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**Fraud**

**So That’s Why It’s Called a Pyramid Scheme.**

**Fraud comes in many shapes and sizes— and it’s growing faster than ever.**

**By Joseph T. Wells**

October 2000

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| |  | | --- | | **EXECUTIVE SUMMARY** | | * **CPAs ARE UNDER ATTACK** for not doing enough in the war against fraud, and they are, at the same time, being asked to play an increasingly important role in the detection of fraud. Because CPAs are becoming more educated about the subject, success stories about their helping clients ferret out fraud are becoming more common. * **FRAUD AND WHITE-COLLAR CRIMES** are typically committed by older, better-educated offenders. Estimates of the total cost of occupational fraud to the economy are that it equals 6% of the U.S. gross domestic product—over $400 billion. Small businesses experience fraud losses at a rate almost 100 times that of the largest ones. * **THE FIRST “CPAs” WERE SCRIBES** in the pharaohs’ courts who were charged with fraud prevention and detection. Their role stayed much the same until the turn of the 20th century. Accrual basis accounting became more common and reporting issues became a top priority for the profession. Fraud detection was no longer the primary focus. * **IN THE 1980s THE ACCOUNTING PROFESSION** began investing considerable resources in responding to the fraud problem. The National Commission on Fraudulent Financial Reporting (the Treadway commission) was formed and identified the “expectation gap.” The Committee of Sponsoring Organizations (COSO) issued a report calling for better internal control systems. * **THE PUBLIC OVERSIGHT BOARD** in a special report, *In the Public Interest,* concluded that “the public looks to the independent auditor to detect fraud, and it is the auditor’s responsibility to do so.” These activities culminated in the AICPA’s adopting Statement on Auditing Standards (SAS) no. 82, *Consideration of Fraud in a Financial Statement Audit,* which confirmed the profession’s commitment to detecting fraud. | | JOSEPH T. WELLS, CPA, CFE, is founder and chairman of the Association of Certified Fraud Examiners, Austin, Texas. His e-mail address is: [joe@cfenet.com](mailto:joe@cfenet.com) . |   http://media.journalofaccountancy.com/JOA/Issues/2000/10/blue_t.gifoday CPAs are under attack for not doing enough in the war against fraud. For confirmation, look at these news stories: “Last year, a Big Five accounting firm agreed to pay $335 million for failing to detect a half-billion-dollar revenue overstatement during an audit” and “A Denver lending company recently sued its auditors for allegedly failing to detect a $9 million embezzlement committed by the lender’s own president and chief executive officer.”   |  | | --- | | **IN THE BEGINNING**  It’s said that accountants’ predecessors were the scribes of ancient Egypt, who kept the pharaohs’ books. They inventoried grain, gold and other assets. Unfortunately, some fell victim to temptation and stole from their leader, as did other employees of the king. The solution was to have two scribes independently record each transaction (the first internal control). As long as the scribes’ totals agreed exactly, there was no problem. But if the totals were materially different, both scribes would be put to death. That proved to be a great incentive for them to carefully check all the numbers and make sure the help wasn’t stealing. In fact, fraud prevention and detection became the royal accountants’ main duty. |   But these don’t tell the whole story. CPAs detected countless financial statement frauds, embezzlements and tax offenses *before* they became serious problems. Take these examples: In one instance a New Jersey CPA helped his client avoid a loss of $2.4 million (and a probable criminal indictment) by advising him not to invest in an illegal tax shelter and, in another, during a review and compilation engagement for a small client, a Nebraska CPA discovered the bookkeeper had embezzled $420,000.  Because CPAs are becoming more educated about the subject of fraud, success stories such as the above are growing more common. It’s a good thing, too, because some experts say changing demographics have led to more white-collar crime. Criminologist Gil Geis, a former member of the President’s Crime Council, says there’s a correlation between crime and age: “Younger people—especially males—are likely to commit more traditional crimes such as robbery, larceny and assault. Conversely, fraud and white-collar crimes are typically committed by older, better-educated offenders.” Our society as a whole is getting older, and young and old alike are getting more sophisticated. On top of that, the use of computers and technology to aid in the commission of crimes has become widespread.  Most CPAs have had little or no antifraud training, so educating them has become critical. This article, the first of a new series on fraud detection, is meant to be a part of that effort. In future issues, we will look at different aspects of fraud methodically—what it is, who commits it, how they do it and how CPAs can respond.   |  | | --- | | **Figures and Facts About  Occupational Fraud**   * Small businesses experience fraud losses at a rate of nearly 100 times that of the largest ones. * Occupational frauds fall into three categories: asset misappropriation, corruption and fraudulent financial statements. * Asset misappropriations account for more than 80% of cases, but they are the least expensive of the three fraud categories. * Fraudulent financial statements, which account for less than 4% of fraud litigation, are the most costly occupational frauds. * Real estate financing has the highest fraud losses; education, the lowest. * A direct link exists between the age, sex, education and position of the perpetrator and the amount lost. The highest median losses occur with older male executives who are senior officials of their organizations. The smallest losses are with high-school graduates who have been with a company for less than a year.   Source: The Association of Certified Fraud Examiners, *Report to the Nation on Occupational Fraud and Abuse,* a 1996 survey of 1,523 cases of fraud ranging from $22 to $1.5 billion. |   **HOW TIMES HAVE CHANGED**  From the time of the ancient pharaohs until the turn of the 20th century, auditors were responsible for fraud prevention and detection. In the original edition of Robert H. Montgomery’s classic textbook, *Auditing Theory and Practice* (1912), the author stated that in “what might be called the formative days of auditing,” students were taught that the primary purposes of an audit were “the detection or prevention of fraud” and “the detection or prevention of errors.” However, later textbooks and accounting theory took a different tack, largely out of necessity. Huge conglomerates had formed and financial transactions became so numerous they could not all be examined. Accrual basis accounting became common and, as a result, reporting issues became a top priority for the profession. Vouching each transaction from “cradle to grave”—which catches and prevents many frauds—was discontinued. Fraud detection or prevention was relegated to a secondary role.  It didn’t take crooks long to take advantage of this new environment; the 20th century has been littered with spectacular financial frauds and embezzlements. Some became famous—the McKesson & Robbins scandal, the Salad Oil swindle, the Equity Funding scam, the Savings and Loan frauds. And one question became a refrain: “Where were the auditors?”  **THE TIMES, THEY ARE A’CHANGIN’**  In the 1980s the accounting profession began investing considerable resources in responding to the fraud problem. In 1987 the National Commission on Fraudulent Financial Reporting (the Treadway commission) was formed to study the issues. In 1992, the Committee of Sponsoring Organizations (COSO) issued a report calling for better internal control systems to help management meet its goals. The Public Oversight Board in a special report, *In the Public Interest,* concluded that “the public looks to the independent auditor to detect fraud, and it is the auditor’s responsibility to do so.” The profession engaged in several other initiatives that, in 1997, led the AICPA to issue Statement on Auditing Standards (SAS) no. 82, *Consideration of Fraud in a Financial Statement Audi* t.” This SAS confirmed the profession’s commitment to detecting fraud.  **BY ANY OTHER NAME**  Fraud is trickery that falls into two basic categories. Internal fraud is committed by employees and officers of organizations. External fraud is committed by organizations against individuals, by individuals against organizations, by organizations against organizations and by individuals against individuals. For example, an insurance company executive filing a false report with a regulatory authority is committing internal fraud. But a customer of the same insurance company filing a phony accident claim is involved in external fraud. An elderly person who falls victim to a telemarketing scam is caught in an external fraud.  Although both types of fraud are of concern, the CPA normally will find internal fraud more common. Another term to describe it is *occupational fraud and abuse.* Because the scope is so broad, occupational fraud includes such common violations as asset misappropriations, corruption, fraudulent financial statements, pilferage and petty theft, false overtime, using company property for personal benefit and payroll and sick-time abuses. The term also covers all employees—from the boardroom to the mailroom.  **THE STAGGERING COST OF OCCUPATIONAL FRAUD**  Determining the actual cost of occupational fraud and abuse may be difficult, if not impossible. That’s because many frauds remain undiscovered and unreported. That should come as no surprise: Most companies, given an alternative, will quietly discharge offenders without reporting the offense to the authorities. Estimates of the total cost of all forms of occupational fraud to the economy are equal to about 6% of the U.S. gross domestic product—more than $400 billion. There are no federal, state or local government figures published on the cost of these crimes.  