EVALUATING AUDITOR'S ROLE IN FRAUD DETECTION FROM FINANCIAL STATEMENT: A COMPREHENSIVE REVIEW OF RESPONSIBILITIES

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Abstract

Purpose – *Fraud detection is major problem of developed and underdeveloped countries for the profit oriented and nonprofit organizations. Countries are trying to identify techniques and methods to prevent frauds because it creates ethical and moral issues in workplace. Business loss millions of dollars every year due to fraudulent activities that is the main issue of the business. The need is to fight against this most important issue. The objective of the paper is to find auditor's responsibilities to detect fraud from financial statement. Auditors' Training, ethics of the accountants and auditors and experience added values for the prevention of fraud.* ***Design/methodology/approach –*** *Structured questionnaires was sent to 390 individuals through email working in the audit department. But 260 respondents gave the response which is 66.67% response. Structured questionnaires ranging from '1' (strongly disagree) to '5' (strongly agree), Likert scale was used to collect data.* ***Findings –*** *We found that auditors checked the financial statement, transactions, valuation of the assets and bank reconciliation statement if any unauthorized transaction or fraud occurred then auditors report to management. For the detection of fraud training and experience support the auditors. We also found that in Pakistan, auditor's report is beneficial for the management to take important decision.* ***Research limitations/implications –*** *This sample size is small. Large sample size and personally interviews can increase the result accuracy.* ***Originality/value –*** *This paper addresses a vital gap for both academic researchers and professionals in the audit department, providing valuable insights into the topic of fraud in Pakistan. Furthermore, it offers an attractive contribution that enhances our understanding of fraud within the context of Pakistan. And auditor's recommendations and suggestions are also valuable for the organization. This type of study was not conducted in Pakistan.*

Keywords*: Auditor, fraud, financial statements, Pakistan*

INTRODUCTION

Fraudulent activities are main problems for organizations worldwide which are creating anxiety for the managers, fraudulent activities are various types; it creates damaging the trust in financial statements. This lack of confidence stems from several accounting scandals that have occurred, which have condensed the belief in the accuracy and true and fair view of financial reporting by involved parties. To address this issue, key stakeholders such as management, boards of directors, audit committees, external auditors, and internal auditors play crucial roles in preventing and detecting frauds from financial statements. Fraud detection is an inspection of the realities to recognize the indicators of fraud. Reviewing and refining the internal control system is the major defense against fraud. Many studies showed that the strong internal control system is the most effective way to prevent fraud. Methods of Fraud detection were discussed in many earlier studies, Researchers discussed many methods and prevention techniques in their studies but they are unable to discuss that Detection of fraud is only responsibility of an auditor or it is the responsibility of the organization. Fraud detection was major issue of the organizations now a days because organizations are facing billions of dollars loss every year. The purpose of this study to find the auditors' working and responsibilities relating to detection of fraud, both operational training and ethical training are important for the auditors and either auditor's report useful for the organization or not. Also, internal auditor responsibility to check financial statements, companies' assets and liabilities, bank reconciliation statements. A survey taken by the KPMG Malaysia (2013) found that most of employees are involved in the fraud i.e., 50% employees. These employees are non-managerial employees working in the organizations. This is alarming situation for both organizations and the government. They also discovered that outgoing funds have a highest reported category i.e., 67% in 2013 while in 2009 it was 57%. Theft of physical asset was on second i.e., 58%. Survey also identified the fraud on individual basis that is 26% of cash related activities followed by theft of inventory is 13%. According to Apostolou and Crumbley (2008), security exchange commission required companies to obtain an auditor to check the financial statement of the companies. Auditor check the financial statement to detect fraud when the audit is accomplished then auditor make his/her opinion about the financial statements.

Association of certified fraud examination (ACFE) conducted survey in US and found that US companies face 7% loss in fraudulent activities in annual income that $995 billion dollars approximately losses in 2008 (ACFE 2008). In 1998, Auditing Standards Board (ASB) issued a report on auditing standards and established the responsibilities of the auditors that the main responsibility of the auditors to detect a financial statement fraud.

