



Case Prospectus

LINCOLN SAVINGS AND LOAN

Analyzing the 1987 Bank Failure

Background: Lincoln Savings and Loan (LSL) was a financial institution operating in the rapidly growing Phoenix area in the 1980s. LSL specialized in lending and investing in speculative real estate transactions. Regulators closed LSL after discovering that fictitious gains were recorded to meet minimum capital requirements. Unfortunately, LSL's external auditor did not detect this problem and subsequent litigation led to one of the largest settlements to date for an alleged audit failure.

Case learning objectives: Students completing this case will:

- Become familiar with the rudiments of strategic and business process analysis.
- Understand how external forces in a dynamic environment impact audit risk.
- Discover how knowledge of strategic and business process risks assists the auditor's evaluation of the validity of management's assertions contained in financial statements.
- Learn about potential shortcomings of transactions-oriented audit protocols.

Level of use: The case can be used in undergraduate and graduate auditing courses.

Time to complete: For best results, students will need approximately a week of preparation time. Class discussion is best conducted over two or three separate, sequential class meetings.

Note: As background, students should be encouraged (required) to read, *Auditing Organizations Through a Strategic-Systems Lens* by Bell, et. al.

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