Academic research on the auditor and fraud detection/deterrence



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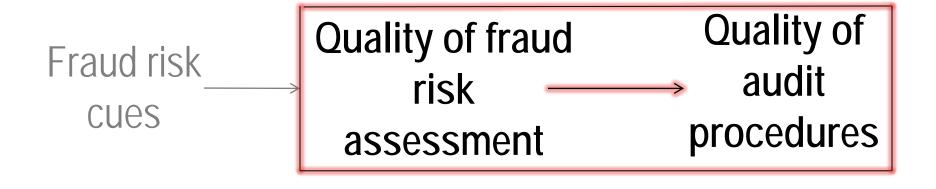




Number 1: The association between fraud risk cues and the quality of fraud risk assessment

Number 1: The association between fraud risk cues and the quality of fraud risk assessment:

- Overall auditors' risk assessments are not always sensitive to fraud risk cues
 - Experimental research:
 - Environment changes
 - Perceptions of management integrity
 - Field research: Knowledge, training and experience deficiency
- However research has shown that some things help
 - Experimental research: Disaggregated risk assessments
 - Experimental and field research: Involvement of specialists
 - Education and training



Number 2: The association between the quality of fraud risk assessment and the quality of audit procedures

Number 2: The association between the quality of fraud risk assessment and the quality of audit procedures:

- Auditors do not always modify the audit program to include more diagnostic testing
 - Overuse of sample size as a remedy
- However research has shown that some things help
 - Brainstorming increases salience of fraud potential and improves fraud detection in the lab IF:
 - Not performed as a "box checking exercise"
 - Led by a forensic specialist or engagement partner
 - Involving the entire engagement team
 - Forensic specialists typically suggest more diagnostic testing which improves detection

Number 3: Skepticism? It's complicated:

- Exposure matters
 - Prior hands-on experience with a fraud is associated with increased skepticism (learning-based salience)
- So do incentives
 - PCAOB inspection, litigation
 - Emphasis of the engagement partner can increase—OR DECREASE skepticism
 - Budgets and experience
 - It's a problem if the extra work does not detect a problem
 - Engagement profitability concerns
 - Pressure for profitability can overwhelm tone at the top

Three things we don't know

Number 1: Internal firm incentives to detect fraud.

– What are they and do they work?

Number 2: Global issues.

Uniform application of processes and cultural differences.

Number 3: Cost/benefit of involving forensic specialists.

- When to bring into an audit engagement?
- Incentives to bring in?
- More cost-effective to bring in forensic specialists or train financial auditors?
 - What knowledge do auditors need to be in a good position to detect fraud?

Number 4: What is the best way to train auditors to detect fraud?

- Lecture?
- Case study?
- Simulation techniques to fill experience gap?
- Social media?