

THE PERCEPTION LEVEL OF AUDITORS ON FRAUD DETECTION LIKELIHOOD IN STOCK AND INVENTORY CYCLE

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ABSTRACT

The occurrence of fraudulent activities has been a common feature in the corporate world. Although it is almost impossible to eradicate this problem all together, it is possible to prevent and to minimize it. In comes the auditor, whose primary role is to perform audit works for companies and to detect any possible fraud. However, the integrity of this profession comes under severe scrutiny when the auditor (Arthur Andersen & CO) was involved in the scandal, which leads to the collapse of the energy giant, Enron in the United States. The problem becomes even more serious when several countries also reported significant fraud cases over year, including Malaysia.

This study focuses on the fraud detection likelihood in the stock and inventory cycle. Selected factors such as the types of auditors, the number of employees the qualification of auditors and the size of firms were tested to see whether they are good predictors in detecting fraud in the stock and inventory cycle. Since stock and inventory cycle is a major part of a business, it is therefore important to analyze this cycle. Furthermore, it also seeks to find out the perception level of auditors on the effectiveness of selected audit procedures in the stock and inventory cycle. Due to time constraint, this research only focuses on Johor Bahru. Respondents were selected auditors working in audit firms and companies as well.

It is found that the there is perceptual difference between internal and external auditors on the effectiveness of selected audit procedures in fraud detection under the stock and inventory cycle. The audit procedures are also subsequently categorized into three different categories (less effective, moderately effective and more effective). As for the significance of the selected factors in enhancing the fraud detection likelihood, only the qualification, the size of firm and the working experience of auditors are significant in increasing the fraud detection likelihood under the stock and inventory cycle.

Due to the constraint on time, this study is only focusing on the scope of stock and inventory cycle. Future research can be conducted on other audit cycles such as payroll and sales cycle, just to name a few. Other possible factors can be examined to investigate their respective significance in fraud detection likelihood. These include the position tenure of auditors and the availability of peer review.