



This course supports the assessment for Fraud and Forensic Accounting. The course covers 4 competencies and represents 3 competency units.

Introduction

Overview

The Fraud and Forensic Accounting course provides a framework for detecting and preventing financial statement fraud. Topics include the profession's focus and legislation of fraud, revenue and inventory-related fraud, and liability asset, and inadequate disclosure fraud.

Getting Started

Welcome to Fraud and Forensic Accounting! In this course, you will learn using MyEducator. This will include an e-text as well as videos and topic review quizzes with immediate feedback to improve and test your knowledge. As you move through each topic, you will also read and reflect on scholarly articles from the WGU Library. It is recommended that you complete the topics in the order listed in the Topics and Pacing outline. Competency in this course is demonstrated by the successful completion of an objective assessment.

Competencies

This course provides guidance to help you demonstrate the following 4 competencies:

- **Competency 3036.1.1: Ethical Responsibility**
The graduate explains the ethical responsibility of providing accurate financial information.
- **Competency 3036.1.2: Fraud Auditing and Legal Standards**
The graduate explains financial statement auditing standards and legislation.
- **Competency 3036.1.3: Fraud Risk Assessment**
The graduate identifies fraud risk factors and assesses the risk of financial statement fraud in the organization.
- **Competency 3036.1.4: Fraud Prevention**
The graduate identifies effective ways to deter fraud.

Course Instructor Assistance

As you prepare to demonstrate competency in this subject, remember that course instructors stand ready to help you reach your educational goals. As subject matter experts, mentors enjoy and take pride in helping students become reflective learners, problem solvers, and critical thinkers.

Course instructors are excited to hear from you and eager to work with you. Successful students report that working with a course instructor is the key to their success. Course instructors are able to share tips on approaches, tools, and skills that can help you apply the content you're



studying. They also provide guidance in assessment preparation strategies and troubleshoot areas of deficiency. Even if things don't work out on your first try, course instructors act as a support system to help you prepare for another attempt. You should expect to work with course instructors for the duration of your coursework, and you are encouraged to contact them as soon as you begin. Course instructors are fully committed to your success!

Preparing for Success

The information in this section is provided to detail the resources available for you to use as you complete this course.

Learning Resources

The learning resources listed in this section are required to complete the activities in this course. For many resources, WGU has provided automatic access through the course. However, you may need to enroll manually in or independently acquire other resources. Read the full instructions provided to ensure that you have access to all of your resources in a timely manner.

Automatically Enrolled Learning Resources

You will be automatically enrolled at the activity level for the following learning resources. Simply click on the links provided in the activities to access the learning materials.

MyEducator

The following textbook is available to you as an e-text within this course. You will be directly linked to the specific readings required within the activities that follow.

- Albrecht, S., Zimbelman, M., Albrecht, C., & Riley, R. (2014). *Fraud examination for fraudulent financial reporting*. ISBN-13: 978-0538470841

To download the text, from any chapter, select "Show More" in the upper right hand corner, then select "Download Text as PDF."

Note: This e-text is available to you as part of your program tuition and fees, but you may purchase hard copies at your own expense by contacting info@myeducator.com.

WGU Library Articles

This course utilizes resources via the WGU Library, with articles available for you to open and download. For instructions on how to access WGU Library articles, see the "[Accessing WGU Library Articles](#)" page.

Minimum Technical Requirements

Obtain a Calculator

You will need a financial calculator or access to spreadsheet software, such as Microsoft Excel, for computational problems throughout this course. The recommended financial calculator is the Texas Instruments BA-II Plus. You may only use an approved financial calculator during the pre-assessment and assessment for this course.



You are unable to use Excel during the assessments.



Topics and Pacing

The pacing guide suggests a weekly structure to pace your completion of learning activities. It is provided as a suggestion and does not represent a mandatory schedule. Follow the pacing guide carefully to complete the course in the suggested timeframe.

Week 1

- Overview of Financial Statement Fraud
- The Auditors' Responsibility to Detect Fraud
- The Sarbanes-Oxley Act

Week 2 - Week 3

- Types of Financial Statement Fraud

Week 4

- Overstatement of Asset and Inadequate Disclosure Fraud

Week 5

- Creation of an Ethical Environment

Week 6

- Final Steps

Note: This pacing guide does not replace the course. Please continue to refer to the course for a comprehensive list of the resources and activities.

