

The Effect of Professional Doubt of Auditor on Discovering Auditor's Frauds

***Babak Pour Bahrami, Zohre Nameni**

Department of Accounting, Parand Branch, Islamic Azad University, Parand, Iran

ABSTRACT

Auditor's report is a brief and important document which increases the credibility of a set of financial statements and makes it more acceptable for investors, creditors, government and other users.

Information mentioned in audit's reports and various audit declarations play a significant role in the process of decision making and informed judgments of those who use these reports. In the present research attempts have been made to obtain the degree of the relationship between audit's professional doubt and discovering the auditee's fraud. It has also been tried to determine what degree of professional doubt would lead to a qualified report.

Measuring professional doubt indicates recognition of the issue that in which place an audit can reach a level higher than other auditors or qualified audits. Also, by employing tests related to measuring professional doubt the point which shows an optimum level of professional doubt can be identified. This point has a significant role in the quality of the audit since different opinions of audit reports has a significant influence on decision making and judgments of the users of the financial statements.

The statistical population in this piece of research includes managers, audits and professional supervisors of the National Organization of Audit.

The relationship between professional doubt on discovering fraud and also on the quality of the audit report has been considered in the current study. Research findings indicate that there is a direct relationship between professional doubt and discovering fraud and also the quality of audit report. It has also been shown that with increase of professional doubt the degree of discovering the fraud increases and as a result it can lead to appropriate increase in the quality of audit reports.

KEYWORDS: audit, audited financial statements, auditor's report, doubt, discovering fraud.

INTRODUCTION

"The increasing rate of the needs of the society members accompanied with growth in economic activities led to creation of large companies. Few people were put in charge of managing the operation of these companies and the issue of separation of ownership from management was raised (1). Capital owners needed information in order to ensure optimum and efficient use of their economical resources and assess the function of managers. Therefore, companies attempted to present financial reports (2). The need to audit and have some people as auditors was felt since some bad intention could exist in the process of preparation and adjustment of financial reports by companies' board of directors(3). Audit report is a brief and important document which increases the credibility of a set of financial statements and makes it acceptable for investors, creditors, government and other users (4,10).

"Professional doubt is a fundamental concept in the profession of auditing and this fact is confirmed caused this issue is prominent in all standards of auditing (5). Professional doubt of independent auditors is the foundation of the background of auditing (6).

According to the above mentioned issues, it can be understood that" the stated information in audit reports and various audit declarations play a significant role in the process of decision making and informed judgments of those who use these reports(7,9,12). In the current study it has been tried to explore the degree the professional doubt of the auditor affects discovering fraud of the audile so the quality of audit reports is increased and these reports are more understandable and reliable.

According to the scientific foundations of the research, the research questions which have been posed by the researcher are as follows:

- 1) Is there any criterion for measuring professional doubt?
- 2) To what extent there is relationship between the feature 'doubt' and discovering fraud?
- 3) To what extent there is relationship between professional doubt and the quality of audit report?

MATERIALS AND METHODS

The employed research method in the present study is descriptive and correlation type. In this investigation, first it has been tried to describe and analyze existing information related to research variables, collection and basis of the work.

At the next stage, and by employing a descriptive method, these approaches have been expressed and finally in the analysis section the obtained data has been analyzed.

Data collection for the purpose of testing hypotheses has been conducted through questionnaire and interview. The reliability of the questionnaire was calculated by Cronbach α and it was 0.77 which indicates a relatively good reliability.

RESULT

Data Analysis

In order to analyze the data the following statistical methods have been deployed:

Estimating test validity:

"In order to estimate the validity of time sampling, retest validity method and Pearson correlation test were used and for validating scope sampling Cronbach α was employed(8,11).

Testing Hypotheses:

Test of correlation between variables

For testing the correlation between variables, correlation coefficient has been implemented.

Multiple Regressions

Multiple regression has been implemented in order to test the hypotheses.

If the hypothesis of independence hypothesis of errors is rejected and there is correlation between errors, regression cannot be applied. Therefore, if this case occurs Durbin-Watson test will be employed to study the errors.

