

The Auditor's Responsibility for Finding Errors and Fraud from Financial Situations: Case Study

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Abstract *The purpose of this article is to highlight the auditor's responsibility for detecting errors and fraud in the financial statements of an economic entity. The approaches to the concepts of error and fraud are presented through the interpretations of the audit specialists, as well as other considerations regarding the auditor's responsibility in their discovery in the financial statements. The article is accompanied by a detailed case study in which the procedure for auditing the financial situation of an economic entity is performed by going through all stages specific to the auditing process. The article ends with the author's conclusions regarding the findings made and the auditor's responsibility for detecting errors and fraud in the financial statements.*

Key words Auditor, error, fraud, risk factors, financial statements

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1. Introduction and objectives

In this era of technology, fraud has become very complicated and very difficult to detect, especially when it is collusive in nature and committed by superior leadership that has the ability to hide it. The fraudsters hide it deliberately, making it difficult for the auditors to find it, regardless of the form of fraud. This difficulty is particularly found in detecting fraud in financial statements, and in this respect, the auditors' responsibility is very large, but also the need to develop specific auditing procedures or strategies to detect fraud. The objectives of this study are: (1) *to identify the risk factors associated with the occurrence of errors and fraud in the financial statements of an economic entity*; (2) *carrying out a detailed case study on the detection of errors and fraud in the financial statements of an economic entity*.

2. Literature review

2.1. Error and fraud. Auditor's Responsibility

With regard to the detection of errors and frauds, specialized literature offers a wide range of explanations on the limitation of the auditor's judgment (Wilks and Zimbelman, 2004), but also in their identification (Krambia-Kapardis, 2010; Carpenter, 2007). Audit Standard no. 82 has not changed as regards the auditor's responsibility for detecting fraud, but the new amended standard provides guidance on how the auditor should plan and perform the audit to identify the risks of material misstatement resulting from errors or fraud (Albrecht *et al.*, 2009; Arens *et al.*, 2008). Some specialists argued that the role of the auditor is to detect fraud as an objective of the audit (Alleyne and Howard, 2005), while other specialists claimed it was the auditor's duty to report to shareholders all the acts of dishonesty that had happened and which affected the ownership of the content Financial statements (Bishop, 2004). In practice, the auditor is more likely to be suspected than to prove the frauds or irregularities produced, although he should be able to detect all material frauds (Hassink *et al.*, 2010). Regardless of its nature, fraud, once detected, must be removed, and this can not be done by an auditor on its own, but by anti-fraud measures that an entity may adopt (Hemraj, 2004). Management fraud involves circumventing the internal control procedure and often escapes detection until a company has suffered irreparable damage (Carmichael, 2004). Fraud management is fraudulent in financial reporting or misapplication of accounting principles (Alleyne *et al.*, 2010).

Fraud may occur in unavoidable or unpunished situations because responsibility for preventing it is not a task normally attributed. Fraud may persist when its prevention is not taken seriously, can not be avoided and may occur under the following conditions: 1) misappropriation of assets, 2) overestimation of assets or undervaluation of debt to present a more favorable financial position and/or operating result, 3) the theft of assets through transactions with branches or subsidiaries of the parent, and 4) the lack of disclosure of significant information (Elder *et al.*, 2010). Fraud is a ubiquitous fact of life in the business world (Luowers *et al.*, 2011). According to the opinion of audit specialists, fraud can be formulated as: deliberate action by a person or group of people to mislead in order to obtain financial gains (Elder *et al.*, 2010) or as follows: deliberate measures taken by One or more people to deceive with the purpose of misappropriating the assets of a business, distorting an apparent financial performance of an organization or power, or obtaining undue advantages (Hemraj, 2004).

2.2. Other considerations regarding the auditor's risk and responsibilities

The auditor should carry out an audit engagement in line with International Standards on Auditing (ISA). They contain basic principles and essential procedures, along with related recommendations, in the form of explanatory materials and other materials. While conducting an audit may be a way of preventing fraud and error, the auditor is not and can not be held responsible for their prevention. An auditor can not obtain absolute certification that significant misstatements in the financial statements will be detected but is only able to obtain reasonable assurance about that fact. Although the audit is properly planned and deployed due to the inherent limitations of an audit engagement, there is an inevitable risk that some material misstatements of the financial statements will not be detected.

