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COMMENTARY

Commentary from the American Accounting Association's 2011 Annual Meeting Panel on Emerging Issues in Fraud Research

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INTRODUCTION

At one of the forensic and investigative accounting panels at the American Accounting Association's 2011 Annual meeting, panelists discussed some of the common misconceptions about fraud, the dearth of articles related to fraud examination and forensic accounting published in the mainstream accounting journals, and the many opportunities for future research in these areas. They also discussed the publication process as it relates to articles on fraud examination and forensic accounting topics. This article summarizes their discussion, and also draws upon some of the relevant published literature to highlight some of the fraud topics that are still largely unexplored and thus ripe for academic research.

An emerging area of research is in the fraud and forensic accounting area. As a result of increased interest in fraud and forensic topics, journals (both new and old) are interested in manuscripts. The purpose of this paper is to (1) critically evaluate the state of current fraud research and provide guidance for future researchers, and (2) examine the publication process for both practitioner and scholarly journals from both an editorial and topical perspective.

For readers who may be unfamiliar with the difference between forensic accounting and fraud examination, forensic accounting is a broader term that involves using accounting for investigative or other legal applications, such as corporate acquisition, divorce proceedings, insurance settlement, or other legal purposes. Joe Wells (2003) defines forensic accounting as work done by accountants

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The American Accounting Association hosted a panel discussion at the 2011 Annual Meeting on research related to the fields of fraud examination and forensic accounting. Panelists included Rich Brody, a Professor at The University of New Mexico and a member of the Board of Advisors of *Fraud Magazine*, Vicky Arnold, a Professor at the University of Central Florida and the editor of *Advances in Accounting Behavioral Research*, Donald Kent, an Associate Professor at The College at Brockport, SUNY, and Jeffrey Goodwin, a partner from the Denver office of Deloitte & Touche, LLP. The co-editor, Terry Shevlin, invited the presenters on the panel to prepare a write-up of the panel presentation and discussion.

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in anticipation of litigation including fraud, valuation, bankruptcy, and a host of other professional services. He defines fraud examination as work done by either accountants or non-accountants but relating only to antifraud matters. Fraud examination can also be described as anything involved with the prevention, detection, investigation, and prosecution of white-collar crime. Due to the immense breadth of topics that fall under the definition of fraud examination (and even greater breadth that is covered by forensic accounting), the scope of this paper is limited to fraud examination topics that were covered during the panel discussion. A partial list of additional fraud and forensic accounting areas that are beyond the scope of this paper (but are still in need of additional research) is included in Appendix A.

FRAUD RESEARCH

Fraud research is a growing area—one that has attracted the interest of many researchers. While it is not our intention to be overly critical of much of the published (practitioner and scholarly) research, nor is it our intention to provide a literature review, we do feel that there are several general misperceptions about fraud and fraudsters that have found their way into the research and we address these first. These misunderstandings are not limited to fraud researchers as they are prevalent among the general public and the media, as well. After discussing these issues, we offer our suggestions for future research.

Common Misperceptions about White-Collar Crime

A fundamental problem that exists in the accounting profession, which encompasses the academic community, auditing, forensic accounting, and fraud examination professionals, to its detriment, are unsupported assumptions perpetuated about the underlying character aspects of fraud offenders. Consider some of the statements made by professionals on their perceptions of fraud offenders. One experienced forensic accountant believes that financial reporting fraud perpetrators fit one of two profiles: "greater good oriented," or "scheming, self-centered" types. Those who fit the greater good oriented profile are "otherwise honest individuals who misrepresent the numbers by rationalizing that what they are doing is best for the company" (Ramamoorti 2008, 527). The scheming, self-centered profile individuals focus on themselves and are not concerned with what is best for the company. Below we discuss three common misperceptions about white-collar crime: that it is a one-time offense, that it is an "out-of-character" offense, and that it is a non-violent offense.

A One-Time Offense

Perhaps the greatest misperception in the fraud literature is that white-collar criminals (WCCs) are thought to be "one-shot" criminals, not likely to be processed into the criminal justice system following an initial brush with the law. However, adults convicted of white-collar crimes are often repeat offenders (Weisburd et al. 2001). Also, according to the U.S. Federal Sentencing Commission, studies have shown that "[e]ven though fraud and larceny offenders have lower recidivism rates" for first-time offenders; for offenders with a criminal history, "the recidivism rates of these offenders exceeds 50 percent," which is comparable with the recidivism rates for robbery and firearm offenders (Weissmann and Block 2007, 290). Walters and Geyer (2004) examined three samples of convicted offenders: WCCs with only prior white-collar arrests, white-collar criminals with arrests for street offences, and non-white-collar (or street) criminals. They found that "white-collar offenders do not form a homogenous group with respect to their pattern of offending, level of deviance, attitudes toward crime, or social identity" (Walters and Geyer 2004, 280).

There are WCCs whose criminal deviancy is indistinguishable from non-white-collar criminals, especially those who are chronic re-offenders (Walters and Geyer 2004). However, "first-time offender" is often confused with offending only one time; a lack of a prior record is not synonymous with a lack of prior offending (Freiberg 2000). For example, Bernard Madoff, the securities fraud offender who was apprehended in New York in 2008 and sentenced to prison for 150 years, can technically be classified as a first-time offender because this was his first arrest, yet, his fraud extended over many years, and in fact, the extensive, and at times collusive, planned quality of the fraud is actually an aggravating factor (Freiberg 2000). Many frauds are a result of months of scheming and are not the result of one fraudulent act on one particular day, which may be more characteristic of a street-level crime.

An Out-of-Character Crime

Because some WCCs are considered first-time offenders after their first arrest, despite the actual magnitude of their crime(s), another misperception is that their offenses are "out of character." However, caution dictates against the premise that a crime may be out of character for an offender simply because he or she had no history of prior offenses, he or she had an excellent employment history, or he or she appeared to be an upstanding member of the community. Typically, there is more to the story than appears evident on the surface. Often there is a lack of information about aspects of the person's behavior, thought processes, and thinking patterns pre-dating their offense that have long been present, expressing themselves at a moment of opportunity, further debunking the myth that it was an "out of character" offense.

