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## THE RESPONSIBILITY OF THE AUDITOR ABOUT DISCOVERING FRAUD THE FINANCIAL STATEMENTS ACCORDING TO THE IAS. NO. 240

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### ABSTRACT

*This study aimed to show the extent and clarity of responsibility of the external auditor for detecting fraud in financial statements under the versions of the professional and the statement of the adequacy of audit procedures contained ISA number (240) in the discovery of fraud in the financial statements and to identify factors to help reduce the vulnerability of the auditor of disputes judicial because of the discovery of the fraud in the financial statements, has been applied to study in Jordan, and to achieve the objective a questionnaire was designed and distributed to auditors practicing and working in the offices of the audit and that audit the accounts of public shareholding companies listed on the Amman Financial Market. The study concluded that there is a reasonable understanding of Auditors in Jordan over responsibility for the discovery of the fraud when auditing the financial statements and the auditors Jordanian application of the procedures contained in ISA 240 increases the ability to detect fraud when auditing the financial statements, and that the most important factors that contribute in reducing the risk of the auditor of the lawsuits is to establish standards of quality control a high level when the task of checking and making sure.*

### KEYWORDS

audit, international auditing standards, fraud in an audit. ISA No. (240).

### INTRODUCTION

The topic of responsibility of the auditor for detecting fraud in the financial statements of the most controversial issues and debate in the literature of the audit, although the reason for this, due to the existence of a gap between the auditing profession and users of financial statements concerning the responsibility of the auditor for detecting fraud and errors in the financial statements, Statements Financial users expect the external auditor to discover all cases of fraud in financial statements, as demanding the auditor to provide assurance never was free of financial statements which were audited all cases of fraud and mistakes or to work on the discovery and disclosure in the case of its existence, while the auditing profession rejects responsibility absolute detection of all cases of fraud.

Years have witnessed the recent lawsuits against auditing firms Great for failing to detect cases of misleading material, where the giving reports clean on the work of a number of companies that have audited the accounts, but soon hit those companies go bankrupt after receiving the audit reports clean which raised many questions and debate about the extent of the auditor's responsibility for the discovery of deception in the financial statements. As a result of the change in the direction of public opinion to the public to resort to the judicial authorities to resolve all cases of conflict and discord (Tomas, Henky, 1998).

Even keep pace with the needs of society is a kind of challenge for each of the researchers in this area and for practitioners of this profession, because this problem they face in exercising their business and require a foundation of scientific and practical solutions to deal with.

So comes this study was to shed light on previous versions of the professional on the subject of fraud and the auditor's responsibility towards it, especially the ISA number (240) (which provides for (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements), which was considered effective for operations Audit of Financial Statements for the periods in which the primitive December 15, 2004 or thereafter. Which came as an amendment to the same standard, which was provided to (the auditor's responsibility to consider fraud in audits of financial statements) as well as identify the factors affecting the discovery of deception in the financial reports and the auditor's responsibility to catch it, perhaps contributing to the development of some of the proposals to guide by practitioners.

### STUDY PROBLEM

Problem of the study lies in the lack of clarity of responsibility of the external auditor regarding the discovery of the fraud and misunderstanding about this responsibility has, therefore, highlights the problem of the study through the following questions:

1. Is the auditor responsible for detecting fraud in financial statements?
2. Does the implementation of audit procedures contained in the ISA number (240) to the discovery of the fraud?
3. What are the factors that reduce the risk of the auditor's responsibility for judicial or legal because of the discovery of the fraud?

### STUDY OBJECTIVES

The study aims to achieve several objectives can be viewed in the following points:

1. Indicate the extent and clarity of the external auditor's responsibility for detecting fraud in financial statements under the professional versions.
2. Statement of the adequacy of audit procedures contained ISA number (240) in the discovery of fraud in the financial statements.
3. Identify the factors to help reduce the vulnerability of the auditor of disputes because of the lack of judicial discovery of the fraud in the financial statements.

### STUDY HYPOTHESES

**H1:** Is not the external auditor responsible for the discovery of the fraud when he performed an audit.

**H2:** Do not lead the implementation of audit procedures contained in the ISA number (240) to increase the ability to detect fraud in the financial statements.

