

Back-to-Back Loans: A Fraud in Transition

ROD JOHNSON

First published: 31 December 2008
<https://doi.org/10.1111/j.1835-2561.2000.tb00071.x>
Citations: 2

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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