Ethical Responsibility

Organizations have the ethical responsibility to prepare financial statements with integrity and present a fair picture of the financial position and results of their operations. Within the framework and flexibility of GAAP, standards of objectivity, integrity, and judgment must always prevail.

Overview of Financial Statement Fraud

Financial statement fraud occurs when financial statements are prepared in ways that misrepresent the financial position and financial results of an organization. Such misrepresentations can take the form of manipulation, falsification, or alteration of accounting records or support documents from which financial statements are prepared. These can also include misrepresentation in, or intentional omission from, the financial statements of events, transactions, or other significant information, as well as intentional misapplication of accounting principles relating to amounts, classification, manner of presentation, or disclosure.

This topic addresses the following competency:



- **Competency 3036.1.1: Ethical Responsibility**

The graduate explains the ethical responsibility of providing accurate financial information.

This topic highlights the following objectives:

- Identify potential ethical issues when preparing financial information.
- Explain how fraudulent financial statements impact stakeholders and the market.
- Identify consequences associated with financial statement fraud.
- Explain motivations for financial statement fraud.
- Explain common financial statement fraud statistics.

Complete Topic 1: Introduction to Financial Statement Fraud

In this activity, you will focus on the importance of accurate financial reporting and how to explain financial statement fraud as well as the importance of fraud symptoms (or red flags).

As you complete the listed material below, pay attention to the following key points:

- importance of financial statements
- specific acts that are used to commit financial statement fraud
- the fraud triangle
- the importance of fraud symptoms, or red flags
- types of financial statement fraud schemes

View, read, or complete the following in Fraud Examination for Fraudulent Financial Reporting:

- View: [Introduction Video](#)
- Read: [Sections 1.1–1.6](#)
- Complete Topic Review: [Section 1.7](#)

Read the following supplemental material and reflect on the questions below:

- Read: [Albrecht, W. C., Albrecht, C., & Albrecht, C. C. \(2008\). Current trends in fraud and its detection. *Information Security Journal: A Global Perspective*, 17\(1\), 2-12.](#)
 - How does the fraud triangle motivate financial statement fraud?
 - Why are financial statement frauds so prevalent?
- Read: [Albrecht, C., Albrecht, C. C., & Dolan, S. \(2007\). Financial fraud: The how and why. *European Business Forum*, 34-39.](#)
 - How does opportunity contribute to the fraud triangle?
 - How did the good economy of the late 1990s and early 2000s mask many large-scale frauds?
- Read: [Boyle, D. M., Wilbanks, R. M., & Hermanson, D. R. \(2012\). Financial statement fraud: Monitoring the C-Suite. *Internal Auditing*, 27\(5\), 3-9.](#)
 - How does financial statement fraud impact an organization's reputation?



- What are some of the consequences associated with financial statement fraud?
- Read pages 1–7 in "[Report to the Nations on Occupational Fraud and Abuse](#)."
 - After reviewing the table of contents, why do you believe the ACFE reports the cost associated with occupational fraud first?
 - How does the 2012 ACFE Report broaden our understanding of fraud?
 - What are some of the most important recommendations and conclusions of the report?
 - What are some of the most detrimental impacts of fraud on the organization?

Fraud Auditing and Legal Standards

In 2002, the Auditing Standards Board approved a new standard, Statement on Auditing Standards No. 99: Consideration of Fraud in a Financial Statement Audit (or SAS 99). SAS 99 established standards and provides guidance to auditors in fulfilling their responsibility as it relates to fraud in an audit of financial statements, conducted in accordance with generally accepted auditing standards (GAAS). That same year, President George W. Bush also signed into law the Sarbanes-Oxley Act of 2002. The act had a number of implications, including the creation of the Public Company Accounting Oversight Board, new rules for audit committees and auditors, protection for whistle-blowers, second partner review and approval of audit reports, and management assessment of internal controls.

