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THE AUDIT OPINION AS AN INSTRUMENT FOR REDUCING THE RISK OF FRAUD IN ACCOUNTING STATEMENTS

O PARECER DE AUDITORIA COMO INSTRUMENTO DE REDUÇÃO DO RISCO DE FRAUDE NAS DEMONSTRAÇÕES CONTÁBEIS

LA OPINIÓN DE AUDITORÍA COMO INSTRUMENTO PARA REDUCIR EL RIESGO DE FRAUDE EN LOS ESTADOS CONTABLES

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Herval da Silva Moura[1], Juliano Almeida de Faria[2], Carlos Alberto Oliveira Brito[3], Luiz Ivan dos Santos Silva[4], Célia Oliveira de Jesus Sacramento[5]

ABSTRACT

In recent years, cases of fraud in the financial statements of large companies with shares traded on the national and international financial markets have been reported in Brazil. What these cases have in common is that all the companies involved have been independently audited over the last few years and had their audit opinions published along with the fraudulent financial statements. The general aim of this article is to reflect on the role of the audit opinion in published financial statements . The work was carried out by means of a qualitative-quantitative analysis, using Nvivo® software, based on the audit opinions of the fraudulent financial statements of listed companies with shares traded on the Brazilian stock market over the last 13 years. The data collected shows that auditors are more responsible for detecting fraud in the reports studied. It can be seen that the auditors have given relevance in this context through which it can be conveyed to the users of the information that the results present in the financial statements analyzed have been carefully analyzed from the perspective of fraud detection, given that the auditors assume responsibility in the meantime. The conclusion was that audit opinions should not be taken as instruments to guarantee the prevention and detection of fraud in financial statements released to the financial market, but only as another instrument to reduce the risks of accounting fraud in these statements.

Keywords: Audit. Opinion. Fraud Risk.

[1] Dr. in Accounting. University de Minho. Universidade Estadual de Feira de Santana. Portugal.
E-mail: hsmoura@uefs.br Orcid: 0000-0002-5527-8275 Lattes: http://lattes.cnpq.br/5601055744320493
[2] Dr. in Industrial Engineering. Universidade Federal da Bahia. Universidade Federal do Sergipe. Brazil.
E-mail: profjalmeida@gmail.com Orcid: 0000-0002-0143-9790
Lattes: http://lattes.cnpq.br/4959802072885616
[3] Master's Degree in Accounting Sciences. Fundação Visconde de Cairu. Universidade Estadual de Feira de Santana. Brazil. E-mail: caobrito@uol.com.br Orcid: 0009-0002-1648-3484 Lattes: http://lattes.cnpq.br/6415354083195802
[4] Master's Degree in Accounting Sciences. Fundação Visconde de Cairu. Universidade Estadual de Feira de Santana. Brazil E-mail: luizivan@uefs.br Lattes: http://lattes.cnpq.br/6720702614031676
[5] Dr. in Production Engineering . Universidade Federal de Santa Catarina. Universidade Federal da Bahia. Universidade Estadual de Feira de Santana. Brazil. E-mail: audpec.celiasacramento@gmail.com
Orcid: 0000-0003-3608-4544 Lattes: http://lattes.cnpq.br/9837802091722514

RESUMO
Nos últimos anos, casos de fraudes em demonstrações contábeis de grandes empresas com ações negociadas no mercado financeiro nacional e internacional têm sido reportados no Brasil. O que esses casos têm em comum é que todas as empresas envolvidas foram auditadas de forma independente ao longo dos últimos anos e tiveram seus pareceres de auditoria publicados juntamente com as demonstrações contábeis fraudulentas. O objetivo geral deste artigo é refletir sobre o papel do parecer de auditoria nas demonstrações contábeis publicadas. O trabalho foi realizado por meio de uma análise quali-quantitativa, utilizando o software Nvivo®, com base nos pareceres de auditoria das demonstrações contábeis fraudulentas de empresas listadas com ações negociadas na bolsa de valores brasileira ao longo dos últimos 13 anos. Os dados coletados demonstram que os auditores têm maior responsabilidade na detecção de fraudes nos relatórios estudados. Percebe-se que os auditores têm dado relevância nesse contexto por meio do qual se pode transmitir aos usuários das informações que os resultados presentes nas demonstrações contábeis analisadas foram criteriosamente analisados sob a ótica da detecção de fraudes, tendo em vista que os auditores assumem a responsabilidade nesse ínterim. Concluiu-se que os pareceres de auditoria não devem ser tomados como instrumentos para garantir a prevenção e a detecção de fraudes nas demonstrações contábeis divulgadas ao mercado financeiro, mas apenas como mais um instrumento para reduzir os riscos de fraudes contábeis nessas demonstrações.

Palavras-chave: Auditoria. Opinião. Risco de Fraude.

