

## **Examining for Fraud: A Case for a Larger Alpha**

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### **INTRODUCTION**

Fraud in today’s business environment is an ongoing occurrence. In 2004, the Association of Certified Fraud Examiners (ACFE) estimated \$660 billion dollars in losses due to occupational fraud and abuse. The ACFE defines occupational fraud as “the use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets.”

Fraud takes many different forms and includes actions by management, employees and/or customers. The ACFE categorizes occupational fraud as (1) asset misappropriations, (2) corruption, and (3) fraudulent statements. Asset misappropriations involve the theft or misuse of an organization’s assets. Corruption involves fraudsters improperly using their influence in a transaction for their own benefit. The third category of occupational fraud is the falsification of an organization’s financial statements.

Auditors face differing levels of responsibility to find fraud. In most audits of financial information, whether performed by internal or external auditors, auditors are asked or mandated to provide reasonable assurance that no material frauds are present. For example, SAS 99, *Consideration of Fraud in a Financial Statement Audit*, states “The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.” SAS 99 identifies two-types of fraud, fraudulent financial statement reporting and misappropriation of assets. Either type of fraud could result in material losses. Losses from fraudulent financial statement reporting are more likely to result in misstatements that are material to the financial statements than are losses from misappropriation of assets. However, this does not mean that losses due to misappropriation of assets are immaterial.