MacDonald (1993), there is no proper and exact definition/s for fraud and error stems from the fact that distinguishing between the two relies on the subjective concept of intent. MacDonald suggests that fraud is a legal term used when intent can be established in a court of law. He also explained the difference between error and fraud which can be detected in the client's files. He classified error into financial error and non-financial error. Financial errors can be existing where clients are either overpaid or underpaid. In contrast, non-financial errors do not have tangible evidence to directly support claims of overpayment or underpayment. Non-financial errors necessitate additional investigation to determine if they lead to a financial error or if they simply involve non-compliance with policies and procedures. However, these errors do not directly cause overpayments or underpayments. Non-financial errors require additional analysis to determine if they lead to a financial error or if they simply involve non-compliance with policies and procedures. However, these errors do not directly cause overpayments or underpayments. According to Pollick (2006), proving a fraud in a court of law is a challenging task which is not easy to prove because the accuser must establish that the accused possessed prior knowledge and intentionally misrepresented the facts.

Why does fraud happen?

Researchers found that there are three elements of fraud which is commonly occur in the most of the frauds. These are: first is perceive opportunity, secondly perceive pressure and thirdly People may sometimes find ways to justify fraud as acceptable and in line with their own moral values (Albrecht et al., 2006a). This is explaining in the diagram as follows in figure 1.

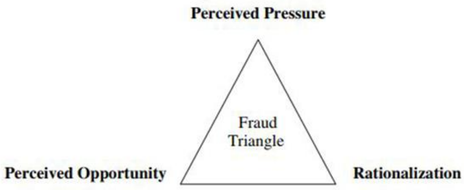

FIGURE 1 The Fraud Triangle.

LITERATURE REVIEW

Agency Theory:

Jensen and Meckling (1976) argued that there is a relationship occurs between the manager and the owner of the organization. This agency relationship may occur when one person employee to another for some business activity. Owner gives the authority to manager (agent). Agent makes decision on the behalf of the owner. Manager also work for the betterment of the organization and his effort for organization to value maximization (Ujiyanto & Pramuka, 2007).

Explanation of Fraud:

Fraud can take various types, but some common characteristics include intentional fraud, wrong handling of financial records, misrepresentation of financial information in the financial statements, and theft of company assets. It is very important to understand various categories of fraud, such as financial statements fraud, embezzlement in company' assets, bribery, corruption. Each type of fraud requires different prevention and detection measures which are adopting by the companies. Fraud poses a persistent risk to the effective allocation of resources, and it will constantly remain an important focus for management Brink and Witt (1982). From the origin of audit, the role of auditors has not been defined clearly. In the nineteenth century, auditors declared the objective of fraud detection during audits in the companies. Albrecht et al. (1994) identified the factors that linked to individuals engaging in fraudulent activities. According to Albrecht et al. (1995), fraud can be classified into different types, including employee embezzlement, organizational fraud, speculation scams, seller fraud, customer fraud, and mixed fraud. According to Vanasco (1998) objectives of the auditor's is to verification and checking of accounts. Actually, detection of fraud is the responsibility of the management of the firm; management should implement the strong internal control so that the frauds can reduced. According to (Weirich and Reinstein, 2000) fraud is deliberate deception, stealing or cheating and can be perpetrated against various parties, including creditors, investors, customers or any other body like government entities.

(Vanasco, 1998, p. 4) auditors relied on sampling and testing procedures only those accounts, which provided regarding the accuracy of financial statements. Moreover, auditors are unable to detect fraud involving unrecorded transactions in books of accounts, theft, and other irregularities (which are not recorded), thereby limiting their responsibility in fraud detection.

