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# The Limitations of Risk-based Auditing using Fuzzy Methods

Shaban Mohammadi\*

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## Abstract

**Purpose** – Investors, creditors, governments, and others make decisions using reasonable information provided by others. In many cases, the users of this information have goals and objectives conflicting with those of the information's producers, indicating the need for external auditors.

**Research design, data, and methodology** – Competition in auditing has noticeably intensified globally, especially in developed countries. This means that auditors are striving to increase the efficiency of their methods. In recent years, risk-based auditing has become prominent among these efforts. In risk-assessment auditing, the auditor may directly affect the effectiveness and efficiency of the audit.

**Results** – As a central framework, the risk assessment process improves audit quality and effectiveness such that the audit will lead to necessary changes. Previous studies have shown that risk assessment affects the nature, timing, and content of audit procedures.

**Conclusions** – In the planning stage of an audit, audit risk assessment may identify any inappropriate or inefficient distribution of resources or determine whether the results of an audit will be ineffective or incorrect. Thus, assessing audit risk is a critical task.

**Keywords:** Risk-based Auditing, Fuzzy Methods, Limitations, Audit Risk.

**JEL Classifications:** D30, E40, E50.

## 1. Introduction

Information, financial statements, while useful for users who have the necessary qualitative characteristics. qualitative characteristics of financial information, the reliability of it. when the financial effects of transactions and other financial information financial events so objectively measured and the results of this measurement isreliable and verifiable. Users of financial statements and financial information reflected in the financial state-

ments when they can rely on someone independent, competent and impartial with respect to the validity of this information is presented professionally. In the current economic and social systems, the task of the independent auditor's opinion regarding the financial statements have been granted. this involves taking greater responsibility for providing reliable service to the community and should be done in the field of professional principles. the principles of the auditing profession that its main purpose is accredited, called the audit guidelines. auditors to three decades ago were trying to do an extensive content analysis (Sanders and other audit procedures) to reduce audit risk, but the increasing volume of companies and their operations, the auditors will be faced with a problem. and elements of the audit risk (inherent risk, control risk and the risk of undetected) from the estimate and determine. auditors to determine the risk of not being able to discover the nature, timing and extent of substantive procedures required to provide adequate coverage against the risk of audit, determine. The use of risk-based audit, increase the efficiency and effectiveness of the audit because of determining the nature, timing and extent of substantive procedures reasonable manner and with full accountability capabilities, the case was an appropriate amount of time spent on the surface, resulting in logical vary. the overall audit plan and the reliance on internal control system, and in the absence of substantive procedures to limit reliance on the internal control system, and conducted tests to predict the content of the broader. the risk-based audit, the auditor after acquiring basic knowledge of accounting and internal control systems (registration systems using written descriptions, internal controls and the other or a combination of questionnaires and tests of knowledge of the system), and internal control risks estimates. The initial assessment of inherent and control risks, the auditor relies on appropriate diagnosis of the internal control system, helps. if appropriate based on the system of internal control, the auditor to test the controls, which would rely on them. after running the business results, the auditor may be an initial estimate of inherent and control risks, and final adjustment. Risk-based audit can be understood as a process of identifying and reporting on financial statements is significant risk of distortions. Hence, the auditor needs to first identify areas that have a high risk of significant distortions, the risks are the areas that require further procedures will be used. Second, the auditor should determine how much and how their methods to reduce low-risk areas. It is also important to identify the risk of distortions to the analysis,

\* Accounting, Hakim Nezami University of Quchan, Quchan, Iran. E-mail: shaban1362@gmail.com

the following: a business unit of risk (the risk that events impacting adversely on the realization of the objectives of the company), (B) how to manage these risks, and (C) determine the range of risks that management does not care about them. Risk-based audit in recent years has led the fight against corruption. Center of gravity of the risk-based audit, risk assessment is correct and principled. Therefore, identifying the factors that make use of risk-based audit connecting the intertwining strands of audit projects will be necessary.

## 2. Research conducted

Research conducted also, the Court limited part of its resources to the reporting Subtract Funds. (Sidani, 2005) in a paper to review the audit expectation gap and provide the auditors with respect to the use of professional judgment in their comments, expectations, with each other differently. Karslv and more (Carcello & Terry, 2006) to examine the structure and its effect on the audit committee dealt with the audit report. The findings of this study suggest that this type of audit report did not, however, affect the composition of the audit process. tabari Alavi (2010), the research focused on the role of the audit committee. the results show that the creation and use of audit committees in the prevention of illegal acts, the financial reporting process as well as provide information and financial reports based on transparent and appropriate, is effective. Patterson and colleagues (Paterson et al., 2001) to examine the role of financial statements focused on the audit report. The results show that fraud and manipulation imposed by the management of the financial statements, has a direct effect on the audit report. the results show that the model based on operational risk audit achieves the specified confidence level and standards-based budget in the audit process. the application of this model to improve some measures of performance and economy. But the difference between the two groups of indicators of operational audit of the project, the need for more of the operational audit projects. Waller (Waller, 1993) the auditor's assessment of in-

herent risk and control are studied.

### 2.1. Community and Sample

The sample the population of this study consisted of 1087 persons are members of the Iranian association of certified Public accountants and by relying on sampling cochran, 64 were selected as the number of questionnaires sent to 55 people responded.