The Auditors' Responsibility to Detect Fraud

While it is not expected that an auditor will be able to detect all material financial statement frauds, they are required to have a working knowledge of fraud detection. To help detect fraud, SAS 99 requires that auditors assess and identify fraud risks, use professional skepticism during the engagement, engage in a brainstorming process, and consider the possible material misstatement due to fraud.

This topic addresses the following competency:

- **Competency 3036.1.2: Fraud Auditing and Legal Standards**
The graduate explains financial statement auditing standards and legislation.

This topic highlights the following objectives:

- Describe the auditor's responsibility to detect fraud under SAP 1 and SAP 30.
- Describe the auditor's responsibility to detect fraud under SAS 16 and SAS 53.
- Describe the auditor's responsibility to detect fraud under SAS 82.
- Describe the auditor's responsibility to detect fraud under SAS 99 and AU-C 240.

Complete Topic 2: The Profession's Focus on Financial Statement Fraud

You will focus on historical financial statement fraud auditing standards and the important implications of SAS 99 (AU-C 240) as well as the Sarbanes-Oxley Act of 2002.

- As you complete the listed material below, pay attention to the following key points:



- the evolution and history of the auditor's responsibility to detect fraud
- the SAS 99 (as these standards are an integral part of the new clarification standards (AU-C 240) and are relevant for auditors and CPAs today)
- the highlight of SAS 99
- the report of the National Commission on Fraudulent Financial Reporting

View, read, or complete the following in Fraud Examination for Fraudulent Financial Reporting:

- View: [Introduction Video](#)
- Read: [Sections 2.1–2.6](#)
 - View video in Section 2.2
- Complete Topic Review: [Section 2.8](#)
- Skip questions relating to the Sarbanes-Oxley Act of 2002 as this act will be introduced in the last half of this module.

Read or view the following supplemental material and reflect on the questions below:

- Read: [Bondy, C. \(1998\). Fraud's changing dynamic. *Outlook*, 65\(4\), 10.](#)
 - In what ways did SAS 82 change the role (and responsibility) of auditors to detect fraud?
 - Was SAS 82 a positive or negative influence on the audit profession?
- Read: [Bukics, R. M. L., & Fleming, J. M. \(2003\). Fraud detection: SAS 99 increases auditors' responsibilities. *Pennsylvania CPA Journal*, 73\(4\), 34-38.](#)
 - In what ways has SAS 99 (AU-C 240) provided additional guidance on fraud detection and prevention?
 - Was SAS 99 (AU-C 240) an added burden to the audit profession? Why?

The Sarbanes-Oxley Act

Sarbanes-Oxley created the Public Company Accounting Oversight Board (PCAOB) and required additional responsibility for boards of directors, audit committees, management, and auditing firms. Section 404 of the Sarbanes-Oxley Act of 2002 requires management to select an internal control framework and then assess the effectiveness and report annually on both the design and operational effectiveness of that framework.

This topic addresses the following competency:

- **Competency 3036.1.2: Fraud Auditing and Legal Standards**
The graduate explains financial statement auditing standards and legislation.

This topic highlights the following objectives:

- Describe how the Sarbanes-Oxley Act relates to the auditor's responsibility to detect fraud.
- Identify how corporate practices comply with the provisions of the Sarbanes-Oxley Act.



- Explain the purpose of the Public Company Accounting Oversight Board (PCAOB).
- Explain the powers of the Public Company Accounting Oversight Board (PCAOB).

Complete Sections 2.7 and 10.1: The Sarbanes-Oxley Act

These activities provide insight into the Sarbanes-Oxley Act of 2002. You should be aware of how this legislation has impacted the audit and accounting professions.

As you complete the listed material below, pay attention to the following key points:

- the changing roles of audit committees and auditors under Sarbanes-Oxley
- protection for whistleblowers
- implications for consulting services
- the investigative powers of the PCAOB
- the organizational structure of the PCAOB
- the responsibilities of management under Sarbanes-Oxley

View, read, or complete the following in *Fraud Examination for Fraudulent Financial Reporting*:

- Read: [Section 2.7 \("Sarbanes-Oxley Act"\)](#)
- Read: [Section 10.1 \("Corporate Responsibility and Sarbanes-Oxley"\)](#)
- Complete Topic Review: [Section 10.4](#)

