

Exploring expectation gap among independent auditors' points of view and university students about importance of fraud risk components

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Abstract

The purpose of this study is exploring expectation gap among university students and auditors points of view about importance of fraud risk components. To get this purpose, university students' ideas and auditors about importance of each mentioned fraud risk components in Iranian auditing standard No. 24 under the title of "the auditor's responsibilities relating to fraud in an audit of financial statements" is questioned. Data gathering tool in this study is questionnaire that its content and construct validity was confirmed. Test results have shown that auditors' points of view have significant difference in evaluating importance of fraud risk components with university students' opinions. The most important fraud risk components according to auditors and university students' points of view are "dependence of a main part of salaries and benefits of managers on operations results, financial statements, or cash flows" and "lack of supervision from management on important internal controls". Fraud components are classified into four groups according to their occurrence conditions: 1. management characteristics, 2. industry conditions, 3. operating characteristics including financial stability, and 4. misappropriation of asset. According to results obtained from test hypotheses, it was determined that the most important fraud risk components based on auditors' points of view is related to misappropriation of asset, but based on university students' point of view, fraud risk components related to management characteristics is more important than other three groups of fraud components.

Keywords

Auditors, Fraud, Fraud risk components, Iran, University students.

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Introduction

The main responsibility of auditors about firms' financial statements is attest function to these statements. Attest function means financial statements being without important falsification, (Petrascu, 2013). In addition, identification and discovering important falsifications, is another auditors' responsibility (Petrascu & Tieanu, 2014). Deliberates or in inadvertent falsifications are taken place for various reasons by administrations of economics agencies. The main reason of shaping these falsifications may originate from proper beds of fraud risks. Various fraud risk components are mentioned in auditing standard setting committee No. 24 (Auditing Standard Setting Committee, 2014). For highly numbers of these beds maybe no agreement about identification of their importance and finally their evaluations by experienced and immature auditors (who are recently graduated from universities and entered to this occupation) that can be dangerous for auditing occupation.

Sack (1992) claims that using incapable and inexperienced people in auditing activities are the main reason for auditing lack of success in accessing to purposes or in other words auditing failure. The importance of fraud risk components is originated from this points that auditors inattention to these components, can hurt auditing occupational reputation; in other words, if an auditor cannot identify fraud risk components, will be unable in discovering fraud and would be found guilty with a lot of probability.

According to Wallace (1995) ideas, fraud is a pre-determined plan for tricking others that can be done by presenting spurious documents. Committee of Sponsoring Organizations (COSO) of the Treadway Commission in a report under the title of "fraudulent financial reporting" claims that 72% of examined frauds were done by executive managers and 42% by financial managers (COSO, 1999). For this reason, prevention or discovering important frauds in financial statements have been always focused by investors, managers, and auditors. Therefore, familiarity and identification of auditors with fraud risks components, how to use fraud risk components, amount of fraud components usage in auditing, and even importance of any risks

components in fraud identification, are reasons cause many studies in international level.

According to mentioned issues, this question is proposed that is there any significant difference between viewpoints (perception) of experienced auditors and inexperienced ones who are recently graduated from university in evaluation of fraud components importance? Is this difference significant? In other words, can be this difference dangerous for auditing occupations or not?

To achieve an answer to this question in this study, it deserves to deal with the perceptual difference of auditors and those of university students regarding such as pointed out in the Iranian auditing standard from No. 24. In accordance with this standard, fraud risk components can be classified into two forms (Auditing Standard Setting Committee, 2014):

- A. fraud financial reporting: the risk components of distortions caused by any fraud financial reporting are classified into three categories:
 - (1) Management characteristics;
 - (2) Industry conditions; and
 - (3) Operating characteristics including financial stability.
- B. misappropriation of assets: the fraud risk components since concern such abuses can be classified into two categories:
 - (1) Susceptibility of assets to misappropriation; and
 - (2) Adequacy of controls.

Considering the different natures of such components concerning the categories as mentioned above, it is likely that the newness -to-work or experiences of individuals in auditing work (especially in setting the scale of importance that any category possesses) may be influential and give effects. For example there may not exist any significant conceptual disparity between what are expressed by both auditors and university students in setting the importance scales of components that belong to the category of "susceptibility of assets to misappropriation". Because the natures of fraud risk components belong to mentioned category are such that the importance scales of

them are clearly known to different individuals and they need not certainly have experience of auditing career.

On the other hand, newness-to-work or otherwise in this profession (in particular in setting the importance scales of fraud components as belong to the management characteristics group) can differently affect. Because the nature of fraud components that exist in the said category is such that the scales of which are unknown to different people and also the auditor needs not cope with the said components in their auditing process to feel able to set properly their significance. As there may be significant conceptual difference among auditors and university students to determine the level of importance of fraud risk components (concerning any one of the categories as mentioned above) this study deals with the significance of their conceptual difference that has anything to do with the setting of components importance as covered by any of mentioned categories.