**H3:** there are no factors that reduce the risk of exposure time auditor of the responsibility of the judiciary and legal due to the discovery of fraud in the financial statements.

### THEORETICAL FRAMEWORK

#### THE CONCEPT OF FRAUD TYPES AND CAUSES

Clear from the survey conducted in the United States of America in 1974 to 66% of investors believe that the most important function for companies and accounting firms is the discovery of the fraud. In a study (Humphrey and his colleagues) found that 43% of the accountants, and 60% of Chartered Accountants, 62 % of financial managers believe that it is the duty of the auditor fraud detection is important. While the ratio in favor of this view in the sample of users of financial statements of others, represented investors, bankers and financial journalists, stood at 86%. The following researchers on this result by saying that "the subject of fraud under stressful to the heart through the years, and in more than a discussion of the expectation gap" (Ahmed, 2009).

In a study of Porter pointed out that 91% of Chartered Accountants, and 99% of the relevant officials of the companies that are audited, and 98% of the users of financial statements are specialists in financial matters, they assert that the task of Chartered Accountants, which must be performed, is the discovery of

deliberate distortion of information Finance. Also see that the functions of the auditor, which must be performed as well as the reservation in the audit report for the deliberate distortion of financial information and by a total of 76% (Porter, 1993).

**THE NATURE AND CHARACTERISTICS OF FRAUD**

The definition of the error:

According to ISA 240, paragraph (5) of the International Federation of Accountants IFAC as distortions unintended in the financial statements, including the deletion of an amount or clarification, such as an error in data collection or processing, or accounting estimate is correct the result of forgetfulness or an erroneous interpretation of the facts, or an error in the application of accounting principles relating to measurement, recognition, classification, display or disclosure of (IFAC, 2007).

**TYPES OF ERRORS**

Can be divided into errors of commission in order to hand (ACEF, 2002):

1. Intentional errors, the errors that are made with pre-measure in order to conceal the fact that certain specific and cover the embezzlement.
2. Unintentional errors are errors committed by accident and there is no measure to do, and result from ignorance of accounting principles or default.

The terms of accounting can be divided into:

1. Errors of omission and this may be:
  - omitted altogether, such as failure to establish fully operational in the books.
  - Inadvertently in part, intended that a party of the process has not been proven in the accounts.
2. Errors of commission and is divided into (Abdullah, 2000):
  - Errors of principle and is to identify the processes are not in accordance with accounting principles known.
  - Compensating Errors that are commensurate in which the error with another error.
  - Clerical Errors are as diverse as wrongful deportation of financial transactions, the errors collection and the IPA and repetition in the proof processes.

**TYPES OF FRAUD**

Known fraud in paragraph 4 of the International Standard ISA 240 as "an act intended by one or more of the administration, and those charged with oversight, and staff or external parties, in respect of the act by using deception in order to get the interest of unfair or illegal".

Classified according to types of fraud Association of Certified Fraud Examiners (ACFE), which were conducted in the United States of America during the period from April 2001 until February 2002 to three main groups, namely:

- 1 - Misappropriation of assets.
- 2 - Corruption.
- 3 - Misleading financial reports.

Divided by the last study AICPA fraud into three types according to who you are committing as follows:

1. Management Fraud Management fraud is perpetrated by men of senior management and include this type: manipulation in the financial statements or theft of an entity or to use resources for personal purposes.
2. Cheat workers Employee Fraud is perpetrated by workers in operation and includes the theft or use of company resources for personal purposes.
3. External fraud and External Fraud of this type carried out by persons not belonging to the company and includes the theft of company resources or exploited illegally.

And confirm (Arens & lobak 2002) that it is usually difficult to Auditors to discover irregularities compared to errors due to the availability of the intention of misleading when you commit irregularities; on the other hand, the management of fraud are hard to detect because:

1. Possible to penetrate a member of the department, or more internal control.
2. Is usually the effort of the administration to hide the distortion.

