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## The Responsibilities of Financial Fraud Activities Among of Auditor in the Business Organizations

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### Abstract

The study paper mainly focuses on the financial fraud of the issue either auditors can act as a first responders or not. As first responders, their primarily responsible is to clarify the fraud, stabilize situation and prevent for further losses. Moreover, third parties are expected to act as first responders too, as when there are financial fraud or other illegal act is suspected during the audit. Hence, in conducting an audit, auditors play a role in practice guidelines that must be wary occurrence of financial fraud and other illegal acts. Any first responders must rely on electronic format and digital forensics to collect and identify such electronic information not the original printed documents.

### Introduction

Financial fraud can be defined as a deception action involving financial transactions for personal benefits intentionally. Fraud is not just a crime but it is also a civil or a criminal wrong. There are many fraudulent cases involving business and government professionals who conducted complex financial transactions with specialized knowledge and criminal intent, (Rashid et al., 2018). To know accuracy and honesty of the financial statement, auditor will audit the financial statement. The purpose of the financial audit is to provide a reasonable assurance that the financial statements are accurate and to avoid excessive time and costs in the conduct of the audit. Auditor also have a responsibility for fraud detection, and they might be the first responder towards the financial fraud. Where the first responder is a person who is among those responsible for going immediately to the crisis situation or unexpected place.

First, this study paper discusses on the background of the study. Next it reviews the literature that relate to auditor, financial fraud and the auditor as the first responder. Next the study paper state the findings based on all the study done. Finally end the study paper with conclusion and findings.

## **Background of the Study**

This study emphasize on the role of auditor as experts who review business records to carry out internal and external audits of companies or independent organizations for accuracy and honesty towards detecting the financial fraud that may occur in the firm. The white collar crime that often related to the auditors because according to (Alleyne & Howard, 2005) in their article stating that the duty of an auditor is to report to users all illegal acts that occurred and has affected the financial statements' contents' appropriateness. (Alleyne & Howard, 2005) also agreed that fraudulent is a vital issue because many bodies around the world have presume that financial statement users believe the responsibility of independent auditors is bigger for identifying and reporting fraud and/or financial misinformation than was being met, therefore, this study is to confirm if auditor is the first responder towards the fraudulent activities.

## **Previous Discussion**

### **Auditor**

An auditor in Malaysia is not only responsible for examining and expressing an opinion as to whether the financial statements have been prepared in accordance with Malaysia Financial Reporting Standards (MFRS) and the Companies Act 2016, but the duties of an auditor are to review and provide an opinion as to confirm whether the financial statements has given a true and fair view financial position, their financial performance and cash flow of the company at the end of the financial year. During auditing, the irregularities or misstatement of the financial report can be the evidence to the fraud activities in that company but according to (Maria Krambia-Kapardis, 2002) however, audit experience by itself cannot make auditors experts in detecting the fraud. It is also supported by (Alleyne & Howard, 2005) saying that the learned judge also argued that since the auditors were not even an insurer or guarantor and the audit was expected to be carried out with reasonable skill and care in the circumstances, however, The auditor could not be expected to detect the fraudulent activities that occur within the company, (Alfadhli, Rashid, & Yaakub, 2018). Management is responsible for the deterrence of fraud, but internal auditor should be working together with management to proactively prevent and detect the fraud.

### **Financial Fraud**

The act of deceptive to obtain an illegal benefits is defines as fraud (Maria Krambia-Kapardis, 2002) and fraud is also a defined as deception, cheating or stealing intentionally and may be committed towards users of the financial statement. Financial statement fraud, corruption and asset misappropriation are the different forms of fraud schemes that occur in businesses. Financial statement fraud is referring to any endeavour to misrepresent an organization's financial information and it can be towards a simple problem such as counting double inventories or more complex accounting such as creating a whole transaction or operation, inventing non-existing customers or suppliers. There are three factors that may contribute to the financial fraud that occur in a firm which are opportunity, pressure and rationalization which these three factors are called fraud triangle. Opportunity are said to be one of the factor to the causal of fraud because it refers to conditions allowing the person who commit fraudulent activities carried out fraud without being caught red-handed due to conditions such as unconvincing internal controls or the ease by overcoming the

