Volume **12** / 2024 ISSN 2344-102X
Issue 1 / **February** 2024 ISSN-L 2344-102X

THE IMPORTANCE OF THE FINANCIAL AUDIT IN THE IDENTIFICATION OF FRAUD AND ERRORS RECORDED BY COMPANIES

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Abstract
Increasing concerns regarding the transparency and correctness of financial reporting in the current global economic context underline the importance of financial audits in identifying fraud and errors recorded by companies. The purpose of the paper is to examine the issues related to fraud and errors from the perspective of financial audits in the national and world economic reality. The motivation for this scientific approach resides in identifying elements and vulnerabilities at the company level that can influence the auditor's ability to issue his opinion within a financial audit mission. By identifying and eliminating these elements, the aim is to increase the trust of end users in financial accounting information and the work carried out by financial auditors. The paper emphasises the need for auditors to exercise professional scepticism and apply effective internal control to prevent and detect fraud and error. Implementing fraud risk management strategies is also highlighted, including promoting an organisational culture based on integrity and transparency. The presented research results include improving internal audit and control systems, increasing awareness of fraud and error risks, and promoting corporate governance practices that better protect stakeholders' interests. The importance of the theme, the purpose of the work and the intended results underline the crucial role of the financial audit in ensuring the integrity and transparency of financial information, thus contributing to stability and confidence in the business environment.

Keywords: *Financial audit; fraud; error; company transparency*

JEL Classification: *M41, M42*

I. INTRODUCTION

Auditing verifies a company's financial statements and records to ensure accuracy and fairness. The financial accounting records and registers contain all the recorded transactions and are summarised in interim and annual financial statements. These statements must provide a fair representation of the actual economic condition of the company and its operations. Since financial accounting records are prepared internally, management and employees face a high risk of manipulation, fraud, or evasion. There are many financial and non-financial incentives to manipulate these records; auditing is essential to ensure they are not distorted. This ensures that the accounting statements lend credibility to the financial statements and give shareholders confidence in the company's activities. Additionally, auditing can help to improve a company's internal audit and control systems.

Auditors are responsible for ensuring that the financial statements, taken as a whole, are free from material misstatement, whether due to error or fraud, under the current international auditing standards. Their main objective is to obtain reasonable assurance that the financial statements are free from material misstatement and provide a qualified and unequivocal opinion. The definition of accounting fraud is when a company or public institution intentionally misrepresents its financial records. Defining fraudulent behaviour in accounting can be challenging because many account components rely on estimates. Accounting fraud occurs when deliberate misstatements, such as when a company overstates its assets to make it appear more financially stable. It is no secret that at the base of the great financial scandals and implicitly of the global economic crises are generally fraudulent manipulations of proportions through numerous financial engineers, fraud and error; famous companies have managed to misrepresent the reality of their performance and market position by misleading users. Starting from the financial audit - fraud - error connection, the investor must pay more attention to details and correlations in a world of risk. An old Latin proverb says that "fraud can corrupt everything", even the independence and activity of the financial auditor, and not infrequently, his complicity has been demonstrated in concealing or

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committing fraudulent acts of a financial nature.

The paper aims to address the problems related to fraud and error from the perspective of the financial audit in the current context of the reality of the national and world economy. The motivation of this scientific approach is based on identifying the possible elements, respectively, vulnerabilities at the company level, that can influence the auditor's ability to issue his opinion on a financial audit mission. These elements can be eliminated to increase the confidence of the end users of the financial accounting information in the activity carried out by the financial auditors and the awareness of their work. Identifying the elements of vulnerability in the field of financial audit affects the process of issuing the audit opinion and establishing possible ways to combat their effects. Approaching this paper critically and interpretatively aims to identify the aspects that can influence the achievement of the objectives of the financial audit from the perspective of fraud.

The importance of the paper is given by the approach to a current topic whose objective is to identify the elements that can influence the fulfilment of the objectives of the financial audit, respectively issuing an opinion after obtaining reasonable assurances regarding the extent to which the financial statements contain significant distortions due to fraud or error and reporting with on these matters by International Standards on Auditing (ISA). By identifying corporate governance practices harmoniously combined with an audit process that provides relevant assurances on the reality and correctness of the information contained in the financial statements, we can respond elegantly to the expectations of the business environment (Grigoras-Ichim, 2017).

The growing number of specialised works in the field represents the importance of the theme. The Web of Science (WoS) database presents a total of 87 articles related to the topic “fraud detection audit”, articles published in the period 1998-2023 (May) and continuously increasing in terms of the annual number of papers and citations. Figure 1 presents the evolution of these works overtime. The maximum annual number was reached in 2021, with 189 works. Regarding the authors' fields of interest, 36 papers are in business finance, 14 in management, 11 in business, and 10 in economy, followed by computer fields, food technology, public administration, political science, etc. Table no. 1 presents a selection of the main ideas published about the theme of the present exploratory research.

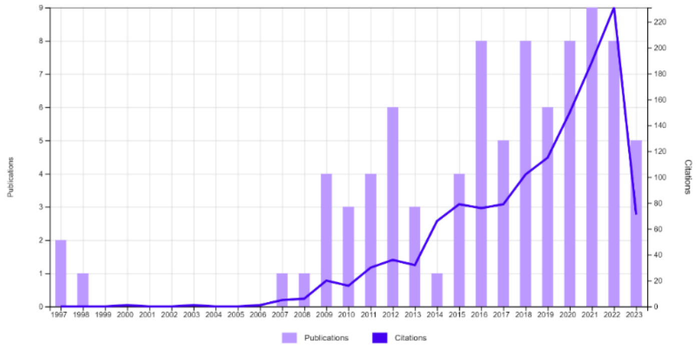

Figure 1. The situation of the publications on the “audit in the identification of frauds.”
Source: Author's processing based on the Web of Science database, available at https://www.webofscience.com/ [accessed on 10.09.2023]

Table 1. Theories and models of “audit in the identification of frauds.”

The paper	Aspect analysed
Hammersley, J. S. (2011). A review and model of auditor judgments in fraud-related planning tasks. Auditing: A Journal of Practice & Theory, 30(4), 101-128.	He created a model to describe auditors' characteristics and the factors of fraud risk that are likely to influence their performance in tasks related to fraud planning, such as generating fraud hypotheses, assessing risks, and modifying audit programs.
Favere-Marchesi, M. (2013). Effects of decomposition and categorisation on fraud-risk assessments. Auditing: A Journal of Practice & Theory, 32(4), 201-219.	He is examining if there is a noteworthy variation in the evaluation of fraud risk by auditors who break down fraud judgment and auditors who only rate fraud risk factors.
Nugraha, S., & Susanto, E. (2017). The Role of the Government Internal Auditor in Fraud Risk Management: A Case Study in Local Government of Gunung Kidul and Sleman Yogyakarta Province. In International Conference on Administrative Science (ICAS 2017), 200-203). Atlantis Press.	The analysis investigates whether the breakdown of fraud assessment considerably impacts the perceived necessity of altering the audit plan and the scope of testing to address fraud risk.
Chen, W., Khalifa, A. S., Morgan, K. L., & Trotman, K. T. (2018). The effect of brainstorming guidelines on individual auditors' identification of potential frauds. Australian Journal of Management, 43(2), 225–240.	Research is being conducted to explore more brainstorming guidelines for auditors to identify a higher quantity and quality of potential fraud.

