Internal and external auditors Behavior: In Preventing and detecting financial statements fraud in the UK.

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Words: 9870

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Chapter 1 - Introduction

The auditor has the primary responsibility for the prevention, detection and reporting of fraud. This role includes reporting other illegal acts and errors which have a significant impact on the decision-making capacity of the investors. This research will examine the behaviour of the auditors (internal and external) when it comes to preventing and detecting fraud within UK corporate environment (Gay et al 1997). This topic has been notably emphasized by the failure of both small and medium enterprises throughout the globe. The auditing profession in the United Kingdom has taken the media's attention after financial problems in several the United Kingdom institutions such as Barclays, RBS, Lloyd SME and etc. in this research, it has been discussed that auditors' tasks are primarily based on the prevention, detecting and reporting of fraud (Idris, 2009). The purpose of this research is to identify financial report users' views of the value of fraud in the United Kingdom and to assess their perceptions of the auditor's behaviour towards detecting and preventing fraud. This research also tries to evaluate if the reporting of fraud and developing effective and efficient preventive strategies by the auditor directly affect their behaviour which could impair their judgment while doing the internal and external audit assignments.

The role of auditors in fraud control and detection is important. Fraud has been one of the most challenging and significant concerns for the company all over the globe for a long time. Nevertheless, there has been much more attention and study focused on the topic following the scandals such as Enron, Globecom and others. Frauds have resulted in the loss of significant value of money in the SMEs sector and the nation's economy in general (Fatoki, 2015). Researchers have revealed that fraud contributed dramatically to the financial problem and poor performance of numerous SMEs in the United Kingdom (Austin, 2011). According to Olorunsegun (2010), fraud is a key concern of SMEs business and this makes all institutions susceptible. The management of each SME invests their hard-earned money to minimize the occurrence of fraud and risk. Moreover, it raises question marks on the integrity of the personnel and management of the SMEs and also gives rise to utter loss of customers' faith in SMEs. Adeyemo (2012) argued that SMEs frauds are made feasible with insiders or staffs involvement which is also known as whistleblowing and insider dealing. The management and staffs of a SME are required to carry out their duties with ultimate sincerity of interest free of fraudulent methods to promote public benefit, trust and goodwill. Fraud deprives the economy of fund needed for healthy economic activity in addition to the role played by the SMEs sector in national economic growth and development. In the wake of fraud cases, the SME management's actions were found to be ineffective in preventing another fraud from occurring. According to a research done by Onwujiuba (2013), the SMEs industry's top executives aren't doing enough to prevent and regulate SME fraud, which is why there are so many scams taking place in the United Kingdom.

1.1 Background of the Study

The repercussions of financial statement fraud have been the topic of previous studies which is conducted by Albashrawi (2016). For example, a study found that the cost to businesses and society is enormous as it results in the total output (Free and Murphy, 2015). Using broad strain theory and group dynamics as possible catalysts for fraudulent activity was the focus of another researcher (Trompeter et el. 2013). Other scholars have looked at the role of risk monitoring and weak governance in promoting dishonesty (Steffee, 2010; Ang, Jiang, and Wu, 2016). Trompeter et el. (2013) cited a lack of awareness as a problem in their studies. Due to a dearth of research on proactive fraud detection and prevention, this study fills a need in the existing literature (Edge and Falcone Sampaio, 2009). There is a lack of real-globe evidence on successful detection approaches for fraudulent activity, whereas Throckmorton, Mayew, Venkatachalam, and Collins (2015) recognized the necessity to specify variables for effective detection measures. Studies like Albrecht and Hoopes (2014) focused mostly on the repercussions of financial statement fraud rather than proactive solutions which include identifying and minimizing the probability of fraud on an advance basis. In order to better understand proactive fraud prevention and the many risk management measures that may be used to avoid future instances of fraud.

For instance, a business might select to mark an estimation that is modified later on. This will not be thought of as dishonest conduct, given that the business corporation created the approximation within moral belief by consuming customers' data during the time of approximation. Accounting fraud appears while deliberate misstatements are being done, i.e., when a business corporation is exaggerating its possessions to make itself seem to be much more monetarily vigorous (Farrar.2003). One more instance could be when the business overemphasizes its income in order to make itself seem to be much more cost-effective as compared to what its reality is. In the United States of America, the Securities as well as the Exchange Commission

(SEC) is known to be a self-governing organization that is responsible for shielding shareholders while upholding reasonable, methodical, and proficient markets too. Its responsibility is to safeguard public trust inside the financial classification of publicly listed business companies (Holm.2011).

Fraud destabilizes the conviction which is needed for a market economy that is well-rolling. If an entity is unable to rely on a corporation's financial statements, it is highly unlikely for you to capitalize as well as entrust your hard-earned wealth towards the business corporation (Jeffrey.2020). Nevertheless, if there is a defensive procedure put in abode, even if they personally are unaware of anyone from the enterprise. In this research, a detailed analysis is made on the role of the auditors and how they can develop their overall strategy that can help in detecting and preventing the risk of material misstatement and fraud in the financial statement. Furthermore, this study also examines the role of internal and external auditors in preventing and detecting financial statements of fraud in the UK (Johnston.1986). This will be followed by a critical evaluation of the review of the relevant literature included within the research, all of which underpin the chosen research topic as well as questions too (Kovacich.2008).

1.2 Research Question

1. What is the relation between the behaviour of internal and external auditors behaviour and to development of detecting and preventing strategies of fraud in the financial statement?
2. What are the major factors that lead to financial statement fraud?
3. Who is responsible for financial statement fraud?
4. What is the Impact of the outbreak of financial statement fraud in UK capital markets?
5. What is the Role of internal and external auditors in preventing and detecting financial statements of fraud in the UK?
6. How can auditors prevent and detect financial statement fraud?

1.3 Research Objective

The main objective of this report is to do a comparative study between external and internal auditor’s roles and their responsibilities, in averting and identifying financial statements of scams in the UK.

1.4 Research Aim

The aim of this project is to identify financial statement fraud in the UK with case studies and to demonstrate the role of auditors in it. This report explains the importance of the auditor's behaviour in detecting and preventing fraud.

1.5 Significance of Research

The term financial fraud in true essence actually refers to the deliberate misrepresentation of any kind of financial data by one or more than one individual amongst the employees, management, or perhaps even third parties as well. The expression error on the other hand though refers to unintended errors within financial data." Errors consist of numerical or bookkeeping errors in the records of a business organization or the oversight or misreading of facts and figures. Errors can also be in the form of misuse of accounting policies mistakenly (Calyurt.2019). Fraud in audits is once an item is uncovered to have unlawfully distorted financial statements in order to influence their monetary condition or perhaps even to conceal profits as well as damages too. This is sternly penalized considering that fraud destabilizes the trust which is essentially the foundation of the worldwide economic organization. Assessing though remains a procedure of testing the monetary statements as well as various kinds of financial records of a business firm in order to assure the accurateness and unbiased depiction (DeZoort.2019).

Chapter 2 - Literature Review

2.1. Introduction

The chapter of the literature review upholds the substantial stance in the dissertation as it undertakes the review of pre-existing literature for augmenting the value of the research. The literature review broadens the scope of research in terms of exploring as well as highlighting the pertinent aspects of the research area in order to enhance the knowledge of peer reviewers. In line with that, the literature review of this respective research delves into exploring the internal as well as external audit behaviours crucial for preventing the frauds of financial statement frauds. With regards to that, the theoretical underpinning encompassing the agency theory and fraud triangle theory has been included. Subsequent to that, the concept of fraud and auditors' responsibility has been gauged in accordance with fraud detection and risk management. Furthermore, risk factors pertaining to the occurrence of frauds and errors in financial accounting along with the mistake risk element have been incorporated.

2.2. Theoretical Underpinning

There have been two substantial theories relating to financial reporting and auditing which involve agency theory as well as the fraud triangle theory.

2.2.1. Agency Theory

It has been accentuated by the study by Panda, & Leepsa (2017), that the capability to examine particular actions and behaviours in an organisational context has a significant impact on one's comprehension of the dynamics of the organisation. One of the theoretical viewpoints that have been widely employed in analysing organisations and has been considered to lead modern accounting research is agency theory. In line with that, the agency theory has been predicated on the relationship between the agents and the principal who tend to serve in the greatest interest of principals. The emphasis of agency theory is on relationships in which one party delegated certain decision-making responsibilities to the other. In consideration for an incentive, including a fee, the principal would transfer certain decision-making power to the agent, who alludes to being obliged for maximising the investment of principals (Bendickson et al. 2016).

