American Institute of Certified Public Accountants, Statement on Auditing Standards No.82 : *Consideration of Fraud in a Financial Statement Audit*, New York:AICPA, 1997

Arens, A.A., R.J. Elder, and M.S. Bealey, *Auditing : An Integrated Approach*(PrenticeHall, 2003)

Association of Certified Fraud Examiners(ACFE), *The Report to the Nation on Occupational Fraud and Abuse*(2002), Austin, Tx

Barnett, Andrew H, James E. Brown, Robert Fleming, and William J.

Reed, "The CPA as Fraudbuster," *Journal of Accountancy* (May, 1998), pp.6973.

Barton, M. Frank and Mason L. Rockwell, " Who's Responsible for the Content of Financial Statements?," *Management Accounting* (January, 1991), pp.2426.

Bell, Timothy B, W. Robert Knechel, Jeff L Payne, and John J.

Willingham, "An Empirical Investigation of the Relationship between the Computerization of Accounting Systems and the Incidence and Size of Audit Differences," *Auditing : A Journal of Practice & Theory* (Spring, 1998), pp.1338.

Bull, Ivan, "Board of Director Acceptance of Treadway

Responsibilities," *Journal of Accountancy* (February, 1991), pp.6774.

Carcello, Joseph V. and ZoeVonna Palmrose, "Auditor Litigation and Modified Reporting on Bankrupt Clients," *Journal of Accounting Research*, (Supplement, 1994), pp.130.

Coglitore, F. and R.G. Berryman, "Analytical Procedures: A Defensive Necessity, "*Auditing: A Journal of Practice & Theory*(Spring,1988) pp. 150-163.

Cottrell, David M. and Steven M. Glover, "Finding Auditors Liable for Fraud," *CPA Journal* (July, 1997) pp.1421.

Glover, Hubert D. and June Y. Aono, "Changing the Model for Prevention and Detection of Fraud," *Managerial Auditing Journal* (1995) pp.39.

Jensen, M.C., and W.H. Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure", *Journal of Financial Economics*(1976) pp. 305-360.

Knox, John, "Why Auditors Don't Find Fraud," *Accountancy* (February, 1994) p.128.

National Commission On Fraudulent Financial Reporting, *Report of the National Commission onFraudulent Financial Reporting* [Treadway Report], Washington, D.C.: Government Printing Office, 1987.

Pincus, K.V., M. Rusbarsky, and J. Wong, "Voluntary Formation of Corporate Audit committee among NASDAQ Firms," *Journal of Accounting and Public Policy*(1989), pp. 239-265.

Ratcliffe, Thomas A. and Paul Munter, "Application of SAS No.82 to Audits of Small Business," *National Public Accountant* (May, 1998), pp.2227.

Schneider, Arnold and Neil Wilner, "A Test of Audit Deterrent to Financial Reporting IrregularitiesUsing the Randomized Response Technique," *The Accounting Review*, (July, 1990), pp.668681.

Shibano, Toshiyuki, "Assessing Audit Risk from Errors and Irregularities," *Journal of Accounting Research*, (Supplement, 1990), pp.110140.

Wallace, W.A., "Analytical Review: Misconceptions, Applications, and Experience-Part1," *The CPA Journal*(January,1983) pp.24-37

Zimbelman, Mark F, "The Effects of SAS No.82 on Auditors' Attention to Fraud Risk Factors and Audit Planning Decisions," *Journal of Accounting Research* (Supplement, 1997), pp.75-98.