

6. FRAUD AND RESPONSIBILITIES OF AUDITOR

QUESTION - WISE ANALYSIS OF PREVIOUS EXAMINATIONS

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CHAPTER OVERVIEW

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SECTION 1: THEORY FOR CLASSROOM DISCUSSION

Q.No.1. Define the term Fraud and discuss the characteristics and types of Fraud? (B) (NEW SM)

- 1) **DEFINITION OF FRAUD:** SA - 240* defines the term 'fraud' 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".
- 2) **CHARACTERISTICS OF FRAUD:**
 - a) Fraud is Intentional.
 - b) Although fraud is a broad legal concept and the auditor is concerned only with the type of fraud that causes a material misstatement in the financial statements.
- 3) **TYPES OF FRAUDS:**
 - a) Fraudulent financial reporting - Intentional Misstatements like Omissions, Misrepresentation.
 - b) Misappropriation of assets - Theft or Unauthorised usage of entity's assets.

NOTE: *SA 240 - The Auditors responsibilities relating to fraud in an audit of financial statements.

SIMILAR QUESTIONS:

1. Although fraud is a broad legal concept, for the purposes of the SAs, the auditor is concerned with fraud that causes a material misstatement in the financial statements. Explain. RTP M18(N)
- A. Refer above answer
2. What do you understand by the term 'fraud'? Provide its meaning as given under the Standard on Auditing (SA 240)? NEW SM - TYK
- A. Refer above answer and in context with SA 240

Q.No.2. Detection of Fraud is responsibility of an auditor. Explain? (A) (NEW SM)

- 1) **MANAGEMENT RESPONSIBILITY TO PREVENT AND DETECT FRAUD:** As per SA 240 the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

2) AUDITOR'S RESPONSIBILITIES FOR DETECTION OF FRAUD AND ERROR:

- a) As per the SA's the auditor is responsible for obtaining reasonable assurance whether the financial statements taken as a whole are free from material misstatement.
- b) When obtaining reasonable assurance, the auditor is responsible for maintaining an attitude of professional skepticism throughout the audit,
- c) The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error.
- d) The risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud.
- e) The auditor's ability to detect a fraud depends on factors such as -
 - i) The skilfulness of the perpetrator.
 - ii) The degree of collusion involved.
 - iii) The relative size of individual amounts manipulated.
 - iv) Experience of Person committed fraud.
 - v) Frequency of fraud committed.
- f) The liability of the auditor for failure to detect fraud exists only when such failure is clearly due to not exercising reasonable care and skill. (If auditor acted negligently)
- g) If the auditor can prove with the help of his working papers (documentation) that he has conducted the audit in a proper manner, he cannot be held responsible for the same.

SIMILAR QUESTIONS:

1. While auditing XYZ Ltd., the auditor was told by Mr. Mahesh, the CEO of the company, that he would be responsible for the fraud & errors, if any, occurring in the books of accounts of the company. NEW SM
- A. Refer above answer
2. After the completion of statutory audit of ABC Ltd., a fraud was detected at the office of the auditee. The management of the company alleged that there is a failure on the part of the auditor to detect fraud and that auditor would be responsible for not detecting fraud in the company. NEW SM
- A. Refer above answer
3. Fraud can be committed by management overriding controls using such techniques as engaging in complex transactions that are structured to misrepresent the financial position or financial performance of the entity.
In view of the above-mentioned circumstances of management fraud, explain briefly duties and responsibilities of an auditor in case of material misstatement resulting from such Management Fraud. NEW SM- TYK
- A. Refer above answer
4. As per SA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements", the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. Explain. SM
- A. Refer above answer

Q.No.3. What are the Factors which cause the fraudulent financial reporting or misappropriation of assets? (B) (NEW SM)

Following are the factors by which lead to cause the fraudulent financial reporting or misappropriation of assets:

- 1) **PRESSURES:** Fraudulent financial reporting can occurs, when the management is under pressure, from sources outside or inside the entity, say, to achieve an expected earnings target.
- 2) **PERCEIVED OPPORTUNITY:** When an individual believes internal control can be overridden. For example, the individual has knowledge of specific deficiencies in internal control.
- 3) **RATIONALIZATION OF THE INDIVIDUALS:**
 - a) Individuals may be able to rationalize committing a fraudulent act.
 - b) Some individuals possess an attitude, character or set of ethical values that allow them knowingly and intentionally to commit a dishonest act.