The findings of this study, revealed that the experienced auditors and those of inexperienced (such as university students as representative of inexperienced auditors) conceive and understand these fraud risk components differently. The most important fraud risk components according to auditors and university students' points of view are "dependence of a main part of salaries and benefits of managers on operations results, financial statements, or cash flows" and "lack of supervision from management on important internal controls".

The remainder of this paper is organized as follows. In the second section, we provide literature review and background. In third Section we introduce the study research method. In the fourth section, we provide the results of this study, and section five, presents concluding remarks and recommendations.

Literature review and background

Until now, many researchers such as Albrecht and Romney (1986), Loebbecke and Willingham (1988), Loebbeck *et al.* (1989), Saksena (2001), Abdul Majid *et al.* (2001), Sheikh (2004), Vahidi-Ellysseai and hamedian (2010), and Gullkvist and Jokipii (2013) have been

made on fraud risk components. Nieschwietz *et al.* (2000) highlighted more than 30 studies that examined various aspects of management fraud, from identifying factors that predict fraud (e.g., Albrecht and Romney, 1986; Loebbecke *et al.*, 1989; Saksena, 2001) to investigating how well auditors assess fraud with or without a decision aid (e.g., Pincus, 1989; Hackenbrack, 1992; Ponemon, 1993; Hansen *et al.*, 1996; Zimbelman, 1997; Eining *et al.*, 1997).

Sheikh (2004) undertook to examine in the Iranian firms into the importance that exist in the potentially financial frauds indicators (indices) by using a factor analysis technique. This study was made to identify risk components from independent auditors and financial managers as well as prioritize them in proportion to each other. Loebbecke and Willingham (1988) provided a list of red signs of danger on the basis of which he published notes of New York negotiable papers exchange in order to improve its accounting and auditing. The type of study was archival and founded on an estimation model for the parts of which included opportunities, motivations, and tendencies. Each part also included a series of red sign flags. In their other study, Loebbecke *et al.* (1989) improved and developed estimation model of 1988. The results of their work indicated that when all three parts of opportunity, motivation and managerial tendency exist simultaneously in their model, the management fraud will most probably occur. But if and when there is not one single portion, this fraud will occur much less probably.

In a useful study, Pincus (1989) examined into red signs of danger and followed a practically empiric research method with a control list. This control list, as Pincus discovered, does not affect mainly on how to assess fraud risk and besides more is not any major difference between the ways in which the users assess them and those who do not use a list control. Zimbelman (1997) tested the probable effects of auditing standard No. 82 on how auditors understand the red signs of fraud and their application in auditing plans. The results of this test represented the fact that an auditing standard No. 82 provokes the auditors to accept additional responsibility for auditing operation by widening the ranges of tests.

In a study made by Moyes *et al.* (2006), the internal auditors were called to express their ways of understanding a red flag to detect a fraud report by taking into consideration the red standard signs No. 99. The results of this study revealed that the red signs concerning the tendencies and arguments in discovering frauds of financial report are more effective than those of opportunity. These opportunity red signs are also more efficient than those of pressures and motivations in discovering a fraud.

Vahidi-Ellysseai and Hamedian (2010) and Moyes (2007) began to examine into the different understandings of internal independent auditors. The results obtained by Vahidi-Ellysseai and Hamedian showed that there is not any main difference in their understandings. From their points of view, the most effective red flag is an insufficient supervision on important internal controls. However the results obtained by Moyes (2007) also revealed that the level in which the independent auditors understand red signs in discovering a fraud is higher than that in which the internal auditors do. Abdul Majid *et al.* (2001) in an analysis of Hong Kong auditors understand the red signs are estimating a risk. Abdul Majid *et al.* took into consideration a list of 15 of such signs for their study. The results of their study showed that all distortions that had been discovered during previous items of auditing are the most important risk factors. In a similar research study, Gramling and Mayers (2003) classified the understanding item of internal auditors into 43 red signs in three categories of motivation and pressure opportunity and tendency and arguments. The results of their research study showed that those red signs that matter the most include all signs depending on tendencies and arguments.

Riley (2008) began to investigate the connections as exist among a fraudulent audit and a fraud or fraud discovery operation. He stated that usually in the normal course of auditing any type of violation abuse of transaction and occupational frauds are discovered negligible. The most number of revealed frauds or frauds were discovered at the times the personnel took bribes from clients or based on complaints made against the personnel. Dennis (2009) has considered reasons that cause the auditors to become unable to

discover items of frauds. He concluded that calling to carry out or execute methods guidelines, policies in the auditing phases, lack of basic tests to do the controls, avoid to check the areas with high risk. In particular, if they are of less importance against an amount of money temporal budgeting (that is insufficient and unsuitable, insufficient training to learn about fraud indices red signs of danger by the auditors to know important internal controls) are also reasons why auditors are unable to discover an item of fraud.

