FRAUD AND ERROR. AUDITORS' RESPONSIBILITY LEVELS

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ABSTRACT: Are auditors responsible for detecting fraud in the companies they inspect? Most of the public thinks they are. Auditors often demur. The auditors' duties for the prevention, detection and reporting of fraud, other illegal acts and errors is one of the most controversial issues in auditing. This paper reports the findings of a survey that explores the financial report users' perceptions on the extent of fraud in Romania and their perceptions of auditors' responsibilities in detecting fraud and the related audit procedures. This study also finds that there is a widely held misperception of the objective of an audit. This is because, among respondents, a much higher expectation has been placed on the auditors' duties in detecting and reporting fraud than statute or audit standards require. The results of the study show unquestionably the existence, with respect to detection of fraud, of a gap between the perception of the respondents and the present statutory requirements of auditors.

Key words: fraud; auditors' responsibilities; audit expectation gap

JEL code: M42

Introduction

The need for external auditors may be seen as a response to the agency problem and the audit functions as a mechanism to attest to the accountability and stewardship of company management to reduce the possibility of innocent mistakes and deliberate misstatements such as fraud and management manipulation (Chandler, Edwards and Anderson,1993). Over the years, the role of auditors become increasingly important especially in a capitalist economy as the process of wealth creation and political stability depends heavily upon confidence in processes of accountability and how well the expected roles are being fulfilled (Sikka, Puxty, Willmott and Cooper, 1998). This gives rise to research interest on 'expectations gap', the differences between what the public expects from an audit and what the auditing profession prefers the audit objectives to be (Chandler and Edwards, 1996).

Are auditors responsible for detecting fraud in the companies they inspect?

Most of the public thinks they are. Auditors often demur. This gap between the expectations of auditors an everyone else has existed for a long time. Teo and Cobbin (2005) find evidence of it in 19th century england. In 21st century America, Deloitte Touche Tohmatsu CEO William Parrett remarket that „it's really extremely difficult for the auditor to find a collusive fraud", but noted unhappily that investors nevertheless expect them to do so (Taub,2005).

That an auditor has the responsibility for the prevention, detection and reporting of fraud,

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other illegal acts and errors is one of the most controversial issues in auditing, and has been one of the most frequently debated areas amongst auditors, politicians, media, regulators and the public (Gay et al 1997). This debate has been especially highlighted by the collapse of big corporations including Enron and Worldcom. The unanticipated fall of Enron and WorldCom traumatised the world as both of these companies received clean bills of health from their auditors immediately prior to their for bankruptcy.

Although a series of reforms were adopted worldwide in order to protect the global economy against such financial scandals, it seems they did not produce the expected effects.

As noted by Sikka (2008) the same case applies to Lehman Brothers. "On January 28 2008, Ernst & Young attached an unqualified audit report to Lehman Brothers' accounts for the year to November 30 2007. In addition, Lehman Brothers filed quarterly accounts with the SEC for the period ending 31 May 2008, and these too received a clean bill of health". Similarly, another of the world's largest accountancy firms, Pricewaterhouse-Coopers, has also been accused of failing to detect financial fraud of US$1.5 billion (RM5.37 billion) in Satyam, an Indian IT company listed on the New York Stock Exchange. This case, deemed to be India's worst financial scandal, has been termed as India's own Enron Scandal (NST, 2009; Wikipedia: Satyam Computer Services Ltd, 2009).

Although there have been some spectacular corporate collapses caused mainly by fraud, and I refer here to the most publicized ones, such as Bancorex, FNI, the audit profession in Romania was not directly involved therein. The prejudiced individuals only pressed civil charges against the managers of such companies, although the financial statements of these companies were audited by financial auditors.

According to Godsell (1992), there is a common belief that the stakeholders in a company should be able to rely on its audited accounts as a guarantee of its solvency, propriety and business viability. Therefore, if it transpires, without any warning that the company is in serious financial difficulty, it is widely believed that auditors should be made accountable for these financial disasters. Godsell's assertion has been validated in Malaysia after the case of Transmile. It was reported in the Business News on 19 June 2007 by a local newspaper, New Straits Times; that:

> "Investors have asked the authorities to take tough action against those who helped cook the books of Transmile Group Bhd. They (Investors) also want them (authorities) to examine the role of external auditors (Messrs Deloitte & Touche) and whether they (external auditors) have performed their duties well in scrutinizing the numbers. (p.41)"

The statement shows that the public doubts the credibility of the auditing profession and this may in turn seriously affect the public's confidence in the financial reporting process and auditing functions.

