



E-Learning Course

“Fraudulent Financial Reporting: Realization, Prevention, and Detection” Winter Term 2024/25

Prof. Dr. Ulrike Stefani

Chair of Accounting, University of Konstanz

Prof. Dr. Bogdan Narcis Fîrtescu

University “Alexandru Ioan Cuza” of Iasi

Prof. Dr. Mihaela Tofan

University “Alexandru Ioan Cuza” of Iasi

Instructors

Prof. Dr. Ulrike Stefani

Office: F 339, University of Konstanz, Germany
Phone: +49 (0) 7531 88 5251
Web: <https://www.wiwi.uni-konstanz.de/stefani/>
Office hours: Please make an appointment by Email
Email: ulrike.stefani@uni-konstanz.de

Prof. Dr. Bogdan Narcis Fîrtescu

Office: C 603, C Building, University “Alexandru Ioan Cuza” of Iasi, Romania
Phone: + 40 (0) 232201447
Web: <http://www.feaa.uaic.ro/faculty/bogdan-narcis-firtescu/>
Office hours: Please make an appointment by Email
Email: firtescu@uaic.ro

Prof. Dr. Mihaela Tofan

Office: B 624, B Building, University “Alexandru Ioan Cuza” of Iasi, Romania
Phone: + 40 (0) 232201423
Web: <http://www.feaa.uaic.ro/faculty/mihaela-tofan/>
Office hours: Please make an appointment by Email
Email: mtofan@uaic.ro



Funded by the
European Union

Funded by the European Union. Views and opinions expressed are however those of the author(s) only and do not necessarily reflect those of the European Union. Neither the European Union nor the granting authority can be held responsible for them.

Topic of this E-Learning Course

Fraud and fraudulent financial reporting continue to be an increasingly serious issue. However, the recent cumulation of scandals seems surprising: First, listed companies have established internal auditing divisions to prevent fraud. Second, listed companies are obliged to hire an independent statutory auditor who checks whether the financial report is in line with the corresponding accounting standards. Third, new regulations in the areas of auditing and corporate governance recently became effective. Given these safeguards, the question arises of how financial statement fraud can be committed in the first place, and, even more important, how it can remain undetected, often for years. ► **This E-Learning course provides an understanding of financial statement fraud, including its deterrence, prevention, and detection.**

Potential consequences of white-collar crime are the collapse of the reporting entity, immense losses incurred by investors and creditors, and a lack of confidence in financial markets. After an accounting scandal has exploded, the public debate often accuses the statutory auditor for not detecting fraud and/or for not reporting his/her findings to the addressees of the financial report. Litigation against audit firms and reputational damages have become a daily occurrence, and one of the largest audit firms, Arthur Andersen, has completely disappeared after the Enron-scandal. Regulators worldwide have reacted to the recent scandals with more restrictive rules designed to increase the quality of audited financial statements. ► **This E-Learning course highlights the economic consequences of financial statement fraud.**

Content

- (1) What is fraud and fraudulent financial reporting?
 - a) Movie "All the Queen's Horses"
 - b) Definition of fraud and financial statement fraud
 - c) The Fraud Triangle
- (2) The role of financial statements
 - a) Information contained in financial statements
 - b) The process of financial reporting
 - c) The importance of financial information
- (3) Realization of financial statement fraud: Traditional recipes for "Cooking the Books"
 - a) Revenue-based schemes
 - b) Asset-based schemes
 - c) Expense and liability schemes
- (4) Detection of financial statement fraud: The role of the auditor
 - a) The responsibilities of the statutory auditor
 - b) Standards of auditing
 - c) Fraud detection audit procedures
 - d) Materiality
 - e) The auditor's report and independence
- (5) Consequences of financial statement fraud
 - a) Costs of financial statement fraud at the individual level
 - b) Costs of financial statement fraud at the market level
 - c) Regulations implemented to increase the quality of audited financial statements
- (6) Case studies
- (7) Individual projects

Admission

Students from the University of Konstanz and from the University “Alexandru Ioan Cuza” of Iasi can take this course. **Students from the University of Konstanz who are interested in participating can directly sign in via ZEUS. Students from the University of Iasi are advised to send an email to office.stefani@uni-konstanz.de by October 06th, 2024!** The course starts on **October 21th, 2024.**

Required Course Materials

Students will require access to a computer and a high-speed internet service.

E-Learning Tool, Time Line, and Grading

The idea of this E-Learning course is that students work through the material presented on the platform **ILIAS** (hosted at the University of Konstanz) **in a self-dependent way.** If there are any questions, we will answer them in **E-mails** or schedule an **online meeting.** There will also be a **forum** in ILIAS for discussing those questions that are relevant for all participants.