The risk of not detecting significant misstatement due to fraud is greater than the risk of not detecting significant misstatement due to errors, as fraud involves actions aimed at concealing them, such as forgery, deliberate non-recording of transactions or incorrect statements intentional to the auditor. Thus, the auditor may believe that audit evidence is persuasive when, in fact, they are false. The auditor's risk of not detecting significant misstatement in managerial fraud is greater than that of employee fraud because the position of those charged with governance and governance requires integrity and allows them to disregard control procedures to prevent fraud.

The subsequent discovery of material misstatement of the financial statements does not prove that the auditor lacked professional competence or used inappropriate reasoning and was not in compliance with ISA. The auditor's opinion is based on reasonable assurance and therefore does not guarantee that all misstatements of fraud or error have been detected.

The auditor should plan and perform the audit engagement with a professional skepticism attitude, admitting that there may be circumstances in which the financial statements are materially misstated. An attitude of professional skepticism means that the auditor performs a critical assessment of the validity of audit evidence obtained and is mindful of those audit evidence that contradicts or casts doubt on the credibility of management documents or statements. However, unless the audit discloses evidence to the contrary, the auditor is entitled to accept the records and documents as real, and they are not experts in authentication.

An auditor who performs an audit in accordance with international auditing standards is responsible for obtaining reasonable assurance that the financial statements taken together do not contain material misstatements caused either by fraud or by error. As described in ISA 200 "General Objectives and Principles Governing an Audit of Financial Statements," because of the inherent limitations of an audit, there is a risk that can not be avoided by not detecting significant misstatements in the financial statements, If the audit is properly planned and conducted in accordance with international auditing standards.

The risk of not detecting a significant error resulting from fraud is greater than the risk of not detecting one resulting from an error. This is because fraud can involve sophisticated and carefully organized schemes to hide it, such as theft, deliberate non-recording of transactions, or intentional erroneous statements made by the auditor. Such attempts to conceal can be more difficult to detect when accompanied by agreements. Understanding can make the auditor believe that audit evidence is convincing when, in fact, they are false. The auditor's ability to detect fraud depends on factors such as how skillful the

initiator was, the frequency and magnitude of the manipulation, the degree of collusion to hide it, the relative size of the individual amounts handled and the functions of the persons involved. Although the auditor can identify potential opportunities for fraud perpetuation, it is difficult for the auditor to determine whether reasoning distortions such as accounting estimates are caused by fraud or error.

Moreover, the risk that the auditor will not detect significant misstatement resulting from management fraud is greater than that of an employee's fraud because management is often in a position to directly or indirectly manipulate accounting records, Present fraudulent financial information or bypass control procedures to prevent similar frauds made by employees of the entity.

When planning the audit, the auditor should assess the risk that fraud and error may lead to material misstatement in the financial statements and he will request management information about any fraud or material error that has been discovered. In addition to structural weaknesses in accounting and internal control systems and non-compliance with the internal control requirements, there are conditions or events that increase the risk of fraud and error. These include: (1) aspects of honesty or competence of management; (2) unnecessary internal or external circumstances that affect the activity of the economic operator; (3) unusual transactions; (4) problems in obtaining sufficient and appropriate audit evidence. The auditor, based on risk assessment, must develop audit procedures that can reasonably be assured that misstatements, caused by fraud and error, that are significant to the financial statements as a whole, are discovered.

The auditor therefore seeks sufficient and appropriate audit evidence that fraud and error that may be material to the financial statements have not occurred or, if they occur, the results of the fraud are appropriately reflected in the financial statements and the error is corrected. The probability of discovering errors is usually greater than the probability of finding fraud, since fraud is usually accompanied by actions specifically designed to hide its existence.