Auditor's responsibility to detect fraud:

According to Alleyne & Howard (2005), the role and responsibilities of auditors has not been well well-defined from origin. Porter (1997) analyzes the duties of the auditors to detect fraud in audit. Through her study, it is proved that auditing practices have been assessed and undergone a series of stages, leading to a shift in the auditing paradigm. Porter explains that before the 1920 the responsibility of the auditor is to uncover fraud. But after 1930, objectives of the auditors were changed and duties of the auditors were verification of accounting records. This is due to the large number of transactions in the companies' books of accounts. At that time, it is the view that detection of fraud is the management responsibilities of detection fraud, establishing internal control is also management responsibility. After 1960, there was restlessness among the media and the public regarding auditors' reluctance to assume the responsibility of detecting fraud. But is 1980, complexities and volume of transactions lead to frauds are increasing day by day, that is creating problems for businesses. Boynton et al (2005) recommend a different perspective related to detection of fraud, stating that following the Enron scandal, auditing standards have undergone important revisions to reinforce auditors' role in detecting fraud.

Auditing Standard No. 82 classifies fraud into two basic types that are misconducting in financial statements and false financial reporting. A survey conducted by the PWC (2012) in NEW ZELAND to find the reasons of fraud and preventions methods to detecting frauds that concluded that internal control system was the most effective instrument to detecting fraud that is 36% respondents responded the fraud is detected using internal control system. They also concluded that only 1% frauds are detected by external auditors.

Fraud damages the organizations in several ways, such as causing financial damages, destructive their reputation, impacting people's sentiments, and disturbing society as a whole. According to Seetharaman et al., (2004), Fraud leads to significant losses in the business world. Fraudulent schemes often go undetected for long periods, making it challenging to exactly calculate the losses they cause. Lack of reported fraud cases more complicates the assessment process.

Moyes and Hasan (1996) argue that there are two types of auditors i.e., internal and external auditors. Fraud detection depend on the auditors and auditors have similar ability to detect fraud either he is internal auditor or external auditor. They also concluded that the person who has certificate of Certified Public Accountant (CPA), has more ability to detect fraud as compare to those auditors who has not Certified Public Accountant (CPA).

Porter (1997) concluded that fraud detection is not the responsibility of the auditors, fraud detection is the responsibility of the management because auditors are not design and relied for these purposes. Bonneret al. (1998) showed some litigation against the auditors, they concluded that there is fraud in the financial statements of the company then there are many fictitious transactions occurred so the statements are not giving true and fair view for the company.

Bishop (2004) concluded in his study that it is the responsibility of an internal auditor that detect fraud from the financial statements and express all fraudulent activities which is affecting the contents of financial statement. He also discussed that auditors can't detect all the frauds in the financial statement because he is not guarantor. He conducts audit to detect all types of fraud but it is not ensured that the financial statement is free from frauds. He also agreed that fraud detection is not only the responsibility of the auditors it is responsibility of all the employees to prevent frauds from financial statements. The same statement is also given by Johnson and Rudesill (2001), they concluded that there is no 100% surety that all financial statements are free from all types of fraud, but it can be minimized using fraud prevention methods.

The ability to detect fraud is closely related to the personal obligation of internal auditors. This obligation involves the creation of well-defined and specific audit guidelines, a sense of professional duty, and the extent to which the internal auditor is connected to the occurrence of fraud and can take actions to diminish it, DeZoort and Harrison (2008).

Haroon et al. (2014) conducted their studies in Malaysia; they have taken interview and distributed questionnaires to public sectors employees of four different organizations to discover the causes of frauds. They concluded that experience loyal accountants are essential for the business to reduce frauds in the public sector organizations. Because these accountants have advantages over conventional accountants.

RESEARCH METHODOLOGY

This study is quantitative in nature to examine the responsibility of the auditor to detection of fraud. In this regard data was collected from different accountants, users of financial statements and auditors from the semi government sector, public and private sector. A structured questionnaire was sent to 390 individuals through email working in the audit department. But 260 respondents gave the response which is 66.67% response. In order to increase the response rate, a series of three reminders were sent to each target respondent. The first reminder was sent one week after the initial email was sent out to respondent, followed by the second reminder was sent two weeks after the initial placement, and finally, the third reminder was sent three weeks after the initial email was sent. After the third reminder, collect the cell numbers/ PTCL number. To further enhance the response rate, we made calls to remaining respondents. This proactive approach aimed to increase their participation and ensure a more robust data collection process. Data was collected in November and December 2021. Questionnaire was consisting of 14 questions. The selection of the size of the respondent groups (accountants, users of financial statements and auditors) was based on judgmental sampling; purpose was to include all those persons who are related to the studies (Hudaib, 2003). A five-point Likert scale was used to collect data ranging from '1' (strongly disagree) to '5' (strongly agree) was adopted in the questionnaire. Questionnaire has two parts; demographics profile was obtained in the first part of the questionnaire and in the second part questions asked related to deception of fraud were obtained. Cronbach's Alpha of all the questions relating to detection of fraud is .779 which shows high degree of internal consistency.