The present situation supports a misconception that auditors' duties are largely the preventing, detecting and reporting of fraud.

The aim of this paper is to identify financial report users' perceptions of the extent of fraud in Romania, and to determine their perceptions of the auditor's responsibilities in detecting fraud and the performance of related audit procedures. The paper also aims to ascertain whether the report users' perceptions of auditors' responsibilities on fraud are consistent with those of the auditing profession as expressed in auditing standards in Romania.

Literature review

Definition of fraud

Fraud has increased considerably over the recent years and professionals believe this trend is likely to continue. According to Brink and Witt (1982), fraud is an ever present threat to the effective utilization of resources and it will always be an important concern of management. The review of the literature shows that fraud has been broadly defined. ISA 240 'The Auditor's Responsibilities to Consider Fraud in an Audit of Financial Statement (Revised)' refers fraud as "an intentional act by one or more individuals among management, those charged with governance, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage (para. 6)". KPMG Forensic Malaysia (2005:5), in their Fraud Survey 2004 defines fraud as "a deliberate deceit planned and executed with the intent to deprive another person of his property or rights directly or indirectly, regardless of whether the perpetrator benefits from his/her actions".

Weirich and Reinstein (2000 cited in Allyne & Howard 2005:285), define fraud as "intentional deception, cheating and stealing". Some common types of fraud include creating fictitious creditors, "ghosts" on the payroll, falsifying cash sales, undeclared stock, making unauthorized "write-offs", and claiming excessive or never-incurred expenses. Pollick (2006) regards fraud as a "deliberate misrepresentation, which causes one to suffer damages, usually monetary losses". According to Pollick, most people consider lying as fraud, but, in a legal sense, lying is only one small element of actual fraud. Albrecht et al (1995 cited in Allyne & Howard, 2005:287) classified fraud into "employee embezzlement, management fraud, investment scams, vendor fraud, customer fraud, and miscellaneous fraud". Fraud also involves complicated financial transactions conducted by white collar criminals, business professionals with specialized knowledge and criminal intent (Pollick 2006).

According to Black Law Dictionary (cited in Lawrence et al 2004), fraud also means "taking advantage over another person by providing false, misleading suggestions, or by suppression of the truth". Therefore, fraud is not restricted to monetary or material benefits. It includes intangibles such as status and information. In the Anti-fraud policy in Murdoch University (2001), fraud is described as "…inducing a course of action by deceit or other dishonest conduct, involving acts or omissions or the making of false statements, orally or in writing, with the object of obtaining money or other benefits from or by evading a liability".

According to MacDonald (1993), there are no actual definitions of fraud and error since the dividing line where error crosses into fraud is based on the psychological construct of intent. MacDonald argues that fraud is a legal term, which applies when intent can be proven in a court of law. However, Pollick (2006) claims that fraud is not easy to prove in a court of law as the accuser must be able to demonstrate that the accused had prior knowledge and had voluntarily misrepresented the facts.

From a legal point of view, according to the definition given by Mr. Alexandru Boroi in his Dictionary of Criminal Law", fraud is defined as cheat, misguidance, and delusion for profit purposes by inducing damage. Mr. Mircea N. Costin, in his "Dictionary of Civil Law", defines fraud as an intentional violation by the parties of the mandatory provisions of the legislation in force, often by using perfidious means, at the conclusion or execution of a legal act.

Auditors' responsibilities in fraud detection

Fraud detection has been considered a major purpose of auditing for very long time. Gupta and Ray (1992) note the literature an internal auditing that shows fraud discovery to have been central in both medieval an early moderrn times. Flesher, Previts, and Samson, in their review af American auditing since the earliest colonial days (2005), describe an activity suffused with the intent to detect financial misconduct.