With regard to that, Vitolla, Raimo, & Rubino (2020), elucidated that the representatives of administration are regarded as agents who pursue the stakeholders' pursuits in agency theory. In consideration for the owners paying the managers, agents boost the importance of the owners' investment. The concerns of the agent and the owner may not always accord in practice. The theory offers a systematic framework for analysing agency interactions and is widely considered a leading research perspective for describing and understanding the contractual connection between the agent and the principal (Mitnick, 2015). The study of Martinez, Oms, & Sempere (2018), illustrated that an organisation is deemed as the centre for numerous contractual forms of connections that emerge amongst owners, management, creditors, and other actors, in accordance with the agency theory.

Moreover, the agency theory is grounded on the economic paradigm, which posits that the relation between the principal and the agent is constituted by a potential conflict of interest. Dmour, Abbod, & Balqa, (2018), emulated that the agency theory derives its logic from economic models that claim people are only driven by self-interest as well as self-preservation. To put it another way, the underpinnings of agency theory are a collection of behavioural premises concerning the agent. According to the premise, all agents are unrestrained maximisers of self-interest who do not serve in the principal's best interests. In response to this, both the agent’s and the principal's interests must be aligned for generating the greater good for the company.

2.2.2. Fraud Triangle Theory

The fraud triangle theory has been grounded on the premise that the trustable individuals are becoming trust infringements while they perceive themselves to have a non-shareable financial problem, are conscious that this issue can be resolute secretively by violating the stance of financial trust, and thus are eligible to apply vocalisation to their actions in that situation (Sabatian, & Hutabarat, 2020). This respective notion enables them to acclimate their conceptualisations of themselves as trusted individuals with their conceptualisations of themselves as clients of the subordinated reveals or property. The respective theory of the fraud triangle has been predicated on three crucial elements involving pressure, rationalisation as well as and opportunity (Fitri, Syukur, & Justisa, 2019).

2.2.2.1. Pressure

The inducement that could lead to a person engaging in fraud is pressure. Personal difficulties, including financial or dependency pressures, or the job environment could be the source of the stress. It is possible that management or other personnel will be provided incentives or put under pressure to violate the law (Mansor, & Abdullahi, 2015).

2.2.2.2. Opportunity

The motivation for the crime is established by pressure, however, the employee also believes that he stands a chance to commit the act without even being detected. The second component is the Perceived Opportunity. According to Cressy, the perceived opportunity to conduct a trust breach has two aspects including general information as well as technical proficiency. The understanding that the employee's status of trust may be violated is regarded as general information. The capability to perpetuate the infringement is referred to as technical skills. All of those are typically all similar skills that an employee must possess in order to earn and maintain his job in the first instance (Roden, Cox, & Kim, 2016).

2.2.2.3. Rationalisation

The rationalisation is the last component of the fraud triangle. Cressey highlighted that rationalisation is not a way of explaining a theft after it has already happened. Critically, prior to the occurrence of the offence, rationalisation is a required component; in essence, it is an aspect of the motivation for the crime. Since the embezzler does not consider himself to be a criminal, he tends to defend his actions while doing them. The justification is required so that the perpetrator may explain his illegal acts to himself and maintain his image as a trustworthy individual (Huang et al. 2017).

The fraud triangle theory has been majorly criticised for undertaking an inadequate framework pertaining to the measurement, detection as well as prevention of financial fraud in terms of reporting (Christian, Basri, & Arafah, 2019).

2.3. Fraud

Mueller, et al. (2015) defines fraud as "the purposeful falsification of accounting records by one or more members of the management team, staff or third parties to deceive." An effort to steal or illegally gain, abuse, or damage a firm's assets by providing false information, concealing relevant facts, or omitting relevant information is included in this definition of fraud. Management will be concerned about false accounting as long as Bryman & Bell (2011) see it to be a constant threat to efficient resource utilization. One or more persons from management, those in charge of governance, workers, or third parties may intentionally commit fraud to gain an unfair or illegal advantage. The responsibilities of the auditor while conducting a financial statement audit include considering fraud. The term "fraud" refers to deliberate deceit planned and carried out with the intent of depriving another person of their property or rights, either directly or indirectly. It does not matter whether or not the perpetrator gains from his or her actions.

2.4. Authorities Responsible for Fraud Prevention and Detection

It has been accentuated by the study of Zager, Malis, & Novak (2016), that the management upholds the fundamental responsibility of detecting as well as preventing fraud in order to sustain transparency in the organisation. Further, the audit committees along with internal and external auditors, board of directors, governing bodies and the management poses the obligation of assuring the reliability of the financial statements as well as the compliance with reporting standards. In addition to that, Razali, and Arshad (2014), elucidated that the chief accounting officer from the managing body tends to play a substantial role in detecting fraudulent reporting as the individual implies to be responsible for settling the ethical conduct of the organisation. Moreover, the auditors are evidenced to have essential contributions in ensuring the appropriate reporting of the financial statements in order to avoid misstatements.

2.5. Auditor’s Skills, Attributes and Knowledge

The study of Thabet (2017), highlighted that the auditors are required to reflect their technical as well as cognitive skills owing to the complexity of their job and responsibilities. In the technical skills, the most prevalent skills involve world knowledge, academic training and subspecialty insights pertaining to the specialised industries for undertaking the specified audit. In addition, the mandatory cognitive skills involve decision-making skills, a sense of responsibility, problem-solving capabilities along with the capacity to determine relevancy. The complications in determining the frauds and reporting the misstatements necessitate that the auditor must acquire these respective cognitive skills, especially the ability to determine the relevancy, which results in facilitating the auditor in attaining the information relevant to the fraud. In line with that, the study of Siriwardane et al. (2014), recapitulated that practising these acquired skills and knowledge, it is deemed a prerequisite for auditors to have the specified attributes involving higher perceptual levels, capability to simplify the intricacies, robust communication along with the adaptability.

These respective skills, attributes and knowledge are essential for auditors to uphold as, during an audit, they are required to the effectiveness of the organisation’s risks management strategy in terms of preventing misrepresentations, whether due to fraud or any error. With regards to that, the staff members working on a specific sector of a large auditory project must interact with one another to avoid instances in which they fail to recognise the importance of identification of those collective risks, which are anticipated to have more ominous implications (Ali, Shahida, & Shafii, 2018). The study of Abdelfattah, Elmahgoub, & Elamer, (2021), elucidated that compliance with ISA 240 compels the auditors to be more aggressive in detecting frauds owing to their responsibility in assessing the probability of fraudulent events with respect to rationalisation. Moreover, these identified attributes and skills tend to be essential in estimating the accounting flows, unanticipated transactions as well as the reluctance to fix minor inaccuracies along with their respective prudent issues and reasons.

2.6. Error, Fraud and Auditor's Responsibility

According to Wilks and Zimbelman (2004), literature provides a wide range of reasons for the auditor's judgment restriction, as well as their identification in the detection of errors and frauds. There is new guidance on how to prepare and conduct an audit to discover substantial misstatements as a result of mistakes or fraud for auditors under the new standard (Albrecht et al., 2009). Findings demonstrate that some experts have argued in favour of identifying fraud as a purpose of the audit, while others argue that the auditor is required to reveal to shareholders any acts of dishonesty that have happened and have impacted the ownership of financial reports (Bishop, 2004). However, even if they are capable of exposing all significant frauds and abnormalities, auditors are more likely to be implicated than to be convicted when it comes to identifying frauds and anomalies (Hassink et al., 2010).

The only method to prevent fraud once it has been identified is through the use of a company's anti-fraud systems, which an auditor cannot do on his or her own initiative (Hemraj, 2004). Fraud in management consists of avoiding internal controls and remaining unnoticed until the damage done to a company is too big to rectify (Carmichael, 2004). Fraud management is the practice of manipulating or misrepresenting financial data, as well as the practice of disregarding widely accepted accounting principles (Alleyne et al., 2010).

Krambia-Kapardis (2010) stated that fraud can occur in situations where it is either unavoidable or unpunished because the perpetrator bears no responsibility for preventing it. In the absence of significant investment under fraud prevention, it is feasible that fraud will continue to occur in the following circumstances. For example, misappropriation can include the theft of assets from the parent company's branches or subsidiaries, overestimating the value of assets or undervaluing debt in order to portray a more attractive financial situation and/or operational performance, and the failure to disclose critical information (Elder et al., 2010). Fraud is an unavoidable fact of life in the business globe, and it is particularly prevalent in the financial industry (Luowers et al., 2011).