A major reason these crimes are considered out-of-character is that often WCCs do not see anything wrong with what they are doing. When offenders have a "higher" purpose behind their fraud (i.e., saving the company) offenders are able to go about their fraud in such a way that they actually feel good about what they are doing. You have the situation where fraudsters are comingling legal with illegal activities and are attaching a higher moral claim to their frauds. For example, Willott et al. (2001) find that white-collar criminals claim they felt justified in committing fraud to save their company, the employee's jobs, and other businesses that relied on their survival. Further blurring the lines and facilitating white-collar criminals' abilities to rationalize their crimes, fraud often is intertwined with legitimate activities, allowing legal and illegal acts to occur contemporaneously. This comingling of legal with illegal acts facilitates the ability to rationalize fraud because of the ability to attach a moral argument to the offense by pointing to higher purposes behind the fraud, which pre-empts an unsavory explanation such as greed.

Research confirms that white-collar criminals legitimize and rationalize their behaviors, much like conventional street-level criminals, thus reducing their inhibitions. Specifically, some white-collar criminals that were surveyed while in prison indicated that they should not be in prison because they perceived their own behavior as non-criminal (Dhami 2007). Attempts to excuse their offenses have been termed "techniques of neutralization," which paves the way by nullifying internal moral objections, and, regardless of the type of fraud, most offenders seem to seek to justify and/or rationalize their activities. In doing so, white-collar criminals use vocabularies of adjustment that manufacture rationale and extenuating circumstances and remove the criminality from the act. Commenting on his fraudulent activities, convicted white-collar criminal Jay Jones reported that he "certainly knew it was nefarious, a little wormy, unethical, make no mistake about that . . . but criminal . . . fraud?" (Porter 2004, 50). As a result of his fraudulent behavior, at least 4000 people were left jobless, and investors lost close to a billion dollars when the debt collection business he helped co-found went bankrupt. Other typical responses on how white-collar offenders neutralized their crimes include: there is no victim in white-collar crime; white-collar crime is not a danger to society; there was no visual damage, no physical damage, and no one was hurt.

Additional behavioral reasons that WCCs commit fraud include:

1. Some white-collar criminals enjoy "duping delight," the fact that they are able to get away with fraud.
2. Some white-collar criminals have been doing it so long that it actually seems natural and nothing out of the ordinary.
3. Some white-collar criminals work together toward advancing fraud as a solution to a problem or to satisfy greed.
4. Some offenders state that the auditors did not engage in due diligence and were poor at their jobs. They claim that if the auditors had asked the right questions, the fraud would have been caught.
5. Some white-collar criminals with personality disorders are capable of hiding their motives because they use manipulation with ease.
6. Research shows that most people are better at lying than at lie detection. However, people under stress may start to show signs of "behavioral leakage," that is, verbal and non-verbal cues that reveal they may be behaving in a deceitful manner. Thus, they have inconsistent stories or rationalizations that do not add up. There are simply too many factors to keep track of and they start to potentially show verbal and non-verbal signs of deception when someone asks them pointed questions. People experience behavioral leakage in different ways and some are able to "keep it together" longer than others are. Again, if they believe that they have the higher moral ground, they probably will not experience the same stress as someone who is committing fraud for reasons such as too much debt, addictions, etc.

Research is beginning to reveal that these behavioral traits, if understood, can be used to heighten professional skepticism about behavioral fraud offender risk factors. Recall how Madoff, Lay, Ebbers, Fastow, etc., would scold and make belittling comments to those who asked pointed questions about their operations. Thus, it is not always the case that they can hide what they truly represent at their core.

The question is do we know what to look for? For example, we have computer programs that analyze whether financial statements make sense—ratio analysis of different accounts to warn us if circumstantially we need to look into an account more closely. Analogously, do we know how to interpret certain behaviors to determine if they represent a potential fraud offender risk factor? Thus, they may not be good at hiding it and it may also be that we as a profession have not been trained to understand the behavioral traits that are being revealed to us. Also, even if we sense that a potential offender is committing fraud, do we overlook such behavioral indicia because we do not want to risk upsetting a client or stunting our career path because we are viewed as "trouble makers" by our employer? For example, the partner of your employer's accounting firm views you as too aggressive or the potential offender at your client complains to the audit partner about your investigative style when in fact all you are doing is employing professional skepticism.

A Non-Violent Offender

Next, it is not just financial and emotional devastation that may befall the victims of white-collar crimes; it is erroneously assumed that because white-collar crime is classified as a non-violent offense, these offenders are also non-violent by nature. These assumptions are repeated with enough regularity that they are accepted as fact. Consider the statement of a U.S. federal judge, "White-collar criminals are not people who are threatening the lives of others; they are not violent people" (Wheeler et al. 1988, 63). The theory examining white-collar criminals becoming violent towards their victims is a phenomenon many scholars and researchers have ignored (Perri and Brody 2011a). Perri and Lichtenwald (2007, 18) were the first to link and examine this type of violent behavior and have coined the term "red-collar crime" to refer to violent crimes that are committed by white-collar criminals to conceal fraud-related crimes. This sub-group of white-collar criminals is willing to resort to violence, namely murder, and their motive is to prevent their fraud schemes from being detected and disclosed: hence the name fraud-detection homicide (Perri 2011). These violent acts are committed in an (instrumental) pre-meditated manner and are not the result of a reactive (spontaneous) outburst that is reflective of some form of provocation (Perri and Brody 2011a). For an in-depth discussion on the behavioral traits and case studies of violent white-collar criminals see Perri (2011).

Just as the fraud triangle explains the rationale behind individuals committing white-collar crimes, the same triangle can help explain the reasons for murder. It can be said that every individual has his/her own breaking point, which can be described using the fraud triangle. The perceived pressure for these criminals is high as they contemplate what is at risk for them if their fraud is revealed, including, but not limited to: jail time, loss of respect, financial losses, embarrassment, family exile, and loss of status. As these perceived pressures and consequences accumulate, less and less opportunity or rationalization is needed to justify the murder of those individuals in a position to alert third parties of the illegal activity. The more pressure the suspect perceives, the easier it is for them to rationalize and validate the crime at hand, even if that crime is as extreme as murder. Several examples of these crimes can be found in Brody and Kiehl (2010).

