



AUDITOR RESPONSIBILITY RELATED TO FRAUD AND ASSESSMENT OF THE RISKS OF MATERIAL MISSTATEMENT

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Article history:	Abstract:
<p>Received: 6th May 2022 Accepted: 6th June 2022 Published: 10th July 2022</p>	<p>The aim of the research is to identify the auditor's responsibility towards discovering the risks of material misrepresentation when auditing in light of the application of International Auditing Standard No. (240), to achieve this goal a questionnaire was designed and distributed to the research sample represented by auditors working in audit companies and offices of the first category who are in the Bulletin of 2022 issued by the Board of Audit and Oversight Profession in Iraq. The research found that there is statistical importance for external auditors in Iraq to realize their responsibilities for detecting fraud from the point of view of the sample members and to adhere to the necessary tests and procedures to identify and assess the risks of fundamental errors when auditing financial statements. The most important recommendations: The necessity for the Council of the Audit and Monitoring Profession in Iraq to obligate the external auditors to follow the audit procedures because of their contribution to strengthening the auditors' reports, the need for professional organizations to define the responsibilities of external accounts in an accurate and clear manner, while setting the rules and controls related to detecting fraud in the lists Finance.</p>

Keywords: auditor's responsibility, assessment of the risks of material misstatement

INTRODUCTION

The responsibility of the management and the auditor for the misrepresentation and manipulation that may occur in the issued and published financial statements, being responsible with regard to the fairness and truthfulness of the financial statements, is to give a neutral technical opinion regarding the fairness and truthfulness of the presentation of the financial statements because there are many parties that depend on these data (management, shareholders In order to fulfill this responsibility, the auditor must seriously search for all errors and irregularities that fundamentally affect the truthfulness and fairness of the statements included in the financial statements. These auditors are distinguished by their scientific and practical qualifications and their mental and actual independence. The auditor must exert reasonable professional effort and care in obtaining information that enables him to express his professional opinion on the financial statements. The greater the commitment of the external auditor to the application of testing procedures for identifying and evaluating the risks of material errors, the more reliable the degree of reliance on the financial statements. Therefore, the research problem is in light of the question:

Does the external auditor realize his responsibility when discovering a material misstatement when auditing the financial statements? In light of the application of the international auditing standard 240 Where the research was based on the following basic premise: There is no correlation between (the auditor's awareness of his audit responsibilities in accordance with International Auditing Standard 240 related to fraud) and (identifying and evaluating the risks of material misstatement).

1- The theoretical background of the research

With the development of the business community, the accounting profession has taken upon itself greater responsibilities in the performance of its services. With this greater responsibility comes greater risks - and these evolving risks have led to significant increases in lawsuits against auditors as, and in the audit profession, fraud is an intentional act by one or several persons in management, employees, or third parties that results in a misrepresentation

The auditor is responsible for assessing the possibility of the company's continuity and is responsible for discovering errors and fraud that appear in the regular audit, provided that he has exercised his professional caution. He must also study and evaluate the internal



control system, and is responsible for discovering any errors or unusual circumstances that can be identified. Among the previous studies in Iraq on the responsibility of auditors in detecting fraud, including the study (**Abdul-Jabbar, 2018**) a review and analysis of the most important professional publications related to the responsibility of auditors in detecting fraud in financial reports. The auditor's commitment to international auditing standards for fraud and the lack of clarity of the external auditor's responsibility in cases of fraud and error leads to poor investigation discovery to discover material errors resulting from fraud and error cases in the company's records subject to audit, and the auditor's failure to perform his duties in accordance with the audit standards. Therefore (**Mohammed and Ali, 2020**) emphasized in their study to improve the performance of auditors, the auditor must be able to understand the client's business, and this depends on the auditor's approach to audits that require a strategic assessment of the client's business risk model. As the first step in business.

Several large disclosures about unlawful irregularities resulting from company conduct and the auditor's responsibility to disclose them appeared in 1973 in the US Congress' Legislation (Foreign Corrupt Practices Act of 1977) and growing concern about auditor liability. In 1986, the Financial Fraud Detection and Detection Act was enacted and presented in the House of Representatives (the US Congress) by the Dingell Committee. SEC) and its purpose was the following (**O'Leary, 2013**):

1. Divide the effectiveness of the audit, the independence of the auditor, and the effects of audit failure for some cases.
2. The extent and adequacy of regulatory oversight of the accounting profession.
3. The suitability of the standard-setting process, which may be significantly affected by the preparers of financial statements and their auditors.
4. The effectiveness of self-regulatory programs for the accounting profession.