The role of auditors has not been well defined from inception (Alleyne & Howard 2005). Porter (1997) reviews the historical development of the auditors' duty to detect and report fraud over the centuries. Her study shows that there is an evaluation of auditing practices and shift in auditing paradigm through a number of stages.

Porter study reveals that the primary objective of an audit in the pre-1920's phase was to uncover fraud. However, by the 1930's, the primary objective of an audit had changed to verification of accounts. This is most likely due to the increase in size and volume of companies' transactions which in turn made it unlikely that auditors could examine all transactions. During this period, the auditing profession began to claim that the responsibilities of fraud detection rested with the management. In addition, management should also have implemented appropriate internal control systems to prevent fraud in their companies.

In the 1960's, the media and public were generally unhappy that auditors were refusing to accept the duties of fraud detection. The usefulness of an audit was frequently called into question as they generally failed to uncover fraud. However, despite the criticism, auditors continued to minimize the importance of their role in detecting fraud by stressing that such duty rested with the management. Due to the advancement of technology in the 80's, the complexity and volume of incidents of fraud have posed severe problems for businesses. Porter (1997) asserts that, even though the case law has determined that in some circumstances auditors have a duty to detect fraud, the courts have attempted to maintain the auditors' duties within reasonable limits. In contrast, Boynton et al (2005) argue that since the fall of Enron, auditing standards have been revamped to re-emphasise the auditors' responsibilities to detect fraud. Their assertion is based on ISA 315 'Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement' and ISA 240 'The Auditor's Responsibilities to Consider Fraud in an Audit of Financial Statement (Revised)'.

ISA 315 requires auditors to evaluate the effectiveness of an entity's' risk management framework in preventing misstatements, whether through fraud or otherwise, in the course of an audit. Boynton et al (2005) stress that this requirement was not previously necessary. They further explain that such an evaluation was only required previously when they chose to place reliance on that framework and to reduce the extent of the audit investigation. In addition, all staff members engaged on an audit are now required to communicate their findings with each other, to prevent situations where staff members, working independently on their own sections of the audit, have failed to appreciate the significance of apparently minor irregularities that, if combined, take on a more sinister meaning.

Additionally, Boynton et al (2005) claim that auditors are required to be more proactive in searching for fraud during the course of an audit under ISA 240 (Revised). Their duties now include considering incentives and opportunities presented to potential fraudsters, as well as rationalizations that the fraudulent act is justified. Auditors are also expected to inquire more closely into reasons behind such matters as, for example, errors in accounting estimates, unusual transactions that appear to lack business rationale, and a reluctance to correct immaterial errors discovered by the audit.

Empirical studies on fraud detection

Extensive studies have been conducted in many countries into the perception of financial report users of auditors' responsibilities in fraud prevention and detection [For example, Beck (1973) and Monroe and Woodliff (1994) in Australia; Arthur Anderson (1974), Baron et al (1977) and Epstein & Geiger (1994) in the US; Humphrey et al (1993) in the UK; and Low (1980) in Singapore; Leung and Chau, (2001) in Hong Kong; Dixon et al (2006) in Egypt; Fadzly and Ahmad (2004) in Malaysia]. These studies found that many financial report users believe that the detection of irregularities is a primary audit objective and that the auditors have a responsibility for detecting all irregularities. This is a misconception and shows the existence of an "audit expectation gap" between auditors and financial report users with respect to the actual duties of auditors.

Despite the extensive international research on fraud, in Romania no study on fraud has been carried out. The extensive international findings may not be applicable in Romania as research methods and results are influenced by and usually reflect economic, social or legal factors unique to those countries in which the studies took place. In addition, The Institute of Chartered Accountants in Australia (ICAA), in their report 'Financial Report Audit: Meeting The Market Expectation (2003)' identifies a need for longitudinal studies to be conducted at three yearly intervals, to observe the changes in perceptions and expectation of users of financial reports regarding auditors' duties.

It is hoped that the findings of such a study will provide insight into the financial report users' perceptions on the extent of fraud in Romania and their perceptions of auditors' responsibilities for and procedures in detecting fraud. The results of the study may in turn provide insight to the Auditing Standards Board into the perceived effectiveness of auditing standards in Romania.

