Current Affairs Noticeboard

Reporting of fraud in the media

Given the auditor's increasing duties in relation to fraud detection, a number of articles have been published in the Australian Financial Review about fraud and these articles could be instructive for the auditing profession. These articles add to auditor's knowledge of fraud and could help the auditing profession recognise signals or red flags that indicate the possibility of fraud. Johnson (2000) argues that publication of details of a fraud can place responsibility on the auditing profession to detect to detect this fraud. Writing before the publication of these revised auditing standards on fraud, Johnson argues that two areas of classification for frauds are ingenious or well known frauds (p.63). Frauds that are ingenious do not arouse the auditor's suspicions and would not be expected to be detected by auditors. In regards to well known frauds, Moffitt J in Pacific Acceptance Corporation Ltd v Forsyth and others (1970) 92WN NSW 29 stated that:

It should be recognized that an auditor has an opportunity to plan much of his work in advance and to work out a programme ... He therefore has an opportunity ... to design procedures which take account at least of the fact that experience has shown frauds or their concealment commonly involve manipulation ... which often fall into various well-known patterns (at 65).

The publication of details of a fraud brings the fraud to the audit profession's attention and thus into their experience and thus the auditor should adjust the audit programmes to detect this type of fraud (Johnson, 2000, p.63). Whilst this argument was advanced before the auditing standards were revised and may not have been accepted by the auditing profession, the revising of the auditing standards to extend auditor's responsibilities for fraud adds validity that this argument is applicable to present day business. The auditing profession should consider the implications of this argument.

References

Case examined:
Pacific Acceptance Corporation Ltd v Forsyth and others (1970) 92WN NSW 29