DOI: 10.4316/EJAFB.2024.12106

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The paper	Aspect analysed
Austin, A. A. (2022). Remembering fraud in the future: Investigating and improving auditors' attention to fraud during audit testing. Contemporary Accounting Research.	Encouraging auditors to have implementation intentions can improve their attention to fraud by identifying and testing an intervention that specifies when and how they will consider fraud.
Widuri, R., & Gautama, Y. (2020). Computer-assisted audit techniques (CAATs) for financial fraud detection: A qualitative approach. In 2020 International Conference on Information Management and Technology (ICIMTech) (pp. 771-776). IEEE.	The objective is to determine how the external auditor views the implementation of fraud detection software and what kinds of fraud it can identify.
Austin, A. A., & Carpenter, T. D. (2022). Game Changer: Can Modifications to Audit Firm Communication Improve Auditors' Actions in Response to Heightened Fraud Risk?. Auditing: A Journal of Practice & Theory, 41(2), 1–26.	Finding ways to capture auditors' attention, encourage critical thinking, and enhance their comprehension of crucial fraud concepts can improve their vigilance.
Mironiuc, M., Robu, I. B., & Robu, M. A. (2012). The fraud auditing: Empirical study concerning the identification of the financial dimensions of fraud. Journal of Accounting and Auditing, 2012, 1.	Advanced statistical methods are utilised to identify the primary financial elements of fraud. This helps obtain scoring functions that determine the probability of fraud risk based on predefined economic and financial indicators. The process involves careful data analysis to derive actionable insights.
Tang, J., & Karim, K. E. (2019). Financial fraud detection and big data analytics–implications on auditors' use of fraud brainstorming session. Managerial Auditing Journal, 34(3), 324-337.	Big Data analysis enhances the brainstorming session according to the present auditing standards.
Hernández Aros, L., Plazas Estepa, R. A., & Flórez-Guzmán, M. H. (2018). Means of proof in Colombia and its occurrence within an audit engagement: A perspective of the Pentagon of fraud. Revista republicana, (25), 117-134.	The effectiveness of an audit engagement in Colombia can be determined by disclosing the incidence of adequate application of accounting rules.
Chen, Y., & Wu, Z. (2022). Financial Fraud Detection of Listed Companies in China: A Machine Learning Approach. Sustainability, 15(1), 105.	The study suggests a model for detecting financial reporting fraud based on stacking algorithms for Chinese listed companies. The proposed model offers a straightforward and efficient method for investors, regulators, and management.
Simon, C. A., Smith, J. L., & Zimbelman, M. F. (2018). The influence of judgment decomposition on auditors' fraud risk assessments: Some trade-offs. The Accounting Review, 93(5), 273–291.	The concern experienced auditors have about high-risk fraud schemes decreases when fraud risks are decomposed into probability and magnitude, as per a study conducted on 101 such auditors. Conversely, holistic risk assessments tend to worry them more about fraud schemes.

Source: Author's processing based on the WoS database, available at https://www.webofscience.com/ [accessed on 10.09.2023]

From a temporal point of view, the research methodology used to prepare the first chapter is the longitudinal one, through which the emergence and evolution of the audit, respectively, its objectives and concept, are followed. The main methods used to achieve the objectives of this scientific endeavour involve a qualitative analysis. Thus, for the qualitative analysis, information is collected following the study of the specialised literature, the standards, and the national and international legislation regulating the activity in the audits carried out by the national and international professional bodies (Bordeianu & Morosan-Danila, 2013).

The scientific approach of the conceptual and theoretical perspective assumes a deductive approach, starting from the highlighting of the general elements to the particular ones, respectively from the presentation of the evolution of the audit, fraud and error, the presentation of the theoretical aspects and the national and international regulations in the field, through an analysis critical of the auditor's role in ensuring the actual image and transparency in financial reporting and characteristics of financial auditing, fraud and fraud risk are synthesised.

The procedures and techniques used during the work are the study of specialised literature, both national and international: books, legislation specific to the studied field andIAS, the websites of various national and international professional bodies in the field of accounting and financial auditing, respectively of the information provided by the research projects carried out by these bodies, to identify the prospects for the development of the profession, to respond to the constantly changing needs of society, but also the use of figures for a better interpretation and synthesis of information, comparisons to identify advantages and disadvantages.

II. GENERAL ASPECTS OF THE CONCEPTS OF FINANCIAL AUDIT, FRAUD AND ERROR

The audit is a professional analysis that expresses an independent and responsible opinion on the fidelity of financial and accounting information representation, referring to a quality standard or criterion. The auditor is an accounting auditor, financial controller or censor.

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From the point of view of the American Accounting Association from 1973, the financial audit is "a systematic process of objectively obtaining and evaluating some assertions regarding the actions and events of an economic nature, to assess the degree of conformity of these assertions with the predetermined criteria, as well as of communicating results to interested users" (Dănescu, 2007). The auditor's opinion is critical for external users of financial statements because correct economic information generates economic power (Tulvinschi & Socoliuc, 2010). According to the International Auditing Standards (ISA), the financial audit mission is structured in phases to issue the audit report.

The financial audit represents the formulation of an opinion by the auditor regarding the financial statements drawn up under all significant aspects according to the general framework presenting a faithful and honest image, and the auditor represents a natural or legal person who assumes the final responsibility for the audit.

The checking of accounts is at the origin of the audit; from the 3rd century B.C.E., the Romanians controlled the accounting of the provinces through appointed persons. By 1700 AD, the principal applicants of the audit were the leaders, the churches, and the state institutions, the auditors being priests or writers, to prevent antisocial acts, protect the patrimony, and punish those guilty of fraud. After 1700 and until 1850, the audit applicants became the states, commercial courts, shareholders, and auditors, among the best accountants, aiming to suppress fraud and punish the guilty. Between 1850 and 1900, the main objective of the audit is to avoid fraud/errors and attest to the reliability of the accounting balance sheet. Auditing and accounting professionals did auditing for the next 40 years. Until 1970, the audit scope expanded to include banks, employers, and financial and credit institutions seeking to certify the sincerity and regularity of financial statements. In the following two decades, the audit followed the attestation of internal control, compliance with the Accounting Conceptual Framework and audit norms (Stoian & Țurlea, 2001).

In 1994, the accounting expert profession was reinstated with the establishment of the Corps of Certified Accountants and Chartered Accountants from Romania (CECCAR). According to Ordinance no. 65/1994, this profession gave the holder the right to carry out a financial audit provided for in Art. 6, letter c. Subsequently, the Chamber of Financial Auditors of Romania (CAFR) was established by Emergency Ordinance No. 75/1999.

In Romania, financial control activities and accounting expertise are mentioned in the literature from 1853 in the report of Ion Ionescu de la Brad to the Grand Vizier Rechid Pacha regarding his wealth in Thessaly for the period 1.03.1953-1.05.1854. Then, in the following periods, until after the 1989 Revolution, financial control activities were carried out by state institutions. So, in 1864, on 24.01, the Law Establishing the High Court of Accounts was published to exercise jurisdictional control over budget execution, and in 1918, the Financial Guard was established. In 1930, the Court of Accounts was reorganised, and in 1948, it was abolished by the High Court of Accounts (Tătaru, 2007).

In fact, in Romania, we are talking about the financial audit with the adoption of the Accounting Law no. 82/1991 published in the Official Gazette no. 265/27.12.1991. Subsequent amendments from 2008 establish the obligation to audit the annual financial statements of companies that fall under the scope of this law. Entities are audited according to OMFP 3055/2009 by one or more natural or legal persons authorised according to the law. This law determined the publication of reference norms by CECCAR in 1995, covering a normative-methodological gap in auditing, regulation, and standardisation at the European and international levels (Florea et al., 2008). Out of the desire to harmonise with the specialised International Standards and the development of the capital market, CECCAR published 1999 the work "National Audit Standards and Related Services", taking over the ISAs issued by IFAC.

