THE ASSOCIATION OF EXTERNAL AUDITOR’S ATTRIBUTES WITH MANAGEMENT FRAUD RISK ASSESSMENT IN FINANCIAL REPORTING: EMPIRICAL EVIDENCE FROM YEMEN

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By

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ABSTRACT

As stated by the International Standard of Auditing (ISA No. 240), the effectiveness of the external auditors’ attributes is the primary process in management fraud risk assessment (MFRA). Therefore, the aim of this study is to examine the associations of external auditor effectiveness-related attributes and independent-related factors with MFRA in the context of Yemen. To achieve the objective of this study, questionnaires were distributed out to 410 external auditors working in private audit firms and the Yemeni Central Organization for Control and Accounting (COCA) for the year 2012. A total of 273 questionnaires were returned back out of which 19 were unusable. As such, the final sample of this study consists of 254 external auditors. Multiple regression analysis was used to test the study's hypotheses. This study finds positive associations of the external auditor's effectiveness score and external auditor's independence score with MFRA. Furthermore, questioning discussion ability, professional qualification, fraud detection experience, information technology (IT) skill, training on fraud detection, and social relationships are reported to have positive and significant associations with MFRA, while job position is found to have a negative association. The findings of this study indicate that Yemeni government and COCA should issue new regulations to increase the external auditors' awareness and effectiveness towards MFRA. This study also indicates that the audit profession in Yemen needs more control, regulations, laws and policies to enhance the structure of the external auditors' decision in issues related to MFRA in order to protect the interests of demand-supply sides of audit services and the related parties. Moreover, this study has implications for the Yemeni policy makers and government to enrich the external auditors' effectiveness and independence by issuing new regulations, new laws, and applying more control on the quality of auditing profession to protect the economy and the society stability.

Keywords: management fraud risk assessment, external auditor’s attributes, Yemen
ABSTRAK


Kata kunci: penilaian risiko penipuan pengurusan, ciri-ciri juruaudit luar, Yaman
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<tr>
<td>IT</td>
<td>Information Technology</td>
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<td>ICPA</td>
<td>International Certified Public Accounting</td>
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<tr>
<td>LAN</td>
<td>Local Area Network</td>
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<tr>
<td>MFRA</td>
<td>Management Fraud Risk Assessment</td>
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<tr>
<td>MSWG</td>
<td>Minority Shareholder Watchdog Group</td>
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<tr>
<td>MIT</td>
<td>Ministry of Industry and Trade</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
<td></td>
</tr>
<tr>
<td>OSS</td>
<td>Office Support System</td>
<td></td>
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<tr>
<td>OTI</td>
<td>Organization Transparency International</td>
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</tr>
<tr>
<td>PWC</td>
<td>Price Waterhouse Coopers</td>
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<td>PCAOB</td>
<td>Public Company Accounting Oversight Board</td>
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<tr>
<td>SAS</td>
<td>Statement Auditing Standard</td>
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<td>SEC</td>
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<td>YACPA</td>
<td>Yemeni Association of Certified Public Accountants</td>
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<td>Yemeni Certified Public Accounting</td>
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<tr>
<td>YNIC</td>
<td>Yemeni National Information Center</td>
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CHAPTER ONE
INTRODUCTION

1.1 Research Background

Recently, management fraud has become a crucial issue, especially at the time when the consequence of this fraud is reflected in the collapse of many giant companies around the world. These collapses occurred in the U.S. (Enron, WorldCom, and Xerox), France (Vivendi Universal), Italy (Parmalat), Switzerland (Adecco International), UK (Bank of Credit and Commerce International and Barings Bank), and Australia (HIH Company) (KPMG, 2002; Dillon & Hadzic, 2009; Krambia-Kapardis & Zopiatis, 2010).

Management fraud has become the source of major costs for many organisations (Bierstaker, Brody, & Pacini, 2006). It occurs in almost all types of organizations and causes expensive, persistent, and increasing problems for businesses (Zahra, Korri, & Yu, 2005). The average estimated loss per organization from economic crimes globally is $2,199,930 U.S. over a two-year period (Price Waterhouse Coopers [PWC], 2003). Organizations around the world lose an estimated five percent of their annual revenues to fraud, according to a survey of Certified Fraud Examiners (CFEs) conducted between January 2008 and December 2009. Applied to the estimated 2009 Gross World Product, this figure translates to a potential total fraud loss of more than $2.9 trillion U.S. (Association of Certified Fraud Examiners [ACFE], 2010). Between 2002 and 2010, losses in terms of the U.S. Gross Domestic Product, have risen from $600 billion to $994 billion U.S., and the percentage of annual revenue lost to management fraud has risen from 5 percent to 7 percent (ACFE, Report to the
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