

Handbook Highlight from the Montana Municipal Officials Handbook

Is an Audit Designed to Detect Fraud?

5.501 Purpose of the Audit

Many mistakenly believe that an audit is designed to detect fraud and will in fact detect fraud, if it exists. This is simply not the case. While the detection of fraud could possibly be an outcome of an audit, fraud is rarely detected by an audit. The system of checks and balances that governments implement serve to prevent these problems from occurring, which is obviously far better than discovering problems after the fact through an audit or other means.

Governing bodies are responsible for insuring auditor's recommendations for Improvements in internal controls are implemented and should also consider an even stricter system of checks and balances than the auditors may recommend. Many audit firms will provide specialized engagements at a reasonable cost designed solely for the purpose of improving a government's system of internal controls. Given the public's expectation of a frugal and efficient government, it is difficult for elected officials to expend additional money to prevent problems, when most feel no problems exist. However, there are a multitude of governments who have experienced fraud and embezzlement and have wished they had expended a relatively small amount of money to improve their system of internal controls. Problems of this nature, regardless of severity, serve to erode the public's trust in their government.