Research methodology

We used the questionnaire technique for collecting the primary data, as it is an efficient means of collecting answers from a large sample size. The questionnaire is adapted according to the one used by Alleyne and Howard (2005). The questionnaire was designed in order to enable us to extract the necessary accurate information from the respondents' answers, and to make sure that collected information is adequate for achieving the objectives of this study. The questionnaire is divided in two sections, Section I and Section II. Section I consists of 8 questions related to respondents' demographics. Section II is divided in 2 parts, namely Part A and Part B, each of them with different aims and sizes. In part A, respondents are asked about their opinion on auditors' responsibilities with regards to detecting and reporting fraud, while in part B we try to obtain answers that would allow identification of respondents' perception with regards to audit procedures required for detecting fraud.

The questionnaire contains Likert-like questions, on a five-point scale, and respondents had to chose from a scale ranging from „strongly agree" to „strongly disagree". Most of the questions are „closed", in order to ease the respondent's task, except for three of them referring to individual's age, years of professional experience and position in the company, which enable us to check whether the respondent is actually the person to whom the survey is addressed to. The questions were designed based on a detailed review of the features of prior studies (Alleyne & Howard, 2005; Gay et al., 1997; Innes et al., 1997; Gay et al., 1998; Frank et al., 2001; Best et al., 2001) and subsequent to an in-depth review of audit standards disclosing auditors' responsibilities. This is important, because, at a later stage, the collected information will be compared with audit standards. Furthermore, the questions are arranged in an order corresponding to the order provided by the Approved Auditing Standards in Romania, thus enabling respondents to answer the questions easier.

The survey is applied at „national" level, as we aim to obtain representative results for entire Romania.

The participants in this survey can be divided into three groups, namely: auditors, managers and bankers. Data were collected throughout Romania to avoid territorial subjectivity. On-line questionnaires were sent to all participants. On-line questionnaires are very efficient in addressing participants throughout Romania, with extremely low costs. Moreover, they have the advantage of additional programmes that prevent returning of incomplete questionnaires.

The auditors' group includes all auditors who may exercise this profession throughout Romania; the auditors are officially recognised by the Chamber of Financial Auditors of Romania, and therefore, they are included in the „Romanian Public Register of Auditors", which can be viewed at http://www.cafr.ro/index.jsp?page=member_cafr. We have randomly allocated a number to each of the independent auditors and companies on the list of the Chamber of Financial Auditors of Romania. Then, by means of „data analysis" function, which includes the command for „generating random numbers" of uniform distribution, in the spreadsheet „EXCEL 2000" we obtained a final sample of 451 auditors. Of the total number of 451 questionnaires we successfully sent 378, while 73 returned with error messages due to a wrong e-mail address.

In terms of the managers' group, the persons were selected from companies listed on the primary and secondary markets of Bucharest Stock Exchange, as these companies have to audit their annual financial statements. We randomly allocated a number to each of the companies, and then, by means of „data analysis" function, which includes the command for „generating random numbers" of uniform distribution, in the spreadsheet „EXCEL 2000" we obtained a final sample of

391 companies, whose managers were provided with questionnaires. Of the total number of 391 questionnaires we successfully sent 275, while 116 returned with error messages due to a wrong e-mail address.

In terms of bankers' group, these persons were selected among employees in the credit departments of the major banking institutions in Romania. We sent 75 questionnaires and all reached their recipient.

Given that during the review of the responses we found that there are different expectations among the users of financial information on auditors' responsibility to detect fraud, we considered that a comparative analysis of the answers provided by the three categories of respondents is required. In order to perform this comparative analysis we interpreted the collected data by means of a statistical analysis software, namely „SPSS (Statistical Package for the Social Sciences), version 15.0".

In our opinion, the technique adopted for data collection resulted in a very good yield of 27.8% response rate. A detailed disclosure on each category of respondents is presented in Table 1.

Table no. 1

Situation of responses by category of respondents

Interviewed groups	Sample	Successfully sent	Returned	Answers received	% response rate / successfully sent
Auditors	451	378	73	114	30.2%
Managers	391	275	116	75	27.3%
Bankers	113	113	14	24	21.2%
TOTAL	917	766	335	213	27.8%

In terms of percentage, the most representative group is the one of the financial auditors, with 30.2%, followed by the group of managers, with 27.3%, and the one of bankers, with 21.2%.

