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The auditor shoulders the responsibility of determining any deceptive or erroneous occurrences of the financial dealings of a company during a particular period so as to avoid the organization from misquoting its position in its financial statements for any fraudulent purposes. An auditor thus ensures the conformation of the company’s accounts to the adopted accounting standards and reports on the company’s financial statements and its internal control system. The role of auditors therefore needs to ensure that the final statements of the company are free from any misstatements arising due to either fraud or unintentional errors.
The auditor also has the responsibility to detect a fraud triangle. A fraud triangle is the existence of combination of the three significant elements that can let the fraud occur. The three elements that encourage the practice of fraud per the fraud triangle are Incentive/Pressure, Opportunity and Rationalization/Attitude (Singleton & Singleton 44).
As per the SAS-99, the auditors are required to perform many functions such as to collect information that supports to identify the attempted fraud / risk of fraud; to examine the risk of fraud after an evaluation of enterprise’s existing controls, absence of controls, ineffective controls and overriding of controls by the management that culminates fraudulent expenses and skimmed of assets; to pinpoint the individual(s) that are involved in fraudulent transaction, their attitude and past history; identify the loopholes attracting fraud(s) and to suggest management / competent committee of the Board to plug in the identified loopholes (AICPA 2002).
The potential areas of fraud risk identified in SAS 99 are considering company’s internal controls and procedures, implementation of audit procedures in such a manner that can avoid the risk of non conformation on the part of the management, proactive identification of areas prone to the occurrence of fraud, considering indicative fraud during the audit, detecting improper revenue recognition and accessing written representations from the management in relation to the frauds occurred.
After the debacle of Enron and World com, the American legislatures drafted and promulgated an act named as “ Sarbanes Oxley Act-2002” just to restore the investor’s confidence. The act sets new pattern of accountability and imposition of penalties for the wrong doers (Alleyne & Howard 2005).
According to laid down criteria, auditors have to take into account the mentioned criterion while auditing an enterprise. Auditors who have conducted audit of an organization shall keep audit reviews for a period of five years. Auditors are to certify the effectiveness of internal controls of an entity wherein they conducted audit. They have to advise the management to form a team of experts from finance, audit, information technology, operation, risk management and legal to evolve comprehensive procedure for an effective control on financial transactions (Alleyne & Howard 2005).
The team of experts should directly be reporting to the CEO/CFO of the company for necessary guidance and instructions in light of the audit reports. Management should bear the cost of compliance to improve / revamp existing system for an effective internal control system. Auditors should not encroach upon the discretions of management for implementation of comprehensive procedure concerning effective internal controls or overcome the internal control deficiencies. Auditors shall advise the management or the competent committee on audit to initiate the process of effective internal control as early as possible (Gay, Schelluch & Reid 1997).
The primary reason of frauds, errors and illegal acts rests with internal control that lacks sophisticated system in place. All professionals have agreed on the point that internal control, proper reporting mechanism and the implementation of sound accounting policies and procedures shall rest with the management.
Management should recruit honest people who have a good record of accomplishment to manage the affairs of the company. HR of the company should select employees who have the fame of honesty, integrity and loyalty towards the institution for a smooth sail. Management should introduce tough selection criteria for placement of employees on responsible positions (AICPA 2002).
Creation of ideal environment in an organization, firing of disrepute people and hiring of honest people would be helpful in combating the identified potential risks. To create atmosphere conducive for the employees give them credit where the credit is due. Pay for performance policy should be introduced to encourage hard working and honest employees. Top management should be the role model for the rest of the employees. These are the few measures, if implemented, would be the instrumental in preventing frauds (Millichamp 2000).
Forensic auditors must have excellent written and oral communication skills. They will have to write reports for onward submission to the concerned parties. The report in question can be used as an official document for court trial. Forensic evidence can be of solid relevance against the officials at fault for prosecution and if found guilty by the competent court of law, they deserve punishment for the misdeeds conducted and such punishment shall be in accordance with the law. It is the need of the hour for the internal and external auditing companies to train the auditors in the forensic accountancy besides other techniques to unearth fraudulent transactions (Gay, Schelluch & Reid 1997).
Auditors must be aware of IT application and business processes to have a grip on IT related frauds. Until and unless the auditors are properly trained to track down the culprits, the debacles in the financial world such as Enron and World com would not come to surface. There can be no difference of opinion that educated, skillful, trained, technologically sound and experienced auditors can better serve his/her organization in detecting and preventing complex financial crimes (Millichamp 2000).

## Bibliography

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