Due to the inherent limitations in an audit, there is an inevitable risk of not discerning significant misstatements in financial statements as a result of fraud and, to a lesser extent, of error. The subsequent discovery of material misstatement in financial statements as a result of fraud or error that occurred during the audited period does not indicate in itself that the auditor deviated from the underlying principles and did not apply the necessary audit procedures. The auditor's compliance with these principles and the application of the necessary procedures are determined by the appropriateness of the audit procedures applied to the circumstances and the auditor's report's compliance with the required requirements, based on the results of those procedures. When applying audit procedures, based on the results of the risk assessment, indicates the possibility of fraud or error, the auditor should consider their potential influence on the financial statements. If the auditor considers that the reported fraud or error can have a material influence on the financial statements, the auditor should perform the appropriate amended or additional procedures.

The volume of these modified or additional procedures depends on the auditor's assessment of: (a) the type of fraud or possible error; (B) the likelihood of their existence and (c) the likelihood that a certain type of fraud or error can have a significant effect on the financial statements.

If circumstances do not indicate otherwise, the auditor can not assume that fraud or error is a single case. If necessary, the auditor corrects the nature, timing, and volume of substantive procedures. The auditor should communicate operationally to the management of the facts discovered if: (a) the auditor suspects the possibility of fraud even if its possible influence on the financial statements is insignificant; (B) considerable fraud or error has been discovered in reality.

When determining a representative of the business entity to which he or she is reporting on the likely fraud or error or the actual existence thereof, the auditor should consider all circumstances. With regard to fraud, the auditor is expected to determine the likelihood of involvement of the top management of the business. At discovery of the fraud, the auditor is to communicate this to the management of the economic agent, which has the subdivision subordinated to, the employees involved in the fraud. If the auditor finds involvement of the top management of the agent in the fraud, he will seek legal advice.

If the auditor concludes that fraud or error has a material influence on the financial statements and has not been adequately reflected or corrected in the financial statements, he or she must provide an opinion with or suggestion. If the auditor's management prevents the auditor from obtaining sufficient and

appropriate audit evidence for the purpose of establishing whether fraud or error, which may be material to the financial statements, has been possible or indeed occurred, the auditor has to give an opinion or to refuse Exposing your opinion on financial statements as a result of limiting the scope of the audit. If the auditor can not determine whether the fraud or error was caused by the circumstances created by the activity of the trader, he should take this into account when preparing the auditor's report.

2.3. Risk factors associated with the occurrence of errors and frauds in the financial accounting audit activity

The auditor may be held liable for fraud or error. However, in conducting the audit, he is required to take into account the risk that fraud or error affects the content of financial statements and communicates to the entity's management significant situations in which he has detected the probability of error or fraud. In the audit planning process, the auditor should assess the risk of material misstatement in the financial statements of fraud and error and ask the management of the audited entity for information about any fraud or material error that has been discovered.

Careful consideration of such situations requires the auditor to consider the possibility of fraud and/or error, as well as their potential effects on the financial statements. If the fraud/error is considered to have significant effects on items or on a segment of the balance sheet/profit and loss account, the auditor should use appropriate additional procedures to determine whether it is an isolated case or a serious case with Meanings and major consequences. Regardless of the magnitude and significant or insignificant nature of suspected or discovered fraud, the auditor is required to disclose the findings to the management of the entity as soon as possible. Considering the existence of the risk of non-discovery, the auditor should establish procedures that allow the detection of errors or fraud without affecting the content and substance of the financial statements. If the suspicion of fraud and error could not be eliminated through the auditing procedures used, the auditor is required to inform the management of the entity and, if necessary, to report the findings in the audit report.

Corresponding to the communication procedures with the management team established at the beginning of the assignment, the auditor should report more important findings to the management team. The information on the existence of fraud and error in the financial statements must be based on concrete findings on the subject, specifying the potential effects on the assets and liabilities of the company, the results presented in the balance sheet and in the profit and loss account. If the use of routine audit procedures reveals the possibility of fraud or error, the auditor is required to analyze the potential incidents on the financial statements. If, owing to constraints imposed by circumstances rather than the entity, the auditor can determine whether frauds or errors have occurred, the auditor should consider the effects on the audit report. If fundamental errors and/or changes in accounting policies with a high materiality threshold in previous years are discovered in the entity's current period, such that in the financial statements of one or more prior periods can no longer be regarded as disclosing The date of their issue, it is mandatory to correct them.

