PUBLIC TRUST ON AUDITORS AND THE AUDITING PROFESSION AMONG COOPERATIVE SOCIETIES IN KISII - KENYA
An Investigation of the Awareness Levels and Challenges of Frauds Associated With Audit Practices and Management

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Abstract
The manner in which auditors perform their duties and the auditing profession in general raises questions and puts the auditors on the spotlight from clients who rely on their reports. Questions on whether the public trust the way auditors perform their secondary duty of detecting errors and frauds, the reliability, completeness and accuracy of their auditing reports have been raised. The research focuses on: Management and auditors responsibility for its prevention and detection of fraud, the auditor’s responsibility for reporting fraud to management, auditors’ independence, parties involved in corporate failures, Regulating the auditing profession. In the research methodology, sampling design, various data presentation methods are used to analyze the data. Appropriate data collection techniques are used to make data available. The research found out that the investors agree that they have heard about frauds in the past and they associate them to the failure of auditors responsibility hence they should be able to detect such frauds in the course of their audit engagement. The research concluded that All the auditor respondents agree that auditing can unearth fraud but to a limited extent depending on the degree of mandate of the audit assignment, materiality of the fraud committed, level of adequacy of the internal control system (ICS), integrity of the top management and the board of directors, the independence of the external auditor and efficiency and effectiveness of the audit tools employed for the audit assignment. Secondly, auditors strive to meet the expectations of the shareholders and other interested third parties, but due to the ethics of confidentiality, they can only report the detection of fraudulent activities to third parties after seeking explanations in a management letter to the management.

Keywords: Process, Challenges& Information Systems Implementation

1. Introduction
1.1 General Background
Auditing can be defined as the independent examination of books of account or financial statements of an entity covering the transactions over a period and ascertaining the true and fair view of the financial position of an organization on a certain date in order that the auditor may issue a report on them. Auditing involves the application of auditing principles and methods as provided by relevant acts of parliament and those considered necessary by an auditor for the purpose of the audit. Auditing profession is regulated by the very elaborate professional etiquettes, accounting standards, procedures and the culture of professional integrity which gives credence to the auditors’ opinion on financial statements of the entities they audit.
The primary purpose of auditing is to prepare a report giving the auditors’ opinion on whether the books of accounts reflect a true and fair view of the state of affairs and the financial position of the organization. Although an auditor is not an investigator he has a secondary duty of to discover the errors and frauds and report on them. The way they deal with some of the most notorious corporate scandals often bring accounting profession into public spotlight. Public focus is directed on whether the auditors clearly point out these frauds and errors or not in the corporate circles. The auditors report is relied upon by the shareholders, management, employees and other stakeholders of the company. The completeness, accuracy and reliability of the auditors report is a matter of concern to these parties and this has put into question the public trust on auditors.

1.2 The Risks of Fraud

Auditors will enter a much expanded arena of procedures to detect fraud as they implement SAS no. 99. The new standard aims to have the auditor’s consideration of fraud seamlessly blended into the audit process and continually updated until the audit’s completion. SAS no. 99 describes a process in which the auditor : gathers information needed to identify risks of material misstatement due to fraud, assesses these risks after taking into account an evaluation of the entity’s programs and controls and responds to the results. Under SAS no. 99, you will gather and consider much more information to assess fraud risks than you have in the past (Glossary of Marketing Terms, 1960).

SAS no. 99 significantly expands the number of information sources for identifying risks of fraud. It provides guidance on obtaining information from management and others within the organization, analytical procedures, consideration of fraud risk factors and other sources. Management: the new standard lists several items you should ask about that relate to management’s awareness and understanding of fraud, fraud risks and the steps taken to mitigate risks. Several of these inquiries were not required under previous standards. Some inquiries are relatively straightforward, but others may require you to “educate” management about the characteristics of fraud, the nature of fraud risks and the types of programs and controls that will deter and detect fraud. The guidance contained in SAS no. 99 provides you with the background necessary to discuss these matters. Others: the SAS requires you to make inquiries of the audit committee (even if it is not active), internal audit personnel (if applicable) and others about the existence or suspicion of fraud and to inquire as to each individual’s views about the risks of fraud. “Others” can include those employees who are outside the financial reporting process.