The establishment of the Chamber of Financial Auditors from Romania based on GEO no. 75/04.06.1999, which modifies OG 65/19.04.1994 and Law no. 31/16.11.1990, represents an essential reference at the level of the audit profession (Robu, 2014).

Accounting and auditing regulations and regulatory bodies for financial audit activity are:

- International: International Accounting Standards IAS, IFRS and International Auditing Standards – IFAC, INTOSAI
- National: CAFR regulations, MF regulations, Accounting Advisory Board – CAFR, CECCAR, CCR
- European: Directive 34 on financial statements, Directive 56 on financial audit - CCE

According to the financial audit, the audit rules are a set of rules defined by a professional authority intended for third parties with the assurance that the opinion is issued qualitatively by defining the purpose using the proper techniques. The audit norms are presented in Figure 2 according to the intended purpose.

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ISSN 2344-102X
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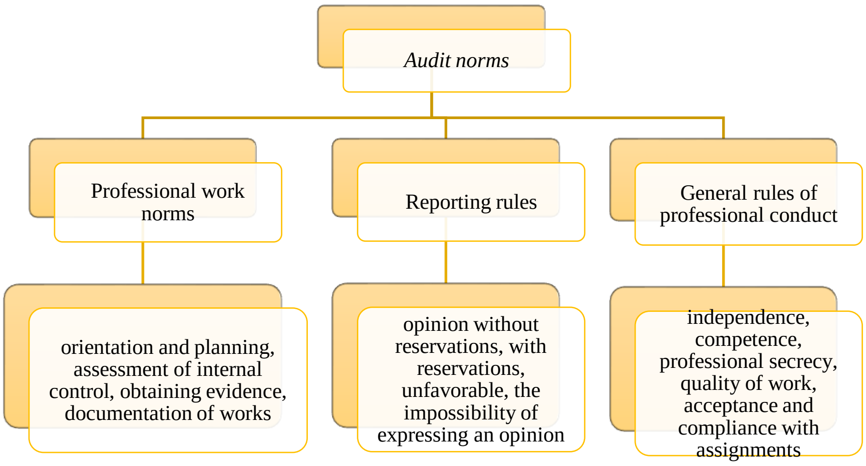

Figure 2. Structure of audit rules
Source: Adapted from Drăgan (2009)

One cause of the emergence of major financial scandals is the quality of the system of norms and regulations in the audit field. Given the lack of precise provisions, those interested cleverly speculate about their ambiguity and vagueness. The following provisions regulate the audit activity: Minimum Audit Norms; National norms issued by the professional body recognised as an authority in the CAFR field; International Auditing Practices (IAPS); International Auditing Standards (ISA); International Standards on Review Engagements (ISRE); International Standards on Insurance Undertakings (ISAE); International Standards for Related Missions (ISRS).

The audit determines whether the information and data examined are consistent with the legal and contractual norms in force and devises corrective actions to eliminate errors. The financial audit gives confidence in the business, a fundamental element for the company's creditworthiness and capital employment. The activity of the financial accounting audit is logically guided towards a certain finality embodied by purpose and objectives.

The primary purpose of the financial accounting audit is to express an objective and independent opinion on the accuracy of the financial statements under the most significant aspects of an applicable accounting framework (IFAC). The audit opinion must be substantiated reasonably, and the financial statements must be tracked to ensure they do not contain material misstatements, especially those related to fraud or errors. Accounting information is helpful if it is credible, relevant and honest. Figure 3 presents the objectives of the financial accounting audit.

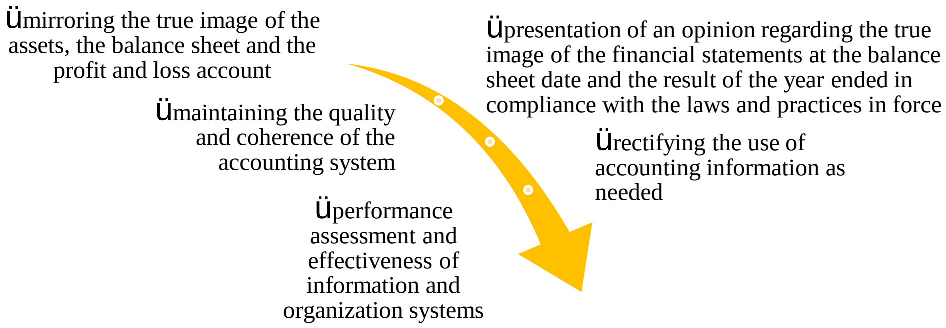

Figure 3. The objectives of the financial accounting audit
Source: Adapted from Toma (2007)

An accurate picture of the accounting information in the financial statements is associated with prudence, regularity and honesty. Corporate sustainability (Grigoras-Ichim et al., 2020) is a concept intensively analysed in the specialised literature around the world regarding social, environmental and economic impact.

The type of financial audit can be either internal or external, depending on the company's objectives. An internal financial audit is a control and accounting system within the company that aims to anticipate and prevent potential risks in its operations. On the other hand, external financial audits can be categorised into two types: statutory or contractual. These audits focus on the computerised procedures used for the company's accounting, financial exchange operations, accounting of social expenses, compliance with social and legal regulations, the fiscal situation, and customer accounts. A company's management and control system is an element of risk (Boghean et al., 2009) for investors, whose interests could be betrayed by inefficiencies or corruption, managers

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ISSN 2344-102X
ISSN-L 2344-102X

and administrators, risk for employees, creditors and customers.

Audit risk is a significant objective of the financial auditor (Arens et al., 2012). It refers to the possibility of a material misstatement in the company's financial statements, even if an auditor from an auditing firm has assessed and audited these statements. In other words, audit risk is the risk that the company's financial statements do not present its actual financial position or that management intends to cover up the facts, even though the audit opinion has stated that those financial statements do not contain any material misstatement. This risk can impact potential investors, creditors, and shareholders.

The purpose of an audit is to reduce audit risk. Auditors assess the inherent and control risks related to that audit while ensuring the accuracy of financial statements. Audit risk can have legal liability, making it crucial for auditors to perform a risk assessment for each component of audit risk.

Common types of audit risks are shown in Table 2.

Table 2. Types of audit risks and their sources

<table>
<tr><th colspan="2">Audit risks</th><th>Source</th></tr>
<tr><td rowspan="2">Risks of material misstatement
- exists at the level of the financial statements generally and at the level of assertions to determine the nature, timing and extent of additional audit procedures necessary to obtain appropriate and sufficient audit evidence</td><td>Control risks
- pertains to the potential risks that may arise due to errors and misstatements in a company's financial statements due to inadequate management of internal controls.</td><td>• Management did not adequately implement the division of duties between staff and financial reporting responsibilities.
• Management could not evaluate the effectiveness and adequacy of internal controls regarding financial reporting.
• Management within the company has not established a proper recording and documentation culture.</td></tr>
<tr><td>Inherent risks
- risks that the management and the company cannot prevent due to uncontrollable factors, and the auditors did not identify them during the audit.</td><td>• Due to the high level of judgment required in transactions, auditors may face difficulty identifying potential risks.
• If a company has previously misreported data, it will likely repeat the same mistakes.
• Companies operating in industries that frequently experience technological advancements face the risk of becoming obsolete.
• The company's complex business transactions, which include derivatives, pose a challenge.</td></tr>
<tr><td colspan="2">Risks of non-detection
- The company's financial statements are not accurately presented due to misstatements and errors that the auditor did not detect. Consequently, the auditor issued an incorrect opinion on these statements.</td><td>• The sample size selected by the auditors was not appropriate.
• The auditors failed to grasp the intricacy and nature of the operations conducted by the company.
• The auditors did not establish effective communication or engagement with the company's management.
• The audit planning was inadequate, and the auditors employed unsuitable audit techniques.</td></tr>
</table>

Source: Author's processing based on the WoS database, available at https://www.webofscience.com/ [accessed on 10.09.2023]

The term fraud comes from the Latin "fraus", the translation taking on several nuances from trickery and trap to damage and crime. Fraud is a deliberate act committed by a person or group intending to obtain an unauthorised benefit, either for themselves or the institution, by using deception, false assumptions, suppression of the truth, or other unethical means. Depriving another person or institution of a benefit to which he is entitled by using any of the means described above also constitutes fraud. According to the Federal Bureau of Investigation, it is "the misappropriation or use of funds or assets left in care". Frauds in non-financial situations mainly occur on documents for internal use and own management (Singleton, 2010).

