

Auditor's role in prevention and detection of financial statement fraud

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This paper is dealing with auditor's role in prevention and detection of financial statement fraud in a recession time. For that purpose, samples of financial statement fraud are presented first. Financial statements fraud is sometimes titled as creative accounting.

It comes from professional roles that fraud prevention and detection is the primary responsibility of management and those charged with entity's governance. The auditor's objectives dealing with frauds refer to identifying and assessing risks of material misstatement due to financial statement fraud, obtaining sufficient and appropriate audit evidence concerning the assessed risks of material misstatement due to financial statement fraud by designing and implementing appropriate responses and respond appropriately to financial statement fraud or suspected financial statement fraud that is identified in the audit.

Internal auditors as well as external auditors play an important role in prevention and detection of fraud. Internal auditors are frequently trustees who get tips about employees wrongdoing. External auditors on the other hand have the advantage of unpredictability, which gives them a bigger chance to discover fraud, should it exist. If more frauds are detected, it discourages potential fraudsters from initiating a fraud. This way auditors help that less frauds are committed and that more committed frauds are detected.

Key words: financial statements fraud, auditor, fraud prevention, fraud detection, auditor's responsibility.

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