Further, you should not restrict your inquiries to senior management. The standard suggests making inquiries of personnel at various levels within the organization. These are two primary objectives in making such inquiries. First, to obtain first-hand knowledge of fraud: fraud can happen in any department and at any level within the organization. Someone in the entity may have observed a person committing or concealing a fraud. Often, those with knowledge of a fraud have stated, after the fact that they would have told someone, “but nobody asked.” SAS no. 99 increases the likelihood that the auditor will now be that “someone” who asks. Lastly, to corroborate or lend perspective to representations of others. Operating personnel can corroborate representations made by others or provide a different perspective on how things “really work.” For example, accounting department personnel may be able to provide you with the recommended control procedures relating to the safeguarding of inventory, but operational personnel can tell you how the control procedures are applied in practice and when, if ever, those controls are overridden or circumvented. The standard allows you to use considerable judgment in determining to which employees within the organization you should direct your inquiries and what questions you should ask.

SAS no. 99 reminds auditors they need to overcome some natural tendencies—such as overreliance on client representations—and biases and approach the audit with a skeptical attitude and questioning mind. Also essential: The auditor must set aside past relationships and not assume that all clients are honest. The new standard provides suggestions on how auditors can learn how to adopt a more critical, skeptical mind-set on their engagements, particularly during audit planning and the evaluation of audit evidence.

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 the past or other relevant information. For that reason, SAS no. 99 says the auditor should consider the results of analytical procedures in identifying the risks of material misstatement caused by fraud, and the standard provides a list of procedures auditors can employ that may indicate the presence of such risks. To help you do a more effective job combining identified risks and providing that necessary link, SAS no. 99 offers this guidance. Remember the three elements of the fraud triangle; the risk of material misstatement due to fraud generally is greater when all three are present. As an auditor, use your intuition,
judgment and experience to look for patterns in the identified fraud risks. The new standard reminds you that failure to observe one of the elements of the triangle does not guarantee an absence of fraud. Stated another way, it has been observed that auditors have a tendency to identify incentive and opportunity but mistakenly fail to pursue the issue because they have not seen an attitude/rationalization that is conducive to fraud (Auditing Practices Board, 1994).

1.3 The Auditor-Investor "Expectation Gap"

Investors seem to expect that an audit is an assurance of a company's financial health, laments Deloitte's CEO, who maintains that there's only so much an audit firm can do. Investors may have unrealistically high expectations from auditors [William Parrett, 2005]. Parrett acknowledged that his industry must do a better job of performing audits and avoiding potential conflicts of interest between auditing and consulting work. According to the newspaper, however, he also warned that "we've always had this expectation gap between what the auditor really can do and what the investing public wants the auditor to do, or wants the audit to represent." For example, Parrett elaborated, investors seem to expect that an audit is an assurance of a company's financial health. In fact, he reportedly stressed, an audit is an attestation of the accuracy of a company's financial statements, based on information that the company itself provides (Laurine, 2005 and Peter, 2002).

According to the Globe and Mail, he also lamented that auditors are held accountable for not detecting complex or "collusive" frauds perpetrated by company insiders. Parrett cited the Parmalat scandal as one example; of course, his firm is facing several high-profile lawsuits stemming from the collapse of the Italian dairy giant. "It's really extremely difficult for the auditor to find a collusive fraud," he told the paper. "We fundamentally were on top of this issue but it had been going on for a number of years."

The chief executive reportedly stated that Deloitte has taken steps to correct deficiencies cited in a recent report by the Public Company Accounting Oversight Board. The firm has appointed an ethics officer in each of its member national companies, beefed up audit teams, required deeper investigation to confirm results, and expanded its use of review teams to check initial audits, according to the paper. Parrett also warned, "There's no way that fraudulent activities will ever be fully eliminated from the business community or the world at large"(Association of Chartered Certified Accountants, 2000).

The auditors should report to the management of the enterprise on employee frauds. The auditor would however have no specific responsibility to report fraud or other irregularities in the audit report if the financial statements gave a true and fair view despite the occurrence of a fraud or other irregularity. Nevertheless, the auditor would be expected to qualify the report where he/she concludes that proper accounting records had not been maintained [as required by law] or for example, where he/she failed to obtain all necessary information and explanations (Auditing Practices Board, 1992).

If the fraud does not warrant qualification of the audit report and the board of directors is neither implicated in the wrong doing itself nor quilt of improperly condoning or suppressing it, then disclosure of the fraud to the shareholders will ordinarily be unnecessary. The reason is that in such cases it is ordinarily the function of the directors themselves to decide what further disclosure the facts ought to receive (Association of Chartered Certified Accountants, 2000).