Gullkvist and Jokipii (2013) began to examine the different perceives of internal auditors, external auditors, and economic crime investigators. The purpose of this study was to examine whether internal auditors, external auditors, and economic crime investigators perceive the importance of red flags as significantly different across two fraud types: fraudulent financial reporting and misappropriation of assets, as well as across within-subject categories. The findings indicated that significant differences exist on both single and aggregate mean levels among the participant groups. Internal auditors reported a higher perceived importance of the red flags related to detecting misappropriation of assets than of those related to fraudulent financial reporting, whereas the opposite was true for economic crime investigats. For external auditors, only small differences in aggregate means between misappropriation of assets and fraudulent financial reporting were found.

Chui and Pike (2013) in a study under the title of "Auditors' Responsibility for Fraud Detection: New Wine in Old Bottles?" refer to this issue that expectation to discover fraud by auditors without sufficient and proper training is vain expectations. In order to protect validity of auditing occupation, it is necessary to search for new methods to improve auditing quality.

In summary, it can be stated that studies about fraud risks components were just according to independent and internal auditors' points of view. In this research, we want to examine the differences in points of view of university students (all are inexperienced auditors) and independent auditors in evaluating importance of fraud risks components. This issue is important due to some of researchers (as

mentioned) believe using incapable and inexperienced people in auditing activities are the main reason for lack of success in reaching to auditing purposes and finally failure in it.

Research hypotheses

Here are hypotheses to answer the first question of research as concern the existence of a significant difference between how the auditor, and university students perceive the importance of any one of the fraud risk components that were noted in the standard No. 24 of Iran:

- H1:** There is a significant difference among conceptions of auditors and university students' points of view about the importance of fraud risks components (mentioned in Iranian auditing No.24) in discovering fraud.
- H2:** There is a significant difference among conceptions of auditors and university students' points of view about the importance of fraud risks components related to "management characteristics" (mentioned in Iranian auditing No. 24) in discovering fraud.
- H3:** There is a significant difference among conceptions of auditors and university students' points of view about the importance of fraud risks components related to "industry conditions" (mentioned in Iranian auditing No. 24) in discovering fraud.
- H4:** There is a significant difference among conceptions of auditors and university students' points of view about the importance of fraud risks components related to "operating characteristics including financial stability" (mentioned in Iranian auditing No. 24) in discovering fraud.
- H5:** There is a significant difference among conceptions of auditors and university students' points of view about the importance of fraud risks components related to "misappropriation of asset" (mentioned in Iranian auditing No. 24) in discovering fraud.

Research design

The research design consists of three important elements: subjects, construction of the survey instrument, and validity and reliability.

Subjects

The population of this study includes independent auditors and university students. The population of independent auditors consists of members of Iranian Association of Certified Public Accountants (IACPA) the number of which was 1745 people in 2011. To select a sample of IACPA random sampling method was used. The number of this sample was determined with Cochran formula 315 (Bartlett *et al.*, 2001).

Academic communities are the students who study in the last year of B.A. course of accounting in public universities. To select a sample, random clustered sampling method was used. As the mentioned students entered the university in 2007, it was fifteen public universities that have accepted totally 1345 students for the field of accounting at B.A. level (Ministry of Science, Research and Technology of Iran, 2007). The number of this sample was determined with Cochran formula 299. To delete the modifications, a variance caused by selected minimum and maximum of Likert scale. A number of 460 and 400 questionnaires was given out verbally. The 316 and 328 acceptable questionnaires were collected respectively. Summary information on respondents is presented in Table 1.

Table 1. Survey respondents

description	Auditors		University students	
	No.	Percentage	No.	Percentage
Distributed questionnaire	460	100	400	100
Total questionnaires that have been return	337	73	348	87
Phase one	152	33	170	42.5
Phase two	185	40	178	44.5
Acceptable questionnaires that have been returned	316	67	328	82
Non responding	123	27	52	13

Construction of the survey instrument

In this study, data gathering tool is written questionnaire with confirmed content and construct validity. In the first place, a preliminary or preparatory questionnaire was provided based on theoretical literature, previous researches, and fraud risk components as noted in the auditing standard of Iran No. 24. The questionnaires were distributed among a number of auditors (who work in auditing institutes), and accounting professors. They were asked to propose any advice for the raised questions. These pieces of advice or recommendations were included in the final questionnaire. This final questionnaire contained a cover letter and two sections. The cover letter indicated that identify of the respondents will be kept strictly confidential and only aggregated results will be published.

Section one dealt specially with general information or data in combination with respondents' sex, level of education, academic discipline, and years of experiences in auditing. Section two contained specialized question. This section also listed 61 fraud components most of which have been included in the auditing standard of Iran No. 24. The answers given by the respondents were graded and rated based on Likert's seven go-or-no go ranges such as very important, relatively important (rather important), important, half-way, less important, fairly less important, much less important. The fraud component No. 30 (Table 2) is a repetition of component No. 4 which is construed a really lies detector of this questionnaire.

As it was already mentioned in the section concerning community and statistical model, a number of 460 questionnaires were distributed among auditors and 400 of them among the members of university students. They were re-collected during two semesters (periods of time). Given the questions that were included in a lies detector, 316 acceptable questionnaires were received from auditors and 328 of them from members of university students.