The analysis of the general answers related to respondents (first section) enabled us to observe that most of the respondents have accounting qualifications and audit experience. Furthermore, more than 90% of the respondents claimed that they were aware of what auditors do. The high level of awareness, combined with their accounting qualifications and audit experience, should add credibility to the findings of the study.

Finding and discussions

Analysis of responses related to existence and extent of fraud

The results in Table 2 show that 46.5% of the respondents agreed and 16.4% strongly agreed that fraud is a major concern in Romania. However, 21.6% have a neutral opinion, while 13.1% disagreed and 2.3% strongly disagreed with this statement.

Overall, the results of this section show that there is a gap between the respondents' expectations and the present statutory requirements for auditors in respect to detecting and reporting fraud. This may suggest that the current auditing standards are deficient and insufficient in respect to issues related to fraud detection and reporting.

Table no. 2

Perceptions of the extent of fraud

Questions	Position of the respondents				
	Users of financial reports N = 213				
	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1. Is fraud a major concern for business in Romania?	5 (2.3%)	28 (13.1%)	46 (21.6%)	99 (46.5%)	35 (16.4%)
2. Do you think that the discovery of fraudulent activity would have a negative impact on users?	7 (3.3%)	19 (8.9%)	51 (23.9%)	112 (52.6%)	24 (11.3%)

When respondents were asked whether the discovery of fraudulent activity would have a negative impact on users, 11.3% strongly agreed and 52.6% agreed to this statement. Such responses reflect the common market reaction to negative publicity, which has a negative impact on the stock transactions price. Besides, the fact that several years ago the legal representatives of large companies were arrested has caused a sudden drop in the price of stock shares. The dramatic movements of these companies' share prices suggest that investors in Romania have a strongly negative perception of companies involved in fraudulent activities.

Analysis of responses related to auditors' responsibility for fraud detection

Table no. 3

Auditors' responsibility for fraud detection

Questions	Position of the respondents				
	Users of financial reports N = 213				
	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
3. Is it the responsibility of the auditor to prevent fraud and errors?	45 (21.1%)	48 (22.5%)	41 (19.2%)	40 (18.8%)	39 (18.3%)
4. Is it the responsibility of the auditor to prevent all fraud and errors?	40 (18.8%)	53 (24.9%)	38 (17.8%)	47 (22.1%)	35 (16.4%)
5. Is it the responsibility of the auditor to report all omissions and frauds in the auditors' report?	42 (19.7%)	63 (29.6%)	34 (16.0%)	43 (20.2%)	31 (14.6%)
6. Is the auditor responsible for any material weaknesses of the company's internal control system?	51 (23.9%)	58 (27.2%)	53 (24.9%)	25 (11.7%)	26 (12.2%)
7. Do you consider that there should be an audit standard that would make auditors responsible for detecting and reporting frauds?	42 (19.7%)	63 (29.6%)	34 (16.0%)	43 (20.2%)	31 (14.6%)

Table 3 shows that 18.8% and 18.3% of the respondents respectively agreed and strongly agreed that the responsibility of the auditor is to prevent fraud and errors. Most of the respondents, 21.1%, strongly disagree with the above statement, and 22.5% disagree with it. The proportions are maintained also in the case of the other four questions.

In our opinion, the results obtained are in contrast with the requirements of the International Standards on Auditing adopted by the Chamber of Financial Auditors of Romania. According to ISA 200 „Objective and General Principles Governing an Audit of Financial Statements", the objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. However, ISA 200 also requires an audit to be designed so that it provides reasonable assurance of detecting both material errors and fraud in the financial statements. To accomplish this, the audit must be planned and performed with an attitude of professional scepticism in all aspects of the engagement. Professional scepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. The auditor should not assume that management is dishonest, but the possibility of dishonesty must be considered. The auditor also should not assume that the management is unquestionably honest.