Read or view the following supplemental material and reflect on the questions below:

- Read: [Koehn, J. L., & Del Vecchio, S.C. \(2004\). Ripple effects of the Sarbanes-Oxley Act. *The CPA Journal*, 74\(2\), 36-40.](#)
 - What are some implications of the Sarbanes-Oxley Act?
 - How does the Sarbanes-Oxley Act help deter fraud?
 - What influence has the PCAOB had on the audit profession?
 - Has the Sarbanes-Oxley Act had an impact on risk-taking activities such as mergers and acquisitions?
- Read: [Aldhizer, George R., I,II, Cashell, J. D., & Saylor, J. D. \(2003\). Ten months later: Internal audit directors assess the impact of the Sarbanes-Oxley Act. *Internal Auditing*, 18\(3\), 3.](#)
 - In what ways does the Sarbanes-Oxley Act impact the internal audit function of the organization?
- Read: [Larson, G. M., Thompson, J. H., & Walters, B. \(2004\). Human resource aspects of the Sarbanes-Oxley Act. *Journal of Legal, Ethical and Regulatory Issues*, 7\(1\), 143-154.](#)
 - Has the Sarbanes-Oxley Act encouraged or discouraged whistle-blowing? How?
 - How can a code of ethics help prevent fraud?
 - Do codes of ethics promote honesty in the workplace?

View the following video-"SOX 10 Years Later and What Now?"



Note: View the video in full screen at 720p for best results.

Reflect on the questions below:

- Is the Sarbanes-Oxley Act still necessary? Why?
- How has the Sarbanes-Oxley Act discouraged financial statement fraud?

Fraud Risk Assessment

Fraud risk assessment, also known as identifying fraud exposures, is one of the most difficult steps in detecting financial statements fraud. To complete a fraud risk assessment, one must identify and understand

- the organization's management and directors (including their backgrounds, motivations, influence in making decisions, and turnover),
- relationships with others (including possible relationships with related parties and arm's length transactions),
- the organization's industry and competitors (such as inherent risk in the industry, complex organizational structures, etc.), and
- the organization's financial results and operating characteristics (specifically looking for risks in the financial statements as well as risk in the operating characteristics of the organization).

Types of Financial Statement Fraud

The most common types of financial statement fraud includes revenue-related financial statement fraud, inventory and cost of goods sold fraud, fraud involving the understatement of liabilities, overstatement of asset fraud, and inadequate disclosure fraud.

This topic addresses the following competency:

- **Competency 3036.1.3: Fraud Risk Assessment**
The graduate identifies fraud risk factors and assesses the risk of financial statement fraud in the organization.

This topic highlights the following objectives:

- Identify common types of financial statement fraud.
- Identify factors to consider when assessing fraud risk.
- Explain the kind of symptoms the fraud exposures exhibit.
- Identify scheme-specific fraud exposures.
- Explain factors to be considered when evaluating red flags.
- Describe revenue-related financial statement fraud.
- Describe how inventory is overstated to commit fraud.
- Identify how the cost of goods sold is manipulated to commit fraud.
- Describe understatement of liability fraud.

Complete Topic 3: A Framework for Detecting Financial Statement Fraud



The activities below introduce a framework for detecting all types of financial statement fraud.

As you complete the listed material below, pay attention to the following key points:

- identifying fraud exposures (or fraud risks)
- importance of context when evaluating red flags

View, read, or complete the following in *Fraud Examination for Fraudulent Financial Reporting*:

- View: [Introduction Video](#)
- Read: [Sections 3.1–3.8](#)
- Complete Topic Review: [Section 3.9](#)

Read the following supplemental material and reflect on the questions below:

- Read: [Lister, L. \(2007\). A practical approach to fraud risk. *The Internal Auditor*, 64\(6\), 61-65, 8.](#)
 - What is the purpose of a comprehensive fraud risk assessment?
 - What are the three phases to develop an effective antifraud program?
 - What are the benefits of an effective antifraud program?
- Read pages 8–13 in "[Report to the Nations on Occupational Fraud and Abuse.](#)"
 - How is occupational fraud committed?
 - What are some of the asset misappropriation sub-schemes?