Table 2. Ranking the fraud risk components

No.	Category	Fraud risk components	Auditors' perspectives				p-value variance	University students' perspective		
			variance	mean	rank	mean		rank	variance	
1	1	dependence of a main part of salaries and benefits of managers on operations results, financial statements, or cash flows	1.40	6.09	1	0.00	1.80	5.39	14	
2	1	Available restrictions such that an auditor's access to individuals and information is limited considerably	1.21	5.92	2	0.00	1.94	5.46	9	
3	1	Laying restrictions by the managers to the ranges of auditing, for example, preventing an auditor to persons and information	1.63	5.86	3	0.00	1.90	5.53	6	
4	4	Weak physical security of cash flows, securities, available material and goods or fixed assets.	1.60	5.80	4	0.08	1.85	5.56	5	
5	1	lack of supervision from management on important internal controls	1.54	5.74	5	0.81	1.72	5.76	1	
6	3	Abnormally capital transaction that was closed at later months of fiscal year	1.63	5.72	6	0.01	2.64	5.39	13	
7	1	The transactions that have not been recorded in accordance with a general or special authorization of managers	1.70	5.69	7	0.00	1.73	5.41	12	
8	1	Excessive powers of managers (abnormal powers)	1.25	5.69	8	0.54	1.92	5.63	3	
9	3	Transactions without sufficiently valid evidence	1.65	5.63	9	0.16	1.78	5.49	8	
10	1	Management failure in timely correcting or removing important known weakness in an internal control system	1.48	5.60	10	0.46	2.11	5.50	7	
11	1	Strong interest of management to maintain or step up the levels of profitability process or stock prices	1.92	5.55	11	0.00	2.13	4.92	37	
12	1	Individual or collective domination over management without any available controls such as supervision of the top level authorities over management	1.64	5.52	12	0.00	2.79	5.05	27	
13	3	Capital dealing with dependent people that have not been completed at normal process of operation in the unit under consideration	2.12	5.51	13	0.02	2.05	5.21	20	
14	3	Fall imperfect or abnormal records of accountancy	1.54	5.45	14	0.80	2.17	5.43	10	

Continue Table 2. Ranking the fraud risk components

No.	Category	Fraud risk components	Auditors' perspectives			p-value variance	University students' perspective		
			variance	mean	rank		mean	rank	variance
15	3	Various or abnormal controls without a known commercial aim	1.99	5.40	15	0.00	2.44	5.04	28
16	3	Lack of a suitable system for issuing permits and licenses and approving the transactions	1.41	5.39	16	0.09	1.62	5.58	4
17	1	Reluctance of management towards sincere and veracious reporting to the third parties who are concerned such as banks and finance department	1.73	5.38	17	0.85	1.99	5.43	11
18	4	Non-maintenance of sufficient records for susceptible assets against abuses	1.71	5.38	18	0.00	1.99	4.90	38
19	3	The danger of an impending bankruptcy, confiscation of property under mortgage or detection of property	1.91	5.35	19	0.00	2.49	4.98	33
20	1	Management tendency to use and employ procedures and unsuitable tools to minimize a tax liable profit or interest	1.74	5.34	20	0.89	2.26	5.32	17
21	1	Know the important subjects that were not already revealed by the management before	1.65	5.33	21	0.01	2.06	5.01	30
22	1	Employ repeatedly inefficient personnel in accounting, IT or internal auditing	1.51	5.32	22	0.79	2.21	5.35	16
23	4	Characteristics of fixed assets, though they are in small scales but have good marketing with needing no official documents or certificates to show ownership	2.01	5.31	23	0.00	2.13	4.45	53
24	4	Easily exchange assets such as expeditiously transacted securities, gold and jewels	1.96	5.28	24	0.00	2.77	4.40	56
25	4	Not providing timely the suitable documentation for dealings that must be closed	1.70	5.25	25	0.01	1.61	4.99	32
26	3	Capital transaction with related parties that are not audited or not audited by another auditor	1.99	5.23	26	0.52	1.84	5.31	18
27	3	Speedy growth or an abnormal profitability, especially in comparison with the competitors	1.90	5.21	27	0.00	2.69	4.64	46
28	1	Much repeated replacements of managers of different levels	1.90	5.20	28	0.13	2.82	5.02	29
29	1	Overreacting promises based on unrealistic predictions given by management or third parties	2.21	5.19	29	0.01	3.05	4.82	41