As noted by the authors, the victims of red-collar crime also include fraud examiners and accountants. It may behoove scholars to examine risk factors associated with this hybrid offender who incorporates fraud and violence as a solution to a perceived problem.

Common Misperceptions Resulting from Reports Produced by Professional Organizations

The most well known fraud fighting organization in the world is the Association of Certified Fraud Examiners (ACFE). The majority of the fraud statistics reported by the media and others tend to cite information produced by the ACFE. The ACFE's *Report to the Nations* indicates that more than 85 percent of the studied fraud offenders had never been charged or convicted of a fraud-related offense (ACFE 2010, 5). This conclusion may give the erroneous perception that fraud offenders display a homogenous profile in terms of their low proclivity for criminality. Recall the studies previously mentioned in this paper, such as the scholarship by Weisburd et al. (2001) and Walters and Geyer (2004), that unequivocally indicate that fraud offenders can have prior criminal histories that mirror those of non-fraud offenders, and at times, the extent of their criminal deviancy is no different. In addition, this statistic in and of itself does not reveal much about the offenders, nor does the report's section on perpetrators, which illustrates descriptive statistics about offenders, but fails to provide empirical data about the offenders' behavioral traits. We believe the ACFE report needs to be more representative of the heterogeneous profile of fraud offenders. It would behoove the ACFE to include a more representative and complete population in their report by studying those fraud offenders who are currently incarcerated, along with those who are not, but who have prior fraud-related convictions, to give a more well-rounded overview of what the fraud offender profile looks like, instead of relying on an unscientific sample that, although should not be ignored, might not be representative of fraud offenders as a whole.

Another area of the ACFE report that is problematic is the delineation of behavioral red flags. The majority of the characteristics listed in this section of the report have more to do with personal motivations to commit fraud and practices that are symptomatic of fraud, rather than the underlying behavioral characteristics of offenders that were previously mentioned. For example, as the report states, fraud offenders are motivated to commit fraud because of addiction problems, legal problems, financial difficulties, and living beyond one's means (ACFE 2010, 70). These are indeed motivations, but the report does not provide behavioral information about why some people are more likely to exploit internal control weaknesses in an organization than others are. There are those individuals who may have such problems, but do not commit fraud. What are the behavioral traits that distinguish these two individuals? Moreover, as another example, what behavioral traits increase the probability that a fraud offender would recruit others to collude to commit fraud given that even the best internal controls become irrelevant when collusion to override internal controls becomes prevalent?

The report also includes symptoms of fraud, such as not taking vacations, as "behavioral red flags" but these also do not tell us about the behavioral reasons (i.e., harboring an anti-social personality disposition or potential psychopathic traits) that make some people more likely to commit fraud than others (Carozza 2008; Perri 2011).

We are encouraged by the ACFE report's recommendation that professionals should be trained to recognize behavioral traits and not to ignore them since they might be pivotal in detecting and deterring fraud (ACFE 2010, 5). The ACFE might consider expanding their report to include negative personality traits that act as fraud offender risk factors and how those negative traits are manifested by fraud offenders.

The Problem of Projection Bias

In the Center for Audit Quality's (CAQ) paper titled: *Deterring and Detecting Financial Reporting Fraud* (2010, 5), "Even under extreme pressure, only a small percentage of senior management actually commits fraud. Why and how do good people start down the slippery slope to fraud?" According to another professional of an anti-fraud advisory panel, "I think most people who come unstuck in this context of accounting misstatements are basically honest people who get caught up and then they get desperate" (CAQ 2010, 4). The KPMG (2011, 14) report titled, *Who Is the Typical Fraudster?* states that, "The fraudster is deemed a very smart, hardworking, and honest employee. . ."

Is there a behavioral explanation for this disconnect between what fraud offenders may actually represent and how they are perceived by those who are charged to reveal their fraud? Previously, the authors outlined how in the Dhami (2007) study, fraud offenders do not even perceive their actions as criminal or harmful and in some cases it is admirable to commit fraud. Furthermore, the authors have outlined how behavioral factors act as catalysts that increase the probability that an offender will commit fraud without remorse and actually enjoy the fact that they can defraud individuals and organizations. And, yet, there appears to be a need to attach character attributes to offenders that are not based on empirical research to support such positions. The problem is professionals engage in what is referred to in the psychological field as projection bias.

Projection bias is a psychological defense mechanism to reduce personal anxiety where an individual transfers his or her own attributes, thoughts, feelings, and emotions, usually to other people, given a set of circumstances. It is the tendency to assume that others share similar values, beliefs, or thoughts with your own. Thus, it may be surprising to learn that individuals who may look like us in terms of being educated, civic minded, considered to be trustworthy employees/ employers can behave dishonestly. For example, when we see Bernard Madoff apologizing to victims whose lives he destroyed, those who engage in projection may believe that he is sincere about feeling remorse because if they were in his shoes, their remorse would be genuine. Attributing a value system to another because of the outward appearance he or she may project that appears to be similar to our own can be problematic, especially for auditors.

Albrecht et al. (2011, 149) make the claim that when a person (especially a first-time fraud perpetrator) commits a crime, he or she becomes engulfed by emotions of fear and guilt. However, these types of claims are often only evidenced by statements offenders may have made in public displaying remorse, or statements they may have made to a sentencing judge, which in many cases represents an expected formality offered to obtain a lighter sentence. There simply is not adequate research to make such blanket statements that may be the result solely of anecdotal evidence of how some offenders felt. Further research is needed to determine the profile traits of this type of first-time fraud offender to support this claim.

The profession projects generalizations about the character of fraud offenders because there is the perception that they represent a homogenous crime group in terms of their behavioral profile when in fact research has illustrated that these offenders come in different forms (Perri 2011). Some may represent fraud offenders who are termed "accidental" in that they represent "good, law-abiding persons who under normal circumstances would never consider breaking the law" while others have a predatory quality to their crimes (Dorminey et al. 2011, 23). It is premature to make these generalizations as these profiles were not adequately defined by the above authors and there is no empirical research to delineate what traits need to be present to be considered an accidental or predatory fraud offender. What distinguishes these fraud offender categories from each other? Is it their motive, the dollar amount of the fraud, the number of victims, whether the fraud was planned versus unplanned, the extent of the fraud over time, or a combination thereof?