2.7. Auditors’ responsibilities in fraud detection

According to Alleyne and Howard (2005), since its inception, the role of auditors has been characterized by ambiguity. A study by Porter (1997) looks at the evolution of the auditor's duties in terms of identifying and reporting fraud through time. According to Porter's (1997) observations, the auditing paradigm passes through a number of stages of scrutiny and transformation. According to Porter's (1997) study, the primary purpose of an audit in the period before the 1920s was to detect fraud. Audits were formerly employed solely to assure the accuracy of financial reporting, as was the case in the 1930s. Business transactions that are larger and more sophisticated make it more difficult for auditors to keep up with the increasing number of transactions. Over the course of this time period, the auditing profession began to contend that management was ultimately accountable for fraud detection and prevention. It is also expected that the management of these firms would have put in place suitable internal control procedures to protect themselves against fraudulent activity.

In the 1960s, the media and the general public were not-satisfied with auditors' failure to take on fraud detection tasks as part of their job description. Audits are often criticized for their inability to discover fraud despite many efforts. The auditors have maintained that their role in discovering fraud is not significant, pointing out that such responsibility lies on the shoulders of management rather than that of auditors. Porter (1997) also stated that the complexity and volume of fraud occurrences created significant problems for businesses and organizations. The fact that courts have concluded in certain situations that auditors have a duty to discover fraud does not preclude Porter (1997) from asserting that courts have attempted to restrict auditors' duties within reasonable limits. The standards of auditing have reportedly been modified as a result of Enron's downfall in order to stress that auditors are accountable for disclosing fraudulent activity.

During an audit, auditors are obliged to evaluate an entity's risk management framework and decide if the framework is effective in preventing misstatements, whether due to fraud or otherwise. According to Oremade (2005), there had been no precedence for the criteria on which auditors can place absolute trust to detect and prevent fraud. Afterwards, it is claimed that the auditors have only had to do such an evaluation in the past because they relied on a framework and restricted the scope of the audit in the first place. According to Boynton et al. (2005), auditors are required to be more proactive in their pursuit of fraud under ISA 240. (1988). As part of their expanded tasks, they are now responsible for analysing the probability of fraud, as well as the rationalizations for engaging in it. When an audit discovers problems in accounting estimates, transactions that are out of character or seem to have no clear commercial purpose, or a company's refusal to correct small faults, auditors should pursue more investigation and investigation.

2.8. Risk Management

Risk management, according to Dionne (2013), may be dated directly to a study of the literature. There have been several academic studies on risk management, with the first being conducted between 1955 and 1964. These studies were published between 1965 and 1970. In the early days of risk management, the focus was on market insurance, which was meant to protect people and organizations against inadvertent losses in the marketplace rather than corporate financial risk. In the 1970s, derivatives were used to manage risk; in the 1980s, risk portfolios were developed; and in the 1990s, risk manager jobs were introduced. The author also discusses 2007 financial crisis-related issues about risk management and advocates for future changes in risk management procedures.

The area of risk management was evolved from the practice of insurance. Mehr and Forbes (1973) proposed the integration of risk management theory with finance theory, seeing the enterprise as a whole. The first stage in this recommended risk management approach is to consider the company's goals. It's their opinion that risk management should be included into the broader business decision making process, and they believe the model provides a more realistic approach.

The goals of risk management were also highlighted by Snider (1990). Steps for establishing risk management goals were laid forth by Snider (1990) in which detailed strategies were mentioned to conduct effective audits. A risk manager or management consultant is in charge of drafting the policy for risk management. A policy statement is a statement of general principles intended to serve as a guide in making decisions. Organizational structure, reporting structure, and short and long-term goals are among the factors mentioned by the author. Loss management and prevention were neglected in the past due to a focus on short-term objectives. Mehr and Forbes (1973) advised that risk management be expanded beyond insurance and that risk management education programs should be developed to promote long-term thinking. The author presented many suggestions for enhancing risk management. The findings of this study may be used to better understand risk management's history and the ongoing need for risk management education.

During the early 1970s, an insurance crisis led to the introduction of the risk management concept, as explained by Snider (1991). Research on risk management was encouraged by the Geneva Association, which published numerous conceptual research on the subject in 1973. Having an anti-fraud program in place helps boost the trust of stakeholders. Lister (2007), on the other hand, advised a proactive and reactive strategy, in which fraud risks are identified and an action plan is put in place in the event that it happens. Setting the tone through policies and communications, identifying and monitoring risks, and devising a reaction plan were the three main facets of the strategy. Using the fraud triangle to develop a strategy and advice on how to include a third-party evaluation into the program design was provided in Lister (2007). In order to keep up with the ever-changing environment, the author advised that the strategy should be continued.

2.9. Other considerations regarding the auditor's risk and responsibilities

International Standards on Auditing should be followed by the auditor throughout an audit engagement (ISA). Explanatory materials and additional resources are included to explain the fundamentals of the technique, as well as relevant advice. It is possible that doing an audit can help keep the company free of fraud and errors, but the auditor is not and cannot be held accountable for doing so. However, an auditor is not able to provide 100% assurance that serious misstatements in the financial statements would be discovered. There is always a risk that the audit may overlook certain major misstatements in the financial statements, even if the audit is correctly planned and executed owing to inherent audit restrictions. Identifying considerable misrepresentation due to fraud is more difficult than detecting significant misstatement due to errors because fraud entails acts targeted at hiding them, such as forgery, intentional non-recording of transactions or erroneous representations. The auditor knows this is what they are trying to do.

For this reason, the auditor is looking for adequate and relevant audit evidence to verify the absence of fraud or mistake that might be substantial to the financial statements, or to ensure that any fraud or error that occurs is accurately recorded and resolved. Due to the fact that fraud is often accompanied by particular measures intended to mask its presence, identifying errors is more likely than disclosing fraudulent activity. In an audit, major misstatements in financial accounts may be missed due to fraud and, to a lesser degree, human mistakes. This is mainly due to the inherent constraints of an audit. Due to fraud or mistakes that happened within the audited period, it is not always a sign that the auditor departed from the fundamental principles and didn't apply appropriate audit processes.

On the other hand, research by Zager, et al. (2016) examined the role and responsibilities of auditors in preventing and detecting fraudulent financial reporting. During this study, Zager, et al. (2016) looked at the roles and duties of major financial reporting stakeholders in prevention and fraud detection. Fraudulent financial reporting techniques and the sorts of transactions that are most susceptible to it are studied in detail. A questionnaire survey was undertaken for the purpose of the research's empirical section. It was determined how frequently the respondents, who are auditors, run across situations suggesting a risk of financial mismanagement. According to the findings of this research, the most typical method of fraudulent financial reporting is to inflate the value of assets.

A further study was undertaken by Knezevic, et al., (2019) that looked at the auditing profession's real responsibilities in detecting frauds in financial accounts. Auditing has a critical role in discovering fraud and giving justifications regarding fraud in light of today's more complicated economic environment and the rise of new sorts of fraudulent activities. The purpose of this research is to discuss the auditing process in detail. An auditor, fraud auditor, and forensic accountant are all defined in this document (Knežević.2019).

Several nations, including the United States, Australia, Singapore, the United Kingdom, Egypt, Hong Kong, and the United Kingdom, have conducted substantial research on the role of the auditor in preventing and detecting fraud. As Moyes (2011) found in his research, many financial report readers believe auditors are responsible for detecting all irregularities and that this is the primary aim of audits. There is a mismatch in expectations between auditors and financial report readers when it comes to the actual responsibilities of auditors (Romadhina.2016). As stated in ISA 240, fraud prevention and detection fall on everyone in the organization, not only those in charge of the day-to-day operations. It is mandatory for management and those in charge of governance to place a high priority on fraud prevention and deterrence (raising the possibility of discovery and punishment) under the ISA 240 regulations (Wigunani.2016).

When an entity's ability to continue business as normal is in dispute, auditors must decide whether the "going concern assumption" has been applied correctly and if substantial discrepancies concerning this capacity should be mentioned in the financial statements as part of their audit obligations (Romadhina.2016). If an auditor's report does not include any concerns about the organization's capacity to continue as a going concern, it should not be considered as an assurance (NurFajri.2018).

