

4.1 Reporting and Follow-up Actions

Session Overview

Reporting fraud and corruption is more sensitive than other common audit findings. If fraud and corruption issues were found during an audit, some special follow-up actions would be required according to the mandate of different SAIs.

In this session, we will discuss the issues mentioned above and standards or guidelines concerning fraud and corruption, covering:

- Special concerns when reporting findings of fraud and corruption;
- Follow-up actions, including coordination with other agencies, investigation and custody of evidence.

Learning Objectives

By the end of this session, participants will be able to prepare a report on fraud and corruption and take proper follow-up actions to the extent that these are in accordance with INTOSAI Auditing Standards and ASOSAI Guidelines for Dealing with Fraud and Corruption.

Special Concerns When Reporting Fraud and Corruption

1 Concerns about sensitivity of reporting fraud and corruption

It is stated in INTOSAI audit standards: “At the end of each audit the auditor should prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive.”. Similar audit standards or guidance should also exist in different countries.

Furthermore, ASOSAI Guidelines No. 28 states that “When in the opinion of the auditor the financial statements include material fraudulent transactions, or such transactions have not been adequately disclosed, or the audit conducted by the auditor leads him to the conclusion that instance(s) of fraud and/or corruption have taken place and when the auditor has adequate evidence to support his conclusion, he should qualify the audit certificate and/or ensure that his findings are adequately included in his audit report. However, the term fraud or corruption may not be used in a conclusive sense unless such action is established in a court of law.”

On the other hand, ASOSAI Guideline No. 16 cautions auditors by stating that “In investigating and reporting cases of fraud and corruption the SAIs should be aware of the risk that perpetrators of fraud and corruption seek protection for their acts by accusing the auditors of libel and slander. The SAIs could consider working towards changes in their legislation which protects their auditors against such allegations and likely legal proceedings.”

Auditors therefore should ensure that findings on fraud and corruption are accurate, objective, clear and timely.

1.1 Accuracy of the report

Unlike common audit findings such as errors by carelessness, fraud and corruption is very sensitive both to auditee and auditor. Any vagueness or discrepancy from the fact in the description of fraud and corruption may cause unfair treatment to the auditee. As a result of auditee’s self-protective reaction, the auditor could get into an embarrassing situation. Their professional competency will be doubted also.

To ensure the accuracy of the report, auditor should reconfirm all the facts of fraud and corruption which will be included in the report with the source of evidence, and make sure that all the evidence are sufficient and competent and authenticated/signed by the source when necessary.

1.2 Objective description

Description of the fraud and corruption in the audit report should be objective, independent and fair. Content included in the report concerning fraud and corruption should only be the facts, evidence and criteria relating to the fact of fraud and corruption. Judgement, assumption or prediction should not appear in the audit report. However, the potential effects of fraud and corruption could be discussed in the management letter suggesting the improvement of internal control.

1.3 Clarity

Report on fraud and corruption should use clearest language. Do not use jargon since the report might be read by people who are not familiar with those technical terminology. If complex or technical terms have to be used in the contexts, the meaning should be explained.

1.4 Timeliness

Timeliness of report on fraud and corruption is extremely important because it tends to enhance the accuracy of witness testimony. Auditors’ memory of the examination process and evidence is another reason for timeliness. When significant fraud and corruption are suspected during normal audit process, the audit team leader may consider whether it is necessary to report the finding to

the higher level management of their SAI immediately to get further instruction. In this case, the audit plan should also be adjusted accordingly.

2 Concerns about the medium for reporting fraud and corruption

In line with the ASOSAI Guideline No.28 findings of fraud and corruption may be included in the financial audit report (or performance audit report if performance audit is being undertaken). Some SAIs, however, require a separate report for significant findings in fraud and corruption or where the SAI has a separate division or forensic audit unit that undertake a more detailed investigation of fraud and corruption.

ASOSAI Guideline No.29 also suggests: “The report may contain auditor’s recommendations for the changes in the system and procedures that could prevent recurrence of such instances.”

Follow-up Actions

1. INTOSAI Reporting Standards and ASOSAI Guidelines

Findings of fraud and corruption will bring additional work to auditors. The INTOSAI Reporting Standards states that “It is for the SAI to which they belong to decide finally on the action to be taken in relation to fraudulent practices or serious irregularities discovered by the auditors.”

Likewise, ASOSAI Guidelines No.30 states that “In following up on reported cases of fraud and corruption the auditor should determine whether the necessary action is being taken with due regard to urgency that the situation demands and become aware of the changes in the systems and procedures which could be validated through subsequent audits.”

2. The following-up actions will usually include the following:

2.1. Coordination with other agencies

Cases of fraud and corruption normally involve referral to legal, investigative and other related institutions. Coordination between audit and anti-corruption institutions, for instance, will increase the capability of anti-corruption effort of the whole country. Working with media closely is also an effective way to promote the effectiveness of anti-corruption programs.

2.2. Investigation

In some countries, SAIs have the mandate to conduct investigation, while in some other countries, SAIs have no authority to investigate. After the case is transferred to other investigative agency, they may invite auditor to join their investigation team for the auditor’s financial and accounting expertise. No matter what mandate the SAI has, investigation should be conducted by

authorized professionals when further evidence of fraud and corruption is needed. For SAIs with authority to investigate, auditors must be prepared to conduct further investigation.

2.3. Custody of evidence

Evidence is much more important for fraud and corruption cases than is normally required for common audit findings. It must be kept secured and should be ready to be presented when necessary. Authenticated copies of evidential documents may be presented when required by investigating or prosecuting bodies and the originals kept in a safe place and may be released only upon orders of the court.

Summary

Reporting on fraud and corruption found during auditing should comply with reporting standards or guidance. Besides, the sensitivity of fraud and corruption require that auditors should be more prudent when dealing with fraud and corruption. Whenever fraud and corruption is found during the normal audit process, follow-up actions should be taken based on the mandate of SAI.

References

1. ASOSAI, *ASOSAI Guidelines for Dealing with Fraud and Corruption*, 2003.