1. **Describe the guidelines that assist system auditors detect and deter fraud occurrences in an organization**

Auditors enter a much expanded arena of procedures to detect fraud. Auditors implement the SAS no.99 while carrying out financial auditing in organizations. SAS no. 99 is an auditing statement issued by the Auditing Standards Board of the [American Institute of Certified Public Accountants](https://en.wikipedia.org/wiki/American_Institute_of_Certified_Public_Accountants) (AICPA) in October 2002.

SAS 99 defines fraud as an intentional act that results in a material misstatement in financial statements. There are two types of fraud considered:

* Misstatements arising from fraudulent financial reporting for example falsification of accounting records.
* Misstatements arising from misappropriation of assets for example theft of assets or fraudulent expenditures.

 The standard describes the fraud triangle:



 Generally, the three 'fraud triangle' conditions are present when fraud occurs. First, there is an incentive or pressure that provides a reason to commit fraud. Second, there is an opportunity for fraud to be perpetrated (e.g. absence of controls, ineffective controls, or the ability of management to override controls.) Third, the individuals committing the fraud possess an attitude that enables them to rationalize the fraud.

 **THE GUIDELINES**

1. **PROFESSIONAL SKEPTICISM**

The auditor must set aside past relationships and not assume that all clients are honest. The new standard provides suggestions on how auditors can learn how to adopt a more critical, skeptical mind-set on their engagements, particularly during audit planning and the evaluation of audit evidence.

1. **PLANNING ANALYTICAL PROCEDURES**

SAS no. 99 says the auditor should consider the results of analytical procedures in identifying the risks of material misstatement caused by fraud, and the standard provides a list of procedures auditors can employ that may indicate the presence of such risks.

1. **ADDRESS SPECIFIC ACCOUNTS OR CLASSES OF TRANSACTIONS**

 SAS no. 99 provides general guidance on modifying the nature, timing and extent of the audit procedures you will perform to address identified risks of material misstatement due to fraud. Three other audit areas merit special mention: revenue recognition, inventory quantities and accounting estimates, which can go hand in hand with fraud and therefore can be interrelated

1. **RETROSPECTIVE REVIEW OF ACCOUNTING ESTIMATES**

Accounting estimates are particularly vulnerable to manipulation because they depend heavily on judgment and the quality of the underlying assumptions. SAS no. 99 requires you to perform a retrospective review of prior-year accounting estimates for the purpose of identifying bias in management’s assumptions underlying the estimates. This review is not intended to call into question your professional judgments made in prior years that were based on information available only at that time. Rather, it should be considered within the context of its implications for the current-year audit and the facts and circumstances that currently exist.

1. **COMMUNICATIONS**

SAS no. 99 says, “Whenever you have determined that there is evidence that a fraud may exist, that matter should be brought to the attention of the proper level of management. This is appropriate even if the matter might be considered inconsequential, such as a minor defalcation by an employee at a low level in the entity’s organization.” Thus, the threshold for communication is “evidence that a fraud may exist.” The mere presence of a fraud risk factor or some other condition that has been observed when fraud is present generally does *not*meet this threshold.

1. **DOCUMENTATION**

The documentation requirements of SAS no. 99 significantly extend those of the previous standard, requiring documentation supporting compliance with substantially all the major requirements of the standard. SAS no. 99 provides a complete, easy-to-understand list of documentation requirements.

**According to the standard, you are required to document**

* The discussion among engagement personnel in planning the audit regarding the susceptibility of the entity’s financial statements to material misstatement due to fraud, including how and when the discussion occurred, the audit team members who participated and the subjects discussed.
* The procedures performed to obtain information necessary to identify and assess the risks of material misstatement due to fraud.
* Specific risks of material misstatement due to fraud that were identified and a description of the auditor’s response to those risks.
* If the auditor has not identified improper revenue recognition as a risk of material misstatement due to fraud in a particular circumstance, the reasons supporting that conclusion.
* The results of the procedures performed to further address the risk of management override of controls.
* Conditions and analytical relationships that caused the auditor to believe additional auditing procedures or other responses were required and any further responses the auditor concluded were appropriate to address such risks or other conditions.
* The nature of the communications about fraud made to management, the audit committee and others.