2.10. Risk factors associated with the occurrence of errors and frauds in the financial accounting audit activity

According to Alleyne and Howard (2005), Detection and prevention of fraud are the auditors' primary responsibilities while doing a financial statement audit. Internal auditors assess high-risk components of the internal control environment and propose an internal control system that reduces fraud risk down below the materiality level in order to provide a reliable reporting process. Internal audits. An external audit's main objective is to provide the auditor a chance to voice his or her thoughts. According to Zhou (2012), auditors (external) are simply need to have a professional doubt that a major misrepresentation due to fraud or error may exist in order to carry out their duties. As shown by the complexity and difficulty in preventing asset theft, avoiding false financial statement disclosures is more challenging than other kinds of fraud (fraud committed by employees). There is almost never a financial statement fraud committed without the CEO or CFO (or both) being directly engaged, and it is these executives who should be putting measures in place and collaborating with external auditors. As CEOs, they have the power to override most of the internal controls that are in place.

2.11. Accounting fraud and mistake risk elements in financial audits

The auditor may be held accountable for any fraud or mistake that they commit. Auditing financial accounts require that the auditor take into consideration any fraud or mistake and notify management of any important instances where the auditor suspects fraud or error may have occurred. There should be a careful consideration of the possibility of fraud and error, and their potential effects on the financial statements, by auditors as they plan their audits, and they should ask the audited entity's management for information about any fraud or error that they may have discovered in their financial statements. It is important for the auditor to utilize suitable extra processes to assess whether or not the fraud or mistake has substantial impacts on items or a portion of the balance sheet/profit and loss account, rather than only relying on the findings of the first investigation. In light of the risk of no discovery, the auditor should create methods that allow for the identification of errors or fraud without compromising the financial statements' content and substance.

The auditor should submit more significant findings to the management team in accordance with the communication processes set at the beginning of the assignment with the team. Identifying financial statement fraud and mistakes requires evidence based on actual discoveries and a description of the probable impact on the company's financial assets and liabilities, as well as on the financial statements' reported profits and losses. It is necessary for the auditor to examine the financial accounts for any possible episodes of fraud or mistakes that are discovered through standard audit processes. In cases when the auditor may identify that frauds or errors have happened because of limits imposed by circumstances, the auditor should take into consideration their impact on the audit report. The financial statements of the entity's previous periods will no longer be considered if fundamental errors and/or changes in accounting practices with a high materiality threshold are identified in the current quarter. Fraud risk factors connected with financial reporting misstatements may be categorized as follows: (1) Management and control environmental impacts; (2) Sector-specific circumstances; (3) Operational aspects of the activity.

The study's main emphasis is on the control environment's relationship to management qualities and influences. Internal control and financial reporting risk factor is one that has to do with how well an organization is able to manage its people, resources, processes, and expectations. There are a variety of reasons why a company's management could fabricate financial statements.

2.12. Chapter Summary

This respective chapter of the literature review delved into the theoretical underpinning of the agency theory and the fraud triangle theory, which reflects the frauds, their causes and the relevant reporting patterns. Further, fraud is revealed as a deliberate act by personnel, management, or third parties that results in the falsification of financial figures, which reflects the intentional manipulation of the truth. Along with that, the parties involved in detecting the fraud along with protecting it involve the managerial bodies, management authorities, and audit committees including the internal and external auditors. In addition to that, the responsibilities of the auditors in alignment with their skills, attributes and knowledge are incorporated for reflecting the extensive insights pertaining to the reporting. Furthermore, risk management in terms of financial reporting and fraud detection has been examined along with the other considerations of the aspects as well as risk factors. Moreover, accounting fraud along with risks concerning errors in financial audits have been evaluated, which referred that the fabrication of the financial statements.

Chapter 3 - Methodology

3.1 Introduction

This chapter of the study has explained the research strategies and techniques for the selected design topic. In this section, the approach is explained in great length, and the rationale for selecting this specific methodology is given. Here, the researcher's research approach is described, which includes the techniques used to find relevant and high-quality evidence in the literature and to select studies that meet the eligibility criteria. The research strategy includes the selection of a database and the identification of relevant research terms. This component of the assessment also emphasizes the appraisal method employed for the critical evaluation of evidence. Risk management was the focus of this investigation. Using risk management as a lens, it has been looked at how fraud in corporate financial reporting is now being detected and prevented while also considering the auditors' point of view. Internal controls and corporate governance are key components of risk management because they help ensure the accuracy of financial statements. In the study of fraud prevention, the theory focuses on factors of loss prevention. A transition from short-term thinking to long-term thinking in the avoidance of loss was proposed by Snider, (1990). Clear goals in risk management have been observed by Snider (1990). Adaptive risk management is needed to deal with changes in the business environment. A proponent of proactive fraud risk assessment, Lister, (2007) suggests that an organization's culture should be taken into consideration while assessing fraud risk. A risk management culture that addresses the complexity of today's organizations was proposed by Maynard, (1999). There is also a role for auditors in risk management, according to Maynard, (1999). Understanding current practices and developing trends in fraud prevention and risk management was made possible by drawing on these publications in risk management.

This chapter of the dissertation also includes a table that lists the features of the studies that were chosen for this evaluation. The last section of this chapter will be providing a time frame in the form of a Gantt chart discussing the major sections covered throughout the study under their time frame. This chapter will be divided based on the following Research Onion design provided in the work which includes:

- Search Strategy
- Research Approach
- Methodological Choice
- Research Philosophy
- Time Horizon
- Research Method

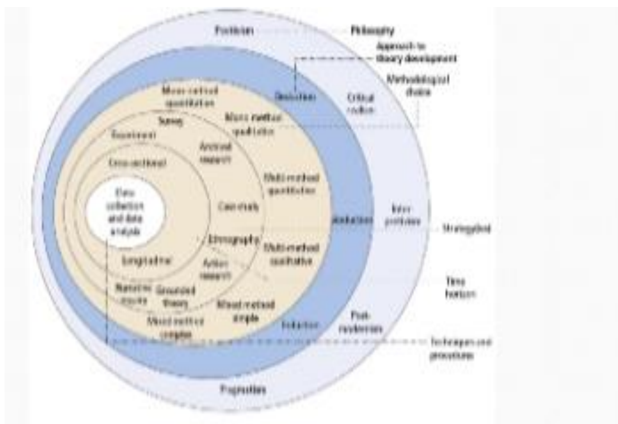

Figure 1: The Research Onion

3.2 Search Strategy

The search strategy refers to the strategy of searching for the most unique and relevant materials for the research design by focusing on the use of very appropriate key terms within every study and these key terms are different in different studies (Eriksen & Frandsen, 2018). In the case of the considered study, the key search terms which have been utilized for finding the most relevant and unique piece of information included risk management, fraud detection, auditor, auditor's risk, and accounting fraud. The study under consideration involved the use of appropriate search material in the form of key headings which can also be highlighted as the major searching elements to carry out effective research (Aromataris & Riitano, 2014). The searching strategy including the keywords has provided ease for extracting the relevant information from the past studies under analysis. Also, the researchers have involved the Boolean expression AND which has been used effectively by researchers to narrow the research in the best possible ways and for combining the concepts which are essential for inclusion within the study premises.

3.3 Research Approach

Generally, there are two basic types of research approaches that are found to be utilised by every researcher to proceed with the data collection phase. These include the deductive and inductive approaches. Both the inductive and deductive approaches are of great significance in respective studies, but focusing on the current research which appears to be a secondary qualitative study, the researchers have utilised the deductive approach which is the approach to test an already existing theory or concept or contextual material (Soiferman, 2010). As the research design has opted for the secondary qualitative methodology, the deductive approach has been found to work best in such an appropriate strategy as listed by most of the eminent studies. Based on the eminent sources it has been found that the deductive approach consists of four essential stages which include initiation from an already published theory, formulation of hypothesis, testing of hypothesis, and analysis of the data to select or reject the hypothetical statements (Woiceshyn & Daellenbach, 2018).

3.4 Methodological Choice

Using a single case study methodology would not have supplied the researchers with enough data for gathering and analysis. In addition, according to Yin, (2014), the single case study approach is useful for analysing crucial or uncommon instances. There were no important or uncommon instances included in the planned research. The multiple-case study design for this research was holistic, as there was a single unit of analysis for the study. The study topic did not specify any subunits for analysis; hence an embedded design was not acceptable (Heale & Twycross, 2018). A risk management lens was used to evaluate possible ideas for proactive early identification and prevention of financial statement fraud, which I then used to analyse the data. Using secondary sources and written policies, the researchers were able to determine what public firms are now doing to avoid and identify financial statement fraud, as well as what their existing policies are.