Data Analysis and Findings

Data was collected from 260 respondents in this study. Questionnaire contain 14 questions, out of 14 questions 4 questions contains demographic profile of the respondents 10 questions comprises information about the detection of fraud. In table 1. Shows the Cronbach's Alpha of all the questions relating to detection of fraud is .779 approximately equal to 0.8 which shows high degree of internal consistency. Cronbach's alpha reliability coefficient measures the consistency of items in a measure. Its ranges from 0 to 1, with no strict lower limit. A higher Cronbach's alpha coefficient (closer to 1.0) indicates stronger internal consistency among the items. The coefficient's value depends on the number of items in the scale and the average inter-item correlations. According to George and Mallery (2003), here are some simple guidelines to consider when we are measuring Cronbach's alpha. If alpha's value is greater than .9 then it will excellent, if value is greater than .8 then Good if value is greater than .7 it will Acceptable, if value is greater than .6 then Questionable and if the value of alpha is greater than .5 then it is Poor and the value less than .5 then it is Unacceptable and there is problem in data collection or it may be problem in questions.

Table 1. Reliability Statistics

Cronbach's Alpha	N of Items
.779	10

Table 2 describe the demographic profile of the respondents. Out of 260 respondents, there were 210 respondents are male which are 81% and 50 respondents are female that are 19%. Age of the respondents contains three groups. 1st group of age is less than 30 years which have 174 respondents i.e., 67%. Most of the respondents are in this group. 2nd group contains age between 31-40, this group contains 79 respondents that are 30%. Last group of age is 41-60, only 07 (03%) respondent lies in this group. Most of the respondents have master degree holder that 100 (39%) followed by 99 (38%) respondents have professional degree such as Charted Accountant (C.A), Associate Chartered Management Accountant (ACMA) and Association of Chartered Certified Accountants (ACCA). Followed by Bachelor degree holder are 50 (19%) respondents and only 09 and 02 respondents are M.Phil. and PHD. Most of the respondents are working in the private organizations that ate 171 (66%) respondents followed by 70 (27%) respondents are employees of public organizations and only 19(07%) are working in semi-Govt. organization.

Table 2. Demographic profiles of respondents

Description Percentage		**N=260**	
Gender	Male	210	81%
	Female	50	19%
Age Group	< 30	174	67%
	31-40	79	30%
	41-60	07	03%
Qualifications	Bachelor Degree	50	19%
	Master Degree	100	39%
	M.Phil.	09	03%
	PhD	02	01%
	Professional Degree	99	38%
Organization	Private	171	66%
	Public	70	27%
	Semi Govt	19	07%

In the table 3, we calculate correlation between the questions. We can see that there is weak correlation between the questions because most of the values are in the range 0-0.3 and some values are above the 0.3 which is explaining moderate relationship. According to Ratner (2009) the value of correlation coefficient is between -1 to +1, if the value of correlation coefficient (C.C) is value, there may be no correlation between the variables, if value of C.C is +1 or -1 then there is perfect positive or negative correlation between the variables. If the value is between 0-0.3 then there is weak relationship, value ranging 0.3-0.7 then there is moderate relationship and value above the 0.7 then there is strong positive relationship.

