Edwards

Journal of Forensic Accounting
1524-5586/Vol.VI(2005), pp. 103-118

Fraud Surveys: Lessons for Forensic Accountants

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Fraud has become a topic of intense interest not only to the business community but also to the public at large. A series of corporate frauds beginning with Enron and including the massive $11 billion fraud at WorldCom resulted in the passage of the Sarbanes-Oxley Act of 2002, the most important legislation governing securities passed since the securities acts of 1933 and 1934. Sarbanes-Oxley sets new standards for corporate accountability as well as penalties for corporate wrongdoing. The act creates a need for more forensic accountants to assist corporations in their quest to ensure compliance with its mandates.

The accounting profession responded to the recent changes in the regulatory environment by issuing several recent reports that provide detailed findings about the current extent of fraudulent activities and describe key elements of programs and controls that can reduce the incidence of such fraud. There studies make clear that the profession realizes that it must adopt a more proactive approach to the detection and prevention of fraud. Forensic accountants and auditors should be familiar with as well as use the results of these reports.

The reports described in this paper include the KPMG fraud survey of 2003, PricewaterhouseCoopers' 2003 Global Economic Crime Survey and The Association of Certified Fraud Examiners 2004 study on occupational fraud called the 2004 Report to the Nation on Occupational Fraud and Abuse. These studies provide critical evidence on a corporation's vulnerability to fraud and the best techniques to detect such fraud. Although recent legislation has emphasized the importance of improving internal controls, these studies make clear the pervasiveness of fraud and the difficulty of detecting malfeasance.

INTRODUCTION

Yes Virginia, fraud has not disappeared. The Federal Trade Commission recently reported that its complaint data base received over half a million consumer fraud and identity theft complaints in 2003. Consumers reported losses from fraud of more than $400 million. Identity theft was 42% of all complaints, up from 40% in 2002.

A 2001 Kessler survey shows the over-all fraud problem facing companies and forensic accountants:[1]

[1] Studies show 13% of employees are fundamentally dishonest. KesslerNews, November 1, 2001. www.investigation.com/articles/library/2001articles.