3.5 Research Philosophy

The term research philosophy refers to the key nature, knowledge, and assumption of the study. This has been found in dealing with the more precise ways of developing knowledge. This section is considered to be the most prominent section as it needs to be discussed by the researchers as the researchers have been found to have various assumptions related to the nature of knowledge and truth and the research philosophy facilitates the readers to understand the assumptions carried out by the research members (Žukauskas et al., 2018). Within the research study, the researchers are found generally using four major types of research philosophies depending upon the nature of the project or study under consideration. These four types of research philosophies include realism, positivism, interpretivism, and pragmatism (Dougherty et al., 2019).

Focusing on the considered study, the approach which can be found appropriate and effective includes the positivism philosophy of research. The researchers of the project have utilized the positivism philosophy as this philosophy involves the researchers addressing the key issues through the formulation of their hypothetical thoughts generated from the key objectives of the study under consideration (Moon et al., 2019). The positivism philosophy of research involves the researchers including the relevant theoretical perspectives or theories or models from the past and present cases to develop clear thoughts for determining the key insights or challenges present within the designed objectives (Hasyim, 2020).

3.6 Time Horizon

Usually, there are two types of horizons which are longitudinal and cross-sectional horizons. The data usually collected from the cross-sectional study appears to be the information obtained from the population or live audiences at a specific point in time while the data collected from the longitudinal study appears to be the information obtained from a sample over a specific point of time (Jiménez-Garrido et al., 2020). This sample can be any relevant material in the form of reports, articles, studies, etc. based on the considered research understudy, this research study has utilised the longitudinal horizon approach for collecting the data as it was efficient and cost-saving. The time efficiency present within this horizon was also one of the major elements for choosing this within this research study.

3.7 Research Method

Based on various studies, it has been found that many research studies are seen to be utilising the three general research methods for collecting the relevant data to support their studies with evident texts. These data collection methods include qualitative, quantitative, and mixed-method data collection methods (Johnston, 2017). The qualitative method includes the collection of data that is non-numeric and is based on theoretical texts only. The quantitative method involves the collection of data through numerical sources which can majorly include statistical techniques, empirical analysis, or any mathematical expressions. The selected methodology for the concerned research is the qualitative approach as the data will be presented in the form of theoretical texts rather than numerical texts (Long-Sutehall et al., 2011). The collected data is obtained from sources that are not older than 5 years from now.

3.8 Data Collection

The data collection phase involved the use of the secondary qualitative approach as this approach involves the researchers collecting data from secondary sources which are theoretical texts obtained from relevant sources including journal articles, conference proceedings, books, and other published sources. The use of the selected approach of data collection which is a secondary qualitative approach can be considered by many ongoing and future studies as it has provided major advantages and also disadvantages in a few cases. The pros and cons of this data collection method can help make the readers clear about why this method has been chosen and where it can be neglected (Couper, 2011).

The major advantages of the use of secondary methodology involve time-saving, cost-effectiveness, and reliability. The data extracted from secondary sources are easy to include as it does not require ample time to conclude the overall observation as compared to the use of primary data where the process is time-consuming due to the collection of data from the live audiences through questionnaires, interviews, and other types of sessions (Hox & Boeije, 2005). The major cons of the use of secondary data include variations in results as the secondary data might not be answering specifically the questions of the researchers within the study.

The use of the secondary data collection approach appeared to be very promising as the data was only collected from the relevant articles and journals only and the researchers excluded the secondary sources which were not approved and were older than 2017. The data collected seemed no major difficulty but the minor difficulty faced by the researchers involved the compilation of the selected sources as there were oms delays observed while gathering all the data at once which made some delays in the data analysis phase (Burkard et al., 2012).

But, the overall phase of data collection was accurate and provided the most useful data that can be incorporated into the research study. The study researchers emphasized the single analytical technique before extraction of the relevant information which included the technique of vetting and careful reading. Through careful reading, the researchers were able to target those particular sections only which were required to be included for analysis.

The data collection phase has been highlighted as the major section which includes the appropriate tools and strategy for collecting the major data. Data can be referred to as any useful information which needs to be incorporated within the research design for providing ample evidence to the readers who have a major interest in identifying the major attributed of the concerned studies (Auberlet et al., 2014). Data or information as discussed by many studies have been the major pillar of the research as the research is focused on the data and the collected data provides a better insight to the readers about the credibility and flexibility of the research.

For the study under consideration, the collection of data can be done based on multiple approaches depending on their essential requirements and feasibility as some of the data collection methods might be appearing cost-effective and efficient to use and some might be difficult to utilise based on the individual design considerations and nature of the study. Based on various studies, it has been found that there are various types of data collection techniques that have been adopted by many research studies depending upon their capabilities and nature. These are generally highlighted as data collection through oral histories, focused groups, documents, records, observations, surveys, questionnaires, and interviews (Driessnack & Furukawa, 2012).

The data collected within this research study has been the secondary qualitative methodology used for extracting the relevant and latest information from the major secondary sources which are generally the texts obtained through reports and articles. The major techniques for extracting the relevant information for the concerned topic which is about the external and internal behavior of the auditors towards the prevention of financial statements has been the consideration of relevant documents from the past times which are collected in the form of peer journal articles, reports, books, and financial reports (Wiseman & Harris, 2015).

These documents which are highlighted as the essential data collection techniques have been found effective by the researchers as based on comparison the secondary method based on such techniques has provided useful data faster as compared to the primary method which involves the techniques of interviews, questionnaires, and recording for extracting the information (Walsh et al., 2010).

There have been various advantages and disadvantages of using the secondary data and primary data techniques but the concerned study under analysis has utilized the observation and documenting techniques for collecting the data as the researchers have found that this technique has appeared to be reliable and efficient in terms of time and finances as compared to the primary data, which has the best information as the information is obtained from live sources but is found to be time-consuming and takes a lot of efforts in terms of finance as well (Cohen et al., 2017). The recording of observations from the past studies as done within this study has been found effective in utilizing the relevant section of the studies or reports having significant in terms of ample data generation. Thus, it has been clear that the researchers have opted for the observation technique for collecting the data.

The research design has also been highlighted as useful for making effective decisions based on the selection of the type of research to implement with the utilizing of appropriate sampling criteria or methods. Focusing on the majority of the published studies with cited resources, it has been observed that the study researchers have mostly utilized three types of research designs to conduct the analysis of the studies and these include qualitative, quantitative, and mixed-method research designs (Suen & Ary, 2014).

Based on the eminent studies, it can be highlighted that the data collection involves the basis for reliability estimations therefore it is essential that an effective data collection procedure is essential to be followed providing that the estimation of reliability is trustworthy. It has been eminent to ensure that the data collection procedures implemented within any study must pay significant attention to the quality. As discussed by major studies, the quality of any procedure utilised for extracting the data is necessary as it makes the collection very pleasant and secures the damage of any critical data collected and recorded in terms of primary as well as in terms of secondary approaches (Musante & DeWalt, 2010).

Based on the studies, the quality of the data collection procedures involves three essential elements which need to be focused on by every researcher involved in the data collection phase. These include the consistency of measurement systems, consistency in the collection, and completeness. The data collection procedures must be utilised by the researchers based on the nature of the study as some studies might be effective under primary or secondary sources and some might be effective with the utilisation of the mixed-method strategy (Kristjansson et al., 2013).

Further, based on various sources, it has been found that there are various data collection procedures that can be utilised by the research studies. These include:

- Derived Procedures
- Simulation procedures
- Experimental Procedures
- Observational Procedures

The various sources of data can be best utilised for the primary data collection as the data collected from primary sources is the live data. Concerning the secondary data approach utilised by this study, it can be observed that the data collection procedure involves the collection of data from theoretical statements, texts, journals, articles, newspapers, and conferences. These sources have been highlighted best for extracting the relevant data as the data is found viable and evident and the published sources utilized for extracting the data are already referenced and cited in the past. The cited data cannot be considered incomplete data thus helping the researchers to include such information to support their research (Englander, 2012).

The selected secondary qualitative approach has been found very useful as this approach has saved an ample amount of time for the researchers and has been found to include the very limited expenditure of funding as most of the data has been collected from past studies or reports as compared to the live interviews and through questionnaires, which has been the primary source of extracting the information and requires greater funding and time to collect the data (Diniz & Amado, 2014).