Table 3
Correlations

Pearson Correlation Sig. (2-tailed)	It is the responsibility of the internal auditor to detect unauthorized transactions and report to appropriate	Internal auditor is able to detect incorrect financial statements and give suggestions to appropriate	Internal auditor is able to detect valuations of the company's assets.	Internal auditor has fraud prevention and detection	Internal auditors should have ethics training.orre	Internal auditor experience help in effective audit.	Internal auditors have experience to address risk management problems in the	Internal auditor must check the bank reconciliation statements.	Recommendations or criticism proved by the internal auditors to decision making.	Internal auditor report is used for decision making by the organization.
It is the responsibility of the internal auditor to detect unauthorized transactions and report to appropriate authority.	1	.324**	.230**	.206**	.222**	.267**	.270**	.258**	.261**	.223**
		.000	.000	.001	.000	.000	.000	.000	.000	.000
	260	260	260	260	260	260	260	260	260	260
Internal auditor is able to detect incorrect financial statements and give suggestions to appropriate authority.	.324**	1	.344**	.319**	.194**	.314**	.231**	.273**	.267**	.298**
	.000		.000	.000	.002	.000	.000	.000	.000	.000
	260	260	260	260	260	260	260	260	260	260
Internal auditor is able to detect valuations of the company's assets.	.230**	.344**	1	.322**	.143*	.145*	.133*	.298**	.297**	.288**
	.000	.000		.000	.021	.019	.032	.000	.000	.000
	260	260	260	260	260	260	260	260	260	260
Internal auditor has fraud prevention and detection training to improve company's statements.	.206**	.319**	.322**	1	.308**	.292**	.287**	.237**	.245**	.186**
	.001	.000	.000		.000	.000	.000	.000	.000	.003
	260	260	260	260	260	260	260	260	260	260
Internal auditors should have ethics training.	.222**	.194**	.143*	.308**	1	.415**	.254**	.210**	.149*	.134*
	.000	.002	.021	.000		.000	.000	.001	.017	.030
	260	260	260	260	260	260	260	260	260	260
Internal auditor experience helps in effective audit.	.267**	.314**	.145*	.292**	.415**	1	.260**	.195**	.242**	.226**
	.000	.000	.019	.000	.000		.000	.002	.000	.000
	260	260	260	260	260	260	260	260	260	260
Internal auditors have experience to address risk management	.270**	.231**	.133*	.287**	.254**	.260**	1	.284**	.293**	.273**
	.000	.000	.032	.000	.000	.000		.000	.000	.000

problems in the organization.	260	260	260	260	260	260	260	260	260	260
Internal auditor must check the bank reconciliation statements.	.258**	.273**	.298**	.237**	.210**	.195**	.284**	1	.436**	.341**
	.000	.000	.000	.000	.001	.002	.000		.000	.000
	260	260	260	260	260	260	260	260	260	260
Recommendations or criticism proved by the internal auditors to decision making.	.261**	.267**	.297**	.245**	.149*	.242**	.293**	.436**	1	.424**
	.000	.000	.000	.000	.017	.000	.000	.000		.000
	260	260	260	260	260	260	260	260	260	260
Internal auditor€™ report is used for decision making by the organization.	.223**	.298**	.288**	.186**	.134*	.226**	.273**	.341**	.424**	1
	.000	.000	.000	.003	.030	.000	.000	.000	.000	
	260	260	260	260	260	260	260	260	260	260

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Table: 03		
	Mean	Std. Deviation
It is the responsibility of the internal auditor to detect unauthorized transactions and report to appropriate authority.	4.22	1.198
Internal auditor is able to detect incorrect financial statements and give suggestions to appropriate authority.	4.00	1.164
Internal auditor is able to detect valuations of the Company's assets.	3.44	1.295
Internal auditor has fraud prevention and detection training to improve company's statements.	3.83	1.296
Internal auditors should have ethics training.	4.36	1.047
Internal auditor experience helps in effective audit.	4.36	.900
Internal auditors have experience to address risk management problems in the organization.	3.99	1.106
Internal auditor must check the bank reconciliation statements.	4.04	1.143
Recommendations or criticism proved by the internal auditors to decision making.	3.90	1.116
Internal auditor report is used for decision making by the organization.	3.85	1.235

Part 2 of this study is related to detection of fraud by the auditors. In this regard table 3 and 4 made for explaining the purpose of this study. In table 3, we find out the mean and standard deviation of the questions and in table 04 we explain the frequency of each question. In Q no .1 we want to study the responsibility of the auditor to detect unauthorized transactions and report to higher management about the unauthorized transaction. Mean score of this question is 4.22 which is between the “agree” and “strongly agree”. Also 207 respondents out of 260 answer the two options that is agreed and strongly agree and 156 respondents responds “strongly agreed”. Hence, we say that auditors must detect the unauthorized transactions and report to higher management about the unauthorized transaction/s.