The International Auditing Standards (ISA), in ISA 240, consider fraud "an intentional act committed by one or more persons in management, among persons responsible for governance, among employees or third parties, which involves the use of deception for to obtain an unfair or illegal advantage" and error an unintentional act of mathematical or accounting mistakes omission or misinterpretation of economic phenomena, the wrong application of accounting policies, fraud risk factors are events or conditions that indicate an incentive or pressure to commits fraud or provides an opportunity to commit fraud. Three main elements comprise and define fraud: voluntary, intentional concealment of facts and mode of operation.

History has recorded many exciting examples of fraud. Some of the first scams do not even involve money. Nowadays, the biggest fraudsters risk their freedom for good reasons.

We need to keep track of the progression of fraud to understand how it has evolved from street vendors to the most significant financial institutions. In ancient times, before the emergence of money, the Greek philosopher Aristotle documented instances of fraud related to Solon's adoption of the Seisachtheia or shaking off of burdens in the 6th century BC, which released the Greeks from debt slavery. Although Egypt was a cashless society until around 525 BC, taxes were still gathered as goods exchanged or forced labour, also known as corvee. At the same time, a Greek merchant named Hegestratos, who was sailing in the Mediterranean, was discovered by his crew attempting to sink the ship in order to perpetrate fraud on a type of shipping insurance known as bottomry, which

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allowed the ship's captain to use the keel and hull. By 6 AD, money was commonly used in different parts of the world, yet fraud remained a problem in many areas. Cicero's Verrine Orations demonstrate that Verres, the governor of Sicily, committed numerous thefts and fraudulent collection of tax revenue. Shortly after, in 193 AD, one of the most significant frauds in ancient times was executed by the Praetorian Guard, who sold the rights to the Roman throne to the highest bidder for 25,000 sesterces per soldier. Unfortunately for the purchaser, they did not own the empire then, so their claim to the throne was considered invalid. Even well-known individuals are susceptible to the temptation to commit fraud, and young artists are infamous for attempting to make a name for themselves by any means necessary. In 1699, a 20-year-old Michelangelo tried to sell a counterfeit ancient Cupid sculpture to a Catholic Church cardinal. The late 1800s were the peak period of patent medicine. Charles Ponzi designed the original Ponzi scheme in 1920, costing investors up to $20 million in only eight months. He was charged with 86 counts of mail fraud when he was detained.

Although technology had been used in various scams, it was not until the late 1980s that fraud entirely based on the electronic realm began to appear frequently. One such early scam also exposed the loopholes in the law around premium phone lines, and it attempted to get people to call expensive premium-rate numbers. 1994 witnessed the dawn of electronic commerce, which opened the door to the first-ever online credit card fraud. This tactic was viable only briefly before instant online card verification existed. Subsequently, a race between sellers and fraudsters to stay ahead of each other started, which continues today.

The chief executive of Enron, Kenneth Lay, was targeted in 2001 following the revelation that the company's claimed revenues of $101 billion were false. Enron's accountants were also investigated in the aftermath of the scandal. In 2004, a data breach occurred when an AOL employee stole information for 92 million accounts and sold it to spammers. Breaches of personal information are often used to open new accounts, take over existing accounts, and identify individuals for financial transactions. Ponzi schemes have also not been forgotten, and one of the most famous was that of Bernie Madoff in 2008. Despite being investigated by the Security of Exchange Commission, Madoff's scheme collapsed after previously avoiding recognition. The world's largest Ponzi scheme defrauded investors of $64.8 billion. 2015, a significant bribery and corruption scandal occurred at FIFA, football's governing body. Fourteen FIFA leaders, sports marketing executives, and a broadcasting chief were charged with bank fraud and money laundering after arranging kickbacks in exchange for television contracts.

The global medical market is valued at over $9 billion and is vulnerable to deceitful practices. In 2018, the United States uncovered its largest healthcare fraud to date, resulting in charges against 601 individuals, including healthcare professionals such as doctors and nurses, for offences such as fraudulent billing and the unlawful distribution or prescription of opiates. The overall losses were more than $2 billion. Also, in 2018, the Security and Exchange Commission (SEC) and the Northern District of California accused Holmes and another company official of significant fraud and conspiracy.

Modern progress in digital authentication and computer security has resulted in protection against fraud in most cases. In 2019, Huawei, a Chinese telecommunications company, and its chief financial officer, Meng Wangzhou, faced bank fraud charges to evade United States sanctions on Iran. Following her arrest in Canada, Meng fought against extradition to the United States.

The COVID-19 pandemic has led to a surge in scams worldwide, with scammers taking advantage of this global disaster (Bordeianu et al., 2021). There have been many instances of phishing, where scammers pose as health organisations and businesses selling supplies, fake masks, and drugs, all of which are promoted online. Charity scams also exist, where donations are collected under false pretences, and fraudulent stimulus claims are targeted towards governments (Morosan-Danila & Bordeianu, 2020). Recently, a Lithuanian hacker was sentenced to jail for tricking tech giants such as Facebook and Google into paying about $120 million in fake invoices over five years. This highlights that even the most prominent companies are not entirely immune to fraud. As technology advances, online and digital fraud are increasing exponentially. Fraudsters can communicate with each other and potential targets instantly and virtually, free of charge, which means we are likely to see new forms of fraud emerging consistently.

There are two primary forms of financial accounting fraud: fraudulent financial reporting and misappropriation of assets. Fraudulent financial reporting involves intentional misrepresentations, including omitting values or presentations in financial statements to deceive users (Grigoras-Ichim & Morosan-Danila, 2016). There are several methods by which fraudulent financial reporting can be carried out, such as manipulation, falsification (including production of false documents), modification of accounting records, supporting documentation based on which the financial statements are drawn up, intentional misrepresentation or omission from financial statements of events/transactions or other vital information, intentional misapplication of accounting principles, or avoidance of controls by management.

Fraud in financial statements is one of the two forms of fraud that has received special attention from the general public, the media, the financial community, investors and authorities. The major failures of financial firms such as AIG, Lehman Brothers, Merrill Lynch and Bear Stearns through the presentation of fraudulent financial statements led to the financial crisis of 2007-2008.

The Association of Certified Fraud Examiners (ACFE) defines fraud in financial statements as the

DOI: 10.4316/EJAFB.2024.12106

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intentional and deliberate misrepresentation or omission of accounting data or facts that can lead to a change or alteration in one's decision or judgment. The topic of financial fraud is widely discussed in all countries around the world. Numerous US-based companies such as Enron, Global Crossing, Adelphia, Qwest, and Tyco have misrepresented their financial statements. Similarly, companies in India, such as Satyam Computer Services, and Japan, like Olympus Corporation, have also been accused. Such false statements are made to overstate assets, income, and profits while understating liabilities, expenses, and losses.

