

## **Consideration of Financial and Non-Financial Data in Fraud Risk Assessment: The Beanie Bag Case<sup>1</sup>**

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This paper presents a case to assist in teaching fraud risk assessment through an application of Statement on Auditing Standards (SAS) Number (No.) 82, *Consideration of Fraud in a Financial Statement Audit*. A decade ago the Treadway Commission (National Commission on Fraudulent Financial Reporting, 1987) called for a collective effort between academics, public accountants, the Securities and Exchange Commission (SEC), and business to reduce the potential for fraudulent financial reporting. More recently, The Public Oversight Board, SEC Practice Section's 1995-1996 annual report identified financial statement fraud as the most serious problem faced by today's profession.

To meet this obligation, auditing professionals, academics, and students need to be more knowledgeable and prepared to assess the risk of fraudulent financial reporting and make judgments concerning the likelihood of such fraud. The case, which fosters skills in identifying and assessing red flags, was developed to highlight qualitative and quantitative red flags that exist in financial statement fraud. The case is most beneficial to first audit professionals with less than one year experience and senior auditing students. Students participating in the case should at minimum be exposed to SAS 82, analytical procedures, risk and materiality, and planning the audit.

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### **INSTRUCTOR NOTES**

The following case may be used as part of the orientation for audit planning. The seminar or academic instructor should expose case participants to several key issues including guidance offered by SAS No. 82, financial statement fraud, reportable conditions, and the audit risk model. Knowledge of the different forms of audit evidence is also helpful. Though not required, advanced audit classes and training seminars may wish to further investigate qual-

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<sup>1</sup> This case is adapted from an actual management fraud case that went on, undetected, for a total of three years. The company name, industry, locations, and all other names and numbers used in the case are fictitious. The contextual information and the procedures described in the case are not intended to demonstrate correct or incorrect audit procedures. Instead, instructors use the case as a resource for teaching, engaging students, and discussing how financial and non-financial data and information may be identified, analyzed, and utilized to assess financial statement fraud risk.