SIMILAR QUESTIONS:

1. Fraud, whether fraudulent financial reporting or misappropriation of assets, involves incentive or pressure to commit fraud, a perceived opportunity to do so and some rationalization of the act. Explain with examples. MTP M19 (N), N18(N), M18(N) MTPM20(N),2MTPM19
- A. Write above full answer and write examples.

Q.No.4. Fraud Risk Factors.**(B) (NEW SM)**

- 1) **DEFINITION:** Fraud Risk Factors refers to events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

- 2) **FRAUD RISK FACTORS:**

The examples of Risk factors relating to two types of frauds are discussed separately in subsequent questions. The two types of frauds which we discussed in the earlier questions are:

- a) Fraudulent financial reporting, and
- b) Misappropriation of assets

For each of these types of fraud, the risk factors are further classified based on the three criteria's:

- a) Incentives/pressures,
- b) Opportunities, and
- c) Attitudes/rationalizations.

SIMILAR QUESTIONS:

1. The fraud risk factors identified are examples of such factors that may be faced by auditors in a broad range of situations. Explain. SM
- A. Refer above answer

Q.No.5. Why fraudulent financial reporting is committed?**(B) (NEW SM)**

Auditors require great intelligence for detection of manipulation of accounts because generally Top management is associated with this type of fraud.

This type of fraud is generally committed for various reasons including:

- 1) To avoid incidence of income-tax or other taxes;
- 2) For declaring a dividend when there are insufficient profits;
- 3) To withhold declaration of dividend even when there is adequate profit and
- 4) For receiving higher remuneration where managerial remuneration is payable by reference to profits.

SIMILAR QUESTIONS:

1. Detection of Manipulation of accounts with a view to present a false state of affairs is a task requiring greater tact and intelligence. Explain clearly how this type of fraud is generally committed. RTP-N19(N)
- A. Write above full answer and write examples.

Q.No.6. What are the ways for committing Fraudulent Financial Reporting (or) Manipulation of accounts?**(B) (NEW SM)**

Following are the methods of committing manipulation of accounts:

- 1) Inflating or suppressing -
 - a) purchases and expenses;
 - b) sales and other items of income,
 - c) the value of closing inventory;

- 2) Omitting to adjust outstanding liabilities or prepaid expenses; and
- 3) Charging items of capital expenditure to revenue or vice versa. (Misapplication of Principles).

**Q.No.7. Write about risk factors relating to misstatements arising from fraudulent financial reporting.
(A) (NEW SM)**

The following are the risk factors relating to misstatements arising from fraudulent financial reporting -

- 1) **INCENTIVES/PRESSURES:** Financial stability or profitability is threatened by economic, industry, or entity operating conditions, such as:
 - a) High degree of competition accompanied by declining margins.
 - b) High vulnerability to rapid changes, such as changes in technology, or interest rates.
 - c) Significant declines in customer demand and increasing business failures
 - d) Operating losses making the threat of bankruptcy.
 - e) Recurring negative cash flows from operations
 - f) New accounting, statutory, or regulatory requirements.
- 2) **OPPORTUNITIES:** The nature of the industry or the entity's operations provides opportunities to engage in fraudulent financial reporting that can arise from the following:
 - a) Significant related-party transactions not in the ordinary course of business
 - b) A strong financial presence or ability to dominate a certain industry sector may result in inappropriate or non-arm's-length transactions.
 - c) Assets, liabilities, revenues, or expenses based on significant estimates that involve subjective judgments or uncertainties that are difficult to corroborate.
 - d) Highly complex transactions, especially those close to period end that pose difficult "substance over form" questions.
 - e) Significant bank accounts or subsidiary or branch operations in tax-haven jurisdictions for which there appears to be no clear business justification.
- 3) **ATTITUDES/RATIONALIZATIONS:**
Communication, implementation, support or enforcement of the entity's values or ethical standards by management are not effective, or the communication of inappropriate values or ethical standards.
 - a) Known history of violations of securities laws or other laws and regulations.
 - b) Excessive interest by management in maintaining the entity's inventory price or earnings trend.
 - c) Management failing to remedy for known significant deficiencies in internal control on a timely basis.
 - d) An interest by management in employing inappropriate means to minimize reported earnings for tax-motivated reasons.
 - e) The owner-manager makes no distinction between personal and business transactions.

