



Indian Institute of Management, Ahmedabad
Course Outline for
Fraud Risk Assessment and Governance Mechanisms -2016

Instructors

Prof. Sobhesh Agarwalla

Prof. Naman Desai

Course Objectives

This course is designed to help the participants gain working knowledge in the areas of corporate governance and fraud risk assessment. The course introduces the participants to the two major types of corporate frauds namely, misappropriation of assets and fraudulent financial reporting and the factors that lead to such frauds. It then introduces the major corporate governance mechanisms that could help in controlling the risk of corporate fraud. The included cases studies will help the participants in identifying and evaluating the impact of various fraud risks, red flags and the mechanisms that could be implemented to either prevent fraud or control the risk of fraud.

Pedagogy

With an emphasis on individual and collaborative learning, the course will be taught through the case method. For every topic, the background reading material will be provided, and a case will be used for class discussion.

Reading Material:

- “Earnings Quality”: Patricia M. Dechow and Catherine M. Schrand (Suggested Text Book for the course)
- Research Papers mentioned in the session plan
- In class hand-outs

Grading Scheme:

Quiz (2 Quizzes)	80%
Class Participation	20%

All quizzes will be announced in advance and will have equal weight. Request for re-evaluation of quizzes would not be normally entertained. For students who might not be able to keep pace with the class, remedial sessions may be offered on specific request of the student body.

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SESSION PLAN

Session	Module	Case	Reading
1-2	Introduction to fraud and governance mechanisms	Developing Student Abilities to Detect Fraud: A Series of Scenarios; Brainstorming Case	Trompeter et al., 2013. “A synthesis of fraud-related research”. Auditing, Vol. 32 (1), 287-321. Dorminey et al., 2012. “The evolution of Fraud Theory”. Auditing, Vol. 27(2), 555-579.
3	Quality of Earnings	General Electric 2000 – Quality of earnings assessment (9-101-091)	Chapter 2 and 5 (DS)
4	Earnings Smoothing and Fraudulent Reporting	Accounting fraud at WorldCom (5-105-083)	Chapter 3 (DS)
5 -6	Detecting Red Flags	Parmalat SpA: Impressive Milking System (IMD-1-0215) Now you See it, Now you do not - The case of Jet Airways and its Accounting Policies Enron’s Demise: Were there warning signs? (TB0135)	Financial Restatements: Methods companies use to distort financial performance Additional reading: SAS-99 (can be downloaded from http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-00316.pdf)
7	Using Financial Ratios and Models to Detect Fraud	Comptronix Inc.; Instructional Case: Detecting Earnings Manipulations	Beneish, M. D., 1999. “The detection of earnings manipulation”. Financial Analysts Journal, Vol. 55 (5), 24-36.
8	Managing Shareholders’ expectations	Bristol-Myers Squibb Company – Managing Shareholders’ Expectations (905B08)	Chapter 7 (DS)
9	Internal Control System	Westchester Distributing, Inc. (A) (9-191-118)	
10	Governance Structures – Role of Auditors	Financial Reporting Problems at Molex (A) (9-105-082)	Chapter 6 (DS)