

Current Affairs Noticeboard

Family business nearly ruined

The *Australian Financial Review* reported a story of a family run company whose only office worker committed a fraud of between \$120 000 and \$200 000 (Fenton-Jones, 2004a, p.46). The size of the fraud was so significant that a lack of cash within the business nearly caused one major supplier to foreclose on the business (p.46). In the article a director of the company stated:

How come we aren't making any money, there is so much stuff going out the door (p.46)

This is a red flag that could have warned the management of the company that a fraud exists. Management should be sufficiently close to their business that they have some idea of the expected profit result or cash flow position. If actual results differ from their expectations, they should investigate why. Fraud may be one explanation. A director of the company is quoted as saying the experience was "a big shot in the arm to put proper systems and methods in place and checks and balances (p.46).

Question

Are there any movements in other financial statements items and/or ratios or percentages calculated from financial statements that could indicate fraud? Explain your answer.

Reference

Fenton-Jones Mark, 2004a, "Fraud nightmare a wake-up call", *The Australian Financial Review*, 27 July, p.46