**THE METHOD AND PROCEDURES AND TEST HYPOTHESES**

Study was applied vs. Jordan specifically late 2010 This is a field of study and achieve their goals, the researchers designed a questionnaire on three main axes can be stated as follows:

1. Axis I: contains (10) items related to the extent of the responsibility of the auditor for detecting fraud.
2. Axis II: This included the axis (24) item on the actions that must be performed by the auditor to detect fraud.
3. Axis III: contains (12) item on the factors that reduce the risk of the auditor of judicial disputes.

**DESCRIPTION OF THE SOCIETY AND THE STUDY SAMPLE**

The study population consists and appointed the statutory auditors Jordanian practicing and who hold a certificate to practice the profession of auditing, where it reached 185 Auditors working on (40) Auditing company of distributors at different regions of the Kingdom The study aimed at the entire population of the study, were taken of the study in full where distribution of questionnaires, one for each of Auditing company of those offices, analyzed 31 questionnaires by 77.5%.

**STATISTICAL METHODS USED IN DATA PROCESSING**

1. The arithmetic mean, Standard deviation and Percentage:
2. Stability testing tool (Reliability Test): Test was used to measure the Cronbach Alpha reliability of the survey and the amount of internal consistency to them. The results of the calculation of this factor to the stability of paragraphs were too high where it reached 83%, which confirms the reliability of the questionnaire in hypothesis testing (Sekaran, 2003).
3. T- test for single sample (One Sample T-Test):

**DATA ANALYSIS AND HYPOTHESIS TESTING**

**TABLE 1: DESCRIPTIVE STATISTICS FOR THE PARAGRAPHS OF THE AXIS ON THE SCOPE OF RESPONSIBILITY OF THE AUDITOR FOR THE DISCOVERY OF DECEPTION IN THE FINANCIAL STATEMENTS**

S. No	range	Statement	Mean	St. Deviation
10	1	The management of the facility is responsible for detecting fraud and error.	4.64	0.68
1	2	Bear the auditor's responsibility to detect fraud material.	4.08	1.04
7	3	The auditor is responsible for the actions of the individuals responsible for them in the audit process.	3.70	0.75
6	4	The auditor is responsible for assessing the capacity of the facility replaces the audit to continue in the activity.	3.58	0.61
8	5	The auditor is liable to the company that the audited accounts for the compensation of the damage and loss of profits achieved because of the mistakes committed in the implementation of the work.	3.58	1.01
9	6	The auditor is liable to the shareholders and users of financial statements for the compensation of the damage and loss of profits achieved because of the mistakes committed in the implementation of the work.	3.58	0.59
5	7	The auditor is responsible for the discovery of illegal acts carried out by the established place of audit.	3.18	0.86
4	8	If the discovery of the fraud later material is the auditor remiss in carrying out his duties.	2.39	1.02
2	9	The auditor is responsible for the discovery of the fraud is not material.	2.37	1.07
3	10	The auditor is responsible for the discovery of the fraud.	2.21	1.03
<b>General Mean</b>			<b>3.33</b>	<b>0.822</b>

**AS A RESULT OF TESTING THE FIRST HYPOTHESIS**

**H<sub>0</sub>:** Is not the external auditor responsible for the discovery of the fraud when he performed an audit.

**H<sub>a</sub>:** the external auditor is responsible for the discovery of the fraud when he performed an audit.

**TABLE NO. 2: T-TEST RESULT FOR THE FIRST HYPOTHESIS**

St. Deviation	Mean	Result	SIG	Indexed Value of (T)	The Calculated Value of (T)
0.822	3.33	Reject	0.01	2.042	4.95

Given the table (2) it is clear that the value of T calculated amounted to 4.95 which is larger than the value of indexed, and since the decision rule is: accept the premise nihilism if the calculated value is less than the tabular and rejected if the value is calculated larger than the value spreadsheet, and we therefore reject nihilism hypothesis (H<sub>0</sub>) and accept the alternative hypothesis (H<sub>a</sub>) This means that the external auditor responsible for the discovery of the fraud when he performed an audit.