What is the significance of these numbers to a CPA? It depends on the kind of practice you have. If you primarily serve small businesses, your clients statistically are most likely to be damaged by asset misappropriation. If your clients are large, the greatest risk is fraudulent financial statements. And both large and small businesses run the risk of corruption in which an employee conspires with an outsider to defraud the company. With the knowledge that certain types of fraud prevail in companies of particular size, the CPA is better equipped to look for and find it.  In the following months—in actual case studies—we will examine in detail the three most common methods by which employees commit occupational frauds. And also try to answer the thorny question, Why do “ordinary” people commit occupational fraud?   |  | | --- | | **Crazy Eddie and the $120 Million Ripoff** | | “I’m Crazy Eddie!” a goggle-eyed man screamed from the television set. “My prices are I-N-S-A-N-E!”  If you were anywhere near the East Coast in the 1980s, you undoubtedly saw those TV commercials. The raucous ads saturated the airwaves in the tri-state area and helped Crazy Eddie’s quickly become the dominant consumer electronics retailer in New York, New Jersey and Connecticut.  As it turned out, “Crazy” Eddie Antar, who was behind one of the twentieth century’s most infamous financial statement frauds, wasn’t crazy at all—just crooked. Indeed, the face on the tube wasn’t even his (it belonged to an actor). The real Eddie Antar didn’t have time for acting. He and members of his family were too busy engineering a $120 million rip-off. Much of the ill-gotten loot was placed in secret overseas bank accounts. Once discovered, Antar spent several years on the lam and another several behind bars. According to a senior SEC official, “This may not be the biggest [financial statement] fraud of all time, but for outrageousness, it is going to be very hard to beat.” Even though the fraud is more than a decade old, it provides vivid examples of how these crimes can be pulled off and how auditors can be deceived.  **FINANCIAL STATEMENT FRAUD SCHEMES**  There are numerous ways to classify financial statement frauds. Our research divided them into five principal, but related, types. One of the most outrageous aspects of the Crazy Eddie’s fraud is that he used *all five methods.* This is how he did it.  ***Fictitious revenues.*** The most common way companies create fictitious revenues is to dummy up sales that did not occur. The accounting transaction created is a credit to sales with an offsetting debit to accounts receivable, which boosts both assets and income. In the Crazy Eddie’s case, the audit trail was easy to fake. Antar’s underlings prepared phony invoices showing merchandise sales. Three major suppliers, beholden to Crazy Eddie’s for large volumes of business, cooperated. When auditors attempted to confirm some of these receivables, the vendors would—at Antar’s behest—lie. Obviously, with such a conspiracy, it would have been difficult—if not impossible—for the auditors to easily uncover such a scheme.  ***Fraudulent asset valuations.*** Although any asset can be fraudulently valued, the most frequent manipulations occur in inventory. In the Crazy Eddie’s fraud, Antar overvalued inventory by $80 million, and employed some pretty outrageous tricks to get there. He and his conspirators “borrowed” merchandise from suppliers to boost the ending inventory count. These were the same suppliers who confirmed Crazy Eddie’s phony receivables. Eddie convinced the suppliers to simply ship merchandise to the Crazy Eddie’s stores, and hold the billing until after the end of the accounting period. They also shipped stock from one store to another so it could be double-counted. And, most outrageous of all, they got into the auditors’ desk and altered inventory count sheets in the workpapers to increase the numbers.  ***Timing differences.*** Another way companies overstate assets and income is by taking advantage of the accounting cutoff period to either boost sales and/or reduce liabilities and expenses. Antar routinely told his stores to hold the books open past the end of an accounting period to falsely inflate sales revenues. Conversely, as detailed below, the liabilities for any given period were normally not recorded until the next period.  ***Concealed liabilities and expenses.*** Unfortunately for the CPA, it is all too easy for a client to conceal liabilities. After all, it is easier to audit something that is there rather than something that *isn’t.* In the Crazy Eddie’s case, Sam E. Antar, the CFO (and Eddie’s nephew), regularly stashed unpaid bills in his desk. The liabilities would be either entered after the yearend or held for long periods without being recorded. As a result, Crazy Eddie’s never did know what it really owed, and neither did the auditors.  ***Improper disclosures.