Continue Table 2. Ranking the fraud risk components

No.	Category	Fraud risk components	Auditors' perspectives				p-value variance	University students' perspective		
			variance	mean	rank	mean		rank	variance	
30	3	Main differences between real results and those which can be expected from analytical considerations	1.98	5.18	30	0.87	1.63	5.24	19	
31	3	Unsuitable separation of duties or lack of independent control	1.80	5.17	31	0.05	2.24	5.38	15	
32	3	Insufficient control over information or data processing such as the occurrence of many times of errors and delays in registering data in a computer system	2.13	5.12	32	0.83	2.15	5.13	24	
33	1	Create illogical time limits for completing audit or issuing an auditing report	2.21	5.12	33	0.00	1.91	4.79	42	
34	4	Not available methods to employ and select personnel who may not have access to susceptible assets to misappropriation	1.85	5.05	34	0.18	2.13	5.19	22	
35	1	Extended involvement of non-financial managers to employ accounting normative or determine accounting estimates	1.93	5.05	35	0.95	2.22	5.07	25	
36	1	Offering data reluctantly or by committing an unreasonable delay	1.58	5.04	36	0.33	1.73	4.94	35	
37	3	Management itself may have guaranteed the heavy debts of a firm in spite of weak financial position	1.91	4.98	37	0.77	2.52	5.01	31	
38	4	The features of available material and goods such as small size, higher value with good demand	2.46	4.93	38	0.00	2.52	4.28	58	
39	3	Big differences and oppositions that exist between total and known account	2.54	4.92	39	0.00	1.43	5.70	2	
40	1	Management's considerable heedlessness to legal authorities	1.63	4.86	40	0.01	1.98	5.20	21	
41	4	Keeping fixed or circulating cashes in considerable amount	2.27	4.83	41	0.45	2.63	4.76	44	
42	3	Available staples in some accounts that are difficult to audit them	2.24	4.82	42	0.10	2.21	5.05	26	
43	3	Outstanding accounts and received documents that are overdue for a long time	2.11	4.81	43	0.37	2.02	4.74	45	
44	1	Plenty of discords with the present or previous auditor on auditing, accounting or reporting	1.93	4.80	44	0.00	2.27	5.17	23	
45	3	Difficulty of finding an organization or an individual to run and control a unit under consideration	1.98	4.80	45	0.04	2.05	4.55	50	

Continue Table 2. Ranking the fraud risk components

No.	Category	Fraud risk components	Auditors' perspectives				p-value	University students' perspective		
			variance	mean	rank	variance		mean	rank	variance
46	3	Abnormal dependency on facilities received and negligible capability to feel forced to repayment of debts	2.40	4.79	46	0.40	2.00	4.83	39	
47	3	Negative consequence of capital transactions under closing (such as contracts that are concluded) because of weak financial performance	2.15	4.77	47	0.13	2.10	4.61	47	
48	1	Evidence that show excessive spillage and squandering by managers or personnel in their lives	2.70	4.76	48	0.15	2.69	4.92	36	
49	2	New obligations that may undermine financial stability or profitability of the unit under consideration	2.01	4.70	49	0.50	1.79	4.76	43	
50	3	Abnormally excessive susceptibility of the unit under consideration to changes	2.47	4.68	50	0.39	2.07	4.83	40	
51	3	Inability to provides cash flows resulted from operation, although there is a grown profit	1.99	4.62	51	0.01	2.02	4.95	34	
52	3	Extremely complicated organizational structure with legal entities that are abnormal and in large number	2.22	4.59	52	0.26	2.38	4.41	54	
53	3	Applying pressure to a firm taking into consideration its financial status for re-investment in order to survive in competition	2.22	4.53	53	0.81	2.20	4.56	48	
54	1	Unreasonable persistence in the employment accounting standards	3.38	4.53	54	0.00	3.55	4.06	60	
55	1	Unachievable and ambitious plans	2.00	4.51	55	0.00	3.25	4.10	59	
56	2	An industry that is on the decline in addition to increased commercial bankruptcies in that industry and a main decreased demand by customers	2.55	4.43	56	0.35	2.65	4.56	49	
57	3	Operation of side units as situated in areas un liable to tax with no economic justification as seem	2.32	4.40	57	0.53	1.91	4.53	51	
58	2	A speedy change in an industry such as high rate of susceptibility to speedy change in technology or speedy loss of fashion of a product	2.42	4.38	58	0.16	2.62	4.52	52	
59	2	Vigorous competition or a saturated market with a declining process of profits margins	2.45	4.34	59	0.85	2.24	4.40	55	
60	1	Determine financial objectives and ambitious expectations towards administrative personnel	1.70	4.33	60	0.90	2.01	4.38	57	
61	1	Unavailable obligatory leave for personnel in change of key controls	2.86	3.91	61	0.79	2.63	3.87	61	

Validity and Reliability

During courses of research supported by questionnaires, what are of special importance are the reliability and validity of a questionnaire. If a research tool such as a questionnaire lacks reliability, the results of research will be undermined and become undependable. The validity of a measuring tool is indeed a grade by which the same results should be repeated by re-measuring the same objectives. In other words, the reliability or dependability, handle the fact that if a questionnaire as a measuring instrument is used in fully equal situations (at entirely the same situations) and at short intervals of time, the obtained results shall be almost the same. This study has used Cronbach's alpha to test how the measuring results are stable. This Cronbach's alpha (that have been calculated to make a pilot study) are equal to 0.959, 0.942, and 0.915 respectively for questionnaires that have been received from auditors and university students. These coefficients reveal that the questionnaire have high reliability.

