

Enhancing Accounting Fraud Measurement: Integrating Public and Private Enforcement Perspectives

Corporate accounting fraud, or the intentional manipulation of financial statements leading to investor damages, is a significant concern



It is imperative to incorporate both public and private enforcement perspectives to obtain more accurate fraud measures



A three-part study to examine the legal standards and processes of public and private enforcement regimes



Reviewing legal standards and processes for fraud enforcement



Constructing a sample for accounting fraud from 1998 to 2014:

- ✓ Securities and Exchange Commission (SEC) cases
- ✓ Securities class actions (SCAs)



Developing a fraud prediction model utilizing a composite fraud measure along with:

- ✓ Accounting-based SEC fraud prediction variables
- ✓ Primarily market-based SCA litigation risk variables

Observations



Settled SCAs are a valid proxy for fraud



Accounting fraud investigations must screen case for constructing validity to reduce measurement error



Settled SEC cases alleging intentional misstatements exhibit:

- ⚠ Higher fraud propensity scores and restatement rates
- ⚠ More adverse consequences like executive turnover

The study presents empirical evidence comparing public and private enforcement regimes, offering a framework for assessing the validity of fraud proxies