Fraud risk factors associated with misstatements resulting from fraudulent financial reporting can be grouped into the following categories: (1) Management features and control environment influences; (2) Specific conditions for the sector of activity; (3) Operational characteristics.

The theme addressed in this study focuses on management characteristics and influences on the control environment. These risk factors relate to the capabilities, pressures, style and attitude of management associated with internal control and the financial reporting process. There are motivations for which management can engage in fraudulent financial reporting.

3. Methodology of research

Considering the two main objectives of this scientific approach, the author also took into account other research techniques and procedures such as: reviewing the literature, observing, interviewing, collecting and processing data, synthesizing the theoretical of the research results from the entity, audited and analyzed according to the procedures specific to this process.

4. Case study on the detection of errors and frauds in the financial statements of an economic entity

4.1. Audit Report of audited entity

Audit report of the financial statements of the financial year

The Exercise Dossier

To: Economic entity

To the attention of Mr. President of the Board of Directors

In executing the contract no. 1275/15.01.2017 we present the audit report of the financial statements of the financial entity 2016 of the economic entity.

The annual accounts audited for the year 2016 as set out in Annexes 1. The balance sheet and the profit and loss account refer to:

Total balance sheet: 5864434 lei;

Turnover: 5394364 lei;

The profit and loss account with a net result of the year, profit of 383728 lei.

These accounts have been set up under the responsibility of the company's management and the auditor has the responsibility, on the basis of this report, to express an opinion on the annual accounts and the balance sheet drawn up by the economic entity on 31.12.2016.

The verification and certification of the balance sheet was carried out in accordance with the legal regulations in force at the date of the audit, namely:

- Company Law no. 31/1990;
- Accounting Law no. 82/1991 and its Implementing Regulation.

These rules and regulations require that the audit be planned and executed in such a way as to obtain reasonable assurance that there are no significant anomalies in the annual accounts.

For the editing, we consulted the accounting records, supporting documents, accounting information media, which, together with the conclusions of the verifications carried out during the year, allowed the balance sheet to be reconciled with both the synthetic and the analytical balances of the accounts.

Following the examination of the overall presentation of the balance sheet, the profit and loss account and the notes to the balance sheet, it can be stated that the financial statements of the company are characterized by the following:

- They are consistently taking into account the general knowledge of the society and the sector of activity;
- Are presented in accordance with the accounting principles and regulations in force;
- Take account of events after the end of the year;
- Present a true, clear and complete picture of the heritage, results and financial situation.

In the unit are developed the appropriate procedures, whose observance by the staff with financial-accounting responsibilities ensures an efficient internal control over the economic processes, finally obtaining an assurance on the patrimonial values.

We assume that the audit provided provides a reasonable basis for expressing our opinion.

Since this report was compiled between 01.2017 and 03.2017, we have not been able to track the way in which the annual accounts are being compiled. Although the implementation period was short, I did not derogate from the existing rules governing the financial audit, but I mentioned that it was not possible for the auditor to continuously monitor the company's management throughout the year.

Considering these reservations, it can be concluded that the balance sheet for the financial year 2016, the profit and loss account and the other accompanying financial statements are regulatory, honest and compliant with the Romanian accounting rules. They adequately reflect the results of the year and the financial and property status of the entity as at 31.12.2016.

Indeendent auditor, D.I.T.

4.2. Auditor's work sheets

Worksheet no. 1

DOSSARY no. 1275	BALANCE SHEET	Ref.
Financial Exercise 2016	Prepared by D.I.T.	Date: 10.03.2017

The balance sheet has been prepared according to the legal regulations in force, ensuring the following:

- The principle of prudence and continuity of activity;
- The principle of independence of exercises, by checking the revenue and expenditure for the year in question;
- The principle of the permanence of the methods, the methods of evaluation and presentation being identical to those of 2014.

The balance sheet presents a true picture of the patrimony, ensuring compliance with the following rules:

A) Full inventory of all property assets, their correct verification, as well as the inclusion of the results in the balance sheet.