The auditor certainly owes a duty of confidentiality to the company. That duty is not broken by disclosure to its management or shareholders since they are the company for this purpose. The duty would, however be broken by disclosure to third parties. Counsel has advised that in the present state of the law the furthest that it is possible to go in encouraging disclosure by auditors to third parties is to say that there will become cases in which an auditor, although not bound in point of law to disclose information to a third party, is entitled to do so. The ethical statement suggested that matters the auditor should take into account when considering whether or not disclosure would be justified in the public interest include: the relative size of the amounts involved and the extent of the amount of financial damage; whether members of the public are affected; the possibility or likelihood of repetition; the reasons for the clients' willingness to disclose the matters to the proper authority himself/herself; any legal advice obtained(Auditing Practices Board, 1994).

1.4 Auditing Profession and Challenges

The Rules of Professional Conduct are more detailed and provide guidance on specific threats to independence e.g., “undue dependence on an audit client” which limits the proportion of gross earned income from one client to 15% (or 10% in the case of public interest companies). The detailed requirements of both the Companies Act and the Rules of Professional Conduct are provided in all auditing texts/ manuals and students should ensure they are familiar with them. Care needs to be taken in
ensuring a clear distinction between the two! (Kimutai, 2007).

Most aspects of business activity are subject at least to some extent to regulation in one form or another. In support of regulation it is argued that it can promote efficiency improve allocation of resources and prevent abuse of position or power; in short, that it helps deal with market failure. Market failure can take a number of forms. Two of these are relevant to the auditing profession. On the supply side market failure is seen to exist when a monopolist is able to charge above the competitive price for its products or services. In the context of auditing this may arise because the profession is able to control membership costs. In the context of auditing this may arise because the profession is able to control membership costs and prevent abuse of position or power; in short, that it helps deal with market failure. Market failure can also be observed when demand for services is not satisfied by the supplier. An example of this in relation to auditing might be demand by investors that auditing provide some kind of certificate that there has been no major fraud in the company. Sherer and Turley, 1991) they further state that the regulation of the auditing profession may be considered necessary in order to promote and sustain certain desirable characteristic for example cost effectiveness independence and appropriate education and training regulation may also help to strengthen the position of those who have an interest in the financial performance of the company but who may not have a contractual with the auditor. In addition to potential investors, creditors employees and taxpayers, this will probably include most existing shareholders of companies since in practice the auditor is appointed and remunerated by the managers. On the other hand, it may be argued that more negatively, regulation is associated with intervention unnecessary or ineffective constraints on freedom and the imposition of costs on those having to comply with stipulated requirements. Although it can be argued that sufficient incentives exist which could ensure that an economically efficient level of audit services will be demanded and supplied even in the absence of legal requirements, in practice auditing exists as a regulated activity. At least to some extent audits are carried out in response to, defined by and subject to monitoring and control through various forms of regulation. [Turley and Sherer, 1991].

Despite the comprehensive rules referred to above a number of practices persist which have a detrimental effect on the perceived independence of auditors.

Negotiation of the audit fee: S390A of the Companies Act 1985 states “The remuneration of auditors appointed by the company in general meeting shall be fixed by the company in general meeting or in such manner as the company in general meeting shall determine”. In practice companies pass a resolution at the AGM which empowers the directors to “fix the auditors’ remuneration”. Although there are obvious practical reasons for this it is hardly compatible with the goal of audit independence. However, in the case of listed companies this situation has been improved, post-Cadbury Report, by the involvement of Audit Committees (Cadbury Committee, 1992).

Provision of other services: These services vary considerably dependent upon the size of the client and the audit practice and can include: Accountancy - Assistance with the preparation of the company’s financial statements and accounting records of a listed or public interest company is prohibited by the Rules of Professional Conduct “save in an emergency”. Such assistance is rarely required by large companies but at the other end of the spectrum auditors will almost always prepare the accounts of small companies prior to performing an audit. The threat here is principally that of self-review and audit firms often guard against this by employing different staff to prepare the accounts and audit them (although this is not specifically required by the Rules of Professional Conduct) (Melvin, 1974 and Mess and Julie, 1996).