*** Generally accepted accounting principles (GAAP) require adequate disclosure in the financial statements. Any material fact not covered in the financials should be disclosed in accompanying footnotes. Sam Antar—a former CPA and auditor—managed to change accounting methods simply by altering two words. In one year, the footnotes stated that certain income was recognized when *received* (cash basis). The following year, Sam removed “received” and substituted *earned* (accrual basis). The deception went unnoticed by the auditors, and it had the intended effect of boosting income. A careful review of the footnotes from year to year would normally detect such a simple—but in this case, effective—scheme.  **PAINFUL LESSONS**  Fortunately for those of us in the accounting profession, the Crazy Eddie’s case is an aberration. But it does serve to illustrate nearly every trick in the book. It also is a cautionary tale. Auditors did not detect the fraud. The scheme was uncovered when one of Eddie’s disgruntled relatives informed the SEC. Recognizing that hindsight is 20/20, there are some fundamental lessons to be learned.  ***Know your client.*** Eddie Antar started young. By the time he was 21, Eddie had already developed a reputation in the retail industry for saying *anything* to make a sale; some considered him an early master of the “bait and switch” technique. Had the auditors invested the time and expense to investigate Eddie before accepting him as a client, they perhaps would have decided against conducting the Crazy Eddie’s audit. In short, they would have found that Eddie Antar was very, very risky.  ***Assign proper personnel.*** The field auditors for Crazy Eddie’s were, according to Sam Antar, young and inexperienced. This is the nature of the audit business—field work typically is assigned to less experienced personnel. Selecting the right auditors for the job, though, is critical in high-risk engagements. Less experienced personnel may be satisfactory in low-risk environments, but detecting the signs of fraud requires maturity and judgment. Therefore senior auditors, fraud examiners and/or antifraud specialists should be considered.  ***Be careful in inventory observations.*** In any merchandising concern, inventory is usually the largest single asset. And experience has shown it is the asset of choice in financial fraud cases. In the Crazy Eddie’s case, the auditors inadvertently may have contributed to the fraud by the way the inventory observations were conducted. Rather than climb over boxes in the warehouse, the auditors asked employees to assist them. Crooked employees volunteered. An employee would stand on top of a stack of television sets, for example, and call down the count to the auditors. If there were 10 sets, the worker would claim there were 25. Repeated many times, this clever trick helped to greatly increase the inventory count. The message here is obvious: If you’re supposed to verify the inventory count, then you must observe it.  ***Provide appropriate security to documents and computers.*** Crazy Eddie’s auditors were provided a company office during their examination. They had a key to lock the desk—which they kept in a box of paperclips on top of the desk in full view. After the auditors left for the day, Eddie’s cohorts would unlock the desk, increase the inventory counts on the workpapers and photocopy the altered records. Were the auditors stupid? No, just too trusting. After all, no one wants to think the client is a crook. But it happens all too often. That’s why the profession requires auditors to be skeptical.  ***Try to understand the relationship between the client and its principal suppliers.*** Crazy Eddie’s bought most of its electronics from one of three wholesalers. All three were in on the scheme to inflate Crazy Eddie’s assets. Did the suppliers know they were helping Eddie cook the books? They may have figured it out, but it’s doubtful they would have asked questions. The reason these suppliers cooperated is simple—Eddie engaged in economic extortion. If they didn’t help him with his schemes, Eddie would change suppliers. This provided them with a significant incentive to cooperate. Perhaps if the auditors had known the extent to which the suppliers were dependent on Eddie, they would have subjected those relationships to closer audit scrutiny. Admittedly, this may be difficult to do. But if the supplier ultimately is material to the financial statements, the auditor may even want to consider visiting the vendor’s operation to further assess risk. Auditors should document any such visits in the workpapers.  ***Consider extra risks associated with closely held businesses.*** Every major player in the Crazy Eddie’s case was related to Eddie Antar—and they made up the board of directors. This was a case of family conspiracy and an extreme example of the kind of damage that can be done to a closely held business when its board consists entirely of insiders who also are company officers. The familial relationship becomes important in assessing risk. There is certainly nothing wrong with family- owned and operated enterprises; they are a strong part of our economic base. But the auditor should recognize an obvious fact about human behavior in the risk equation: It is certainly easier to conspire with a family member than with someone unrelated.  ***Be wary of businesses that buck industry trends.*** While other electronic retailers were struggling to stay even, Crazy Eddie’s was enjoying double-digit growth. Eddie Antar had people believing those I-N-S-A-N-E commercials were responsible. But now we really know why Eddie was so successful—he was a fake. In other instances of financial statement chicanery, bucking industry trends has been a big red flag, too. The auditor should ask herself or himself, “In today’s competitive international business environment, why is this client doing so much better than everyone else?” If you can’t answer that question to your satisfaction, keep digging. There could be a problem.  The failure to detect Crazy Eddie’s large-scale fraud spawned seemingly endless lawsuits against those involved—some spanning a decade or more. The auditors were sued for malpractice; the principals were sued for fraud. Whatever money was made illegally is long gone—the bones of the company have been picked clean through litigation.  Antar and several of his family members ended up with criminal records. Only Eddie served time—eight years. Ironically, he now clerks in an electronics store. Other family members fared better. Relatives in on the conspiracy all received probated sentences. Both Eddie and his conspirators have millions of dollars in civil judgments against them. In sum: Other than the painful lessons learned, nothing positive for Antar and his cohorts came out of the Crazy Eddie’s case. | |

<http://www.journalofaccountancy.com/Issues/2000/Oct/SoThatSWhyItSCalledAPyramidScheme>

**Segregation of Duties**  
Segregation of duties (also called separation of functions or division of work) is  
indispensable in a system of internal control. There are two common applications  
of this principle:  
1. Related activities should be assigned to different individuals.  
2. Establishing the accountability (keeping the records) for an asset should be  
separate from the physical custody of that asset.  
The rationale for segregation of duties is this: The work of one employee should,  
without a duplication of effort, provide a reliable basis for evaluating the work of  
another employee.

**RELATED ACTIVITIES**. Related activities that should be assigned to different individuals  
arise in both purchasing and selling. When one individual is responsible  
for all of the related activities, the potential for errors and irregularities is increased.  
Related purchasing activities include ordering merchandise, receiving the goods,  
and paying (or authorizing payment) for the merchandise. In purchasing, for example,  
orders could be placed with friends or with suppliers who give kickbacks.  
Or, only a cursory count and inspection could be made upon receiving the goods,  
which could lead to errors and poor-quality merchandise. Payment might be authorized  
without a careful review of the invoice. Even worse, fictitious invoices  
might be approved for payment. When the ordering, receiving, and paying are assigned  
to different individuals, the risk of such abuses is minimized.  
Similarly, related sales activities should be assigned to different individuals.  
Related selling activities include making a sale, shipping (or delivering) the goods  
to the customer, billing the customer, and receiving payment. When one person  
handles related sales transactions, a salesperson could make sales at unauthorized  
prices to increase sales commissions; a shipping clerk could ship goods to himself;  
a billing clerk could understate the amount billed for sales made to friends and  
relatives. These abuses are reduced by dividing the sales tasks: the salespersons  
make the sale; the shipping department ships the goods on the basis of the sales  
order; and the billing department prepares the sales invoice after comparing the  
sales order with the report of goods shipped.  
  
**ACCOUNTABILITY FOR ASSETS**. To provide a valid basis of accountability for  
an asset, the accountant should have neither physical custody of the asset nor access  
to it. Likewise, the custodian of the asset should not maintain or have access  
to the accounting records. When one employee maintains the record of the asset  
that should be on hand, and a different employee has physical custody of the asset,  
the custodian of the asset is not likely to convert the asset to personal use.  
The separation of accounting responsibility from the custody of assets is especially  
important for cash and inventories because these assets are vulnerable to unauthorized  
use or misappropriation.  
  
**TECHNOLOGY IN ACTION  
*Saving Cash through Controls***  
If control is so important in the hospitality business and if technology is supposed  
to make things better, is technology used in helping operators and  
businesses control their costs? Chevys, a restaurant chain that owns 131 Chevys Fresh  
Mex restaurant, 33 Rio Bravos, and 9 Fuzio Universal Pasta restaurants has the answer.  
