الجمهورية الجزائرية الديمقراطية الشعبية
Ministry of Higher Education and Scientific Research
وزارة التعليم العالي والبحث العلمي
People's Democratic Republic of Algeria

HIGHER SCHOOL OF MANAGEMENT AND DIGITAL ECONOMY

H.S.M.D.E

المدرسة العليا للتسيير والاقتصاد الرقمي

Dissertation Submitted in Partial Fulfilment of the Requirements for the degree of Masters

Major: Audit And Management Control

THEME:

The Role of Auditing in Fraud Prevention

Case: Grant Thornton Algeria

Submitted by:

Mr. DIFFELLAH Lakhdar Amine

Supervised by:

Mr. OULD MAAMAR Oussama

Class (B) assistant teacher

Academic year

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Dedication

I dedicate this humble work:

To my mother, whose unconditional love and boundless patience have been my sanctuary. Your gentle hands have wiped away my tears, and your soothing words have healed my heart. You have been my first teacher, my greatest supporter. I am endlessly grateful for your sacrifices.

To my father, whose strength and unwavering faith in me have been my anchor. Your courage and determination have inspired me to strive for greatness.

To my big brother Abderezak, whose protective embrace has made me feel invincible. You have been my shield, my confidant, and my best friend. Your encouragement has given me the confidence to chase my dreams. I am blessed to have you as my brother.

To my big sister, whose warmth and compassion have been my refuge. Your understanding heart and wise counsel have helped me navigate the complexities of life. Your love has been a constant source of comfort and joy.

This dedication is for all of you, with all the love, respect, and gratitude my heart can hold. You are my everything.

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I extend my heartfelt gratitude to my thesis supervisor, Mr. OULD MAAMAR Ossama, for his invaluable support and guidance. His expertise and dedication have been fundamental to the success of this research.

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I would also like to express my sincere appreciation to Mrs. OULDMALEK, my internship supervisor, for her exceptional guidance and support during my internship.

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Finally, I would like to thank everyone who contributed to this thesis in any capacity.

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List of abbreviations

A: Accuracy

ACFE: Association of Certified Fraud Examiners

AICPA: American Institute of Certified Public Accountants

C: Completeness

CFO: Chief Financial Officer

CO: Cut-off

CPA: Certified Public Accountants

E: Existence

FBI: Federal Bureau of Investigation

GTA: Grant Thornton Algeria

GT: Grant Thornton

IFAC: International Federation of Accountants

ISA: International standards on auditing

ISAE: International Standard on Assurance Engagements

P&D: Presentation and disclosure

PCAOB: Public Company Accounting Oversight Board

RMM: Risk of Material Misstatement

R&O: Rights and obligations

US: United States

V: Valuation

Abstract

Fraud continues to be a dynamic concern in today's business environment, endangering the integrity and financial stability of businesses in a wide range of industries. The dynamic nature of fraudulent activities, driven by the complexity of schemes, poses significant risks to both public and private entities.

This study aims to demonstrate the critical role of auditing in fraud prevention and detection, with a specific focus on the practices at Grant Thornton Algeria. It explores how adherence to ISA standards enhances the auditors' ability to identify and mitigate fraudulent activities. The study investigates key issues, such as the primary objective of auditors, common fraud schemes affecting financial statements, and the role of ISA compliance in strengthening fraud detection efforts**.**

Key words: Auditing, Fraud, ISA 240, Fraudulent financial reporting, Asset misappropriation.

Résumé

La fraude continue d'être une préoccupation dynamique dans l'environnement commercial d'aujourd'hui, mettant en danger l'intégrité et la stabilité financière des entreprises dans un large éventail d'industries. La nature dynamique des activités frauduleuses, due à la complexité des schémas, pose des risques significatifs pour les entités publiques et privées.

Cette étude vise à démontrer le rôle essentiel de l'audit dans la prévention et la détection de la fraude, en mettant l'accent sur les pratiques de Grant Thornton Algérie. Elle explore la manière dont l'adhésion aux normes ISA renforce la capacité des auditeurs à identifier et à atténuer les activités frauduleuses. L'étude examine des questions clés, telles que l'objectif principal des auditeurs, les schémas de fraude courants affectant les états financiers, et le rôle de la conformité aux normes ISA dans le renforcement des efforts de détection de la fraude.

Mots clés : Audit, fraude, ISA 240, Information financière frauduleuse, Détournement d'actifs.

الملخص

لا يزال الاحتيال يشكل مصدر قلق ديناميكي في بيئة الأعمال التجارية اليوم، مما يهدد النزاهة والاستقرار المالي للشركات في مجموعة واسعة من الصناعات. وتشكل الطبيعة الديناميكية للأنشطة الاحتيالية الناجمة عن تعقيد المخططات مخاطر كبيرة على الكيانات العامة والخاصة على حد سواء.

تهدف هذه الدراسة إلى إظهار الدور الحاسم لمراجعة الحسابات في منع الاحتيال والكشف عنه، مع التركيز بشكل خاص على الممارسات في شركة جرانت ثورنتون الجزائر. وتستكشف الدراسة كيف أن الالتزام بمعايير المعايير الدولية لمراجعة الحسابات يعزز قدرة المدققين على تحديد الأنشطة الاحتيالية والتخفيف من حدتها. وتبحث الدراسة في القضايا الرئيسية، مثل الهدف الأساسي لمراجعي الحسابات، ومخططات الاحتيال الشائعة التي تؤثر على البيانات المالية، ودور الالتزام بمعايير التدقيق الدولية في تعزيز جهود الكشف عن الاحتيال.

الكلمات المفتاحية: مراجعة الحسابات، الاحتيال، معيار التدقيق الدولي رقم 240، التقارير المالية الاحتيالية، اختلاس الأصول.

General Introduction

General Introduction

In Algeria, as in most other countries, there is a legal requirement to prepare regular and accurate financial statements that present a true and fair view of the company's assets, liabilities, financial position and results. This information, commonly referred to as financial reporting, is essential in a liberal economy. It is particularly useful to users or economic decision makers.

In recent years, financial reporting has been thrust into the spotlight by a series of corporate scandals in the U.S. (e.g., Enron, Worldcom) and Europe (e.g., Parmalat, Vivendi Universal) that have shaken the global economy. These scandals have led to the bankruptcy or even the disappearance of the companies concerned and have created a crisis of confidence in which the markets, investors and public opinion in general are distrustful of the financial statements of companies.

These incidents should be seen as warning signals, as they have led to a loss of investor confidence in corporate governance and the auditor's responsibility in this situation. A number of legal and standard-setting developments have taken place at the international level. The financial scandals mentioned above are certainly not the cause of the crisis; they are only one of its manifestations. The anomaly that has affected the economy is "fraud".

At present, agreement exists that any progress predicated on economic liberalization and globalization necessitates the presence of transparent company accounts. A competent and independent third party, namely the auditor, has been deemed essential in providing an assessment regarding the accuracy of financial statements. Depending on the assignment, the auditor employs the relevant accounting standards (which may be national or international) and auditing standards (ISAs) to accomplish this.

In response to these crises, auditing standards, such as the International Standards on Auditing, have been continually updated to address emerging issues and strengthen the auditor's role in detecting and preventing fraud. Auditors are tasked not only with verifying the accuracy of financial statements but also with assessing the effectiveness of internal controls and risk management processes within companies. It is in this context that we are conducting our current research entitled: **"*The Role of Auditing in Fraud Prevention*".**

We chose our topic due to both subjective and objective reasons. Subjectively, our interest in the auditing field. Objectively, the recurrence of corporate fraud scandals globally, with their severe economic repercussions, highlights the critical importance of this research.

General Introduction

The purpose of our research is to explore the role of auditing in fraud prevention and detection, specifically through the lens of compliance with International Standards on Auditing (ISA). We seek to examine the practices and challenges faced by auditors in this context, identifying ways to optimize auditing processes to better safeguard against fraudulent activities**.**

Our research addresses the following central question: « **How can auditing financial statements play a role in fraud prevention and detection in accordance with international standards on auditing? »**

To delve deeper into this main problematic, we formulate the following secondary questions:

- What is the primary objective of auditors?
- What are the most common fraud schemes employed by organizations, and how do they impact financial statements?
- In what ways can compliance to ISA standards assist auditors at Grant Thornton Algeria in their identification of potentials fraudulent activities?

We propose the following hypotheses as provisional answers to our research questions:

H1: The primary objective of auditors is to obtain a reasonable assurance that the financial statements are free from material misstatement due to error and fraud.

H2: The most common fraud schemes include asset misappropriation, fraudulent financial reporting, and corruption, all of which can distort financial statements by inflating revenues, understating expenses, or misrepresenting assets and liabilities.

H3: Compliance with ISA standards assist auditors at Grant Thornton Algeria to identify potentials fraudulent activities through responding to identified risks of material misstatement due to fraud, especially responding to high-risk areas such as revenue recognition.

Reviewing the literature, we found several works, including:

- PhD thesis in 2016 with the title: “Detecting Financial Reporting Fraud: The Impact and Implications of Management Motivations for External Auditors – Evidence from the Egyptian Context” by Rasha Kassem at Loughborough University. This study aims to help external auditors properly assess and respond to the risk of financial reporting fraud in an effort to increase the likelihood of detecting it. The author founds fraud perpetrators’ capabilities are equally significant to the opportunity to commit fraud factor yet it is currently ignored by the audit standards and thus should be assessed as part of opportunity to commit fraud.

- PhD thesis by Ashley Albers Austin (2016) at University of Georgia titled: “The Effects of Auditors’ Attention During Evidence Evaluation on Auditors’ Responses to Fraud Risk”. The dissertation examines whether auditors’ attention to fraud while performing the planned audit procedures differs due to audit conditions that prompt auditors to perceive the task of considering fraud as more or less important. The author found that these attention effects subsequently affect auditors’ responses to fraud risks.

Our methodological approach combines both theoretical and empirical elements. Initially, we will conduct a comprehensive literature review on auditing and fraud, examining books, academic articles, professional standards, and regulatory guidelines. Following this, we will focus on a case study of Grant Thornton Algeria

Our dissertation is structured into two main chapters, each divided into sections to ensure coherence and balance:

- The first chapter which is the theorical will be devoted to explaining the theoretical foundations of auditing and fraud. It will be divided into three sections to provide an in-depth understanding of this essential concept. The first section covers the fundamental principles of auditing. The second section defines the main concepts of fraud. The third section explains the key points of the reform of the International Standards on Auditing regarding the auditor's consideration of the risk of fraud.

- The second chapter contains our case study, it is devoted to a practical illustration of a financial audit mission, according to the practices of Grant Thornton Algeria., taking into account a fraud risk identified.

Chapter I

The fundamentals of auditing and fraud

Chapter I: The fundamentals of auditing and fraud

Introduction

Modern corporations produce financial statements to offer stakeholders, such as investors and financial institutions, with the necessary information to make informed decisions that can affect them. These stakeholders are unable to ensure the credibility and honesty of these statements. Auditors are responsible for verifying these financial statements and providing assurance that they are free from errors and frauds, following international standards on auditing. Fraud is a current and growing concern that is progressively capturing the attention and concern of companies.

This first chapter offers the context for understanding the fundamental principles of auditing, the nature and implications of fraud, and the international standards that guide auditing practices.

Chapter I: The fundamentals of auditing and fraud

Section 1: Conceptual foundations of auditing

The essence of auditing is to verify the completeness and accuracy of a given work. This first section aims to have the foundation for understanding auditing, a critical process that is supposed to provide independent assurance on the accuracy and reliability of financial information.

1. Introduction to assurance and attestation engagements

In this first subsection, we will delve into the fundamental concepts of auditing as both an assurance and attestation engagement, highlighting their significance in fostering confidence among investors, creditors, and other stakeholders.

1.1 Assurance

Stakeholders today depend on accurate, trustworthy, and transparent information to help them make wise decisions. Assurance services play a pivotal role in providing this assurance, offering an objective evaluation of various aspects of an organization's operations, financial reporting, and compliance with regulatory standards.

1.1.1 Definition of assurance engagements

The AICPA defined assurance service as an *« independent professional service that improves the quality of information for decision makers »*[1].

« *Assurance engagement is an engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information* » [2].

These types of services are essential for guaranteeing the accuracy and consistency of financial information, and they may be offered by a wide range of specialists from many industries in addition to CPA's firms. These specialists might be financial analysts, auditors, risk management specialists, or consultants with expertise in specific industries.

Some examples of assurance engagements:

- Financial Statement Audits;

[1] Louwers, T., Ramsay, R., Sinason, D., Strawser, J., & Thibodeau, J. (2014, October 16). *Auditing & Assurance Services*. McGraw Hill. P.8.

[2] International Auditing and Assurance Standards Board. (2022). *Handbook of International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements*. P.11.

- Internal Control Reviews;
- ISO 9000 certifications.

1.1.2 Levels of assurance

Levels of assurance in an assurance engagement typically refer to the degree of confidence or certainty provided by the assurance provider regarding the subject matter being examined. These levels can vary based on the nature of the engagement and the needs of the stakeholders involved. There are two main levels of assurance engagements:

- **Reasonable assurance:** The IAASB defines reasonable assurance engagement as « *an engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion* »[1]. It is the highest level of assurance provided in an engagement. It involves the assurance provider conducting a thorough examination of the subject matter, including gathering sufficient appropriate evidence, performing analyses, and conducting tests as necessary. The assurance provider comes to the conclusion that the evidence gathered and the subject matter is accurate or meets the pertinent criteria. However, reasonable assurance does not guarantee absolute certainty.
- **Limited assurance:** Limited assurance provides a lower level of confidence compared to reasonable assurance. In this level, the assurance provider performs procedures that are more limited in scope compared to reasonable assurance engagements. The conclusion reached is that, based on the procedures performed, nothing has come to the assurance provider's attention that causes them to believe that the subject matter is materially misstated or not in accordance with the relevant criteria. However, the level of assurance provided is not as high as that provided by reasonable assurance.

The ISAE 3000 outlines several key elements that can influence the level of assurance provided in an engagement. The level of assurance in an assurance process is influenced by factors such as subject matter measurability, evaluation criteria, and the quality of evidence gathered.[2] The assurance provider aims to obtain sufficient evidence based on the subject matter, chosen criteria, and procedures, contributing to the overall assurance level.

[1] *Idem.*
[2] International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information

Whittington and Pany gave us more insight about the difference between reasonable assurance engagement and limited assurance engagement, a comparative table between these is as follows:

Table N°01: Comparison of reasonable and limited assurance engagements

Type of engagement	Evidence-gathering procedures
Reasonable assurance engagement	Sufficient appropriate evidence is obtained as part of a systematic engagement process
Limited assurance engagement	Sufficient appropriate evidence is obtained as part of a systematic engagement process, but in which procedures are deliberately limited relative to a reasonable assurance engagement

Source: Whittington, R., & Pany, K. (2013). *Principles of Auditing & Other Assurance Services*. McGraw-Hill Higher Education. P.131.

1.1.3 Auditing as an assurance engagement:

Auditing, as an assurance engagement, involves an independent examination of financial information or other subject matter to provide an opinion on its reliability, relevance, and compliance with applicable standards or regulations. The primary objective of auditing is to provide reasonable assurance to stakeholders that the information being audited is free from material misstatement, whether due to error or fraud.

Financial statements are vital for business trust, but users can't be sure that of their accuracy. Audits are a specialized type of assurance engagement. In assurance engagements, an independent auditor examines information included in financial statements and gathers evidence to reach a conclusion on its reliability. This conclusion is then reported to intended users, providing a level of assurance that can range from limited to a reasonable assurance. Audits take this process a step further, focusing specifically on financial statements and applying rigorous procedures to ensure they fairly reflect a company's financial health. By having a neutral third party verify information, audits play a key role in building trust and transparency in the financial world.

Unaudited financial statements can be a breeding ground for fraud. Since there's no independent auditor meticulously examining the numbers, there's a greater opportunity for a company to misrepresent its financial health. This could involve inflating revenue figures, understating expenses, or hiding debts. Without the scrutiny of an audit, these manipulations can go undetected, misleading investors, creditors, and other stakeholders who rely on the accuracy of financial statements to make informed decisions.

1.2 Attestation

Assurance and attestation are like bulls-eye circles. Assurance is the biggest circle, covering all the ways we build trust in something. Attestation is a smaller circle inside it, focusing on checking things are true following specific rules. We will discover in this part the definition of attestation services and how auditing is a form of attestation.

1.2.1 Definition of attestation engagements

« *Attestation engagement is an assurance engagement in which a party other than the practitioner measures or evaluates the underlying subject matter against the criteria.* »[1]

« *Attestation is a subset of assurance services that focuses on whether the engagement's subject matter complies with the applicable criteria for measurement and disclosure.* »[2]

1.2.2 Parties of attestation engagement

In an attestation, there are typically three key parties involved[3]:

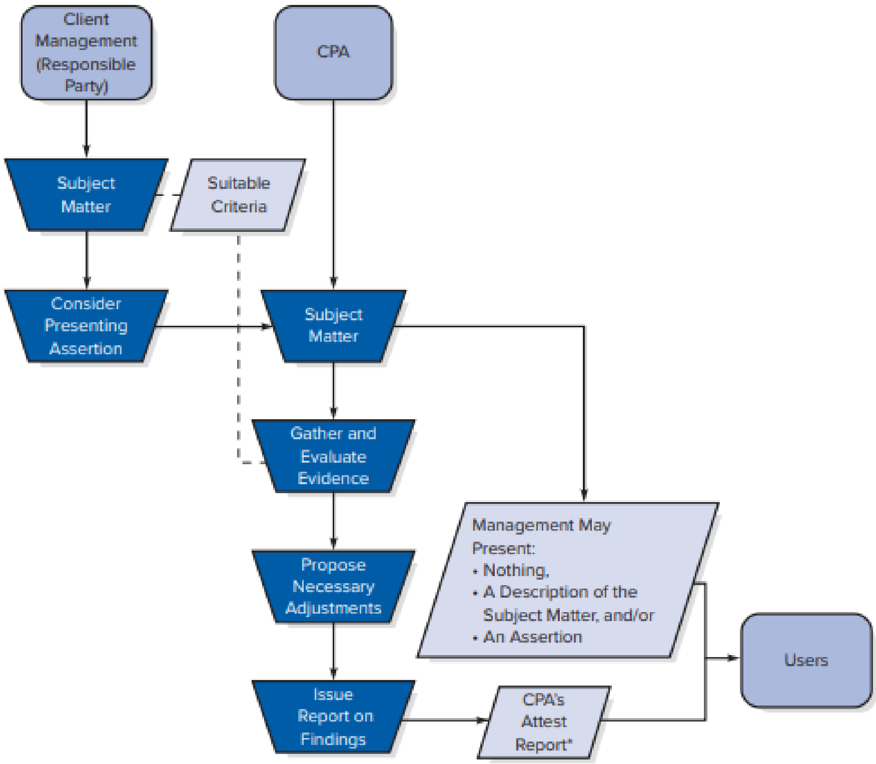
- **Responsible Party:** This is the party that is accountable for the subject matter being attested to. In simpler terms, it's the one making the claim or presenting the information that needs verification. They could be a company's management team, a service organization engagement, or any entity that has prepared a report or document requiring assurance.
- **Practitioner:** This is the independent professional who performs the attestation procedures. Often, this will be a CPA or someone with relevant qualifications to assess the subject matter. Their role is to objectively evaluate the information and provide an opinion on its reliability.
- **Users:** These are the individuals or entities who rely on the attested information. They could be investors, creditors, regulators, or any party who needs to have confidence in the accuracy and completeness of the subject matter.