A frequent problem that the profession encounters is that auditors engage in projection bias to define what they think an accidental offender profile represents even though more often than not they do not have complete information about an individual's background to make judgments about their behavioral risks to commit fraud. For example, there are those who may know offenders who have committed horrific homicides, sexual assaults, etc., and yet they indicate what a good person the offender is by pointing to admirable deeds they may have done. Would we attribute "good virtue" to an individual who preys on the weak such as children or the elderly in a violent manner? Why do we as a profession have a need to attribute good virtue to fraud offenders when whether they are good or not is irrelevant as to whether a crime was committed? Their character may be relevant in the event a sentencing court has to impose a punishment for an offender just as it would consider character for a myriad of other non-fraud related offenses. Is it because we believe, albeit erroneously, that fraud offenders may not have the typical negative behavioral, exploitative, disposition of conventional criminals that many cannot relate to? Or is it that fraud offenders have behavioral qualities, which we can relate to, that are admirable? Do we have a need to reduce our own anxiety made possible through projection bias, by diluting the negative behavioral traits about those that we are familiar with and similar to?

Unfortunately, many still perceive fraud offenders as experiencing a temporary lapse in moral judgment representing out of character behavior. We perpetuate the myth about these offenders due to the woeful lack of understanding of what constitutes criminal thinking, such as exploiting perceptions of weakness without remorse in an individual or in an organization and behavioral aspects of fraud offenders that act as fraud offender risk factors. Scholars in the behavioral sciences have exposed for years the behavioral aspects of the fraud offender but for which the accounting profession has not adequately incorporated into its own scholarship or by practitioners in their fieldwork because they were not exposed to this area during their education. Other disciplines such as law, marketing, engineering and economics, to name a few, have for years incorporated the behavioral sciences in explaining human behaviors within their given research and it is time for the accounting profession to incorporate behavioral science into its scholarship and education to assist anti-fraud professionals. As Joseph Wells, the founder and chair of the Association of Certified Fraud Examiners (ACFE), observed, "As a group . . . the majority of CPAs are still ignorant about fraud . . . for the last 80 years, untrained accounting graduates have been drafted to wage war against sophisticated liars and thieves. And as multi-billion dollar accounting failures have shown, it has not been much of a fight" (Ramamoorti 2008, 522).

In this article we have focused on some of the more prominent misconceptions surrounding frauds. There are additional misconceptions, including:

- All frauds are financial statement frauds
- All frauds are occupational frauds
- There is no such thing as a "predator" fraudster

FUTURE DIRECTIONS

In this section we outline several areas of fraud research that have largely been unexplored. The first area is gaining an understanding of the behavioral aspects of fraud offenders. A myriad of scholarship on anti-fraud regulations and on the importance of implementing internal controls for fraud prevention and detection exists, and still, organizations such as governmental entities, profit and not-for-profit organizations experience billions of dollars of losses due to fraud. Although the importance of internal controls and anti-fraud regulations is paramount, the time may be ripe to add another layer to the discipline of anti-fraud scholarship by increasing research in the understanding of those who engage and perpetuate fraud.

As stated previously, many researchers (including those in the accounting field) harbor behavioral assumptions about fraud offenders that are not grounded in research. Erroneous perceptions based on how one would like to view offenders versus how they may actually represent in behavioral terms persist. Would scholarship on the internalization of false perceptions held by anti-fraud professionals about fraud offenders reveal that the professional skepticism auditors are charged to display during their fieldwork is diluted? Do we fail to recognize the criminal proclivity of those whom we least expect to display criminal traits because of an unconscious bias of how criminal behavior presumably is manifested, that parallels misperceptions held by the public at large?

Ongoing scandals in public corporations, such as Enron, WorldCom, and the Bernard Madoff case, raised public awareness of the economic, societal, and personal harm resulting from fraud offenses. Moreover, scholars who write about white-collar crime will say that the total financial cost of this kind of crime far exceeds that of street crime. The likelihood of being a victim of white-collar crime is far greater than the likelihood of being a victim of a serious street crime, and it is every bit as devastating to one's quality of life (Friedrichs 2007). White-collar crimes cause substantial social harm by undermining the economy, exacerbating the divide between poverty and wealth, eroding trust, and depriving individuals of time and resources (Ford 2008). A study researching fraudulent financial reporting, defined as intentional misrepresentation of a corporation's financial statements or a lack of financial disclosures, found that between 1998 and 2007, the 347 U.S. public corporations studied suffered a cumulative fraud-induced financial loss of $120 billion (COSO 2010). Moreover, the 2010 *Report to the Nations*, compiled by the Association of Certified Fraud Examiners, conservatively estimates that fraud cost the global economy $2.9 trillion in 2009.

Until recently, the public, which includes academic circles, had difficulty in appreciating the enormity of the damage done by these offenders because of the misperception that white-collar criminals represent a homogenous crime-offender group. The following is a common depiction of a fraud offender: he or she is a first-time offender, middle-aged, well-educated, trusted employee, and considered a good citizen through service works at the office, in the community, or at a charitable organization. Too often, broad generalizations about the behavioral aspects of fraud offenders without sound research delineated by well-intentioned anti-fraud writers carry the danger of inviting interpretations about offender profiles that are not grounded in thoughtful analysis. Scholarship refining depictions of fraud offenders would add to the body of knowledge about what is known about the offender themselves with the goal of debunking "myths" about these offenders that persist.

BEHAVIORAL CONSIDERATIONS

For many years, the financial and accounting fields, while expounding on the need to implement proactive anti-fraud regulatory strategies, failed to show any interest in the link between behavioral factors that influence white-collar criminals. As Briggs et al. (2006) discovered, fewer than 30 papers in the accounting research literature existed on the relationship between fraud and psychology. Research in this area is lacking because little is actually understood about the relationship between individual behavioral traits and white-collar crime. This may be because most research on the white-collar criminal does not include personality traits of the offender (Listwan et al. 2010). However, Ramamoorti (2008) points out, fraud is a human endeavor, and it is important to understand the psychological factors, including personality, that might influence the fraud offender's behavior. Although fraud offenders may not manifest their criminality in ways that are easily recognized by the general public such as property or violent crimes, this does not mean that they may not harbor personality traits that facilitate the decision that make them see white-collar crimes as a solution to satisfy a motive (Alalehto 2003).