SIMILAR QUESTIONS:

1. Conditions or events which increases risk of Fraud or error leading to material misstatements in financial statements?
MTP M18(O)
- A. Write any six points from above answers selected from every part.
2. Fraud Risk Factors are the events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Further, the nature of the industry or the entity's operations also provides opportunities to engage in fraudulent financial reporting. List out some of the cases from where these opportunities may arise.
NEW SM - TYK
- A. Refer Point B above in addition to Question 4

Q.No.8. Explain the Misappropriation of Assets?**(B) (NEW SM)**

It involves the theft of an entity's assets by employees in relatively small and immaterial amounts (Pilferage). It can also involve management who are usually more able to conceal misappropriations in ways that are difficult to detect.

Misappropriation of assets can be accomplished in a variety of ways including:

- 1) Embezzling receipts. E.g: misappropriating collections on accounts receivable.
- 2) Stealing physical assets or intellectual property. **E.g:** Stealing inventory for personal use or, colluding with a competitor by disclosing technological data.
- 3) Causing an entity to pay for goods and services not received. **E.g:** payments to fictitious vendors, payments to fictitious employees
- 4) Using an entity's assets for personal use (Unauthorized usage). **E.g:** using the entity's assets as collateral for a personal loan.

Misappropriation of assets is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

EXAMPLE:

Vineet is a manager in Zed Ex Ltd. He is having authority to sign cheques up to Rs.10,000. While performing the audit, Rajan, the auditor, noticed that there were many cheques of Rs.9,999 which had been signed by Vineet. Further Vineet had split large payments (amounting to more than Rs.10,000 each, into two or more cheques less than Rs.10,000 each so that he may authorize the payments). This raised suspicion in the auditor. The auditor found that the cheques of Rs.9,999 were deposited in Vineet's personal account i.e. Vineet had misappropriated the amount. Splitting the cheques into lower amounts involves manipulation of accounts. The fraud was committed by an employee.

Q.No.9. Briefly discuss about Defalcation of Cash?**(A) (NEW SM)**

Following are the ways of defalcation of cash:

1) BY INFLATING CASH PAYMENTS:

- a) Making payments against fictitious vouchers.
- b) Making payments against vouchers, the amounts whereof have been inflated.
- c) Manipulating totals of wage rolls either by including therein names of dummy workers
- d) Casting a larger totals for petty cash expenditure and adjusting the excess in the totals (ICAI SM)

2) BY SUPPRESSING CASH RECEIPTS:**a) Teeming and Lading:**

- i) Amount received from the first customer being misappropriated
 - ii) In the above case to prevent its detection the money received from second customer subsequently being credited to the account of the first customer.
 - iii) Similarly, moneys received from the third customer who has paid thereafter being credited to the account of the second customer so that no one account is outstanding for send out a statement of account to him or communicate with him.
- b) Adjusting unauthorised or fictitious rebates, discounts, etc. to customer's accounts
 - c) Writing off as bad debts in respect of cash has already been received.
 - d) Not accounting for cash sales fully.
 - e) Not accounting for miscellaneous receipts, e.g., sale of scrap, quarters allotted to the employees, etc.
 - f) Writing down asset values in entirety, selling them subsequently and misappropriating the proceeds

3) CASTING WRONG TOTALS

SIMILAR QUESTIONS:

1. Discuss the different ways in which defalcation of cash may take place? RTP M19 (N), MTP M18 (N)
- A. Refer above answer.
2. Saburi Yarns Ltd is engaged in manufacturing and trading of yarns of different types. Its huge amount is locked up in account receivables. Moreover, Management of Saburi Yarns Ltd is worried about its Internal Control system over receipts from account receivables and other receipts. Management wants to understand from you as an auditor few techniques as to how receipts can be suppressed resulting into frauds and finally incurring losses. RTP M18 (N&O)
- A. Refer above answer point B
3. There are many ways for cash defalcation, one of which is by suppressing cash receipts. List out few techniques of how the receipts are suppressed. NEW SM - TYK
- A. Refer above answer point B

Q.No.10. Write a short note on Misappropriation of Goods?