Most of the respondents (29.6% disagreed and 19.7% strongly disagrees) are of the opinion that there should not be a legislation to hold auditors responsible for preventing, detecting and reporting fraud. It is not a statutory requirement for auditors to prevent and detect fraud; however, once fraud is detected auditors are required to report such fraudulent activities to the relevant authorities.

Given the high number of auditors (114) in the total number of respondents (213), we can justify the weights in respect to statements related to responsibilities on detecting and reporting fraud. However, the number of respondents who believe that fraud detection and reporting is the auditors' responsibility is surprisingly high. This shows that users' expectations regarding auditors' responsibility on detecting fraud and errors are not understood well. Under these circumstances, it is interesting to analyse the positions taken by each category of respondents and to compare these positions.

In order to compare the answers of the three categories of respondents we have used the statistical analysis software „SPSS (Statistical Package for the Social Sciences), version 15.0". By means of this software we calculated the average value of the responses. Responses with an average value over 3 show that the users have higher expectations of auditors' duties and responsibilities than they should have. Responses with an average value below 3 show that users properly understand auditors' duties and responsibilities on detecting and reporting fraud.

Table no. 4

Average level of responses per group of respondents

Proposed questions	Average values of the groups of respondents		
	Auditors	Managers	Bankers
3. Is it the responsibility of the auditor to prevent fraud and errors?	2,14	3,32	3,9
4. Is it the responsibility of the auditor to detect all fraud and errors?	2,36	3,68	3,9
5. Is it the responsibility of the auditor to report all detected omissions and frauds in the Auditor's Report?	2,63	3,47	4,6
6. Is the auditor responsible for any material weaknesses of the company's internal control?	1,98	2,91	3,3
7. Do you consider that there should be an audit standard that would make auditors responsible for detecting and reporting frauds?	2,41	4,47	4,1

The average values in table nr. 4 show that most of the managers and bankers believe that auditors are responsible for preventing and detecting fraud and errors (questions 3 and 4). This finding is similar with the one of Best et al. (2001) and it shows that there is an expectation gap in respect to auditors' responsibility in preventing and detecting fraud.

A gap exists here because International Standard on Auditing 240 „Fraud and Error" clearly stipulates that the responsibility for prevention and detection of fraud rests with the management, and the main responsibility of auditors is to detect fraud and errors only insofar as they are related to risk assessment. The answer to question 5 has the highest average values for all three categories of respondents, which shows that users expect auditors to report all omissions and errors. The high level among respondents in the auditors' group is surprising, showing that even among this category there are different perceptions on the obligation to report fraud in the issued report. However, as required by the auditing standards, the auditor has no right to report fraud and errors in its report and he is advised to seek legal assistance to determine the usual procedures in such cases. To a lesser extent, users consider that auditors are responsible for the stability of the company's internal control (question 6).

The findings show an expectation gap between the respondents and the present statutory requirements with respect to fraud detection and reporting.

Analysis of responses related to audit procedures applied for fraud detection

Table no. 5

Auditors' responsibility on fraud detection

Questions	Position of the respondents				
	Users of financial reports N = 213				
	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
8. Do you believe that auditors should perform additional procedures in their attempt to uncover fraud?	21 (9.9%)	32 (15.0%)	41 (19.2%)	50 (23.5%)	69 (32.4%)
9. Do you believe that auditors should assess the activity of the internal control department related to fraud detection	25 (11.7%)	23 (10.8%)	18 (8.5%)	67 (31.5%)	80 (37.6%)
10. Do you believe that the statutory auditor should assess the internal auditors' activity?	22 (10.3%)	27 (12.7%)	32 (15.0%)	63 (29.6%)	69 (32.4%)
11. Do you believe auditors should develop additional audit procedures to enable identification and review of all transactions with related parties?	24 (11.3%)	39 (18.3%)	41 (19.2%)	49 (23.0%)	60 (28.2%)