The inventory of the patrimony was carried out in compliance with the legal regulations provided by the Accounting Law and its Implementing Regulations and those of the OMFP no. 2861/2009 on organization and performance of inventory. The inventory results, ie all the assets and liabilities, inventories according to the rules and grouped according to their nature, were recorded in the accounting records. The general inventory was started on the basis of Decision no. 1158/28.10.2015. The results of the CFI inventories, based on the minutes drawn up, signed by the company's management, were also recorded in the accounts.

B) The organization of the management of material values, in number of 12, by types of materials, and the management of finished products and semi-finished goods, in number 8, are organized by destinations, respectively internal and external.

C) Keeping up to date accounting.

Checks on accounts allow the assessment that accounting is kept regularly and honestly, while respecting the chronological and systematic recording of all supporting documents relating to movable and immovable property, cash availability, rights and obligations, movements and changes resulting from patrimonial operations , Revenues, expenditures and results.

D) Correct takeover into the balance of data verification from synthetic accounts and concordance between synthetic and analytical accounting

The control relationship regarding the recording of all supporting documents is ensured by the total debtor or creditor turnover in the verification balances. As a verification tool for the content of the accounts, the balance of checks ensures that real economic and financial transactions are reflected in the supporting documents and recorded in the accounting in accordance with the methodological rules for the use of the accounts.

E) Preparation of the balance sheet based on the balance sheet for checking the synthetic accounts and observance of the norms regarding its elaboration and its appendices

The examination and verification carried out consisted of the reconciliation of the balance sheet data with the data recorded in balance sheets and bookkeeping.

Worksheet no. 2

DOSSARY no. 1275	SITUATION OF CLAIMS	Ref.
Financial Exercise 2016	Prepared by D.I.T.	Date: 25.03.2017

As at 31.12.2016, the total receivables recorded in the balance sheet amounted to 984508 lei, out of which: 971348 lei receivables from circulating assets; 13160 lei receivables from prepaid expenses.

Of the total receivables, customers have a weight of approximately 94%, i.e. 925498 lei, and this amount also includes the uncertain customers. From the analytical situation of uncharted customers, there are cases where some customers have repeatedly raised products without paying bills. To collect older bills, the company has taken the necessary steps, including court action.

The balance of the "Clients" account at 31.12.2016 is 879382 lei.

This amount is distributed among many customers, but the most important are: Client 1 (136425 lei), Client 2 (58001 lei), Client 3 (83828) lei, Client 4 (51034) lei, Client 5 (32113) lei, Client 6 (37860) lei.

In order to confirm customer account balances, the direct confirmation procedure was used and the amounts received from customers coincided with those recorded in the accounts.

Worksheet no. 3

DOSSARY no. 1275	SITUATION OF DEBTS	Ref.
Financial Exercise 2016	Prepared D.I.T.	Date: 31.03.2017

According to the annex to the balance sheet drawn up on 31.12.2016, the debt situation is as follows:

Total	2419650 lei
of which:	
- advances received in the orders account	7049 lei
- commercial debt-suppliers	414167 lei
- trade payable effects	6097 lei
- other liabilities, including tax and social security debts	1992337 lei

It is worth mentioning that, within the debts, we found the amount of 300691 lei, representing late payments, which were included in extraordinary expenses for overdue debts. As in the case of receivables, we used the confirmation procedure to confirm the balances of the analytical accounts of the suppliers and the debts to the state, the results of which led to the certainty that the amounts registered in the accounts were the correct ones.

Worksheet no. 4

DOSSARY no. 1275	TREATMENT OF DIRECT CONFIRMATION - CUSTOMERS -	Ref.
Financial Exercise 2016	Prepared by D.I.T.	Date: 02.04.2017

Name, address, client account number	Amount to be confirmed (lei)	Confirmed or justified (lei)	Unconfirmed and unjustified	Not answered
Client 1	136425	136425	-	-
Client 4	51034	51034	-	-
TOTAL	187459	187459	-	-

In order to confirm customer account balances, the direct confirmation procedure was used and the amounts received from customers coincided with those recorded in the accounts.

