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Extended Abstract

The Concept of Materiality in Financial Statement Auditing and its Effect on Auditor' s Attention in Manager's Fraud Detecting Process

Dr. D. Foroghi
Isfahan University

M. Khaleghi,
Islamic Azad University, Mobarakeh Branch

A. Rasaiian
Mazandaran University

Introduction

The financial reporting system has always been confronted with crisis in attracting public trust. The increase in the number of managers' frauds which has often accompanied fracture of great companies with the world had caused some worries about quality of financial statement along. So, prevention or detection of fraud in financial statement has always been the focus of inventors, managers and auditors. Thus, because of its controlling trait (detecting & deterrent), using independent auditing services results in quality increase of financial statement creating enhanced value of accounting information. If the existence of some factors weakened auditing process, the effectiveness faces danger and this leads to a decrease of public trust, altering professional fame, spread of injustice and finally social damage.

This paper considers materiality in auditing which is based on difference in auditor's judgments as one of the effective factors of controlling trait independent auditing (detecting) and then identifies its effect on auditors' attention in managers' fraud detecting process.

Research Questions and Hypothesis

The main question of this paper is as follow:
Can materiality concept in auditing financial statements prevent of auditors attention to detect managers fraud?

Methods

Questionnaire and visual evidence devices were used for gathering information. Subjects for the experiment included 82 audit seniors and managers that are working in audit organization and 124 audit reports published by that organization through the years 1386 and 1387. In order to analyze data One-Sample T-Test, Hotelling T-Test, Paired Samples T-Test, Manova Test and One Sample Proportion Test were used.

Results

Results indicate that: Auditors consider higher risk of aggressive reporting for those quantitative samples that are more important and that they would pay more attention to the less important ones if they find out the manager's fraud. In other word, "the concept of materiality" in financial statement auditing prevents auditor's attention in manager's fraud detecting process.

Discussion and Conclusion

Survey of audit reports indicate that financial statement auditing process in Iran has lead to probable managers' fraud detecting at most in 6/3 percent of cases. This condition indicates that financial statement auditing process that is related to the manager's fraud detecting is not sufficiently effective.

Keywords: Auditing, Materiality, Fraud, Professional Judgment, Risk.