RESUMEN
En los últimos años, se han reportado en Brasil casos de fraude en los estados financieros de grandes empresas con acciones negociadas en los mercados financieros nacionales e internacionales. Lo que estos casos tienen en común es que todas las empresas involucradas han sido auditadas de forma independiente en los últimos años y sus opiniones de auditoría se publicaron junto con los estados financieros fraudulentos. El objetivo general de este artículo es reflexionar sobre el papel de la opinión de auditoría en los estados financieros publicados. El trabajo se llevó a cabo mediante un análisis cualitativo-cuantitativo, utilizando el software Nvivo®, basado en las opiniones de auditoría de los estados financieros fraudulentos de empresas que cotizan en bolsa con acciones negociadas en el mercado de valores brasileño durante los últimos 13 años. Los datos recopilados muestran que los auditores son más responsables de detectar el fraude en los informes estudiados. Se puede ver que los auditores han dado relevancia en este contexto a través del cual se puede transmitir a los usuarios de la información que los resultados presentes en los estados financieros analizados han sido analizados cuidadosamente desde la perspectiva de la detección del fraude, dado que los auditores asumen la responsabilidad mientras tanto. La conclusión fue que las opiniones de auditoría no deben ser tomadas como instrumentos para garantizar la prevención y detección del fraude en los estados financieros presentados al mercado financiero, sino sólo como un instrumento más para reducir los riesgos de fraude contable en dichos estados.

Palabras clave: Auditoría. Opinión. Riesgo de Fraude.

1 INTRODUCTION ASPECTS

As far back as 1939, there was research that sought to estimate the losses suffered by companies as a result of fraud committed by employees. Seidman's article (1939, p. 415) reports that "more than two hundred million dollars a year are lost by companies through employee fraud. This, however, is only the amount that is investigated and made public." Also in 2005, according to research carried out by Rezaee (2005, p.277), fraud in financial statements cost financial market participants around the world, including investors, creditors and employees, more than $500 billion over the last few years prior to the research.

Fraud is not a privilege of the Public Administration, research indicates that companies lose just as much as the public sector, embezzled by their own executives and employees. In the most recent survey on fraud by the *Association of Certified Fraud Examiners* (ACFE, 2022), it is estimated that the average loss to fraud by public and private organizations worldwide is 5% of their annual revenue. This percentage has remained the same since the previous survey (ACFE, 2020).

The ACFE, 2022) separates fraud into three major groups, namely: asset misappropriation, which involves the theft or misuse of employer resources by an employee, is the most common, with 86% of cases falling into this category. These schemes, however, tend to cause the lowest median loss, at 100,000 dollars per case. In contrast, financial statement fraud schemes, in which the perpetrator intentionally causes a material misstatement or omission in the organization's financial statements, are the least common category (9% of schemes), but the one that causes the most damage, with an average of $593,000 per case. The third category, corruption - which includes crimes such as bribery, conflicts of interest and extortion - is in the middle ground of frequency and losses. These schemes occur in 50% of cases and cause an average loss of 150,000 dollars.

Fraud resulting from embezzlement and corruption is different from fraud in the financial statements, because the former usually causes losses of assets for the entity, which is the only one to suffer and not the external user of the accounting information. When financial statement fraud occurs, the entity involved usually does not suffer any loss of assets, as the fraud is almost always perpetrated by its managers with the aim of misleading one or more external users about the state of the reported statements. For example, it is likely that a buyer of shares in the capital market, whether in the cash market or the options market, will consider the reported net value of the entity and determine its price offer. However, the value of its assets was fraudulently inflated, making the buyer believe that the entity is worth more than it actually is, resulting in a higher bid for its shares. It should be noted that the entity

does not lose any assets as a result of the fraud. The focus of our study is on fraud committed in accounting statements, or simply accounting fraud.

In recent years, cases of fraud in the accounting statements of large companies with shares traded on the national and international financial markets have been reported in Brazil. These cases lead to uncertainty for investors and external users of accounting information, as well as financial losses for the many minority shareholders of these companies. A common point in these cases is that all the companies involved have been independently audited over the last few years and have had their audit opinions published on the audited financial statements, along with the fraudulent financial statements .

This situation leads us to reflect on the role of the independent audit of financial statements and its opinion, raising the following question: **Should the audit opinion on financial statements be considered as an instrument for preventing and detecting fraud or only as a way of reducing the risk of fraud in these statements?** In order to answer this question, the study aims to reflect on the role of the audit opinion in published financial statements, by analyzing the content of audit opinions published prior to the disclosure of the billion-dollar frauds in Brazil.

