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WHAT IS FRAUD AND WHO IS RESPONSIBLE?

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Research shows that fraudulent activity affecting the financial statements is more prevalent than ever despite the increased attention devoted to the prevention and detection of fraud by companies and professional accountants. Fraud is a critical issue for preparers and users of financial statements, as well as auditors. Each group's association and involvement with the financial statements is from a slightly different perspective. Even though all individuals in the financial reporting process share the responsibility for the integrity of the financial statements, different perspectives of fraud can and do affect each group's interpretation of fraudulent activity and responsibility for the prevention and detection of fraud. Accordingly, two questions must be asked: What constitutes fraud, and who is responsible for the detection of fraud? This paper examines the similarities and differences in the definition of fraud, as documented by ten professional organizations, as well as who is responsible for fraud detection.

Introduction

According to the Association of Certified Fraud Examiners' (ACFE) 2004 *Report to the Nation on Occupational Fraud and Abuse*, fraud cost U.S. companies roughly $660 billion in 2003. The average organization loses approximately 6% of its annual revenues to fraud (AFCE 2004, iii). This problem is magnified by the fact that most organizational fraud goes undetected; or if it is detected, goes unreported (ACFE 2004, 8).

As the number of fraud cases continues to rise, the following questions arise: What exactly is fraud, and who is responsible for its detection? Is it the responsibility of the management team? The controller? The chief financial officer? The internal auditor? Or, is it the external auditors' responsibility to define and detect fraud? The question remains – which group is ultimately accountable? With regard to the question of what exactly is fraud, is there consistency in the definition of fraud utilized by various professional organizations? Is this definition consistent with the concept used by law enforcement agencies?

Fraud is a critical issue for both preparers and users of the financial statements, as well as auditors. The role that each group plays with respect to the financial statements is different. Accordingly, it is possible that there are different expectations concerning fraud. It is important that auditors, management and financial statement users understand which definition of fraud applies in each situation and who is responsible

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