existing controls. (Sow, Basiruddin, Rasid, & Husin, 2017) said that pressure or incentive is the factor that stimulates individuals to commit fraud because of the non-sharable financial pressure or motive. In most cases, in order to obtain the desired resources, the fraudster is pressured to take the significant risks (Hillison, Pacini, & Sinason, 1999). Rationalization is to justify the fraudster's act by providing arguments to himself or to others.

### **Auditor as First Responder**

The first responders is the ones who detect and comes into rescue when the crisis happens or expected to take place. According to (Smith, 2012), first responder is the person who generously and willingly extend their services to third parties and it benefits the society. Third parties expect the client's auditors to be the first responders when there is a financial fraud or other illegal act might occurred during an audit, even though it may seem strange to consider auditors as first responders because management should be the first responder towards any suspicious act. Auditors as first responders must take the appropriate actions to figure out the fraudulent activities, stabilize the situation, and prevent their client from continuously losing the resources (Smith, 2012). According to (Hillison et al., 1999) in his article claimed that the person who are not positioned to detect and report the employee fraud whenever it occurs is external auditors, however, entity's main line of defence against fraudulent activities can be internal auditors.

### **Findings**

The auditor should act as the first respondent because auditors and management investigations combine their activities in handling illegal suspected activities (Smith, 2012). The auditors should to specifically judge the risk from fraudulent financial statements in each audit.

Based on the article (Ali, Abdullah, & Rashid, 2018) any first responder must rely on electronic data rather than original printed documents because they cannot hide all illegal activity to financial fraud. Electronic data can communicate and provide more information using a specific format which is better than those listed in paper documents. The auditor can prevent a company from involvement in such illegal activities by this method as it plays an important role in detecting fraud in a financial statement. The management will warn to decrease the risk of fraud and alert about where to place the safeguards (Masud, Daud, Zainol, Rashid, & Asyraf, 2018a). Thus, this research shows the result that the pressure to detect in the fraud by the auditor can be replaced with the word "motivation." The three basic steps that are transitory procedures are used when the auditor is suspecting that a company is involved with illegal activities, by securing e-data, ensuring documentation is record correctly, and proper training can stabilize the evidence. So, the audit opinion is more dependable when no misrepresentation is identified. The auditor opinion state that the financial statement gives a justice, truth, and fairness to the company (Mahmod et al., 2018).

Therefore, auditors must have the finesse to assess the trustworthiness of digital evidence used to improve and support their audit. The auditor will become the first respondent in financial fraud with the digital record. Consequently, auditors need to have an understanding of the nuances of even minimal digital documentation in order to perform their work well and perfectly, (Masud, Daud, Zainol, Rashid, & Asyraf, 2018b).

## Conclusion

In conclusion, the auditor is responsible for fraud detection and may be the first to respond to financial fraud. The three basic steps, transitional procedures, are used to ensure that the documentation is accurately recorded and that the evidence can be stabilized by proper training. The opinion of the audit is therefore more qualified if no misrepresentation is identified. Moreover, the auditors are sensitive to the conditions under which fraudulent financial reporting can prosper and recognize the occurrence of these conditions effectively. At the same time, they were also in line with financial constraints.

However, based on other articles, they have shown that auditing standards and regulatory changes do not result to an increased ability of the auditor to detect fraud. The extent to which audit standards and regulations that have affected the audit remains unclear. In other words, they indicate that auditor is not the first responder to financial fraud. This is because most accounting professionals recognize and realize that external auditors are often not able to detect fraud. Moreover, external auditors also do not have the permanent presence needed to establish and implement fraud prevention and dissuasion programmes. Based on ISA 240, the company itself and the auditors are responsible for fraud and error. It can be said that management and those responsible for governance are primarily responsible for fraud and error, while the auditor is the secondarily responsible.

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