

# [Auditing is the accumulation and evaluation of evidence accounting essay](https://assignbuster.com/auditing-is-the-accumulation-and-evaluation-of-evidence-accounting-essay/)

Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be done by a competent, independent party and communicate the results to interested users. (Elder, and others, 2007, p . 4) The purpose of audit is to enable the auditor to express an opinion whether the financial statements present a true and fair view in accordance with the identified financial reporting framework, and will enhance the credibility of financial statements. Audits can improve a company’s efficiency and profitability by helping the management better understand their own work and financial system. The management, as well as the shareholders, suppliers and financers, is assured that the risks in the organization are well-studied, and effective systems are in place to handle them. Furthermore, audit can identify areas in an organization’s financial structure that need improvement, and how to implement the proper changes and adjustments. It uncovers inaccuracies and discrepancies within an organization’s records, which may be indications of weak financial organization or even internal fraud, and reduce the risks. (Auditing, n. d.)

At present corporate scandals and fraud continues to be a pervasive problem and is very common across the world. However these scandals and fraud are so massive that every time many people especially employees of the company lose their jobs and investors are bearing from major losses in these incidents.

Corporate fraud is any fraud committed against a business and is used to include many different wrongs that may occur within a business. Corporate fraud takes many forms, including insider trading, embezzlement, false billing schemes, securities fraud and forgery, Asset misappropriation fraud, Business opportunity fraud, Employment fraud, Short and long firm fraud, Employee fraud etc. Among the most dangerous forms of corporate fraud is known as long firm fraud, which occurs when a business is founded on legitimate grounds, and then lead by certain unethical individuals toward a purpose of defrauding over a long time. (Corporate fraud, n. d.) It is difficult to expect such scandals prior to the exposure as these involve complex methods for misusing funds, overstating revenues, understating expenses, etc. According to studies conducted in the United States, United Kingdom and Australia (2010) states that corporate fraud increased in the previous 12 months and economic conditions have worsened. The studies also found that the dollar amount lost to fraud also had increased as well. The study conducted by Association of Certified Fraud Examiners (ACFE, 2009) estimated that fraud cost U. S organizations 7 percent of annual revenues, or $ 994 billion in losses based on 2008 gross domestic product. Although financial statement fraud less frequent, however it typically involved more than $ 2 million. Simultaneously, in the United Kingdom KPMG’s Fraud Barometer found £1. 3 billion of fraud in 2009. National head of forensic Gary Gill (2010) states that 2009 Australia KPMG’s Fraud Barometer found million in major fraud cases. And they highlighted that although the number of cases remain same compared to first to second half of 2009, the value or cost of the fraud doubled. This could weaken investors and shareholders confidence.

In order to prevent or reduce from corporate fraud auditors do have a duty to detect errors and fraud hence auditors need to ensure that the financial statements are presented in true and fair view in accordance with the identified financial reporting framework. This research will assist the auditors to find out what they can be done or what would be their responsibility to reduce the massive corporate fraud which, is rapidly spreading around the world.

Auditors obtain a reasonable assurance that financial statements are free of material misstatement caused by error or fraud. One of the challenges faced by the auditor in detecting fraud is the independence of the auditor. Some companies’ management will not allow the auditor to act with integrity and exercise objectivity and professional skepticism. The other challenge faced by the auditor is that the management does not provide sufficient information to detect the fraud. The auditors would not get enough supporting documents to prove that whether the transactions are correctly recorded. Maintaining public trust is also one of the challenges that auditors would face, hence the public has raised the question as to whether audit functions can be trusted, after financial statement fraud committed by big companies such as Enron, Tyco, and World. com. In order to prevent such problems from occurring, this research has been conducted in order to help auditors to enhance audit quality, prevent and detect potential fraud before it is too late.

## Brief description of project objectives.

## (i. e. scope of proposal, constructs used, limitations and significance)

Andrew Marshal (2009) said that when it comes to corporate fraud, nowhere is safe, hence there are fraud scandals occurring everywhere in the world. CPA Journal (2008) estimated that a typical organization loses 5 percent of its annual revenues to fraud, or about $ 4, 500 per employee each year. Furthermore the CPA Journal (2008) states that most frauds involve a lack of adequate internal controls (opportunity), the need to maintain an expensive lifestyle or pressure to meet goals (incentive), and the perpetrators’ lack of awareness that their actions are wrong (self-rationalization) or simple lack of integrity. However, investors expect auditors to give them absolute assurance for detecting material misstatement due to fraud. The majority of investors want from an audit absolute assurance the financial statements are free of all types of material misstatement. The main objective or the aim of this research will be on how and what are the methods that auditors can contribute to minimize material misstatements from financial statements and reduce corporate fraud. The other objective of this research is to identify the difficulties in detecting corporate fraud and how to enhance audit quality. Besides that this research will evaluate the gaps in internal controls and how auditors can come out with a financial statement without any biasness.

## Scope of the Study

The scope of this study will concentrate on auditors and their responsibilities towards the public. In addition it will focus on fraud awareness, fraud risk and the corporate governance in the organization. Furthermore this study will focus on the abilities and the knowledge which auditors should have to accomplish their obligations.