Validity is another special measuring tool to measure one more important subject which is discussed in a research method. In the present study, validity has been tested from content and structure points of view. As regards its content in the pilot study, the measuring tools are distributed among some experts and specialists and are applied primarily so that proposal would be offered if there are recommendations as regards questions that have been raised. These recommendations are received and included in a final questionnaire. As a result, it seems that measuring tools of this study enjoys a contextual validity. In this study, in an attempt to have construct validity, a basic questionnaire was distributed to seek advice of a limited number of experts. They were asked to assess the concepts and structures that have nothing to do with this research. The analysis of results obtained indicated that there were no disassociations in concepts and research structures. Accordingly, one can conclude here that the structural validity of a questionnaire has been, to a large extent, achieved.

This study utilized a second mailing survey to minimize non-

response bias and statistically listed for the non-response bias by comparing early respondents with second respondents (EL-Badry, 1956). T-Test was computed to determine the differences between the two respondent groups. There were no significant differences (<0.05) between them. The use of a second mailing survey and the 67 and 82 percent response rates suggested no significant non-response bias.

Survey findings

In discussing the survey results, we focus on two areas: results of research hypotheses test, and the most important fraud risk components.

Results of research hypotheses test

Hypothesis 1 investigates the difference between the ways in which the auditors and university students may conceive the importance of any one of the fraud risk components (as noted in auditing standard of Iran no. 24). To test this hypothesis, first the importance of any of such components was assessed based on seven point Likert scale from the auditors and university students' points of view. Then, all of them were ranked or rated top to bottom from the highest mean to its minimum. Afterwards, the research hypothesis was tested by using T-Test.

The results obtained from the test of first hypothesis were included in table 2. As "categories" column of table 2 shows, some 61 fraud risk components were categorized in 4 groups with number 1-4. These four categories consist of (1) management characteristics, (2) industry conditions, (3) operating characteristics including financial stability and (3) misappropriation of assets. These fraud risk components were well arranged and put in order from the most important down to the least important of them. For example, a fraud component titled as "a major part of salaries and fringe financial position or cash flows" have the top pest mean (6.09); that is to say the first rank from the auditors' points of view and represents the fact that this component enjoys higher importance than other components from the auditors' point of view. The mentioned fraud risk component has the rank 14 from university students' point of view in which its mean is equal to 5.39.

Considering the obtained error coefficient for this component is less than 5%, one can claim that there is a significant difference between opinion of auditors and university students on the importance of this fraud component. Meanwhile, given the figure 1 that is included in "categories" column for this component, it is understood that the category "management characteristics" can be also included there.

In general, one can claim that the research hypothesis for fraud components 1, 2, 3, 6, 7, 11, 12, 13, 15, 18, 19, 21, 23, 24, 25, 27, 29, 31, 33, 38, 39, 40, 44, 45, 51, 54 and 55 is approved and it can be said that there is a significant difference between what the auditors and university students conceive of the importance that any one of the fraud risk components has. In other words, in connection with the mentioned components, the auditors and university students differ considerably in their perception when they tend to appraise the importance of fraud risk components, Because of this difference in their perception, the importance of this component can be meaningful. Because there is a significant difference between these perceptions on fraud risk components, there is a probability that a number of important frauds would not be detected in the process of auditing operation. It is because a large number of fraud risk components are considered less important from the academic points of view but very important from auditors' ones. Because a part of auditing work is done by inexperienced or new-to-work auditors in this process, they may face or square up to such fraud components but pass by them easily such that the result may show very important frauds that still leave to be discovered. This thing may deliver a blow to the auditor himself in a short-term period of time and undermines the validity of this career in the public opinions in the long-term period.

To discover frauds, Hypothesis 2 has investigated the difference between what the auditors and university students conceive of the importance of fraud risk components that concern the "management characteristics" (as noted in the auditing standard of Iran no. 24). See table 3 to find the results from this hypothesis test. As Table 3 shows, 25 cases out of 61 fraud components the importance of which were found by the auditors and university students, are included in the

category "management characteristics". The mean responses that were given by the auditors and university students to determine the importance of these 25 fraud components are 5.21 and 5.04 respectively. As the T-statistical is 3.03 and the error level is less than 1%, one can say that there is a significant difference at the reliable level of more than 99% between what the auditors conceive and what the university students think of the importance of fraud risk components in order to discover a fraud case. "Management characteristics" have anything to do with the capability, bottlenecks, procedures and modus operandi and management attitude towards internal control system and financial reporting process. It appears that the university students differs from the auditors in understanding the scale of importance that fraud components have for these conditions because it was alien to such cases with no knowledge of it. This deficiency can be removed by conducting necessary trainings.