What is problematic when white-collar criminals are studied, according to behavioral scientists, is that white-collar criminals' fraudulent activities may reflect a virulent mix of personality traits and behaviors exhibiting a sense of entitlement, a propensity to deceive, cheat, and manipulate, a lack of empathy and remorse, and the view that others are merely resources to be exploited—callously and without regret. Furthermore, white-collar criminals often are heavily involved in obscenely lucrative scams of every sort where they lead lavish lifestyles while their victims lose their life savings, their dignity, and their health—a financial death penalty (Carozza 2008). Specifically, certain negative behavioral traits that are typically associated with conventional street-level offenders, but which are also harbored by white-collar criminals, may facilitate fraudulent acts.

Fortunately, there appears to be a movement within the financial and accounting fields to better understand the behavioral characteristics of individuals who engage in fraud, given that these factors do serve as fraud-offender risk factors (COSO 2010). The modern approach to studying white-collar crime incorporates the criminal's personality traits as a factor in the decision to commit fraud, even though there are legitimate debates on how important personality may be and which specific traits are common among white-collar criminals. Behavioral factors might be viewed as a risk factor for fraud to occur but not a comprehensive explanation for it. Even though it has been widely accepted for many years by some scholars that personality traits do not impact an individual's decision of whether to engage in fraud (Alalehto 2003), it is becoming increasingly clear that personality traits do impact whether fraud offenses occur.

Many white-collar criminals have a misanthropic view of human nature and assume that others are as scheming and dishonest as they are, view their criminal behavior as simply part of an astute business/financial practice, and view individuals who do not participate as naive. Moreover, white-collar criminals, especially those who are considered predatory, seek out organizations and individuals to victimize, are pathological liars, are adept at lying without feeling uncomfortable, and may exhibit highly refined interpersonal skills, enabling them to cajole, excite, and persuade their victims (Perri 2011). These white-collar criminals are skilled in deception, feel no compassion for the weak they will exploit, and no remorse for the financial destruction they bring upon others (Barnard 2008, 205). As one convicted white-collar criminal admitted, "White-collar criminals consider your humanity, ethics, and good intentions as a weakness to be exploited in the execution of their crimes . . . we preyed on your hopes and dreams by feeding you our spins and lies" (Antar 2009, para. 31). Moreover, fraud offenders exhibiting negative behavioral traits of extreme entitlement may not be deterred from committing fraud because they may not "fear being caught or what punishments may come their way" (Bucy et al. 2008, 417).

IMPLICATIONS FOR AUDITORS

SAS 99 (AICPA 2002), the "fraud" standard for auditors, "requires auditors to engage in group brainstorming for the purpose of detecting fraud. However, it does not explain what it is about brainstorming that will help auditors to improve their audits, or which aspect of the fraud-detection process would benefit most from brainstorming" (Hoffman and Zimbelman 2009, 812). We believe that this brainstorming session should incorporate an understanding of the behavioral component of fraud offenders. For example, are there certain personality traits that potentially reveal that someone is more apt to commit fraud? Are these traits manifested in the form of bullying, intimidation, veiled threats, or disproportionate reactions to reasonable questions? The behavior of both Bernard Madoff and Bernard Ebbers provided warning signals when each was confronted with the legitimacy of certain accounting methods. For example, Madoff gave evasive and contradictory answers to auditor questions and became extremely angry when the examiners sought documents he did not want to provide (Perri and Brody 2011b). SAS 99 looks at the technical aspects and identifies potential incentives that might increase the probability of fraud, but it does not address the traits of a potential fraudster and how they might be manifested.

Wilks and Zimbelman (2004) review a significant amount of research in both accounting and social psychology and highlight the fact that auditors rely heavily on their perceptions of management's attitude or character when predicting the likelihood of fraud. They identify problems with this method, including the difficulty of assessing management's attitude accurately and the fact that accurate perceptions can become unreliable as management faces changes (including new incentives and opportunities). Are auditors able to keep their projection bias in check or does the external appearance of legitimacy (e.g., community involvement) cloud their judgment and compromise their professional skepticism?

The bottom line is work is needed to determine if there are identifiable characteristics that might provide indications that an individual is more likely to commit fraud. Proxies need to be developed for integrity.

It is important to keep in mind that when the profession has a homogenous perception of fraud offenders and their perceived profiles (i.e., that they never break the law unless they have to for the "good" of the organization), we do adjust our expectations because we see the offenders as more like ourselves. Even when we see fraud offenders as predators, we fail to understand that their thinking is the opposite of how we think in terms of exploitation of weakness, be it circumventing internal controls directly or manipulating others to help commit fraud within an organization. We need to be flexible in how we think of fraud offenders. Some may be behaviorally vicious coupled with criminal proclivities, but display an outward appearance of an ethical individual, and we need to understand the behavioral factors that may reveal such offenders. Recognition of these types of behaviors will allow us to heighten our professional skepticism when necessary. When we realize fraud offenders come in different forms, and possess different degrees of deviancy combined with behavioral factors that act as fraud offender risk factors, the professional skepticism becomes more focused and real. It is no longer just an abstract idea that sounds good on paper but lacks substance.

While we have focused on the behavioral emphasis that we believe is critical to future research, there are many other avenues of research that need attention. A partial list is included in Appendix A.

PUBLICATION OUTLETS FOR FRAUD AND FORENSIC ACCOUNTING RESEARCH

Having summarized the discussion of some emerging areas in fraud research, we now turn to a discussion of some of the more popular fraud-related publications and their associated publication processes. While it is not necessary to focus on the differences between scholarly and practitioner journals, this article will discuss some of the differences in terms of the publication process at these journals and will also highlight some of the crossover journals (those accepting both scholarly and practitioner manuscripts). It is beyond the scope of this article to provide information about every journal that has published, or is interested in publishing, fraud-related articles. However, some of the primary journals in these areas will be addressed. We have grouped the journals into three categories: academic journals, crossover journals, and practitioner journals.

