

A COMPARATIVE ASSESSMENT OF FRAUD RELATED AUDITING STANDARDS: SA 316 VERSUS ISA 240

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ABSTRACT

The purpose of this study is to describe fraud related auditing standards that applicable in Indonesia, SA 316, and fraud related auditing standards that applicable worldwide, ISA 240. Understanding the similarities and differences of these standards are important for accountants or candidate of accountants who may be assigned to carry out the job related to fraud in various countries. This study is a descriptive one. The findings show that although both standards have similarities almost in all aspects of the main themes, the presentations are slightly different, particularly in term of “the tone of the language” (*the rhetoric*). The rhetoric used by ISA 240 are more straight forward, assertive, and clear than that of SA 316. ISA 240 explicitly emphasized in one of the sub themes about the urgency of professional skepticism, while SA 316 revealed it in a discussion on different sub themes, but both standards are emphasized the importance of professional skepticism. ISA 240 unequivocally stressed the importance of discussion among team members before and during the audit process; whilst SA 316 did not explicitly and clearly stated similar things. Finally, ISA 240 stressed the importance of management to carry out its role in the prevention and detection of fraud, while the SA 316 did not clearly state it.

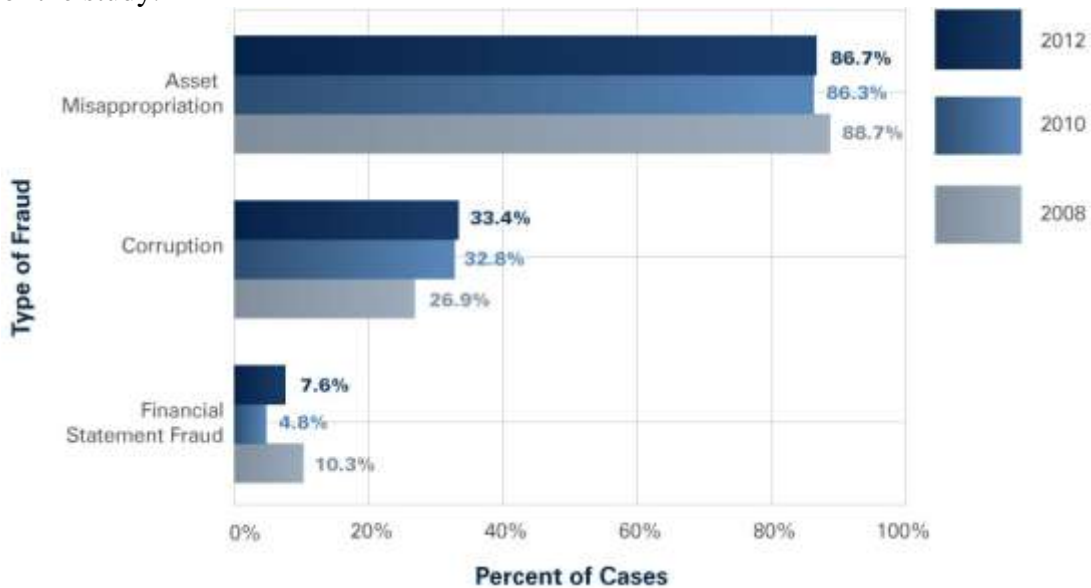
Keywords: *fraud, auditing standard, SA 316, ISA 240*

1. Introduction

Generally, fraud is described as a deception that intentionally or recklessly done through misrepresentation, and its leading to the victim’s or organization’s losses (for example, Albrecht, 2012). Fraud can be committed by anyone in various levels of an organization. In the private sector, fraud can be done by the owner, managers, and employees of a company. In the public sector organizations fraud can also be occurred and can be carried out by officials from various levels of organization in the legislative body, the executive body, and at the central as well as local government. Fraud can be committed through the asset misappropriation, corruption, and financial statement fraud. Asset misappropriation is a type of fraud that can be done by various parties in the internal organization (employee, manager, or

owner). It is a type of abuse of power or position by misusing the organization's assets for the benefit of individual, group, or other parties. Example of misuse of assets is the use of a vehicle or other office facilities for personal purpose. The second form of fraud is corruption. Corruption comes from the Latin word *corruptio* that associated with illegal behavior, impairment of integrity, violating religious forms, and many other meanings. Based on article 2, Act No. 31/1999 of Criminal Acts of Corruption (Undang-Undang Tindak Pidana Korupsi) that are converted into Act No. 20/2001, corruption is defined as an act against the law to enrich individuals or organizations/corporations, which directly or indirectly harming a financial or harm the economy of the nation. Examples of acts of corruption can be seen from various cases that have been revealed by the KPK, Attorney General, etc., for example the case of the Century Bank, Hambalang, etc. The third form of fraud is financial statement fraud which is type of fraud through the various ways such as overstatement or understatement profit, asset, or liabilities. An example of financial statements fraud, among others, is the case of Enron.

