Financial Statement Fraud

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## Client Organization:

WorldCom

## Research Background:

The financial statement fraud includes intentionally misleading or skipped amounts or disclosures in the financial statement to deceive the statement users especially the shareholders and the investors. However, the term fraud is used in the more wider context apart from the legal perspective. Therefore, the fraud can cover falsification of financial records, intentional skipping or misrepresentations of transactions, account information, intentional misconduct of policy, procedures or regulations, presentation of improper disclosures etc. The four selected articles discuss the various components of financial statement fraud including the fraud schemes and prevention procedures. One of the articles has used the real-life example of Worldcom Accounting fraud in terms of financial statement fraud. The accounting fraud includes the external auditor Andersen too for inadequate disclosure of inflated profit terms in the company which has cost 17000 jobs and the former CEO guilty for the accounting scandal.

## Research problem/questions:

The **Worldcom based article** determines the cause, characteristics, and consequences of the financial statement fraud where issues in the economic outlook and company performance terms are considered as major complications. The third largest telecommunication company had 85,000 workers and presence in nearly 65 countries. The long distance discount service providing investor Ebbers became the CEO of the company and has made enormous expansion of the company via six acquisitions. The accounting environment of Worldcom was pressured by the growth strategy and the same directed the low-interest rate and rising stock strategy. Moreover, the article states that lack of corporate governance protocols and strategic planning has created the internal environment unhealthy where the subsidiaries were not properly investigated due to the absence of realistic strategic planning teams(Ashraf, 2011). During Sprint acquisition the competitive strategy issues were identified apart from the aggressive and competitive revenue focused management. The consequences are reflected in the accounting scandal and negative brand reputation while lessons include requirements of the proper audit committee, BOD functions, KAM structure and managing the external environment. The article on the **fraud scheme power** investigates the individual process influence in the financial statement fraud. Therefore, it identifies different acts and governing bodies like Sarbanes-Oxley, PCAOB, ACFE for the fraud detection schemes. From the perspective of agency theory, the article has given importance to the institutional control, interests, and preservation. Moreover, it determines the source of financial fraud in terms of classic fraud theory, triangle and collusions. To understand the strategic issues it has used a Fortune 500 company case study where the FS fraud is related to the power abuse and solution obstacles (Albrecht et al, 2015). Therefore, the article considers the opportunity for the co-conspirators with pressure are major issues in FS fraud and it opens the future research scopes for power theory. In case of the article on **Financial statement fraud factors**, the FS fraud term is defined according to the features of the Security & Exchange Commission as well as a certified public accountant. So the SOX based public law requirements are essential components here while the term fraud triangle seems common considering the other two articles. Moreover, this article also supports the theory of the second article that the opportunity to commit the fraud is an important point evolving the pieces of hypothesis on information falsification, external expectations, and peer performance(Woolley, 2016). However, this article has expressed one interesting fact triggering the age-long gender gap debate stating that female managers are more honest while reporting. Finally, the last article on financial statement fraud identifies the role and impact of **corporate governance participants** as well as some preventive methods. In this case, the article has covered the financial crisis terms like efficiency, liquidity, market safety in terms of accounting complication stating that realistic and effective corporate governance can prevent the fraud issues. However, the agency theory again comes back in this article like the first article expressing the need for rules and regulations(Rezaee & Kedia, 2012). It has included the issues of both Enron and Worldcom considering the litigations, capital markets, security acts, and audit. However, the preventive measures are new points here where company structure components like risk committee, proxy access, and voting seem important.

## Research aim/objectives:

From the perspective of managerial implications, the major course of actions is covered here using the four articles. The **Worldcom based article** identifies the material fact issue with line cost misstatement and accrual releases are the major problems which means both internal and external audit process need strategic intervention. That means a realistic management and strategic committee was absent from the internal system of Worldcom. The **fraud scheme** article identifies the requirement of power based dyad reciprocal model to deal with FS fraud where employee education and information flow in the vertical hierarchy is highly important. Moreover, expanding the fraud triangle from its predictable limits using practical agendas and research are needed here. In case of **FS fraud factor** article the statistical demographic analysis identifies actual performance, female performance and incentives are major knowledge and performance issue where management intervention is required. The final **preventive measure** based article confirms strong corporate governance as the key success factor.

## Keywords for Literature Review:

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| **Research Article Name** | **Keywords** |
| * “The role of power in financial statement fraud schemes.” * “The accounting fraud at WorldCom the causes, the characteristics, the consequences, and the lessons learned” * “ROLE OF CORPORATE GOVERNANCE PARTICIPANTS IN PREVENTING AND DETECTING FINANCIAL STATEMENT FRAUD” * “ An experimental testing of factors associated with financial statement fraud.” | * FSF, SOX, CEO, SEC, Corporate Governance, GAO, Antifraud * Worldcom, LDDS, CEO, MCI, Corporate Governance, Accounting Fraud,. Telecom, Auditors, Financial fraud, Fraud Triangle, Agency theory * FSF, classical fraud theory, collusion, co-conspirator theory, fraud schemes * FSF, SOX, CPA, Fraud Triangle, Agency theory |

## Data Collection plan:

In terms of methodology, the Worldcom thesis has used secondary data from the journal articles as well as peer review articles while the Corporate Governance article has used pilot test and MBA student survey based primary data. In case of factor based article the simulation related survey has used to collect the primary data (demography based statistical analysis) while the fraud scheme article has used secondary data from peer-reviewed journals and company statements.

## Ethical Consideration:

All the four articles are peer reviewed and preserves data integrity in terms of scientific validity of account failure in the FSF case. The quality assurance activities and the quality control protocols confirm that it was the largest fraud in telecommunication history. Therefore, the ethical issues cover the accounting misstatement where BOD structure, stock information and transparency in disclosure were major challenges. Moreover, the business content analysis determines groupthink pattern which ultimately led to bankruptcy.