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BRIDGING AUDIT EXPECTATION GAP WITH THE INTEGRATION OF FORENSIC ACCOUNTING: A REVIEW.

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ABSTRACT

This paper examined audit expectation gap in the context of how forensic accounting can be integrated into financial statement audit to bridge this gap. The qualitative paper relied essentially on extant literature on expectation gap, traditional audit and forensic accounting to deduce why, and where in financial statement audit that forensic accounting can be integrated to facilitate more the detection of fraud and reasonably satisfy the expectations of users of audited financial statements. This paper identified auditors' failure to detect fraud as a major factor accentuating audit expectation gap. The paper demonstrate that the integration of auditors and forensic accountant's duties could result in a synergy that would produce desirable outcomes in terms of improved auditor's fraud detection capability which can reasonably bridge the expectation gap between end users of audited financial statements and the auditors. The paper concludes that the increasing burden of responsibility on Auditors by users of audited financial statement to detect material misstatement in the financial statement could be mitigated with the integration of forensic accounting in audit practice.

Keywords: *Expectations gap; Traditional audit; Forensic accounting; Fraud detection*

1.0 Introduction

A major challenge of the corporate world in recent times is the spate of corporate distresses and failures fueled by pervasive and seeming intractable financial fraud, which like a hurricane, left in its trail, far reaching devastating effects on the economic development of the people and countries where they occurred. The auditors of the 21st century are confronted with the increasing burden of fraud detection and disclosure responsibilities. Incidences of audit failures have led to the increasing recognition by regulators and standard setters of the necessity for auditors to step up their efforts at detecting material errors, and irregularities, which constitute part of financial statement fraud (IFAC, 2008; ICAN2006). The new age of digital technology has worsened the complexity of 'hard- to- detect' cyber and other forms of computer aided frauds putting demands for new audit approaches that are necessary for bridging audit expectation gap.

The accounting scandals and collapses of global corporate giants like Enron, WorldCom, Madoff, JMB bank, Bank of Credit and Commerce, BCCI, Baring Brothers, and the incidences of audit failures in Nigeria as witnessed in Cadbury, (Nig.) Plc.; Afribank Plc., Lever brothers (Nigeria) Plc, and the case of nine Nigerian banks that failed the Central Bank of Nigeria's going-concern stress tests, have caused crisis of confidence, not only in audited financial statement but also on the auditors.(Okoro & Okafor, 2013; Bhasin, 2016). Implicated in theses scandals are the auditors that favourably reported on the fraud-laden financial statements. Fraudulent financial reporting does have significant negative consequences on the audited entity as well as the shareholders and stakeholders that includes investors and the development of the capital market (Osaze, 2011; Otunsanya, & Lauwo (2010); Umoren&Asogwa, 2017).

While studies abound on audit expectation gaps and the need to fill such gaps, very few studies consider how and where forensic accounting can be integrated to bridge the identified audit expectation gaps. The few known studies that includes: AICPA, 2004; Zikmund, 2008; DiGabrielle, 2011; Chui & Pike,2013; Imoniana, Antunes, & Formigoni, 2013; Zhang, 2015; Bhasin, 2016; Bhasin, 2017) on the use of forensic accounting for bridging audit expectation gap are US, Asia and Latino centric. The few studies in Nigeria that includes Okoro & Okafor, 2011; Akhidime, 2013; Ijeoma, 2014; Akhidime & Uagbale-Ekata (2014) have to do with the awareness of, and the imperativeness of forensic accounting in the face of increasing audit failures. Other studies in Nigeria (that include Madugu and Anyaduba, 2013; Ijeoma, 2014; Enofe, Mgbame, Ayodele and Okunbor, 2013) dwelt on the relevance and role of forensic accounting in the improvement of audit quality without specifying areas of financial audit to integrate forensic accounting.

To the extent of our review, no previous study in Nigeria that specifically focused on the critical areas of differences between traditional and forensic accounting, and the pertinent areas of financial statement audit that forensic accounting can be integrated with, in order to overcome auditors' deficiencies in fraud detection. This is the gap that this exploratory study is set to fill while also providing the needed basis for further empirical researches.

This paper is based on the review of available literatures on studies from some developed and developing countries. It attempts at providing in-depth practical road map for integrating forensic accounting expertise with financial statement audit with a view to enhancing fraud detection, improve financial statement integrity and the bridging of expectation gap.

