

The latest wave of accounting scandals has reconfirmed how fraud systematically questions all forms of control, governance, and external oversight.

This study investigates specific fraud risks perceived and observed by Dutch audit partners at their clients and explores three specific research questions: (1) how do managerial attitudes affect auditor risk perceptions? (2) how do external auditors weigh the relative importance of the three components of the fraud triangle (conditions, motivations, attitudes)? And, (3) how do auditors perceive that specific fraud conditions involving ethics, profits and performance targets affect fraud?

Three important learning points stem from this study. First, the “attitude” of a company’s management toward committing fraud is the single most important “leg” of the fraud triangle. Second, auditors consider that pressures placed on talented managers to achieve higher profits, consistently achieve performance targets, and conform with organizational practices are important factors associated with fraudulent managerial intentions. Third, there is persuasive evidence to suggest that auditors consider the integrity and ethics of senior management as the single most important fraud red flag.

The results of this study suggest that effective organizational fraud prevention strategies and programs may be those which focus on: (1) principles of ethics and integrity as reflected in the behaviour and choices of senior officers in an organization; (2) processes of internal control over critical accounting areas and management compensation; and (3) practices which promote consistent profits and performance targets, potentially misguiding and overly-committing the more clever and talented managers in organizations.