**TABLE (3): DESCRIPTIVE STATISTICS FOR THE PARAGRAPHS OF THE AXIS ON THE PROCEDURES THAT MUST BE PERFORMED BY THE AUDITOR TO DETECT FRAUD**

S. No	range	Statement	Mean	St. Deviation
24	1	Surprise visit to the sites belonging to the unit under scrutiny for the inventory of some assets, such as midwife to the embezzlement of cash and stock.	4.46	0.572
16	2	The discovery of the auditor of fraud leads to narrow the expectations gap in auditing .	4.43	0.688
17	3	The use of analytical procedures at various stages of the audit.	4.37	0.554
5	4	To check the detailed restrictions of the settlement which is made in the last quarter of the year.	4.28	0.688
14	5	Risk assessment of the existence of fraud or error leads to substantial distortions.	4.24	0.663
1	6	Obtain the approvals of the parties that deal with the company such as suppliers, customers and banks.	4.22	1.282
10	7	Exercise professional skepticism when planning the audit process and implementation.	4.20	0.639
21	8	Can check the detailed (comprehensive) for high-risk accounts.	4.17	0.565
23	9	Hire specialists in areas that require it.	4.16	0.776
20	10	Gather information on the conditions of the agreements you make with the company's clients, such as terms of payment and delivery of the goods and the right of reply.	4.14	0.638
22	11	Focus on the audit evidence that is obtained from sources outside the unit under scrutiny.	4.13	0.410
4	12	Evaluate the information that may help in identifying risks of material misstatement due to fraud.	4.13	0.709
15	13	Audit of accounting estimates that may result in material misstatements.	4.12	0.430
3	14	Obtained from the client representation letter acknowledging responsibility for the fair presentation of financial statements.	4.12	0.391
2	15	Assign auditors with sufficient experience and knowledge to audit the accounts of high risk.	4.08	0.625
19	16	The organization of meetings between members of the team process to discuss and understand the physical possibility of distortions to the financial statements resulting from fraud or error	4.08	0.527
8	17	Identify any relationships unusual or unexpected was not normal when performing analytical procedures.	4.01	0.540
7	18	Meeting the management of Internal Audit and Audit Committee in the case of presence	4.00	0.737
13	19	Communication and discussion with the auditors who audit the accounts of subsidiaries or related company to identify risks of material misstatements due to mutual transactions among themselves.	3.99	0.619
18	20	Extensive testing of internal control in terms of design and application.	3.96	0.621
9	21	Inquiry of senior management and the charge of oversight to determine if they have actual knowledge or suspicion of the existence of fraud or material error .	3.89	0.819
11	22	To inspect the records and meetings of the board of directors and audit.	3.79	1.292
12	23	Inquiry lawyer for the company's lawsuits against the company and the estimates for which.	3.12	0.574
24	24	Query management for any fraud or significant error was discovered.	4.46	0.572
<b>General Mean</b>			<b>4.12</b>	<b>0.659</b>

**AS A RESULT OF A TEST THE SECOND HYPOTHESIS**

**H<sub>0</sub>:** does not implement audit procedures contained in the ISA number (240) to increase the ability to detect fraud in the financial statements.

**H<sub>a</sub>:** The implementation of audit procedures contained in the ISA number (240) to increase the ability to detect fraud in the financial statements.

**TABLE 4: T-TEST RESULT FOR THE SECOND HYPOTHESIS**

St. Deviation	Mean	Result	SIG	Indexed Value of (T)	The Calculated Value of (T)
0.659	4.12	Reject	0.011	2.042	20.95

View table No. (4) it is clear that the value of T calculated amounted to 20.95, the largest of its value indexed, and since the decision rule is: accept the premise nihilism if the calculated value is less than the tabular and rejected if the value is calculated larger than the value spreadsheet, and we therefore reject nihilism hypothesis (H<sub>0</sub>) and accept the alternative hypothesis (H<sub>a</sub>) This means that it leads the implementation of audit procedures contained in the ISA number (240) to increase the ability to detect fraud in the financial statements.