Table 3. The results of hypotheses 2, 3, 4 and 5

Category	No. of components fraud committed in each category	Sample of research	Mean responses	Standard deviation	t-statistic	Degree of freedom	Sign	H1
Management characteristics	52	Auditors	5.21	0.53	3.03	24	0.005	Approved
		University students	5.04	0.49				
Industry conditions	4	Auditors	4.46	0.16	4.48	3	0.020	Approved
		University students	4.56	0.14				
Operating characteristics including financial stability	24	Auditors	5.04	0.36	0.34	23	0.731	Disapproved
		University students	5.02	0.36				
Misappropriation of assets	8	Auditors	5.22	0.30	3.15	7	0.016	Approved
		University students	4.81	0.43				

Hypothesis 3 investigates that the difference between what the auditors and university students understand from the importance of fraud risk components, concerning the industry conditions to discover a fraud case. See table 3 for the results of test that has been conducted

in this hypothesis. As table 3 shows, the mean responses given by the auditors and university students for the importance of fraud components as concern this category are 4.46 and 4.56 respectively. The T-statistic is 4.48 and error level less than 5%. As a result one can claim that this hypothesis is approved at a reliable level more than 95%. Fraud risk components as concern "industry conditions" are related to an academic and legal environmental where an economic unit functions. As the auditors function in economics environments, they are sufficiently familiar with the fraud components of such environments, but university students are unfamiliar with them and must receive necessary training in accounting and auditing career upon entry into them.

Hypothesis 4 investigates the difference between what both the auditors and university students conceive the importance of fraud risk components concerning the operating characteristics including financial stability (as noted in the auditing standard of Iran no.24) in order to detect frauds. Fraud risk components as concern "operating characteristics including financial stability" are related to nature, complexity of a unit under consideration and transaction, financial conditions, and profitability of a unit under consideration. The results that have been taken from the tested hypothesis 4 are included in Table 3. As this table shows, the mean responses given by both the auditors and university students to ascertain the importance of fraud components (as having anything to run with this category) are 5.4 and 5.2 respectively. The T-statistic is 34% and the error level is 73%. As a result, this hypothesis is rejected reliably at 95% and it can be said that there is no significant difference between what either the auditors or university students conceive about the importance of fraud risk components (as concern operating characteristics including financial stability) to discover a fraud. In fact, the risk components related to this category are components, the importance levels of which are completely pronounced and verified by different persons (either the auditors or the university students). There is no need for them that they certainly experience these risk components objectively because their importance can be comprehended equally by both groups due to

the clear and unequivocal level of their risks and there is no significant difference between the auditors and university students. For example, capital transactions with dependent people, the danger of an impending bankruptcy and closing deals with no sufficiently valid evidence are cases that enjoy an equal importance to groups and they understand them equally.

Hypothesis 5 also investigates the difference between what the auditors and university students understand the importance of fraud risk components (related to the concept of "misappropriation of assets" as noted in the auditing standard of Iran no. 24) to discover an item of fraud. The results taken from this hypothesis test are included in Table 3. As this table shows, the mean number of responses given by both the auditors and university students concerning the importance of fraud components (related to misappropriation of assets) are 5.22 and 4.81 respectively. Also the t-statistic is 3.15 and error level is less than 5%. As a result, at a related level, more than 95% of this hypothesis is confirmed. The fraud risk components of this category are related to the nature of assets that the unit under consideration has and how much they can be stolen. The auditors rather than university students, consider these risk components. They also consider even the fraud risk components of this category more important. Because they have sufficient experiences on auditing but university students perceives more differently than auditors for their inefficiencies in auditing institutes and organizations and for their ignorance about the level of risks that fraud components have.

The most important fraud risk components

As it was already mentioned, the 61 components of this kind in accordance with what we said in hypotheses stand in 4 categories the main of which are (1) management characteristics; (2) industry conditions; (3) operating characteristics including financial stability; and (4) misappropriation of assets. One can divide the risk components of any one of these four categories into three sub-branches on behalf of their performances based on a mean and a standard deviation (SD): a) $\mu - SD < x < \mu + SD$; b) $x < \mu - SD$; and c) $x >$

$\mu + SD$. According to this rule, the fraud risk components are classified into three categories: (1) the most effective; (2) effective; and (3) least effective. The results of this categorization have been included in Table 4.

Table 4. Classifying fraud risk components (mean and standard deviation)

Significance level	Management characteristics (25 cases)		Industry conditions (4 cases)		Operating characteristics including financial stability (24 cases)		Misappropriation of assets (8 cases)	
	Auditors	University students	Auditors	University students	Auditors	University students	Auditors	University students
The most effective	4	3	1	1	5	6	1	1
Effective	17	18	3	2	15	12	6	6
Least effective	4	4	-	1	4	6	1	1
Mean	5.21	5.04	4.46	4.56	5.04	5.02	5.22	4.81

In accordance with Table 4, the most important fraud risk components from the auditors' and university students' points of view related the category "misappropriation of assets" because the auditors of this category who stand in the risk components have earmarked (allotted) the highest mean which is 5.22. Fraud risk components as concern the categories "management characteristics" with a mean 5.21; "operating characteristics including financial stability" with a mean 5.04 are more important than the other three categories. Fraud components relating to categories "operating characteristics including financial stability" with a mean 5.02; "misappropriation of assets" with a mean 4.81; and "industry conditions" with a mean 4.56 come next.

