

Fraud Risk

Fraud

The misrepresentation of facts that the individual knows to be false with the intention to deceive

Overstating revenues and assets

Understating expenses and liabilities

Giving disclosures that are misstated or that omit important information

Management fraud Fraudulent financial reporting

Employee fraud Misappropriation of assets

Fraud Risk categories ▶ Management's Characteristics and Influence

▶ Industry Conditions

▶ Operating Characteristics and Financial Stability

Errors = unintentional

Fraud = intentional

Misappropriation of Assets

Fraud

Requires **intent** to deceive the victim

Embezzlement

→ employees or nonemployees wrongfully taking money or property entrusted to them, by cover-up

⚙️ to permanently deprive the owner

Larceny

→ theft of an employer's property that is not entrusted to an employee

⚙️ to permanently deprive the owner

Defalcation → Misuse of funds by a fiduciary

⚙️ intentional wrongdoing

⚙️ OR negligence*

Errors → unintentional misstatements or omissions

If negligence: ⚠️ fraud

