

## An Investigation of Auditor Assessment of Fraud Risk

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Since the passage of the Sarbanes-Oxley Act of 2002, auditors are exposed to regulatory scrutiny regarding their ability to detect and report fraud in a timely and appropriate manner. We asked 89 external, internal, and governmental auditors to make fraud risk assessments based on four versions of two hypothetical cases involving the presence or absence of motivation and opportunity risk factors. The results show that the three groups of auditors (1) increase their fraud risk assessment when either motivation or opportunity risk factors are present, and (2) increase their fraud risk assessments when both motivation and opportunity are present. Interestingly, fraud risk assessments when both motivation and opportunity risk factors were present were not always statistically significantly higher than when motivation or opportunity risk factors were present, primarily because of the magnitude of the change in risk assessment when either motivation or opportunity factors were present.

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### INTRODUCTION

Sweeping changes have and are affecting audit practice since the Sarbanes-Oxley Act (SOX) was passed in 2002 creating the Public Company Accounting Oversight Board (PCAOB), which has authority to set auditing standards for the financial audits of public companies. SOX imposed a new layer of accountability on the auditing profession with the purpose of creating both the requirement and expectation that auditors detect and appropriately report management fraud. In concert with regulatory changes, Statement on Auditing Standards (SAS) No. 99, *Consideration of Fraud in a Financial Statement Audit*, was issued to clarify the auditor's requirement to explicitly consider fraud risk factors in making the required fraud risk assessment when planning the audit scope (AICPA 2002).

SAS No. 99 (AICPA 2002, .07) describes three conditions typically present when fraud occurs: (1) *motivation* to commit fraud, (2) *opportunity* for fraud, and (3) an *attitude* that rationalizes fraudulent behavior. We refer to these categories as motivation, opportunity, and