Worksheet no. 5

DOSSARY no. 1275	TREATMENT OF DIRECT CONFIRMATION - SUPPLIERS -	Ref.
Financial Exercise 2016	Prepared by D.I.T.	Date: 04.04.2017

Name, address, vendor account number	Amount to be confirmed (lei)	Confirmed or justified (lei)	Unconfirmed and unjustified	Not answered
Supplier 1	30525	30525	-	-
Supplier 3	12439	12439	-	-
TOTAL	42964	42964	-	-

Worksheet no. 6

DOSSARY no. 1275	TREASURY	Ref.
Financial Exercise 2016	Prepared by D.I.T.	Date: 10.04.2017

As recorded in the balance sheet for the year 2016, the treasury accounts amounted to 197706 lei, out of which: Current accounts in banks (189102 lei), Checks to be collected (400 lei), House (3405 lei), Letters (1000 lei), other values (3799 lei). As a result of the confrontation with the factual situation, it was found that the amounts entered in the balance sheet are correct and accurately present the reality.

Worksheet no. 7

DOSSARY no. 1275	OWN CAPITAL	Ref.
Financial Exercise 2016	Prepared by D.I.T.	Date: 15.04.2017

As at 31.12.2016, the own capital amounted to 3439895 lei, compared to 3307996 lei as at the end of the previous year. The changes in the capital accounts were determined by the constitution of legal reserves in the amount of 81134 lei, the creation of funds from the profit in the amount of 100000 lei and the receipt of funds from SOF in the amount of 7620 lei. There have also been structural changes by increasing share capital with revaluation differences.

Worksheet no. 8

DOSSARY no. 1275	PROFIT AND LOSS ACCOUNT	Ref.
Financial Exercise 2016	Prepared by D.I.T.	Date: 20.04.2017

The profit and loss account was prepared on the basis of the accounting data and correctly reflects the income, expenses and results of the reported period. Its structure for the year 2016 is the following:

No.	ACTIVITY	INCOME	EXPENSES	PROFIT/LOSES
1	Exploitation	5640499	5386063	254436

No.	ACTIVITY	INCOME	EXPENSES	PROFIT/LOSES
2	Financial	567675	585028	- 17353
3	Extraordinary	549117	300691	248426
TOTAL		6757291	6271782	485509

The analysis of the profit and loss account shows that in 2016 only profits from the exploitation activity resulted in a profit of 254436 lei. At the same time, the result from the financial activity is a loss of 17353 lei, whose interest is the interest paid for the loans received, the total amount of which amounts to 240287 lei. Out of the extraordinary activity, a significant profit was obtained, amounting to 248426 lei, obtained as a result of the sale of available assets of the company. It is therefore noticed that the extraordinary exploitation activities contributed almost in part to obtaining a gross profit of 485509 lei and therefore a net profit of 383728 lei.

Worksheet no. 9

DOSSARY no. 1275	Notes to the profit and loss account	Ref.
Financial Exercise 2016	Prepared by D.I.T.	Date: 22.04.2017

Volume and structure of turnover

In 2016 a turnover of 5394364 lei was achieved and registered, with 580028 lei higher than that for 2015. In the turnover we can find: selling the finished products 4855471 lei, sale of semi-finished products 176915 lei, sale of residual products 45004 lei, royalties, management locations and rents 5883 lei, sale of goods 174127 lei, various activities 136964 lei.

For the year 2016, the company's managers predicted and enrolled in the projected spending budgets a turnover increase of about 10%.

Structure and evolution of employees

In 2016, the average number of employees was 1,444 compared to 1,864 in the previous year. At the close of the financial year 2015, the actual number of employees was 1,360, out of which: Workers 1,191; TESA staff 126; mates 43.

The management of the company was insured throughout the year 2016 by the Board of Directors consisting of 7 people within the company and a Steering Committee composed of: General Manager, Deputy Director, Economic Director, Technical Director and Export Manager.

4.3. Consideration of error and fraud in treasury auditing

As a result of the treasury audit, it was found that the following audit objectives were met:

Completeness - All balances of current accounts and cash, payments and receipts were recorded in the financial statements.

Existence - The balances of the liquidity accounts were correctly calculated and recorded.

Valuation - Provisions were correctly valued for all bank balances.

Independence of exercises - All receipts and payments were recorded in the corresponding accounting period.