According to the Report to The Nation in 2012 reported by ACFE (www.acfe.com), assets misappropriation has the highest occurrence followed by corruption, and financial statement fraud. The following Graph 1 presents the result of the study:



Graph 1
Type of Fraud Percentage Cases 2008-2012

Based on the graph 1, it can be seen that the frequency of fraud's occurrence from year to year has slightly changed. Asset misappropriation was slightly downed (about 2%) from 88.7% (2008) to 86.7% (2012). Frequency of corruption was tended to rise from 26.9% (2008) to 33.4% (2012). The last aspect, the frequency of financial statement fraud was tended to down from 10.3% (2008) to 7.6% (2012). Interestingly,

the impact of those frauds was on the contrary. Financial statement fraud has the highest impact to the organisation in term of the median loss of organisation, whilst assets misappropriation has the lowest one. The median loss of organizations from various type of fraud is presented in the Graph 2 as follows:



Graph II
Type of Fraud Median Loss 2008-2012

In Indonesia, the most common fraud that has been openly published was due to corruption, although asset misappropriation was also common. We can see and read various cases of corruption in Indonesia through various media (television, newspaper, etc.). An awful fact about corruption in Indonesia was published by Transparency International (www.transparency.org). According to the Transparency International, Indonesia is the country with the world's ranking of 118 in corruption. The survey results from the Transparency International (TI) is as follows:

Table 1.1
ASEAN Countries Corruption Rank 2012

No	Country	World Ranking	Score
1	Singapore	5	87
2	Brunei	46	55

3	Malaysia	54	49
4	Thailand	88	37
5	Philippines	105	34
6	Timor-Leste	113	33
7	Indonesia	118	32
8	Vietnam	123	31
9	Cambodia	157	22
10	Laos	160	21
11	Myanmar	172	15

Data from the TI shows that corruption as one of the modes of the fraud is global phenomenon. Accountants must aware of such phenomenon. Accountant is generally associated with financial statement fraud, but accountant may have strategic role in preventing, detecting, or investigating of various type of fraud. Since fraud is a global phenomenon, accountant must prepare to deal with the job worldwide. An important aspect that accountant must prepare is to understand auditing standard related to fraud that applicable not only in Indonesia, but also that utilised worldwide. This is important for accountants, particularly when accountant are assigned to carry out the job in various countries. The auditing standard related to fraud in Indonesia is SA Section 316 (will be shortened as SA 316) "*Pertimbangan atas Kecurangan dalam Audit Laporan Keuangan*" (Consideration over Fraud in an Audit of Financial Statements). In the global context, the standard related to fraud is International Auditing Standard (ISA) 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements".

Realizing the importance of understanding the auditing standards related to fraud that applicable in Indonesia and worldwide, this study is intended to comparatively explore or analyze those two standards: SA 316 and ISA 240.

2. Research Focus

Although SA 316 and ISA 240 may relate to other auditing standards, this study is mainly focused on descriptive analyses of the differences and similarities between those standards.

3. Research Question

Based on the background and the focus of the study, the research question of this study is what are the differences and similarities of SA 316 and ISA 240.

4. Research Objective

The objective of this research is to describe the differences and similarities of SA 316 and ISA 240.

5. Research Benefit

This research is expected to provide the following benefits:

1. Practical benefit– for researcher

By doing this study, researcher will understand the differences and similarities of frauds' related auditing standards that applicable in Indonesia and worldwide. Such understanding is important for researcher in anticipating the future job related to fraud auditing in Indonesia and other countries that will require an understanding of fraud's related auditing standard that applicable in Indonesia and worldwide.