It can be argued that by preparing accounts an auditor obtains a more detailed understanding of the client’s business and this outweighs the potential threat to independence. It is feasible that the “auditor” could miss errors in accruals, etc. that he/she had calculated whilst preparing the accounts but in my view audit work can still be performed objectively and the results of an after date cash review, for example, would probably be considered before the bad debt provision was finalized. Taxation - This will normally involve preparation of the corporation tax computation and personal tax assessments/P11Ds of the directors. The former is not normally a problem area but assisting client directors with their personal tax affairs raises the threat of the auditor becoming too closely involved with the interests of the directors, especially if problems arise with the Inland Revenue. It could be argued that this threat is mitigated if different personnel are involved in performing the personal tax work. Consultancy - This can include a range of services such as assistance with raising finance, management consultancy, design/implementation of new accounting and computer-based systems, employee recruitment and training, etc. It has been suggested that the larger firms may tender for audits by quoting a low audit fee with a view to attracting the more lucrative
consultancy work that may also be required, so called ‘lowballing’. Although firms would never admit to this practice comparisons of the audit fees of similar size companies often reveal significant differences that surely cannot entirely be due to differences in audit approach or complexity of the client’s business. Expert services - This work comprises reports, opinions, valuations or statements which directly affect amounts and disclosures in the financial statements. An expert for this purpose possesses skill, knowledge and experience in a particular field other than auditing such as specialist valuations, litigation support and arbitration (Collier, 1997).

1.5 Gusii Mwalimu Sacco in Kisii - Kenya
Gusii Mwalimu Sacco is an established saving cooperative and credit society in Kisii town which is approximately four hundred kilometers due west of Nairobi. The firm was founded in 1988 as a cooperative society for provision of savings and credit services to teachers and other civil servants. It holds on objective of enhancing regular savings, wise borrowing and prompt payment to its shareholders.

The firm is divided into several departments, for instance, Accounts, registration, internal audit, administration and banking section. The audit department has three senior employees and five assistant audit staff. It consists of sub-sections of consultancy and audit review. It performs miscellaneous audits role in the organization. It also has a role of checking and detecting planned frauds and unintentional errors for their rectification in this firm. Its life time mission is performing timely and efficient audits in accordance with applicable audit standards and regulations in a manner appropriate for professional representation of the internal audit. It holds on the objective of provision of timely, easily understandable and quality audit reports. It also provides other information as needed to enable management and other stakeholders to perform their duties in an appropriate manner (Carroll, 1989).

However, the audit personnel do not have the necessary skill and competency as per the provision of international standards on auditing. An investigation done into the internal audit staff found that the audit staff members were not members of registration of accountants board (R.A.B), they did not have a practicing certificate and were not members of the regulatory body (I.C.P.A.K) which regulates the code of conduct in the Kenyan auditing profession (Gordon & Lawrence, 1978).

The incompetent personnel undertaking auditing profession has greatly challenged the company’s shareholders on the independence of auditing in this firm. The organization is at risk of scandals of fraud and errors which may easily find their way into the organization. The completeness, accuracy and reliability of the auditors report is a matter of concern to the shareholders, employees, management and other stake holders of this savings cooperative, hence this has put in question the public trust on auditors and the audit profession in general (Collier, 1997).

2.0 Statement of the Problem
Auditors are expected to exercise due professional care during the time of audit hence reliance of their reports by the public. However, most audit department personnel in savings and credit cooperatives do not have the necessary skill and competency to perform an efficient audit as per the provision of international audit standards. Hence, the researchers found a need to determine whether auditing practices are trustworthy and beneficial to credit cooperatives, shareholders, management, government, and other users of audited reports (Drucker, 2004).

The overall objective of the study is to evaluate the role played by auditors to curb corporate scandals pertaining to frauds and errors which in recent years, take long to be detected (running into several years). This will be done by looking at the awareness levels and challenges of frauds associated with audit practices and management among cooperative societies in Kisii – Kenya.

In view of this the following research questions arose, do investors have the understanding of audited financial statements? to what extent can auditing unearth frauds in corporate entities? do practicing public accountants always follow their ethical code of conduct? s there conformance between the auditing standards and the expectations of users of financial statements? do corporate heads carry any responsibilities on corporate failures?

The specific objectives of the study were;

i.) To charge whether the intention to make the investment decision based on the strength of the audit opinion of entity’s financial statements
ii.) To establish the level of awareness of frauds associated with audit practices and management in savings cooperative societies
iii.) To determine the challenges affecting the cooperate image as a result of ignoring the international auditing practices in savings cooperative societies.