They installed a system that has resulted in at least a 1 percent saving in food costs. With  
average sales at a Chevys Fresh Mex of over $2.5 million a year, 1 percent of sales translates  
to $25,000 and thus close to $3.3 million just for the Fresh Mex brand. The system  
allows management to do correct pricing with updated information from the vendor.  
There are many technology systems available for restaurateurs, big or small, to take  
advantage of and to better operate their businesses. They can track menu additions, product  
mix, takeout orders, complimentary meals, voids, specialty requests, and perform many  
more functions, so that management and owners can stay competitive.

**Case study – Parmalat**

[http://accounting.tianhenet.com.cn/2012/1114/367036.shtml](http://accounting.tianhenet.com.cn/2012/1114/367036.shtml#_blank)

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| **The Situation** |  |  | **概况** |
| - Parmalat is a multinational Italian dairy and food corporation  - The company was founded by Calisto Tanzi, a university dropout who transformed a family business, Calisto Tanzi & Sons - Salamis and Preserves into an organisation hailed as one of Europe's biggest corporate success stories.  - In 1997 Parmalat jumped into the world financial markets in a big way, financing several international acquisitions with debt.- By 2001, many of the new divisions were producing losses, and the company financing shifted largely to the use of derivatives.- Parmalat had determined that their company wide objectives was to become the leading global company in production of UHT, however, a risk assessment of financing several international acquisitions with debt and derivatives was not performed.  - There was also a concern that the managers who were making the accounting decisions, were also posting the journals to the general ledger. Furthermore, they were reviewing and signing off on the reconciliations and reporting | -帕玛拉特公司是一家意大利跨国公司，生产奶制品和食品。  - 公司创始人为卡利斯托.坦齐（Calisto Tanzi），卡利斯托.坦齐大学辍学后经过努力将原有的家族企业Calisto Tanzi & Sons（经营意大利香肠和罐头）改造成为大企业，被称为是欧洲最成功的商业故事之一。  - 1997年帕玛拉特大规模进入全球金融市场，在几个国际并购案中利用债务[融资](http://accounting.tianhenet.com.cn/)。  - 到2001年时，许多新的部门已经出现亏损，公司大量使用金融衍生工具转移资金。  - 帕玛拉特公司决定公司的目标是成为全球领先的UHT生产商，然而，利用债务和金融衍生工具为数个国际并购案融资中存在的风险却没有被评估。  - 还有一个令人关注的问题是，制定会计决策的经理人，同时也负责将分类账粘贴到[总分类账簿](http://accounting.tianhenet.com.cn/)上。此外，他们同时还审查和签署对账以及财务报告 |
| - In February 2003, CFO Fausto Tonna unexpectedly announced a new €500 million bond issue. This came as a surprise both to the markets and to the CEO, Calisto Tanzi. Tanzi fired Tonna and replaced him as CFO with Alberto Ferraris.  - Ferraris was surprised to discover that, though now CFO, he still didn't have access to some of the corporate books, which were being handled by the Chief Accounting Officer, Luciano Del Soldato.  - He began making some inquiries and began to suspect that the company's total debt was more than double that on the balance sheet.  - It was identified that there was a lack of validity checks to confirm the accounts actually existed, resulting in inaccurate information being reported. | - 2003年2月，[首席财务官](http://accounting.tianhenet.com.cn/)福斯托•通纳出人意料地宣布发行价值5亿欧元的新债券。市场和首席执行官卡利斯托•坦齐对此都感到惊讶。坦齐解雇了通纳，任命阿尔贝托•法拉利为新的首席财务官。  - 法拉利惊奇地发现，虽然作为新的首席财务官，但他仍然不能接触部分企业账簿，这部分账簿是由首席会计官卢西亚•诺德尔•索尔达托把控着。  - 法拉利开始做一些调查，并开始怀疑该公司的总债务是[资产负债表](http://accounting.tianhenet.com.cn/)上的两倍多。  - 经确定，公司缺乏对核实账户是否实际存在的有效检查，这导致不准确的报告信息。 |
