

Detecting Fraud in Organizations: Techniques, Tools, and Resources

By Joseph Petrucelli, John Wiley & Sons Inc., January 2013, ISBN 978-1-118-10314-2, 384 pages, \$90.00 hardcover

Reviewed by Vincent J. Love

This book is an excellent resource for members of boards of directors, management (particularly of small owner-operated businesses), and students; moreover, it is an essential read for individuals from these groups who do not have an in-depth understanding of auditing, accounting, reporting, and the causes and prevention of fraud. An experienced accounting professional might find portions of it mundane, but its unique analysis of the character of the fraudster and the environment conducive to fraud more than makes up for it. In addition, it provides a comprehensive explanation of the effect that people's behavior has on the incidence of fraud in an organization. The book's introduction quickly sets its tone:

Detecting fraud in organizations requires an Albert Einstein level of thinking. Einstein once said, 'Problems cannot be solved at the same level of thinking that created them.' I believe that if you want to detect fraud, you need to replicate the thinking of the fraudsters, but you also need to break away from the traditional control-and rules oriented thinking and start approaching fraud in a more creative manner. By using your imagination and creative thinking, you can make sense of the often bizarre world of fraud. Detering and detecting fraud requires people who can look at things from different perspectives, moving away from the traditional paradigms.

True to his word, the author goes on to delve into the character and the deep recesses of the mind of the fraudster; furthermore, he gives readers the knowledge needed to dissect and examine fraud schemes and to establish an environment that will help prevent fraud.

A Discussion of Fraud

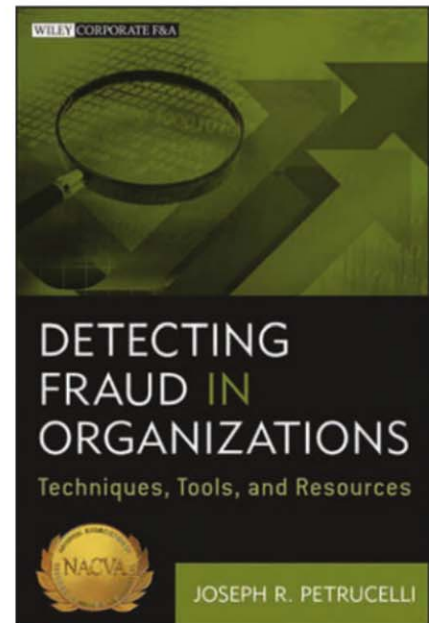
This is not a boring textbook with checklists and internal control system design specifics; rather, it is an easy-to-read anthology of the mind and personality of fraudsters, as well as broad organizational weaknesses that allow them to accomplish a fraud. This discussion is followed by a commonsense approach on how to detect fraud. The ability to detect fraud is crucial to establishing an environment that will prevent and eliminate future frauds. Understanding the environment that allows fraud to occur also helps design the detailed procedural safeguards to prevent it. Petrucelli discusses these prevention and detection techniques at various points in the book.

He also lists and defines the many different types of and methods of committing fraud in a comprehensive, yet concise, manner; he discusses schemes such as theft, embezzlement, and financial statement fraud. Along with listing these fraud schemes, Petrucelli provides insightful advice on the environment that facilitates the schemes and ways to prevent them. One theme throughout the book is the importance of fostering and embedding an ethical behavioral climate in the organization. The following quotes from the book sum up the basic concept that people commit fraud, especially when an environment conducive to fraud exists:

- "Preventing fraud really just comes down to people and the trust they are given" (p. 108).
- "Developing self-governing people with the correct attitudes, from top to bottom in your organization, is the best, proactive approach [to preventing fraud]" (p. 108).
- "Fraud is incredibly dynamic, but one thing is certain: People at any level are always at the root of fraud" (p. 193).
- "People present the greatest fraud risk within an organization" (p. 219).
- "But penalties alone will not stop fraud; you need ethical people" (p. 250).

In a simple and easily understood manner, Petrucelli intertwines discussions of the environment that allows fraud to occur with suggestions of what can be done in an organization to prevent fraud. His basic premise is that unless one knows the people in an organization and understands the

inner workings of a business's processes, it will not be possible to proactively prevent or detect fraud. The author addresses the characteristics of fraudsters that readers might need in order to assess and the importance of tone at the top. He makes a very poignant and telling observation when addressing



the various laws, regulations, and studies that arise after a major fraud is uncovered: "Unfortunately, the government cannot legislate morality, only good leaders can inspire it within their organization" (p. 193).

The author's analyses of the causes of fraud are holistic and insightful, while recognizing the interdependence and importance of each of the individual parts of the fraud. He also emphasizes that fraud has been with us since the beginning of time and will not be eradicated. The book gives practical questions for evaluating an organization's internal fraud prevention system. Some other observations that lead to greater discussion of the issue are the fraudster's love of estimates and hypothetical situations, the accrual system, and the implementation of GAAP that feature judgment as a significant component.

Education Techniques

There are many exhibits in the book, including ones that depict the methods of

financial statement fraud and the fraudsters' motivations. They also separate financial statement fraud into five components and categorize fraud schemes into general employee schemes or balance and income statement schemes. But this reviewer takes some exception to the listing of why auditors and accountants fail to detect fraud because it does not distinguish between audit, review, and compilation engagements. This leads to a misleading and confusing list of failures. For example, the ninth item of the list states: "They put too much emphasis on evidence obtained through inquiry rather than the documents needed as support" (p. 326). This might be an appropriate comment for an audit engagement, but it is not appropriate for a review engagement, which is based upon inquiries and not upon the examination of underlying documentation.

Petrucci, who is an educator as well as practitioner, uses teaching techniques that might be helpful to a reader unfamiliar with the topic, especially to boards of director, management, and students. It will teach

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them how to significantly reduce the possibility of a fraud occurrence in their enterprises, as long as they implement the practical advice provided in the book. But such educational techniques might be a distraction to someone with 46 years of experience, such as this reviewer.

Among some of the less helpful education techniques was the presence of the "800-pound gorilla," symbolizing the atmosphere and procedures in place to prevent the occurrence of fraud. Although the "gorilla" offered good advice, this reviewer found it distracting and out of place. The use of the one-minute fraud mysteries might not prove helpful to more experienced CPAs, but

they might be very useful to those who have the most to gain from reading this book. Finally, the graphics might not be very insightful, but the book does feature many useful analytical listings. Although some of the material is too basic for an experienced practitioner, this reviewer did gain some insights that made reading the book worthwhile. It is important to emphasize that the minor detractions noted above do not take away from the insights and approaches to detecting and preventing fraud that the book contains.

Another nice feature of this book is the access that the reader gets to a website maintained by the author; this website includes additional information, case studies, and a research database of articles and information on fraud that relate to the material in the book. The website is easily accessible and conforms to the description of it in the book.

An Insight for CPAs and Others

This book is written for management and others, such as members of boards of directors and especially of audit committees, who are responsible for operating and guiding enterprises. It would make a fabulous gift for a CPA to give to clients; it will pay dividends in the future and put teeth into the representations by management relating to the absence of fraud, internal control and financial statements' fair presentation. With the advice in this book, frauds might be "nipped in the bud" by sensitized management, inevitably leading to fewer lawsuits against accountants and auditors for perceived failures to detect fraud. This reviewer highly recommends this book to those individuals who most need the insights, understanding, and detective and preventive techniques that it contains, as well as to those accountants who perform compilations, other attestations, and tax engagements; it can be very useful as a gift to clients in order to enhance the detection and prevention of fraud at the organizational level. □

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