

# Fraud is in the details

*"Good auditors detect fraud the way good doctors diagnose disease, by putting all the little clues together." —Jean Bedard, PhD, Timothy B. Harbert Professor of Accountancy*

In many ways, confidence in our financial system rests firmly on the shoulders of auditing professionals. With demand for more corporate accountability, we require auditors to be ethical, independent and sharp. So how does a good auditor think? Bentley Professor Jean Bedard studies auditor decision making and she has a theory.

**Why is it so hard to detect corporate fraud?** Public companies are large and complicated. The auditor will have a great deal of information to look at, most of which is positive. The challenge is to spot the little negatives, the inconsistencies in different parts of the case that, taken all together, may indicate fraud.

**One of your studies compared auditing to medical diagnosis. What were the parallels?** In the medical case study, the patient was giving his doctors misinformation to steer them away from the actual problem. This mimicked the situation the auditor has in a suspected fraud case: the client points you toward one explanation for your findings when actually the real cause is something else entirely.

**So how does a good auditor think?** A good auditor will see the pattern in isolated pieces of information in different parts of the case. Auditors who put these clues together first and test their own findings before soliciting answers from the client will be more successful at diagnosing the fraud. The important thing is to avoid being influenced by the client's explanation for your findings.

**Can this kind of thinking be promoted?** One interesting recent requirement in auditing standards is a formal "fraud brainstorming" session. Early on, the audit team is required to meet, examine all the indicators that might suggest fraud, and discuss how they will deal with them. This will help.

**Are you concerned about audit quality in this country?** We should all be concerned that the highest standards of integrity and accountability are applied at every level, from the corporate audit committee to the independent audit firm to the oversight board. Fortunately, in the vast majority of cases, they are.

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**MORE** Professor Bedard discusses her work at [Bentley.edu/research](http://Bentley.edu/research)