[1] IAASB, op cit. P.12.
[2] Loughran, M. (2010, July 6). *Auditing For Dummies*. John Wiley & Sons. P.327.
[3] Pratt, M., Van Peursem, K., & Garg, M. (2022). *Auditing theory and practice*. Cengage AU. P.150.

In many attestation engagements we have only two parties because the responsible party and the user are the same person.

This figure below describes the attestation function:

Figure N°1: The Attest Function

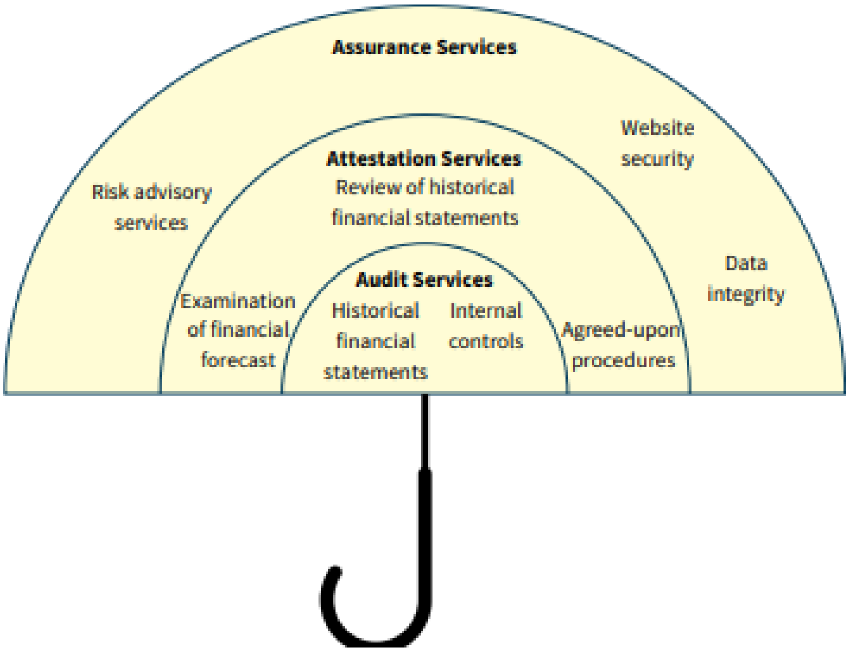


Source: Whittington, R., & Pany, K. (2013). *Principles of Auditing & Other Assurance Services*. McGraw-Hill Higher Education. P.2.

1.2.3 Relationship between assurance and attestation engagements:

Assurance and attestation engagements work together to build trust in information, but with varying degrees of formality. Assurance, the broader concept, encompasses a range of activities like reviews and compilations that provide a general sense of confidence. Attestation, on the other hand, is a more specific type of assurance with stricter procedures. It focuses on verifying claims made against established criteria, offering a higher level of assurance. Assurance is like a large umbrella sheltering various trust-building activities, while attestation is a specific tent under that umbrella with defined rules for a more formal verification process. Assurance is like checking the weather forecast to get a general sense of what to expect while attestation is like hiring a professional weather service to analyze detailed data and provide a more reliable prediction for a specific event.

Figure N°2: Relationship of assurance, attestation, and auditing services



Source: Johnson, R. N., Wiley, L. D., Moroney, R., Campbell, F., & Hamilton, J. (2019). *Auditing A Practical Approach with Data Analytics*. John Wiley & Sons. P.4

1.2.4 Auditing as a form of attestation

As we've seen, attestation engagements provide a range of services for information verification and trust-building. Among them, auditing stands as the most rigorous and comprehensive form.

Attestation services act as a form of independent verification, where qualified professionals meticulously examine information and procedures. Auditing is a specific type of attestation; it delves deep into an organization's financial statements. Auditors meticulously comb through accounting records and practices to determine if the financial statements accurately reflect the organization's financial health and adhere to established accounting standards. While both audits and general attestations share core principles as independent examination, enhanced user trust, and concluding reports, auditing offer a higher level of assurance.[1] Their reports often express a positive opinion on the fairness of financial statements. In contrast, attestation reports can provide varying degrees of assurance depending on the specific focus of the engagement.

[1] Johnson, R. N., Wiley, L. D., Moroney, R., Campbell, F., & Hamilton, J. (2019). *Auditing A Practical Approach with Data Analytics*. John Wiley & Sons. P.8

2. The evolution of auditing practices

The historical development of auditing is divided into five chronological periods, as follows:

2.1 Before 1840's

During the formative stages of accounting, auditing was primarily employed by governments and feudal lords to maintain control over public funds. It can be reasonably deduced from the available evidence that civilizations such as those of Egypt, Greece, China, and Rome all employed systems to monitor the accounting practices of officials entrusted with public wealth.[1] Such early audits frequently entailed a formal presentation before a government representative, during which officials would provide an oral explanation of their accounts.

2.2 The emergence of auditing [1840's - 1920's]

The practice of auditing emerged during the Industrial Revolution, which spanned the 1840s to the 1920s in the United Kingdom. This era saw the rise of large-scale industrial operations, fueled by the emergence of corporate enterprises spurred by technological advancements such as factories and mechanized production.[2] The substantial capital required for these endeavors was largely provided by the burgeoning middle class. During this period, auditors primarily concentrated on the detection of fraud and the verification of the accuracy of financial statements. Internal control was given less consideration.

2.3 Economic expansion [1920's - 1960's]

The period of economic expansion that occurred in the United States between 1920 and 1960 represented a pivotal shift in the trajectory of auditing development, with a shift in the center of gravity from the United Kingdom to the US. In the wake of the 1929 Wall Street Crash and the subsequent economic depression, there was a surge in investments in business entities, which were supported by advancements in securities markets and credit institutions. These developments bolstered the capital market.[3] With companies expanding in size and the separation of ownership and management becoming more pronounced, maintaining investor confidence in financial markets became imperative. The practice of auditing was developed with the intention of providing credibility to financial statements prepared by company managers for shareholders.

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[1] Pratt, M., Van Peursem, K., & Garg, M. *Op cit*. P.24.

[2] Lee, M. S., Teck-Heang, Azham, & Ali, S. (2008). *The evolution of auditing : An analysis of the historical development*. Journal of Modern Accounting and Auditing, 4(12), 1–8.

[3] Phalguna Kumar, E. Mohan, B. (2015). *Origin And Development of Auditing*. Indian Journal of Research, *4*, 43–46.

This period saw the introduction of concepts such as materiality and sampling techniques to cope with the increasing volume of transactions in large corporations. In response to the growing complexity of financial transactions within large corporations, auditors began to rely on internal controls within companies to support their audit approaches. This involved a thorough investigation of systems and the gathering of evidence from both internal and external sources.

2.4 Technological advancements [1960's – 1990's]

The global economy experienced significant growth and remarkable technological advancements during the 1960s-1990s, accompanied by an increasing complexity of companies. During this period, auditors played a pivotal role in enhancing the credibility of financial information and facilitating the efficient functioning of capital markets.

In the 1970s, auditors shifted from a transaction-focused approach to a greater reliance on companies' internal control systems due to the sheer volume and complexity of transactions. The role of the auditor was to assess and document the accounting systems in place, with a particular emphasis on information flows and internal controls.[1] The implementation of effective internal control systems reduced the necessity for detailed substance testing.

In the early 1980s, the assessment of internal control systems was perceived to be costly, prompting auditors to streamline their approaches and utilize more analytical procedures. This shift led to the emergence of risk-based auditing in the mid-1980s, whereby auditors concentrated their efforts on areas prone to errors. In order to implement this approach, it was necessary for auditors to gain a comprehensive understanding of their clients' organisations, personnel, policies, and industries.

2.5 Globalization [1990's – Present]

The 1990s marked a turning point for the auditing profession. Driven by globalization and economic growth, the focus of audits shifted beyond simply verifying financial statements. Auditors took on a greater responsibility for detecting fraud and assessing a company's ability to stay afloat. This expanded role coincided with the rise of technology, with auditors utilizing advanced tools and a risk-based approach to analyze data from various sources. However, this era also saw concerns about potential conflicts of interest, as some audit firms offered lucrative consulting services to the same clients they audited. Today's auditing profession continues to

[1] Lee, M. S., Teck-Heang, Azham, & Ali, S, *loc.cit*.

grapple with these complexities, striving to maintain independence while adapting to a dynamic financial landscape.

3. Definition of auditing

The word "audit," rooted in the Latin verb "audire" meaning "to hear," originally referred to the practice of listening to financial accounts being read aloud[1]. In this sub-section we'll see different definitions of auditing.

- **First definition**

« *Auditing is the process of investigating information prepared by someone else in order to determine whether the information is fairly stated* »[2]

- **Second definition**

« *Auditing is the process of identifying, gathering, examining, analyzing, evaluating, and concluding on information to form an opinion on a specific topic* »[3]

- **Third definition**

« *An audit is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between these assertions and established criteria, and communicating the results to interested users* »[4]

- **Fourth definition**

« *Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be done by a competent, independent person.* »[5]

Based on the definitions above, here's how auditing typically works as a systematic process:

- **Planning:** The PCAOB explains that an audit planning includes *« establishing the overall audit strategy for the engagement and developing an audit plan, which includes,*

[1] https://www.toppr.com/ask/question/the-word-audit-has-been-derived-from-the-latin-word-audire-which-means/ (26/03/2024 at 6:15 pm)
[2] Loughran, M, *op.cit*. P.7.
[3] Catlin, R., & Watkins, C. (2021, June 9). *Agile Auditing*. John Wiley & Sons. P.37.
[4] Hayes, R., Wallage, P., & Gortemaker, H. (2014). *Principles of auditing: An Introduction to International Standards on Auditing*. Pearson Higher Ed. P.10.
[5] L ouwers, T., Ramsay, R., Sinason, D., Strawser, J., & Thibodeau, J, *op.cit*. P.4.

in particular, planned risk assessment procedures and planned responses to the risks of material misstatement. »[1]

- **Gathering Evidence:** Following the plan, the auditor collects evidence to support claims about financial activities. This evidence can come from documents, interviews, or observations.
- **Evaluating Evidence:** Once collected, the evidence goes through an evaluation process. The auditor objectively assesses whether the evidence supports the claims being made.
- **Reporting:** The auditor communicates the findings of the audit in a formal report which is the primary document through which the auditor communicates their opinion on the financial statements or other subject matter being audited.

4. Types of audits

There are several classifications for audits. They could be classified into categories based on the primary objective of the audit and the primary beneficiaries of the audit.

4.1 Classification by primary audit beneficiaries

The primary audit beneficiaries are those for whom the audit is conducted. Based on them, audits can be classified as:

- External audits;
- Internal audits

4.1.1 External audits

« *An external audit is an audit performed for parties external to the auditee and it is these parties to whom the auditor reports the audit findings or conclusions. Competent, experienced professionals, independent of the auditee and its personnel, conduct these audits in accordance with requirements which are defined by, or on behalf of, the parties for whose benefit the audit is conducted* »[2]

An external audit aims to conduct an independent and objective opinion of an organization's financial statements and ensure that accounting standards and regulations are followed accurately, reliably, and consistently. It gives stakeholders confidence in the financial

[1] https://pcaobus.org/oversight/standards/auditing-standards/details/as-2101-audit-planning-2022 (27/03/2024 at 11:30 PM)

[2] Porter, B., Simon, J., & Hatherly, D. (2014, March 3). *Principles of External Auditing*. John Wiley & Sons. P.7.

information's authenticity and determines discrepancies or weaknesses in financial reporting processes. It is performed by independent certified public accountants, and involve accurate investigations of financial reports, internal control systems and accounting procedures to determine whether they adhere to the relevant framework.

4.1.2 Internal audits

This type of audit is performed by trusted professionals employed by a company to act as independent and objective evaluators called internal auditors. Those auditors assess a company's controls, identify potential risks, and make recommendations for changes in areas such as finance, operations, compliance, and information technology. This internal checkup helps the company run more smoothly and efficiently by ensuring strong internal systems and mitigating future problems.

4.2 Classification by primary objective

Based on the primary audit objective, three main categories of audits may be recognized:

- financial statement audits
- compliance audits
- operational audits

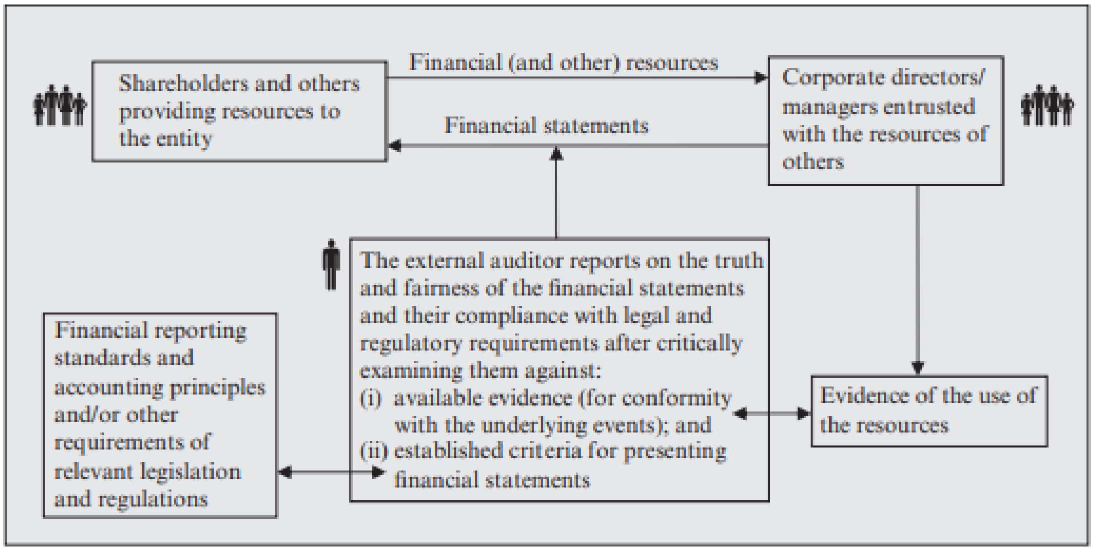
4.3 Financial statement audits

A financial statements audit is the process of providing assurances about the reliability of the information contained in the financial statements prepared in accordance with generally accepted accounting principles or other rules. It involves reviewing and assessing the financial statements and consolidated financial statements subject to audit to provide an auditor's opinion on these financial statements.[1] Financial auditing aims to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error.

This figure explains major features of a financial statements audit:

[1] Popović, S., Tošković, J., Majstorović, A., Brkanlić, S., & Katić, A. (2015). *The importance of continuous audit of financial statements of the company of countries joining the EU*. DOAJ (DOAJ: Directory of Open Access Journals).

Figure N°3: Major features of a financial statement audit



Source: Porter, B., Simon, J., & Hatherly, D. (2014, March 3). *Principles of External Auditing*. John Wiley & Sons. P.5

4.3.1 Compliance audits

A compliance audit is a process that ensures a product or service meets legal, regulatory, or contractual requirements. It involves verifying that quality control processes are in place to audit production and products for compliance with applicable standards.[1] The objective of a compliance audit is to ascertain whether an organization or individual (the auditee) has adhered to procedures or regulations that have been established by a regulatory body or an authority (e.g., the entity's management).

4.3.2 Operational audits

Operational auditing aims to improve organizational profitability and achieve objectives by evaluating management's performance, assessing stakeholder expectations, and verifying qualitative aspects of the organization.[2] It involves reviewing internal control issues, defining goals, setting strategies, and staffing the organization effectively.

4.4 Other types of audits

4.4.1 Tax audit

Tax audit is the examination of tax reports of individuals or organizations by relevant tax authorities to ensure compliance with tax laws and regulations. It involves processes like desk

[1] Thottoli, M.M. (2021), "*The relevance of compliance audit on companies' compliance with disclosure guidelines of financial statements*", Journal of Investment Compliance, Vol. 22 No. 2, pp. 137-150

[2] Murdock, H. (2021*). Operational Auditing: Principles and Techniques for a Changing World.* Internal Audit and IT Audit. P.10.

audit, field investigation, and back duty audit. Tax audit helps in revenue generation for the government by reducing tax evasion and increasing voluntary compliance.[1]

4.4.2 IT audit

« *An IT audit is the process of collecting and evaluating evidence to determine whether an information system safeguards assets, maintains data integrity, consumes resources efficiently, and achieves organizational goals effectively*. »[2]

5. International audit standards

Audit standards are guidelines or benchmarks established by professional accounting organizations to ensure a consistent and high-quality audit process. These standards provide auditors with a framework for performing, documenting, and reporting their findings on the financial statements of an entity.[3] These standards build trust in the auditing profession by ensuring a minimum level of professionalism and care in the conduct of audits. This promotes confidence in the disclosed financial information used by stakeholders, including creditors and investors.

At present, the PCAOB Standards and the International standards on auditing are the two globally acknowledged references for audit standards.

This table below describe the international standard-setting practices:

Table N°02: International standard-setting practices

Source	Standard-setters	Description and authority
International	International Auditing and Assurance Standards Board (IAASB) of IFAC	Representing over 80 nations and issuing International Standards of Auditing (ISAs).
United States	The Public Company Accounting Oversight Board (PCAOB)	The PCAOB is a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

Source: Pratt, M., Van Peursem, K., & Garg, M. (2022). *Auditing theory and practice*. Cengage AU. P.18.

[1] Laoye, C. O., Ogunleye, S. A., & Solanke, F. T. (2018). *Tax audit and tax productivity in Lagos state, Nigeria*. AJAR (Asian Journal of Accounting Research), 3(2), 202–210.
[2] Gene, S. E., Yeow, P. H., Ling, T. C., & Grigoriou, N. (2017). *Factors affecting IT Audit Quality: an Exploratory Study. Communications of the IBIMA*, 1–11.
[3] https://www.iaasb.org (02/04/2024 at 11:30 PM)

5.1 International standards on auditing (ISA)

The IAASB operates as an independent standards board with the support of the IFAC.[1] Their goal is to enhance the level of consistency in auditing practices and related services globally by making statements on various audit and attest functions.

ISAs, or International Standards on Auditing, are a set of professional guidelines that dictate how financial audits of financial information should be conducted.[2] The IFAC issues these standards through the IAASB. The objective of the ISAs is to promote the public interest by improving the standard and consistency of audit processes worldwide and bolstering public trust in the global auditing and assurance profession. The final set of clarified standards consists of 36 ISAs.