Correct highlighting - balances of current accounts with banks were correctly presented and highlighted in the balance sheet.

From the point of view of the treasury risk assessment, the auditor's attention focuses on the risks of fraud: thefts, fictitious bank accounts, fictitious payments, house theft, and transfers to your personal account.

For the treasury audit a set of documents is required: bank account statements; House register; Paid/ assimilated checks; Minutes of meetings of the Board of Directors; The list of specimens of signatures;

Credit agreements with banks or other financial institutions; Confirmations received from banks; trial balance.

As all operations are computerized, the auditor selects one month with the liquidity accounts, calculates all receipts and payments and compares them with the totals made on the computer. The auditor also verifies that short-term credits exceeding the predefined management limit are approved by the Board of Directors (the existence of signatures is checked). Following the treasury audit, fraud is found.

On the signature specimen of the audited entity the chief accountant has the right to sign only limited to 10000 euro. On 01.07.2016, the chief accountant ordered an external payment of 40000 euros from the company's current account to his personal account opened in the UK. The auditor notes that no supporting documents have been attached to this external payment provision.

Following discussions with the management and thorough audits, the auditor concludes that the only persons involved in the fraud are the chief accountant and the banking worker who carried out the transfer and therefore take action against them.

The assessment of bank balances, the inventory of the currency, the accurate presentation of treasury bills in the balance sheet, the detailed analysis of the issued and received checks represent for the auditor audit tests that lead him to believe that all items in the balance sheet of the audited entity affiliated to the treasury give a true, Clear and complete flow of cash flows.

4.4. Consideration of error and fraud in inventory auditing

As a result of inventory audit, it was found that the following audit objectives were met:

Completeness - All stocks were identified and included in the balance sheet asset.

Existence - All amounts are included in the financial statements and correspond to the accounting records; Stocks found in the balance sheet asset also exist physically.

Independence of exercises - Stocks was recorded in the correct accounting period.

Evaluation - In terms of valuing input stocks, it was correctly conducted; those purchased for consideration are recorded at cost of acquisition and those obtained in the company at the cost of production.

In terms of valuing output stocks, the auditor identifies a calculation error. The company policy is to be calculated using the FIFO method. The auditor must ensure that this method is consistent with its permanence and performs a sample check.

Reconciliation of bookkeeping balances with the stock records allows the auditor to draw conclusions about the inconsistency between the LIFO method used and the method of the firm's policy (FIFO method). In conclusion, using the LIFO method, stocks were valued at the output to a value greater than the value calculated by the FIFO method. In order to express an unqualified opinion, the auditor asks the management to remedy this error.

5. Conclusions

Through their reports, the auditors seek to provide reasonable assurance - not absolute assurance - that the financial statements examined are not affected by material misstatement resulting from fraud or error. However, auditors are not responsible for preventing and detecting fraud and errors, even if annual audits can prevent mistakes and possible negligence.

Responsibility for preventing and detecting fraud and errors and for taking appropriate action lies with the management of the audited entities. So, auditing financial statements does not relieve management or those charged with governance with their responsibilities.

However, even in these circumstances, auditors should be alert when they notice: weaknesses in internal control, inconsistencies in the way financial accounts, mistakes, economic operations or unusual outcomes indicate the existence of fraud. Auditors should have sufficient knowledge to identify indications of possible fraud, be vigilant when a situation involves a risk of fraud, assess the need for further inquiries and inform competent authorities.

The auditor's opinion really increases the credibility of the financial statements, but the user does not have to assume the audit opinion as a guarantee of the future viability of the entity or of the efficiency or productivity with which the management has led the entity's activities. Therefore, an audit engagement

is not a guarantee that the financial statements are free from material misstatement resulting from fraud or error. A solution to this problem is the development of software based on theoretical probabilistic models to provide easy-to-use solutions to practitioners and providing a fair assessment of risks in financial audit and beyond that would lead to overcoming the subjectivity that is currently characterized by many audit engagements and would, to some extent, release the risk assessor's task solely on the basis of experience and knowledge.

Therefore, the interpretation and representation of audit risks by probabilistic methods provides another perspective on how this problem can be addressed, objectively and more precisely, and involves many specialists in the field.

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