## Limitations of the Study

The limitations of this research will be the difficulty in collecting primary data; hence this research will be conducted with face-to-face structured interviews and a survey questionnaire. The time limit for the interview may not be enough based on the availability of the participants, therefore interview has to be scheduled for the availability of participants.

## Significant of the Study

This research will facilitate the auditors to maintain public trust and will enhance audit quality. By enhancing audit quality auditors can reduce the corporate fraud and make the companies trustworthy. When audit quality is enhanced auditors will be more responsible in detecting and preventing fraud. And auditors will perform their work more carefully as a result the companies will not experience financial trouble or difficulties. This research will gather information about how corporate frauds can be reduced and auditors as a key people who needs this information to be applied in the corporate world to reduce corporate fraud.

## Brief description of the models/theories/concepts that will be used in this proposal.

## (i. e. consumer behaviourism model, CSF and etc.)

This project does not require any concepts, theories or models to be used in the process of doing it.

## E Academic research being carried out and other information, techniques being learnt.

## (i. e. literature – what are the names of books you are going to read / data sets you are going to use)

The books that this research will use are Audit and Assurance Books, Internal and External Auditing books. Magazines, online articles and journals which are related to corporate fraud and auditors will be used. Journals include such as Audit disaster futures: antidotes for the expectation gap by Fran M. Wolf, James A. Tackett and Gregory A. Claypool. And CPA journals such as Auditors responsibilities with respect to fraud: a possible shift. In addition this research will use the Audit firm’s reports such as KPMG.

Other relevant sources include:

http://www. reuters. com/article/idUSTRE5AJ03S20091120

http://www. reuters. com/article/idUSN1717856320100317

http://www. bobsguide. com/guide/news/2009/Nov/20/Corporate\_accounting\_fraud\_increasing\_around\_the\_world. html

http://www. kpmg. com/AU/en/IssuesAndInsights/ArticlesPublications/Press-Releases/Pages/Press-release-fraud-doubles-16-Feb-10. aspx

http://www. irs. gov/compliance/enforcement/article/0,, id= 213768, 00. html

http://www. anonymousemployee. com/csssite/sidelinks/corporate\_fraud. php

http://www. procurement. travel/news. php? cid= corporate-fraud-rises-employees-layoffs-economy. Mar-10. 31

http://www. emeraldinsight. com/journals. htm? articleid= 868441&show= html

## Brief description of the materials/methodologies needed by the proposal.

## (i. e. data collection methods, sampling, sample size and target group etc.)

The data for this research is intended to be covered from Malaysia. Primary data will be collected from listed companies and Audit firms of Malaysia. Data will be collected with the help of questionnaires and interviews. Face-to-face structured interviews will be carried out. The interview will be kept short to respect the time constrains of the participants, hence would not be exceeding 30 minutes. Where clarification is required, further follow-up interviews can be carried out over telephone or e-mail where necessary.

A total of 150 questionnaires would be prepared and distributed to the employees of listed companies of Malaysia and Certified Public Accountants (CPA) of Malaysia. The questionnaire would also be distributed to the shareholders for the listed companies of Malaysia and other employees who are working in financial institutions as well. The questionnaires would be more closed ended structured while there would be some open ended questions included as well. Most of the secondary data will be taken from online journals, Emerald, other websites and Athens database.

## G Brief description of the evaluation and analysis proposed for this project.

## (i. e. project deliverables and hypothesis, correlation test etc)

## Hypothesis of the Research

This research would benefit the Audit firms, public and private limited companies and shareholders and stakeholders of the public companies. This research not only benefits to Audit firms, public and private companies, but for the public as a whole. The hypothesis testing would show the effect and the changes of audit quality. This hypothesis testing would be the relationship between internal auditors and the external auditors, being independent between the internal auditors would assist the external auditors to work independently and detect fraud and prevent them re-occurring. In addition this research would expect that there is a relationship between internal control and the audit quality and relationship between audit ethics and audit procedures that the external auditors carried out.

## Deliverables

The end result of this research would provide empirical information to all auditors and the top management of the company. Especially this information would facilitate the directors to come out with reliable financial statement to its users. This research will provide theoretical information to all the directors and to the management of the company in order to prevent the financial statements from misstatement and fraud. This information helps the company from losing billions of dollars per year from corporate fraud and will safeguard the shareholders interest and the stake holders of the company.

## H. Illustration of how this project will benefit the future employability

## Relevance to Industry

All the accounting and financial industries will benefit from this research. As an audit firm this research will help both enhancing the audit quality and will facilitate the new methods to detect fraud and will encourage new audit firms to perform the audit with due care. Auditing is one of the challenging works which assist the auditors to use their knowledge and experience and at the same time the new auditors will learn and gain experience in the audit field and would learn new methods on detecting frauds. This research would benefit all the corporations to minimize their corporate fraud cost.

## Significance to Modules

This research is directly related to Audit and Assurance, Forensic Accounting. And also somehow this research is related to corporate governance as well.