

## Take-aways from the online Masterclass by Mark Peecher

On Friday 4 December 2020, Mark Peecher (Professor of Accountancy at Illinois, Gies College of Business) presented an online Masterclass on assessing and addressing fraud risk based on earnings calls.



The Masterclass was based on the preliminary findings of Mark's FAR-study with Jessen Hobson, Sebastian Stirnkorb and Devin Williams. Mark started off with a historical sketch of developments in the auditor's fraud responsibility in both the US and international auditing standards. He also discussed the pervasiveness of fraud. Fraud has increased quite dramatically from assessments a decade ago (some audit textbooks estimated that the rate of fraudulent financial reporting likely was 0.5% to 1.0%) to an estimate in a 2020 study of more than 22 percent of large US public corporations

engaging in SEC actionable financial misrepresentation in an average year.

Bottom line: fraud is a very important topic for auditors to consider!

In their FAR study, Peecher et al. conducted a field experiment in which 184 auditors listen to their own clients' earnings calls in the midst of audit engagements. They examine how auditors alter their assessment of the risk of material misstatement, including fraud risk, their plans for addressing these assessed misstatement risks, and the correlation between these two. Preliminary results indicate that prompting auditors to focus on fraud *actually reduces* auditor concern about fraud risk! Prompting a focus on management dissonance, by contrast, results in an increase in auditors' assessed risk of material misstatement and strengthens the correlation among assessing and addressing risk (cognitive dissonance is the negative, uncomfortable emotion a person feels when they are saying something that they know is not true). The video of the Masterclass will be published online in January.