TABLE 5: DESCRIPTIVE STATISTICS FOR THE PARAGRAPHS OF THE FOURTH AXIS ON THE FACTORS THAT REDUCE THE RISK OF THE AUDITOR OF JUDICIAL DISPUTES

S. No	range	Statement	Mean	St. Deviation
8	1	Quality control standards at a high level task of the audit.	4.47	0.75
1	2	Ensure the ability to provide the service properly before making a decision to accept the task.	4.12	0.83
12	3	Maintaining independence.	4.08	0.86
11	4	The formulation of rules, laws and standards and constantly revised so as to comply with changing requirements of the audit.	3.97	0.67
9	5	Increase awareness and understanding of the intended users of the auditor's opinion and the extent and nature of his work.	3.96	0.72
10	6	Research in the area of the audit to reach a better ways to discover the fundamental distortions fraud management and staff.	3.96	0.74
2	7	Screening of new clients who have never dealt with them, and in particular with regard to integrity and impartiality of the administration.	3.82	0.65
3	8	Caution in the audits of clients who suffer from difficult financial position.	3.78	0.70
7	9	Increase awareness and understanding of the intended users of the auditor's opinion and the extent and nature of his work.	3.66	0.87
4	10	Agreement with the client on the duties and responsibilities in a letter contract with the task of auditing.	3.57	0.94
5	11	Text explicitly on the borders of the auditor's responsibility in all of the letter of the contract and letter of representation.	3.55	1.02
6	12	Obtain letters of contracting and representation.	3.45	1.21
<b>General Mean</b>			<b>3.87</b>	<b>0.83</b>

**AS A RESULT OF TESTING THE THIRD HYPOTHESIS**

**HO:** There are no factors that reduce the risk of exposure time auditor of the responsibility of the judiciary and legal due to the discovery of fraud in the financial statements

**Ha:** There are factors that reduce the risk of exposure time auditor of the responsibility of the judiciary and legal due to the discovery of fraud in the financial statements.

TABLE 6: T TEST RESULT FOR THE THIRD HYPOTHESIS

St. Deviation	Mean	Result	/ SIG/	Indexed Value of (T)	The Calculated Value of (T)
0.83	3.87	Reject	0.000	2.042	12.92

View table No. (6) it is clear that the value of T calculated amounted to 12.92, the largest of its value indexed, and since the decision rule is: accept the premise nihilism if the calculated value is less than the tabular and rejected if the value is calculated larger than the value spreadsheet, and we therefore reject nihilism hypothesis (Ho) and accept the alternative hypothesis (Ha) This means that there are factors that reduce the risk of exposure time auditor of the responsibility of the judiciary and legal due to the discovery of fraud in the financial statements.

**CONCLUSIONS AND RECOMMENDATIONS****THE RESULTS**

Field study results and the following indicators:

- 1 - That there is a reasonable understanding of Auditors in Jordan over responsibility for the discovery of the fraud when auditing the financial statements, where the mean was 3.33 year and by 66.6% support.
- 2 - statistical analysis showed that the auditors Jordanian application of the procedures contained in ISA 240 increases the ability to detect fraud when auditing the financial statements where it reached the mean year 4.12 per support amounted to 82.4% and the most important actions that must be adhered to by auditors surprise visit sites belonging to the unit under scrutiny for the inventory of some assets, such as midwife for embezzlement of cash and stock, and the discovery of the auditor of fraud leads to narrow the expectations gap in the audit.
- 3 - There are a range of factors that contribute to reducing the risk of the auditor of the litigation, as was the arithmetic mean of 3.87, a rate of support reached 77.4%, and most notably the development of standards of quality control a high level when the task of checking and ensuring the ability to provide the service properly before making a decision to accept task.

**RECOMMENDATIONS**

Based on the results reached in this study, the researcher recommends the following:

- 1 - the need for the Jordanian Society of Chartered Accountants of organizing seminars, conferences and training courses for its members to ensure the development of their skills and update their knowledge of the discovery of the fraud in the light of the recommendations issued by the organizations, publications, relevant standards audited accounts.
- 2 - the obligation of auditors Jordanian application of the procedures contained in ISA 240 in particular and the international auditing standards generally.
- 3 - the need for the auditors of Jordanians to take measures that contribute to reducing the risk of exposure to lawsuits and judicial review of legislation for the Jordanian legal audit profession in order to avoid deficiencies in the organization of the profession on the one hand and to keep abreast of developments and updates to the international auditing standards on the other hand.

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