The inferences from this study will be of significance to auditors and audit firms in addressing their skill gaps and that of their audit team towards the detection of material errors and financial statement fraud. It will also benefit professional accounting bodies, educational institutions and regulators such as the Financial Reporting Council of Nigeria which can be guided on the need to improve the content of their professional and/or auditing curricula to accommodate forensic accounting and provide necessary regulations that would guide the integration of forensic accounting with traditional financial statement audit.

Section 2 of this paper covers the review of important the concepts, theoretical framework, as well as the review of extant literature on topics relevant to the subject under review, while section 3 covers the summary and conclusion.

2.0 Review of concepts

2.1Audit Expectation gap

Audit expectation gap has been defined and explained in different ways with no single all inclusive definition. In its simplest and general form, expectation gap is the actual performance of individuals or entities as opposed to their required or expected level of performance by the end users of the outcomes of the performance. Audit expectation gap is referred to as the perceived difference between the users of audited financial statements as to the responsibility of auditors towards fraud detection and the auditor's understanding of what their responsibilities are (Zikmund, 2008). Expectation gap does not only exist with respect to auditor-user relationship, but where it does, it is defined as the difference between what the public as well as other users of financial statements believe to be the responsibilities of auditors and the auditors' understanding of what their duties are (AICPA, 1992). Audit and non-audit expectation-gaps, manifest either as performance or reasonableness gap (Brennan, 2006). Performance expectation gap refers to the difference between the responsibilities that the public expects of auditors and their actual performance; while reasonableness gap is considered to be what the public expects auditors to achieve and what they can reasonably achieve (Porter, 1988). In the context of this paper, audit expectation gap is considered as the differences between the responsibilities that a firm's shareholders and stakeholders reasonably expect of its auditors on their responsibility for the detection material financial irregularities and financial statement fraud, and the auditor's own understanding of these responsibilities particularly as regards the detection of fraud. Audit expectation gap is derived from what was then known in 1892 as the 'expectation of a third-party', which in modern times is now referred to as 'expectation gap'. (DiGabriele, 2011).

2.1.2Forensic Accounting

The definition of forensic accounting (FA) is varied. Bologna and Lindquist (1995:12)defines forensic accounting as “the application of financial skills, and an investigative mentality to unresolved issues, conducted within the context of rules of evidence”; while the AICPA's Forensic and Litigation Services Committee(2004), defines forensic accounting as the application of special skills in accounting, auditing, finance, quantitative methods, the law, research and investigative skills to collect, analyse, and evaluate evidential matter and to interpret and communicate findings.

Forensic Accounting is a specialty field in Accounting that deals with the identification of financial fraud, and reports in a way that it would be suitable for use in a court of law (Akhidime, 2014). Forensic accounting uses accounting, auditing, and investigative skills to conduct investigations into theft and fraud.

Forensic accounting consists of two major components: litigation services that recognise the role of FA as an expert consultant and investigative services that use FA's skills that may or may not possibly lead to courtroom testimony (AICPA, 2004; Golden, Skalak & Clayton, 2011).The two roles of the FA are considered relevant in this study for addressing the issue of expectation gaps.

2.2.1 Theoretical Frame work of study

Among the theories that underpin audit and audit expectation gap in the order of importance include :the agency theory, 'policeman theory', theory of inspired confidence.

2.2.2 Agency theory

Jensen and Meckling (1976) explain agency relationship as a contract between the principal(s) (shareholders/ stakeholders) and other individual(s), (agent(s)/ manager(s) to perform some services on their behalf with the attendant conflict of interests between the two. The conflict of interest places a demand on the agents/managers by the principals to provide necessary information that provides required assurance for monitoring the activities of the agents. This information from the agents includes financial statements and reports to which the audit function provides the necessary assurance of the credibility.

2.2.3 Theory of inspired confidence

In developing the Theory of Inspired Confidence, Limperg (1985) describes the auditor's function as a confidential agent that derives his overall function from his expertise and independent assessments and opinion based on those assessments. He states further that acceptance of auditor's function is rooted in the confidence which society places on his effectiveness and his opinion. Limperg considers that the accountant/auditor has the obligation to perform his duty in such a way that he does not betray the expectations of ordinary users of his work as the "normative core" of his theory.

