

## Current Affairs Noticeboard

### **Conclusion - implications of the above**

In this edition of Current Affairs in Auditing we have discussed recent developments whereby the auditing profession has increased its duty to detect fraud. No doubt this arose through the criticism of the auditing profession arising from the recent collapses and accounting scandals. Earnings management was a significant problem identified in these collapses and scandals and earnings management is an issue the revised standards seek to address. We also discussed in this edition media articles that give auditors greater insight to fraud and thus add to the profession's ability to detect fraud.

Common with the development of auditing duties in the past it is not possible to say with any exactitude which frauds should be detected and which frauds should not be detected by auditors. We live in a complex business world where some frauds are perpetrated in an ingenious manner and thus the auditing profession would not be held liable to detect those frauds. The audit fee would have to increase markedly if we were to hold auditors liable for the detection of these ingenious frauds.

Normally the courts would give the business community guidance on the type of frauds auditors would be expected to detect. However, due to out-of-court settlements it is highly unlikely guidance on the extent the auditors are required to detect fraud under new fraud auditing standard will occur. We have a standard that will be untested in the courts. Thus in practical terms we will not get guidance on the general principles established in the standard. Perhaps an important implication of the revised standards is that the range of matters where an auditor can be sued increases. To ensure an auditor is not sued the auditor will have to train their staff in fraud detection and use in appropriate circumstances fraud specialists. This will lead to an increase in audit fees.