Rezaee and Riley (2010) state that producing fraudulent statements constitutes financial fraud, which hurts the credibility and reliability of financial statements, ultimately rendering the capital market inefficient. Additionally, the litigation costs associated with such fraudulent activities are exorbitantly high and can ruin the careers of those involved.

According to ACFE's 2022 Global Fraud Studies, financial statement fraud occurs in 9% of cases, causing an average loss of $593,000. This represents self-reporting, which may differ from actual quantification. The study presents only a part of the frauds discovered because the economic units, although they discovered the fraud, failed to report it to avoid damaging their image.

Asset misappropriation is based on the unfounded appropriation of assets by theft, generally committed by employees; sometimes, the entity's management is also involved, which can conceal the facts and sometimes even be difficult to detect.

Viewed as a virus of public opinion, financial fraud takes many forms, carried out for or against the company, from simple theft by an employee to complex schemes involving managers, accounting professionals or executives. Try as they might, companies cannot prevent all fraud; if a company is operational long enough, the employee may commit fraud annually. Consequently, the ability to quickly detect fraud is crucial. AFCE research indicates that the average duration of fraud –the typical time between when a fraud starts and when it is detected – is 12 months.

The irregularity in the financial statements leads us to think of two possibilities: fraud or error. The difference between fraud and error is intent. Simply put, fraud is an act done intentionally for the benefit of specific individuals or groups and causes harmful effects to others. At the same time, errors are acts of unintentional mistake or negligence. Culture, company size, operational complexity, and business changes significantly influence potential irregularities. Although the forms of fraud and error are different, it is still difficult to detect and decide whether an irregularity falls under the category of error or fraud.

The auditor analyses fraud risks to help identify the risks of material misstatement arising from fraud. With this, the auditor also analyses the three sides of the fraud triangle: opportunities, attitudes/justifications, motives/pressures. The representation of the three categories of factors in the form of a fraud triangle presupposes the existence of financial, personal, social or psychological pressures and opportunities through knowledge of the company and its processes, the information system and internal control (Horomnea, 2010), possessing advanced technical skills and an attitude towards fraud, justifying such behaviour (Krambia-Kapardis, 2009). Check whether the analytical procedures applied indicate a previously unknown risk of misstatement due to fraud and whether the implications of the misstatement are related to management's representations and their impact on the nature and scope of the audit procedures. Circumstances and conditions will be analysed by repeatedly analysing the credibility of previously obtained evidence. Planning and performing the audit will consider reducing risk to an acceptable to a low level, taking into account the risk of material misstatements; these may arise from fraud or error; the distinction between the two is made by intentionality. Fraud falls under the category of crimes, according to Art. 15 of the Criminal Code, which is committed with guilt, unjustified, and imputable to the person who committed it.

In the context of the ISA, the auditor is interested in fraud that causes a material misstatement in the financial statements without establishing whether the fraud occurred or not from a legal point of view. When we talk about fraud, the following situations generally appear: managers or decision-making employees who have a bonus or have a certain pressure exerted on them, the lack of controls which causes a fraud to be perpetuated or persist and individuals with a character that is not based on ethical values that can intentionally and deliberately commit fraud, taking into account that even an honest person can commit fraud if under maximum pressure (Boghean et al., 2009).

The financial accounting auditor's most important objective is identifying the factors that influence the risk of fraud and errors (Bierstaker et al., 2006). A company can lose a substantial amount of its assets due to fraudulent activities. Fraud can be so severe that it can lead to the complete shutdown of an organisation. Therefore, business owners must cultivate an environment where fraudulent activities are less likely. One way to accomplish this is to carefully examine the high-risk factors contributing to fraud and take appropriate measures to reduce their impact. According to the regulations in this field, the auditor must consider all the information that presents the possibility of the existence of these risk factors. The stealthy nature of fraud makes it difficult to detect. The auditor can detect events or conditions that can be a starting point in the commission of fraud. When fraud occurs in a company, several factors must be considered, and Table 3 summarises these.

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Table 3. Factors causing fraud

Factors	Forms of manifestation
Nature of objects:	When it comes to theft, the size and value of the items in question are essential factors to consider. Removing items like diamonds from the premises may be less risky if they are precious.
Ease of Resale:	The existence of a willing market for stolen goods, such as most varieties of consumer electronics, can strengthen the incentive to engage in fraudulent activities.
Cash:	There is a very high risk of fraud if there is a large amount of notes, coins, or cash in bank accounts. Locally, a large balance in a small cash box presents considerable temptation.
Nature of the control environment:	Segregation of duties: The risk of fraud decreases dramatically if several employees are involved in different transaction phases, as fraud requires the collaboration of at least two people.
Guarantees:	Assets that are physically protected are less likely to be stolen. One way to achieve this is to fence off the inventory storage area, lock a bin for maintenance tools and supplies, install guard stations, use an employee badge system, and implement other similar solutions.
Documentation:	Employees are more likely to commit fraud when there is no record of the transaction, either physical or electronic, as they assume they will not get caught. Similarly, when documentation exists but is easily altered, employees are also more prone to engaging in fraudulent activity.
Free time:	Asking employees to take time off can deter ongoing fraud because it prevents them from hiding it. This means that any fraud that is occurring can be exposed more quickly. So, when a business asks its workers to take time off, it may help to prevent fraudulent activities from continuing unnoticed.
Related Party Transactions:	When multiple transactions involve related parties, the prices at which purchases and sales are likely to deviate significantly from the market price.
Complexity:	Employees can easily manipulate the results of highly complex transactions, particularly those involving estimates when a company's business depends on such transactions. This manipulation can lead to reporting better results than the actual ones.
Dominant:	If a sole individual can overpower the management team's choices, mainly when the board is feeble, it is more probable that this individual will engage in unsuitable conduct.
Fiscal value:	A weakened institutional memory of transaction processing occurs when there is frequent turnover among the management team and employees. This can lead to less focus on controls.
Audit:	Without an internal audit function, it is unlikely that incorrect or inappropriate transactions will be identified or corrected.
Pressures:	The level of dissatisfaction: If the workforce is dissatisfied with the company, they will be more inclined to engage in fraud.
Expectations:	There is a high risk of financial reporting fraud when there is pressure from outside investors to report specific financial results or from management to meet certain performance targets (perhaps to get bonuses) or balance sheet targets.
Guarantees:	If the owners or management members have pledged the company's debt, they will likely feel compelled to report particular financial outcomes to avoid activating the guarantees.

Source: Author's processing according to the studied literature

Reducing these risks can be done by using some models of bundling the audit missions or the audit process as a whole (Pathak, 2003; Ghose & Koliadis, 2007).

To face all the challenges coming from those who want to commit financial fraud and limit these illegal acts as much as possible, a series of bodies responsible for the anti-fraud fight and their prevention have been established internationally. The fight against fraud from within companies can be considered one of the most effective means of combating it. A vital role belongs to the financial auditor in detecting fraud, having at his disposal a series of computer and statistical tools and his methodology for detecting them by carrying out interviews, financial reviews, and diagnostic analyses (Arens et al., 2012).

III. THE ROLE OF THE FINANCIAL AUDIT IN THE IDENTIFICATION OF FRAUDS AND ERRORS

One of the general principles of an audit engagement relates to how to plan and perform it; the auditor must use professional scepticism, considering that financial statements may be materially misstated in some situations and that the audit may reveal conditions or events where the company does not comply with applicable laws and regulations, indicating irregularities, including fraud and errors. The exercise of professional scepticism requires the auditor to maintain it throughout the audit engagement, to critically assess the weight of evidence inconsistent with the documents or statements, or to question their credibility without regard to their experience of honesty and management integrity.