2.2.4 Policeman theory

This theory was about the most widely held theory on auditing until the 1940s. By this theory, an auditor is considered to behave as a policeman by focusing not only on the arithmetical accuracy of accounts and financial statements but also on the prevention and detection of fraud (Ittonen 2010). However, the theory at a time lost its essence due to the paradigm shift in auditing theory that restricted auditors' duties to providing reasonable assurance and verification of the truth and fairness of the financial statements. The policeman theory has however regained its prominence with the emergence of auditing standards (ISA, 240; US SAS 99) that now expect auditors to exercise skepticism and possess sufficient skill for detecting fraud (Zikmund, 2008).

While the Agency theory provides theoretical basis for auditing, the theory of inspired confidence underpin study on audit expectation gap, while the policeman theory that accentuate auditors responsibility for fraud detection provides the basis for forensic accounting skills fraud detection.

2.3.0 Literature review

2.3.1 Overview of Nigeria's legal and regulatory Audit framework & Responsibility for fraud detection

The legal framework for the audit of all public interest entities in Nigeria lies with the Companies and Allied Matters Act CAMA, (2004). Sections 359 and 360 of CAMA, (2004) place on external auditors the principal responsibility for making report to company members on the accounts examined by them and to specifically report on whether:1) Proper accounting records have been kept and proper returns adequate for their audit have been received from branches not received by them.2) the company balance sheet and its profit and loss account are in agreement with the accounting records and returns, 3) the balance sheet and its profit and loss account give a true and fair view of the state of affairs of the company during the period under review.

However, Section 368 of CAMA (1990) demands the auditor to perform his/her duties with such care and diligence and skill as is reasonably necessary in the particular circumstance and that where a company suffers loss or damage, as a result of the auditor's failure to discharge its fiduciary duty and the directors may institute an action for negligence against the auditor in court. CAMA, (1990) permits any member (shareholder) to institute action against the auditor on the failure of the directors to institute an action against the auditor.

The Nigerian Financial Reporting Council Act, on the other hand places on auditors of financial statements of public interest entities, the additional burden of full disclosure in writing to the Chief Executive Officers and the board of the entities, on one hand, and the Council on the other, of material irregularities (fraud)within 30days of discovery (FRCN, 2011).This particular statute represents a paradigm shift in Nigeria auditor's responsibility for fraud detection as it places demand on auditors not only to have reasonable expectation of material irregularities but also makes it mandatory for detected fraud to be disclosed in a prescribed manner to prescribed regulatory authorities. However, with the worsened perception level of corruption in Nigeria, going by the recent damning report of Transparency International Report (Olawoyin, 2018), and its likely grave consequences on financial report integrity of Nigerian corporate entities, the need for the Financial Reporting Council of Nigeria and the

Companies and Allied Matters Act to assign some statutory roles to forensic accountants in financial statement audit of public interest entities has become apparent.

The International Standards on Auditing (ISA, 240) consider auditors to be responsible for maintaining professional skepticism throughout the audit considering the potential for management override of controls (management fraud). Along this line, the US Statement on Auditing Standards SAS 99-Consideration of Fraud in a Financial Statement Audit, requires auditors to obtain reasonable assurance that material fraud is not present, while also the Institute of Internal Auditors (IIA) Standard 1210.A2, requires auditors to possess sufficient knowledge to identify indicators of fraud (Zikmund, 2008). It is obvious that the evolution of national and international regulations and standards have placed increased responsibility of detecting financial statement fraud on auditors.

The Nigerian Standard on Auditing (NSA,no.5) expects auditors to "recognize the possibility that material misstatement due to fraud could exist" and therefore urges the auditor to maintain an attitude of skepticism throughout the audit.

2.3.2 **Traditional Audit versus Forensic accounting**

Traditional audit either by external or internal auditor at best, focuses more on the identification and prevention of fraud. (Gray, 2008). The external auditor by sampling transactions other than through a detailed and complete review of all transactions carries out appropriate reviews and tests procedures to ascertain the effectiveness of the internal control systems as a basis for making informed position on the correctness of the transactions and balances in the financial statements. Traditional audit is not designed to detect all forms of corporate frauds or to investigate them (AICPA 2004). Their primary objective is to provide reasonable assurance that these statements are free from material misstatements. On the other hand, forensic accountants' primary objective is to categorically determine the existence and source of fraud by collating and evaluating evidences, interview all parties connected to an alleged fraud situation (Singleton and Singleton, 2007; Hopwood et al., 2008).It is in this light that Gerson et al (2006) provided an analogy that likened auditors to security patrolmen that circulates around their security beats, and forensic accountants to detectives who unlike auditors must concentrate and examine everything in an identified crime area they are assigned.

