

Teaching Fraud Detection Skills: A Problem-Based Learning Approach

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Recently, there has been high demand for accounting education cases that address fraudulent financial reporting and strategies for detecting fraud (AICPA, 2003). The purpose of this paper is to: 1) provide evidence of the relative merits of using problem-based learning (PBL) cases as an effective method for teaching fraud detection; and 2) demonstrate with a concrete example how to create and administer PBL cases that include embedded frauds. PBL, popularized in the medical field, consists of a team of students confronting a realistic problem in a simulated real-world setting. The team must solve the problem using ingenuity rather than an algorithm supplied by the instructor. Johnstone and Biggs (1998) have shown how PBL is appropriate for upper-level accounting students and as a methodology that can be usefully applied to elevate expertise. This paper shows how PBL can be applied specifically to teach fraud detection. SAS 99, *Consideration of Fraud in a Financial Statement Audit* (AICPA 2002), as well as high profile, recent audit failures underscore the urgency for auditors to enhance their skills in this area.

INTRODUCTION

Audit standard SAS 99, *Consideration of Fraud in a Financial Statement Audit* (AICPA 2002), expands the responsibility for fraud detection by requiring auditors to be aware of firm environments, pressures upon employees, and control weaknesses that could contribute to the probability of fraud occurring. To supplement the new standard, the AICPA plans to develop appropriate continuing education materials (AICPA 2002). Correlated with these plans is the AICPA's recently issued call for the development of real-world based cases for use in the accounting classroom, in particular for cases that address fraudulent financial reporting and strategies for detecting fraud.¹ The purpose of this paper is to assist educators in the development of those cases by: 1) providing evidence of the relative merits of problem-based learning (PBL) in teaching fraud detection, and 2) by providing easy-to-follow guidelines for developing PBL cases.

¹ Information on case submission can be found at <http://www.aicpa.org/members/div/career/edu/ppcdp.htm>.