

What's Your Fraud IQ?

1. Which of the following is *not* a legal element of fraud?
 - a. A material false statement.
 - b. Intent.
 - c. Reliance by the victim.
 - d. All of the above are legal elements of fraud.
2. If a company adds fake sales to boost its revenues, the cost of sales as a percentage of revenue will increase.
 - a. True.
 - b. False.
3. On average, the most expensive asset misappropriations committed by a company's employees involve
 - a. Inventory thefts.
 - b. Cash larceny
 - c. Billing schemes.
 - d. None of the above.
4. Statement on Auditing Standards (SAS) No. 99, *Consideration of Fraud in a Financial Statement Audit*, differs from its predecessor statement, SAS No. 82, in what material respect?
 - a. It decreases the responsibility of auditors to detect fraud.
 - b. It increases the liability for failing to detect fraud.
 - c. It requires brainstorming about fraud risks prior to the audit.
 - d. All of the above.
5. The most common method employees use to steal cash from an organization is:
 - a. Fraudulently billing for goods or services.
 - b. Skimming money before it is entered into the books and records.
 - c. Collusion between bookkeepers and cashiers.
 - d. None of the above.
6. Financial statement frauds are most common in large companies.
 - a. True.
 - b. False.
7. On average the most expensive corruption scheme committed by employees of an organization is
 - a. Bribes and kickbacks.
 - b. Economic extortion.
 - c. Undisclosed conflicts of interest.
 - d. Accepting illegal gratuities.
8. The no. 1 method by which fraud is discovered in an organization is
 - a. Analytical techniques.
 - b. Accidental discoveries.
 - c. Tips and complaints.
 - d. None of the above.
9. The main reason employees commit occupational fraud is
 - a. Poor internal controls.
 - b. Greed.
 - c. Personal financial problems.
 - d. Dissatisfaction with the employer.
10. Executives in organizations are more honest than rank-and-file employees and are therefore less likely to commit fraud.
 - a. True.
 - b. False.

ANSWERS

1. (d) Under common law there are four legal elements of fraud: a material false statement, intent, reliance on the false statement by the victim and damages.
2. (b) When a company adds fake sales to boost its revenue, the cost of sales remains the same, so cost of sales as a percentage of revenue will *decrease*.
3. (c) According to the Association of Certified Fraud Examiners' 2004 "Report to the Nation on Occupational Fraud and Abuse," billing schemes averaged \$160,000 per occurrence; inventory thefts \$132,500; and cash larceny \$80,000.
4. (c) SAS No. 99 specifically requires brainstorming about fraud risks by the audit team; it does not decrease the responsibility of auditors to detect fraud nor increase liability for not detecting it.
5. (a) The most common methods employees use to steal cash from an organization are, in order: fraudulent disbursements, skimming and cash larceny.
6. (b) Despite the publicity generated by large frauds such as Enron and WorldCom, several studies have documented that the risk of financial statement fraud is higher in smaller companies.
7. (a) Bribes and kickbacks are the most expensive corruption schemes, averaging about \$300,000 per offense. The others, in decreasing order of their average cost, are conflicts of interest illegal gratuities and economic extortion.
8. (c) Numerous studies have concluded that tips and complaints are by far the most common way fraud is discovered in an organization, followed by accidental discoveries and, to a much lesser extent, analytical techniques.
9. (d) Although internal controls are important in deterring fraud, they provide only reasonable assurance, and there are few controls that cannot be circumvented by an employee determined to do so. In a landmark study of more than 10,000 workers by researchers Hollinger and Clark, dissatisfaction with their employer was the most common reason cited for committing fraud and theft.
10. (b) There is no difference in the level of honesty of employees and executives. What is different is the amount of the fraud loss; on average, the loss from a dishonest executive is 15 times that of a rank-and-file worker.

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