| - The crisis became public in November when questions were raised about transactions with mutual fund Epicurum, a Cayman-based company linked to Parmalat causing its stock to plummet. Ferraris resigned less than a week later and was replaced by Del Soldato.  - In December, Del Soldato resigned, unable to get cash from Epicurum fund, needed to pay debts and make bond payments. The company, who had 36,000 employees, was supposed to be sitting on €3.95 billion in cash, so the Italian bankers were puzzled by its predicament of a cash shortage.  - Enrico Bondi was called in to help the company. Tanzi himself resigned as chairman and CEO.- Parmalat's bank, Bank of America, then released a document showing €3.95 billion in the bank account of Parlamat’s Cayman Island subsidary, Bonlat, as a forgery. | - 2003年11月，当处理Epicurum（凯曼群岛上一家与帕玛拉特有关联的公司）共同基金出现问题时，帕玛拉特公司危机变成了公众问题，导致其股价暴跌。该事件发生后不到一个星期法拉利就辞职了，德尔•索尔达托开始接手。  - 12月，由于无法从Epicurum基金得到资金，同时又需要偿还债务和债券，德尔•索尔达托辞职。该公司有36,000名员工，本应该拥有39.5亿欧元现金，所以意大利银行家对其现金短缺的困境感到很疑惑。  - 恩里科•邦迪被调来帮助该公司。坦齐自己辞去公司董事长兼首席执行官。- 帕玛拉特的交易银行-美国银行（Bank of America），之后公布的一份文件显示该公司在其凯曼群岛的分公司Bonlat银行账户上的39.5亿欧元，系伪造。 |
| - Prime Minister Silvio Berlusconi initiated a fraud investigation and appointed Bondi to administer the company's rescue.  - It was identified that the Parmalat board comprised nine insiders, one affiliated outsider, and only three independent directors. Parmalat was also weak on the composition of key board committees. Insiders sat on each key board committee. Moreover, members of Audit and Remuneration Committee also sat on the Executive Committee with founder and boss Tanzi. The executive committee, which consisted of company executives, proposed actions for board approval and then implemented them. | - 意大利总理西尔维奥•贝卢斯科尼对此发起了欺诈调查，并任命邦迪来管理对该公司的救援活动。  - 经确认，帕玛拉特公司董事会有9名内部人员，一名有关联的外部人员，只有三名独立董事。帕玛拉特公司的主要董事会委员会的组成也很弱。内部人员在董事会委员会中都担任关键职位。此外，审核委员会以及薪酬委员会成员在执行委员会中也担任要职，包括该公司的创始人和老板坦齐。执行委员会，由公司高管组成，提拟活动供董事会批准，然后实施。 |
| **What are the issues?** | **问题是什么？** |
| - Parmalat is suspected of having perpetrated a massive fraud. Billions of euros have gone missing from its books in a scandal that has drawn parallels with the collapse of Enron, the US energy giant.  - Parmalat had been using its assets to offset more than a decade’s worth of liabilities through a network of offshore and foreign finance companies. The problem, however, was that these assets did not exist. Furthermore, bank accounts at the Bank of America were determined that they, too, did not exist.  - The company has admitted that the true level of its debt is €14.3bn (£10bn) - eight times more than it claimed.  - Parmalat's primary auditor was Deloitte & Touche, but the Milan branch of Grant Thornton dealt with some of the company's subsidiaries, including Bonlat. When Grant Thornton checked with Bank of America, the auditor received a letter on Bank of America letterhead confirming the existence of the account. However, Bank of America said the letter was forged. | - 帕玛拉特被怀疑进行了高额欺诈。数十亿欧元从公司账簿上消失，这和美国能源巨头安然公司的倒闭同样惊人。  - 帕玛拉特公司一直通过离岸公司和外国金融公司网络，用其资产抵消十多年的负债。然而，问题是这些资产根本不存在。此外，在美国银行的公司银行账户上，也显示不存在这些资产。  - 该公司已经承认其真实的[债务水平](http://accounting.tianhenet.com.cn/)是143亿欧元（100亿英镑） - 是之前宣称的8倍多。  - 帕玛拉特公司的主要核审计公司是德勤会计师事务所，但，均富会计师事务所的米兰分部处理该公司附属公司的部分会计事务，包括Bonlat。均富会计师事务所与美国银行（Bank of America）一起检查时，审计师收到一封来自美国银行的信件，确认了这一账户的存在。然而，美国银行（Bank of America）说，这封信是伪造的。 |
| **The outcomes** | **后果** |