Academic Journals

Many of the journals that are normally considered "mainstream" accounting journals do indeed publish articles related to fraud and forensic accounting. Fraud-related articles have appeared in the top accounting journals such as: *The Accounting Review*, *Contemporary Accounting Research*, *Review of Accounting Studies*, the *Journal of Accounting Research*, and *Accounting Horizons* (e.g., Reffett 2010; Wilks and Zimbelman 2004; Burton et al. 2011; Brazel et al. 2009; Beasley et al. 2000). In addition, during the past two years there have been 14 fraud cases published in *Issues in Accounting Education*. Other journals also publishing fraud-related research include but are not limited to: *Accounting, Organizations and Society*, *Auditing*, *Managerial Auditing Journal*, *Accounting & Management Information Systems*, *International Journal of Accounting*, *Auditing and Performance Evaluation*, and the *Australian Accounting Review*. Though many of these articles relate to auditor responsibilities as they relate to fraud, these journals are clearly willing to publish fraud and forensic accounting articles. The articles must, of course, meet the submission guidelines with respect to academic rigor and be related to the subject matter of the journal (i.e., research about tax fraud would easily fit into law or tax journals, case studies would fit into education journals).

In addition to these outlets, fraud examination and forensic accounting researchers may wish to consider publishing in other academic journals that are not solely accounting-based. For example, some notable academic journals such as: *Journal of Business Ethics*, *Journal of Legal Economics*, *Harvard Business Review*, and *Management Science* have published articles related to fraud or forensic accounting. In addition, there are compliance journals and forensic science journals that publish articles about fraud and forensic accounting such as the *Journal of Forensic Sciences* (American Academy of Forensic Sciences) and the *International Journal of Digital Evidence* (Utica College).

The journals described in the above section generally follow the traditional editorial review and publication process found at most academic journals. Each journal has its own submission guidelines for format and content. These guidelines are generally described in publishing directories such as *Cabell's*, and can also usually be found directly on the journals' websites.

Crossover Journals

Crossover journals publish a variety of articles including both scholarly and practitioner-based manuscripts. Two notable examples of crossover journals that specialize in articles related to fraud and forensic accounting include the *Journal of Forensic & Investigative Accounting* (Louisiana State University) and the *Journal of Forensic Studies in Accounting and Business* (Georgia Southern University). These journals publish a wide variety of articles related to fraud or forensic accounting including experimental (including surveys), archival, and pedagogical articles (which include teaching cases, description of investigation methods, and overviews of special topics).

The *Journal of Forensic & Investigative Accounting* (*JFIA*) is published online. The *JFIA* website states that it publishes creative and innovative studies employing research methodologies that logically and clearly:

- identify, describe, and illuminate important academic forensic accounting, fraud, and litigation services issues;

- test and improve forensic accounting research skills, tools, and techniques;
- stimulate discussion and experimentation in instructional means, methods, and materials in the field of forensic accounting and research in general;
- exchange ideas and findings about developments related to instruction, learning, and curricular issues in forensic accounting and fraud education.

A review of the last two years of the journal shows a wide variety of articles including teaching cases, archival/empirical research, survey, experimental, and descriptive/discussion papers. The largest majority of the articles are empirical in nature. The journal publishes approximately 30 articles a year.

The *Journal of Forensic Studies in Accounting and Business* (*JFSAB*) describes its mission on its website as providing "an outlet for communication and research collaboration among fraud and forensic accounting practitioners and education programs. The journal emphasizes fraud investigation and forensic accounting and publishes both research and pedagogical papers in the areas of fraud and forensic studies in all fields of business." It states that the journal focuses on three tracks: teaching, practice, and research. The teaching track includes articles on pedagogical techniques, case presentations, and empirical studies. The practice track is designed to highlight techniques and technologies of investigation and to encourage collaboration between practitioners and academics. The research track provides a forum for theoretical and empirical papers in the area of fraud and forensic accounting. A review of the last two years of the journal shows approximately 15 papers have been published including several teaching cases, archival/empirical research, and descriptive/discussion papers.

Practitioner-Based Journals

Publishing in a practitioner journal is typically quite different from publishing in a more scholarly journal. In the fraud area, *Fraud Magazine* is arguably the leading practitioner publication reaching over 50,000 members globally. It provides a service to members of the Association of Certified Fraud Examiners (ACFE) and others interested in the deterrence and detection of fraud and white-collar crime by keeping readers up to date on current issues and by providing fraud-fighting resources. The audience of *Fraud Magazine* is quite diverse and includes fraud examiners, internal auditors, forensic accountants, loss prevention professionals, investigators, law enforcement officials, academicians, and students. As a result of this diverse readership, the journal accepts manuscripts dealing with a wide variety of topics.

Publishing in practitioner journals like *Fraud Magazine* can be fairly straightforward if you follow certain guidelines. However, writing for a practitioner journal requires a different approach and many scholarly authors struggle with the process. First and foremost, choose an interesting and original topic. For example, at *Fraud Magazine*, a basic article on identity theft is not likely to be received positively, but an article on the growth of identity theft with children is a topic that was recently published. Another key is to make the manuscript as practical as possible. Write about principles that can be applied by professionals. The goal is not necessarily to provide directions for future research, as in a scholarly article, but to give the readers information they can immediately use (e.g., this is how you can protect your child from becoming a victim of identity theft).

Many practitioner journals, including *Fraud Magazine*, have a global readership and appreciate manuscripts that have a global focus. Identity theft is a global problem and information is available outside of U.S. borders, and should be incorporated into an article in this area. Given the practical nature of these types of journals, authors often do (and should) focus on a specific type of fraud (e.g., home improvement construction fraud; fraud in charitable organizations). When writing manuscripts about these types of fraud, you should address three primary areas: detection, investigation, and prevention. All of these areas are significant but the readership wants guidance that will provide immediate benefits.

