

MALAYSIAN AUDITORS PERCEPTION ON HOW AUDIT COMMITTEES AFFECT EXTERNAL AUDIT IN TERMS OF FRAUD DETECTION AND PREVENTION

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ABSTRACT

The recent incidence of corporate scandals across the globe stunned and undermined public and investor confidence to a great extent. Unfortunately, these scandals happened despite the existence of well defined corporate governance standards and well developed regulatory and financial reporting norms. The flaccid, almost ineffectual role, played by Audit Committees (ACs) was purportedly one among the many causes for these events. This resulted in a microscopic scrutiny of the composition and functioning of Audit Committees across the globe necessitating the Sarbanes Oxley act. When fraud is discovered within a business, the initial response is “How could that have happened?” and “Why didn’t the auditors have a clue?” these two questions raise the question of whose responsibility it is to detect and prevent fraud.

This paper seeks evidence from the examination of recent literature in corporate governance. Data was collected via questionnaires using categorical question. The Statistical Package for social sciences (SPSS) was used to carry out ANOVA test and regression analysis on 125 respondents to show the relationship that exist amongst variables. My findings elucidate an important set of criteria for building a better link in corporate accountability and indicate that the audit committee (AC) is an important corporate resource that has the potential to further enhance the fraud detection and prevention plan.

Conclusively it was established that the AC does not prepare financial report but have a great deal of responsibility in overseeing the identification and elimination of financial and operational risk. While from the external auditor’s perception, the principal audit objective was the verification of accounts not serving as insurer or guarantor. The relationship between auditors and the AC was found to have significant implications for effective corporate governance. Yet, empirical evidence on factors affecting this relationship remains scant; hence, a further study is needed to dissect auditor’s roles.