

Toshiba's fraud

Accounting and Control Q3-21

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1. How can the fraud triangle be applied to explain Toshiba's fraud and reveal the motives behind it.

Fraud triangle brings the three principle factors of a fraudulent activity, such as: opportunity, financial pressure and rationalization. Regarding the Toshiba case, the three factors can be seen in the sparse episodes between 2008 and 2015. The opportunity arises when there is a weak audit system, allowing loopholes for fraud to occur, in addition to the occasion makes the opportunity, in At a time when the company was taking losses, executives used unrecorded contract manipulations to carry out the financial manipulations. There was also tremendous financial pressure on the company, forcing new employees to comply with previous financial goals, even with an apparent financial loss. Rationalization is a factor directly linked to Toshiba's market context, when in 2008 its financial results were negatively affected, a factor that bothered executives who had their financial returns affected.

2. What are the issues at Toshiba from the point of view of its stakeholders (especially the investors)?

In an attempt to keep investors looking good, Toshiba manipulated accounting techniques to overestimate its results. Later, managers and accountants use an asymmetry of information to harm and minimize returns to investors. As early as 2015, when the fraud was exposed, Toshiba was removed from the Dow Jones Sustainability World Index, which later resulted in a drop in stock values of nearly 50%.

3. What are the ethical issues in this case? What would you do if you were in the same situation as the Toshiba employees?

The Toshiba case is a clear and widespread demonstration of a breach of business ethics. The company manipulated data, reports, statements, and results to create a lie to defraud results and defraud investors. The company loses credibility with its investors and the Japanese population, as Japan's finance minister Taro Aso mentioned.

If I worked in a position at Toshiba with access to fraud, I would collect information to file an anonymous report and leave the company. Such conduct is not only harmful to the company but also the entire nation.

4. What options are available for the company moving forward? How can it prevent such fraud in the future?

The company must learn from its mistakes. The first step is to regain the trust of their stakeholders. Conduct internal and external audits with transparency and credibility. Procedures for the control and validation of financial records must be adopted. And adopt practices for rotation of responsibilities among employees to minimize exposure to opportunities for fraud.