Other differences exist between practitioner journals and scholarly journals such as preferred length of articles and use of footnotes and bibliographies. In addition, at practitioner journals, it is not unusual to have as many as five to seven drafts of the manuscript before it is eventually accepted for publication. While this may be a source of frustration for some authors, every attempt to ensure accuracy and clarity is made and the various iterations of the manuscript often occur in a very short time period; that is, once the editor has decided to try to publish the paper, it is incumbent upon the author to make time to get the paper "right" for the journal.

If practitioners are the researcher's targeted audience, there are other outlets that are not necessarily accounting-based. Some examples of other practitioner journals that publish articles about fraud and forensic accounting include: *Compliance & Ethics Professional* (Society of Corporate Compliance and Ethics), *Forensics Journal* (Stevenson University), *Forensic Examiner* (American College of Forensic Examiners International), *Journal of Financial Crime* (Emerald Journals), *Risk Management Association Journal* (Risk Management Association), and *Journal of Financial Regulation and Compliance* (Emerald Journals).

FUNDING OPPORTUNITIES

Like research in any other discipline, funding opportunities exist for researchers who are pursuing topics that are of interest to the funding agency. A quick internet search reveals two organizations that provide grant funding specifically for fraud-related research. These are relatively new organizations (less than ten years old) and each has a slightly different focus. While other funding opportunities may very well be available, we briefly present two as examples.

The ACFE and the American Institute of Certified Public Accountants (AICPA) founded the Institute for Fraud Prevention (IFP) in 2006. In 2008, West Virginia University partnered with the IFP to provide a home for the organization. According to their website, the IFP currently offers grants to individuals—or groups of individuals—to produce pure academic research into the causational factors of fraud and how to eliminate it in order to facilitate improved business and governmental practices, and consumer education. Grant applications are accepted from any current professor in a state or private college or university, and from individuals with strong academic and scholarly backgrounds. For additional information on these grants see http://www.theifp.org/research-grants/researchGrants.html.

The second organization that provides information regarding grants specifically targeted to fraud research is the Research Center on the Prevention of Financial Fraud (Center), a joint initiative started this year by the Stanford Center on Longevity and the FINRA Investor Education Foundation. According to their website, the Center's particular focus is individual consumer financial fraud, including crimes such as lottery fraud, investment scams, and online phishing schemes. The center's goal is to bring together policymakers, researchers, practitioners, law enforcement, advocacy groups, and other stakeholders to discuss actionable implications of the latest research and evidence-based programs that successfully arm consumers against fraudulent tactics. For additional information regarding funding opportunities for research related to consumer fraud see http://fraudresearchcenter.org/2011/02/resources-for-further-research-2/.

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APPENDIX A

ADDITIONAL FRAUD EXAMINATION AND FORENSIC ACCOUNTING TOPICS

Due to the immense breadth of topics that fall under the definition of fraud examination (and even greater breadth that is covered by forensic accounting), the scope of this paper was limited to fraud examination topics that were covered during the panel discussion. A partial list of additional fraud and forensic accounting areas that are beyond the scope of this paper (but are still in dire need of additional research) is included below.

1. Institute for Fraud Prevention's 2010 Call for Research Proposals

The following topics appear in the Institute for Fraud Prevention's most recent call for research proposals (available at http://www.theifp.org/documents/call-for-research-proposals-ifp-fall-2010.doc). Although the proposal due date has now expired, these areas are still in need of academic research.

(1) A meta-data analysis of industry frauds

Fraud at the industry level has been studied anecdotally and presented in various reporting formats. The IFP believes that a longitudinal meta-data analysis of the various reports by industry (research by academics and practitioners) would provide some valuable insights. The meta-data analysis should include, to the extent possible, long-term trend data and possibly the correlation of industry frauds to economic conditions. Some of the industries could include the following: healthcare, banking, credit card, financial services, insurance, securities, consumer, public sector, contract/procurement, bankruptcy, and tax fraud.

(2) Small business fraud

The U.S. economy is disproportionately dependent on small business. Prior research would suggest that small business is disproportionately affected by fraud, including financial reporting fraud, asset misappropriation, and corruption. The IFP is seeking research proposals that would help participants in the small business marketplace better understand small business frauds; the types of frauds that plague smaller companies and the impact of those frauds. The investigation should also address how small business might better prevent, deter, and detect fraud (as early as possible). A research strategy that might be beneficial is to look at small business failures associated with SBA loans, noting whether or not fraud caused the business failure and whether any frauds occurred by owners/managers during the application for loans, during operations, and/or during the bankruptcy process. *The Bankruptcy Almanac* may be another source of data for an examination of small business frauds.

(3) An investigation of email as a form of audit evidence
Email is a critical (forensic) investigative tool. Email is used by investigators to provide evidence of the fraud act, concealment, and conversion as well as to document intent, opportunity, motive, and to fill out other investigative gaps. Email is so important to the litigation process that the U.S. has passed e-discovery laws that required companies to retain and provide email and other electronic evidence during civil lawsuit adjudication. The IFP would like an objective and reasoned analysis of the potential benefits, strengths, weaknesses, and concerns with auditors having access to email during the audit process. Email has been successfully used in some industries to monitor (audit) activity. A current example includes monitoring securities traders for illegal trading activities. The analysis should consider not only company-based electronic communication, including instant and text messaging, but also personal communications channels and devices.

(4) An investigation of interviewing as a form of audit evidence
Interviewing is a critical investigative tool. Interviewing is used by investigators to provide evidence of the act, concealment, and conversion as well as to document intent, opportunity, motive, and to fill out other investigative gaps. Interrogation techniques, or an admission-seeking interview, are also extensively used by investigators. At least two methodologies are those of Wicklander-Zulawski and the Reid method. Interviewing, in the form of depositions, is also important in the civil litigation process. Large accounting firms recognize the benefits of interviewing, the ability of detecting deception during interpersonal communication, and are expending resources to prepare auditors to conduct effective interviews. The IFP would like an objective and reasoned analysis of the benefits, strengths, weaknesses, concerns, and the role of interviewing in the audit process.