In the Q no 2, we want to explain internal auditor check the financial statement of the company and check whether these statements are correct are not and if the statements are not showing true and fair view then report to management. Mean score of this question is exactly 4 that mean all respondents are agreed with the statement that internal auditor should find the incorrect financial statements and report to the management for correction of statement. 112 (43%) answer the “strongly agreed”. Hence, we can say it is the responsibility of the auditor that detects the incorrect financial statements like income statement, balance sheet and cash flow statement. If give suggestion to higher authority to correct it and in this way the frauds may reduce or eliminate.

Then we clarify that internal auditor have the knowledge about the valuation of company assets. Because if he has sufficient knowledge about the valuation then he may correctly judge the valuation of the company’s assets so that the accountants can’t show the greater or less value of assets. If the value of the assets is shown above the actual value in the financial statement, then assets can lead to overstated profits is showing in the financial statements. Overstating asset values can distort financial ratios that rely on accurate asset valuations. Overstated asset values can disturb accounting standards and principles. 63 (24%) respondents are strongly agreeing to this statement but 55 (21%) respondents unable to answer this question and 80 (31%) respondents are agree to this statement. However, if we analyze the mean score i.e., 3.44 which lie between the neutral and agree. That are most of the respondents are between the natural agreed. So, we can say auditors must be able to detect the value of the company’s assets so that the true and fair view can be shown in the financial statements.

Next, we examined that internal auditor should train to detection and prevention of fraud. 169 (65%) respondents agreed and strongly agreed that internal auditors should be trained for this purpose, but only 52 (20%) unable to answer this question. there is no training in many departments. Training can increase the knowledge of the auditor about the detection of fraud. Chances of fraud may be increase where there is no training of the auditors and accountant. Auditors should also ethically train in this regard so that the fraud may decrease. Mean score is 3.83 which is nearly agree that means respondents are agree that there should be training in all the department so the chances of fraud may reduce.

If we examined the ethical training of the auditors then most of the respondents strongly agree to this point. 165 (64%) respondents want that the auditors must ethically train, there is need of ethical training of auditors and accountants because if the ethics are in auditors and accountants then there should be chance to decreases the fraud. Mean score of this response is 4.36 that means respondents are between strongly agree and agree. Only a few respondents are disagreed and they are of a view that ethical training of the auditors should not increase their efficient functioning. So, we conclude that ethical training of the auditors can decrease the chances of frauds.

Experience and knowledge about the detection of fraud is also playing a vital role in the effective audit and 77(30%) and 147(57%) respondents are agreeing and strongly agree respectively. Mean score is also between agree and strongly agree which is 4.36. That clarify the auditors should have experience of audit then he may detect fraud on the basis of his experience.

Auditors should also have experience to address the risk management problems in the originations. In this regard respondents are agreed to this point because mean score is 3.99 that are closely agreed. 108 (42%) respondents are strongly agreed and 81(31%) of the respondents are agreed.

While performing audit, auditors should also check the bank reconciliation statements of each month. Because there is chance of fraud while reconcile of bank statement. So, the 121 (47%) and 69(27%) respondents are strongly agreeing and agree respectively. And mean of this response is 4.04

i.e., nearly agree. According to these facts we can say auditors must check bank reconciliation statement, because respondents are view that accountants can deceit company while making bank reconciliation statement.

Last two responses are related to decision making by the organization. In second last response 52(20%) respondents are unable to answer this response but 84(32%) and 96(37%) agree and strongly agree respectively. And mean score is less than 4 i.e., 3.90. It means that internal auditors 'criticism or recommendations are very useful for the organization in making important decision. And if we clarify that the report of the auditor is used in decision making, then 101 (39%) and 79(30%) responses are strongly agreed and agree respectively that means auditor's report can be supportive in making decisions.