We believe that the main stated objective of this committee is to examine the role of the auditor in detecting fraud and deviations, and specifically focusing on the discovery of financial and fraudulent reports, or that have been neglected or examined insufficiently, whether this enhances the auditor's ability to detect fraud or whether the issued standards and procedures. The extent of fraud will be reduced and the auditor is responsible for assessing the viability of the company and is responsible for spotting errors and frauds that appear in a regular audit, provided that they have exercised their professional judgment. He shall also

study and evaluate the system of internal control, and shall be responsible for discovering any errors or unusual circumstances that may be identified.

2- Risks of material misstatement resulting from fraud:

ISA 240 Paragraph 4 on Auditor's Responsibility for Considering Fraud and Error states that the responsibility to prevent and detect error and fraud rests with all persons charged with oversight in the firm and its management and requires auditors, therefore (**Popova;2015;5**), noted that auditors have a responsibility to detect fraud and assess fraud risk at each stage of the audit. An audit of financial statements is organized in three phases: planning the audit, performing the audit, and issuing an audit opinion. The purpose of the planning phase is to identify the risks of material misstatement so that audit procedures can be designed to reduce them. audit. risk to reasonable levels, as defined by (**Dennis, 2017: 6**) to maintain professional skepticism throughout the audit in order to recognize the possibility of a material misstatement due to fraud.

Fraud is one of the illegal behaviors carried out by the parties dealing with the company, whether from inside or outside the company, in addition to frauds carried out by employees such as embezzlement of assets, bribery, financial corruption, extortion, and illegal transactions (**SAS 54**) and requires the auditor to be on Be aware of the possibility of these actions occurring in the event of their occurrence.

In the audit profession, fraud is an intentional act by one or several persons in the administration, employees, or third parties that results in misrepresentation in the financial statements. (**Kohler, 2009, p.201**) defined fraud as success in shading with the intention of fraud or harming another party, misrepresenting data, and deliberately concealing important facts for the purpose of failing to disclose relatively important facts. It misleads the individual through fraud and deception in claiming his right to the assets or making him enter into an unsatisfactory contract. (**Nikolovskia, et.al.2016;22**) indicated that audit risk is the information that the financial statements taken as a whole are fairly represented, and it is not so and that the auditor is unable to discover it. Audit risk includes the following two components

1. The risk that the financial statements contain false allegations.
2. The risk of the auditor not disclosing it, reliable evidence should be collected. The primary objective is to reduce the overall risk to a sufficiently low level and to achieve the desired confidence more effectively.



3- The risks of material misstatement resulting from fraud:

International Auditing Standard 240 indicates that there are three fraud risk factors called the fraud triangle (opportunity, stress, and rationale): It is defined as the events or circumstances which indicate a motive or pressure to commit fraud or create an opportunity to commit fraud. (IAS240: 2017) (Yusof et al., 2015: 126-145.) (Arens et al., 2012).

1. Motivations/pressures: management or employee.
2. Opportunities: Circumstances that create opportunities for management or employees to commit fraud.
3. Justification: A tendency, character, or set of moral values in place that allows management or employees to commit a dishonorable act, or they are in an environment that places sufficient pressure on them to justify their commission of the act.

The auditor is responsible for evaluating the viability of the company and is responsible for discovering errors and frauds that appear in a regular audit, provided that he has exercised his professional judgment. He shall also study and evaluate the system of internal control, and shall be responsible for discovering any errors or unusual circumstances that may be identified.

4- The responsibility of the auditor related to fraud in accordance with International Standard 240:

Elizabeth & Robert's study indicates that auditors should adjust their assessment of fraud risks in accordance with the evidence obtained. In other words, the assessment of the evidentiary evidence should influence the initial fraud risk assessments (**Elizabeth & Robert, 2005:323**)

Since the main objectives of the auditor are; Identify and assess the risks of material misstatement of the financial statements due to fraud, and obtain sufficient and appropriate evidence regarding the assessed risks of material misstatement related to fraud, in accordance with IAS 240 (Abbadi & Slihat, 2015), by designing and implementing appropriate responses, and respond clearly to fraud or suspected fraud found during the audit. Therefore, the responsibilities of the auditor can be defined in the following points,

- 1- Ensuring that the financial statements that he has audited are free from material errors, whether due to fraud or error, that fraud may involve complex and carefully organized schemes designed to conceal practices such as fraud, intentional failure to record transactions, or deliberate misrepresentations are presented to the auditor It is difficult to detect such practices, especially when they are accompanied by complicity. In such cases, the auditor's ability to detect

fraud depends on factors related to the auditor's qualifications, skills, and experience, and the frequency and extent of the manipulation.