5.1.1 Classification of ISA standards

ISA standards can be categorized as[3]:

- **General Principles and Responsibilities (ISAs 200-265)**: It covers the fundamental principles that auditors should follow when conducting an audit. It includes ISAs on the objective and overall approach of an audit engagement, the auditor's independence and ethical requirements, and the concepts of audit risk and materiality.
- **Risk Assessment and Response to Assessed Risks (ISAs 300-465)**: This section focuses on the procedures auditors should perform to identify and assess risks of material misstatement in the financial statements. It includes ISAs on risk assessment procedures, understanding the internal control system, and responding to assessed risks through further audit procedures.
- **Audit Evidence (ISAs 500-580)**: Contains the types of audit evidence auditors should obtain to support their conclusions about the fairness of the financial statements. It includes ISAs on audit procedures for obtaining audit evidence, including analytical procedures and tests of controls.
- **Using the Work of Others (ISAs 600-620)**: This section provides guidance on when and how auditors can use the work of other auditors, experts, and internal auditors.
- **Audit Conclusions and Reporting (ISAs 700-720)**: Covers the process of forming an audit opinion and communicating the results of the audit in the audit report. It includes

[1] Hayes, R., Wallage, P., & Gortemaker, H. op.cit. P.6.
[2] Haapamäki, E., & Sihvonen, J. (2019). *Research on International Standards on Auditing: Literature synthesis and opportunities for future research*. Journal of International Accounting, Auditing & Taxation, 35, 37–56
[3] IAASB, *op.cit*. P.1.

ISAs on forming an opinion on the financial statements, matters to be communicated in the audit report, and the use of emphasis of matter paragraphs and other explanatory paragraphs.

- **Specialized Areas (ISAs 800-890)**: It includes ISAs that apply to specific types of engagements or transactions, such as audits of group financial statements, audits of listed entities, and audits of banks and insurance companies.

5.1.2 The clarity project

The IAASB's Clarity Project aims to bring clarity to auditing standards by ensuring they are 'principles-based' and 'objectives-based'.[1] In 2004, the IAASB aimed to improve the clarity of its International Standards for Auditing. This project had a goal to enhance the understandability of ISAs, enabling consistent application and global audit quality improvement. All ISAs have been rewritten, with clear objectives, definitions, requirements, application, and explanatory material. This new structure simplifies understanding of requirements and guidance.[2]

5.2 PCAOB auditing standards

The Public Company Accounting Oversight Board is a regulatory body established by the Sarbanes-Oxley Act in 2002. It is responsible for overseeing public accounting firms that audit the books of public corporations and ensuring high professional standards and the quality of audit services to protect investors and the public interest.

¨PCAOB auditing standards contains[3]:

- **Auditing Standards:** These define the procedures and methodologies auditors must follow when examining the financial statements of public companies. They cover areas like risk assessment, internal controls testing, and audit evidence collection.
- **Quality Control Standards:** They ensure that registered public accounting firms have appropriate quality control policies and procedures in place. This helps to maintain consistent audit quality across different firms.
- **Ethics and Independence Standards:** These standards address ethical conduct and independence requirements for auditors. This is to prevent conflicts of interest and ensure objective audit opinions.

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[1] Dennis, I. (2010). '*Clarity' begins at home: an examination of the conceptual underpinnings of the IAASB's Clarity Project*. International Journal of Auditing, 14(3), 294–319.

[2] Collings, S. (2011). *Interpretation and application of international standards on auditing*. John Wiley & Sons. P.7.

[3] https://pcaobus.org/oversight/standards/auditing-standards (12/04/2024 at 5:00 PM)

- **Other Related Standards:** The PCAOB may also establish additional standards related to the preparation of audit reports, depending on evolving needs.

6. Audit assertions

According to ISA audit assertions are « *representations, explicit or otherwise, with respect to the recognition, measurement, presentation and disclosure of information in the financial statements which are inherent in management representing that the financial statements are prepared in accordance with the applicable financial reporting framework.* »[1] Auditors rely on these assertions to develop their testing procedures and ultimately deliver an opinion on the financial statements.

There are several common assertions that auditors typically focus on, including:

- **Rights and obligations:** Aims to verify whether the entity owns and controls the rights to assets, and whether liabilities correspond to the entity's obligations at a given date.
- **Completeness:** The auditor must verify that all transactions have been correctly recorded in the financial statements, and that all material facts have been disclosed.
- **Cut-off:** refers to the appropriate separation between successive financial years. It ensures that all income and expenses relating to each financial year are correctly attributed to that year, and only to that year, in accordance with accounting principles.
- **Valuation and allocation:** The valuation objective is to ensure that all recorded transactions are valued in accordance with generally accepted valuation principles and methods.
- **Accuracy:** The assertion of accuracy means that all transactions carried out by the company must be recorded in the accounts with exact amounts, both arithmetically and in accordance with accounting principles.
- **Existence and Occurrence:** Occurrence means that transactions and operations have actually taken place, as opposed to fictitious ones. Existence refers to the reality and physical existence of items, whether tangible like fixed assets or intangible like revenue.
- **Presentation and disclosure:** This assertion concerns the presentation of transactions in the accounts in accordance with generally accepted accounting principles an. In addition, financial information must be presented and described in an appropriate manner, and the information provided in the notes to the financial statements must be clearly understandable.

[1] IAASB, *op.cit*. P.242.

- **Classification:** It refers to the act of grouping transactions and account balances into their appropriate categories within the general ledger.

There are typically several classifications of audit assertions according to ISA 315, which we can summarize in the table below:

Table N°3: Classifications of audit assertions

Categories of financial information	Audit assertions which confirmed categories
Classes of transactions and events for the period under audit	Occurrence
	Completeness
	Accuracy
	Cutoff
	Classification
Account balances at the period end	Existence
	Rights and obligations
	Completeness
	Valuation and allocation
Presentation and disclosure	Occurrence and rights and obligations
	Completeness
	Classification and understandability
	Accuracy and valuation

Source: Kharisova, F. I., & Kozlova, N. N. (2014). *Applying the category of «Assertions (or preconditions)» in audit of financial statement*. Mediterranean Journal of Social Sciences. 24(5), 181

In conclusion, this section has provided the foundation for understanding auditing. We explored the concept of assurance, traced the evolution of audit practices, established a clear definition of auditing, and examined the various types of audits conducted. The importance of international standards was emphasized, ensuring consistent and reliable auditing practices globally. Finally, we introduced the concept of audit assertions, which form the basis of the auditor's opinion.

Section 2: Overview of fraud

Fraud, a widespread threat across industries, thrives on deception. This section provides an overview for understanding this deceptive practice.

1. Introduction to fraud

Fraud is all about cheating to gain. It happens when someone deceives another person to get something they don't deserve, like money or property. In this subsection, we will define fraud, discuss its impact on organizations, and distinguish between error and fraud.

1.1 Definition of fraud

Fraud is defined according to the IAABS as « *an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage* »[1]

The FBI defines fraud as a «*White-collar crimes are characterized by deceit, concealment, or violation of trust and are not dependent upon the application or threat of physical force or violence. Such acts are committed by individuals and organizations to obtain money, property, or services; to avoid the payment or loss of money or services; or to secure a personal or business advantage.* »[2]

« *Fraud includes a wide variety of acts characterized by the intent to deceive or to obtain an unearned benefit* »[3]

Fraud is a major criminal offense that involves actions taken to deceive others in order to attain personal gain. Fraudsters employ dishonest methods to seize victims of what is usually valuable, such as money, property, or trust. These methods may include outright deceit, cheating, and the distortion of the truth.

All varieties of fraud share the following essential features:[4]

- A material false statement, often known as a misrepresentation
- The statement being made aware of that it is false when the false party receives it
- The victim's presumption that the false statement is true
- The victim's reliance on the false statement

[1] IAASB, *op.cit.* P.17.
[2] Silverstone, H., & Sheetz, M. (2007). *Forensic Accounting and Fraud Investigation for Non-Experts*. John Wiley & Sons.P.5.
[3] Coderre, D. (2009). *Computer Aided Fraud Prevention and Detection: A Step by Step Guide*. Wiley. P.3.
[4] Wells, J. T. (2018, May 21). *International Fraud Handbook*. John Wiley & Sons.P.4

- The victim's damages as a result of the false statement assumed true

1.2 Difference between error and fraud

Mistakes and irregularities can arise in any system, whether financial or not. However, distinguishing between an honest mistake and an intentional act of fraud is critical. Auditors must carefully examine the evidence and circumstances surrounding any inconsistencies or discrepancies they uncover during their audit.

An error is an unintentional mistake or discrepancy that occurs as a result of negligence, misunderstanding, or oversight. It is usually the result of human error or system flaws and does not involve malicious intent. Miscommunication, a lack of knowledge or training, technological glitches, or simple human oversight are all potential sources of errors.

In contrast, fraud is defined as deliberate deception, manipulation, or misrepresentation with the intent to deceive or gain an unfair advantage. It is a deliberate act of misconduct intended to deceive others for personal or organizational gain.[1]

In conclusion, the main difference between error and fraud is that error is unintentional, while fraud is deliberate deceit planned and executed with the intent to deprive another person of their property or rights.

1.3 Impact of fraud on organizations

The impact of fraud on organizations can vary depending on the type of fraud committed and the sector targeted. Fraud can lead to financial losses, damage to reputations, and legal consequences for organizations.[2]

Fraud can have a profoundly detrimental impact on organizations, manifesting in a range of adverse consequences, including financial losses, reputational damage, legal repercussions, and operational disruption. From a financial perspective, fraud can result in the depletion of resources, a negative impact on profitability, and the inhibition of growth. From a reputational standpoint, fraud can erode trust among stakeholders, affecting customer loyalty, investor confidence, and partnerships. Legal consequences, including fines and lawsuits, can further exacerbate the financial toll. Operational disruptions can arise from the diversion of resources

[1] Fynefaceph, A. (2013). *Fraud prevention, mitigation and management practices in Nigerian firms*. IOSR Journal of Business and Management, 11(3), 07–14

[2] John, Matthew, Matthew, & Kent. (2007). *The nature extent and economic impact of fraud in the UK*. Report for the Association of Chief Police Officers' Economic Crime Portfolio.

to investigate and rectify fraudulent activities, leading to productivity losses and increased expenses.

The latest Occupational Fraud 2024 report, a massive study by the ACFE analyzed nearly 1,921 fraud cases from 138 countries, revealing over $3.1 billion in losses from fraud.[1]

The illustration below shows some key findings of this study:

Figure N°4: Key findings of the ACFE study

Source: Association of Certified Fraud Examiners. (2024). *Occupational fraud: a report to the nations*. P.8.

2. Types of Fraud

Fraud may be categorized into two principal types: external fraud and internal fraud

2.1 External fraud

External fraud is defined as a form of deception perpetrated by an external party against a company**.** It encompasses a wide range of frauds that are committed by vendors, suppliers, and contractors. These individuals may engage in practices such as overbilling, double billing, or substituting inferior goods. Furthermore, customers may engage in similar practices by feigning damage or destruction of goods in order to gain credits and allowances.[2]External fraud is often driven by various factors like financial problems, threats, or the desire for additional profit.

2.2 Internal Fraud

Internal fraud or occupational fraud refers to fraudulent activities committed within a company by its own employees or members.[3] These activities are typically committed by

[1] Association of Certified Fraud Examiners. (2024). *Occupational fraud: a report to the nations*. P.8.
[2] Singleton, T. W., Singleton, A. J., Bologna, G. J., & Lindquist, R. J. (2006). *Fraud auditing and forensic accounting*. Wiley. P.22.
[3] Burzyńska, D., & Jabłońska, M. (2018). *The role of internal audit as a tool for detecting fraud. Economic and Environmental Studies*, 18(46), 483–497.

employees, managers, or executives and involve deception, misrepresentation, or manipulation for personal gain or to harm the organization. Internal fraud can take many forms, including embezzlement, financial statement manipulation, bribery, corruption, theft of intellectual property, and conflicts of interest. It poses a significant threat to organizations and can result in financial loss, reputational damage, legal consequences, and erosion of stakeholder trust.

3. Fraud Triangle

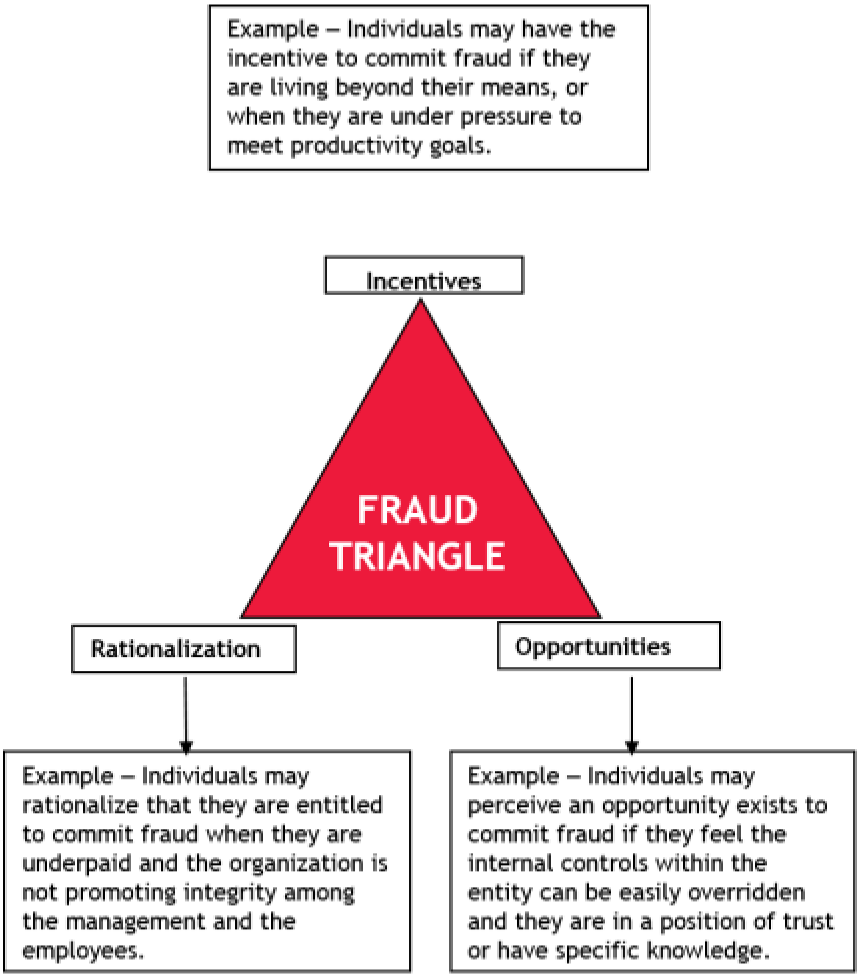
The fraud triangle model is a concept that explains why people commit fraud and what factors must be present for someone to violate trust. It was first examined by criminologist Donald Cressey in 1950. The three factors identified in the fraud triangle are pressure, rationalization, and opportunity.[1]

The Fraud Triangle postulates that when these three elements converge, the probability of fraud increases significantly. Consequently, efficacious fraud prevention and detection strategies concentrate on addressing each component of the triangle.

Understanding the Fraud Triangle can assist organizations in developing proactive measures to mitigate the risk of fraud and promote a culture of integrity and accountability. By addressing the underlying factors that contribute to fraud, businesses can protect their assets, reputation, and trustworthiness in the eyes of stakeholders.

[1] Kassem, R. (2012). *The new fraud triangle model*. Journal of Emerging Trends in Economics and Management Sciences, 3(3), 191-195

Figure N°5: Fraud triangle



Source: Hayes, R., Wallage, P., & Gortemaker, H. (2014). *Principles of auditing: An Introduction to International Standards on Auditing*. Pearson Higher Ed. P.210

3.1 Opportunity

Opportunity refers to the conditions and circumstances that enable individuals to commit fraud without detection. This may include weak internal controls, inadequate oversight, or access to sensitive information without proper monitoring. In many cases, individuals exploit loopholes or vulnerabilities within an organization's systems or processes to perpetrate fraudulent activities. For instance, an employee entrusted with financial responsibilities may manipulate accounting records if there are insufficient checks and balances in place.

3.2 Pressure

Pressure, also known as incentive or motivation, represents the external or internal forces that drive individuals to commit fraud. External pressures may include financial difficulties, such as mounting debt or unexpected expenses, while internal pressures could stem from perceived injustices or grievances within the organization. Individuals experiencing significant pressure may feel compelled to engage in fraudulent behavior as a means of alleviating their financial burdens or addressing perceived injustices. For example, an employee facing imminent foreclosure on their home may resort to embezzlement to cover their mortgage payments.

3.3 Rationalization

Rationalization involves the mental process by which individuals justify their fraudulent actions to themselves. It allows perpetrators to reconcile their behavior with their personal values and moral beliefs, thereby alleviating feelings of guilt or remorse. Rationalizations are frequently expressed in terms of minimizing the harm caused, ascribing blame to others, or justifying actions on the grounds that the consequences are acceptable. For instance, an employee may rationalize misappropriating funds by convincing themselves that they are underpaid or undervalued by their employer.

Common rationalizations include the following[1]:

"I was only borrowing the money."

"I was entitled to the money."

"I had to steal to provide for my family."

"I was underpaid; my employer cheated me."

"My employer is dishonest to others and deserved to be defrauded."

4. Fraud Schemes

Fraud schemes refer to various deceptive practices designed to unlawfully obtain money, assets, or valuable information from individuals, organizations, or governments.[2] These schemes can take many forms and often exploit vulnerabilities in systems or human behavior.

4.1 Occupational Fraud schemes

The internal fraud schemes can take many forms and often exploit vulnerabilities in systems or human behavior. Financial statement fraud, asset misappropriation, and corruption are the three main categories into which occupational fraud schemes can be divided.[3] All these schemes

[1] Wells, J. T, *op.cit*. P.6.

[2] Murrar, F. (2022), *Fraud schemes during COVID-19: a comparison from FATF countries*, Journal of Financial Crime, Vol. 29 No. 2, pp. 533-540.

[3] Nigrini, M.J. (2019), *The patterns of the numbers used in occupational fraud schemes*, Managerial Auditing Journal, Vol. 34 No. 5, pp. 606-626.

are represented in branches or nodes in the fraud tree that correspond to specific patterns or indicators of fraudulent behavior.

4.1.1 Financial Statement Fraud Schemes

Fraudulent financial reporting or financial statement fraud is a deceptive practice where a company intentionally manipulates its financial statements to present a false impression of its financial performance and position. This type of fraud can have severe consequences, not only for the company itself but also for its investors, stakeholders, and the broader economy.

« *Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users* »[1].It can take various forms, such as inflating revenues, understating expenses, overstating asset values, or concealing liabilities. These manipulations are often aimed at portraying the company as more profitable, financially stable, or attractive to investors than it actually is. By distorting financial information, fraudulent reporting can mislead stakeholders into making decisions based on false assumptions about the company's health and prospects.

Another key element of fraudulent financial reporting is management override of controls. Companies typically have internal controls in place to ensure the accuracy and reliability of their financial reporting. These controls include procedures for authorizing transactions, recording them accurately, and safeguarding assets. However, in cases of fraud, senior management or executives may deliberately circumvent or override these controls to perpetrate and conceal fraudulent activities.

4.1.1.1 Revenue and Assets Overstatement

Improving the financial outlook of an organization can be tempting through artificial inflation of reported revenues and assets. However, deviating from accounting frameworks risks producing fraudulent financial statements. Several common methods used to overstate assets or revenues include fictitious revenues, timing differences and improper asset valuation.

