

The effects of fraud risk assessment on the external auditor's ability to detect the likelihood of fraud: a conceptual discussion

ABSTRACT

The Malaysian Approved Standards on Auditing (MASA), AI 240 on "Fraud and Error" requires the auditor to assess the risk of fraud and error during the audit of financial statements by considering the various fraud risk indicators. Based on the risk assessment, the auditor will design audit procedures to obtain reasonable assurance that misstatements arising from fraud and error that are material to the financial statements taken as a whole are detected. Inability to detect fraud may lead to a litigation action being taken against the external auditor (Palmrose, 1987). The collapse of Enron has shed some news and somewhat unfavourable light on the role that external auditors play in the detection of fraud (Thomas & Clements, 2002). This paper aims to determine whether the ability of the external auditor to detect the likelihood of fraud is influenced by his/her fraud risk assessment. In this paper a discussion on the development of a conceptual framework for the fraud risk assessment and detection of fraud is presented.

Keyword: Fraud detection; Fraud risk; Fraud risk assessment