

## Summary of Paper: [Error or Fraud? The Effect of Omissions on Management's Fraud Strategies and Auditors' Evaluations of Identified Misstatements](#)

### **What is this Study About?**

The study investigates whether managers prefer to perpetrate fraud through omission (e.g., omitting a transaction from the financial statements) as opposed to a more active form of commission (e.g., recording a transaction inappropriately). The study also explores whether auditors regard this “omission strategy” as less intentional (i.e., fraudulent) when evaluating misstatements.

### **What are the major findings of the study?**

Managers, the researchers found, are more likely to engage in fraud through omission, as they believe it reduces the perceived intentionality of their fraudulent acts. Consistent with this belief, auditor participants viewed misstatements resulting from omission as less intentional and responded to these misstatements in a less skeptical manner compared with misstatements resulting from an explicit client action. This suggests that a potential mismatch exists whereby the method of fraud preferred by managers (omission) is also the method that the auditors are the least inclined to believe is fraudulent. The study's findings highlight the complexity of interpreting omissions in financial statements and the need for heightened skepticism when evaluating misstatements, including those that may appear unintentional on the surface.

### **Why is the study important?**

This study is crucial for accounting practitioners as it reveals a discrepancy between management's fraud strategies and auditors' evaluations, highlighting the challenges auditors face in detecting and interpreting omissions as fraudulent. It suggests that auditors need to be more skeptical of omissions to improve fraud detection and underscores the importance of considering the intentional nature of omissions in audit practices.