**Required reading: top management fraud**

"According to a 1999 COSO research project, at least 83% of 200 financial statement frauds were engineered by the CEO, CFO or both. These control frauds are most often accomplished by upper management by overriding existing internal controls." (from theJournal of Accountancy, official journal of theAmerican Institute of CPA's, issue of January 2007, p. 33).

An important link about top management overrides of internal control is:

<http://www.aicpa.org/audcommctr/download/achilles_heel.pdf>

Here is a short excerpt from the introduction to this study:

Even though internal control over financial reporting (hereinafter referred to as internal  
controls or simply as controls) may appear to be well-designed and effective, controls that are otherwise effective can be overridden by management in every entity. Many financial statement frauds have been perpetrated by intentional override by senior management of what might otherwise appear to be effective internal controls.

Audit committees may reduce the risk of material misstatement in the financial statements due to fraud by addressing the risk of management override of internal controls as part of their oversight of the financial reporting process. This document provides guidance to audit committees in considering the risk of management override of internal controls—the Achilles’ heel of fraud prevention.

Because management is primarily responsible for the design, implementation, and maintenance of internal controls, the entity is always exposed to the danger of management override of controls, whether the entity is publicly held, private, not-for-profit, or governmental. When the opportunity to override internal controls is combined with powerful incentives to meet accounting objectives, senior management may engage in fraudulent financial reporting. Thus, otherwise effective internal controls cannot be relied upon to prevent, detect, or deter fraudulent financial reporting perpetrated by senior management.