This section shows the responses to the question whether auditors should perform additional audit procedures in an attempt to uncover fraud. Thus, 32.4% (strongly agree) and respectively 23.5% (agree) believe that auditors should develop and apply additional procedures to those applied as of the date of the study. It is possible that the large number of persons who consider insufficient and inefficient the current procedures applied by auditors in respect to fraud detection to be a consequence of much publicized financial scandals involving statutory auditors, which arise among users of financial statements a feeling of helplessness of auditors in respect to fraud detection. 31.5% and 37.6% of the respondents agreed and strongly agreed that auditors should assess internal controls used by the company to prevent or detect fraud. This time we can note that the answers are partially in accordance with the requirements of International Standard on Auditing ISA 400 „Risk Assessment and Internal Control". According to this standard, auditors are required to obtain sufficient information on accounting and internal control systems in order to plan the audit and to use an effective audit approach. However, ISA 400 does not particularly require an assessment of the internal control as to whether or not such internal control system enables prevention or detection of fraud (theft of assets).

Respondents were also asked whether auditors should assess the role of internal auditors. Based on International Standard on Auditing ISA 610 „Considering the Work of Internal Auditing", auditors are required to perform a preliminary assessment of the internal audit function when it appears that internal auditing is relevant to the external audit of the financial statements in specific audit areas. This study shows that most of the respondents agreed that auditors should perform the assessment of internal auditors (29.6% and 32.4% of the respondents agreed and strongly agreed).

According to ISA 550 „Related Parties", an audit cannot be expected to detect all related party transactions. Nevertheless, auditors should perform audit procedures designed to obtain sufficient appropriate audit evidence regarding identification and disclosure by management of related parties and the effect of related party transactions that are material to the financial statements. The study found that respondents have higher expectations with respect to this issue, as 23.0% and 28.2% of them agreed and strongly agreed that auditors should detect all related party transactions.

Overall, the results of this section show that there is a gap between the respondents' expectations and the present statutory requirements for auditors in respect to detecting and reporting fraud. This may suggest that the current auditing standards are deficient and insufficient in respect to issues related to fraud detection and reporting.

Conclusion

This study explores the financial report users' perceptions of the extent of fraud in Romania and of auditors' responsibilities in detecting fraud. It also investigates the perceived extent of the related audit procedures. The study also aims to ascertain whether the report users' perceptions of the auditors' responsibilities on fraud detection is consistent with the Romanian auditing professions' published standards.

The study found that respondents are very concerned about the problem of fraud in Romania. In addition, the results show that respondents' perceptions of the official objective of an audit is incorrect, as they placed a very high expectation on auditors' duties on fraud prevention and detection. This perception is in sharp contrast with the stated primary objective of an audit, as stipulated in ISA 200, which merely required auditors to form an opinion on the financial statement, but not of fraud prevention and detection efforts of the company. Such a change is explained by the shift in auditing paradigm highlighted by Porter (1997).

ISA 240 The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements makes it clear that the responsibility for the prevention and detection of fraud and error rest with management, through the implementation and continued operation of adequate accounting and internal control systems. Such systems reduce but do not eliminate the possibility of fraud and error. In contrast, the auditor is not and cannot be held responsible for the prevention of fraud and error. The fact than an annual audit is carried out may, however, act as deterrent. The auditor must therefore seek sufficient appropriate audit evidence that any fraud or error which may be material to the financial statements have not occurred. If it has occurred, the auditor must ensure that the effect of fraud is properly reflected in the financial statements or the error is corrected. Because of the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements, resulting from fraud or (to a lesser extent) error, may not be detected. Where such a misstatement is detected after the audit, the auditor will only have failed to adhere to basic principle and procedures if it is found that the audit procedures undertaken were not adequate in the given circumstances.

The study also found a lack of understanding among respondents of the statutory duties of auditors. The lack of understanding is because the users may not have read the statutory provisions for auditors, or have chosen to ignore or forget them.

The present situation may be improved through several strategies, the two most likely to succeed being: i) educating the users on the role and the actual duties of auditors, through better communication by auditors; and ii) by expanding the scope of the audit to meet market expectations. Porter (1997) believes that education may help in solving the misconception problem as it may reduce the "misunderstanding gap" caused by ignorance. On the other hand, expanding the scope of an audit may help to mitigate the "expectation gap" problem as auditors would then be performing additional duties not previously required. It is hoped that by implementing both approaches, the public's expectation and auditor's duties will be brought into closer accord.

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