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Auditors' perceptions towards possibilities of frauds

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Abstract
Auditing is considered with examining the financial records of a business organization to make sure that the financial information is accurate and free from error and material misstatement, the purpose of auditing is to provide the shareholders and management relevant and faithfully represented financial report which will enable them to come with most effective decisions. Also, to detect and prevent fraud from happening. Moreover, the concept of perception is highly important for an auditor as it will enable the auditor to come with an expectation toward different types of fraud that might face the auditors during the auditing period also it will eliminate the time and effort of an auditor.
To study auditor's perception towards possibility of frauds, a survey was conducted among 57 external auditors. To collect data a questionnaire was designed with 15 statements of auditor's opinion about different types of fraud. The data collected was analyzed by various statistical tools such as tables, charts, graphs and other advanced tools for instance mean and standard deviation. From the analysis it revealed that the major key factor that will influence the auditor's perceptions towards frauds documents that appear to have been altered.

Keywords: Auditing, frauds and perception of fraud

Introduction
Auditing is considered with examining the financial records of a business organization to make sure that the financial information is accurate. Auditing is based on the encasement of all activities of the organization at least once a year. Auditing includes identifying the risk of material errors, get enough audit evidence of material misstatement and frauds.
Fraud can accrue in many situations such as: misappropriation of asset, fraudulent in financial report, and corruptions. Fraud in material financial statement can have a significant unfriendly impact on the reputation, capacity and market value of an organization to accomplish its key targets. A successful fraud program works in decreasing the probability of the frequency of fraud. ASI has built up inclusive fraud program that incorporates the essential components of prevention, discovery and counteractive action with the end goal to limit the extent and probability of the event of fraud. The management team of ASI shares duty regarding executing and observing fraud controls. Fraud risk components are analyzed every year and the controls are adjusted based on the evaluation risk level. Fraud controls are set up at the business unit level and the entity level. The Ethical Review Committee is observed by these controls.
As detection of frauds is one of the major objectives of auditing, it is essential for an auditor to perceive the possibility of frauds in an organization. Perception is the procedure by which individuals make an interpretation of sensory impressions into a reliable and united vision of the world around them. Although it's based on incomplete and unreliable information, perception is compared with reality for the most purposes and guidelines in human attitude in general. Moreover, auditor's perception is needed to make clear ideas or thoughts of what are the kinds of frauds that might be found in a particular company that depends on their industry. This step is important because it is a part of an audit planning.
Auditing is essential in any organization to identify the frauds committed by the accountants. There are different types of users of financial information who make different decisions based on financial information provided by the companies. The financial information is accurate only when the errors and frauds are minimized. Hence there is a need to identify all possible frauds while planning the auditing by the auditors.

Our research problem is to know perceptions of the auditors towards the process that they are using in detecting frauds. Also, what factors that will play a role in eliminating the frauds. The scope of our report is the perception of auditors towards the possibility of fraud in Oman. and to gain more knowledge about auditing, types of audit reports, and to get familiar to the procedures that auditors make to detect fraud. Also, to be aware of what to be done when a fraud is found, and how auditors should be aware of the possibility of fraud.

Literature review

Mohamed Elburn (2017) [20] defined audit as a study of a financial report of an organization which is done by someone independent of that organization. Elburn stated that the financial report contains a balance sheet, changes in equity, an income statement, statement of cash flow, and notes include a summary of essential accounting policies and other illustrative notes. Auditors have to follow certain auditing standards which are laid by a government body when studying the financial report. After finishing the auditing work, auditors give a full audit report stating what they have examined and their point of view of the work. In general, all listed and limited companies have audits annually. An audit for other organizations can be requested or required depending their structure and ownership.

According to Mike Kappel (2018) [12] an audit studies the one's business' financial records to make sure that they are correct in all details. This can be fulfilled by reviewing the transaction systematically. Usually audits examine the one's financial statements and accounting books. Some businesses have routine audits once a year. For anyone who wants to own a small business he should have accounting books that verify the business's income and expenses. Audits can be very difficult for those whose records are disorganized or missing. Many business problems can be solved by audits, like errors in numbers that would enhance making decisions. A company audit, in the long term, may offer a help in putting small business on track and increasing the business bottom line. Business owners would receive an audit report whenever their business is audited. The audit reports usually contain in detail what the auditors found during the process. Through these records the business owner will know whether his records are accurate, missing or inaccurate.

Morris (2017) [3] clarified the reasons why internal audit is important to be observed. He assisted that there is a need for protecting and securing all business properties from threats. It's also important to have internal audit programs because such programs are crucial for confirming that business methods reflect the business' procedures and documented policies.

Jack Ore (2014) [14] explained the importance of an external audit. Many companies in addition of auditing themselves; they hire external auditors who are independent of any company. External auditors ensure that the financial statements are accurate by studying the company's records and operations.

According to James F. Finlay (2009) [15] frauds can be classified by the group of victims involved. The most familiar groups of victims detected by Fraud Examiners include donors & funders, creditors, businesses, banks or other financial institutions and local or central government.