The course is logically structured into 14 weeks:

- **During weeks 1 to 11, we will assign students a certain workload** (e.g., some slides, a documentary, videos, or smaller cases). The material for the respective week can be found on the **ILIAS** course website. In most of the weeks 1 to 11, there will also be a quiz consisting of some **multiple-choice questions or another form of evaluation.** The quizzes are available on the ILIAS course website **for a limited time.** **Students must take the quiz during the window of availability.** Students therefore should plan their time carefully to complete the quizzes because there are no exceptions. Students should proceed to the content for the next week only after having completed the workload of the preceding week. ► **The quizzes have an impact of 50% on the final grade.**
- **During weeks 12 to 14, students will form groups. We will assign a case representing an accounting scandal or fraud case to each group.** Each group will have to prepare an animated **Powerpoint presentation (including voice-over) or a short film on this case.** The presentation should be as concise as possible and avoid text that does not provide content (maximum 20 slides per presentation or 20 minutes of film). The reader should get the idea as fast as possible. **Students will have to upload the presentation or the film to the ILIAS course website by the end of week 14.** ► **The presentation has an impact of 20% on the final grade.**
- **After week 14, we will individually assign a topic to each participant. The topic could be a recent accounting scandal, a financial statement analysis, a fraud case, or the discussion of a recent publication in the research area. Students can also make suggestions regarding the topic they would like to choose. A pre-condition for receiving the topic is successful completion of all the quizzes and the group project. Until April 6th, 2025, each student has to send in a written report on this topic** (15 pages, at the maximum, including references, tables, and figures). In addition to the work on the topic, students should focus on scientific writing. **There is no written exam.** ► **The written report has an impact of 30% on the final grade.**
- **The time limits assigned are strict; we will not make any exceptions!**
- Students who have successfully completed the E-Learning course will receive **5 ETCS.**

Time Line in Detail

Until October 6 th , 2024	Application deadline for students from the University of Iasi	
<u>18.10.2024</u> <u>10:00 – 10:30</u>	<u>Online-Meeting</u>	
21.10.2024 – 27.10.2024	Week 1	What is fraud and fraudulent financial reporting? Documentary “All the Queen’s Horses”
28.10.2024 – 03.11.2024	Week 2	What is fraud and fraudulent financial reporting? Definitions & Fraud Triangle
04.11.2024 – 10.11.2024	Week 3	The role of financial statements: Information contained in financial statements
11.11.2024 – 17.11.2024	Week 4	The role of financial statements: The process of financial reporting
18.11.2024 – 24.11.2024	Week 5	Realization of financial statement fraud: Traditional recipes for “cooking the books” (revenue-based schemes)
25.11.2024 – 01.12.2024	Week 6	Realization of financial statement fraud: Traditional recipes for “cooking the books” (revenue-based schemes)
02.12.2024 – 08.12.2024	Week 7	Realization of financial statement fraud: Traditional recipes for “cooking the books” (asset-based schemes)
09.12.2024 – 15.12.2024	Week 8	Realization of financial statement fraud: Traditional recipes for “cooking the books” (expense and liability schemes)
16.12.2024 – 22.12.2024	Week 9	Detection of financial statement fraud: The role of the auditor
07.01.2025 – 12.01.2025	Week 10	Consequences of financial statement fraud: Individual & market level
13.01.2025 – 19.01.2025	Week 11	Consequences of financial statement fraud: Regulation
20.01.2025 – 26.01.2025	Week 12	Cases (Teamwork)
27.01.2025 – 02.02.2025	Week 13	Cases (Teamwork)
03.02.2025 – 08.02.2025	Week 14	Cases (Teamwork)
Until April 6 th , 2025		Individual projects

Learning Targets

After having completed this E-Learning Module, students are able to ...

- define the terms “fraud” and “financial statement fraud” and critically discuss the conditions that need to be fulfilled that fraud can occur (i.e., understand the elements of the fraud triangle and evaluate their importance for a real-world example).
- illustrate the economic impact of fraud and financial statement fraud.
- define basic accounting terms (e.g., cash flow, earnings, expenses, assets, liabilities, equity).
- describe the different elements of a financial report (i.e., in the balance sheet, the income statement, and the cash flow statement), explain the information contained in these elements (i.e., assets, liabilities and equity; earnings, expenses, and profit or loss; cash flow), and show how these elements are connected. Moreover, students are able to summarize the informational role of the notes, the management report, and additional disclosures.
- contrast the responsibilities of the management, the supervisory board, the internal auditor, and the statutory auditor in the process of preparing and auditing financial statements.
- understand the idea of corporate governance and the necessity to respect its principles.
- understand the role of financial information in making investment and lending decisions, in determining the tax burden, and in designing contracts and evaluate the management’s incentives to misreport in a given situation.
- understand the most frequently used methods of overstating revenues and assets or understating liabilities and assess, for a given example, the likelihood that these methods have been used (i.e., interpret the signals indicating possible fraudulent reporting).
- define the role of the statutory auditor in preventing and detecting fraudulent financial reporting and understand the audit process and the auditor’s responsibilities.
- describe the methods used by auditors to detect financial statement fraud and to evaluate their effectiveness.
- explain materiality thresholds for reporting the findings obtained in an audit.
- understand the factors affecting auditors’ decisions to truthfully report their evidence obtained in an audit.
- describe the consequences that can occur from financial statement fraud at the individual level (e.g., for auditors, the management, the supervisory board, etc.) and at the market level (e.g., a company’s credit rating, the stock price, etc.).
- describe the structure of the audit market and understand the connections between market structure and the auditor’s incentives to remain independent.
- summarize the recently implemented regulatory reforms in the areas of corporate governance and auditing and discuss their intended consequences on the quality of audited financial statements.
- apply their knowledge to detailed case studies that highlight the schemes applied to commit fraud, including “how did this happen” discussions. After having worked through real-world examples, students will be able to identify the methods used to commit fraud, interpret the signals indicating incorrect financial statements, and predict the consequences of fraudulent financial reporting.