The auditor should be mindful of the following situations while exercising professional scepticism:

• When the evidence obtained during the audit contradicts other audit evidence.

• When any information casts doubt on the reliability of documents and responses to queries that may be used as audit evidence.

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• When there are conditions that may indicate possible fraud.

• When circumstances suggest the need for audit procedures beyond those required by ISA (ISA 200 A.18).

Professional scepticism is an essential requirement for ISA 200. It helps auditors identify material misstatement risks and respond to them effectively. Professional scepticism is closely linked to fundamental ethical considerations of auditor objectivity and independence. A high-quality audit cannot be conducted without an attitude of professional scepticism. Therefore, applying professional scepticism ensures that auditors do not overlook unusual circumstances, oversimplify the results of audit procedures, or adopt inappropriate assumptions when determining the audit response necessary to address identified risks. This, in turn, helps improve the audit's overall quality.

The auditor will exercise professional scepticism at different phases, including client acceptance and throughout the audit process. Some common examples of this are provided below:

• During the client acceptance stage, the auditor must assess whether the auditee's management is acting with integrity and whether ethical or objective concerns may affect their ability to approach the engagement with professional scepticism.

• When performing risk assessment procedures, an auditor should be sceptical at the audit planning stage.

• In obtaining audit evidence, the auditor should be prepared to challenge management, particularly on complex and subjective matters requiring management to exercise a degree of judgment. Consideration should be given to the reliability and sufficiency of the evidence, mainly where fraud risks are involved. There may also be specific issues that arise during an audit that impact professional scepticism - for example, management refuses the auditor's request to obtain evidence from a third party. ISA 200 states that "the belief that management and those charged with governance are honest and have integrity does not relieve the auditor of the need to maintain professional scepticism or allow the auditor to be satisfied with less persuasive audit evidence when obtaining reasonable assurance."

• In evaluating evidence - the auditor should critically evaluate the audit evidence and be alert to conflicting evidence that may undermine the sufficiency and appropriateness of the evidence obtained.

When forming an opinion, the auditor needs to exercise professional scepticism. This involves considering the sufficiency of the evidence to support the opinion and evaluating whether the financial statements accurately depict the transactions and events that have taken place. Additionally, applying professional scepticism can help reduce detection risk by enhancing the audit procedures' effectiveness and minimising the auditor's likelihood of reaching an incorrect conclusion when evaluating the audit results.

ISA 240, "The Auditor's Responsibilities about Fraud in an Audit of Financial Statements", addresses explicitly professional scepticism, stating that "when obtaining reasonable assurance, the auditor is responsible for maintaining professional scepticism throughout the audit, having potential for control overrides and recognising that audit procedures that are effective in detecting errors may not be effective in detecting fraud" (ISA 240). The standard further specifies a requirement for the auditor: "The auditor must maintain professional scepticism throughout the audit, recognising the possibility of material misstatement due to fraud, despite the auditor's prior experience of the entity's honesty and integrity—management and those charged with governance" (ISA240).

The application points of ISA 240 highlight the importance of assessing the dependability of information used as audit evidence and having proper controls in place for its preparation and maintenance. Additionally, ISA 240 mentions that management is often in the best position to engage in fraudulent activities. Therefore, while examining management's responses to inquiries, the auditor may need to verify them with other information (ISA 240). This is significant because ISA 240 reminds the auditor to exercise caution when evaluating audit evidence provided by management, such as responses to queries, written representations, or other types of documentary evidence, and to determine the credibility of that evidence and whether more reliable sources should support it.

Auditors must feel confident questioning management on various matters relevant to preparing financial statements due to the increasingly complex and subjective nature of IFRS requirements. National bodies are eager to support auditors in implementing professional scepticism, an essential element of quality control that safeguards the audit opinion's credibility.

During the information-gathering process, the audit team discusses the possibility of material misstatement of the financial statements due to fraud in brainstorming sessions. Companies should decide early on how to implement this requirement. The brainstorming session has two main objectives. The first is strategic, as the audit team members who have more experience with the client can provide a better understanding of how fraud might be committed and concealed. The second objective is to set the "appropriate tone" for the engagement. The brainstorming session is conducted with an attitude that "includes an inquiring mind" to model the appropriate degree of professional scepticism and "set" the culture of engagement. The discussion about the company's susceptibility to fraud also reminds auditors that this possibility exists in any audit, regardless of any history or preconceived notions about the honesty and integrity of management. Throughout the audit process, auditors continuously collect data, seeking opportunities to brainstorm until the end. Towards the end of the audit, some auditors may decide to convene for further discussions to review the findings and experiences of all team members.

DOI: 10.4316/EJAFB.2024.12106

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This meeting aims to assess whether the team's response to the risk of material misstatement due to fraud was appropriate.

SAS no. 99 requires members of the audit team to communicate with each other throughout the engagement about the risks of material misstatement due to fraud. The standard requires the auditor to be responsible for the audit to determine whether there was adequate communication among team members throughout the engagement. The brainstorming technique for planning fraud detection procedures is supported by McKee (2006). The primary goal of brainstorming is to develop ideas on how a company could potentially engage in fraudulent activities and conceal them. Some teams may discuss mitigating identified risks, while others may consider delegating tasks. For the session to be productive, all members must have a uniform understanding of the client, their business operations, and their current financial performance.

The primary role of the financial audit is to provide confidence to the public, confirming that the financial statements of the company correspond to reality, i.e. they reflect an accurate picture, ensuring that the information issued by the company is not the result of fraudulent activities or errors, respecting professional standards, the basic requirements and the Code of Ethics of accounting professionals. A growing percentage of executives perceive the risk of fraud as significant, realising the negative impact of this phenomenon on the companies they lead. For this reason, assessing risks to identify material misstatements due to fraud, the auditor's response to assessed risks, evaluating evidence, communicating with company management and reporting fraud will be the topics we will develop in the following paragraphs.

To understand the company and its environment, the auditor performs procedures to identify material misstatements due to fraud, specifically questioning management, assessing risk factors, questioning internal audits, and evaluating unpredictable and unusual relationships.

One of the reasons auditors fail to detect material misstatements caused by fraud is that they tend to look at current numbers in isolation from past or other relevant information. The auditor should consider the results of analytical procedures in identifying risks of material misstatement caused by fraud; a list of procedures that auditors may use that may indicate the presence of such risks would be identifying the presence of fraud triangle characteristics, understanding policies, procedures and controls for recording accounting entries or other adjustments, identifying circumstances in which management has or can override internal controls, understanding policies and procedures related to revenue recognition, understanding the business rationale for significant unusual transactions.

When auditors assess risks, they should consider that improper revenue recognition is a common risk of fraud. Improper revenue recognition is involved in most cases of fraudulent financial reporting. According to SAS no. 99, auditors should typically assume that there is a risk of material misstatement due to revenue recognition fraud. However, if they do not identify the misrecognition of revenue as a risk of material misstatement due to fraud, they should explain why they came to that conclusion. After identifying specific fraud risks, auditors should evaluate the company's controls and programs that can mitigate or exacerbate the identified risks of material misstatement due to fraud. Assessing risks to identify material misstatements due to fraud depends on various factors, such as risk factors, conditions, classes of transactions, account balances, presentations, and situations (Horomnea, 2009).

The study of the risks of material misstatement due to fraud must begin with some answers, as shown in Figure 4.