Complete Topic 4: Revenue-Related Financial Statement Fraud

These activities cover revenue-related financial statement fraud, which will help you identify the major revenue-related fraud schemes.

As you complete the listed material below, pay attention to the following key points:

- revenue-related transactions
- revenue-related fraud schemes

View, read, or complete the following in *Fraud Examination for Fraudulent Financial Reporting*:

- View: [Introduction Video](#)
- Read: [Sections 4.1–4.12](#)
- Complete Topic Review: [Section 4.13](#)

Complete Topic 5: Inventory and Cost of Goods Sold Fraud

The readings below cover inventory and cost of goods sold fraud which will help you identify the major inventory and cost of goods sold fraud schemes.

As you complete the listed material below, pay attention to the following key points:



- fraud involving inventory and cost of goods sold transactions
- inventory and cost of goods sold fraud schemes

View, read, or complete the following in *Fraud Examination for Fraudulent Financial Reporting*:

- View: [Introduction Video](#)
- Read: [Sections 5.1–5.11](#)
- Complete Topic Review: [Section 5.12](#)

Read or view the following supplemental material and reflect on the questions below:

- Read: [Byington, J. R., & Christensen, J. A. \(2003\). How to prevent inventory fraud. *The Journal of Corporate Accounting & Finance*, 14\(4\), 33-39.](#)
- out through and checked each citation and added information where necessary. Thank
 - How can you prevent and detect inventory fraud?

What responsibilities do CEOs have for preventing inventory fraud?

Complete Topic 6: Fraud Involving the Understatement of Liabilities

Now, you will focus on common understatement of liability financial statement fraud, which will help you identify the major understatement of liability fraud schemes.

As you complete the listed material below, pay attention to the following key points:

- fraud involving the understatement of liabilities
- understatement of liability fraud schemes

View, read, or complete the following in *Fraud Examination for Fraudulent Financial Reporting*:

- View: [Introduction Video](#)
- Read: [Sections 6.1–6.10](#)
- Complete Topic Review: [Section 6.11](#)

Read the following supplemental material and reflect on the questions below:

- Read pages 20–38 in "[Report to the Nations on Occupational Fraud and Abuse.](#)"
 - How do fraud losses vary by geographic region throughout the world?
 - Why do some countries have more fraud than other countries?
 - Which types of organizations (publicly traded, privately owned, not-for-profit) experience the largest incidence of fraud?

Overstatement of Asset and Inadequate Disclosure Fraud

There are several ways in which fraud perpetrators can engage in overstatement of asset fraud, including

- overstatement of cash, short-term and marketable securities;



- overstatement of receivables and inventory;
- overstatement of fixed assets;
- overstatement of assets through mergers and acquisitions or by manipulating intercompany accounts and/or transactions; and
- overstatement of intangible assets.

On the other hand, disclosure frauds can be categorized into three different groups, including

- overall misrepresentations about the nature of the company or its products,
- misrepresentations in management discussions and other nonfinancial statement sections of company reports, and
- misrepresentations in the footnotes of the financial statements.

This topic addresses the following competency:

- **Competency 3036.1.3: Fraud Risk Assessment**

The graduate identifies fraud risk factors and assesses the risk of financial statement fraud in the organization.

This topic highlights the following objectives:

- Describe asset overstatement fraud.
- Explain the different kinds of disclosure fraud.
- Explain fraud examination techniques to detect inadequate disclosures.

Complete Topic 7: Overstatement of Asset Fraud

These activities cover overstatement of asset fraud, which will help you identify the major overstatement of asset financial statement fraud schemes.

As you complete the listed material below, pay attention to the following key points:

- common overstatement of asset fraud schemes
- analytical fraud symptoms relating to overstatement of asset fraud
- the process to overstate fixed assets (property, plant, and equipment)
- the pressure to artificially inflate assets during mergers and acquisitions
- financial ratios that help auditors understand the relationship between cash and total assets

View, read, or complete the following in *Fraud Examination for Fraudulent Financial Reporting*:

- View: [Introduction Video](#)
- Read: [Sections 7.1–7.12](#)
- Complete Topic Review: [Section 7.13](#)

Read the following supplemental material and reflect on the questions below:



- Read: [Li, L., & Lasko, A. D. \(2010\). Detecting fraud in financial statements. Debt 3, 25 \(2\), 12-13.](#)
 - What are some of the major analytical fraud symptoms in the Satyam scandal?
 - How can organizations use financial ratios to proactively detect fraud?