- 2- Obtaining reasonable assurance about the management's estimates related to the financial statements, by examining a large number of accounts, and items of the financial statements of assets, liabilities, and equity.

The auditors' responsibility is to determine whether the financial statements are materially misstated. If the auditor determines that there is a material misstatement, it will report it to the client so that the correction can be made. If the customer refuses to correct the data, a qualified or dissenting opinion should be issued depending on the significance of the misrepresentation.

5- Management Responsibility and Auditor Role in Fraud Detection:

The auditor is required according to the International Auditing Standard (SAS 53) to exercise professional skepticism when planning and executing the audit process. Moreover, the auditor does not assume that management is dishonest and does not assume absolute honesty in it, so management has the ability to direct subordinates to record transactions or hide transactions. in a way that could materially distort the financial statements. The auditor should obtain appropriate confirmation of whether the financial statements are free from material misstatements (**Zain et al., 2015: 8**), so it was clarified (**Porter, 1997**) that management is responsible for fraud detection and prevention, and management has the responsibility to design and implement an effective internal control system that prevents fraud and ensures the credibility of financial statements. International auditing standards indicate that fraud is often difficult to detect because management and employees who have engaged in fraud seek to conceal it. However, the difficulty of detection does not change the auditor's responsibility for planning and performing the audit to detect misstatements. Whether resulting from fraud or error (**Higson & Kassem; 2016: 7**), and (**Louwers, et.al., 2018**) indicated that misrepresentation resulting from management fraud becomes more important and substantial than misrepresentation resulting from employee fraud (e.g. embezzlement or theft of assets). When the administration commits fraud, this necessarily leads the auditor to re-evaluate the integrity of the administration and the extent of its reliance on evidence in the past that was in doubt, as well as its re-evaluation of the written representations obtained from the administration, and the validity of records and documents.



The responsibility for auditing the financial statements rests with the external auditor, which makes the latter bear professional and disciplinary responsibility for not taking sufficient care in not discovering material misstatements in the financial statements. Users of financial statements expect the auditor to discover most material misstatements that affect the financial position. fraud and material errors that affect the lists and financial statements fundamentally, and the responsibility of preventing fraud and errors and taking appropriate actions rests with the management of the controlled entities. Therefore, auditing the financial statements does not absolve management or those charged with governance from their responsibilities. He must decide whether these statements contain material incorrect data that affects the fairness of these statements with a degree of importance when planning the audit process and before issuing his final report.

6- Management Responsibility and Auditor Role in Fraud Detection:

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The study by (**Mohammed and Hazem: 2022**) showed that auditors are responsible for the mistakes they make in their work. As for the validity of the data contained in the final financial statements, it remains for the project management, because the first objective of the auditor's work is to come up with a neutral technical opinion about the fairness of the financial statements portraying the reality of the reality. The status of the project and matching the data contained in these lists to the project records and books, which is the responsibility of the management in the first place, which is in accordance with international financial accounting principles. But the auditor's accumulated experience will be able to detect the deception of the management, which requires the auditor to audit all transactions of the company and in essence, exercise professional doubt in the sincerity of all records and documents obtained by the company, and the auditing process of all will be unreasonably expensive and impractical. Whenever there are influences on the lack of integrity of management, this means the increased risk of material errors in the financial statements.

The primary responsibility for preventing and detecting fraud rests primarily with those charged with corporate governance and management (ISA 240:3). It is important for the administration, under the supervision of those charged with governance, to emphasize the prevention of fraud, to reduce the chances of its occurrence and deter its perpetrators,



leading to a conviction among individuals not to commit fraud because of the possibility of its discovery and exposure to punishment. This involves a commitment to creating a culture of honesty and ethical behavior, which can be Enhanced by effective oversight by those charged with governance.

7- Descriptive statistics for the data of the research questionnaire:

In order to identify the responsibility of the auditor related to fraud and assess the risks of material misrepresentation from the point of view of the auditors of the research sample, the necessary information was collected to design a questionnaire form in the form of a research question. The year 2022 was issued by the Board of Auditing and Oversight Profession in Iraq.