2. Theoretical Benefits

Theoretically, the study is useful for researchers and other learners to understand the similarities and differences of both auditing standard (ISA 240 and SA 316), so as to enrich the insights about fraud's related auditing standard.

6. Research Method

6.1 Types of Research

This study is a descriptive research which intended to describe phenomenon being studied, and it is not dealt with why and how questions rather it addresses a "what" question (Shields and Rangarajan, 2013). It is specifically aimed at describing the similarities and differences between SA 316 and ISA 240.

6.2 Data and data Collection Method

The main data used in this study is secondary data in the form of SA 316 and ISA 240. SA 316 was obtained from SPAP (*Standar Profesional Akuntan Publik*/Professional Standard for Public Accountant) published by the Institute of Public Accountants Indonesia (IAPI), and ISA 240 was accessed from the publication of the International Accounting Standard Committee (IASC).

6.3 Data Analysis

Although there are many methods in analyzing data, analysis in this study is carried out using the pattern presented by Miles and Huberman (1984). The method is considered the most appropriate to the analysis of this study. Miles and Huberman

(1984) use 4 (four) steps in the data analysis process which include of data collection, data display, data reduction, and conclusions. In implementing the method, this study follow the following pattern:

1. Data collection: collecting and reviewing SA 316 and ISA 240.
2. Data display and data reduction: referring to Sugiyono (2012, 92-98), in this process, the researcher determine the main theme of SA 316 and ISA 240, and reducing themes that may be combined with other theme, or may be inserted or integrated in another theme.
3. Conclusions: based on the main themes that have been discussed, a summary of the main themes of both standards presented in a table, and then the conclusions are drawn.

7. Discussion and analysis

7.1. Auditing Standard – Section 316 (SA 316)

SA 316 is a standard intended to "provide guidance for auditors in fulfilling the responsibilities relating to fraud in an audit of financial statements" as it defined in the SA 112 paragraph 2. Despite the extensive coverage presented in SA 316, the standard stated that there are 6 (six) main areas or themes as the guidelines which include descriptions about (adapted from SA 316, page 316.1) :

- a. Fraud and its characteristics (paragraphs 3 to 10)
- b. The responsibility of auditor to specifically assess the misstatement as a result of fraud and determine the risk factors that should be considered (paragraphs 11 to 25)
- c. The guidance on how auditor shall respond to the results of the risk assessment (paragraphs 26 to 32)
- d. The guidance on how to evaluate the results of audit testing in relation to the risk of material misstatement due to fraud (paragraphs 33 to 36)
- e. The required documentation (paragraph 37)
- f. The guidance on how to communicate fraud to the management, the audit committee, and the other party (paragraphs 38 to 40)

Therefore, the discussion in the following sub chapter is focused on those aspects.

7.1.1. Fraud and Its Characteristics

Fraud is associated with deception, embezzlement, and many other terms. Fraud is also associated with the words of dishonest (Kamus Besar Bahasa Indonesia/KBBI online, <http://bahasa.kemdiknas.go.id/kbbi/>). There are also many sources that discuss about the meaning of fraud. Albrecht et al. (2012: 6), for example, stated that:

“Fraud is a generic term, and embraces all the multi-various means which human ingenuity can devise, which are resorted to by one individual to get an advantage over another by false representation.”

Fraud includes various forms made by a person to take advantage of the other party through misrepresentation. Singleton and Singleton (2010, 40) even said that fraud is

a crime. Fraud is distinguished from other actions such as robbery. Fraud is generally done with hidden actions, while robbery and the like are generally done by acts of violence. Fraud is also intentionally done and it different from accidental error. All in all fraud can be stated as a hidden and deliberate action, which can be done by individual, groups, or organization, with the purpose of obtaining gain for individual, groups, or organizations, at the expense of other parties (individual, groups, or organization), or a country (Irianto, 2012).

Besides those meanings, there are articles in *Kitab Undang-undang Hukum Pidana* (KUHP) (Criminal Law) in Indonesia which explained about fraud; one of which is article 378 of KUHP. According to the KUHP article 378, fraud is "acts which are intended to benefit themselves or other peoples which against the law ...". (Tuanakotta, 2007, 95).

