

Back-to-Back Loans: A Fraud in Transition

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Abstract

Case law relating to an auditor's detection of fraud has identified three fraud categories: “ingenious”, those that arouse or ought to arouse the auditor's suspicions, and “well-known frauds”. This paper argues that the extensive publicity given to Bond Corporation's use of back-to-back loans in 1988-89 to siphon \$1.2 billion from Bell Resources resulted in this fraud being transformed from ingenious to well-known. Detection processes have been developed for well-known frauds and this paper identifies certain “red flags” associated with the back-to-back loan fraud that should facilitate its detection.

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