A panel of experts that consisted of four audit experts from the Big 4 Audit firms and five forensic specialists from US leading forensic accounting put up by Chui and Pike (2013) agreed (as shown in Table 1, Annexure 1), that there are substantial differences between auditors of financial statements and forensic accountants in the areas of their roles and objectives, expectations, and their thought processes.

The major difference between traditional audit and forensic accounting is that the former performs audit to assist management to adequately implement their strategies towards goal congruence, and also reports the true and fair state of affairs of an organisation to stakeholders to assist them make decisions, while forensic accounting is to investigate conduct deviation and the measurement of its impacts (Rose, 2006).

Forensic accountants have been proved by previous studies to outperform auditors of financial statements in fraud related tasks and this is largely accounted for by the auditors lack of sensitivity in detecting tell tales signs as well as and red flags of fraud(Chu & Pyke, 2013).

Traditional audit process is structured along standardized procedures known as audit programme which are obvious steps of accounting for fraud and conforms to generally accepted accounting principles (GAAP). On the contrary, there are no generally accepted accounting principles and regulations for forensic accounting to provide guidance to practitioners on how to perform their engagement. Each forensic accounting job differs, and the practice is carried out in an unstructured and unregulated environment.(Fitzhugh, 2010).

Auditors' primary goal is to provide reasonable assurance that the financial statement audited by them are free from material misstatements, whereas the primary objectives of forensic accountant is to vigorously seek to determine both the existence and source of fraud through the gathering and evaluation of evidence and interviewing of all connected to the fraud incidence (Rose, 2006).The Forensic accountant relies on specialized knowledge of varieties fraud schemes and scenarios; knowledge of applicable laws and regulations; excellent communication skills and strong interviewing skills, the traditional auditor cannot be expected to derive from his training as an accountant, these skills to the level of a forensic accountant(Zikmund, 2008).

Common grounds however, exist between auditors and forensic accountants in basic audit methodology and in the maintenance of independence, objectivity and innovativeness although, traditional auditors appear to exhibit lower level of sensitivity towards the discernment of tell tales of fraud (Chu & Pyke, 2013). Golden Skalak, & Clayton, (2011) posits that the auditor is not necessarily inferior to the forensic accountant and neither of the two can serve as a complete replacement of the other, rather, their services are complementary and when integrated could result in a synergy that produces the best desired outcome in terms of fraud detection and financial report integrity and the bridging of expectation gap.

2.3.4 Justification for integrating forensic accounting with Financial Statement Audit.

The issue that forms the main plank of the expectation gap from the point of view of public interests is the failure of the auditor to detect fraud and the increasing necessity for auditors to satisfy the expectations of the end users of the audited financial statements the detection and disclosure of financial statement fraud. The reports of CEOs of the six largest global audit firms maintained that there existed a significant expectation gap between what various stakeholders believe auditors do, or should do, in detecting fraud and what auditors are capable of doing (Global Capital, 2006:15). Auditor's responsibility for fraud detection has been emphasised by recent standards and regulations but doubts however, exist as to the auditor's ability to cope with this responsibility due to the fact that they are ill-equipped going by their skill gap (Arens & Elder, 2006). The lack of adequate skills by auditors for fraud detection makes imperative the need for a link between auditing and forensic accounting and this need has evolved over time. Dicksee (1905:10) posits that the “detection of fraud remains the most important portion of the Auditor's duties and that the auditor that detects fraud, stands preferred above others that cannot”.

Part of the response from the accounting profession to bridging audit expectation gap is the codification of additional auditing standards and public education on the nature and limitations of audit. The efforts of professional accountants, notwithstanding, there still remain considerable expectation gap between public perception and the reality of audit result. This has stimulated debates and studies across the accounting profession and the public on the need for the integration of forensic accounting with financial statement audit.

Results of recent survey by DiGabriele (2011), of accounting educators, auditors and forensic accountants reveal a consensus amongst them that professional audit frame work should be driven by an evolving regulatory and standard setting environment that requires the integration of forensic accounting skills into the auditing process. The American Institute of Certified Public Accountants (AICPA) as well as the PCAOB have also emphasized the need for the integration of forensic accounting procedures in Audits as a means of meeting the requirements of recent standards and regulation on the detection of fraud (AICPA Discussion, 2004).

