



*“The Internal Audit Professionals”™*

## **FRAUD DETECTION**



**The Essence Of Fraud** is simple. Fraud is an intentional act of deception carried out to misstate financial statements or misappropriate assets.

**The Detection Of Fraud**, on the other hand, can be extremely difficult. By its very nature, fraud is intended to be concealed and go undetected. Fraud can be creative and complex. Deceptions can be created with the sole purpose of hiding other deceptions. The gauntlet has been laid down by FASB, in the form of SAS 99, and by Sarbanes-Oxley, to all professional internal auditors – you shall become better at detecting and preventing fraud, or you will continue to lose your professional standing, independence, and self-governance privileges. The Public Company Accounting Oversight Board (PCAOB) has indicated that the detection and exposure of accounting fraud is a top priority.

**SAS 99** changed the rules, responsibilities, and approach to be followed for auditors concerning the detection of fraud. Although SAS 99 concerns itself with “material misstatements” due to fraud, all fraud should be actively investigated and reported, regardless of “materiality”. The integrity of the internal auditing profession is at risk if we only concern ourselves with the search for “material misstatements”.

As auditors, and especially those of us who are CFE’s, we have a responsibility to our clients, investors, stakeholders, and the general public, to approach each audit with a healthy dose of professional skepticism. Our audit approaches and techniques need to incorporate this skepticism. Those individuals with incentive, opportunity and questionable integrity need to be put under the microscope. Proactivity needs to replace passivity when it comes to verification of source documents and quarter-end adjusting journal entries. Don’t accept anything at face value. Know what situations and corporate cultures lend themselves to the increased potential for fraud, and keep your antennae up. If the firm you work for has a 10% increase in income each quarter, and always meets

analysts expectations, get your resume ready. A recent forensic audit completed for one high-profile accounting fraud concluded, “The amount of income adjustments at each quarter closely mirrored the amount needed to bring results into line with Wall Street earnings expectations.” Trust your instincts...you were given them for a reason.

**The Financial World** has been rocked to its very core with all of the accounting frauds that have taken place over the past several years. While certain public accounting firms deserve much of the blame for throwing ethics and integrity out the window, internal auditors are certainly not without fault. Virtually all high-profile accounting frauds of the last ten years, from Dollar General to HealthSouth to Cendant to Enron to WorldCom, relied on the complicity of external auditors to succeed. Transactions that any first year accounting student would question were routinely passed on by individuals whose primary job responsibility was to provide assurance to the general public, and particularly to shareholders and investors, that financial statements were accurate and reliable, and prepared in accordance with generally accepted accounting principles, chose instead to enrich themselves and ignore their professional ethics.

**PRI AUDIT & CONTROL** is a professional internal auditing firm. In addition to being CIA’s and CPA’s, many of our auditors are CFE’s with first hand knowledge of how fraud is perpetrated and hidden. Our forensic auditors can work with you and your internal audit staff to evaluate your existing systems of internal controls and suggest ways of minimizing the opportunity for fraud. Although we can’t guarantee that all fraud will be exposed, we can greatly reduce the risk that your company will become the next Enron or WorldCom.

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PRI AUDIT & CONTROL is a full-service professional internal auditing firm with experience and expertise in all areas of internal audit. We are committed to helping you detect fraudulent business practices.

For more information on PRI’s fraud detection capabilities or any of our other Internal Audit, Risk Management or Consulting services, please contact:

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