

Early Detection of Management Fraud: Evidence from Financial Statement Restatements

Natalie T. Churyk
Northern Illinois University

Chih-Chen Lee
Northern Illinois University

The purpose of Management's Discussion & Analysis (MD&A) is to provide management's view on a company's operations and financial condition to present and potential stockholders and creditors. MD&A is part of a company's filings to the Securities and Exchange Commission (SEC), and includes both quantitative and qualitative data. While most fraud prediction studies rely on quantitative data, qualitative data has received little attention. This study focuses on qualitative data provided by management.

It is rare to successfully manipulate a company's financial statements without top management's involvement. In order to conceal frauds, management will present inaccurate MD&A to obscure the company's true financial condition. This study compares the fraudulent MD&As to non-fraudulent MD&As by using content analysis. The purpose of this study is to determine if there are differences between these two groups. Any differences found may be used as indicators in building fraud prediction models.