Todd DeZoort and Paul Harrison (2007) [16] noted that the degree to which fraud kind and accountability pressure influence auditors' responsibilities for fraud detection and performance during brainstorming. We specifically evaluate whether auditors assign different duty for uncovering financial reporting fraud, corruption schemes, and asset theft. We also examine whether accountability boosts expected accountability and brainstorming.

The biggest fraud threats, according to Elizabeth Perez (2017) [17], originate from within a company. In a survey, 81% of the organizations that reported fraud encountered fraud from an insider or employee. Even though it may look innocent (and even accidental), fraud is one of the most prevalent crimes that harms not just businesses but also people. The impacted persons have identified three stages of a worker's decision to commit fraud in the workplace: pressure, opportunity, and rationalization.

Michael Crain (2018) [18] described that Fraud in many associations, regardless of whether business or not-for-benefit, isn't absolutely preventable. Whenever entrepreneurs or senior supervisors feel or recognize that fraud can happen in their association, their thought will probably move to detect these frauds. Detection in the early stages can minimize losses of fraud in numerous examples. Organizational frauds have a tendency to be continuing.

Kendra Cherry (2012) [4] said that perception is our sensory involvement of the world surrounding us and incorporate both of the acknowledgement of environmental upgrades and activities in light of these improvements. Throughout the perceptual technique, we obtain information about belongings and parts of the condition that is fundamental to our survival. Perception is not only about making our knowledge of the world surrounding us but also empowers us to perform inside our environment.

Amanda Enayati (2012) [6] stated that perception starts when the human mind gets information from the body's five senses. The mind at that point forms and applies importance to the sensory information .Moreover, Lotto said "that new perceptions must be created by education; efficiency was the procedure of the traditional education. However, people need to learn and practice to switch between the "why" and the "how".

Noor Adwa Suleiman (2011) [11] said that the point of this theory is to give bits of knowledge into what the idea of audit quality means for various parties who have duties regarding delivering, commissioning or evaluating audit quality in practice - auditors, accounting individuals, and quality inspectors concerning. It investigates the impact of inward and outside components in the reviewing setting on the development of the significance of review quality and how importance is symbolized practically speaking. This exploration depends on an interpretive methodology utilizing research strategies for report investigation, semi-organized meetings, and a review poll. Drawing on a representative integrationist structure, the exploration shows the process of giving meaning to audit quality in practice.

According to Jordan Lowe (2000) [7], the expectation gap and its potentially harmful implications on auditor legal liability have been attributed to divergent conceptions of the auditing profession and third-party plaintiffs' roles, obligations, and performance in the field. Prior studies on the expectation gap have focused on varied views of diverse populations (i.e. financial analysts, bank loan officers, small business owners, and auditors). Although this research has found a mismatch in expectations between auditors and certain third parties, it has not looked into how judicial litigants perceive auditors. This study closes this gap by

contrasting judges' and auditors' perspectives on the auditing industry. The findings reveal significant differences between judges' and auditors' expectations of the auditing profession.
Thomas McKee (2014) [8] focused his research on the analytical methodology for estimating the probability of financial fraud using just three factors. The prediction of fraud on a sample of 91 public corporations was 69% correct. Microsoft Excel makes it simple to use the model as a planning and risk tool for audits. A business with a high fraud risk score may be cause for increased professional caution and mistrust. A sample of publicly traded companies was used to create and evaluate the fraud risk model. The approach definitely shouldn't be applied to businesses with assets below this level since the smallest company in the sample had total assets of approximately $15 million. Also, this usage would be risky because the model hasn't been validated on private enterprises.
Nigel King (2011) [19] described that an audit planning system empowers users to plan effective audits by recognizing audit units having possibly large impacts and risks on an enterprise and users become able to select audit units to contain in audits based on a set of different criteria. The audit planning system shows the audit units of the enterprise and a visual indicator of the impact and risk related with each audit unit. The users of audit planning system can select the offer audit units to plan an audit. The audit planning system may present audit units in an impacted financial statement, a tree map, a diagram, or a schedule. The audit units in audit planning system might display with visual indicators specifying associated risks, impacts, materiality values, exposures, coverage's, or audit costs. The audit planning system can further show visual indications of the changes in audit units' related traits after over time.

Research Methodology

This study is a descriptive research with both qualitative and quantitative approach. In this study information from both primary and secondary data are used to conduct our project. For this study qualitative data was obtained from articles related to auditing. The primary data is mainly from the questionnaire survey among auditors. And the secondary data is obtained from various sources like: websites, books and journal. The qualitative research is planned on the basis of qualitative research conduct. The objectives of the research is:
To find out the different types of frauds to be detected by the auditors.
To study auditor's perception towards possibilities of frauds.
To list out most important factors that affect the auditor's perception
Sampling in questionnaire to collect the responses from external auditors. The targeted population is the auditors in external audit firms (the big four). In this research convenience sampling is selected because it simple and easy to use. In convenience sampling the participant in the survey has equal likelihoods for getting designated from the target population. A sample size of 57 is used for this research. The sample size is selected by distributing 57 questionnaires conveniently to external auditors working in companies. In this research data is obtained through the survey which contains 15 questions related to auditor's perception towards possibility of fraud that will be distributed to auditors in companies to gather sufficient information. Descriptive statistical tools such as: percentage, chart and table average are used to interpret and analyze the data of questionnaire.
Questionnaire is designed in two sections. The first part comprises the demographic factors of the participants. Their name, company name, position, qualifications and experiences. The second part is where question is prepared in form of 15 statements and auditors should evaluate each statement based on their knowledge and opinion. Their opinion is recorded based on Likert's five-point scale.