The SA 316 was not explicitly mentioned about the meaning of fraud, however the description on paragraphs 3-10, give a relatively detailed description about fraud, the driving factors or causes of fraud, and a few other aspects of fraud. SA 316 pointed out the importance of understanding the why of material misstatement in the financial statements. The cause could be due to fraud or errors in which those two terms are simply differentiated whether intentional or unintentional. Central to the auditor is about misstatements. Those are classified into two groups respectively (a) misstatement arising from fraud in financial statements [par 04], and (b) any misstatement which arise from the undue treatment of assets [par 05].

The SA 316 paragraph 04 explains that "misstatement arising from fraud in financial statement is misstatement or omission of amount conducted intentionally or disclosure in the financial statements to confuse users of financial statements". At the same paragraph, it is explained that fraud in financial statements may be related to an action as follows:

- a. Manipulation, forgery, or alteration of accounting records or its supporting documents.
- b. Misrepresentation or omission [of transactions, or other significant information] from financial statements.
- c. Deliberate incorrect application of accounting principles associated with the amount, classification, presentation of report, or disclosure.

The second type of misstatement is misstatement from undue treatment of assets. This type of misstatement is "related to the theft of entity's assets that has impacted on the financial statements not being presented in accordance with Generally Accepted Accounting Principles in Indonesia" (paragraph 12). Examples of this type of misstatements are embezzlement of receipts, false documents, or other actions to the detriment of the company.

In paragraph 6, SA 316 describes aspects that are generally known as the driving factor for the occurrence of fraud which include (a) pressure and (b) perceived opportunities to carry out the fraud. SA 316 paragraph 6 only mentions two aspects of the fraud triangle (pressure, opportunity, and rationalization) as the driving factor of fraud. Fraud in financial reporting is done because management is under pressure to achieve the profit target which is unrealistic, or cause by other

pressures. Furthermore, opportunities may be perceived by the perpetrator if they see the weakness of internal control systems.

SA 316 paragraphs 7, 8, and 9 provide explanations about fraud through concealment, such as misstatements through fictitious invoices, and collusion among management, employees, and third parties. SA 316 paragraph 8 specifically mentioned about collusion as follows:

“... through collusion, fictitious evidence that control activities have been implemented effectively can be presented to the auditor. Another example, the auditor can receive false confirmation from third parties who do the collusion with management. Collusion can lead the auditor to believe that an evidence is convincing, although it was a fake.”

Another form of fraud is theft, for example, cash theft through counterfeiting signatures, or electronic authorization of unauthorized documents for cash expenditure. Paragraph 7 also states that

“... an audit undertaken based on the Generally Accepted Auditing Standards set by the Indonesian Institute of Accountants is rarely related to the proved of authenticity of the documentation, or the auditor is not properly trained as or expected as an expert in testing the authenticity of documents.”

It does mean that auditors are faced with challenges in proofing the occurrence of fraud. Thus, the SA 316 paragraph 10 states that:

“The auditor will not able to obtain an absolute conviction that the material misstatement will be detected in the financial statements. This is because (a) aspects of concealment of fraud activities, including the fact that fraud is often included collusion or falsification of documentation, and (b) the need to apply professional judgment in identifying and evaluating risk factors of fraud and other conditions; although the audit was well planned and carried out, material misstatement caused by fraud may not be detected.”

Such phenomenon leads to the conclusion at the SA 316 paragraph 10, which stated that because of the characteristics of fraud as mentioned above, then

“... auditors must be able to obtain sufficient confidence that any material misstatement in the financial statements can be detected, including misstatement as a result of fraud.”

7.1.2. Auditor's Responsibility to Access Fraud Risk

SA 316 further elaborates about the obligation of auditors to conduct a risk assessment of material misstatements in the financial statements as a result of fraud (paragraphs 11 to 25). Risk assessment can be used as a base in preparing audit procedures to be implemented. It is further stated that such consideration is directed at two kinds of misstatements that have been previously stated (a) misstatements that arise as a result of fraud in financial reporting or (b) misstatements that arise from the undue treatment of assets (paragraph 12). Consequently, request for information from the management that includes management understanding of fraud and its implications is a procedure that has to be done (paragraph 13).

As for the risk factors that are associated with misstatements arising from fraud in financial reporting includes (a) characteristics and the influence of the

management to the control environment, (b) the condition of the industry, and (c) the operating characteristics and financial stability (paragraph 16), whereas the examples and details of the case are described in paragraph 17, 18 and 19.

