

Accounting Fraud Cases Have Risen Dramatically



The “[Accounting Class Action Filings and Settlements](#)” report by Cornerstone Research shows allegations of accounting cases involving fraud has surged forty-seven percent in securities class action lawsuits since 2013. This includes a forty-six percent increase in enforcement cases brought by the Securities Exchange Commission (SEC) for the 2013-2014 fiscal year. An “accounting case” refers to allegations involving not following United States Generally Accepted Accounting Principles (GAAP), auditing violations or weaknesses in internal controls in financial reporting.

Incorrect Accounting Practices and Procedures

In 2014 alone, sixty-nine new cases were filed by the SEC involving accounting fraud compared to forty-seven cases in prior years. Seventy percent of the settlements from Security Exchange Commission filings involved accounting cases. More than one in four of these filings referred to an SEC inquiry or action. This is the highest level since 2010. The share of total settlement amounts received in accounting cases rose from twenty-five percent to eighty-five percent in just one year.

Ultimate Role of Accounting

According to Charles Lee, Professor of Accounting at the Stanford Graduate School of Business, “The role of accounting...is to provide a common language and a consistent set of reporting rules that everybody understands in the same way. The market has come to rely on accountants as the keepers of economic history” and as a basis for determining the market value of a business.

Predicting Company Earnings

The most important component of a company’s market value is based on the expectations of its future earnings. Accounting reports should provide investors and other interested parties reliable information they can use to make their own forecasts of future earnings growth. Yet, ironically, the

number of complaints filed against businesses as a result of internal control weaknesses leading to overvaluations has been higher than in any of the previous five years. What can be done about this problem?

Strengthening Internal Controls

Pacific Crest Group highlights some key areas to review in your internal control systems in its posting "[Accounting Policies and Procedures](#)." For example, it is critical that you test for risks and weaknesses in your procedures in advance. Isolate flaws and work on implementing improvements right away. If cash flow is a problem, look for delays in billing cycles, ineffective payment terms or chronic late paying customers.

Make sure you have documented checks and balances for each accounting process. Do not have the same person perform multiple accounting functions that are not reviewed by at least one or more other professionals. The mere fact that each step may be checked by an independent and objective party can be a huge deterrent in potentially fraudulent behavior.

Follow up on any complaints from customers, vendors and financial service providers regarding inefficient accounting policies or procedures immediately. These can be early warning signals to big problems looming in the future.

Pacific Crest Group provides professional services that keep your business focused on your critical objectives. We provide strategic Accounting and Human Resource (HR) services created specifically to help you meet your goals. Through exemplary customer service, clearly defined policies and procedures as well as a forward looking perspective, we provide the outsourced solutions that your business needs to grow. A PCG professional is happy to meet with you to discuss solutions for your unique requirements designed to maximize all of your business opportunities.