3.9 Data Analysis

The secondary qualitative strategy utilized by the study researchers to analyse the data is found effective as the analysis of the data collected would be very effective and efficient in terms of time and finances. The data obtained from secondary sources are found to be perfectly analysed as the researchers have saved a lot of money on expenditure as encase of primary data collection method, the conducting of interviews and views from other live sources requires a lot of investment in time and money which eventually leads the study to take more than the expected time to complete (Zhou et al., 2018). The collected data within this research will be analysed by constructing four major themes from the research questions which are established by focusing on the nature of the study.

3.10 Inclusion and Exclusion Criteria

The most relevant research materials selected within every study appear to be going through the inclusion and exclusion criteria which are defined as the standard criteria followed by every research study prior to commencing the detailed assessment. The inclusion and exclusion criteria involve the key searching filters of selecting or declining the resources required for the collection of relevant information or data for current or past times. This criterion helped the researchers to highlight the major inclusions and exclusions involved within the study for selecting the best and most appropriate research material. The searching filters which have been utilized within the considered study include age, subject, publication, and article types (Patino et al., 2018).

The inclusion criteria of the research involving the assessment of the impact of challenger banks included the consideration of all the journal articles with the relevant information only. Also, the articles were selected from the period of the last five years with the studies highlighting the impact of challenger banks from the regions of the UK only. The exclusion involved outdated articles which were published before the year 2017 (Ronconi et al., 2014). Also, the exclusion criteria involved the eradication of such articles which were based on the primary research and having all the quantitative datasets present within their research designs. The articles selected were only comprised of qualitative data as the study under analysis is also based on the secondary qualitative design approach.

3.11 Ethical Considerations

Ethical issues are eminent to be discussed in academic research due to a variety of reasons which include expanding knowledge, collaboration, and maintaining trustworthiness. The research is focused on following the concerned and relevant guidelines for maintaining the confidentiality of the data as ethics are necessary to be followed for avoiding a data breach. The research under consideration is found to be complying with the ethical guidelines and principles by involving various elements which include honesty, transparency, law-abiding, care, and confidentiality (Singer, 2011). These elements are all considered to protect the privacy of the content extracted from various secondary sources.

For maintaining the validity and confidentiality of the research study, it has been found essential that the study researchers must be including the necessary approvals related to ethical committees for continuing the research for projects as, without the prior approval, the research might be facing serious issues which can be in terms of copyright issues and other issues while the finalization steps, which can be very difficult to handle.

3.12 Time Frame

This section has been highlighted to provide a brief overview of the projected time frame for conducting the major activities which will be starting from the creation of the proposal and will continue towards the data collection and analysis phase with the final draft of the research project. The duration of the research project is expected to be of 6 weeks starting from 7th March 2022 to 19th April 2022.

Activity	**Week 1**	**Week 2**	**Week 3**	**Week 4**	**Week 5**	**Week 6**
Research Proposal						
Confirmation of Topic						

Development of research questions, aims, and objectives						
Reviewing of literature						
Data collection						
Ethical considerations and approvals						
Final Draft of project						
Revising and editing						
Final submission						

3.13 Conclusion

Data gathering for a literature review is based on very specific and methodical procedures. An exhaustive research strategy is employed to identify the databases to be accessed and the research phrases that mediate the literature research process in this rigorous approach. To assure that any material included in the research fulfills the goal of the study as well as its broader subject matter, an eligibility criterion is constructed after the selection of research keywords (Bettany-Saltikov, 2016). When beginning a research assignment, there are a few things to keep in mind. The study design and procedure, the planning of practicalities about data collection and analysis, access to the research location, material collection and analysis are some of the more practical difficulties, while other issues are more philosophical (Eriksson & Kovalainen, 2008).

In this part, the researcher will address questions about the study design. Research design may be divided into two categories: quantitative and qualitative. An objectivist perspective of social reality and objectivist epistemology emphasizes the necessity of measuring and quantifying phenomena (Johnson and Clark 2006). The Umbrella phrase encompasses many different approaches and beliefs in which different terminology of the audit and the engagement assignment is covered (Hennink et al., 2011). Qualitative research encompasses a wide range of methodologies and methods from a variety of fields, making it a "broad church" (Ritchie et al., 2014). Qualitative research, however, is described by Bryman & Bell, (2011) as "a series of interpretative, material acts that make the globe visible. These methods have the power to alter the course of history. Field notes, interviews, chats, pictures, recordings, and memos to oneself are all examples of how they portray the globe. "Qualitative researchers try to make sense of or interpret occurrences based on the meanings individuals assign to them in their natural environments."

Quantitative research methods are often used in investigations looking for cause-and-effect relationships. However, this study's goal is not to establish a causal link between the development of a forensic accounting system and the attitude and value of the actors involved, nor does this study want to quantify the attitude and value of the actors involved in the development of a forensic accounting system. There are many different methods used in qualitative research. It employs an interpretative and realistic approach to its subject matter (Anderson & Arsenault, 2005).

Qualitative business research, according to Eriksson and Kovalainen, (2008), allows researchers to concentrate on the complexities of business phenomena in their settings. For example, it provides fresh insights into how and why things operate in a real-globe business environment, and how we may understand them in a manner that can lead to a shift.

The detection of financial statement fraud has gotten more difficult (DiGabriele, 2011). Auditors' incapability to identify financial statement fraud has been a concern for the accounting profession for a long time. The business sector expects that auditors should be able to detect financial statement fraud (Koh & Woo, 1998). Consequently, investor faith in the financial reporting process and company governance has dwindled as auditors have failed to discover these fraudulent financial statement disclosures (Hogan et al., 2008).

As a result of previous accounting scandals, audit failures, and company failures, a new system (forensic accounting system) must be developed to limit the prevalence of misleading financial reporting. Due to these considerations, the investigation of various stakeholders in the accounting profession and financial statement consumers' perceptions of establishing a new system using a qualitative research technique is critical to this study and can be best performed through this approach.

Chapter 04: Data Collection and Analysis

4.1 Introduction

This section of the dissertation is all about analysing and addressing the key attributes obtained from the secondary data collection process to include the major contextual elements to focus in the study and to provide eminent findings in terms of addressing the major roles played by both external and internal auditors for preventing the fraud within the UK about financial statements (Jeppesen, 2019). The overall structure of the analysis chapter is designed most pleasantly as it is designed to provide the ease to the readers where the readers can easily locate the context of their interest with the presence of sub-headings that are incorporated to mention the stepwise elements discussed and explained in the form of analysis through secondary qualitative sources (Davidson, Edwards, Jamieson, & Weller, 2019). The overall analysis of the research is carried out on the objectives mentioned within the study through utilising the hidden perspectives from the objectives as well to extract the maximum knowledge as it will be effective to make the study firmer and more popular.

The analysis is based on the identification of views of financial report users and it is aimed to identify the perceptions of the behaviour of auditors for preventing the major fraud, which is the major phase to be analysed using the secondary sources (Knežević, Mitrović, & Cvetković, 2019). The analysis section has been designed to evaluate the strategies concerning the prevention of fraud against the financial statement by incorporating the sources in the form of articles and journals mostly. The analysis and findings section has been designed to discuss the key findings in the form of thematic analysis as the thematic analysis technique involves the analysing of the key secondary sources based on the constructed themes which are constructed through moulding the study objectives and are supported by more than two study researchers or articles each (Braun & Clarke, 2019). The chapter will be discussing the introduction related to the key elements considered for analysing the data and the useful elements incorporated within the research study which includes analysis of the research questions, thematic analysis, involving the role of external and internal auditors in preventing the financial elements, and discussion section following the research limitations section which will be providing the major limiting elements faced by the researchers.

4.2 Analysis of Research Questions

The included research questions are found to be the essential pillars of the study as these have provided the essential points which need to be incorporated for analysing the impact of auditors in the external and internal environment. Based on the eminent studies, it has been found that the auditors can be utilising effective strategies to minimize the risk of financial frauds in the UK and these include setting up a fraud hotline, setting a strong tone, reviewing electronic transfers along with journal entries and inventory, using an external auditor, implementing a reconciliation process, and segregation of duties (Mazumdar, 2020). Also, the key questions included have provided the major explanation which has been effective to discuss the recent scenarios as well based on the situations of the pandemic, the financial statements fraud has been observed to be as prevalent fraud which has been highlighted as the major issue by the study researchers (Aboud & Robinson, 2020). Also, the auditors are found to be preventing the fraud through various studies in a majority of ways, most of which include the hiring of trusted experts, monitoring vacation balances, implementing the internal controls, and knowing about the employees. These aspects are found to be addressing the research questions well and have been addressed with major referenced sources so that the materials cannot be said as fake or copied sources (Awolowo, 2019).