1. has a general effect on the way the audit is conducted.	It affects: staff assignment and supervision; accounting principles; predictability of audit procedures.
2. locate the risks involved in the nature, timing and extent of the audit procedures.	An unpredictable element is introduced because people within the company know the audit procedures, such as: carrying out substantive procedures for account balances, selecting statements not tested in other circumstances, due to the risks of the significance threshold; changing the planning of audit procedures; application of different sampling methods; changing locations unexpectedly of audit procedures.
3. monitors the management of internal control	In specific engagements, the auditor employs a professional attitude of doubt to tackle the risk of management overriding internal control. Financial fraud can be committed by executives in financial reporting by ignoring existing control procedures, therefore it is imperative to verify the adequacy of accounting records, ledgers and other adjustments.

Figure 4. Material Misstatement Study Responses
Source: Author's processing according to the studied literature

Accounting estimates are more likely to be manipulated because they rely heavily on human judgment and the accuracy of the assumptions that support them. The auditor conducts a retrospective examination of the previous year's accounting estimates. This review is not intended to second-guess the professional audit decisions made in previous years based on the available information. Instead, considering the current facts and

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circumstances, it should be evaluated within the context of how it affects the current year's audit.

Evaluation of audit evidence that may be identified during the audit and may indicate fraud may be accomplished through analytical procedures performed as substantive procedures or as part of the overall audit review stage. It may also uncover previously unrecognised risks of material misstatements due to fraud. The way the auditor should respond when determining that a misstatement is or may be the result of fraud would be to reassess the integrity of the auditee and the impact it may have on preparing the financial statements. In cases where the misstatement may result from fraud and the effect is either significant or cannot be determined, the steps in Figure 5 are required.

1. trying to get additional evidence.
2. consideration of the implications for other aspects of the audit.
3. discussing the matter and taking it up for further investigation with an appropriate level of management that is at least one level above those involved and with senior management and the audit committee.
4. suggesting the client consult legal counsel.

Figure 5. Steps to take in case of misrepresentation
Source: Processing according to www.ceccar.ro [accessed on 16.01.2024]

If the auditor discovers any indication of fraudulent activity, it should be reported to the relevant management level, regardless of how minor the issue may seem. Therefore, the communication threshold is met when there is "evidence that fraud may exist." Simply having a risk factor for fraud or observing a condition present during fraudulent activity is generally insufficient to meet this threshold.

The requirements for fraud documentation include the audit team discussing the susceptibility of the company's financial statements to material misstatement due to fraud, including the time and participants involved and the topics discussed. The auditor must perform procedures to gather information necessary to identify and assess risks of material misstatement due to fraud. The auditor must identify specific risks of material misstatement due to fraud and explain their response to those risks. Suppose the auditor does not identify the misrecognition of revenue as a risk of material misstatement due to fraud in a particular circumstance. In that case, the reasons supporting that conclusion must be provided. The auditor must communicate fraud-related concerns to management, the audit committee, and other relevant parties. The auditor must also address the risk of reversal of control by management and provide the conditions and analytical relationships that led to the need for additional audit procedures or other responses.

If, as a result of the risk assessment, the possibility of fraud or error is found, the auditor starts the audit procedures by analysing the influence on the financial statements. If they have a significant effect, additional procedures are also put in place; he asks for explanations from the management and evaluates whether it was considered or has been corrected. Audit planning should assess the risk that fraud or error will result in material misstatement of the financial statements and should seek an explanation from management about any fraud or error discovered. The auditor is not and cannot be responsible for preventing fraud and error.

Events that can increase the risk of fraud and error include questionable management probity and competence, internal or external pressures on the firm, unusual operations, and difficulties in evaluating evidence. Obtaining sufficient evidence to indicate that the fraud or error is not material to the financial statements by the auditor, then communicating the results of his or her fraud investigations to management. If they exist and are not corrected, the auditor must express an opinion with reservations or refusal of certification. When the company does not allow the auditor to obtain sufficient evidence to assess whether a fraud or error has material effects on the financial statements, the auditor must express a qualified opinion or the impossibility of expressing an opinion. Professional secrecy must remain an applicable principle unless required by law when the auditor should consult with a lawyer. The company's management is responsible for preventing and detecting fraud and errors by following the applied accounting and control system. Internal auditing reduces the risk of fraud and error but cannot eliminate it.

We can conclude that the auditor's decisions following the identification of financial fraud include notifying managers, shareholders, the state, and the general public, starting the procedures for ordering criminal prosecution and recovery of damages and correcting the errors and weaknesses of the internal control (Grigoras-Ichim & Morosan-Danila, 2020).

On the increasing role of the audit profession in fraud risk management, SASs are becoming specialised by providing auditors with precise instructions for situations where they face high fraud risk levels (Colbert, 2000). A practical approach to fraud and error risk management includes controls guided by three main objectives: preventing fraud from occurring, detecting fraud and errors, and responding appropriately by taking corrective action when integrity crises occur.

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Governments have responded to fraudulent financial scandals by enacting legislative and regulatory reforms to encourage large companies to self-govern. Various laws and regulations have recently emerged worldwide, giving companies a wide range of criteria to include in managing the risk of fraud and error. Companies can manage risk with legally compliant tools tailored to business needs and market expectations through effective fraud risk management. Figure 6 shows that such an approach usually involves four phases.

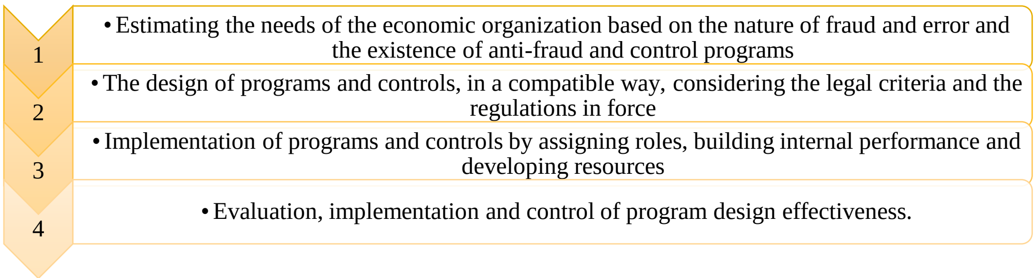

Figure 6. Phases of Effective Fraud Risk Management
Source: Processing by www.kmpg.com [accessed on 16.12.2023]

Fraud can take many forms, but it is almost always prevented when a company has the right policies, procedures, and controls.

Prevention and detection are related concepts; prevention encompasses policies, procedures, training and communication programs that can stop fraud, while detection relies on activities and techniques that promptly and timely recognise if fraud has/is occurring. Prevention techniques do not ensure that fraud will not be committed, but they are the first line of defence in minimising the risk of fraud. One solution to prevention is to promote awareness of fraud risk management programs from the top throughout the company, including the types of fraud that can occur.

One of the most potent deterrents to fraud is the awareness that there are adequate detection controls that, combined with preventive controls, increase the effectiveness of the fraud risk management program by demonstrating that preventive controls are working by identifying fraud; it can also provide evidence. Since prevention techniques cannot be 100% effective, companies must engage in fraud detection based on a strategy. To be effective, it should include four main components: prevention, detection, response and deterrence. Essential elements of the fraud detection system would be exception reporting, data searching, trend analysis and continuous risk assessment. The focus of a fraud detection program should extend beyond just recovering potential losses. Fraudulent behaviour should not be overlooked even when there is no chance of asset recovery. In addition to identifying fraud, detection programs can also facilitate the development of better control systems that enhance fraud prevention.

