

ROLE OF AUDITOR AND MANAGEMENT IN FRAUD PREVENTION & DETECTION

Anti-fraud measures for a High risk area 'X'

Red flag	Anti-fraud measures	
	Preventive	Detective

AT AUDIT PLANNING STAGE

What is the first step??

Fraud awareness

- At planning stage
 - Through risk analysis identify focus areas of concern
 - Set relevant audit objectives
 - Determine appropriate red flags

According to INTOSAI Auditing Standards -----

- ...Auditors need to be alert for situations, control weaknesses, inadequacies in record keeping, and unusual transactions or results, which could be indicative of fraud, improper or unlawful expenditure, unauthorized operations, waste, inefficiency or lack of probity.
- (Paragraph 2.2.41, General Standards in Government Auditing)

INTOSAI Guidance on Audit Planning

- In planning an audit, the auditor should:
- Identify important aspects of the environment in which the audited entity operates;
- Develop an understanding of the accountability relationships;
- Specify the audit objectives and the tests necessary to meet them;
- Identify key management systems and controls and carry out a preliminary assessment to identify both their strengths and weaknesses;
- Determine the materiality of matters to be considered;

INTOSAI Guidance on Audit Planning--2

- Review the internal audit of the audited entity and its work program;
- Assess the extent of reliance that might be placed on other auditors, for example, internal audit;
- Determine the most efficient and effective audit approach;
- Review to determine action taken on previously reported audit findings and recommendations; and
- Provide for appropriate documentation of the audit plan and for the proposed fieldwork.

(paragraph 3.1.3)

Identify High Risk Areas

(Some examples)

- **Contracts of service/procurement;**
- **Inventory management;**
- **Sanctions/clearances;**
- **Revenue receipt;**
- **Accounts Payable process**
- **Cash management;**
- **General expenditure; and**
- **Other areas with public interface Relief and rehabilitation programmes**

What is the next step??

Set 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.
- In case of high risk audit the audit team should be selected keeping in view the requirement of such audit.

What is the next step??

Evidence gathering

- When auditors intend to report on fraud and corruption, they should ensure the reliability of audit evidence by verifying it with source documents including third party evidence.
- Auditors should carefully determine how much evidence they should gather in support of audit conclusions.
- Auditors should also keep in view that the evidence gathered by them and the conclusion drawn by them could become the basis of legal or disciplinary proceedings.

Evidence gathering in IT environment

- Audit evidencing in an IT environment is often more complex than traditional manual audit.
- In an IT environment not only it is necessary to understand the techniques of assessing system and data soundness but also necessary to establish means of collecting evidence.

Evidence gathering in IT environment

- Case study on fraud vulnerability in segregation of duties