4.3 Thematic Analysis

The data collection and analysis phase in every research study is focused on the use of various techniques and tools to analyse the data depending on the nature of the study and the parameters utilised. Based on the studies, the secondary data is mostly analysed using the strategy of thematic analysis which is used to analyse the collected information by developing the core study objectives in the eminent themes and focusing on the evidence obtained from the past sources, the research draws comparison with the literature of the concerned study to verify what has been known to form the past studies focusing on the current perspectives.

4.3.1 Role of Internal and External Auditors in preventing financial statements fraud in the UK

Based on various studies and eminent sources, it has been seen that fraud is not increasing globally through the external environment but it is committed to being spreading by the insiders having a ratio of about 70 per cent (Awolowo, Financial statement fraud: The need for a paradigm shift to forensic accounting (Doctoral dissertation, Sheffield Hallam University (United Kingdom)), 2019). The secondary sources have found that there has a major difference between the working of the internal and external auditors against preventing financial fraud. An internal auditor is employed to provide education to staff and management about the functioning of the business at a stable pace.

On the other hand, the external auditors are found to have no obligations and are found responsible for reviewing the financial statements for ensuring that they are accurate towards GAAP (generally accepted accounting principles) (Larkin & DiTommaso, 2018). The role of internal and external auditors is found to be determined through the views of the board of directors and the audit committee as focused in the studies, these communities and boards are the combinations of anti-fraud policy and external standards that will be determining the precisive roles of both internal and external auditors in prevention against fraudulent statements (Al-Shaer, Malik, & Zaman, 2021).

Based on the studies, the external audit is found to be providing companies with a sense of comfort and confidence to the shareholders who are worrying about their earnings and investments. The studies have shown that the outside members on the board of directors eventually reduced the likelihood of financial statement manipulation and these auditors cannot prevent the misbehaviours of finances which stem from issues in the governance as well as in the culture of organisations (Indrasti & Karlina, 2019).

Furthermore, it can also be analysed through an in-depth evaluation of the previous studies contrasted with the data collected in this research that external audit is subject to an expensive approach which might not be affordable by every organisation. There needs to be a robust financial planning strategy through which an organisation is able to raise their demand regarding external audits and their need can be verified through their capability. Moreover, a significant implication highlighted in this study related to the ability of external and internal audits in terms of detecting financial fraud is that conflicts of bribery are common and it might lead to a significant gap in trust in the external auditors. However, it has been assured for the corporate clients having the capability of deploying external auditors, that these auditors and their organisation have been made strictly compliant with the regulatory financial boards of their location, such as GAAP so that they are committed to their responsibilities and their integrity is not questioned or challenged in the professional context.

4.3.2. Role of External and Internal Auditors in detecting financial statements fraud in the UK

It is essential for the company management to apprehend that, throughout the audit engagement, the auditor cannot detect all present fraud and this happens because of the audit process's inherent limitations. It is important that the auditor assesses the risk present in the audit process. Based on the studies, it is not the responsibility of the auditors to prevent fraud and errors in the financial statements. However, if the auditors detect any fraud and error in the financial statement, they have to report this to the higher management of the company concerned with auditing to decide the measures to respond to this discovered fraud and error. It was found in the studies that the majority of external auditors lack experience in detecting financial statements frauds and the management attempts to benefit from this fact and deceive the auditor. The management, with the role of implementing internal controls or detecting the fraud in financial statements, can sometimes be perpetrators of the financial statement fraud. The auditors will have to communicate these suspicions and findings to those charged with governance and as well as inform them of the timing, extent and nature of audit procedures essential for completing the audit. Therefore it was found from the studies, that were referred to, that the external audits should not be relied upon for the detection of fraud and auditors have the responsibility to give reasonable assurance that financial statements are free from material misstatement. Auditors do not have the responsibility of detecting fraud, however, they are responsible for the detection of material misstatements resulting from fraud. The responsibility of detecting fraud and measures that would have to be taken lies with those charged with governance of the company. Simultaneously, the skills of the internal auditor matter within an organisation and hence the management needs to acknowledge this aspect and they need to improve it efficiently. According to 70% of the findings in this study, the internal auditors are usually not considered for further improvements whereas reliance on their experience is increasing frequently. These individuals play an important role in an organisation's financial management, forecasting and other planning initiatives whereas if they are not dedicated and committed to their responsibility with motivation, then they might search for other ways which might be unethical and illegal, including financial frauds as well. At this point, the integrity of the management is questioned as well as they might offer greater bribery to the internal auditors for fabricating the financial records so that they can be eliminated from being identified in the external audit.

4.3.3 Factors Leading to Financial Statement Fraud

While searching for the factors that lead to financial statement fraud, the fraud triangle and the fraud diamond were found. These two frameworks provide the elements that cause someone to commit fraud in the financial statement. The fraud triangle has three elements: opportunity, rationalization and pressure. The opportunity refers to any weakness in the system of a company. The weakness refers to a lack of oversight, weak controls, weak corporate governance, etc. Out of the other three elements in the fraud triangle, the opportunity is easy to control through procedural or organizational changes. Pressure is the second element of the fraud triangle and is another word for motivation. The pressure may be due to personal situations, unrealistic and unattainable performance targets, the compensation of executive directors attached to the financial performance of the company, etc. These factors act as incentives for the management of the company to commit fraud. The pressure may also arise from the problems on the job that may provide the motivation to perpetrate fraud. The third element is rationalization, which has two aspects. The one who committed fraud deems that the gain from fraud outweighs the probability of detection of the fraud and secondly the fraud can be justified. Justification can be related to perceived entitlement or job dissatisfaction or any personal needs of saving one's family, status or possession. The fraud diamond has the fourth element of capability as the factor leading to financial statement fraud. The person committing fraud will have the capability and the traits to commit fraud. The required traits can be excessive pride, weakness of character, dishonesty, greed, etc. According to the studies that were researched, these were the factors that were identified that resulted in financial statements fraud. Additionally, frauds in the financial statements are usually triggered by the management's concerns and they tend to encourage the employees at lower level to indulge in the fraudulent activities and fabricate the results as per their commands. The following study constitutes 60% of the results in which financial statement frauds had been initiated in the light of the tax evasion process whereas other frauds lead to extracting certain amounts from the organisation's financial reserves as drawings which are not accounted for and hence the extraction of such amounts is not subject to any questioning or evaluation as they remain unrecognised. Although, it might be a risky initiative to take, an organisation is surrounded by skilled individuals at different levels who might be ready to support the higher authorities on behalf of receiving personal financial benefits for every fraudulent activity they perform.

4.3.4 Impact of Financial Statements Fraud on Capital Markets of the UK

According to the research conducted, it was identified that financial statement fraud has had huge adverse impacts on the capital markets of the UK, and the impact of fraud has even caused several companies to shut down. A capital market is a financial market where securities are bought and sold. The equity-backed security or long-term debt are also traded. The investment and savings between the capital suppliers, such as institutional investors and retail investors, are channelled. Over a while, the series of financial statement frauds that involved big publicly traded companies instigated doubts in the investor's minds in the UK regarding the integrity of the capital markets in the UK. This led to investors being reluctant in investing in the capital market because of the fear of loss of their investment in the capital market and that their investment may get lost in the fraud. The financial statement frauds have destabilized several businesses' financial positions and incurred unwanted losses for a prolonged period due to the fraud committed. The harm done to the company's goodwill pushed away investors from investing in the capital market and as the economy is closely dependent on the capital market, the financial statement fraud greatly impacted the UK economy as well. As a result, many regulatory principles and standards, legislations, restructuring policies and amendments were imposed and reinforced in the capital market of the UK. It is also found from the studies that financial statement frauds have greatly affected the investor's perception of the capital market, which has reduced the number of investments in the capital market.