Table 5 shows the most effective fraud risk components belonging to all four categories. For example, the fraud components (as concern the fact that a major part of managers' salaries and fringe benefits largely depend on operation results), financial statements or cash flows may stand in the category of "management characteristics" such that it has been introduced by auditors as one of the most effective fraud risk components, but it is otherwise from the university students' point of view.

Table 5. The most effective fraud risk components

The most effective fraud risk components as concern management characteristics	Auditors' mean responses	University students' mean responses
Dependence of a major part of managers' salaries and benefits on the outcrops of operations, financial statements or cash flows	6.09	-
Available restrictions such that an auditor's access to individuals and information is limited considerably	5.92	-
Laying restrictions by the managers to the ranges of auditing, for example, preventing an auditor to persons and information	5.86	5.53
lack of supervision from management on important internal controls	5.74	5.76
Excessive powers of managers (abnormal powers)	-	5.36
The most effective fraud risk components as concern industry conditions	Auditors' mean responses	University students' mean responses
New obligations that may undermine financial stability or profitability of the unit under consideration	4.70	4.76
The most effective fraud risk components as concern the operating characteristics including financial stability	Auditors' mean responses	University students' mean responses
Abnormally capital transaction that was closed at later months of fiscal year	5.72	5.39
Transactions without sufficiently valid evidence	5.63	5.49
Capital dealing with dependent people that have not been completed at normal process of operation in the unit under consideration	5.51	-
Fall imperfect or abnormal records of accountancy	5.45	5.43
Various or abnormal controls without a known commercial aim	5.40	-
Big differences and oppositions that exist between total and known account	-	5.70
Lack of a suitable system for issuing permits and licenses and approving the transactions	-	5.58
Unsuitable separation of duties or lack of independent control	-	5.38
The most effective fraud risk components as concern misappropriation of assets	Auditors' mean responses	University students' mean responses
Weak physical security of cash flows, securities, available material and goods or fixed assets.	5.80	5.56

Conclusion and Recommendations

The purpose of this study is exploring expectation gap among university students and auditors points of view about importance of fraud risk components. To get this purpose, university students' ideas

and auditors about importance of each mentioned fraud risk components in Iranian auditing standard No. 24 under the title of "the auditor's responsibilities relating to fraud in an audit of financial statements" is questioned. Test results have shown that auditors' points of view have significant difference in evaluating importance of fraud risk components with university students' opinions. The most important fraud risk components according to auditors and university students' points of view are "dependence of a main part of salaries and benefits of managers on operations results, financial statements, or cash flows" and "lack of supervision from management on important internal controls".

Fraud components that may occur under some special conditions are classified into four categories in auditing standard of Iran no. 24: (1) management characteristics; (2) industry conditions; (3) operating characteristics including financial stability; and (4) misappropriation of assets. Given the results of tests that were done on hypotheses, it was found that there is a significant difference between what the auditors and university students differently understand them (in their attempt to set the importance of fraud risk components as concern the categories such as those of "management characteristics"); "industry conditions"; and "misappropriation of assets". But from the university students' point of view, the fraud components related to "management characteristics" are more important than the fraud components of three other categories.

According to the study results, generally, it can be claimed that to employ universities graduated students in auditing institutions, the possibility of making alignment between inexperienced auditors and independent auditors point of view is provided by necessary trainings by independent auditors to decrease the probability of denying access to auditing goals at the time of inexperienced auditors utilization in auditing occupation.

Since in this paper all fraud risk components have been ranked top-to-bottom (as the most important on top and the least important on to the down), it is recommended that the internal and independent auditors exercise sufficient care in carrying out auditing functions. On

the other hand, as the main or basic responsibility of preventing and detecting items of frauds and errors is to be borne by the unit manager under consideration, the results of present study can also be suitable and profitable for managers. Because management familiarity or acquaintance with fraud risk components as noted in this study can help the management creates a good atmosphere and exercise a strong control. He can also identify the fraud components committed by the middle managers and those who are at fewer levels and remove them. Furthermore, the ministry of education is also recommended to set up training good workshops under the title of practical units for students in accounting discipline to diminish perceptual gaps of both auditors and university students. It is, in the meantime, recommended that in the would-be studies, advanced models of fraud components application would be provided to discover frauds by using prepared checklists for discovering frauds and by applying regression methods, nervous network and phase logic.

The present study, the same as other surveys, has faced a series of limitations. These limitations are mainly related to factors that affect somehow the results generalizations. A questionnaire relies on the respondents' memory and only their own reports can be examined into while what a respondent does in practice may differ from cases that he notes. A large number of questions in the questionnaire of this study may also produce a fatigue in the respondents and as a result they may lower the rates of attention that the auditors use while responding.

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