(5) An investigation of adding personnel with forensic skills to audit teams
Much discussion has centered on the incorporation of "forensic accountants" as part of the audit team. Some firms have already chosen to make forensic professionals an integral part of the audit team whether through active participation, consulting arrangements or as a liaison to react to suspicions of material misconduct. The IFP would like an investigation of the ways in which forensic professionals are included in engagements, the relative effectiveness, and an objective and reasoned analysis of the potential benefits, strengths, weaknesses, and concerns with auditors incorporating forensic professionals as part of the engagement team.

(6) An investigation into motivation of fraudsters
Little research exists on the dimensions comprising the fraud triangle (or diamond). The IFP is particularly interested in research projects that address the interrelationship between criminal thinking patterns, behavioral traits, intelligence, culture, etc., of the fraudster that self-motivate a trusted party to execute fraud.

(7) An investigation of adding digital forensic tools and skills to audit teams

Much discussion has centered on the incorporation of "forensic data extraction and analysis tools, and skilled professionals" as part of the audit team. Some firms have already chosen to make such tools and skills an integral part of the audit team whether to provide audit evidence, targeted sampling, or to react to suspicions of material misconduct. The IFP would like an investigation of the ways in which digital forensic tools, techniques, and personnel are included in audit engagements, the relative effectiveness and an objective and reasoned analysis of the potential benefits, strengths, weaknesses, and concerns with auditors incorporating such activity as part of the audit engagement.

2. AICPA Auditing Standards Board Request for Research Proposals

The American Accounting Association's website documents an expired AICPA Auditing Standards Board's Request for Research Proposals in its news archives (available at http://aaahq.org/newsarc/pr101698.htm). Although the list is now slightly over ten years old, many of these topics are still in need of academic research.

(1) How has the fraud-risk assessment information obtained and considered by the auditor affected the manner in which the audit is executed? To what extent have auditing procedural methods been affected by the auditor's mandated fraud-risk assessment process? What changes can be made to improve the auditor's response (via changes to the auditor's plan) to the fraud-risk assessment once that assessment is complete?

(2) How have the requirements of SAS No. 82 affected the auditor's behavior and mindset? How has the process of making a formal assessment of the risk of material misstatements due to fraud affected the auditor's level of professional skepticism?

(3) How complete and discriminating are the fraud-risk factors, which are included in SAS No. 82? Are there factors currently in SAS No. 82 that distract the auditor from recognizing the presence of material misstatements due to fraud? Is there a basis for weighting or combining various fraud risk factors during the fraud-risk assessment process?

(4) How are new technologies changing the risk that financial statements contain material misstatements due to fraud? What new opportunities for fraud are created with the implementation of new technologies? What new technologies implemented by client management are improving the prevention and detection of fraud?

(5) How can analytical procedures be designed and implemented to increase the accuracy of the auditor's fraud-risk assessment process? How is technology being used to increase the auditor's accuracy when developing expectations about financial statement account balances?

(6) What effect has the fraud-risk assessment information had on the audit firm's business risk management processes? Has information obtained in the fraud-risk assessment process affected client acceptance and retention decisions? How have the SAS No. 82 requirements affected the assignment of personnel on the audit team and the work paper review process? How has SAS No. 82 affected auditor training?

3. ***Global Business and Economics Review*** **(Inderscience) call for research papers**

Global Business and Economics Review listed a call for papers for a special issue on forensic accounting. The submission deadline recently passed (August 2011) so readers may want to read the special issue for additional research topics related to forensic accounting research. It is expected to be published in 2012 (see http://www.inderscience.com/browse/callpaper.php?callID=1581). The call for papers included the following topics:

(1) Practical solutions to investigating suspected fraud

(2) The relationship between forensic accountants and internal auditors, and audit committees
(3) Innovation in practice and teaching of forensic skills
(4) Policy suggestions for professional accounting associations to create a designation as "Forensic Accountant"
(5) Skills required for effective presentation of information to courts or tribunals
(6) The legal issues involved in collecting information for presentation in courts
(7) The sociological and psychological issues that relate to fraud
(8) Valuations of businesses and assets
(9) Financial or economic crimes

4. *Journal of Digital Forensics, Security and Law* call for papers

The following topics appear on the *Journal of Digital Forensics, Security and Law's* Volume 6 (2011) call for research proposals (available at http://www.jdfsl.org/call-for-papers.htm). Although the proposal due date has now expired, these areas are still in need of academic research.

(1) Digital Forensics Curriculum
(2) Cyber Law Curriculum
(3) Information Assurance Curriculum
(4) Digital Forensic Accounting Curriculum
(5) Digital Forensics Teaching Methods
(6) Cyber Law Teaching Methods
(7) Information Assurance Teaching Methods
(8) Digital Forensic Accounting Teaching Methods
(9) Digital Forensics Case Studies
(10) Cyber Law Case Studies
(11) Information Assurance Case Studies
(12) Digital Forensic Accounting Case Studies
(13) Digital Forensics and Information Technology
(14) Law and Information Technology
(15) Information Assurance and Information Technology
(16) Digital Forensic Accounting Information Technology

5. University of Wollongong's Second National Forensic Accounting Teaching and Research Symposium Call for Papers

The following topics appear on the University of Wollongong's most recent (2012) call for research papers (available at http://w3.unisa.edu.au/cags/documents/uow0972421.pdf). Although the proposal due date has now expired (October 2011) these areas are still in need of academic research.

(1) Personal/Individual (including but not limited to: consumer protection, identity theft, credit card fraud, and interpersonal fraud, i.e., scams, Ponzi schemes, pyramids, etc.)
(2) Public and Private Sector Entities (including but not limited to: occupational fraud and abuse, financial statement manipulation, compliance, assurance and governance, cybercrime, and money laundering)
(3) Governments/Nation States (including but not limited to: money laundering, terrorist financing, corruption, and bribery)

6. Additional Topics

- Effectiveness of whistleblower protections/bounties

- Correlations between red flags and F/S restatements
- Background investigations and the use of honest/integrity testing material
- The impact of culture on fraud
- Gender issues
- Use of digital forensics
- Data analytics
- Governmental fraud (war-related or otherwise)
- Consumer fraud
- Insurance settlements
- Divorce settlements
- Mergers and Acquisitions
- Record Reconstruction