4.4. Research Findings

This chapter of the Data collection and analysis presents principle findings from the secondary research. The findings are from the qualitative results, which means the already existing articles were researched to extract these findings. It is found that fraud is the deliberate falsification of accounting records or financial statements by the management of the company. There are two theories to auditing and financial reporting, which are the fraud triangle theory and the agency theory. The agency theory is based on the economic model, which conveys that the relation between the agent and principal contains a potential conflict of interest. The fraud triangle lays down the motives and factors of fraudsters committing financial statement fraud. It is the obligation of internal and external auditors to assuring reliability in the financial statements, and also to make sure it is compliant with the reporting standards. It is also the responsibility of the company's governing bodies, board of directors and management to ensure that the financial statement is reliable. During the research, it was also found that for auditors to carry out their role, responsibility and duty successfully, they need to have cognitive and technical skills. The auditors have to follow several guidelines and restrictions while auditing, but most importantly they have to adhere to the International Standards of Audit (ISA) to ensure effective audit. Findings demonstrate that several researchers have spoken in favour of the identification of fraud as the objective of the audit, while the others argued that auditors have the responsibility of revealing dishonest acts that affected the financial reports. According to the studies, there has been a lot of ambiguity on the role of the auditor, but the majority of studies tended to demonstrate that it is not the obligation or responsibility of the auditor for the prevention and detection of fraud. Moreover, auditors do not give absolute assurance after the audit, they provide reasonable assurance that the financial statements are free from material misstatements.

4.5 Results

As observed and discussed throughout this dissertation, fraud is still a big concern for the management of the company**.** Fraud cannot be fully eradicated but it still can be prevented, and the responsibility lies with management to make sure that there are proper preventive measures in place to prevent fraud from occurring. While the auditor is not responsible for the prevention and detection of financial statement fraud, however, auditors have the choice to suggest preventive measures. It is essential for organizations to improve the already existing preventive measures to make sure that fraud becomes less of an issue for the company. The company can also implement better internal controls to reduce the chances of the occurrence of fraud. The fraudulent acts are becoming more sophisticated because of the evolution of technology, ad further studies need to be conducted. Hence, there is a need of identifying methods that will cope with these rapid changes, there may be some methods that are still effective but still newer methods have to be discovered. The results are pretty clear in this dissertation, that it is not the responsibility of auditors to detect and prevent fraud, but for auditors to have any detection responsibility, the fraud must misstate the financial statements and the misstatement has to be material.

Chapter 5 Conclusion and Recommendations

The final part of this study represents the conclusions which have been assessed through the findings and discussion of the research connecting the key highlights with the literature review performed. However, it can be stated that financial statements are being developed in every organisation, regardless of their size or corporate operational performance pattern which includes being a public limited company or a private limited company or even a sole trader or partnership as well. Simultaneously, as a business starts becoming profitable and its success is reflected in the financial statements, then there might be different individuals and groups within the business that might seek unethical and illegal benefits from within the entity. These benefits are usually obtained through fraudulent activities within a business such as fabrication of transactions, records and even amending the complete financial statements. Such an initiative might require sufficient and extraordinary skills from the individuals along with the indulgence of individuals from different positions within the business so that their activities can remain hidden and they remain successful in the future with their actions. Hence, to overcome such a situation, it is the mere responsibility of certain groups and individuals to trace fraudulent activities in a business and report them extensively and effectively as their ethical responsibility so that integrity can be followed and the interest of external stakeholder groups, such as government, general community and the consumers, can be protected efficiently. These groups can be divided into two segments, internal auditors and external auditors. These groups are surrounded by individuals who are experienced and skilled in their ability to assess the financial statements of an organisation thoroughly and analyse whether any of the activities might be associated with a significant fraudulent activity and then searching for ways through which the gap can be filled and the impact of the fraud can be minimised. However, apart from the extensive discussion provided as above which highlights the importance of the actions of internal and external auditors in the light of detecting and preventing fraud in the financial statements of organisations, it is important to understand the fact that the roles and responsibilities of internal and external auditors can be quite challenging and they need to be optimised frequently along with positive motivation, dedication and commitment so that the desired aim of audits can be achieved efficiently and the financial statement frauds in companies can be traced and minimised successfully for the future.

5.1 Research Limitations

Throughout the process of conducting the research, the major limitation was the lack of relevant studies relevant to the topic of this dissertation. The studies that were researched rarely provided the exact answer that was required and there is a small risk that studies used to collect the secondary data for this dissertation may not be suitable for the research problem. Moreover, the secondary data that was collected for this research may lack accuracy and may be incomplete. The accuracy and completeness of secondary depends on the research design, sampling design and sources. Many of the studies were in conflict with each other and proposed very different findings. In simple words, there was a lack of agreement between the sources of data. Many of the journal articles that were closely related to the topic of the dissertation did not have open access. They were only accessible to only those who paid for them. Also, there was a very short time deadline for the dissertation and the time available to study research was very limited due to this reason. Furthermore, it was very hard to determine the optimum sample size of research or studies that needed to be referred to for this dissertation. Additionally, an important limitation which can be associated with this study is the fact that the integrity of internal and external auditors in the light of tracing financial frauds and presenting them in the final audit disclosures remains a confidential initiative which is usually not disclosed to the general public for the sake of the reputation of the auditing organisation. However, this is an important aspect to be acknowledged extensively by the general public, including other potential corporate clients looking forward to select a particular audit partner for their external audits. Similarly, if these disclosures are made public, then the auditing organisation will gain positive recognition in the industry and their demand for external audits of known multinational and other high-end clients will improve successfully. Such a limitation can be characterised as a lack of authentic and complete information being obtained for this study due to the sensitivity of the context being discussed and hence decision-making can be threatened in the future.

5.2 Conclusion

In this dissertation, the nature of an auditor and the nature of fraud is discussed to gain a better understanding of the responsibility of the auditor regarding fraud detection in an audit engagement.

The significance of professional scepticism and judgement in the process of audit is discussed, where professional scepticism and judgment enable the auditor to be more objective when a financial statement fraud or a fraud in general occurs. As well as professional judgement holds the auditor more credible. It is also shown in this dissertation that the practice of independence by the auditor decreases the possibility of conflict of interest between the auditor and the organization being audited. The practice of independence by the auditor also makes sure the probability of the detection of fraud in financial statements, as there is no conflict of interest between the management of the organization and the auditor. However, it is essential for the auditor to first assess the risks that come with audit engagement.

To conclude, from the research conducted it is found that the responsibility for the detection and prevention of fraud entirely lies with the management of the company, based on the fact that management prepares the financial statements and is responsible for it. To put it in simpler terms, if the auditor detects financial statement fraud or any fraud in the audited organisation, the auditor does not have to take any action for these findings, however just merely reports the findings to those charged with governance of the company and to shareholders. Further onwards, it is the responsibility of the management of the audited company for the fraud or the actions and any preventive measure taken from that point on. The only responsibility of the auditor is to provide reasonable assurance that the financial statements are free from material misstatements. The auditor finds the fraud during the process of the audit engagement, and hence the auditor is not at the audit engagement process to detect the fraud.

Furthermore, another important aspect that needs to be concluded efficiently as a part of this study is the consideration required at the managerial level to focus on the improvement segment of external and internal auditors. Although, external auditors are completely and thoroughly managed by their respective representing financial boards and bodies and they are strict in evaluating the integrity and compliance followership of its people which eventually ensures the general public and the corporate clients along with investors and other stakeholders about the honesty of the auditors. However, the internal auditors require a planned structure related to their skills development aspect in which their motivation towards ethical working can be followed and their indulgence and interest in fraudulent activities, such as fabrication or illegal amendments to the financial statements can be eliminated strategically. All of these incentives can require sufficient funding from the organisation, yet it can be considered as a long term investment which needs to be planned effectively and efficiently by the higher authorities who are sincere with their organisation in all aspects.

5.3 Key Recommendations

Keeping in view the discussion provided as above, there are certain key recommendations that need to be made in the light of enhancing the ability of internal and external auditors towards identifying and minimising fraudulent reporting of financial statements of different organisations. Initially, it is important for the higher authorities to acknowledge that their sincerity and devotion matters the most. If they are involved in fraudulent activities and they encourage the workforces to do the same, then the workforces will be triggered towards committing fraud at individual levels as well and hence the company will suffer and it can possibly be led to a complete dissolution state as well.

Moreover, enhancing the confidence and motivation level of the workforces is necessary as well, especially for the internal audit experts so that they are updated with the necessary knowledge which includes compliance-based information as well, guiding them towards understanding what practices they need to adapt and then implement accordingly. Simultaneously, it will also enable the internal auditors to understand that a single mistake from their side can lead them into strict consequences which might not be easy to tackle and it can challenge their career in the long term as well.

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