It was hypothesized as follows:
Ho: Public trust on auditor has diminished due to high expectation on their audit performance
H1: Public trust on auditor still remains high
3.0 Research Strategy

The study focused on 2 areas i.e. savings and credit cooperatives and investors (both current and potential) A census is carried out on the savings and credit cooperatives within Kisii town while simple random technique is used on getting the investors sample. Sampling is a process of selecting a number of individuals or options from a population such that the selected group contains elements representative of the characteristics found in the entire group (Orodho & Kombo, 2002). It is a finite part of a statistical population whose properties are studied to gain information about the whole. Qualities of an effective population are diversity, representative, accessibility and knowledgeable of the topic being investigated (Webster, 1985). Simple random sampling method was used to obtain a sample of eighty four (84) respondents restricted to Kisii town.

Primary data was used. This was obtained through; questionnaires, interviews and correspondence information. Data so collected was analyzed using the following; likert scale for analysis of attributes and judgmental analysis. The model used in calculation is:

\[ X_w = \frac{\sum F_i X_i}{\sum F_i} \]

Where:
- \( X_w \) = Weighted Average
- \( X_i \) = Weight of
- \( F_i \) = Frequency

Data presentation was in form of texts, statistical tables and graphs.

4.0 Data Analysis, Findings and Discussions

Out of the ten questionnaires sent out to the auditor’s clients eight of them duly responded. The auditors responded successfully and duly filled the questionnaires.

4.1 Extent of Awareness About Auditing

The analysis showed that a greater number of investors were (85.7%) were aware of auditing practices while a small number of them (14.3%) were not aware of auditing practices in the cooperate world.

Extent of awareness of what auditing entails: A greater percentage (58%) have heard about auditing and understand what it entails except for (13%) who seem not to be quite conversant and (29%) who did respond to the question.

Findings of those intend to make the investment decision based on the strength of the audit opinion of that entity’s financial statements; seventy out of eighty four of our investor questionnaire respondents made or intend to make the investment decision in a particular company based on the strength of the audit opinion of that entity’s financial statements.

Table 1: Analysis of the Awareness of Frauds Associated With Audit Practices and Management

<table>
<thead>
<tr>
<th>Factors</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Undecided</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>( \Sigma f )</th>
<th>( \Sigma F_i )</th>
<th>( \Sigma F_i X_i )</th>
<th>( X_w )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit can reduce frauds</td>
<td>52</td>
<td>15</td>
<td>4</td>
<td>10</td>
<td>3</td>
<td>84</td>
<td>35</td>
<td>4.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Internal control system is relevant in controlling frauds</td>
<td>39</td>
<td>28</td>
<td>8</td>
<td>9</td>
<td>-</td>
<td>84</td>
<td>34</td>
<td>4.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Management has a duty to curb against frauds</td>
<td>46</td>
<td>17</td>
<td>8</td>
<td>9</td>
<td>4</td>
<td>84</td>
<td>34</td>
<td>4.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Auditors work in the best interest of investors</td>
<td>46</td>
<td>17</td>
<td>8</td>
<td>9</td>
<td>4</td>
<td>84</td>
<td>34</td>
<td>4.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Auditors are liable for frauds in companies</td>
<td>32</td>
<td>30</td>
<td>11</td>
<td>10</td>
<td>1</td>
<td>84</td>
<td>33</td>
<td>4.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Auditors scope matters in detecting frauds</td>
<td>31</td>
<td>17</td>
<td>18</td>
<td>9</td>
<td>9</td>
<td>84</td>
<td>30</td>
<td>3.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Auditing standards can control frauds</td>
<td>28</td>
<td>23</td>
<td>12</td>
<td>11</td>
<td>10</td>
<td>84</td>
<td>30</td>
<td>3.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Independency of auditors is essential in controlling frauds</td>
<td>27</td>
<td>15</td>
<td>18</td>
<td>14</td>
<td>10</td>
<td>84</td>
<td>28</td>
<td>3.4</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Source: Research Data (2009)

From the results in Table 1 above, it is evident that the investors agree that they have heard about frauds in the past and they associate them to the failure of auditors responsibility hence they should be able to detect such frauds in the course of their audit engagement.
All the auditor respondents agree that auditing can unearth fraud but to a limited extent depending on the degree of mandate of the audit assignment, materiality of the fraud committed, level of adequacy of the internal control system (ICS), integrity of the top management and the board of directors, the independence of the external auditor and efficiency and effectiveness of the audit tools employed for the audit assignment.