A. Fictitious Revenues:

Fictitious revenue schemes involve recording fictitious sales, aiming to inflate reported revenue and depict the organization as more profitable than reality. These schemes often entail inventing sales transactions, whether for goods or services, sometimes involving nonexistent customers. For instance, invoices are issued for legitimate customers, yet the goods or services

[1] Hayes, R., Wallage, P., & Gortemaker, H, *op.cit*. P.208.

are never delivered. Alternatively, invoices to genuine customers may be altered to reflect higher amounts than actual sales.

B. Timing Differences:

Financial statement fraud may exploit timing discrepancies, such as recognizing revenue or expenses in improper periods. Proper revenue recognition aligns with the completion of a sale or service provision. Schemes involving fraudulent timing discrepancies include:

- **Improper Matching of Revenues and Expenses:** Violating the matching principle, where revenues and corresponding expenses should be recorded in the same period. For instance, accurately recording sales but neglecting to record associated expenses, leading to overstated net income initially and understated income later.[1]
- **Early Revenue Recognition:** Booking revenue before it's earned inflates income. For instance, reporting fees for services not yet rendered or merchandise not shipped, distorting financial statements.

C. Improper Asset Valuation:

The historical cost principle requires that assets be recorded at their original cost. However, estimates are sometimes necessary, which creates opportunities for fraud. Assets that are particularly susceptible to manipulation, although any asset can be manipulated, typically include:

- **Inventory:** Overstated through physical count manipulation or failure to relieve inventory for costs of goods sold. Fictitious inventory schemes involve creating fake documents or falsely inflating inventory quantities.[2]
- **Accounts Receivable:** Such accounts are susceptible to manipulation, including the creation of fictitious receivables or the underestimation of reserves for bad debts.
- **Fixed Assets:** Schemes involve fictitious fixed assets or misrepresenting asset valuations.

4.1.1.2 Liabilities and Expenses Understatement:

Manipulating financial statements to portray a company as more profitable involves understating liabilities and expenses. Liability understatement reduces reported obligations to creditors, enhancing the appearance of asset or equity amounts. Understating expenses inflates

[1] https://www.coursesidekick.com/accounting/229730 (20/04/2024 at 10:00 AM)
[2] Association of Certified Fraud Examiners. (2018). *Fraud Examiners Manual*.P.223.

net income, rendering financial statements more appealing to users. Common methods involve Liability or Expense Omissions and Improper Capitalizing of Costs

A. Liability or Expense Omissions:

Expense and liability omissions refer to the deliberate exclusion of financial transactions or critical information from financial statements or supporting documents. Research indicates that managers tend to choose omission as a method of perpetrating fraud to reduce the perceived intentionality of their misstatements.[1] Detecting these omissions requires thorough post-financial statement date transaction reviews, examining changes in accounts payable, and analyzing contractual obligations for undisclosed contingent liabilities.

B. Improper Capitalizing of Costs

Organizations incur costs, which may be ambiguous to record. Repair costs are expensed if they restore the property to its original state. Costs increasing property value are capitalized and depreciated over time, impacting financial statements differently.

4.1.1.3 Improper Disclosures

Financial statements and notes must contain all the information required by generally accepted accounting standards to shield the financial statements from deception for a reasonably astute user. Improper disclosures schemes involve:

- **Related-party transactions:** involve business dealings with entities controlled or influenced by the company or a common party, and failure to fully disclose them can mislead shareholders.
- **Liability omissions:** include not revealing loan agreements or contingent liabilities, which are obligations depending on future events.
- **Subsequent events:** occurring after the financial period's close must be disclosed, but fraudsters may hide adverse events to maintain favorable financial positions.
- **Management fraud:** involves concealing significant fraud committed by executives, which requires disclosure.
- **Changes in accounting principles:** change in principles, estimates, and reporting entities must also be disclosed to avoid misinterpretation. Fraudsters may manipulate these changes, such as not restating financials for weaker appearances or altering estimates to

[1] Hamilton, E. L., & Smith, J. L. (2020). *Error or fraud? The effect of omissions on management's fraud strategies and auditors' evaluations of identified misstatements*. the Accounting Review, 96(1), 225–249.

improve results. They might also secretly modify the reporting entity to mislead stakeholders.

4.1.2 Misappropriation of assets schemes

According to IAASB misappropriation of assets *« involves the theft of an entity's assets and is often perpetrated by employees in relatively small and immaterial amounts. However, it can also involve management who are usually more able to disguise or conceal misappropriations in ways that are difficult to detect.* »[1]

Asset misappropriation is a form of theft or fraud where someone entrusted with resources, like an employee or manager, diverts them for personal gain. False or deceptive records or documents are frequently used in conjunction with asset misappropriation to hide the theft.[2]It includes a range of illegal activities that take place within organizations, including embezzlement, fraudulent billing, inventory theft, intellectual property theft, and unauthorized transactions.

4.1.2.1 Cash Asset schemes

Cash fraud schemes encompass a variety of deceptive practices aimed at obtaining cash through illicit means. These schemes can be perpetrated by individuals, groups, or even organizations and can range from relatively simple scams to complex. It involves the theft of cash on hands, theft of cash receipts and fraudulent disbursement.

A. Theft of Cash on Hand

Theft of cash on hand refers to cash that is located in a secure, centralized location, such as a vault or safe. These schemes typically involve a perpetrator who has authorized access to the funds in the safe or vault.[3] The perpetrator then steals the cash from the secure location without detection. This type of theft can be difficult to detect because there is often no physical evidence left behind.

B. Theft of Cash Receipts

Depending on when the cash is stolen, these schemes can take the form of skimming or cash theft.

[1] IAASB, *op.cit*. P.177
[2] Kassem, R. (2014). *Detecting asset misappropriation: a framework for external auditors.* International Journal of Accounting, Auditing and Performance Evaluation, 10(1), 1
[3] Wells, J. T, *op.cit*. P.10.

- **Skimming**

Skimming is a deceptive practice whereby incoming cash is diverted before it is recorded in the accounting system. These illicit activities circumvent the official record-keeping channels, rendering them "off-book" schemes. It can occur at any point in the flow of cash into a business, rendering any individual involved in the receipt of payments a potential suspect. Nevertheless, sales and accounts receivable represent the most likely areas for skimming.

- **Sales skimming:** It is the most common type, likely because stolen sales cash vanishes without a trace.
- **Receivables Skimming:** Hiding skimmed receivables is trickier than vanishing sales cash because expected payments leave a paper trail. To cover their tracks, the perpetrator needs to "balance the books" for the missing payment the company never received.

- **Cash Larceny**

Cash larceny is a criminal act in which an employee steals money after it has been entered into the company's accounting system. This type of crime leaves a clear trail and is generally considered more detectable than skimming schemes.

C. Fraudulent Disbursements:

Fraudulent disbursements entail the manipulation of the system by an employee with the intention of siphoning off company funds for personal gain. Such individuals achieve this through the use of falsified documents or other deceptions, which result in the organization releasing funds for illegitimate purposes.

These deceptive schemes come in various forms:

- **Check and Payment Tampering:** The employee here creates a fake payment (check or electronic transfer) for themselves or redirects a legitimate payment to an accomplice. Even though checks are less common nowadays, these schemes are still prevalent.
- **Billing Schemes:** Dishonest employees submit phony invoices from fake vendors or inflate real ones to steal funds.
- **Cash Register Disbursements:** Employees working the cash register exploit their access to steal cash directly or manipulate receipts to hide the theft.
- **Expense Reimbursement Fraud:** Employees pad their expense reports with fictitious costs or personal expenses to get reimbursed for more than they deserve.

- **Payroll Fraud:** This involves creating fake employees or manipulating time cards to siphon off payroll funds.

4.1.2.2 Noncash Asset Schemes

A. Misappropriation of Physical Assets:

Employees can divert a physical, non-cash asset through two main methods:

- **Misuse of Physical Assets**

The less severe of the two categories is the misuse of physical assets. Such instances of misappropriation typically involve fixed assets such as company vehicles, computers, and office equipment. These assets are not stolen, but rather used for personal reasons. This may include instances where employees utilize office supplies, computers, and equipment to complete personal tasks during work hours.

- **Theft of Inventory, Supplies, and Fixed Assets**

While misuse can be an issue, theft of company property is far more concerning. It completely deprives the organization of the ability to use and profit from the stolen assets. Here are some common methods for stealing non-cash assets:

- **Unconcealed Larceny:** This is the outright stealing of items with no attempt to hide it.
- **Fraudulent Requisitions and Transfers:** This involves falsifying documents to obtain or move assets for personal gain.
- **Falsified Receiving Reports:** In this scheme, fake receiving reports are created to account for stolen inventory.
- **Fraudulent Shipments of Merchandise:** Here, goods are diverted to unauthorized recipients through fake shipments.
- **Theft of Scrap Inventory:** This involves stealing leftover materials or waste products produced during the business's operations.

B. Misappropriation of Intangible Assets

Every organization accumulates valuable information as it conducts business. However, this information can be just as vulnerable to theft as any physical asset. Two categories of intangible assets are particularly vulnerable: intellectual property and personally identifiable information (PII).

- **Intellectual Property:**

Intellectual property (IP) refers to creations with assigned monopoly rights, including copyright, trademarks, patents, designs, and trade secrets, crucial for modern organizations value, innovation, and competitiveness.[1] Among these, trade secrets are especially at risk because they offer a significant competitive advantage when stolen. The more time, money, and effort a company invests in developing unique information, processes, or techniques, the greater the potential for misuse if they fall into the wrong hands.

- **Personally Identifiable Information:**

Personally Identifiable Information (PII) refers to any data that can be used to identify, contact, or locate an individual directly or indirectly. This includes information like names, social security numbers, biometric records, financial details, and more.[2]

4.1.3 Corruption schemes:

The term "corruption" originates from the Latin word "corruptio," signifying moral violation through bribery and abuse of power.[3]

Corruption refers to dishonest or fraudulent conduct by those in power, typically involving bribery or the abuse of entrusted authority for personal gain. It can manifest in various forms, such as embezzlement, nepotism, favoritism, kickbacks, and extortion.[4] This type of fraud undermines the principles of fairness, justice, and equality, as it often leads to resources being allocated unfairly, decisions being made based on personal interests rather than public good, and opportunities being denied to those who deserve them.

4.1.3.1 Bribery and Kickbacks

Bribery is the illegal exchange of money or favor for a benefit.[5] Essentially, it's an illegal or unethical business transaction where someone "buys" influence over another to gain an unfair advantage. Bribery requires collusion between at least two parties, typically one within and one outside the organization.

[1] Chen, J., Brem, A., Viardot, É., & Wong, P. K. (2019). *The Routledge companion to innovation management*. In Routledge eBooks. P.457

[2] Krishnamurthy, B., & Wills, C. E. (2010). *On the leakage of personally identifiable information via online social networks*. ACM SIGCOMM Computer Communication Review, 40(1), 112–117.

[3] Kholikulovna, K. Y. (2022). *Corruption is a dangerous crime for society*. European International Journal of Multidisciplinary Research and Management Studies, 02(06), 23–28.

[4] Sbardellotto, F. R. (2023*). The phenomenological nature of corruption - A complex, perennial and destabilizing event of social and political relations*. In Seven Editora eBooks.

[5] Kim, J. (2022). *Firm Bribery*. Management.

Kickbacks is a form of negotiated bribery. It involves a commission paid to the recipient in exchange for services rendered. These are undisclosed payments made to secure favorable treatment. In government settings, kickbacks involve giving or receiving valuables to obtain favorable treatment on contracts. In commercial settings, they involve influencing business decisions without the employer's knowledge or consent.

4.1.3.2 Illegal Gratuities

Illegal gratuities are gifts or benefits offered to reward a decision that has already been made. Unlike bribes, they aren't necessarily intended to influence a future decision. For example, a vendor might give a gift to an employee after a favorable decision has been made.

4.1.3.3 Economic Extortion

Economic extortion is the practice of obtaining benefits through the use of explicit force and threats[1]. It occurs when an employee or official demands money or other considerations through threats or fear to influence a business decision. A bribe or kickback demand coupled with threats can constitute extortion.

4.1.3.4 Conflicts of Interest

A conflict of interest arises when an employee (or a close family member) has an undisclosed financial interest that could influence their professional judgment. Unlike bribery schemes where the employee is paid to benefit a third party, conflicts of interest involve self-dealing by employees.

4.2 External Fraud schemes:

While internal fraud often grabs headlines, external fraud schemes can pose an equally significant threat.

4.2.1 Fraud Committed by Vendors and Contractors:

Unethical vendors and contractors may engage in fraudulent activities designed to misappropriate an organization's cash or other resources. These can include inaccurate billing practices such as charging for goods or services not rendered, inflating invoices, or submitting duplicate invoices for payment. Some vendors may resort to bribery to gain or retain a company's business, compromising fair competition in the process.[2] Additionally, they may

[1] Milinski, M. (2022). *Extortion — A voracious prosocial strategy. Current Opinion in Psychology*, 44, 196–201.

[2] Wells, J. T, *op.cit*. P.35.

deceive the organization by delivering substandard goods while concealing the difference from the promised quality product.

4.2.2 Collusion with Company Employees:

The collaboration of vendors and corrupt employees increases the probability of fraud. The influence of employees can influence the manner in which they can manipulate procurement or contract bidding processes.

4.2.3 Fraud Committed by Customers:

Customers may also attempt to exploit an organization's sales and return policies for personal gain. Some indicators of potential customer fraud include utilizing stolen customer accounts to place fraudulent orders, employing bad checks, falsified account information, or stolen credit cards to make fraudulent purchases. Customers may also engage in return abuse by returning stolen, damaged, or counterfeit products for a refund.

4.2.4 Fraud Committed by Agents, Brokers, and Fiduciaries:

Organizations are not exempt from the risk of fraud perpetrated by external parties who appear to be trustworthy, such as financial advisors or legal consultants. A number of examples can be cited of how these professionals may attempt to misappropriate funds, including investment schemes and excessive fees.

4.3 Example of big fraud scandal (case of Enron):

Considered the biggest financial scandal in history, Enron, a Texas energy company, was created in 1985 by the merger of two companies, specializing in gas production, transport and distribution. In the 1990s, Enron developed and diversified its activities, entering various international markets and sectors such as water management, telecommunications and electricity distribution.... It also offers its customers derivative financial products, notably online, and has thus entered the trading business.

With sales rising from $10 billion in 1995 to $100 billion in 2000, Enron won the confidence of markets and financial analysts, becoming the world's seventh-largest market capitalization in 2000. It is regarded as a model of growth and innovation, ranked six times as "America's Most Innovative Company" by Fortune magazine.[1] From August 2001 onwards, Enron suffered several incidents which made the financial markets doubt the company's financial solidity; this led to a plunge in its share price from $90.75 in August 2001 to less than $1 in January 2002.

[1] Jackson, C. W. (2014). *Detecting accounting fraud: Analysis and Ethics*, Global Edition. P.226.

When the company's share price plummeted, shareholders were furious and sued the company for $40 billion, leading to an investigation by the U.S. Securities and Exchange Commission. Enron not only lied to investors by concealing billions of dollars of debt and failed projects; it also artificially inflated its profits by using a multitude of shell companies and falsifying its accounts; the aim was, no more and no less, to inflate its stock market value through a number of illegal practices to attract more investors.

All this financial delinquency occurred with the complicity of Andersen, Enron's auditor, who admits to having destroyed 1.7 tons of accounting documents before the launch of the US Securities and Exchange Commission investigation. Andersen was in a conflict of interest because Enron was its first client: if the firm had refused to validate the accounts, it would probably have lost its more lucrative consulting contracts with Enron.

Arthur Andersen, one of the "big five" audit firms, was dismantled in the wake of the scandal. On December 2, 2001, Enron filed for bankruptcy protection. It was the biggest bankruptcy in American history, and the model became a global scandal.[1] The Enron affair led to the creation of new laws and standards in the fields of corporate governance, auditing, accounting and consulting, and has become, in popular culture, a symbol of large-scale fraud.

In conclusion, this section has provided a comprehensive overview of fraud, its impact on organizations, and the key factors that contribute to its occurrence. We began by defining fraud and differentiating it from simple errors. The various types of fraud were then explored, highlighting the diverse methods perpetrators can employ. The concept of the fraud triangle was introduced, demonstrating the convergence of opportunity, pressure, and rationalization that often precedes fraudulent activity. We concluded by examining a real-world example of a major fraud scandal (Enron) to illustrate the devastating consequences fraud can have.

Section 3: International standards on auditing related to fraud

The integrity of financial reporting is constantly threatened by fraud, which highlights the critical role auditors play in identifying and preventing it. This section examines the connection between auditing standards and fraud within an international framework by investigating the most important International Standards on Auditing (ISAs) that relate to fraud, primarily ISA 240 "The auditor's responsibilities relating to fraud in an audit of financial statements" in accordance with other ISA's.

[1] Idem

1. Responsibility for the Prevention and Detection of Fraud

1.1 Responsibility of management and those charged with governance

« The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management ».[1] While preventing and detecting fraud is a shared responsibility, both management and those charged with governance have a critical role to play. To achieve this, management, with the active guidance of the board, should prioritize a culture of honesty and ethics. This includes setting the right tone, fostering a positive work environment, and implementing processes such as employee screening, training, and ethical conduct reviews.

Open communication and leadership from both management and supervisors are essential to establishing this ethical foundation for how the organization conducts business. In addition, a robust system of internal controls and clear policies are necessary. This includes controls to ensure accurate financial reporting, risk management to prevent material misstatements, a strong accounting system, and an internal control system to ensure financial reliability, operational effectiveness, and legal compliance. These measures significantly reduce, but cannot eliminate, the risk of fraud.

1.2 Responsibility of auditors:

The principal responsibility of auditors is to express an opinion on the financial statements and obtain a reasonable assurance that the financial statements are free from material misstatement from fraud or error.[2] Since frauds may by their nature affect the accounting records or financial statements, auditors design and perform further audit procedures whose nature, timing and extent are responsive to the assessed RMMs (Risks of Material Misstatements) due to fraud. However, due to the inherent limitations of an audit, there is an unavoidable risk that material misstatements of the financial statements resulting from fraud may not be detected.[3]

An audit's inherent limitations include the difficulty of precisely measuring a company's true financial status due to potential fraud or error, the inability to totally eliminate all risks connected with the audit process, and the auditors dependence on subjective judgments.[4] While

[1] ISA 240, paragraph A4
[2] Collings, S, *op.cit*. P.51
[3] Boukersoul, N. E., & Aissoui, N. (2023). *Integrating risk-based auditing standards: Possible reflection of NAAs in the audit process in Algeria*. مجلة البحوث الاقتصادية والمالية, 10(1), 803-826.
[4] Peters, J. M., Lewis, B. L., & Dhar, V. (1989). *Assessing inherent risk during audit planning: The development of a knowledge based model. Accounting*, Organizations and Society, 14(4), 359–378.

auditors may be able to identify potential opportunities for fraud to be perpetrated, it is difficult for them to determine whether misstatements in judgment areas such as accounting estimates are caused by fraud or error. Furthermore, the risk of them not detecting a material misstatement resulting from management fraud is greater than for employee fraud, because management is frequently in a position to directly or indirectly manipulate accounting records or override control procedures to present fraudulent financial information.

