

Current Affairs Noticeboard

Culture and cultural survey – an aid to auditors?

One means to help auditors detect fraud lies in analysing the culture of the organisation to determine if fraud is likely to occur. Dolman Bateman, forensic accountants, have developed a cultural survey to assess the likelihood of fraud occurring in an entity. A negative culture leads to suspicion, secrecy, low productivity and poor commitment to the organisation. This typically results in poor adherence to procedures and policies without penalty, a perfect recipe for encouraging fraud (Fenton-Jones, 2004b, p.50).

The survey takes account of factors such as “systems, team dynamics, employee trust, job satisfaction and attitude towards management” (p.50). The survey looks for possible indicators of a negative culture that can lead to fraud that include “overly aggressive organisational targets, understaffing, observed procedural slackness by senior managers, lack of stated ethical standards and lack of open internal communications” (p.50).

The survey is designed to measure two important factors in regard to fraud. They are (a) identify any problems with adherence to underlying systems and (b) cultural perceptions that are harmful to the company (p.50). Employee resentment and lack of supervision of controls by management may lead to employees disregarding the system and the controls included in the system and commit fraud as a means of retaliation for perceived poor treatment by the management of the company.

The survey also recognises that different people or classes of employees commit different type of fraud. Senior managers, loosely bound work groups such as sales teams, tightly bound work groups and isolated subordinates such as bus drivers and bank tellers will commit different types of fraud (p.50). No details are given indicating the types of fraud committed by such groups or individuals.

The use of such a survey could aid auditors in recognising possible indications that fraud exists. From the type of indicator identified, the auditor could note the type of fraud most likely to occur.

Question

To what extent should the auditor use cultural surveys to detect fraud? Explain your answer.

Reference

Fenton-Jones Mark, 2004b, "Culture key to employee fraud", *The Australian Financial Review*, 28 September, p.50