Most of our respondents (both investors and auditors) are of the opinion that the management team should be the one to take the blame when corporate entities go under due to fraudulent activities.

Auditors strive to meet the expectations of the shareholders and other interested third parties, but due to the ethics of confidentiality, they can only report the detection of fraudulent activities to third parties after seeking explanations in a management letter to the management.

4.2 Challenges Affecting The Cooperate Image

Table 21: Challenges affecting the cooperate image as a result of ignoring the international auditing practices in savings cooperative societies

<table>
<thead>
<tr>
<th>Factors</th>
<th>Strongly Agree (4)</th>
<th>Agree (3)</th>
<th>Undecided (2)</th>
<th>Strongly Disagree (1)</th>
<th>∑f</th>
<th>∑wf</th>
<th>∑wf/∑f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor audit reports</td>
<td>31</td>
<td>17</td>
<td>18</td>
<td>9</td>
<td>84</td>
<td>35</td>
<td>4.5</td>
</tr>
<tr>
<td>Weak accounting infrastructure</td>
<td>31</td>
<td>17</td>
<td>18</td>
<td>9</td>
<td>84</td>
<td>34</td>
<td>4.2</td>
</tr>
<tr>
<td>Reduced productivity</td>
<td>29</td>
<td>30</td>
<td>14</td>
<td>11</td>
<td>84</td>
<td>32</td>
<td>4.0</td>
</tr>
<tr>
<td>Increased fraud</td>
<td>32</td>
<td>30</td>
<td>11</td>
<td>10</td>
<td>84</td>
<td>33</td>
<td>4.0</td>
</tr>
<tr>
<td>Collapse of entities</td>
<td>52</td>
<td>15</td>
<td>4</td>
<td>10</td>
<td>84</td>
<td>30</td>
<td>3.6</td>
</tr>
<tr>
<td>Inadequate information systems</td>
<td>39</td>
<td>28</td>
<td>8</td>
<td>9</td>
<td>84</td>
<td>30</td>
<td>3.6</td>
</tr>
<tr>
<td>Lack of sufficient number of fully qualified auditors</td>
<td>46</td>
<td>17</td>
<td>8</td>
<td>9</td>
<td>84</td>
<td>28</td>
<td>3.4</td>
</tr>
</tbody>
</table>

Source: Research Data (2009)

To help you do a more effective job combining identified risks and providing that necessary link, SAS no. 99 offers this guidance. Remember the three elements of the fraud triangle; the risk of material misstatement due to fraud generally is greater when all three are present. As an auditor, use your intuition, judgment and experience to look for patterns in the identified fraud risks (Hampel Committee, 1998 and Auditing Practices Board, 1994). From the results in Table 2 above, According to the analysis above most of the respondents and interviewed persons agreed with the following factors to have an effect on corporate image as a result of ignoring auditing standards:

i. Poor audit reports
ii. Weak accounting infrastructure
iii. Reduced productivity
iv. Increased fraud
v. Collapse of entities
vi. Inadequate information systems
vii. Lack of sufficient number of fully qualified auditors

5.0 Summary, Conclusions and Recommendations

5.1 Conclusions

Based on the objectives and hypotheses of this study and data analysis presented in chapter four, the following were established:

i. Investors agree that they have heard about frauds in the past and they associate them to the failure of auditors responsibility hence they should be able to detect such frauds in the course of their audit engagement.

ii. All the auditor respondents agree that auditing can unearth fraud but to a limited extent depending on the degree of mandate of the audit assignment, materiality of the fraud committed, level of adequacy of the internal control system (ICS), integrity of the top management and the board of directors, the independence of the external auditor and efficiency and effectiveness of the audit tools employed for the audit assignment.

iii. Most of our respondents (both investors and auditors) are of the opinion that the management team should be the one to take the blame when corporate entities go under due to fraudulent activities.

iv. Auditors strive to meet the expectations of the shareholders and other interested third parties, but due to the ethics of confidentiality, they can only report the detection of fraudulent activities to third parties after seeking explanations in a management letter to the management.

5.2 Recommendations for Further Research

In the view of the above conclusions, this study makes the following two key recommendations: management should ensure competency of selected individuals before being recruited; and management should ensure adherence to international auditing
standards by audit staff in practice. There has been limited research attention to this area. This study suggests the following areas for further research: Is there conformance between the auditing standards and the expectations of the users of financial statements? Do practicing public accountants always follow their ethical code of conduct?

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