(C) (NEW SM)

1) MISAPPROPRIATION OF GOODS:

- a) Fraud in the form of misappropriation of goods is still more difficult to detect and management has to rely on various measures.
- b) Apart from the various requirements of record keeping about the physical quantities and their periodic checks, there must be rules and procedures for allowing persons inside the warehouse.
- c) In addition there should be external security arrangements to see that goods are taken out only with proper authority.
- d) Goods can be anything and it may be machinery or even the daily necessities of the office like stationery.
- e) The goods may be removed by subordinate employees or even by persons quite higher up in the management.

2) DETECTION BY AUDITORS:

- a) Auditors can detect this by undertaking a thorough and careful checking of records followed by physical verification process.
- b) Also, by resorting to intelligent ratio analysis, auditors may be able to form an idea whether such fraud exists.
- c) Example, The input output ratio of production in terms of physical quantity may reveal whether output is normal with reference to the quantity consumed for production.

SIMILAR QUESTION:

1. Fraud in the form of misappropriation of goods is still more difficult to detect. Explain. RTP M17, MTP N18 (O)
- A. Refer above answer

Q.No.11. Risk Factors Arising from Misstatements Arising from Misappropriation of Assets.

(B)

Risk factors that relate to misstatements arising from misappropriation of assets are also classified into the three criteria's:

- 1) Incentives/pressures,
- 2) Opportunities, and
- 3) Attitudes/rationalization.

The following are examples of risk factors related to misstatements arising from misappropriation of assets-

1) INCENTIVES/PRESSURES:

- a) Personal financial obligations may create pressure on management or employees with access to cash or other assets susceptible to theft or misappropriation of assets.

- b) Adverse relationships between the entity and employees:
 - i) Known or anticipated future employee layoffs.
 - ii) Recent or anticipated changes to employee compensation or benefit plans.
 - iii) Promotions, compensation, or other rewards inconsistent with expectations.
- 2) **OPPORTUNITIES:** Opportunities to misappropriate assets increase when there are the following:
 - a) Large amounts of cash on hand.
 - b) Inventory items that are small in size, of high value, or in high demand.
 - c) Easily convertible assets, such as bearer bonds, diamonds, or computer chips or stamps.
 - d) Fixed assets which are small in size, marketable, or lacking observable identification of ownership.
- 3) **ATTITUDES/RATIONALIZATIONS:** Lack of commitment for monitoring or reducing risks related to misappropriations of assets.
 - a) Disregard for internal control over misappropriation of assets by overriding existing controls
 - b) Behaviour indicating dissatisfaction with the entity or its treatment of the employee.
 - c) Sudden Changes in behaviour or lifestyle that may indicate assets have been misappropriated.
 - d) Tolerance of petty theft.

Q.No.12. Circumstances that indicate the possibility of fraud.

(A) RTPM (20) (NEW SM)

The following are the circumstances that may indicate the possibility of material misstatement resulting from fraud-

- 1) **DISCREPANCIES IN THE ACCOUNTING RECORDS, INCLUDING:**
 - a) Transactions that are not recorded in complete or are improperly recorded as to amount, or entity policy.
 - b) Unauthorized balances or transactions
 - c) Last-minute adjustments that significantly affect financial results.
 - d) Tips or complaints to the auditor about alleged fraud.
- 2) **CONFLICTING OR MISSING EVIDENCE:**
 - a) Missing documents.
 - b) Documents that appear to have been altered.
 - c) Significant unexplained items on reconciliations.
 - d) Unusual discrepancies between the entity's records and confirmation replies.
 - e) Large numbers of credit entries and other adjustments made to accounts receivable records.
 - f) Missing inventory or physical assets of significant magnitude.
- 3) **PROBLEMATIC OR UNUSUAL RELATIONSHIPS BETWEEN THE AUDITOR AND MANAGEMENT:**
 - a) Denial of access to records, vendors, or others from whom, audit evidence might be sought.
 - b) Undue time pressures imposed by management to resolve complex issues.
 - c) Unusual delays by the entity in providing requested information.
 - d) Unwillingness to facilitate auditor access to key electronic files for testing through the use of computer-assisted audit techniques (CAAT).
 - e) Denial of access to key IT operations staff and facilities
 - f) Unwillingness to add or revise disclosures in the financial statements to make them more complete
 - g) Unwillingness to address identified deficiencies in internal control on a timely basis.