Forensic accounting services can be integrated into financial statement audit by the external audit firm either: on part-time basis from independent forensic accountants for specialist services, or on full time basis as part of the firm's audit team staff with specialized/additional training or certification in forensic accounting. The involvement of forensic accounting in audit is determined by such factors as the level of capability of the audit staff so also is the choice between in-house and or outside independent forensic accountant dependent on various factors. Where however, the forensic accountant is separately hired by the board audit committee, guidance as to the auditor's responsibilities and procedure in relation to relying on the work of the forensic accountant shall be in line with the International Standard on Auditing (ISA) 620.

2.3.5 **Areas of Financial Statement Audit where Forensic accounting can be integrated**

The areas of financial statement audit that may require the expertise of forensic accounting as provided by AICPA (2004) are in:1) the identification of audit risk factors and possible material misstatement due to fraud,2) discovery of fraud that occurred in prior period; 3) the internal control review and areas of management override of control

Other areas of financial statement audit that could require forensic accounting expertise as provided by EFG- Lecture (2008) are: 1) Areas prone to malpractice that includes: contracts and negotiation, billings, procurements, payroll and information system manipulation, inventories, marketing and publicity (Gomide, 2008). 2) Risk mitigation and assessment that involves the assessment of areas that have greater propensity for internal control risks, inherent risk and their detection (Imoniana, 2001).

2.3.6.**Constraints against financial statement audit and forensic accounting integration.**

The common constraints to the integration of Forensic accounting with financial statement audit are, first, about the additional costs involved in hiring the services of forensic accountants, second, the time budget for audit, as audit reports have timelines/deadlines, and lastly the challenge of having sufficient numbers of qualified forensic accountants. Overcoming these constraints is best achieved through careful cost-benefit analysis. First, careful consideration should be given to the opportunity cost to shareholders for relying on fraudulent financial statements to make economic decisions. The study Chui and Pike (2013) concludes that it is preferable for Audit firms to retrain its staff in forensic accounting and fraud auditing skills or have for every audit engagement at least one staff on the audit team that is a forensic specialist .

2.3.7 Nigeria Professional Accounting bodies, Regulators and Forensic accounting practice

The 'Big 4' and larger audit firms in developed and developing countries are known to have specialist accounting departments in efforts at integrating forensic accounting with the firm's audit practice (Bhasin 2017). However, knowledge of such departments in the accounting firms of developing countries like Nigeria, remain largely unknown.

There is the growing acceptance and recognition by the two professional accounting regulatory bodies in Nigeria- the Institute of Chartered Accountants of Nigeria (ICAN) and the Association of National Accountants of Nigeria (ANAN) to equip their members with forensic accounting skills to investigate fraud and produce reliable and credible reports. ICAN commenced in 2009 a certificate proficiency programme in forensic accounting(ICAN,2009) while ANAN established in 2016 an auxiliary arm known as the Society for Forensic Accounting and Fraud prevention (Sfafp) whose main purposes are for the training and regulation of Forensic accounting. Judging from the date of commencement forensic accounting training in Nigeria, (Ogbuji, 2017).It is much in doubt, however, if Nigeria has sufficient number of qualified forensic accountants as both ICAN and ANAN appear to have just woken up to the realization of developing special programmes for training forensic accountants. It is expedient therefore for the growing awareness of forensic accounting in Nigeria to be matched with vigorous and speedy training of forensic accountants, from academic to professional level if Nigeria will be able to catch up with the paradigm shift in global auditing profession.

3.0 **Summary and Conclusion**

This paper relied on the review relevant literature on expectation gap and areas of financial statement audit that forensic accounting could be integrated in attempt to meet the expectation of the end users of financial statements with respect to auditor's improved capacity for fraud detection.

The initial response of the accounting profession to fill the expectation gap was to attempt at employing auditing standards and regulations to augment auditors' skill gap in the detection of fraud until the need for a complete paradigm shift that requires the recognition and acceptance of forensic accounting, as a distinct practice whose fraud investigative methodology must of necessity be integrated into every area of the auditors corporate assignment as an internal or external auditor became imperative.

A review of Nigeria's audit legal and regulatory frameworks revealed that auditors are now reasonably expected to detect material errors, irregularities and financial statement frauds. the positions of International and Nigeria auditing standards has since shifted the debate from the necessity for auditors accept the responsibility to detect fraud, to the skills that the auditor has to either acquire or hire to facilitate fraud detection. In addition to taking a position on the imperativeness of integrating forensic accounting investigative skills for fraud detection with financial statement audit in Nigeria, this paper also demonstrates how and where forensic accounting expertise can be deployed or integrated with the traditional audit as a complement, rather than substitute, to produce a synergy that would result in the detection of material fraud that conduces into credible financial report, which is not only an antidote to audit failure but also a desirable approach for bridging audit expectation gap.