Testing the first hypothesis:

In this piece of research the questionnaire is designed in a form in which the maximum point a respondent can achieve is 180. This point indicates the highest level of fraud discovery. As a result, first it has been tried to calculate the point of each filled out questionnaire and then it was assessed with 6 features of professional doubt. The test is as follows:

The first hypothesis is posed as follows

H0: There is no direct relationship between professional doubt and discovering fraud.

H1: There is a direct relationship between professional doubt and discovering fraud.

In the above table, the level of significance of variables is zero percent, i.e. below 5 percent. As a result, the level of significance for professional doubt is zero percent and less than 5 percent. Therefore, there is a relationship between the independent variable, i.e. professional doubt and discovering fraud at the confidence level of 95 percent. Also, since coefficients are positive the relationship between professional doubt and discovering fraud is direct, in that, as the professional doubt increases the degree of discovering of fraud increases. Thus, the null hypothesis (H0) is rejected and H1 is confirmed.

Testing the second hypothesis

Since there is a direct relationship between the quality of audit report in audit organization and job rank, job rank is regarded as a dependent variable in the present study.

The second hypothesis is stated as follows.

H0: There is no direct relationship between professional doubt and the quality of audit report.

H1: There is a direct relationship between professional doubt and the quality of audit report.

Given that the total level of significance is less than 0.05, H0 is rejected and H1 is confirmed. It means that regression model could explain the changes in the dependent variable.

In the above table, the level of significance of autonomy variable and investigator mind is less than 5 percent and positive. It indicates that these two variables have a significant direct effect on the quality of audit report. As a result, at the level of confidence of 95 percent, there is a significant relationship between the independent variable, i.e. professional doubt and the quality of audit report. Since the coefficients are positive, the relationship between professional doubt and the quality of audit report is direct.

DISCUSSION

In the current study, the effect of variables such as seeking for knowledge, arbitration interruption (judgment), autonomy, personal findings, self confidence, investigator mind, which are all features of professional doubt, on the dependent variable, i.e. discovering fraud have been tested and analyzed. According to the result obtained from statistical analyses and also testing the hypotheses in the previous chapter the result is presented in the following table.

| Description of hypothesis | The level of significance | The result of testing Testing hypothesis |
|---|---------------------------|--|
| There is a direct relationship between professional doubt and discovering fraud | 0.017 | Confirmation of the hypothesis |
| There is a direct relationship between the professional doubt and the quality of the audit report | 0.000 | Confirmation of the hypothesis |

Suggestions based on research findings

Based on the hypothesis number one which indicates there is a direct relationship between professional doubt of the auditor and discovering fraud, which was also confirmed in this study, it is recommended that all auditors increase their level of knowledge about this important issue. So they can take action about discovering fraud more efficiently and clarify the issue.

According to the hypothesis number two which states that there is a direct relationship between professional doubt of the auditor and the quality of the audit report, which was also confirmed in this research, it is suggested that all auditors increase their knowledge about this issue since it is very important. As a result, they would be able to enhance the quality of the audit reports and clarify them.

REFERENCES

1. Shabahang, Reza [1994] “ Auditing the function of Management” Audit organization Publications, No. 98
2. Golsazshirazi, Abdolali [1992] “Internal Auditing”.
3. Azimi, Saeed [1999] “Selection of Auditor and Supervisor in Stock Companies” Accountant Journal, No. 131.
4. The Committee of Reviewing and Developing Audit Guidelines [1994] “Audit Guidelines Volume No. 1 and 2” Audit organization Publications, No. 95.
5. The philosophy of Auditing, Evanston: American Accounting Association [1961].
6. Technical Committee of Audit organization [2006] “Professional Codes of Conduct” Audit organization Publications, No. 123
7. Nikkhahazad, Ali [2000] “The statement of fundamental Concepts of Auditing” Audit Organization Publications, No. 121.
8. Madani, Ali [1999] “Statistical Concepts and Methods” Audit organization Publications, No. 125.
9. Technical Committee of Audit Organization [2010] “Audit Standards” Audit organization Publications, No. 124.
10. Technical Committee of Audit Organization [2010] “Audit Standards” Audit organization Publications, No. 145.
11. Jalili Khoshnoud, Jalil [1996] “ Statistics and statistical interpretations” Islamic Azad University, South branch
12. Hamidi Ravari, Ahmad [1993] “Audit Reporting, Nature, Current structure and future Prospective” Accountant Journal, No. 95-96.