Descriptive statistics for the questionnaire form

The questionnaire was based on a five-point Likert scale with weights for the type of answer on each paragraph (strongly agree = 5, agree = 4, neutral = 3, disagree = 2, disagree at all = 1) and the mean weight is calculated for sample answers due to the presence of Weights and then the degree of approval and direction are determined as in the following table:

Table (1)

Standard Weighted Average Intervals according to the Five-point Likert scale

Approval score (direction of answers)	weighted average of periods
Absolutely	1.00 - 1.79
Unacceptable	1.80 - 2.59
Neutral	2.60 - 3.39
agree	3.40 - 4.19
Strongly agree	4.20 - 5.00

The length of the period was calculated from (0.80) through (4/5)

And for the ease of dealing statistically with the paragraphs or questions of the axis in the questionnaire form when conducting descriptive statistics and the rest of the statistical analysis of the form, it will be encoded with the symbol X, and its paragraphs take the sequence from (1-12) and my agencies:

Table (2)

Questionnaire form paragraphs

(The auditor's awareness of his audit responsibility towards fraud and the assessment of the risks of material misstatement in light of the application of International Auditing Standard 240)

Phrases (paragraphs) or question	Paragraph symbol
Emphasize the importance of exercising professional skepticism throughout the audit process.	X_1
Appoint auditors with sufficient skills and knowledge to perform the audit assignment and assess the risks of material misstatement due to fraud.	X_2
The auditor is responsible for detecting material fraud	X_3
The auditor is responsible for detecting non-material fraud..	X_4
The auditor shall be deemed to be negligent in carrying out his duties if material fraud is discovered later.	X_5
The auditor contributes to assessing the ability of the audited company to continue in business.	X_6
The auditor is responsible for the actions of the persons responsible for them in the audit process.	X_7
The auditor is responsible for the company whose accounts he is auditing for compensation for the damage incurred and the lost profit due to the errors he committed to carrying out his work.	X_8
The auditor is responsible to the shareholders and users of the financial statements for the damage incurred due to the errors he committed to carrying out his work.	X_9
The auditor is responsible for discovering cases of fraud that are committed in a controlled manner that is difficult to detect if he does not exercise due professional care	X_10
The auditor is responsible if he fails to give an early warning of the presence of fraud indicators.	. X_11
The auditor holds himself accountable when providing a report that is different from the reality of the client's situation if evidence of fraud appears.	X_12

Source: Prepared by the two researchers

Table (3)
The answers of the research sample to the paragraphs of the questionnaire
(The auditor's awareness of his audit responsibility)

NO	Paragraph symbol	Answers										The arithmetic mean	Standard deviation	Standard degree
		Strongly Agree		OK		neutral		not agree		I don't agree at all				
		5	4	3	2	1								
		%	K	%	K	%	K	%	K	%	K			
1-	X1	57.5	61	36.8	39	5.7	6	0.0	0	0.0	0	0.60523	4.5189	Strongly Agree
2-	X2	54.7	58	40.6	43	3.8	4	0.9	1	0.0	0	0.62099	4.4906	Strongly Agree
3-	X3	27.4	29	49.1	52	11.3	12	9.4	10	2.8	3	1.00779	3.8868	OK
4-	X4	11.3	12	30.2	32	34.9	37	17.0	18	6.6	7	1.07156	3.2264	neutral
5-	X5	26.4	28	34.0	36	21.7	23	16.0	17	1.9	2	1.09302	3.6698	OK
6-	X6	28.3	30	56.6	60	6.6	7	7.5	8	0.9	1	0.86106	4.0377	OK
7-	X7	31.1	33	53.8	57	9.4	10	5.7	6	0.0	0	0.79197	4.1038	OK
8-	X8	17.0	18	37.7	40	22.6	24	17.9	19	4.7	5	1.11338	3.4434	OK
9-	X9	21.7	23	44.3	47	24.5	26	7.5	8	1.9	2	0.94165	3.7642	OK
10	X10	27.4	29	50.0	53	9.4	10	12.3	13	0.9	1	0.97129	3.9057	OK
11	X11	26.4	28	52.8	56	16.0	17	3.8	4	0.9	1	0.81650	4.0000	OK
12	X12	46.2	49	43.4	46	5.7	6	4.7	5	0.0	0	0.78514	4.3113	Strongly Agree
		Arithmetic mean and standard deviation of the first sub-axis										0.52190	3.9465	OK