However, a properly designed and executed audit may still not detect a material fraud, especially one involving: forgery; deliberate failure to record transactions; intentional misrepresentations made to auditors; or collusion.

2. professional Skepticism

Professional skepticism in audit refers to a crucial mindset and approach adopted by auditors to critically assess information and evidence during the audit process. It involves auditors noticing inconsistencies, interpreting data, and challenging clients to ensure the accuracy and reliability of financial reports, it plays a crucial role in auditing by influencing auditors' judgment and detection of fraud.[1] Studies have shown that auditors with high levels of professional skepticism are more likely to detect fraud.[2]

Auditors shall maintain an attitude of professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding their past experience with the entity about the honesty and integrity of management and those charged with governance. They are not expected to fully disregard past experience with the entity but to maintain an attitude of professional skepticism, as there may have been changes in circumstances in the entity.

When making inquiries and performing audit procedures, auditors exercise professional skepticism and are not satisfied with less than persuasive audit evidence based on a belief that management and those charged with governance are honest and have integrity. During the audit, they consider the reliability of the information to be used as audit evidence and unless their work reveals evidence to the contrary, they are entitled to accept records and documents as genuine. However, if conditions identified during the audit cause them to believe that a

[1] Xu, G., Yang, C., & Fukofuka, P. (2023). *Professional Skepticism in Practice: An analysis of Auditors' stories.* Auditing, 42(4), 157–178

[2] Nazatul, S., Syed, F., Nazri, M., Zahba, I., Zolkaflil, S., & Zainuddin, N. (2023). *The influence of professional skepticism on fraud detection: the case of Malaysian non – Big 4 auditors*. Management & Accounting Review, 22 (1).

document may not be authentic or that terms in a document have been modified, they shall investigate further, for example confirming directly with the third party or considering using the work of an expert to assess the document's authenticity.

3. Identifying, assessing and responding to the risk of material misstatement due to fraud

3.1 Introduction to Risk of material misstatement

3.1.1 Definition

The risk of material misstatement refers to the possibility that the financial statements may contain significant errors or omissions that could potentially impact the decisions of users relying on those statements. It also refers to factors like fraud, accounting estimates, and going concern that auditors must consider when assessing financial statement accuracy.

3.1.2 Levels of risks of material misstatements

The risk of material misstatement exists at two levels: the overall financial statement level and at the assertion level for classes of transactions, account balances, and presentation and disclosures.

3.1.2.1 Risk of material misstatement at the overall financial statement level

In order to ensure the integrity of financial statements, auditors must assess the risks of material misstatement. These risks can affect numerous accounts and transactions, and therefore require a comprehensive approach.[1] Auditors must consider the overall financial statement level when identifying and evaluating these risks. Several factors can contribute to an increased risk of material misstatement across the financial statements.

3.1.2.2 Risk of material misstatement at the assertion level

In accordance with auditing standards, auditors are required to assess the risk of material misstatement at the assertion level for various financial components. This assessment encompasses classes of transactions, account balances, and presentation and disclosure within the financial statements. The purpose is to determine the appropriate nature, timing, and extent of further audit procedures.[2] Following this risk assessment, auditors establish specific audit objectives for each assertion. Then, they perform tailored procedures to gather persuasive audit evidence that demonstrates the achievement of these objectives.

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[1] L ouwers, T., Ramsay, R., Sinason, D., Strawser, J., & Thibodeau, J, *op.cit*. P.263.

[2] Idem

The risk of material misstatement at the assertion level consists of two components:

Inherent risk: represents the auditor’s assessment of the susceptibility of an assertion to material misstatement, before considering the effectiveness of the client’s internal controls.

Control risk: represents the auditor’s assessment of the risk that a material misstatement could occur in an assertion and not be prevented or detected on a timely basis by the client’s internal controls.

3.2 Fraud risk assessment procedures

auditors perform risk assessment procedures to identify and assess the risk of material misstatement

3.2.1 Inquiries of management and others within the entity

Inquiries of management and others within the entity in audit are crucial for obtaining relevant audit evidence. These inquiries help auditors understand the entity's operations, internal controls, and potential risks.[1] In making such inquiries of management, auditors recognize that the nature, extent and frequency of management’s assessment of risks and controls varies from entity to entity.

Auditors make inquiries of management to obtain an understanding of:[2]

- management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud
- management's process for identifying and responding to the risks of fraud in the entity, including any particular risks of fraud that management has identified or account balances, classes of transactions or disclosures for which a risk of fraud is likely to exist.
- management’s communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- management’s communication, if any, to employees regarding its views on business practices and ethical behavior.

Auditors also shall obtain written representations from management and in the following areas:

[1] FLOREA, R., & FLOREA. (2011). *Audit techniques and audit evidence*. Economy Transdisciplinarity Cognition, 14, 350–358.

[2] Bagshaw, K., & Selwood, J. (2014). *Core Auditing Standards for Practitioners*. John Wiley & Sons. P.114.

- **Acknowledgement of Responsibilities:** That management acknowledge their responsibility for the design, implementation, operation and maintenance of accounting and internal control systems that are designed to prevent and detect fraud and error.
- **Misstatements:** That management believe the effects of those uncorrected financial statement misstatements aggregated by auditors during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
- **Suspected Fraud:** That management has disclosed to auditors its knowledge of fraud or suspected fraud affecting the entity involving: management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statement.
- **Actual Fraud:** That management has disclosed to auditors its knowledge of any actual fraud, allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
- **Results of Risk Assessment:** That management has disclosed to auditors the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

As well as making the above inquiries of management, auditors shall also make inquiries of internal audit, those charged with governance and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity and to obtain their views about the risks of fraud.

Examples of others within the entity to whom we may direct inquiries about the existence or suspicion of fraud include:[1]

- Operating personnel not directly involved in the financial reporting process.
- Employees with different levels of authority.
- Employees involved in initiating, processing or recording complex or unusual transactions and those who supervise or monitor such employees.
- In house legal counsel.
- chief ethics officer or equivalent person.
- Persons charged with dealing with allegations of fraud.

[1] ISA 240, paragraph A17

3.2.2 analytical procedures

Audit analytical procedures involve using various analytical techniques to assess the validity of specific account balances and financial data. Auditors often rely on these procedures to identify signs of falsification in financial reporting, as these procedures help in detecting deviations between actual and expected values in financial statements.[1]

Auditors must conduct preliminary analytical procedures during audit planning to gain a better understanding of the entity and assess business risks. These procedures can help identify unusual amounts, ratios, or trends that might signal significant transactions or events with audit implications. When conducting risk assessment, auditors use both financial and nonfinancial information, often aggregated at a high level, which may only offer a broad indication of potential material misstatements. Therefore, auditors should integrate information from other risk assessment procedures with the results of the preliminary analytical procedures to form a comprehensive view.

3.2.3 Observation and inspection:

These procedures encompass various activities, from observing an entity's core operations and reading management reports to inspecting documents. Visiting the company premises helps auditors understand the client's business and operations better.[2] Observing facilities identifies internal control safeguards and assesses inventory movement and fixed asset use. Facility orderliness, cleanliness, layout, and employees' routines often reveal more than accounting records. Knowledge of the physical layout aids in planning audit staff needs and highlighting key questions. Site visits may uncover issues like rust on idle equipment or dust on materials indicating obsolescence. Auditors can also assess duty segregation by observing the number of office employees.

3.2.4 Discussion among audit engagement team members

In planning the audit, auditors should hold an engagement team discussion in order to identify additional potential risks of material misstatements and make decisions about the resulting audit strategy and discuss any other issues. This discussion shall place particular emphasis on how and where the entity’s financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur. The discussion shall occur setting aside beliefs that the

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[1] Almeida, C., & Imoniana, J. O. (2023). *The the auditing analytical procedures at the beginning and completion phases of engagement toeing discourse analysis*. Account and Financial Management Journal, 08(03).

[2] Hayes, R., Wallage, P., & Gortemaker, H. *op.cit.* P.185

engagement team members may have that management and those charged with governance are honest and have integrity.

The discussion ordinarily involves the key members of the engagement team and any experts as determined by the engagement partner, who uses their professional judgment, experience and knowledge when deciding which members are to be included.

3.2.5 Other risk assessment procedures

To assist in assessing the risk of material misstatement, auditors may perform various procedures. Information gathered during the client acceptance or continuance evaluation process, including discussions with predecessor auditors or insights from background checks for new client engagements, can heighten awareness of these risks. Similarly, evidence from other engagements for the client, such as tax-related services, may reveal unique or nonroutine transactions indicating a higher risk of material misstatement.

3.3 Potential fraud risks

The significance of potential fraud risks varies widely and they may be present in entities where the specific conditions do not present an RMM. Accordingly, auditors exercise professional judgment when considering these factors individually or in combination and to consider whether there are control activities that mitigate the risk and whether the factor is to be considered in assessing the RMMs of the financial statements due to fraud.

Material misstatements due to fraudulent financial reporting often result from an overstatement of revenues or an understatement of revenues. Therefore, auditors shall presume that there are risks of fraud in revenue recognition and consider which types of revenue, revenue transactions or assertions give rise to such risks. The risk of fraud in revenue recognition may be greater in some entities than others. This depends on factors such as performance targets set on profit or large amounts of cash sales.

This table summarize potential fraud risks in each cycle:

Table N°4: Potential fraud risks

Cycle	Potential fraud risks	Description
Revenue and Accounts Receivable	Fictitious Revenues	Recording revenue from sales that never occurred.
	Premature Revenue Recognition	Recording revenue before it is earned.
	Manipulation of Adjustments to Revenues	Altering discounts, returns, or other adjustments to inflate revenue.
Inventory	Fraudulent Financial Reporting Risk for Inventory	Overstating inventory levels or values on financial statements.
Purchases and Accounts Payable	Fraudulent Financial Reporting Risk for Accounts Payable	Understating liabilities to improve financial appearance.
	Misappropriations in the Acquisition and Payment Cycle	Theft or misuse of company funds during purchasing or payments.
Fixed Assets	Fraudulent Financial Reporting Risk for fixed assets	Inflating the value or existence of long-term assets.
Intangible Assets	Fraudulent Financial Reporting Risk for Intangible Assets	Overstating the value or existence of non-physical assets like patents or goodwill.
Payroll	Fraudulent Financial Reporting Risk for Payroll Expenses	Ghost employees, inflated salaries, or false overtime claims.

Source: Louwers, T., Ramsay, R., Sinason, D., Strawser, J., & Thibodeau, J. (2014). *Auditing & Assurance Services*. McGraw Hill. P.318.

3.4 Responses to the risks of material misstatements due to fraud

All fraud risks are considered to be significant risks. Specific responses to the assessed fraud risks will vary according to the types or combinations of fraud risk factors or conditions identified, and depending on transaction classes, account balances, information to be provided and claims that they may affect. Different circumstances typically dictate different responses, including if the risk relates to fraudulent financial information or asset misappropriation. The audit procedures may be amended as follow:

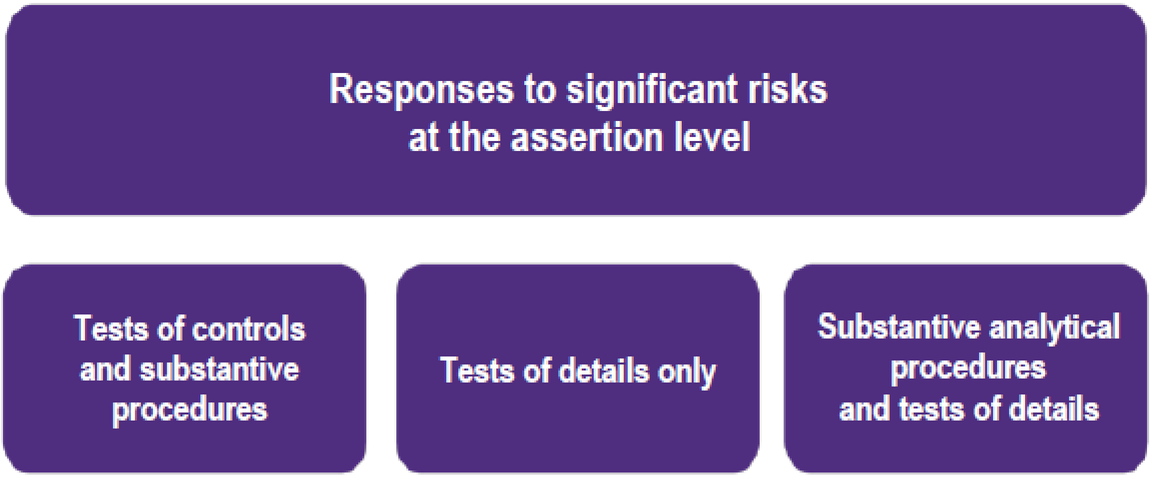
- Change in the nature of audit procedures to obtain more reliable and relevant evidence or additional supporting information.
- modify the timing of auditing procedures to bring them closer to the end of the period or times in the period when fraudulent transactions are most likely to occur
- change the scope of audit procedures to obtain more evidence.

3.4.1 Response to identified RMMs at the assertion level

« Auditors have a responsibility to gather sufficient appropriate audit evidence to support the overall audit opinion »[1]. This audit evidence is primarily obtained through two fundamental procedures:

- Substantive procedures
- Test of controls

Figure N°6: Responses to significant risks at the assertion level



Source: Internal document

3.4.1.1 Substantive procedures

ISA 330 defined substantive procedure as an *« audit procedure designed to detect material misstatements at the assertion level »*[2]. These procedures involve examining transactions, account balances, and disclosures to ensure their accuracy and completeness. They are essential in providing assurance on the financial statements' reliability and integrity.

Substantive procedures comprise:

- Substantive analytical procedures.

[1] Collings, S, *op cit*. P.127
[2] IAASB, *op cit.* P.326.

- Tests of details

➢ **Substantive analytical procedures**

Substantive analytical procedures are essential audit tools for gathering evidence and identifying potential misstatements in financial statements.[1] It involve the evaluation of financial information through analysis of plausible relationships among both financial and non-financial data.

These procedures play a critical role in the auditing process as they enable auditors to scrutinize financial data and detect possible misstatements. This requires establishing financial data expectations in light of historical performance, industry developments, and company-specific factors.

➢ **Tests of details**

A test of details is a procedure used by auditors to validate reported account balances by focusing on individual transactions within the balance. It involves extensive verification of transactions to ensure the accuracy of the reported balance.[2] It involve examining evidence like invoices and confirmations to directly verify the accuracy and completeness of a company's financial statements. Auditors use techniques like vouching and tracing transactions to pinpoint any potential misstatements in account balances and disclosures, ultimately ensuring the reliability of the financial picture presented.

3.4.1.2 Test of controls

Test of controls is *« an audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level »*[3].When designing tests of controls, the auditor must assess the application and consistency of the controls during the review period, as well as the methods by which they have been administered.[4] This evaluation helps the auditor determine the reliability of the controls in place and their impact on the financial statements. It also assists in identifying any weaknesses that may increase the risk of material misstatements.

[1] Whittington, R. (1990). *Substantive Analytical Procedures*. Journal of Accountancy (American Institute of CPA's), 169(3), 79.
[2] Elder, R. J., & Allen, R. D. (1998). *An empirical investigation of the auditor's decision to project errors*. Auditing-a Journal of Practice & Theory, 17(2), 71.
[3] IAASB, *op cit.* P.326.
[4] Collings, S, *op.cit*. P.128.

A. Walkthroughs

One of the primary methods auditors use to test controls is walkthroughs. This involves tracing a transaction from its initiation through the entire process until it is recorded in the financial statements. By doing so, auditors can understand the workflow and identify critical control points. Walkthroughs help auditors verify the design of the controls and ensure that they have been implemented as planned.

B. Inquiry and Observation

Auditors often use inquiry and observation to gather evidence about the effectiveness of controls. Inquiry involves asking personnel about their roles, responsibilities, and the procedures they follow. Observation, on the other hand, entails watching the processes being performed in real time. For example, an auditor might observe the process of cash handling or the approval of transactions. These methods provide insights into whether controls are being applied consistently and correctly.

C. Reperformance

Reperformance is a method where auditors independently execute the control procedures to verify their effectiveness.[1] For instance, if a control involves reconciling bank statements, the auditor will perform the reconciliation independently to ensure that the process is functioning as intended. Reperformance provides direct evidence of control operation and can highlight discrepancies or errors in the control process.

D. Document Inspection

Inspecting documents and records is another vital method for testing controls. Auditors review documents such as invoices, purchase orders, and transaction logs to verify that the controls over these documents are working effectively. They check for appropriate approvals, proper documentation, and compliance with established procedures. This method helps auditors confirm that transactions are recorded accurately and that the controls over documentation are robust.

[1] Blokdijk, J. H. (2004). *Tests of control in the Audit Risk model: Effective? Efficient?* International Journal of Auditing, 8(2), 185–194.

3.4.2 Response to fraud risks related to asset misappropriation

Audit procedures designed to address fraud risks associated with asset misappropriation typically focus on specific account balances and categories of transactions. For example, if a particular asset is highly susceptible to misappropriation, and a potential misstatement would be material to the financial statements, it may be justified to test the operating effectiveness of relevant controls related to the prevention and detection of such misappropriation. In certain circumstances, a physical inspection of these assets at or near the end of the period may be appropriate. The use of substantive analytical procedures may also be effective in certain circumstances.

3.4.3 Response to fraud risks related to revenue recognition

In response to the suspected risk of fraud associated with revenue recognition, audit procedures take into account the ways in which revenue could be intentionally misstated and how fraud could be concealed. Audit procedures are designed and performed to seek more reliable and persuasive audit evidence, such as evidence obtained directly from independent and knowledgeable sources external to the entity.

Some procedures on revenue recognition are as follows:[1]

- Analyzing disaggregated data for comparison with auditor's expectations.
- Conducting procedures on sales or shipment of goods at the end of the reporting period.
- Enquiring sales personnel about unusual terms or conditions.
- Confirming customer confirmations about sale terms and conditions.
- Conducting observance procedures at reporting date locations to observe goods being shipped or prepared for shipment.

3.4.4 Responses to fraud risks related to management override of controls

In response to the presumed risk of fraud linked to management override of controls, specific audit procedures are implemented independently of the risk assessment. These procedures concern:

- journal entries and other adjustments
- accounting estimates
- Significant transactions outside the ordinary course of business.

[1]Collings, S, *op.cit*. P.59.

3.4.4.1 Journal entries

Material misstatements in the financial statements due to fraud often involve the manipulation of the financial reporting process through the recording of inappropriate or unauthorized journal entries, which may occur throughout the period or at the end of the period. Management may also make inappropriate or unauthorized adjustments to amounts reported in the financial statements that are not reflected in the journal entries, for example through consolidation adjustments and reclassifications.

The design and implementation of audit procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements include the following:

- Inquiring financial statement preparation process about unusual activities related to journal entry processing.
- Selecting journal entries and adjustments made at the end of the reporting period for testing.
- Considering the need to test journal entries and adjustments throughout the period due to potential material misstatements due to fraud.

3.4.4.2 Accounting estimates

During the preparation of financial statements, management has the responsibility of making various judgments or assumptions that impact important accounting estimates and ensuring the reasonableness of these estimates.[1]

Auditors design and perform audit procedures to review accounting estimates. These procedures include:

- Evaluate the judgments and decisions made by management in making the accounting estimates included in the financial statements.
- Perform a retrospective review of management judgments and assumptions related to significant accounting estimates reflected in the financial statements of the prior year.