The increasing recognition of forensic accounting by the two Nigeria professional accounting bodies, ICAN and ANAN, as a distinct audit approach, opens up the opportunity for more accountants to be trained to have specialized professional skills in forensic accounting and for Nigerian audit firms to either develop the capacity of their internal audit staff in forensic accounting or hire the services of forensic accountants for integration into their audit teams. The worsened perception of corruption in Nigeria and its likely grave consequences on financial report integrity for Nigerian corporate entities makes the need for the Financial Reporting Council of Nigeria and the Companies and Allied Matters Act to assign some statutory roles to forensic accountants in the financial statement audit of public interest entities pertinent.

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Appendix

Table 1. Expert Panel Interview Summary of the differences between Auditor and Fraud Specialist.

AUDITOR	**FRAUD SPECIALIST** **(Forensic Accountant)**
Role and Objective as an auditor *The primary responsibility of an auditor is to gather documentation to determine whether the company's reported financial statements taken as a whole (including footnotes) are stated fairly, in all material respects, in conformity with Generally Accepted Accounting Principles (GAAP).	**Role and Objective as a fraud specialist** *The primary responsibility of a fraud specialist is to determine whether fraud exists, regardless of its size or magnitude. The fraud specialist also has the responsibility to determine the overall extent of fraud (if it exists), how it o ccurred and how the risk of its future occurrences can be reduced or prevented.
Expectations for an auditor *Auditors would be asked to look at their clients' accounts either individually or in aggregate with other accounts. They would especially focus on accounts with a reasonable possibility of containing a material misstatement. *Auditors work with a materiality level and they are primarily concerned with material matters in an audit. Materiality is relevant to them because it serves as a guide to th eir evaluation of audit evidence. *Auditors would not be expected to examine every transaction and they would generally rely on audit sampling. *Auditors would not be concerned with minor discrepancies in any single account. They would only be concerned if these discrepancies are indicative of larger or pervasive problems.	**Expectations for a fraud specialist** *Fraud specialists would be asked to examine either a single account or a single transaction to see if fraud exists. They may also be asked to look at a series of transactions since fraud may no t necessarily occur in a single transaction. *Fraud specialists do not work with a materiality level and they are not concerned with the concept of materiality. Materiality is irrelevant to them because fraud may often occur below the materiality level. Fraud specialists would be expected to examine everything in great depth and they would generally not rely on audit sampling. *Fraud specialists would be concerned with any minor discrepancies. They would assess these discrepancies to understand their nature and to determine if they are indicative of fraud.

*Auditors would generally have a predetermined time budget for work. If they spend too much time examining one area, they may have to spend less time somewhere else or they may run th e risk of going over budget. While time is of the essence in an audit, auditors still have to do a sufficient amount of work and should not intentionally reduce or eliminate a procedure.	*Fraud specialists would generally not be driven by a fixed budget. They would examine their work and review certain findings at the end of each phase. This will give them the opportunity to assess whether additional work is required. Fraud specialists may request more time and resources for their investigation until they are satisfied with their assessment of whether fraud exists.
Auditors' thought processes *Auditors think about accounting records in terms of the availability of supporting documents and the authenticity of the audit trail. They have to decide whether there is valid documentation to support the recorded transactions and whether they are presented in conformance with Generally Accepted Accounting Principles (GAAP). *Auditors are required to maintain an appropriate level of professional skepticism by having a questioning mind when they are evaluating audit evidence. They are encouraged to consider risk factors relating to fraudulent financial reporting that include motive, opportunity, and rationalization. *Auditors are encouraged to keep in mind that the possibility that a material misstatement due to unintentional error or fraud could be present, regardless of their belief about their client's honesty and integrity	**Fraud specialists' thought processes** *Fraud specialists th ink about accounting records in terms of the authenticity of the events and activities that are behind the reported tran sactions. They have to evaluate whether these transactions actually took place and are consistent with other information in their investigation. *Fraud specialists are expected to be sensitive to, and on the lookout for, the warning signs of fraud. To discover fraud, it is important for fraud specialists to be able to think like a thief by asking themselves how they would probe and exploit any weaknesses of a company. *Fraud specialists are mindful that a visible immaterial misstatement may appear to be inconsequential, but the hidden portion of the misstatement could be substantial.

Source: Chui & Pike (2013).