| The CEO, Tanzi, has been sentenced to 10 years in prison for fraud relating to the collapse of the dairy group. The other seven defendants, including executives and bankers, were acquitted. Another eight defendants settled out of court in September 2008.  - Shares in the company, which once had a market value of €1.8bn, are worthless, so millions of investors are out of pocket. - Bank of America is thought to have provided between $150m (£84m) and $250m in loans to Parmalat, but those are trivial sums for America's third biggest bank. | 首席执行官坦齐因诈骗引起该乳业集团倒闭而被判处10年监禁。其他7名被告，包括高管和银行工作人员，被无罪释放。另8名被告于2008年在庭外达成和解。  - 该公司的股份曾经的市场价值是18亿欧元，现在一文不值，因此，数百万的投资者都赔光了。  - 美国银行（Bank of America）被认为向帕玛拉特提供了1.5亿美元（8400万英镑）到2.5亿美元的贷款，但这笔金额对于美国的第三大银行是微不足道的。 |
| The Board contained 9 Insiders and 1 Affiliated member, and only 3 independent directors. The ability for the Board to work effectively was minimised. The members of the Audit and Remuneration Committee consisted of Executives, the Owner and the CEO. There was reduced ability to independently challenge financial reporting and audit outcomes. There was limited segregation of duties/authority/responsibility between the executive and the Board. CFO (Alberto Ferraris) did not have access to key financial reporting systems that were being handled by Chief Accounting Officer. |  |  | 帕玛拉特董事会有9名内部人员和1名关联成员，却只有3名独立董事。这就大大降低了董事会有效工作的能力。审计委员会及薪酬委员会的成员由行政人员，公司所有者和首席执行官组成。减少了独立质疑[财务报告](http://accounting.tianhenet.com.cn/)和审计结果的能力。对执行董事和董事会之间的职责/权力/责任划分有限。首席财务官（阿尔贝托•法拉利）不能接触由首席会计官负责的关键财务报告系统。 |
| **Analysis** | **分析** |
| **1.Risk assessment** | **1.风险评估** |
| There seems to be an absence of assessments of internal and external factors before undertaking acquisitions using debts and derivatives. Factors include production losses, and issue of debt without appropriate assets. | 帕玛拉特用债务和金融衍生工具进行并购前，似乎没有评估内部和外部因素。这些因素包括生产损失以及没有适当的资产就发行债券。 |
| **2.Control activities** | **2.控制活动** |
| The managers who were making the accounting decisions, were also posting the journals to the general ledger. **Segregation of duties.**  Same people were reviewing and signing off on the reconciliations and reporting. **Segregation of duties.**  Inadequate validity checks to confirm accounts and account balances. **Reconciliations etc.**  System access controls were weak giving individuals access to create and amend accounts, post and approve transactions. | 制定会计决策的经理人，同时也负责将分类账粘贴到[总分类账簿](http://accounting.tianhenet.com.cn/)上。**划分职责。**  审查对账和报告的人同时也签署这些文件。**划分职责。**  对帐户和帐户余额确认的有效检查不足。**对账等。**  系统访问控制薄弱，某些个人有机会创建和修改账目，发布并批准交易。 |
| **3.Information and communication** | **3.信息和交流** |
| There was restricted information available to the CFO as he did not have access to the records. Limited reporting around the accuracy of the cash balances. Inadequate systems and data validations for completeness and validity. There were no checks to confirm the accounts being created and hidden. | [首席财务官](http://accounting.tianhenet.com.cn/)可用的信息有限，因为他不能访问公司财务记录。围绕确切现金余额的报告有限。缺乏完整的系统和有效的数据。没有进行检查来确认创建的账户和被隐藏的账户。 |
| **4.Monitoring** | **4.监控** |
| There was a lack of independent monitoring at Parmalat. The boards were not truly independent and not truly vigilant. The Audit and Remuneration Committee was inadequately separate to challenge and review the ongoing operations of executives and management. There is limited evidence of independent checks of key controls such as independent reviews of reconciliations and reporting. | 帕玛拉特公司缺乏独立的监测。董事会没有真正地独立，而且也没有真正保持警惕态度。没有适当划分审计委员会和薪酬委员会，使他们质疑并审查高管目前的业务操作和管理。在独立检查关键控件上缺乏足够证据，例如独立审查对账和财务报告。 |