NOTE: There is a marginal difference between fraud risk factors and circumstances indicating fraud. The first one deal with factors that exist before commencement of audit procedures and while the later arises during the conduct of audit through audit procedures.

SIMILAR QUESTIONS:

1. Fraud, whether fraudulent financial reporting or misappropriation of assets, involves incentive or pressure to commit fraud, a perceived opportunity to do so and some rationalization of the act. Explain with examples MTP M19 (N&O)
A. Write Point - C.
2. Write any five circumstances of conflicting or missing evidence that indicate the possibility of fraud. N18 (N)-5M
A. Write Point - B.
3. Write the circumstances that indicate the possibility of fraud due to problematic or unusual relationship between the auditor and management. M18 (O)-5M
A. Write Point - C.
4. Discrepancies in the accounting records, including transactions that are not recorded in a complete or timely manner or are improperly recorded as to amount, accounting period, classification, or entity policy is one of the example of circumstances that indicate the possibility of fraud. Explain at least four other such examples relating to discrepancies in the accounting records. RTP M20(N)
A. Refer Point - A

SECTION 2: QUESTIONS FOR ACADEMIC INTEREST FOR STUDENTS SELF STUDY

Q.No.1. Write about the auditor unable to continue the engagement.

(B) (NEW SM)

If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall:

- 1) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person who made the audit appointment or, in some cases, to regulatory authorities;
- 2) Consider whether it is appropriate to withdraw from the engagement, where withdrawal is possible under applicable law or regulation; and
- 3) **If the auditor withdraws:**
 - a) Discuss with the appropriate level of management and those charged with governance of the auditor's withdrawal and the reasons for the withdrawal; and
 - b) Determine whether there is a professional or legal requirement to report to regulatory authorities about the auditor's withdrawal and the reasons for the withdrawal.
- 4) In case of Company, if the auditor resigns from the company then he shall inform to the following persons: Sec. 140(2).
 - a) To the officers of the company.
 - b) To ROC in Form ADT - 3
 - c) To C&AG in case of Government company.

SIMILAR QUESTION:

1. Explain how you would deal as an auditor if, as a result of a misstatement resulting from fraud or suspected fraud, you encounter exceptional circumstances that bring into question your ability to continue performing the audit. RTP M19(N), RTP N20(N)
A. Refer above answer

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Q.No.2. Discuss the cases in which relationship is strained between management and the current or predecessor auditor? (C) (NEW SM)

The relationship between management and the current or predecessor auditor is strained, as exhibited by the following:

- 1) Frequent disputes with the current or predecessor auditor on accounting, auditing, or reporting matters.
- 2) Unreasonable demands on the auditor, such as unrealistic time constraints regarding the completion of the audit.
- 3) Restrictions on the auditor that inappropriately limit access to people or information.
- 4) Dominant management behaviour in dealing with the auditor, especially involving attempts to influence the scope of the auditor's work.

Q.No.3. Why do Management/ Employees commit fraud? What induces Management/ Employees to commit fraud? (C) (NEW SM)

Following are certain instances which will lead to commit fraud by Management/Employees:

- 1) Financial obligations/ Pressure.
- 2) Management's unrealistic goals.
- 3) Dissatisfied Employees or Lack of motivation among employees.
- 4) Name game (e.g. management using power of authority by asking employees to do something illegal).
- 5) Opportunity to commit fraud.