### 2.2. The proposed framework

this article this paper, taking into account barriers to risk-based audit of the general classification King and Burgess, a new framework has been developed. In continuation of this framework will be used to prioritize risk-based audit barriers. Statistical methods Prioritization of barriers, it is not complicated, and with uncertainty. since the auditor's assessment of barriers in the form of some simple and useful words as they typically lack the kind of ambiguity and uncertainty in this assessment there. the analytical hierarchy Process 1, lack of certainty associated with human judgment and decision-making role in the selection does not play, but combined with the theory of fuzzy AHP method is able to compensate for the shortcomings latter method. Mentioned questionnaire distributed among the independent auditors, and finally to check compatibility rate experts answer questions, answers, independent auditors to audit the implementation of risk-based prioritization of barriers based on the model presented in the paper and (Tueysuz & Kahraman, 2006) and is used in this research.

## 3. Test research hypotheses

The following table shows the level of weight, the weight of the second and final weight of each factor shows:

<Table 1> Risk-based audit priorities, limiting performance

|   |                            |  |
|---|----------------------------|--|
| <b>Factor 1:</b> Lack of knowledge  | Learning resources         | Limiting the implementation of risk-based audit priorities |
| <b>Factor 2:</b> Weakness in the lack of educational resources  | Learning resources         | Limiting the implementation of risk-based audit priorities |
| <b>Factor 3:</b> do not cover the risk of small companies: Weakness lack of educational resources in order to implement | Learning resources         | Limiting the implementation of risk-based audit priorities |
| <b>Factor 4:</b> Lack of coordination between funding risk-based audit AUDITING REVIEW                                  | Proper planning            | Limiting the implementation of risk-based audit priorities |
| <b>Factor 5:</b> Lack of experience and knowledge in risk-based planning  | Proper planning            | Limiting the implementation of risk-based audit priorities |
| <b>Factor 6:</b> Lack of adequate supervision over the implementation of risk-based audit by the Quality Control        | Monitoring quality control | Limiting the implementation of risk-based audit priorities |
| <b>Factor 7:</b> Lack of enforcement Guidelines   | Monitoring quality control | Limiting the implementation of risk-based audit priorities |
| <b>Factor 8:</b> do not cover the risk of small companies   | Small Businesses           | Limiting the implementation of risk-based audit priorities |

**<Table 2>** Level of Weightfor Factor

| The name of the first level. | Weights of the first level. | The number of second level | The weights of the second level. | The final weighting factors. |
|------------------------------|-----------------------------|----------------------------|----------------------------------|------------------------------|
| Educational resources        | 0.2654                      | 1                          | 0.2352                           | 0.06242                      |
| Educational resources.       | 0.2654                      | 2                          | 0.1458                           | 0.03941                      |
| Educational resources        | 0.2654                      | 3                          | 0.2318                           | 0.06151                      |
| Proper planning.             | 0.3458                      | 4                          | 0.2957                           | 0.10225                      |
| Proper planning              | 0.3458                      | 5                          | 0.2894                           | 0.10007                      |
| Monitoring quality control.  | 0.1865                      | 6                          | 0.1745                           | 0.03254                      |
| Monitoring quality control.  | 0.1856                      | 7                          | 0.1202                           | 0.02241                      |
| Monitoring quality control.  | 0.1409                      | 8                          | 0.1326                           | 0.01868                      |

#### 4. Conclusion

The purpose of the audit is planned such that effective audit work to be done. The primary objective was to determine the risk of undetected risk-based audit process, assist in the implementation of the audit is properly planned schedule. Obviously, the greater the risk of undetected preliminary estimate, the auditor requires less evidence of test content. But whether an inverse relationship between risk and extent of audit evidence is not found or not follow a linear pattern, requires the auditor's judgment, and more investigators to determine the appropriate. However, we can implement a risk-based audit of the audited periods, the feedback is used to improve the program. Based on a risk-based audit priorities barriers, among them 8 experts have assessed the risk-based audit barriers, 2 cases were in proper planning of the main obstacles to the implementation of risk-based audit were. These two items were: • Lack of coordination between the normal budgeting and audit risk-based auditing, and •lack of experience and knowledge in risk-based planning. This suggests that the first step in planning the implementation of risk-based audit is not performed correctly, it is of great benefit to risk-based audit work. lack of adequate training of other barriers to the use of a risk-based audit. The publication of such ambiguity, such as how to identify key items, other items, the assignment of the account balance, the number of samples in the interim accounts and accounts with relatively high detail (such as accounts receivable and payable) and similar items. Also, the risk-based audit of 150 magazine has put on public view, while in the process of conducting audits and audited according to a variety of companies, this view cant be inclusive. For example, in the case of contractors, the risk of material misstatement (inherent risk and internal controls) is different from other industries and the risk assessment model should be adjusted according to the contracting industry. lack of adequate monitoring and content on implementing risk-based audit of the quality control system and the lack of enforcement, other obstacles to the implementation of risk-based audit of the competent organs of the country's leading auditing measures to adapt. the results of this study clearly deducible that most barriers to implementation of risk-based audit are in the early stages. this indicates that the lifetime risk-based audit did not come about in the complete and correct and complete im-

plementation and training it needs more time. on the other hand, the least important factor that affects the implementation of risk-based audit firms are small and this shows that the resolution of the other cases, the case itself will be destroyed.

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