



**Center for Accounting, Research, and Education**  
**Models for Predicting/Detecting Fraud**

Scott W. Bauguess, Deputy Chief Economist & Deputy Director  
Division of Economic and Risk Analysis

# SEC Disclaimer

---

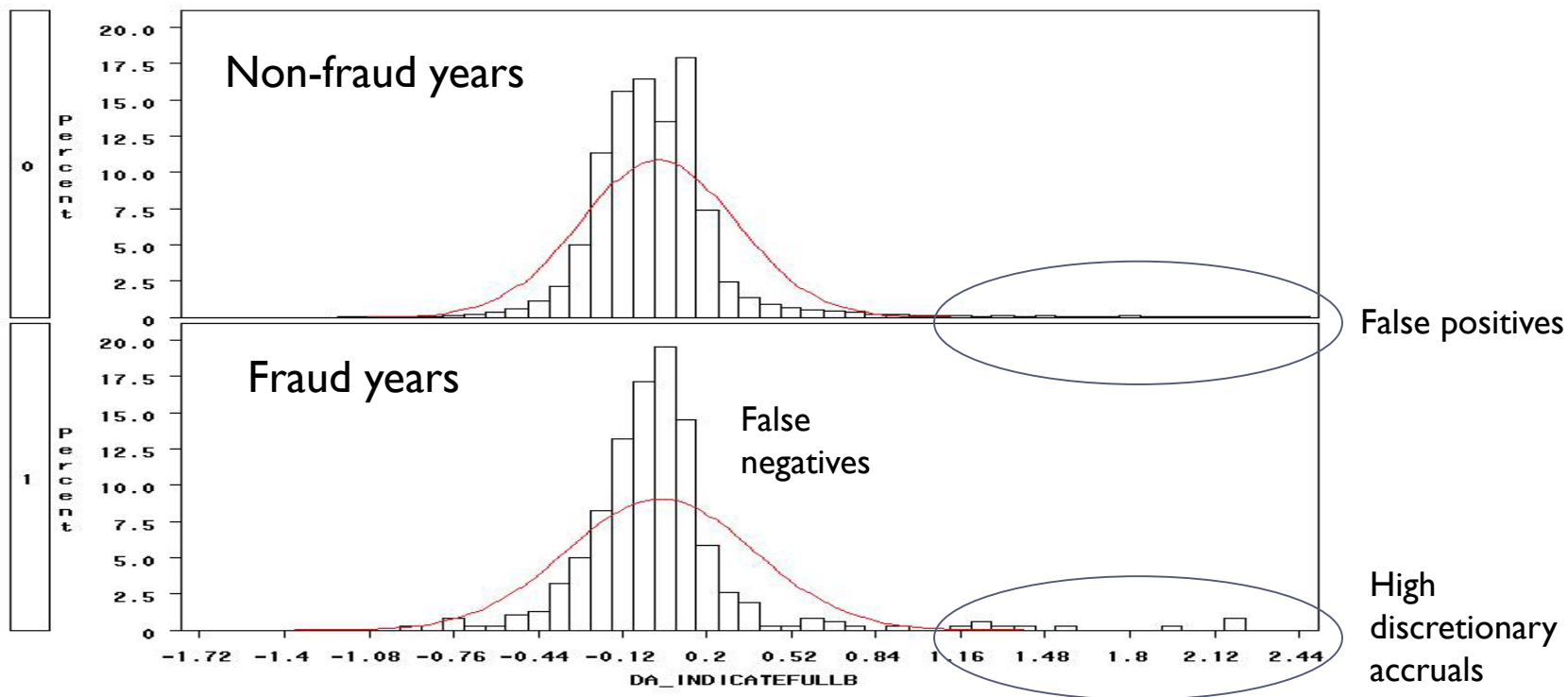
**The Securities and Exchange Commission, as a matter of policy, disclaims responsibility for any private publication or statement by any of its employees. The views expressed herein are those of the author and do not necessarily reflect the views of the Commission or of the author's colleagues on the staff of the Commission.**



# Corporate Issuer Risk Assessment

## Where we started – Accounting Quality Model (AQM)

- Establish correlation between discretionary accruals and instances of fraud or misconduct.



# Corporate Issuer Risk Assessment (CIRA)

---

- **Where we are now – CIRA Dashboard tool developed for disclosure review and investigative staff**
  - Incorporates (modeled) measures of earnings management
  - Standard financial ratios
  - Key financial metrics
- **Allows comparison to peer firms**
  - Custom, Geographic or Industry-Specific
- **Users can generate risk rankings based on Issuer behaviors**
  - Risky behaviors identified by determinants of misconduct derived from previous enforcement actions.
  - E.g., an issuer with poor stock price performance, high inventory growth, low sales growth, and a change of auditor may be indicative of aggressive earnings management.