Complete Topic 8: Inadequate Disclosure Fraud

The activities below cover inadequate disclosure financial statement fraud, which will help you identify the major disclosure fraud schemes.

As you complete the listed material below, pay attention to the following key points:

- the various types of disclosure frauds
- the importance of accurate footnote disclosures

View, read, or complete the following in *Fraud Examination for Fraudulent Financial Reporting*:

- View: [Introduction Video](#)
- Read: [Sections 8.1–8.6](#)
- Complete Topic Review: [Section 8.7](#)

Read the following supplemental material and reflect on the questions below:

- Read pages 14–20 in "[Report to the Nations on Occupational Fraud and Abuse.](#)"
 - What is the relationship between tips and the detection of fraud?

What is the most common source of tips?

Fraud Prevention

Fraud prevention, not detection, significantly reduces fraud within organizations. When fraud is prevented in the first place, organizations do not have to make difficult decisions about

- what and where to investigate,
- whether or not to make the fraud incident public,
- whether to involve law enforcement, or
- whether to pursue legal action against perpetrators.

To help prevent fraud, organizations must do the following activities:

- understand that the threat of fraud is real
- hire honest employees
- create a culture of honesty
- eliminate opportunities for fraud
- have a fraud policy in place
- have outside fraud monitoring in place

Creation of an Ethical Environment



Creating an ethical environment includes

- having top executives model appropriate behavior,
- communicating ethics expectations throughout the organization,
- requiring periodic written confirmation of acceptance of ethics expectations, and
- creating a positive work environment.

This topic addresses the following competency:

- **Competency 3036.1.4: Fraud Prevention**
The graduate identifies effective ways to deter fraud.

This topic highlights the following objectives:

- Describe procedures that aid in the hiring of ethical employees.
- Describe how to create a culture of honesty.
- Identify how to reduce opportunities for fraud within the organization.
- Identify the components of a proactive fraud prevention approach.

Complete Topic 9 and 10: Fraud Prevention and Sarbanes-Oxley

You will now focus on fraud prevention, which will help you explain the importance of fraud prevention in minimizing fraud losses.

As you complete the listed material below, pay attention to the following key points:

- the process of creating a culture of honesty
- the importance of labeling and monitoring appropriate behavior
- what it means to identify fraud risks
- common approaches to fraud prevention and detection
- what it means to implement monitoring processes
- the importance of a positive work environment

View, read, or complete the following in *Fraud Examination for Fraudulent Financial Reporting*:

- View: [Introduction Video](#)
- Read: [Sections 9.1–9.6](#)
- Read: [Sections 10.2 and 10.3](#)
- Complete Topic Review: [Section 9.7](#)

Read the following supplemental material and reflect on the questions below:

- Read pages 39–51 in "[Report to the Nations on Occupational Fraud and Abuse.](#)"
 - What are common characteristics of fraud perpetrators?
 - What is the impact of collusion (when two or more individuals conspire to commit fraud) on fraud within organizations?
 - What is the relationship between a perpetrator's education level and fraud



losses?

- Read: [Adams, G. W., Campbell, D. R., Campbell, M., & Rose, M. P. \(2006\). Fraud prevention. *The CPA Journal*, 76\(1\), 56-59.](#)
 - Why is prevention the most cost-effective way to deal with fraud losses?
 - How can organizations understand their current state of fraud risk?
- Read: [Jackson, K. R., Holland, D.V., Albrecht, C., & Woolstenhulme, D. R. \(2010\). Fraud isn't just for big business: Understanding the drivers, consequences, and prevention of fraud in small business. *The Journal of International Management Studies*, 5\(1\), 160-164.](#)
 - What is the relationship between fraud and small business?
 - Compared to mature businesses, why are small businesses often more prone to fraud losses?

Final Steps

Congratulations on completing the activities in this course! You are now prepared to complete the associated assessment. If you have not already been directed to complete it, schedule and complete the assessment now.