

Factors Affecting Auditor's Ability in Detecting Frauds: With Special Reference to Big Four Audit Firms in Sri Lanka

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Abstract

The surge in fraud incidents globally has triggered substantial financial losses for organizations, accounting for a yearly depletion of 5% in their revenue. Auditors bear the crucial responsibility of detecting and mitigating fraudulent activities during audits. In Sri Lanka, fluctuations in fraud occurrences persist annually, prompting a focused investigation into the factors influencing auditors' efficacy in fraud detection. This study aims to scrutinize the impact of key elements—namely, auditor independence, competence, professional skepticism, experience, and industry expertise—on auditors' ability to uncover fraud, specifically targeting auditors within the prominent Big Four audit firms, an aspect overlooked in prior research. The methodology encompassed a four-step process, involving the selection of a stratified sample comprising senior audit staff from the Big Four audit companies in Sri Lanka. Employing a deductive approach, primary data were collected through structured questionnaires, with 60 respondents participating in the survey. The conceptual framework identified the aforementioned independent variables, evaluated using a Likert scale ranging from 1 to 5 to measure their impact. Data analysis was conducted using a regression model in the SPSS package. The results derived from this analysis indicated that among the five identified independent variables, three demonstrated a positive correlation with the dependent variable—auditor's fraud detection ability. Notably, auditor independence, competence, professional skepticism, and experience exhibited a favorable influence on the auditors' capability to detect fraud. However, industry expertise emerged with a contrary outcome, revealing a negative impact on auditors' fraud detection abilities. Conclusively, this study affirms that auditor independence, professional skepticism, competence, and experience positively contribute to auditors' aptitude in detecting fraudulent activities. In contrast, the possession of industry expertise appeared to impede the auditors' efficacy in identifying fraud. These findings shed light on critical factors influencing auditors' performance in uncovering fraud and highlight the nuanced interplay between various competencies and their impact on fraud detection within the auditing domain.

Keywords: Fraud Detection, Professional Skepticism, Audit Experience, Industry Expertise, Auditor's Independence, Auditors' Competence.