Professional judgment of the auditor is a must in assessing the risk due to fraud (paragraph 21). In addition, the auditor should also "obtain sufficient understanding of internal control over the financial reporting" (paragraph 23) and if the entity has made programs which includes measures to prevent, deter, and detect fraud, the auditor may consider the effectiveness of these programs (paragraph 24). Finally, risk assessment is an integrated and holistic effort, or is "a process which are cumulative that includes consideration of risk factors, individually and in combination" (paragraph 25).

7.1.3. Auditor's Response to the Result of Its Assessment on Fraud Risk

The next theme in the SA 316 was related to the auditor's response to the results of the risk assessment described in paragraph 26 to 32. This standard stated that "... the risk of material misstatement as a result of fraud is always there" (paragraph 26), and the auditor's response depends on the nature and significance of risks that have been identified. The auditor's response, among others, can be either a change of audit procedures that have been planned, special response about a specific account, thorough response, or cancellation of the engagement (paragraph 26, 36).

Professional skepticism is a guideline for an auditor in responding to the auditor's assessment of the risks which are implemented in the act of "choosing the nature and the extent of documentation review which support material transactions, and the need to extend management explanation or representations about significant problems, such as follow up of analytical procedures, examination of documents, or discussion with others from inside or outside entities (paragraph 27). Professional skepticism is also utilised by the auditors in considering of the selection and assignment of personnel and supervision, as well as in conducting an evaluation of the internal control system. In addition, the principle can also be used to evaluate the appropriateness of the application of accounting policies and principles by companies that can have implications on material misstatement in the financial statements.

Furthermore, the modification of the audit procedure (paragraph 28) may be done to obtain a more reliable evidence or information from independent sources, to change the timing of substantive testing, and to extend audit procedures. Changes can also be specifically done to review a certain account balance, certain transactions and definitive assertions, including the involvement of experts/specialists (paragraph 29). Examples of the response to the auditor's assessment of the risk of material misstatement as a result of fraud among are presented in paragraphs 30, 31 and 32.

7.1.4. Evaluation on the Results of the Audit Tests Related to Fraud

The following theme of SA316 is associated with the evaluation of the audit test results on risk of material misstatement due to fraud which are presented in paragraphs 33 to 36. As explained in paragraph 25 that "risk assessment of material misstatement due to fraud is a cumulative process and a process which must be continued throughout the audit process". Hence, if the auditors already determined

that the misstatement was or may be the result of fraud and the auditors also determined that its effects might be material to the financial statements, then the auditor should (paragraph 35):

- a. Consider the implications to other aspects of the audit.
- b. Discuss the problem and the approach for further investigation with the appropriate management level i.e. at least one level above the people involved and with senior management.
- c. Try to obtain additional audit evidence to determine if fraud has occurred or is likely to occur, and if so, its impact on the financial statements and the auditor's report on the financial statements.
- d. If applicable, advise the client to consult with its legal advisor.

Paragraph 36 further stated that:

"... in a situation that according to the auditor's assessment of material misstatement as a result of fraud and audit test results may indicate a significant fraud risk, the auditor should consider that this may be the result in the resignation of the engagement and the auditor should communicate the reason to the audit committee or to other parties that have the authority and responsibility to do so ... "

The bottom line is that, under certain circumstances, the auditor may withdraw from the engagement, and communicate the reasons to the management or the Audit Committee. In addition, the auditor may consult with its legal advisor if considered necessary.

7.1.5. Documentation of Audit Results

SA 316 pointed out about the urgency of documentation in every stage of the audit process from the planning to the completion of the audit process. However, SA 316 paragraph 37 stated that the documentation must include (a) the identified risk factors and (b) the auditor's response to risk factors, individually or in a whole. In addition, other related aspects must also be carefully documented by the auditor.