Table 4. Detection of fraud

Item	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Q1It is the responsibility of the internal auditor to detect unauthorized transactions and report to appropriate authority.	**17** (6.5)	**13** (5.0)	**23** (8.8)	**51** (19.6)	**156** (60.0)
Q2 Internal auditor is able to detect incorrect financial statements and give suggestions to appropriate authority.	**17** (7%)	**12** (5%)	**38** (15%)	**81** (31%)	**112** (43%)
Q3 Internal auditor is able to detect valuations of the company's assets.	**30** (12%)	**32** (12%)	**55** (21%)	**80** (31%)	**63** (24%)
Q4 Internal auditor has fraud prevention and detection training to improve company's statements.	**25** (10%)	**14** (5%)	**52** (20%)	**59** (23%)	**110** (42%)
Q5 Internal auditors should have ethics training.	**12** (5%)	**04** (02%)	**28** (11%)	**51** (20%)	**165** (64%)
Q6 Internal auditor experience help in effective Audit.	**05** (2%)	**07** (3%)	**24** (9%)	**77** (30%)	**147** (57%)
Q7 Internal auditors have experience to address risk management problems in the organization.	**09** (4%)	**22** (9%)	**40** (15%)	**81** (31%)	**108** (42%)

Q8 Internal auditor must check the bank reconciliation statements.	**14** (05%)	**12** (05%)	**44** (17%)	**69** (27%)	**121** (47%)
Q9 Recommendations or criticism proved by the internal auditors to decision making.	**13** (5%)	**15** (6%)	**52** (20%)	**84** (32%)	**96** (37%)
Q10 Internal auditor' report is used for decision making by the organization.	**20** (8%)	**20** (8%)	**40** (15%)	**79** (30%)	**101** (39%)

CONCLUSION

The main objective of this study is to find auditor's responsibilities to detect fraud from financial statement. In general, fraud is major problem for the companies in Pakistan; fraudulent activities are increasing with the passage of time in Pakistan. So, management of firms wants to decrease these types of fraudulent activities. The management expected that both internal and external auditors find all types of fraud in the financial statement but sometimes auditors unable to find all frauds from financial statements. In Pakistan, Auditors view is that detection of fraud is not fully responsibility of the auditors, but it is also the responsibilities of management to increase internal control system. They view that strong internal control, ethical training to accountant and honest accountants selected to prevent the fraud. The result showed that auditors checked the financial statement and transactions properly and carefully if any unauthorized transaction occurred then auditors report this transaction to management and appropriate authority to correct and prevent this type of transaction in future. Strong internal control and staff rotation policy are used for this purpose. Auditor's also checked valuation of the assets and bank reconciliation statement if any discrepancy occur in the valuation, then he also reports to management. But ethics, training and experience support the auditors for the detection of fraud. The auditor cannot be considering a guarantor of the firm's financial statements due to various factors such as conspiracy, expert counterfeit, or other strong methods that may hinder detection. However, the auditor cannot avoid all responsibility for detecting fraud or fulfilling their responsibility to conduct a thorough examination. The primary responsibility of the auditor lies with their client, and they fulfill this responsibility by following to generally accepted auditing standards (GAAS). If the independent auditor meets their obligations according to these standards, they are generally not held responsible for detection of fraud. Nevertheless, if their negligence prevents the discovery of fraud, resulting in preventable losses, they may be held liable. We also found that in Pakistan auditor's report is beneficial for the management to take important decision. According to Makkawi and Schick (2003) there are two methods to help auditors in detection of fraud more efficiently. Firstly, they highlighted the need for auditors to "audit smarter" due to limitations on the fee's clients are willing to pay. This means that auditors should be more aware of the specific context and industry in which they are conducting the audit, as the nature and concentration of fraud can vary across different sectors. Secondly, the authors recommended that auditors should be more skeptical and thoroughly assess the integrity of management. This aligns with the requirements outlined in SAS No. 99, which emphasizes the importance of auditors exercising professional skepticism and thoroughly evaluating management's honesty and ethical conduct.

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