

How Can We Help Auditors Better Detect Financial Statement Fraud?

PCAOB Standing Advisory Group Meeting

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TERRY COLLEGE OF BUSINESS 

Let's work together to fight fraud



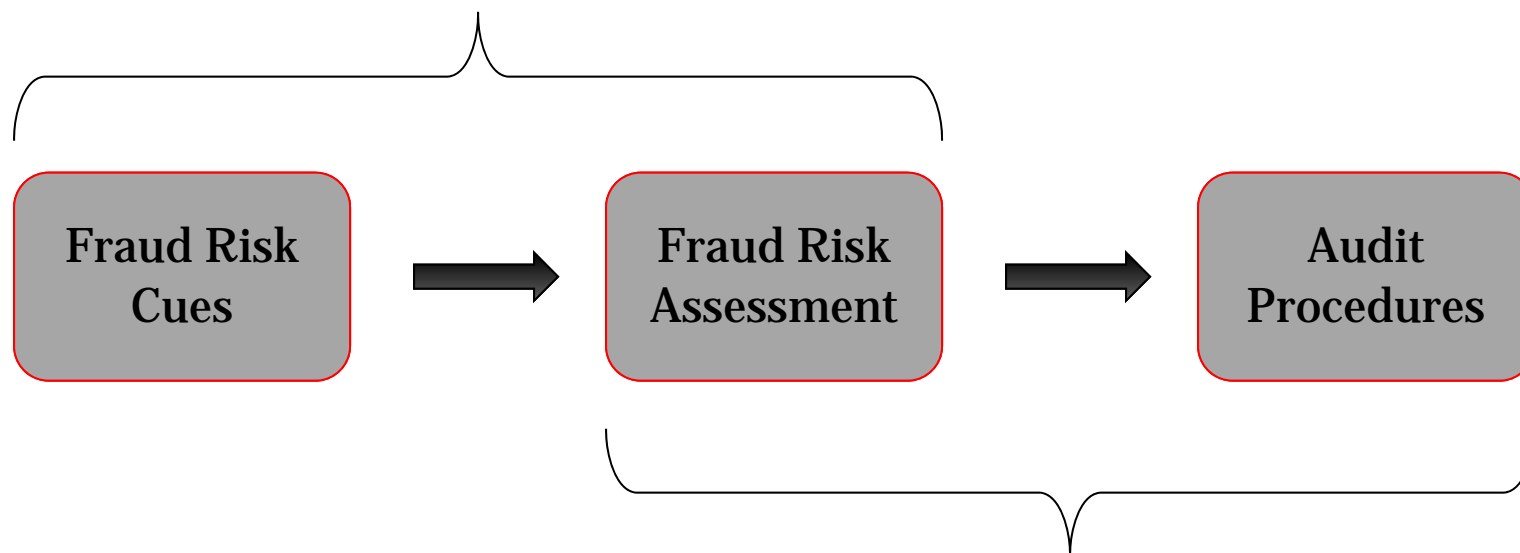
Relay Team:

- We have learned a lot from research
- We have learned a lot from teaching
- We have learned a lot from practice
- What can we continue to learn and explore to help improve auditors' effectiveness at detecting financial reporting fraud?

What have we learned?

Problem: Attitudes and lack of knowledge, training, experience, education

Solutions: Training, education, cues, reminders



Problem: Lack of knowledge, training, experience, motivation

Solutions: Brainstorming, forensic specialists, strategic & critical thinking

Professional Skepticism

Problem: Rarity of fraud to auditors, pressure/incentives, experience

Solutions: Partner tone, training, problem-based learning cases

What do we still want to learn?

New Questions (from research synthesis paper):

- Breakdown- insufficient professional skepticism, especially regarding auditors' testing in response to fraud risks and ultimately fraud detection
 - ***Knowledge, Skills, and Experience***
 - Fraud training/education techniques
 - Critical thinking
 - Engaging learning environments

Examples of ongoing research to improve auditors' skepticism and fraud detection

Text memo condition:

Important Message From The Firm:

Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. It is essential to the performance of effective audits. Professional skepticism is required in every aspect of every audit by every auditor working on the audit. Audits are performed to provide investors with assurance on the fair presentation of the financial statements prepared by management. If the audit is conducted without professional skepticism, the value of the audit to investors and others is seriously impaired.

While professional skepticism is important in all aspects of the audit, it is particularly important in those areas of the audit that involve significant management judgments, including judgments in areas with great measurement uncertainty, or transactions outside the normal course of business, such as nonrecurring transactions, financing activities, and related party transactions that might be motivated solely, or in large measure, by an expected or desired accounting outcome. Effective auditing involves diligent pursuit of sufficient appropriate audit evidence, particularly if contrary evidence exists.

Professional skepticism is also critical as it relates to the auditor's consideration of fraud in the audit. Company management has a unique ability to commit fraud because it frequently is in a position to directly or indirectly manipulate accounting records and present fraudulent financial information. Company personnel who intentionally misstate the financial statements often seek to conceal the misstatement by attempting to deceive the auditor. Because of this incentive, applying professional skepticism is integral to planning and performing audit procedures to address fraud risks.

Examples of ongoing research to improve auditors' skepticism and fraud detection

Text memo with puzzle condition:

Important Message From The Firm:

The underlined words indicate anagram puzzles to solve as you read the message. See if you can solve them all!

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How can we help each other to win the fight?

- How can researchers better communicate findings to regulators, investors, and practitioners?
- How can we ***improve relationships*** between researchers, regulators, and practice to inform research and teaching?



- Best practices observed during inspections
- Best practices from training and detection

Thank you!