7.1.6. Communications about Fraud to Management, the Audit Committee, and other Related Parties

The other section of the SA 316 provides guidance on communication about fraud that needs to be performed by the auditor to management, the audit committee, and the other parties (paragraphs 38 to 40). The communication to the right officials needs to be carried out by auditors if auditor found the occurrence of fraud. Fraud needs to be communicated to higher officials, or supervisor of officials suspected of committing fraud. If fraud involves management, then this needs to be communicated directly to the Audit Committee (paragraph 38). However, at paragraph 40 asserts that:

"The information about fraud occurrence to parties other than the client's senior management and the audit committee generally is not part of the auditor responsibilities and auditor generally is not allowed [to communicate to those parties] by the ethics regulations from Public Accountant Compartment... "

Communication about fraud occurrence to the outside parties beyond the management or the Audit Committee shall be performed by the auditor (paragraph 42), whenever (a) auditor must comply with legal and regulatory requirements, (b) a new or subsequent auditor has been determined, (c) a call from the court, and (d) another requirement from regulatory body. Finally, it has been stated in paragraph 40 that auditor may consult to its legal advisor in the case that there is a difference requirement between ethical rules from Compartment of Public Accountants with the legal obligation, before auditor communicated to external parties outside of the management or the audit committee.

7.2 International Standard on Auditing (ISA) 240

This section will described and discussed the International Standard on Auditing (ISA) 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements". As already discussed in chapter III, "the title" of ISA 240 explicitly stated the main message of the standard itself, that the scope of ISA 240 is "deals with the auditor's responsibilities relating to fraud in an audit of financial statements", while the SA 316 presents in different rhetoric.

In general there are various themes presented in the ISA 240 including (1) Characteristics of Fraud (2) Professional Skepticism, (3) Discussion among the Engagement Team, (4) Risk Assessment Procedures and Related Activities, (5) Identification and Assessment of the Risks of Material Misstatement Due to Fraud, (6) Responses to the Assessed Risks of Material Misstatement Due to Fraud, (7) Evaluation of Audit Evidence, (8) Auditor Unable to Continue the Engagement, (9) Written Representations, (10) Communications to Management and with Those Charged with Governance, (11) Communications to Regulatory and Enforcement Authorities. Therefore, descriptions and discussion in this chapter is focused on the above aspects.

7.2.1 Characteristics, Prevention and Detection of Fraud

SA 240 does not clearly elaborate the meaning of fraud and its characteristics, however its pinpoint on misstatements and its causes and implications. The standard pointed out that

“Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional” (paragraph 2).

Fraud is an intentional action which in turn leads to misstatements. There are two misstatements relevant to the auditor (1) misstatements resulting from fraudulent financial reporting and (2) misstatements resulting from misappropriation of assets (paragraph 3). An important aspect for the auditor is whether fraud leads to a material misstatement in the financial statements. The auditor, depending on the scope of assignment, may investigate such a fraud.

Another important aspect of the standard is about the importance of prevention and detection of fraud. It is stressed that fraud prevention is important and it is the responsibility of the management. Commitment “to creating a culture of honesty and

ethical behavior” (paragraph 4) is part of fraud prevention strategy. In another side, it is highlighted that in an audit of financial statements in accordance with ISAs, auditor “is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error” (paragraph 5). Further, auditor shall recognize the inherent limitations of an audit which is “an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs” (paragraph 5). Dealing with such limitation, “the auditor is responsible for maintaining professional skepticism throughout the audit” (paragraph 6).

7.2.2 Professional Skepticism

As described in the previous section, maintaining professional skepticism throughout the audit process is the responsibility of the auditor in auditing financial statements. Professional skepticism suggest that auditor must set aside an assumption that management is neither honest nor dishonest, which means that auditor shall not believe or disbelieve of certain information unless those have been proved. Further aspect related to this matter is related to the documents presented by the management or those in charge of governance, and investigation. The standard stated that:

“Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further. (paragraph 13)

Such investigation may also be exercised “Where responses to inquiries of management or those charged with governance are inconsistent ...” (paragraph 14).

7.2.3 Characteristics, Prevention and Detection of Fraud Discussion among the Engagement Team

Discussion among the engagement team members (before and throughout the audit process) is an important aspect that is required by the standard. The standard pointed out that the discussion shall focused on “how and where the entity’s financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur” (paragraph 14) and stressing on professional skepticism which “setting aside beliefs that the engagement team members may have that management and those charged with governance are honest and have integrity” (paragraph 14)

7.2.4 Risk Assessment Procedures and Related Activities

The auditor is required by the standard “to obtain information for use in identifying the risks of material misstatements due to fraud” (paragraph 16) in order to understand the entity and its environment, including its internal control. The information shall be gathered from various sources such as management and those charge in governance. Various information that shall be gathered may include

- (a) Management’s assessment of the risk that the financial statements maybe materially misstated due to fraud, including the nature, extent and frequency of such assessments;
- (b) Management’s process for identifying and responding to the risks offraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist;
- (c) 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; and
- (d) Management’s communication, if any, to employees regarding its viewson business practices and ethical behavior.