Data Analysis

Table 1: Mean based analysis of auditor's perceptions

Statements	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean
Transactions which are recorded incorrectly or not properly recorded as of amount, classification, accounting period.	15	24	10	1	0	4.06
Unsupported transactions, only photo copied or electronically transmitted documents are provided when documents in original form are expected to exist.	10	21	8	4	0	3.88
Last minutes' adjustment that significantly affects financial results.	19	18	10	2	1	4.04
Providing requested information with unusual delay	8	16	21	5	0	3.54
Altered documents	20	20	7	3	0	4.14
Fewer response to confirmation than anticipated or greater numbers of responses than anticipated.	0	20	29	1	0	3.38
Significant magnitude of assets are missing	20	18	9	2	1	4.08
Missing documents.	10	25	4	3	1	3.8
Code of conduct violation	15	22	8	3	2	3.9
Complaints by management about the conduct of the audit.	13	14	18	4	1	3.68
Involvement of Management in the engagement of team members in auditing process	15	17	15	3	0	3.88
Providing tips to the auditor about alleged fraud.	17	19	9	5	0	3.96
Disclosures in the financial statements are not suitably provided	12	15	16	6	1	3.62
Frequent changes in accounting estimates that do not appear to result from changed circumstance.	17	15	12	5	1	3.84
. Excessive inventory shortages.	11	15	19	4	1	3.62

Mean based analysis shows the most important factors for auditor's perception towards possibility of fraud. The first factor that can influence the auditors is if the documents appear that it has been altered then the second factor is missing assets of significant magnitude. Another important possibility is transactions which are not recorded in a complete form. Last minutes adjustment that significantly affects financial results tips to the auditor about alleged fraud is also important frauds.

Table 2: Statistical Analysis of the data

	N	Minimum	Maximum	Mean	Std. Deviation
S1	50	2	5	4.06	0.767
S2	50	2	5	3.88	0.824
S3	50	1	5	4.04	0.968
S4	50	2	5	3.54	0.885
S5	50	2	5	4.14	0.881
S6	50	2	4	3.38	0.53
S7	50	1	5	4.08	0.9655
S8	50	1	5	3.8	0.9035
S9	50	1	5	3.9	1.035
S10	50	1	5	3.68	1.019
S11	50	2	5	3.88	0.917
S12	50	2	5	3.96	0.968
S13	50	1	5	3.62	1.048
S14	50	1	5	3.84	1.076
S15	50	1	5	3.62	0.987
Valid N	50				

The standard deviation shows that there is no much deviation in the Reponses on various questions the standard deviation ranges between 0.53 to 1.076.

Table 3: Top five important factors affect the auditor's perception.

Factors	Mean
Documents that appear to have been altered.	4.14
Significant magnitude of assets are missing	4.08
Transactions which are not recorded in a complete.	4.06
Last minutes adjustment that significantly affects financial results	4.04
Providing tips to the auditor about alleged fraud.	3.96

Table 4: Five least important factors affect the auditor's perception

Factors	Mean
Fewer responses to confirmation than anticipated or greater numbers of responses than anticipated.	3.38
Providing requested information with unusual delay	3.54
Disclosures in the financial statements are not suitably provided	3.62
Excessive inventory shortages.	3.62
Complaints by management about the conduct of the audit.	3.68

Mean based analysis in this table shows the least important factors for auditor's perception towards possibility of fraud. The first factor that will not affect or influence the auditors is if there are fewer responses to confirmation than anticipated or greater numbers of responses than anticipated. Then the second factor is unusual delays by the entity in providing requested information. Another possibility is an unwillingness to add or revise disclosures in the financial statements to make them more understandable, Excessive inventory shortages. And Complaints by management about the conduct of the audit is also indication of possibility of frauds.

Conclusion

Based on our research, we concluded that the perception of auditors towards possibility of fraud is very important in the auditing process to detect fraud. The analysis of findings shows that there are few fraud indications which should be given high attention during the auditing of financial statement, the expected frauds are:

1. Documents that appear to have been altered.
2. Missing assets of significant magnitude.
3. Transactions which are not recorded in a complete.
4. Last minutes adjustment that significantly affects financial results.
5. Tips to the auditor about alleged fraud.

The auditor attention to these fraud indications can save time and effort while detecting the frauds. The response from the respondent highly reveals that few areas of auditing process needs to be given high attention in order to bring out the frauds committed by accountants.

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