3.4.4.3 Significant transactions outside the ordinary course of business

Significant transactions outside the normal business of an entity may be used for fraudulent financial reporting or asset misappropriation. These may include complex transactions involving multiple entities, inadequate documentation, a focus on accounting treatment rather

[1] Porter, B., Simon, J., & Hatherly, D, *op cit.* P.235

than underlying economics, transactions involving non-consolidated related parties, and transactions involving previously unidentified or financially weak parties.[1] Management should discuss these transactions with those responsible for governance and ensure proper review and approval.

3.5 Communicating with management and those charged with governance

If the auditor has gathered evidence indicating the presence or possibility of fraud, they must promptly notify the relevant management level. There is no minimum threshold in this regard, and regardless of how insignificant the fraud may be, the auditor must promptly inform the relevant management level. When determining the suitable level of management, the auditor relies on their professional discretion. Typically, the appropriate level of management is at least one level higher than the individual who seem to be implicated in the suspected fraudulent activity.[2]

The following gives details of how auditors shall communicate with management and those charged with governance:

- **When:** As soon as practicable if auditors identify or suspect a fraud even if it isn't material to the financial statements, unless prohibited by law or regulation.
- **Who:** Appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud with matters relevant to their responsibilities.
- **Significant deficiencies:** Any significant deficiencies in the design or implementation of internal controls to prevent and detect fraud that have come to auditor's attention shall be communicated in writing to those charged with governance on a timely basis.
- **Other matters:** Any matters relating to fraud that auditors feel they are relevant to management's responsibilities.

3.6 Documentation

Auditing standards require that auditors document the following matters related to the auditor's consideration of material misstatements due to fraud[3]:

[1] Idem
[2] Collings, S, *op.cit*. P.60
[3] Hayes, R., Wallage, P., & Gortemaker, H. *op.cit.* P.323

- Significant decisions reached during the discussion among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to fraud.
- Identified and assessed significant RMMs due to fraud at the financial statement level and at the assertion level.
- Overall responses to the assessed RMMs due to fraud
- Results of our audit procedures, including those designed to address the risk of management override of controls.
- Communications about fraud made to management, those charged with governance, regulators and others.

In conclusion, this section explores the significance of maintaining professional skepticism in auditing practices and the connection between fraud and international auditing standards. It also investigates how auditors identify, assess, and respond to the risk of material misstatement resulting from fraud, as well as how they inform management and those responsible for governance of potentials fraudulent activities.

Conclusion

As studied in this first chapter, fraud is an act committed intentionally with the aim of misappropriating assets and altering the company's financial statements. The risk of a material misstatement going undetected as a result of fraud is higher than that resulting from error, since fraud usually involves acts designed to conceal the misstatement.

Therefore, auditors must be vigilant in their assessment of potentials fraudulent activities within a company. This includes thoroughly examining financial records, conducting interviews with key personnel, and implementing procedures to detect any red flags that may indicate fraud. By taking these proactive measures, auditors can help protect the integrity of the financial reporting process and ensure that stakeholders have accurate and reliable information to make informed decisions.

Auditors must maintain a high level of independence and objectivity in their work to ensure that their assessments are unbiased and thorough. By working closely with management and stakeholders, auditors can help establish a strong control environment that minimizes the risk of fraud and promotes transparency and accountability.

Chapter II

Conducting an audit mission within Grant Thornton Algeria

Chapter II: Conducting an audit mission within Grant Thornton Algeria

Introduction

The purpose of this chapter is to present the practical aspects of the research conducted after having covered the theoretical foundations of auditing and fraud.

We will start by introducing the organization where we completed our internship, Grant Thornton Algeria. Next, we will provide a detailed overview of Grant Thornton's audit methodology "Horizon" which is a systematic approach employed by the GT to ensure comprehensive and effective audits. Finally, we will delve into a case study of an audit mission, illustrating the practical application of the methodology in an audit engagement.

Section 1: Presentation of Grant Thornton Algeria

This section presents Grant Thornton Algeria, which was the firm where our internship was carried out.

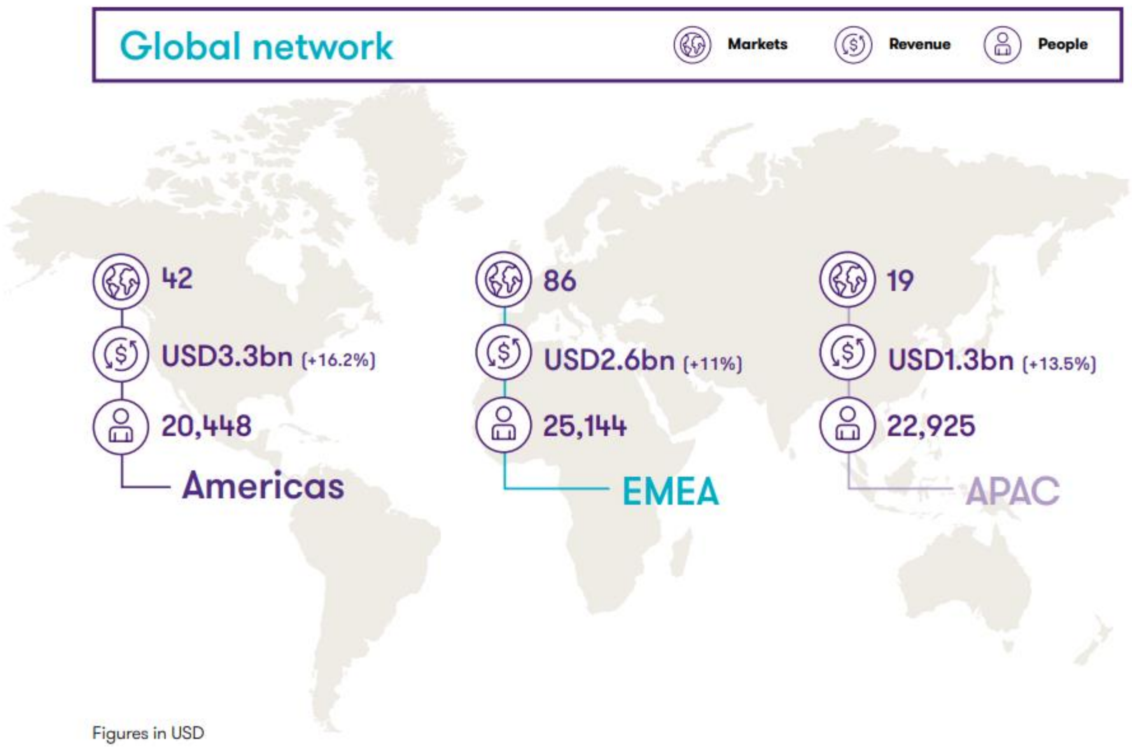
1. Presentation of Grant Thornton International

Grant Thornton International was founded by Alexander Richardson Grant Thornton Baker in 1980 in the State of Illinois (USA), at the time of its creation the company's activities were not-for-profit. Towards the end of 2007, the company changed its legal status to become a private company based in the UK.

Today, Grant Thornton International (GTI) is one of the world's leading audit and advisory firms, with legally and administratively independent members. These members assist dynamic businesses in realizing their growth potential by offering a diverse array of advice and guidance, thereby exemplifying the GTI slogan, "***The Instinct for Growth***."

Grant Thornton is currently one of the most influential global organizations, with over 68,000 employees and global sales of $7.2 billion for the 2021-2022 fiscal year.

Figure N°7: Grant Thornton Revenue Distribution in 2022



Source: Internal document

In June 2016, Grant Thornton International Ltd. ranked among the top 50 most attractive employers in the world, according to a survey conducted by Universum (an international organization active in the employer brand sector since 1998).

2. Grant Thornton Algeria:

Grant Thornton Algeria is the Algerian member of the international Grant Thornton organization, known as Grant Thornton International (GTI). It is one of the most prominent audit and consulting firms in Algeria, with a particular focus on its core businesses. The firm offers a range of services, including audit, consulting, accounting outsourcing, legal, tax, and social consulting. Grant Thornton Algeria's membership of the GTI network is predicated on a commitment to the principles of independence, professional excellence, transparency, and integrity.

3. History of Grant Thornton Algeria

- **1985:** Creation of the auditing and accounting firm Boussa & Associés;
- **2007:** Transformation of the firm into an auditing, consulting and training joint-stock company: AFC El Djazair;
- **2011:** Integration into the Grant Thornton international network as a member firm. AFC El Djazair becomes Grant Thornton;
- **2012:** Creation of AFC Formation, specialized in inter- and intra-company training. Acquisition of SOLIC Algérie, specialized in human resources consulting and recruitment;
- **2014:** Opening of a new office in Hassi-Messaoud New partners Founding member of GTAF: Grant Thornton Afrique Francophone.

4. Service offer

Grant Thornton supports numerous clients in all sectors and of all sizes. Grant Thornton Algeria offers its expertise in:

- **Audit**

- Statutory audit
- Contractual Audit
- Internal Audit
- Tax, Social, HR Audit
- Audit Reporting

- Due Diligences
- Institutional and organizational audit
- Special assignments / Audit according to agreed procedures
- Conversion to IFRS
- Inventories and fixed assets.
- IT Audit (Information System Audit)

- **Advisory:**

- Organization /Optimization of company organizations.
- Company valuation
- Enterprise architecture
- AMOA & PMO & project management
- Strategy diagnosis and implementation
- Process mapping.
- Risk mapping.
- Transformation management
- Audit and optimization of organizations
- Internal control system
- IS strategy and governance
- Diagnosis and evaluation of information systems
- Risk management (Business Risk Services)
- Initial public offering.

- **Outsourcing:**

- Accounting & Reporting
- Wage management and social security
- Establishment/liquidation of companies
- Legal secretariat
- Regulatory oversight (Work & Social Security Law, Tax Law, Accounting Law, Business Law)
- Preparation of financial statements and summary statements
- Administrative assistance to public and private administrations

- **Taxation:**

- Tax registration by legal form
- Local taxation
- VAT exemption management
- Management of fund transfers
- Tax compliance (declarations and relations with tax authorities)
- Assistance with tax audits and litigation
- Tax optimization
- Consulting & Assistance
- Taxation of expatriates
- Taxation of permanent establishments
- Oil taxation
- International Taxation & Transfer Pricing

5. Grant Thornton's values

The Grant Thornton network has six (06) values, which are summarized in the following figure:

Figure N°8: Grant Thornton's values

Source: Internal document

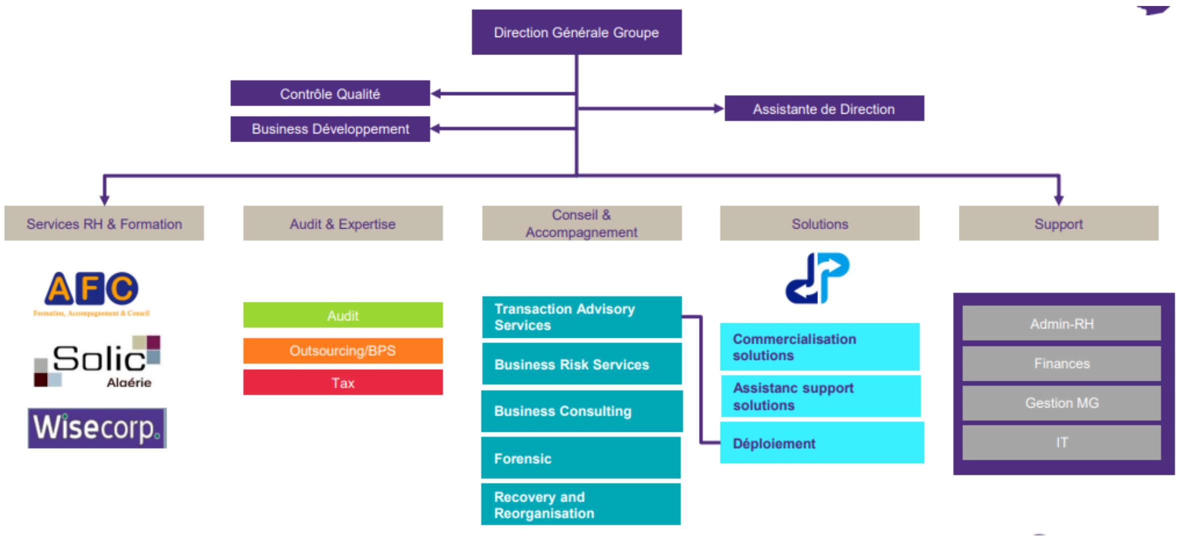
- ✓ **Collaboration:** Unify through global collaboration.
- ✓ **Leadership:** Demonstrate leadership in all our activities.

- ✓ **Excellence:** Promote a consistent culture of excellence.
- ✓ **Agility:** Act with agility.
- ✓ **Respect:** Ensuring deep respect for our customers and employees.
- ✓ **Responsibility:** Take responsibility for our actions.

6. Organization of Grant Thornton Algeria

Grant Thornton Algeria organization chart is structured as follows:

Figure N°9: Grant Thornton Algeria organization chart



Source: Internal document

- **AFC Formation:**

AFC Formation is a private vocational training establishment approved by the Ministry of Vocational Training and Education since 2014. This accreditation confers on us a permanent need to deliver high-quality, high-level training courses.

The expertise of the recognized trainers-consultants, who possess both field experience and professional know-how, as well as the training engineering expertise of AFC, enables the company to cover the main areas of its activity. This testifies to its willingness and commitment to support entities in their search for performance and success in their projects. AFC achieves this through the various devices proposed, which are appropriate to the needs of the entities in question.

- **Solic Algeria:**

Solic is the first independent French group for human resources consulting and specialized recruitment. Its Algeria branch, established in 2007, accompanies clients on all recruitment campaigns, from sourcing to candidate evaluation. Additionally, Solic provides clients with its extensive knowledge of the Algerian employment market and regulations to advise on HR development strategies. Solic Algeria also offers consultancy services in human resources, including opinion barometers, skills assessment, coaching, etc.

- **Wisecorp:**

Established in 2017 is a subsidiary of Grant Thornton Algeria that offers its clients its technical assistance with skilled works for oil services through its office located in southern Algeria.

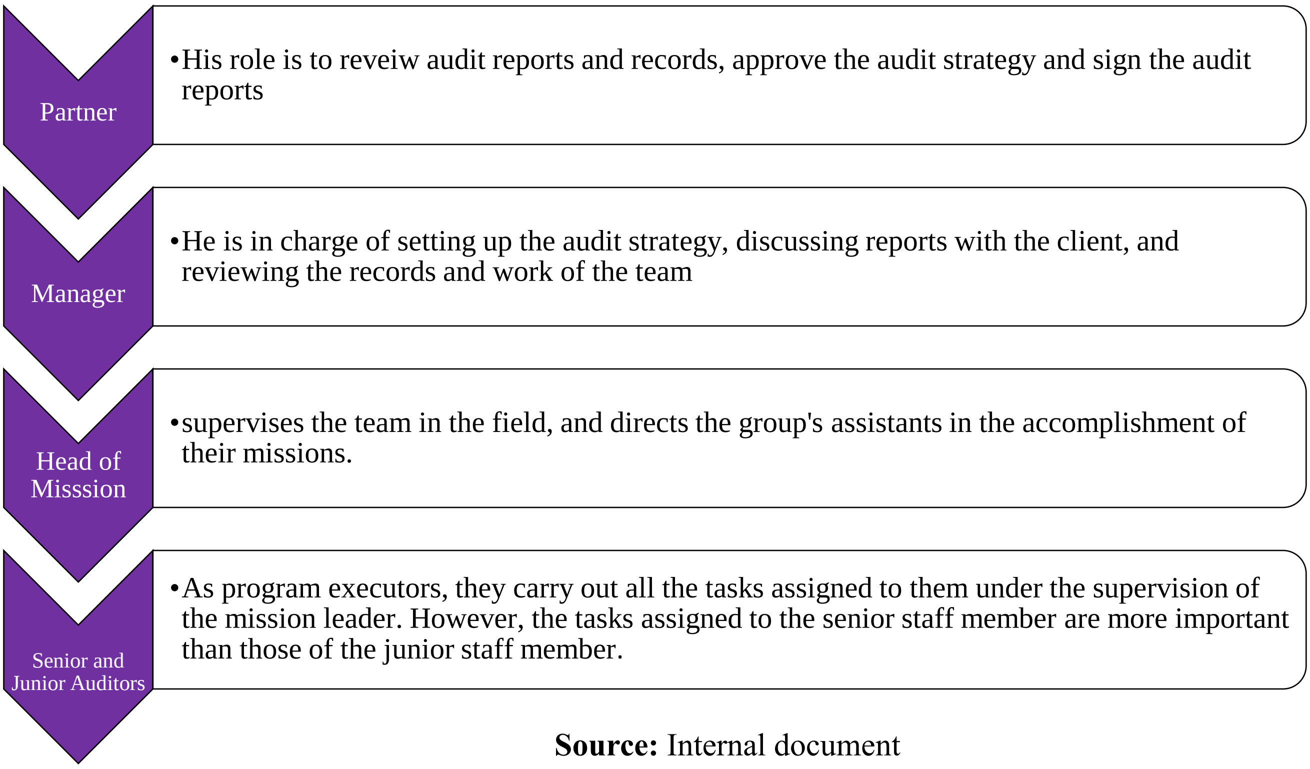
- **AFC Grant Thornton:**

AFC Grant Thornton is an accounting and accounting firm. It is listed under No. 0362 of the national table of accountants for the year 2021 and Under No. 2712 of the table of the National Chamber of Auditors for the year 2021. This private institution represented by the partner of Grant Thornton Algeria: Mr. SOFIANE BILEK, chartered accountant and statutory auditor.

7. Organization of the Grant Thornton Algeria audit team

The figure below provides a summary of the structure of the Audit team at Grant Thornton Algeria:

Figure N°10: Organization of Grant Thornton Algeria audit team



Source: Internal document

In summary, this section provided a comprehensive outline of the international and national activities of Grant Thornton, along with its principal domains of specialization, which include auditing.

Section 2: Presentation of Grant Thornton's audit methodology

"Horizon" is a methodology that has been developed by international teams and is recognized as a leader in technological and information technology advancements. Additionally, Grant Thornton has created a software application known as "Voyager" that streamlines the audit procedure and provides a dependable and effective platform. By incorporating the "Horizon" methodology into this software, it becomes possible to utilize it for a variety of audit, review, and accounting tasks.

1. Phases of the Horizon methodology

The following figure summarizes the main stages of Horizon audit methodology:

Figure N°11: Phases of the Horizon methodology

Source: Internal document

- ✓ **Preliminary activities:** During this phase, the auditor performs preliminary work at the start of the audit engagement, in order to identify and evaluate events or circumstances that may adversely affect the ability to plan and carry out the audit engagement. In addition to acceptance and maintenance procedures, preliminary activities include the appointment of members of the mission team and the approval of the terms of the audit mission.
- ✓ **Risk assessment and planning:** Risk assessment procedures are designed to identify and assess the risks of material misstatement by obtaining an understanding of the entity and its environment, including its internal control. The methodology requires certain risk assessment procedures and related activities, including planning, in order to perform the audit effectively and to provide a basis for designing and implementing responses to assessed risks. Risk assessment and planning also include the determination of materiality levels.
- ✓ **Respond to risks:** Sufficient appropriate evidence is obtained about the identified and assessed risks of material misstatement, through the design and implementation of appropriate responses to those risks. Responses differ for risks at the financial statement level and for risks at the assertion level.