7.2.5 Identification and Assessment of the Risks of Material Misstatement Due to Fraud and Responses to the Assessed Risks of Material Misstatement Due to Fraud

The risks assessment of material misstatement due to fraud shall be done at “the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures” (paragraph 25). Further, “The auditor shall treat those assessed risks of material misstatement due to fraud as significant risks and accordingly, to the extent not already done so, the auditor shall obtain an understanding of the entity’s related controls, including control activities, relevant to such risks” (paragraph 26). In response to the result of the assessed risks of material misstatement due to fraud, various measures shall be done by auditor, for example by designing audit procedures that are responsive to the assessed risks of material misstatements due to fraud, assign and supervise knowledgeable and skilled personnel, test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, make inquiries of individuals involved in the financial reporting process, review accounting estimates for biases, and perform necessary other audit procedures (paragraph 27-30).

7.2.6 Evaluation of Audit Evidence

There are important points related to evaluation of audit evidence, and one of them is stated that :

If the auditor identifies a misstatement, the auditor shall evaluate whether such a misstatement is indicative of fraud. If there is such an indication, the auditor shall evaluate the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management representations, recognizing that an instance of fraud is unlikely to be an isolated occurrence (paragraph 35).

It is noted that evaluation of audit evidence is an integral part of the audit process. An indication of misstatement shall lead auditor to re-evaluate other aspect that previously given by management such as management representation. Further, the standard pointed out that if indication of misstatement was believed to be

involving of management then the implications of such a case must be evaluated (paragraph 36-37).

7.2.7 Auditor Unable to Continue the Engagement

Auditor may face difficult situations to further performing audit as a result of misstatements, and if this occurred, the standard stated that the auditor shall:

- (a) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;
- (b) Consider whether it is appropriate to withdraw from the engagement, where withdrawal is possible under applicable law or regulation (paragraph 38)

Withdrawal from an engagement may be a difficult decision for an auditor, however it is not impossible considering the circumstances indicated by the standard, and if the auditor withdraws, the auditor shall:

- a. Discuss with the appropriate level of management and those charged with governance the auditor's withdrawal from the engagement and the reasons for the withdrawal; and
- b. Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.

7.2.8 Written Representations

Basically, in every engagement, written representations from management are a must. The document point out several aspects of the management responsibility in various aspects, for example:

- (a) They acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;
- (b) They have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- (c) They have disclosed to the auditor their 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 statements; and
- (d) They have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others. (paragraphs 58–59)

7.2.9 Communications to various parties

Communications to various parties such as to management (or those charged with governance), and regulatory authorities, are mandated by the standard. Communications related to an identified or suspected fraud must be done on a timely

basis to the appropriate level of management and or other parties. For example, any fraud or suspected fraud identified by auditor involving lower level management, then auditor must communicate to the middle or upper level of management; but if management is suspected to involve in the fraud scheme, the communication shall be to higher level above the management (e.g. audit committee, or others). Further, if the auditor has identified or suspects a fraud, “the auditor shall determinewhether there is a responsibility to report the occurrence or suspicion to a partyoutside the entity. Although the auditor’s professional duty to maintain theconfidentiality of client information may preclude such reporting, the auditor’slegal responsibilities may override the duty of confidentiality in somecircumstances” (paragraph 43)

7.2.10 Documentation

Documentation is necessary aspect that must be done by auditor in audit of financial statements. The standard required 4 (four) categories of documentation including documentations about (1) theauditor’s understanding of the entity and its environment and the assessment ofthe risks of material misstatement [paragraph 44], (2) the auditor’sresponses to the assessed risks of material misstatement [paragraph 45], and (3) communications about fraudmade to management, those charged with governance, regulators and others [paragraph 46], and (4) the reasons for audit’s conclusion

7.3 Summary of similarities and differences between SA 316 and ISA 240

Based on the description and discussion in the previous sections, a summary of the findings of this study is presented in the table 1 (attached).