No internal control can provide absolute security against fraud regarding investigation and corrective action. However, a company can improve its chances of recovering losses by minimising exposure and reputational damage by establishing and planning investigation and corrective procedures. The anti-fraud strategy is based on the following actions: fraud resolution, fraud prevention, fraud deterrence, and fraud detection.

Legislation, corporate governance, risk management, and ethical culture all play a significant role in the fight against fraud (Chirita & Grigoras-Ichim, 2009). Combining prevention, detection, and corrective action is essential to create an effective fraud deterrent. Regularly assessing fraud risks is also crucial to identifying and assessing potential fraud risks in an organisation, which can be done as part of a more significant risk management process. To do this, all business areas and processes should have their fraud risks identified and assessed in terms of their likelihood and impact, including non-financial factors such as reputation. A practical risk assessment can help identify new risks, strengthen fraud prevention and detection, and identify cost-saving opportunities.

It is crucial to be prepared and mindful of the risk of fraud, as many people who were unknowingly close to it are often surprised that they had no idea it was happening. Therefore, it is vital to increase awareness through education and training. Employees working in high-risk areas, such as procurement and finance, and those with a role in fraud prevention and detection, such as human resources, should be given particular attention. Some people wonder if fraud training teaches employees to commit fraud, but it is important to note that fraud is often discovered through a tip. All employees must understand what constitutes fraud, how to detect it, and how to respond, as training is more likely to reduce the risk of fraud rather than increase it. Communication should be continuous, and a combination of methods is usually more effective. Investing in fraud prevention has many benefits, but it can have downsides, such as creating excessive and expensive controls that could reduce staff efficiency and motivation (Morosan-Danila & Grigoras-Ichim, 2020).

Effective reporting mechanisms can positively impact fraud detection. Encouraging employees to speak up can be challenging, but companies can influence them by establishing an anti-fraud culture and reporting processes. Whistle-blowers may face difficult situations, but it is essential to remember that every employee is responsible

DOI: 10.4316/EJAFB.2024.12106

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for combating fraud. Companies that encourage openness benefit by being able to spot potential problems early and ensure critical information reaches the right people. Following up on any disclosure and providing anonymous reporting in a whistleblowing policy is also essential.

Robust internal control systems are indispensable; the ACFE considers a robust system of internal controls to be "the most valuable fraud prevention device by a wide margin". Overall responsibility for the company's internal control system should be at the highest level. An internal control system encompasses all those policies and procedures that, taken together, support a company's effective and efficient operation. Internal controls include approval and authorisation processes, access restrictions and transaction controls, account reconciliations, pre-employment screening, and physical security. These procedures usually have a division of responsibilities and checks to reduce risk.

The company's culture and operations should embrace the internal control system, which must also suit its nature and size. A practical framework for this purpose is COSO's Internal Control—Integrated Framework, which offers principles for establishing and executing sufficient internal controls.

The division of responsibilities for managing fraud risk will vary between companies based on size, industry, culture and other factors.

Management must identify any fraudulent activities taking place in their departments. Employees should report any suspected misconduct and be provided with guidelines for reporting fraudulent activity. This framework should also include a list of relevant contacts to be approached. The CFO or a designated fraud officer is responsible for coordinating fraud investigations, maintaining a fraud resolution plan and investigation log, and receiving confidential and anonymous employee reports. Human resources is responsible for internal disciplinary procedures in line with the fraud resolution plan.

The Supervisory Board is actively responsible for preventing and detecting fraud. In certain countries, recent legislative and regulatory changes have empowered this role. The Board reviews the company's internal control systems, including the design, implementation, and effectiveness of anti-fraud programs and controls. It also ensures that the company has adequate whistleblowing arrangements. Additionally, the Board oversees the effectiveness of both internal and external auditors in fulfilling their fraud-related responsibilities.

If there is any incidence of fraud, the internal auditor should investigate it with caution. They should allow the investigation to be carried out by those without training and experience in this field, as involving unskilled personnel may jeopardise the outcome of the investigation. It may be appropriate to appoint specific auditors, such as fraud specialists, to ensure they have the appropriate skills and knowledge to carry out the task.

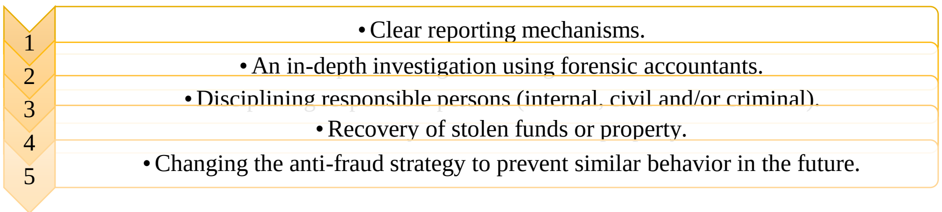

Figure 7. Phases of Effective Fraud Risk Management
Source: Author's processing according to the studied literature

If the external auditor discovers fraud, they may consult peers to obtain the expertise to establish the loss level. They may also obtain assistance from other experts, such as a specialist fraud investigation team.

IV. CONCLUSION

The effects of the context of the recent economic crisis (pandemic, post-pandemic, military conflicts) on the business environment are multiple. The increased risk of fraud and corruption are among the challenges companies must pay even greater attention to. The risk of fraud within a company can appear in different forms and various departments, such as purchasing, sales, marketing, financial accounting, logistics, or even payroll and human resources. According to professional organisations, professional fraud generates losses of trillions of dollars globally every year. However, although it is a real threat to every sector of the economy, fraud can be prevented, controlled, proven and punished, and the damage can be recovered. In this sense, the results obtained by SPIA in 12 investigations carried out in the last three years provide a telling proof: the value of 6 million euros estimated for the damage identified and documented. By extrapolating, we better understand how severe and significant the impact of fraud is on companies, whether state-owned or private.

Detecting complex and sophisticated fraudulent activities can be a challenging task. Additionally, Professional Auditing Standards underline that management and the Supervisory Board are primarily responsible for preventing and detecting fraudulent activities. Auditors are not explicitly assigned to detect fraudulent activities, as a more in-depth approach is required. However, auditors are responsible for ensuring that the financial

DOI: 10.4316/EJAFB.2024.12106

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statements are reasonably free from significant mistakes caused by either fraud or error. In case of any discrepancies, the auditor must modify the audit opinion accordingly and inform the relevant authorities. Therefore, a thorough audit involves more than just checking for compliance with accounting standards. However, it is uncommon for auditors to take responsibility when major accounting manipulations or fraudulent activities occur. It is a well-known fact that there is a gap between the legal responsibilities of auditors and the level of assurance that the public and external investors expect from them.

An effective internal control system and a robust ethical culture are necessary for an anti-fraud strategy. However, neither of them can offer complete protection against all fraudulent behaviour. It is impossible to eradicate all fraud. No system is entirely immune to fraud, as many fraudsters can circumvent the control systems that have been established. It is preferable to prevent fraudulent activity and establish an anti-fraud culture based on integrity, objectivity, accountability, and honesty. Businesses that link a culture of high integrity to performance can maintain a sustainable business model and a framework for managing occasional failures.

Many companies struggle to manage fraud and misconduct risks due to the wide range of rules and standards governing business conduct. Developing a comprehensive fraud risk management program is crucial to mitigate such risks effectively. Organisations should begin this effort to assess their current fraud risk management practices and prioritise known risks and existing controls. Next, they can conduct a gap analysis to determine their ideal future state and prioritise activities to help them develop an ethics and compliance program for anti-fraud controls and programs. Such a program can ensure proper legal and regulatory compliance, avoid fines and penalties related to violation, align values and performance, and protect assets by minimising risks and enabling company growth.

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DOI: 10.4316/EJAFB.2024.12106