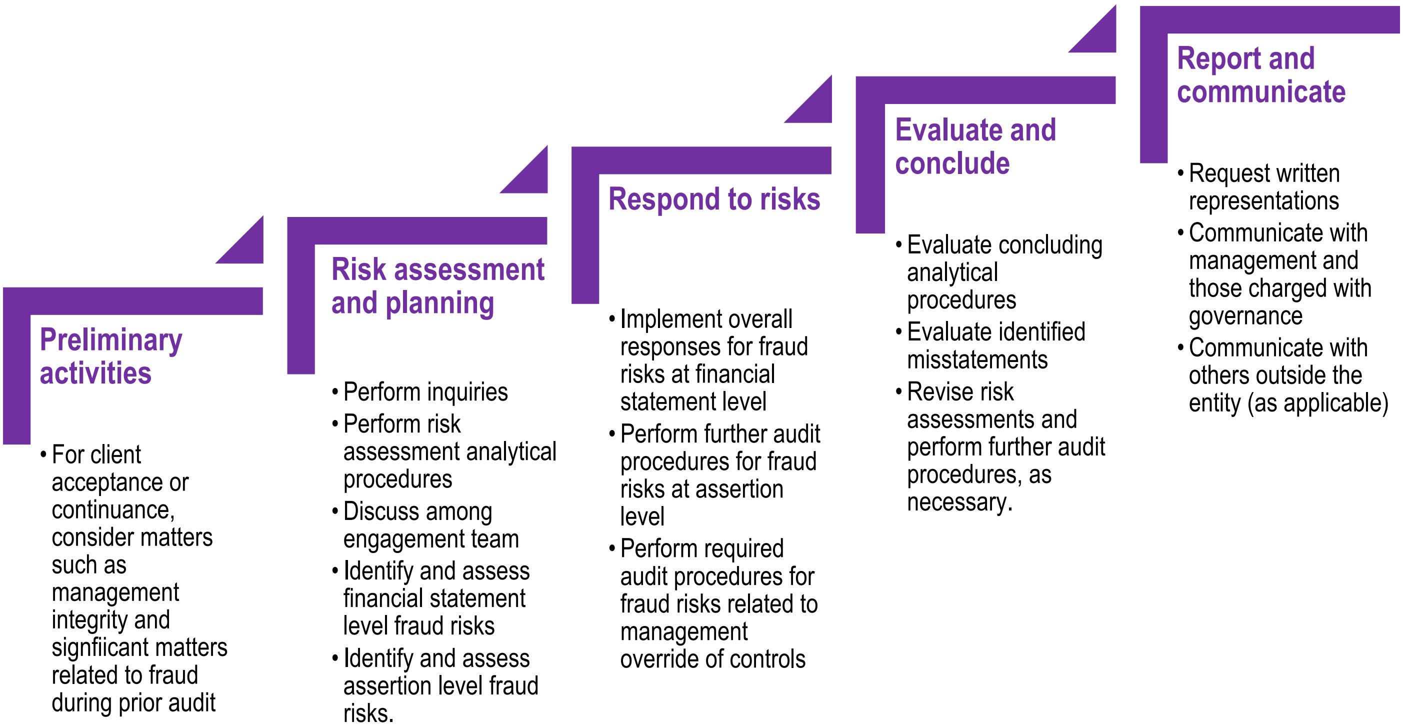
✓ **Evaluate and conclude:** To form an opinion on the financial statements as a whole, the conclusions drawn from the audit evidence obtained are evaluated, which includes:

- Performing analytical procedures to help form an overall conclusion.
- Evaluating the sufficiency and appropriateness of audit evidence.
- Evaluating identified misstatements, including the effects of uncorrected misstatements.

✓ **Report and communicate:** During this phase, an appropriate audit report is prepared and issued. Furthermore, while various communications typically take place throughout the audit, this stage also includes communications with management, governance and parties and bodies outside the entity. Procedures for supplementary and other information are also implemented where appropriate.

With regard to the risk of fraud, the audit team carries out specific tasks at each of the phases described above. The following figure presents and lists the work to be carried out by the auditor during the course of the mission, in relation to the risk of fraud:

Figure N°12: Responsibilities relating to fraud in each phase of Horizon



Source: Internal document

2. Audit assertions

In accordance with the "Horizon" methodology, there are several assertions, which are as follows:

Table N°5: Audit assertions according to the "Horizon" methodology

Assertion	Abbreviation	Balance sheet	Income statement
Completeness	C	Have all assets and liabilities been recorded?	Have all revenues and expenses been recorded?
Cut-off	CO	Have all assets and liabilities been recorded over the right period?	Have all revenues and expenses been recorded over the right period?
Existence	E	Do recorded assets and liabilities exist?	Did the recorded transactions take place?
Accuracy	A	Are the amounts relating to assets and liabilities recorded accurately?	Are the amounts relating to revenues and expenses recorded accurately?
Valuation	V	Have assets and liabilities been recorded at the appropriate amounts?	Have revenues and expenses been recorded with the appropriate amounts?
Rights and obligations	R&O	Does the client own the registered assets? Are registered liabilities the responsibility of the customer?	Did the customer really take part in the transactions? Were they carried out for the customer's needs?
Presentation and disclosure	P&D	Are assets and liabilities correctly presented in the balance sheet and described in the notes?	Are revenues and expenses correctly presented in the income statement and described in the notes?

Source: Internal document

3. Materiality thresholds

Materiality in auditing refers to the significance of financial information or misstatements in influencing the decisions of users of financial statements. It plays a crucial role in determining the extent of audit procedures and evidence required, impacting the auditor's judgment and evaluation of financial misstatements.[1]

3.1 Overall materiality (Planning materiality)

This is the materiality level set for the overall financial statements. It represents the maximum amount of misstatement that could be present in the financial statements without affecting the decisions of reasonable users.

In Horizon methodology overall materiality is based on a percentage of a benchmark such as total revenues, total assets, or net income.

3.2 Performance Materiality

This is an amount set below the overall materiality to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds the overall materiality. It’s ranging in Horizon from 50% to 75% of the overall materiality.

3.3 Tolerable Misstatement

Tolerable Misstatement is a materiality level set for particular classes of transactions, account balances, or disclosures for which misstatements of lesser amounts than overall materiality could influence the economic decisions of users.

To summarize, this section has examined Grant Thornton methodologies and it’s employed procedures during audit engagements.

Section 3: Case study

This final section will detail an audit engagement conducted in accordance with GT methodology, as well as fraud-related issues that arise at each stage of the mission.

In accordance with the auditor's legal responsibilities and to ensure confidentiality, the audited company's name will be obscured and the amounts utilized will be modified.

The context of this engagement is a contractual audit conducted within the framework of the consolidation of group accounts. The group, which has subsidiaries in multiple countries,

[1] Kochinev, Y. Y., Antysheva, E. R., & Isroilov, B. (2023). *Formalizing the materiality assessment for audit procedures. In Lecture notes in networks and systems* (pp. 839–846).

consolidates its financial statements quarterly, and the auditors perform their responsibilities in order to provide a final opinion.

1. Presentation of the Alpha company

Alpha is a global leader that has evolved from a local manufacturer of electrical products into an integrated infrastructure solutions provider, it has been evolving in its field for over 80 years, with nearly 12,000 employees and 25 production units. With proven expertise, the group has conquered new markets and is expanding internationally (Europe Africa Middle East Africa ...), and continues to invest in ambitious projects.

2. Preliminary activities

With regard to a contract renewal, GTA (Grant Thornton Algeria) has performed preliminary work at this stage with the aim of obtaining the information it considers necessary to justify its decision to renew or reject the assignment.

Initially, stakeholder investigations were carried out, then GTA decided on the applicability of the client management reference framework in the preparation of the financial statements, and then it ensured its independence and that of its teams and its ability to comply with the ethical rules.

The table below presents the procedures implemented by GTA during this phase:

Table N°6: Preliminary activities in Alpha mission

Procedure	**Description**	**Conclusion**
Takes the client's integrity into consideration and is not aware of any information that would lead it to consider that the client lacks integrity.	In order to ensure the integrity of the client, research has been performed to ascertain the absence of events that could call into question the integrity of the company's management, directors and shareholders.	satisfactory
Non-existence of conflicts of interest	Communications were made to the group, as well as internally, to ensure there were no conflicts of interest.	satisfactory
Acceptable accounting principles and standards	The financial statements are prepared in accordance with IAS/IFRS, which is an appropriate framework given the nature of the mission and the nature of the company.	satisfactory
Consideration of being competent to accomplish the mission and its capabilities, timeliness and resources	The firm has an experienced and specialized staff. A team with several members could be assigned to the mission.	satisfactory
Compliance with ethics and independence regulations	After numerous checks with the firm's network and the commitments and relationships of its stakeholders, including staff, the firm affirms its independence and respect for ethical regulations, and would report any violations.	satisfactory

Source: Developed by ourselves from an internal document

- **Engagement letter**

To establish whether the prerequisites for an audit have been met, an engagement letter demonstrating the agreement of management and, where applicable, those charged with governance of the company, that they acknowledge and understand their responsibilities in the preparation of the financial statements and in the conduct of the audit engagement.

3. Risk assessment and planning

3.1 Understanding the entity

A series of interviews were conducted with the company's most senior figures, including the CFO, the CEO, and the head of accounting. The participants were asked to provide responses to a series of questionnaires pertaining to their work and opinions.

A review of the responses from management has led to the following conclusions:

- There are no changes to the entity business and its environment.
- There are no changes to the entity’s accounting policies and practices.
- There are no changes to internal control.
- There are no litigations and claims, guarantees and onerous contracts.
- There are no other matters to report.

3.2 Materiality

The materiality thresholds set for this mission are as follows:

✓ Planning materiality = 122 299 335,00 DZD
✓ Performance Materiality = 79 494 567,75 DZD
✓ Tolerable Misstatement = 6 114 966,75 DZD

3.3 Preliminary analytical review:

- **Objective**

The objective of this review is to assess whether the overall review of financial statements at the end of the audit are consistent with our findings during the audit.

- **Procedures Performed**

- Obtained the financial statements for the year and previous year.
- Plotted the numbers of both the years for each caption of financial statements.
- Computed the variances between both the years in terms of numbers and percentage.

3.3.1 Profit and loss statement

The analytical review of the income statement is presented in the following figure:

Figure N°13: Income statement analytical review

In thousands of DZD	31-Dec-2023	31-Dec-2022	Var	Var %
Sales	8 153 289	6 989 809	1 163 480	17%
Cost of sales	-7 442 796	-6 638 623	-804 173	12%
Gross Margin	710 493	351 186	359 307	102%
Administrative and selling expenses	-380 266	-304 840	-75 426	25%
Formed and reversed impairment or doubtful debts	-270 172	-225 662	-44 510	20%
Finance costs	-402 482	-343 460	-59 022	17%
Gains from sale and fixed assets	0	10	-10	-100%
Other income	0	0	0	0%
Other expense	0	0	0	0%
Foreign exchange differences	-15 858	-37 088	21 230	-57%
Profit/Loss Before Tax	-358 286	-559 855	201 568	-36%
Current tax expense	0	0	0	0%
Deferred tax	51 333	33 314	18 019	54%
Tax Income Tax	51 333	33 314	18 019	54%
Profit/Loss of the period	-306 954	-526 541	219 588	-42%

Source: Developed by ourselves from the financial statements of Alpha.

3.3.2 Balance sheet (Assets)

The following figure shows the analytical review of assets:

Figure N°14: Assets analytical review

In thousands of DZD	31-Dec-2023	31-Dec-2022	Var	Var %
Non-Current Assets				
Intangible assets	774	883	-110	-12%
Property, plants and equipments-net	1 699 626	1 883 568	-183 942	-10%
Assets under construction	40 883	45 910	-5 026	-11%
Other non-current asserts	0	0	0	0%
Deferred tax assets	233 146	181 814	51 332	28%
Total Non-current Assets	1 974 428	2 112 174	-137 746	-7%
Current Assets				
Inventory	4 234 420	2 707 799	1 526 621	56%
Account receivables-net	4 523 073	4 466 240	56 833	1%
Other debit balances-net	1 186 718	943 624	243 094	26%
Due from affiliates-current account	118 033	141 350	-23 317	-16%
Cash on hand and at bank	153 096	96 870	56 226	58%
Total Current Assets	10 215 339	8 355 882	1 859 457	22%
Total Assets	12 189 767	10 468 057	1 721 710	16%

Source: Developed by ourselves from the financial statements of Alpha

3.3.3 Balance sheet (Equities and liabilities)

The following figure shows the analytical review of equites and liabilities:

Figure N°15: Equities and liabilities analytical review

In thousands of DZD	31-Dec-2023	31-Dec-2022	Var	Var %
Shareholder's Equites				
Paid-up capital	1 040 000	1 040 000	0	0%
Retained earnings	-710 860	206 050	-916 910	-445%
Legal reserve	121 442	121 442	0	0%
Other reserves	57 067	57 067	0	0%
Net loss/profit	-306 954	-916 910	609 955	-67%
Total Shareholder's equities	200 695	507 650	-306 954	-60%
Non-Current Liabilities				
Long term loans	112 500	180 000	-67 500	-38%
Total Non-Current Liabilities	112 500	180 000	-67 500	-38%
Current Liabilities				
Provisions	1 600	1 600	0	0%
Credit bank facilities	9 603 662	7 841 720	1 761 942	22%
Account payables	1 293 966	1 081 387	212 578	20%
Other credit balances	887 335	765 700	121 635	16%
Current portion of long-term loans	90 000	90 000	0	0%
Dividends payables	0	0	0	0%
Due to immediate parent company	0	0	0	0%
Total Current Liabilities	11 876 563	9 780 407	2 096 156	21%
Total Liabilities	11 989 063	9 960 407	2 028 656	20%
Total Equities and Liabilities	12 189 767	10 468 057	1 721 702	16%

Source: Developed by ourselves from the financial statements of Alpha

4. Identifying and assessing significant risks of fraud

After performing risk assessment procedures, we have identified and assessed the following significant risks:

Table N°7: Significant fraud risks

Area	**Description**	**Financial statement risk**	**Audit Approach**	**Significance**
Revenue recognition	There may be fraudulent activities that lead to a misstatement of financial reporting, fraudulent revenue and misappropriation of. assets. Certain projects may incur overruns or included variable considerations, which might go un-discovered until a late stage of the project. Revenue might not be recognized as per applicable accounting standards.	Significant A/C - Revenue Assertions **(C, E, A)** Risk of Error **(Y)** Risk of Fraud **(Y)**	Revenue recognition risk covered through the components level that identified as significant	High
Inventory	Physical inventory does not exist, or physical quantity does not match with the actual quantity	Assertions **(E, V, A)** Risk of Fraud **(Y)**	Physical verification of inventory Checking valuation of inventory.	High

Source: Developed by ourselves from an internal document

5. Respond to risks

5.1 Revenue recognition

In order to respond to the risk of revenue recognition we performed the following procedures:

5.1.1 Test of controls

In order to record fair and accurate transactions and prevent and detect unauthorized acquisition, use, or disposition of assets that could materially affect the financial statements, Alpha has implemented a matrix of Internal controls over financial reporting.

The table below outlines the key internal controls established to mitigate the risk of fraud in revenue recognition:

Table N°8: Key controls matrix (revenue)

N°	Process	Control	Risk	Type of Risk	Control Activity	Control Owner	Frequency of Control	Control Type	Assertions
R.1	Determine the Transaction Price	Transaction prices that are higher than 25 MDZD, including any variable considerations, are reviewed and approved by the CFO.	Incorrect pricing or variable considerations	Error/Fraud	The CFO reviews the transaction price for accuracy and reasonableness, including any discounts, rebates, or other variable considerations. Approval is documented before finalizing the contract.	CFO	At contract initiation	Preventive	Accuracy, Valuation
R.2	Invoice and Payment Collection	Invoices are reviewed and approved by the AR manager, and collections are monitored regularly.	Invoices may be incorrect or payments not collected	Error/Fraud	Accounts Receivable Manager reviews invoices for accuracy before they are sent to customers. He monitors collections and follows up on overdue payments. Approval and monitoring are documented.	Accounts Receivable Manager	At invoicing and collection	Preventive/ Detective	Accuracy, Completeness, Valuation
R.3	Revenue Recognition Entry	Monthly reconciliations are conducted between revenue entries and delivery records to ensure accurate recognition.	Incorrect revenue recognition	Error/Fraud	The CFO performs monthly reconciliations to ensure that revenue entries match delivery records and invoices. Any discrepancies are investigated and resolved promptly.	CFO	Monthly	Detective	Accuracy, Completeness, Cut-off

Source: Developed by ourselves from Alpha's control matrix

To ascertain the efficacy of these controls, a series of tests were conducted. The following table presents the results of these tests:

Table N°9: Test of revenue controls

N°	Testing Approach	Nature of the tests	Conclusion
R.1	- We examined a sample of contracts with documents that contains the approval of the CFO to ensure that the transactions prices have been reviewed and approved.	Inquiry Observation	Satisfactory test
R.2	- We conducted an interview with the AR manger about his monitoring procedures and follow up actions. He reviews all invoices for accuracy, comparing them against contract terms and delivery records. Collections are monitored daily; - We attended a review of a sample of invoices and we retrieved the documents signed by him; - We have obtained an Excel document that contains overdue payments	Inquiry Inspection Observation	Satisfactory test
R.3	- We obtained monthly reconciliation reports signed by the CFO; - We matched a sample of revenue entries to delivery records and invoices; - We discussed the reconciliation process with the CFO to understand how discrepancies are identified and resolved.	Inquiry Inspection Reperformance	Satisfactory test

Source: Developed by ourselves from an internal document

Conclusion: We did not detect any weaknesses in controls**.**

5.1.2 Analytical review:

To understand the variation in sales we performed an analytical review by month:

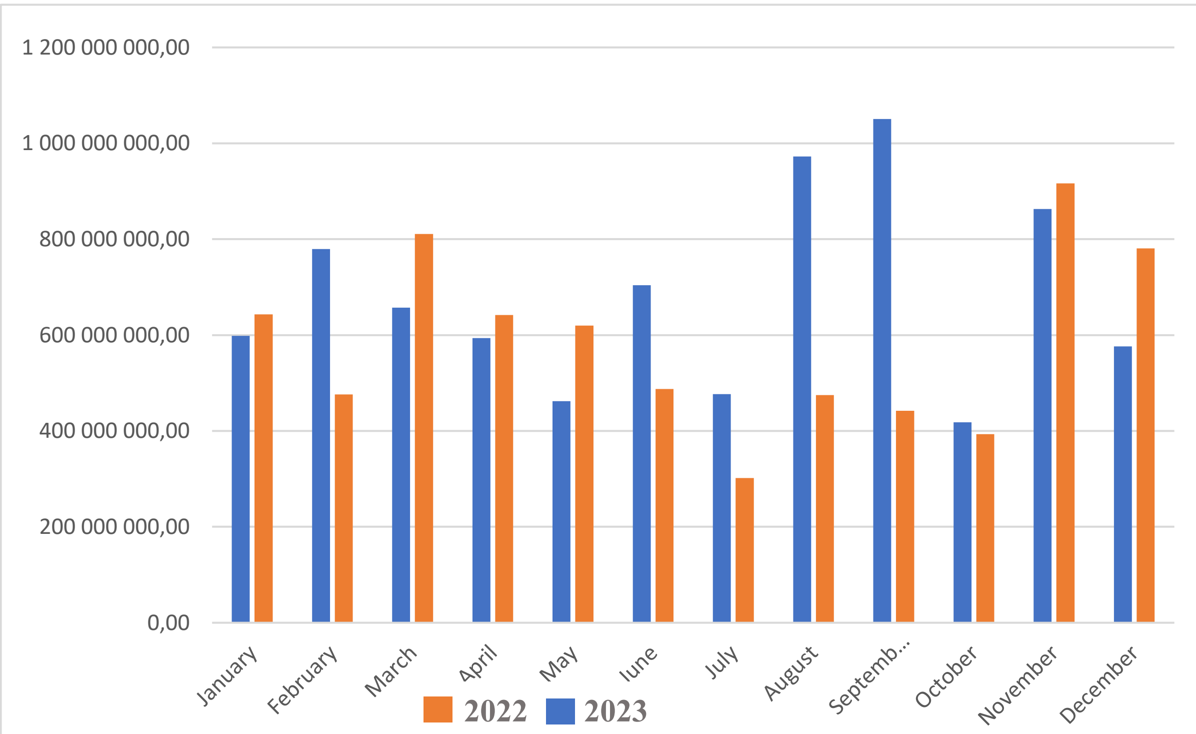
Table N°10: Sales analytical review by month

Month	2023	2022	Gap	Variation
January	598 350 615,00	643 169 497,00	-44 818 882,00	-7%
February	779 743 927,00	475 989 920,00	303 754 007,00	64%
March	657 170 121,00	810 849 250,00	-153 679 129,00	-19%
April	594 065 534,00	642 177 427,00	-48 111 893,00	-7%
May	461 894 811,00	620 116 764,00	-158 221 953,00	-26%
June	704 193 933,00	487 302 213,00	216 891 720,00	45%
July	477 084 793,00	301 892 885,00	175 191 908,00	58%
August	972 266 388,00	474 889 918,00	497 376 470,00	105%
September	1 050 645 075,00	442 043 576,00	608 601 499,00	138%
October	418 051 791,00	393 617 365,00	24 434 426,00	6%
November	863 187 877,00	916 282 124,00	-53 094 247,00	-6%
December	576 634 135,00	780 578 060,00	-203 943 925,00	-26%
Total	8 153 289 000,00	6 989 809 000,00	1 163 480 000,00	17%

Source: Developed by ourselves

Here is a histogram of sales variations between 2023 and 2022:

Figure N°16: histogram of sales variations between 2023 and 2022



Source: Developed by ourselves

This histogram shows the sales variations between 2023 and 2022. The overall sales increased by 1,163.4 million DZD, reflecting a 17% growth. However, the monthly variations indicate fluctuations. In January, sales decreased by 7%, followed by a significant 64% increase in February. March saw a 19% drop, and April and May continued the downward trend with declines of 7% and 26%, respectively. From June to September, there was substantial growth with increases of 45%, 58%, 105%, and 138%, respectively, suggesting a strong demand or successful business strategies during this period. October saw a modest 6% increase, while November experienced a slight 6% decrease. December ended the year with a significant 26% drop. Despite the monthly fluctuations, the overall trend from 2022 to 2023 was positive, driven by local policies and international market expansion.

- **Conclusion**

Sales increased by 1163.4 MDZD (+17%) from 6989.8 MDZD as at December 31, 2023 to 8153.2 MDZD as at December 31, 2022, this positive change is mainly explained by the increase in:

- Sales of transformer due to the Algerian Government's import ban on transformers, in order to encourage local production.
- Export sales, following the receipt of orders from African countries and Europe.

5.1.3 External confirmation

From the auxiliary customer balance, we selected customers on the basis of the following selection criteria: size of account balance; abnormal balances, particularly old balances or transactions; credit balances.

circularization letters are sent to a selection of the 5 most significant customers; these customers are automatically selected by a sampling tool which selects the customers with whom the company has had the most transactions, as well as those with large invoices; circularization letters sent to the customer contain a request for balance confirmation, as well as a request for a descriptive statement of purchasing procedures.

Below is a selection of customers who have been circularized:

Table N°11: List of circularized customers

Customer Number	Customer Name	Total
000351	CL001	1 001 329 315,00
003515	CL002	987 917 132,00
001236	CL003	864 652 598,00
000011	CL004	583 257 285,70
003334	CL005	351 369 383,00

Source: Developed by ourselves from an internal document

The primary objective of circularizing customers is to obtain external confirmation of account balances. This helps to substantiate the existence and accuracy of the reported receivables, ensuring that the financial statements present a true and fair view of the company's financial position. By obtaining direct responses from customers, auditors can independently verify the amounts owed to the company, thus reducing the risk of material misstatement due to error or fraud.

Four responses of external confirmations have been received, and the table below illustrates the reconciliation between the responses and the auxiliary balance:

Table N°12: Reconciliation between external confirmation and the auxiliary balance

Customer Number	Customer Name	External confirmation	Auxiliary Balance	Gap	Observation
000351	CL001	1 001 329 315,00	1 001 329 315,00	-	Satisfactory test
003515	CL002	987 917 132,00	987 917 132,00	-	
001236	CL003	864 652 598,00	864 652 598,00	-	
003334	CL005	351 369 383,00	351 369 383,00	-	

Source: Developed by ourselves from an internal document

The reconciliation between external confirmations and the auxiliary balance for customers CL001, CL002, CL003, and CL005 indicates a high level of accuracy and reliability in the company's financial records. The absence of discrepancies in the confirmed balances suggests that the company's accounts receivable balances are fairly stated.

Conclusion: Our reconciliation work between the balance confirmations and the auxiliary balance is satisfactory.

We didn't get a response for client CL004.We're going to use an alternative procedure:

Table N°13: Alternative procedure for CL004

General Ledger				GT check				
Customer Name	**Description**	**Date**	**Amount**	**N° invoice**	**Date**	**Amount**	**Gap**	**Observation**
CL004	Inv N°014/2023	10/04/2023	53 450 004,00	014/2023	10/04/2023	53 450 004,00	-	Satisfactory

Source: Developed by ourselves from an internal document

In the absence of a response from the customer CL004 for the circularization process, an alternative procedure was adopted to confirm the balance. This procedure entailed verifying the specific transaction details from internal records. The details from the general ledger were cross-checked with the GT check, focusing on invoice number 014/2023 dated 10/04/2023, amounting to 53 450 004,00. The amounts and dates were identical, indicating no discrepancies.

Conclusion: There is no significant anomaly, The test is satisfactory

5.1.4 Test of detail of the revenue

Our selection is based on the general ledger, we have selected the most significant amounts, representing 22 invoices.

We went back to the physical files and we made sure of that:

- The existence of an invoice and a delivery note for each sale;
- Matching invoices to delivery notes;
- The signature of the customer and Alpha on the Invoice/Delivery Note.

Our work is presented below:

Table N°14: Test of detail of revenue

Total population	8 153 289 000,00
Coverage	2 119 855 140,00
Coverage rate	**26%**
Number of tests to be performed	**22**

Source: Developed by ourselves from an internal document

The total revenue for the period was 8 153 289 000,00 DZD, and the audit covered 2 119 855 140,00 DZD, representing 26% of the total revenue. A total of 22 tests were performed on the selected revenue samples, which is appropriate to ensure reasonable assurance that the reported revenue is free from material misstatement. The detailed testing involved verifying supporting documentation such as invoices, contracts, and payment records to confirm the existence, accuracy, and completeness of the revenue transactions.

Conclusion: No significant anomalies, the test is satisfactory.

5.2 Inventory

We performed the following procedures to respond to the risk associated with inventory:

5.2.1 Test of controls

The following are the key controls in Alpha's control matrix that are in place to mitigate the risk of inventory fraud:

Table N°15: Key controls matrix (Inventory)

N°	Process	Control	Risk	Type of Risk	Control Activity	Control Owner	Frequency of Control	Control Type	Assertions
I.1	Receiving Inventory	Receipt of inventory is documented and verified against purchase orders.	Incorrect recording of received inventory	Error/Fraud	Receiving manager documents all received inventory and verifies it against the corresponding purchase orders. Discrepancies are noted and resolved.	Receiving Manager	Continuous	Preventive	Existence, Completeness, Accuracy
I.2	Inventory Storage	Inventory is stored in designated areas with access controls.	Unauthorized access or theft	Fraud	Inventory is stored in designated areas with restricted access. Regular checks are conducted to ensure security measures are followed.	Warehouse Manager	Continuous	Preventive	Existence, Rights and Obligations
I.3	Inventory Movement	Movement of inventory within the warehouse is tracked and documented.	Loss or misplacement of inventory	Error/Fraud	All movements of inventory within the warehouse are tracked using a barcode system and documented in the inventory management system.	Warehouse Manager	Continuous	Preventive	Completeness, Accuracy, Valuation
I.4	Inventory Counts	Regular physical inventory counts are conducted and reconciled with records.	Discrepancies between physical and recorded inventory	Error/Fraud	Regular physical counts are conducted, and results are reconciled with inventory records. Discrepancies are investigated and resolved.	Inventory Manager	Monthly	Detective	Existence, Completeness, Accuracy
I.5	Shipping Inventory	Documentation and verification of inventory shipped to customers.	Incorrect recording of shipped inventory	Error/Fraud	Shipping staff documents all shipments and verifies them against sales orders. Discrepancies are noted and resolved.	Shipping Manager	Continuous	Preventive	Existence, Completeness, Accuracy
I.6	Inventory Reconciliation	Regular reconciliation of inventory records with financial statements.	Discrepancies between inventory records and financial statements	Error/Fraud	Regular reconciliations are conducted between inventory records and the financial statements. Discrepancies are investigated and resolved.	CFO	Monthly	Detective	Accuracy, Completeness, Cut-off

Source: Developed by ourselves from Alpha's control matrix

The following procedures were performed to test these controls:

Table N°16: Test of inventory controls

N°	Testing Approach	Nature of the tests	Conclusion
I.1	- We collected a sample of purchase orders and matched it with receiving logs; - We observed the receiving process and discuss it with the receiving manager.	Inspection Inquiry Observation	Satisfactory test
I.2	- We obtained a document contains access logs for the warehouse; - We made a tour in the storage area and checked for compliance	Inspection Observation	Satisfactory test
I.3	- We observed the inventory movements within the warehouse; - We obtained inventory movement logs; - We tracked a sample of inventory movement using the inventory management system and we obtained screenshots from it.	Inspection Observation Reperformance	Satisfactory test
I.4	- We obtained and reviewed the inventory counts records and reconciliation reports; - We attended an inventory count with the inventory manager; - We made a reconciliation of physical counts with inventory records.	Inspection Observation Reperformance	Satisfactory test
I.5	- We observed the shipping process; - We reviewed a sample of shipping logs and matched it with sale orders.	Inspection Observation	Satisfactory test
I.6	- We conducted an interview with the CFO to understand the reconciliation process; - We obtained and reviewed reconciliations reports that contains the signature of the CFO; - We matched a sample of inventory records with financial statements.	Inspection Inquiry Reperformance	Satisfactory test

Source: Developed by ourselves from an internal document.

Conclusion: We did not detect any weaknesses in controls**.**

5.2.2 Analytical review

Inventories show a significant increase of 1526.6 MDZD (+56%), passing from 2707.7 MDZD as of December 31, 2022 to 4234.4 MDZD as of December 31, 2023, this change is related to the increase in:

- Copper and Insulations, sheathing group inventories, and cables finished goods by respectively 475.3 MDZD, 231.7 MDZD, 187.7 MDZD
- Increase of Cables finished goods by 135.4 MDZD,
- Transformers group inventories by 378.1 MDZD, which can be explained by the increasing local demand, especially after the ban on the import of transformers.

5.2.3 Reconciliation

- **work performed**

- Reconciliation of balances in the accounts with amounts in the inventory record.

Table N°17: Reconciliation between trial balance and inventory record

Description	Trial Balance	Inventory record	Gap	Observation
Inventory	4 234 420 000,00	4 234 418 070,00	1 930,00	Not Significant

Source: Internal document

Conclusion: No significant anomaly, satisfactory test.

5.2.3.1 allowance for inventory losses

- **work performed**

- Revaluation of allowance for inventory losses.

Table N°18: Reconciliation between recorded allowance for inventory losses and the revaluation of GT

Allowance for inventory losses re-estimated	140 456 000,00
Recorded allowance for inventory losses	140 410 451,00
Gap	45 549,00

Source: Internal document

Conclusion: No significant anomaly, satisfactory test.

5.2.4 Physical inventory

- **work performed**

- Retrieving the inventory report and reconcile it with the trial balance.

Table N°19: Reconciliation between trial balance and inventory report.

Inventory report	4 234 419 897,00
Trial balance	4 234 420 000,00
Gap	103,00

Source: Internal document

Conclusion: No significant anomaly, satisfactory test.

6. Evaluation and conclusion

Misstatements identified during the audit are evaluated to determine whether they are caused by fraud. If so, the audit team must evaluate the effect of the misstatement on other aspects of the audit, in particular the reliability of management's assertions, recognizing that fraud is unlikely to be an isolated event.

In this engagement, misstatements were identified and subsequently evaluated by the audit team. Based on the evidence obtained and their professional judgment, the audit team classified these observations as misstatements due to errors.

7. Report and communication

Prior to the signing of the audit report, a representation letter was obtained containing written statements to the signatory partner regarding the responsibilities of management and those charged with governance in the preparation of the financial statements.

7.1 Communications with management and those charged with governance

Various communications with management take place during the audit engagement. Mandatory communications covered issues relating to identified or suspected misstatements, fraud, material weaknesses and other identified control deficiencies.

Conclusion

In this final chapter, the concepts discussed in the theoretical section were effectively applied. During Alpha's audit engagement, identified fraud risks were addressed by applying tests of controls, substantive analytical procedures, and tests of details. All mandatory communications with management were conducted in a timely and effective manner. By evaluating identified misstatements, fraud, and control deficiencies, valuable insights were provided to both management and those charged with governance. This thorough approach to addressing these issues demonstrates a commitment to conducting a comprehensive and reliable audit.

Grant Thornton has illustrated its expertise and professionalism, implementing a rigorous methodology that complies with international auditing standards and best practices in the field resulting in a high-quality audit that adds credibility to the financial statements. This dedication ensures that stakeholders can have confidence in the accuracy and reliability of the information presented.

General Conclusion

General Conclusion

Since the recent financial scandals, and the revelations in the media of several cases of financial manipulation by companies, a major crisis of confidence has been triggered in the financial market.

Auditors have been accused of not fully fulfilling their role. As a result, the major risk they face is that of issuing an erroneous opinion, i.e. essentially certifying accounts containing errors resulting from fraud that have neither been detected and corrected by the company, nor detected by them.

In order to curb this crisis and restore investor confidence, several international regulatory authorities have reacted by implementing and reviewing auditing standards like ISA 240.

Against this backdrop, our study aims to strengthen and increase professional awareness of fraud risk factors and to clarify the nature and extent of fraud due diligence to be performed as part of an audit engagement. The problematic addressed was as follows: **« How can auditing financial statements play a role in fraud prevention and detection in accordance with international standards on auditing? »**

The first chapter lays the groundwork by explaining the fundamental principles of auditing and the nature of fraud. It delves into the concept of the fraud triangle, which illustrates the conditions that often lead to fraudulent activities. Additionally, it highlights the key international standards that guide auditing practices, emphasizing the auditor's responsibilities in detecting and preventing fraud.

The second chapter presents a detailed case study conducted at Grant Thornton Algeria. This chapter showcases the application of Grant Thornton’s audit methodology, "Horizon," in a real-world audit mission. It provides a comprehensive overview of the organization, its audit practices, and a specific audit engagement that incorporated the identification and assessment of fraud risks.

Based on our study we confirmed the following hypothesis;

H1: The primary objective of auditors is to obtain a reasonable assurance that the financial statements are free from material misstatement due to error and fraud.

Absolutely, auditors according to ISA standards are responsible to express an opinion about the financial statements by obtaining a reasonable assurance which is the highest level of assurance. Auditors performs their duties diligently and in accordance with professional standards to provide a high level of confidence in the accuracy of the financial statements. This level of assurance is achieved through a combination of risk assessment, testing of controls, and substantive procedures. Auditor's main objectives does not include detecting and preventing fraud, it is the responsibility of management and those charged with governance.

H2: The most common fraud schemes include asset misappropriation, fraudulent financial reporting, and corruption, all of which can distort financial statements by inflating revenues, understating expenses, or misrepresenting assets and liabilities.

The Association of Certified Fraud Examiners defines three main categories of occupational fraud, each of the three main types of fraud is subdivided into a number of distinct fraud schemes such as asset misappropriation which involves the theft or misuse of an organization's assets, fraudulent financial reporting which entails the intentional manipulation of financial statements and finally Corruption which involves illicit activities. All of these schemes have an impact on the financial statements whether it was direct or indirect.

H3: Compliance with ISA standards assist auditors at Grant Thornton Algeria to identify potentials fraudulent activities through responding to identified risks of material misstatement due to fraud, especially responding to high-risk areas such as revenue recognition.

The case study of Grant Thornton Algeria provided a detailed look at the practical implementation of these standards, showcasing the procedures and methodologies employed by auditors to detect and respond to fraud risks. Key findings include:

- **Risk Assessment Procedures:** Auditors are required to perform risk assessment procedures to identify areas where financial statements might be materially misstated due to fraud. This involves understanding the entity's operations, conducting preliminary analytical procedures, and discussing potential fraud risks with management and those charged with governance.
- **Testing of Controls:** Effective audits involve testing the operating effectiveness of internal controls. This helps auditors assess whether controls are designed and implemented properly to prevent or detect material misstatements due to fraud.
- **Substantive Procedures:** These procedures are designed to detect material misstatements at the assertion level, focusing on specific transactions, account balances, and disclosures. Techniques include substantive analytical procedures and tests of details, which are crucial for verifying the accuracy and completeness of financial information.

- **Professional Skepticism:** Maintaining an attitude of professional skepticism is essential for auditors. This means not accepting evidence at face value, being alert to conditions that might indicate possible misstatement due to fraud, and critically assessing the validity of audit evidence.

The detailed audit processes and methodologies employed at Grant Thornton Algeria demonstrated the real-world applicability and benefits of ISA standards. These standards guide auditors in developing a structured approach to identify, assess, and respond to fraud risks, thereby enhancing the overall effectiveness of the audit process.

In addition to the immediate implications of our findings, several avenues for future research emerge. There is a need studies on the effectiveness of machine learning and artificial intelligence in fraud detection within the audit process.

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