8. Conclusions

1. SA 316 and ISA 240 have similarities almost in all aspects of the main themes presented in the standards, although the presentations are slightly different, particularly in term of “the tone of the language” (*the rhetoric*). The rhetoric used by ISA 240 are more straight forward, assertive, and clear than that of SA 316. A very obvious example is the standard title. The title of SA 316 is “*Pertimbangan atas Kecurangan dalam Audit Laporan Keuangan*” (Consideration over Fraud in an Audit of Financial Statements), while the title of ISA 240 is “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements.”
2. Both standards stated that the auditor has the responsibility to plan and execute the audit carefully to obtain "adequate assurance about whether the financial statements are free of any material misstatements, whether caused by error or by fraud."
3. ISA 240 explicitly emphasized in one of the sub themes about the urgency of professional skepticism, while SA 316 revealed it in a discussion on different sub themes, but both standards are emphasized the importance of professional skepticism.

4. In one side, ISA 240 unequivocally stressed the importance of discussion among team members before and during the audit process; in another side SA 316 did not explicitly and clearly stated similar things.
5. ISA 240 stressed the importance of management to carry out its role in the prevention and detection of fraud, while the SPAP 316 did not clearly state it.

9. Recommendations

Based on the conclusions, the researcher may suggest as follows:

1. Understanding auditing standards that are applicable in Indonesia such as SA 316 and international auditing standards such as ISA 240 are very important for accountants and prospective accountants since accountants should work based on standards and or the principles that apply. Therefore, in the process of teaching-learning, discussion on auditing standards may be inserted accounting in relevant subject such as Auditing, Accounting Theory, or International Accounting.
2. The Accountant's Standard Boards in Indonesia may reconsider the use of language (*the rhetoric*) that is less assertive in developing standard, because the standard is a guideline for accountants in carrying of their jobs; if the guidance does not clearly certain aspects, then there will be many interpretations that can lead to different implementations.

10. Limitations

There is no study is perfect. Limitations are inherent in every study. A limitation in this study is related to the scope which is only focus on two fraud's related auditing standard. Future study may extend the scope of the study which include various auditing standards.

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Table 1
A summary of findings (contents or substances) of SA 316 and ISA 240

Descriptions	SA 316	ISA 240
Title of the standards	Pertimbangan atas Kecurangan dalam Audit Laporan Keuangan (Consideration related to Fraud in an audit of financial statement)	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
Characteristics, Prevention, and Detection of Fraud	Explanations about fraud, characteristic of fraud, factors induce fraud, implications of fraud in particular about whether material misstatements occurred because of fraud or error, auditor must responsible for obtaining reasonable assurance that material misstatement in the financial statements are detected	Explanations about misstatements in the financial statements either arises by fraud or error, types of misstatements, <i>the importance of prevention and detection of fraud</i> , auditor must responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, auditor must recognize the inherent limitation of an audit and shall maintain professional skepticism throughout the audit process.
Professional Skepticism	Professional skepticism is recognised as important aspect although it is not stated as one of the main theme of the standard.	Brief explanations about professional skepticism. It is one of the cornerstones of an audit engagement.
Internal discussion before the engagement	Not explicitly stated in the standard	Discussion among the engagement team is an important aspect and required by the standard.
Auditor's responsibility to access Fraud Risk (Risk assessment), and Auditor's response to the result of its assessment on Fraud Risk.	Required by the standard and it is an important aspect to be used as a consideration in preparing audit planning, designing audit procedures, assigned personnel, etc. Professional skepticism is described in this section.	Required by the standard and it is an important aspect to be used as a consideration in preparing audit planning, designing audit procedures, assigned personnel, etc.
Evaluation on the results of audit related to fraud/evaluation of audit evidence	Required by the standard, and if an indication of misstatement due to fraud and having material impact, various follow up must be done (e.g. inform management about the matter, gathering more audit evidence, etc).	Required by the standard; if an indication of misstatements, auditor shall re-evaluate other aspect that previously given by the management (eg. management representation).
Auditor Unable to Continue the Engagement	The standard pointed out that, misstatements due to fraud may lead auditor to withdraw from an engagement. In doing so, auditor shall inform management, consider and discuss legal responsibilities with lawyer.	The standard pointed out that, misstatements due to fraud may lead auditor to withdraw from an engagement. In doing so, discussion with management, consideration of legal responsibilities etc. shall be put in place.