

ASOSAI Guidelines on Treatment of Fraud & Corruption

Basic Principles

- The SAI should consider compliance with the INTOSAI auditing standards in all matters that are deemed material.
- Materiality is often considered in terms of value but the inherent nature or characteristics of an item or group of items may also render a matter material-for example, where the law or regulation requires it to be disclosed separately regardless of the amount involved.

Materiality contd.,

- In addition to materiality by value and by nature, a matter may be material because of the context in which it occurs. For example, considering an item in relation to:
 - (a) the overall view given to the financial information;
 - (b) the total of which it forms a part;
 - (c) associated terms;
 - (d) the corresponding amount in previous years.

Judgment

- The SAI should apply its own judgment to the diverse situations that arise in the course of government auditing.

Policy or Strategy

- The SAI should apply its own judgment to the diverse situations that arise in the course of government auditing.
- With an increasing concern on fraud and corruption SAIs are expected to demonstrate that the audit addresses these concerns. The SAIs should actively consider adopting a formal policy or strategy for deterring fraud and corruption.

Accountability

- Development of adequate information, control, evaluation and reporting systems within the government will facilitate the accountability process. Management is responsible for correctness and sufficiency of the form and content of the financial reports and other information.
- Appropriate authorities should ensure the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the needs of the government, and audited entities should develop specific and measurable objectives and performance targets.

Accountability Contd.,

- The responsibility for adequate and timely disclosure of any cases of fraud and corruption rest with the management and the responsibility of ensuring reliability and results of operation must include concerns arising from risk of fraud and corruption.
- Through its audit the SAI must evaluate and report on the adequacy and competence with which the management has discharged this responsibility.

System of Internal Control

- The existence of an adequate system of internal control minimises the risk of errors and irregularities.
- SAs should be alert to shortcomings in systems and controls that are likely to provide an environment conducive for fraud and corruption and should proactively report to the management to improve the control environment and minimize the risk of fraud and corruption.

Legislative arrangements

- Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit.
- Legislative enactment can ensure that all suspected and detected cases of fraud and corruption are reported to audit by the management. If considered necessary SAI can reinforce their mandate to investigate cases of fraud and corruption by seeking legislative enactments on these lines.

Mandate

- All audit activities should be within the SAI's audit mandate.
- Normally sensitization of different types of audits undertaken by SAIs to fraud and corruption can be brought about under their existing mandates. However, where SAIs feel constrained, they can seek additional mandate.

Techniques of Audit

- SAs should work towards improving techniques for auditing the validity of performance measures.
- The auditor should make the management aware that the absence or lack of application of reliable and valid performance measures and indicators could increase the possibility of occurrence of fraud and corruption.

GENERAL STANDARDS

- The SAI should adopt policies and procedures to recruit personnel with suitable qualifications.
- The SAI should adopt policies and procedures to support the skills and experience available within the SAI and identify the skills which are absent; provide a good distribution of skills to auditing tasks and assign a sufficient number of persons for the audit; and have proper planning and supervision to achieve its goals at the required level of due care and concern.

Training

- The SAI should adopt policies and procedures to develop and train SAI employees to enable them to perform their tasks effectively, and to define the basis for the advancement of auditors and other staff.

Training contd.,

- In considering the portfolio of skills that the SAI should have to meet the requirements of its audit mandate, the SAI should pay particular attention to training its auditors to deal with concerns about fraud and corruption, including experience gained from past fraud and corruption cases.
- Training could include developing forensic auditing skills provided that forensic investigation is covered by the mandate of the SAI. SAIs could consider sharing of information and knowledge of techniques, procedures and skill development in order to develop expertise in this area.

Manuals and Instructions

- SAI should consider reviewing the manuals, policies and prospectus from the perspective of conducting audits that are sensitive to fraud and corruption and dealing with suspected cases of the nature.

Independence

- SAIs should avoid conflict of interest between the auditor and the entity under audit.
- The SAIs need to demonstrate that they are independent not only in a legal sense but in a practical sense as well so that they can perform an effective role against fraud and corruption.
- Demonstration of independence in practical audit work includes avoidance of any possible conflict of interest situation.
- The SAI should be in a position to carry out an independent risk assessment and prioritize its audit planning accordingly.
- Where necessary the SAI should work for legislation that would allow it access to all records and information required in the examination of cases of fraud and corruption.

Due Care

- The auditor and the SAI must exercise due care and concern in complying with the INTOSAI auditing standards.
- This embraces due care in specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations.

FIELD STANDARDS

PLANNING

- The auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient and effective way and in a timely manner.

PLANNING Contd.,

- While planning his audit the auditor should assess the risk that fraud may cause the financial statements to contain material misstatement or record material irregular transactions.
- The auditor may keep in view that the risk of fraud and corruption could be higher in certain organization like those involved in procurement of goods and services.
- The auditor may keep in view that when a fraud is conducted there is a deliberate effort to conceal the facts and distract the auditor.
- For planning the audit the auditor should have a complete understanding of the auditee including the environment in which the entity operates the level of internal control and the past performance of the auditee especially previous instances of fraud and corruption.

Audit Objectives

- Based on the risk assessment the auditor should develop the audit objective and design audit procedures so as to have reasonable expectation of detecting and evaluating
- material misstatement and irregularities arising from fraud and corruption. In case of high
- risk audit the audit team should be selected keeping in view the requirement of such audit.

Supervision and Review

- The work of the audit staff at each level and audit phase should be properly supervised during the audit; and documented work should be reviewed by a senior member of the audit staff.
- For ensuring that all audits dealing with actual cases of fraud and corruption are adequately supervised, the SAI should develop policies, including a comprehensive supervision checklist, regarding supervision levels and procedures for managing the investigation of fraud and corruption.
- When fraud and corruption are suspected in the course of audit the auditor should report the matter to the official of the SAI in accordance with the SAI's policy on supervision levels.

Other field standards

- Study and Evaluation of Internal control
- Audit Evidence
- Analysis of Financial Statements

REPORTING STANDARDS

Reporting Standards

- At the end of each audit the auditor should prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive.

- It is for the SAI to which they belong to decide finally on the action to be taken in relation to fraudulent practices or serious irregularities discovered by the auditors.

- When in the opinion of the auditor the financial statements include material fraudulent transactions, or such transactions have not been adequately disclosed, or the audit conducted by the auditor leads him to the conclusion that instance(s) of fraud and/or corruption have taken place and when the auditor has adequate evidence to support his conclusion, he should qualify the audit certificate and/or ensure that his findings are adequately included in his audit report.
- However, the term fraud or corruption may not be used in a conclusive sense unless such action is established in a court of law.

- The report may contain auditor's *recommendations* for the changes in the system and procedures that could prevent recurrence of such instances.
- In following up on reported cases of fraud and corruption the auditor should determine whether the necessary action is being taken with due regard to urgency that the situation demands and become aware of the changes in the systems and procedures which could be validated through subsequent audits.

Thank you