Fraud

Auditor Responsibility
- Plan and perform the audit to obtain reasonable assurance that material misstatements, whether due to error or fraud, are detected

Types of Fraud
- Fraudulent Financial Reporting
- Misappropriation of Assets

Conditions for Fraud
- Incentives/Pressures
- Opportunities
- Attitudes/Rationalization

SAS 99 Big Points
- Emphasis on professional skepticism
- Brainstorming session
- Presumption of risk due to improper revenue recognition
- Potential for management override of controls

SAS 99 Process
- Conduct a brainstorming session
  - No prescribed approach/list of participants
  - Emphasize professional skepticism
  - Fraud triangle
  - Should discuss risk of management override of controls
  - Discuss potential responses to risk of material misstatements due to fraud
- Obtain information to identify risk of material misstatements due to fraud
  - Inquire of management about risks
  - Consider results of analytical procedures
  - Consider whether fraud risk factors exist
  - Consider other information that could be helpful
- Identify risks of material misstatement due to fraud
  - Improper revenue recognition is assumed to be a risk
  - Separately assess risk of management override of controls
- Assess risks given existing programs and controls
- Adjust audit approach based on assessment of risks
  - Overall engagement response (personnel, accounting principles, and unpredictable approach)
  - Alter NTE of audit procedures
- Respond to risk of management override of controls (journal entries, accounting estimates, and business rationale)
- Evaluate audit evidence
  - Assess risks of fraud throughout audit
  - Consider whether analytics used as substantive tests or during final review suggest unrecognized risks
  - Evaluate risk of material misstatement due to fraud at or near end of audit
- Communicate findings to appropriate parties
  - Management
  - Audit committee
  - SEC
  - Others
Fraud Documentation

- The following should be documented:
  - Discussion among audit team members during planning about susceptibility to fraud
  - Specific fraud risks identified and a description of the auditor’s response
  - Procedures followed to identify and assess risk of fraud
  - Reasons for concluding there is not a significant risk of material improper revenue recognition
  - Results of procedures performed to address risk of management override of controls
  - Conditions causing the auditors to perform additional auditing and the actions taken
  - Nature of communications with management, audit committee, and others regarding fraud