

## Forensic Expert Classification of Management Fraud Risk Factors

**Barbara Apostolou\*<sup>1</sup>, John M. Hassell<sup>2</sup> and Sally A. Webber<sup>3</sup>**

<sup>1</sup> Louisiana State University, Baton Rouge, LA USA

<sup>2</sup> Indiana University, Indianapolis, IN USA

<sup>3</sup> Northern Illinois University, DeKalb, IL USA

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The fraud risk literature emphasizes that a motivation, an opportunity, and rationalization to commit fraud must coexist for fraud to occur. Professional auditing standards indicate that auditors should be alert to the presence of both motivation and opportunity fraud risk factors. However, no professional guidance exists that classifies fraud risk factors as either being a motivation or providing an opportunity. We report the results of a survey of 35 forensic experts employed by four Big Five accounting firms who classified the management fraud risk factors from SAS No. 82 as either “motivation” or “opportunity.” For 24 of 25 risk factors, a majority of respondents agreed on the classification as motivation or opportunity, and for most risk factors, consensus for the classifications was quite high. Knowledge of how forensic experts classify the risk factors may help practicing auditors to pay closer attention to situations in which both an opportunity and a motivation are observed, thus improving the fraud risk assessment process.

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### INTRODUCTION

Management fraud is the intentional misrepresentation of amounts or disclosures in the financial statements, with the purpose of misleading financial statement users. Management fraud has been the focus of significant attention in the auditing profession, especially since the issuance of the *Treadway Report* in 1987. Subsequent to 1987, the AICPA’s Auditing Standards Board has twice revised the professional auditing standard on fraud detection and reporting.

Current professional standards require the auditor to assess the risk that management fraud has occurred by considering risk factors identified in SAS No. 82, *Consideration of Fraud in a Financial Statement Audit* (AICPA 1997). Although SAS No. 82 and the related implementation guide (Ramos 1997) suggest that fraud is more likely when both a motivation and an opportunity exist, no professional guidance exists to classify the risk factors in this manner. SAS No. 82 emphasizes that the auditor must exercise professional judgment in assess-