Source: Prepared by the two researchers

Table (3) shows the number of iterations of the sample vocabulary answers, arithmetic means, standard deviations, and the degree of agreement for the paragraphs of the first axis (the auditor's awareness of his audit responsibility), as the arithmetic mean of paragraph X_11 (emphasis on the importance of practicing professional skepticism throughout the audit process) reached (4.5189), which indicates The degree of approval of the paragraph according to the research sample is (strongly agree), while paragraph X_12 (appointing auditors with sufficient skills and knowledge to carry out the audit task and assess the risks of material misrepresentations due to fraud) the arithmetic

mean of the answers of the research sample about it reached (4.4906), which indicates the degree of approval B (strongly agree) and also paragraph X_112 (the auditor exposes himself to accountability when submitting a report that is different from the reality of the client's situation in the event of evidence of fraud) (4.3113), which indicates the degree of agreement (strongly agree) and we note that the arithmetic means of paragraphs X_13 (the auditor is responsible for discovering Material fraud (3.8868) and X_14 (The auditor is responsible for detecting non-material fraud) (3.2264) and X_15 (The auditor is deemed to have failed in performing his duties if material fraud was



discovered later) (3.6698) and X_16) The auditor contributes to evaluating the extent of the audited company's ability to continue the activity (4.0377) and X_17 (the auditor is responsible for the actions of the individuals responsible for the audit process) (4.1038) and X_18) the auditor is responsible towards the company whose accounts he audits For compensation for the damage incurred and the lost profit due to the errors he committed in carrying out his work (3.4434) and X_19 (the auditor is responsible for discovering cases of fraud that are committed in a controlled manner that is difficult to discover if he did not exercise the necessary professional care) (3.7642) and X_110 (the auditor is responsible for Detecting fraud cases that are committed in a controlled manner that is difficult to detect if he does not exercise the necessary professional care ((3.9057) (X_111) The auditor is responsible if he fails to give early warning about the presence of fraud indicators (4.0000), all of which indicate the degree of approval (agree) except for the fourth paragraph X_14, which were the answers of the individuals of the research sample with the option (neutral). It is also noted from Table (3) that the answers of the research sample were mostly distributed between two options (agree, strongly agree) with large numbers and percentages that tended in most of the paragraphs to the answer option agreed compared to the rest of the other answer options, and all the axis paragraphs occurred (the auditor's awareness of his responsibility Auditing) on the arithmetic mean (3.9465), which indicates the degree of agreement of the research sample on the paragraphs of the axis as a whole with (agree), which indicates initially the importance of the axis with its paragraphs.

8- CONCLUSIONS AND RECOMMENDATIONS:

First, the conclusions:

1. The auditor's study of a state of doubt about the existence of unexpected or unusual relationships that express events or circumstances that indicate the presence, motives, opportunities, and justifications for perpetrating fraud in the financial statements within the audited entity, contributes to identifying the material misstatement when auditing the financial statements.
2. There is a statistical significance for the awareness of the external auditors in the Republic of Iraq of their responsibilities for detecting fraud from the point of view of the sample members.
3. The existence of a real and effective role for the internal control system in identifying and evaluating the risks of material misstatement.
4. The commitment of auditors to apply international auditing standards when auditing the financial

statements, which enhances their ability to detect fraud in the financial statements.

5. The external auditor in Iraq abides by the necessary tests and procedures to identify and assess the risks of material errors when auditing the financial statements.

Second: Recommendations:

1. The auditor must activate professional skepticism when auditing financial statements by noting the nature of the relationship between management and employees, because with the fraud triangle and the relationship together, it is difficult to identify material misstatement when auditing financial statements.
2. The necessity for the Board of Audit and Oversight Profession in Iraq to raise awareness and guide external auditors to follow the audit procedures (requirements) contained in International Auditing Standard No. (240), because of their contribution to strengthening the auditors' reports, and obligating them to do so.
3. It is necessary to encourage external auditors to exercise the necessary professional care in the audit process for the purpose of discovering fraud cases that are committed in a controlled manner that is difficult to detect.
4. The necessity of paying attention to the establishment of an effective and genuine internal control system in order to assist in identifying and evaluating the risks of material misstatement.
5. The need for auditors to adhere to the necessary tests and procedures to identify and assess the risks of material errors when auditing financial statements.

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