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SAS No. 99: A New Look at Auditor Detection of Fraud

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Instances of fraudulent financial reporting continue to call into question the role of auditors in fraud detection. Auditors struggle with the ability to reduce occurrences of material misstatements due to fraud; while investors, creditors, and other stakeholders look for greater and greater assurances that fraud is not present. In December 2002, in another attempt to substantially improve auditor performance in fraud detection, the Auditing Standards Board (ASB) issued Statement on Auditing Standard (SAS) No. 99, *Consideration of Fraud in a Financial Statement Audit*. This article highlights many of the new provisions of SAS No. 99, with an overview of some of the reasons behind them. Additionally, this article identifies research opportunities that could provide useful insights to practitioners and standards-setters as the profession implements the provisions of the new standard.

BACKGROUND

While many might conclude the ASB's issuance of SAS No. 99 was prompted by recent alleged financial reporting scandals at Enron, WorldCom, Tyco, Aldelphia and others, the ASB's efforts were well underway long before news of problems at Enron first surfaced. In fact, the ASB began evaluating the effectiveness of the existing guidance in SAS No. 82 (now superseded by SAS No. 99) in 1998, just one year after that standard's issuance in February 1997.

In an effort to continually evaluate auditor performance in fraud detection, the ASB committed in the exposure draft of SAS No. 82 to consider the effectiveness of that guidance by the year 2000. In response to this commitment, the ASB formed a Fraud Steering Task Force in 1998 to commission academic research to examine issues related to auditor performance in a SAS No. 82 environment. Four studies, whose objectives are summarized in Table 1, were conducted to examine specific issues identified by the task force. Findings