Q.No.4. Discuss the techniques by which fraud can be committed by management overriding controls in view of Fraudulent Financial Reporting? (C) (NEW SM)

Following are the techniques by which fraud can be committed by management overriding controls:

- 1) Recording fictitious journal entries, particularly close to the end of an accounting period, to manipulate operating results.
- 2) Inappropriately adjusting assumptions and changing judgments used to estimate account balances.
- 3) Omitting, advancing or delaying recognition of events and transactions in the financial statements
- 4) Concealing, or not disclosing facts that could affect the amounts recorded in the financial statements.
- 5) Complex transactions that are structured to misrepresent the financial position of the entity.
- 6) Altering records and terms related to significant and unusual transactions.

Q.No.5. Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures to deceive financial statement users. Explain clearly how Fraudulent financial reporting can be accomplished? (B) (RTP M19 (O), RTP N17) MTPN19(N)

MEANING:

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

It can be caused by the efforts of management to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.

FRAUDULENT FINANCIAL REPORTING MAY BE ACCOMPLISHED BY THE FOLLOWING:

- 1) Manipulation, falsification, or alteration of accounting records from which the financial statements are prepared.

- 2) Misrepresentation or intentional omission of events or transactions in the financial statements.
- 3) Intentional misapplication of accounting principles relating to amounts, classification, or disclosure.

Q.No.6. Discuss the circumstances in which inadequate internal control over assets may increase the susceptibility of misappropriation of those assets. (Or) Discuss the circumstances in which misappropriation of assets may occur because of various reasons. (C) (NEW SM)

MISAPPROPRIATION OF ASSETS MAY OCCUR BECAUSE THERE IS THE FOLLOWING:

- 1) Inadequate segregation of duties or independent checks.
- 2) Inadequate oversight of senior management expenditures
- 3) Inadequate record keeping with respect to assets.
- 4) Inadequate system of authorization and approval of transactions
- 5) Inadequate physical safeguards over assets.
- 6) Lack of complete and timely reconciliations of assets.
- 7) Lack of timely and appropriate documentation of transactions,
- 8) Lack of mandatory vacations for employees performing key control functions.
- 9) Inadequate management understanding of information technology.

Q.No.7. Briefly explain self-revealing errors with the help of some illustration. (C) (NEW SM - TYK)

SELF-REVEALING ERRORS: These are such errors the existence of which becomes apparent in the process of compilation of accounts. A few illustrations of such errors are given hereunder, showing how they become apparent.

i)	Omission to post a part of a journal entry to the ledger	Trial balance is thrown out of agreement.
ii)	Wrong totalling of the Purchase Register.	Control Account (e.g., the Sundry Trade payables Account) balances and the aggregate of the balances in the personal ledger will disagree.
iii)	A failure to record in the cash book amounts paid into or withdrawn from the bank	Bank reconciliation statement will show up error.
iv)	A mistake in recording amount received from X in the account of Y.	Statements of account of parties will reveal mistake.

From the above, it is clear that certain apparent errors balance almost automatically by double entry accounting procedure and by following established practices that lie within the accounting system but not being generally considered to be a part of it, like bank reconciliation or sending monthly statements of account for confirmation.

SECTION 3: PRACTICAL QUESTIONS

Q.No.1. Shakti Cables Ltd is engaged in manufacturing and trading of cables of different types. Its Books of account are not properly maintained and the control system is weak, so the possibility of frauds and errors are enormous and the auditor, even with the best of his efforts, may not be able to detect all of them. The fact is recognised by the Courts from a study of the various judgments. State the tests that would be applied by the courts to view the auditor’s performance judicially. (RTP M19 (O))

If the books of account are not properly maintained and if the control system is weak, the possibility of frauds and errors are enormous and the auditor, even with the best of his efforts, may not be able to detect all of them. The fact is recognised by the Courts as is obvious from a study of the various judgments. The auditor’s performance is judicially viewed by applying the following tests:

- 1) Whether the auditor has exercised reasonable care and skill in carrying out his work;
- 2) Whether the errors and frauds were such as could have been detected in the ordinary course of checking without the aid of any special efforts;
- 3) Whether the auditor had any reason to suspect the existence of the errors and frauds; and
- 4) Whether the error or fraud was so deep laid that the same might not have been detected by the application of normal audit procedures.

THE END

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