The World Economic Forum estimates that the cost of corruption is $2.6 trillion, which is equivalent to more than 5% of global GDP, and that corruption increases the cost of doing business by up to 10% (Thomson, 2017) The annual cost of bribery alone is estimated at around 2% of global GDP (IMF, 2016). So there are good reasons for governments and companies to step up the fight against corruption. In 2016, the UK Fraud Cost Measurement Committee (UKFCMC) published its first Annual Fraud Indicator (AFI) (2016). The 2016 AFI was developed on the basis of work carried out by the National Fraud Authority (NFA), which had established the concept and experimented with a variety of methodologies. The NFA published four reports, the last of which was in 2013. In the AFI (2016), estimated fraud losses in the UK were £190 billion, with a cost in the private sector alone of £149.7 billion per year.

In the most recent report by the European Anti-Fraud Office (OLAF) to the European Commission for the European Parliament, dated 11/10/2019, entitled "Fight against Fraud - Annual Report 2018", fraud and irregularities were detected in the revenue and expenditure of the EU budget amounting to € 842.2 million in 2018. (OLAF, 2019). If we compare this to the 2010 report, which estimated that a total of €478 million was fraud (OLAF, 2011), there has been an increase of approximately 77%. This data shows that fraud in the private and public sector is not exclusive to Brazil, but to the whole world.

According to research by *PriceWaterhouse Coopers*, in 2022, although the rates of fraud and economic and financial crime remain stable globally, the impacts of these crimes

are high for small and large organizations (classified by the volume of annual revenues). Among companies with global annual revenues of more than US$10 billion, 52% have suffered fraud in the last 24 months. In this group, almost one in five reported that the most serious incident had a financial impact of more than $50 million. The share of affected companies with less than US$ 100 million in revenues was lower: 38% suffered fraud, with around one in four registering a total impact of more than US$ 1 million.

PriceWaterhouse Coopers added that despite supply chain problems, environmental and geopolitical instability, economic uncertainty, talent shortages and many new risks, the rate of fraud, corruption and economic crime has not increased in the world since 2018. In Brazil, however, the trend is different. Just under half of global organizations (46%) reported having suffered some form of fraud or other economic crime in the last 24 months. In Brazil, the percentage rose from 46% in 2020 to 62% in 2022. (PWH, 2022).

In 2022, a study based on data from 2,110 professional fraud cases that were investigated between January 2020 and September 2021 in 133 countries by Certified Fraud Examiners (CFEs) estimated that organizations around the world lost 5% of their annual revenue to fraud. Applied to the world's Gross Domestic Product in 2021, this 5% figure translates into more than US$4.7 Trillion in global fraud losses. Therefore, the study is justified above all by the fact that there are cases of fraud in companies with a regular independent audit process, including the issuing of unqualified or qualified audit opinions, where the qualification did not refer to fraud discovered after the opinion was issued. This situation encourages the discussion of this work, the reflection of which can promote positive impacts on the role of the opinion for the accounting profession, regulatory bodies, auditing companies and academia (ACFE, 2022).

2 LITERATURE REVIEW

2.1 UNDERSTANDING THE TERM FRAUD

According to Lopes de Sá (1982, p. 15) the origin of the term is Latin: "fraus, fraudis", and it was used in its proper sense, to mean "damage done to someone" (this is how Titus Livius used it in his "History of Rome"). In an indeterminate sense, the term had the meaning of "crime, offense" (as Cicero applied it). In the international biblioFigurey, Pickett (2000, p. 550) defines fraud as: "*Any behavior by which one person intends to gain a dishonest advantage over another*." In this definition, fraud can be understood as any behavior in which one person intends to gain a dishonest advantage over another.

The *Chartered Institute of Public Finance and Accountancy* (CIPFA) used the following definition: (PICKETT, 2000, p. 550) "*These intentional distortions of financial statements and*

other records which are carried out to conceal the misappropriation of assets or otherwise for gain". This definition considers fraud only as intentional distortions of financial statements and other records that are carried out to conceal the misappropriation of assets or otherwise for gain.

For Davia, Coggins and Wideman (1992, p. 48) fraud "*always involves one or more persons who, with intent, act secretly to deprive another of something of value, for their own enrichment*". For these authors, fraud is a secret act, with the intention of depriving others of something of value, for their own enrichment. This definition is broader than the previous one, because it is not just about accounting statements.

The risk of fraud is one of the universally malicious risks witnessed by all companies and government entities. Fraud involves all the deceptive ways in which one individual gains an advantage over another through false representations (Albreacht and Zimbelman, 2016[6]). The specific IFAC standard in force and dealing with the subject of this work is the *International Standard on Auditing* (ISA) - Matter 240 - Fraud. ISA-240 refers to the term "fraud" as an intentional act by one or more individuals among management members, employees or third parties, which results in misstatements of the financial statements. Fraud can involve:

- Manipulation, falsification or alteration of records or documents.
- Misappropriation of assets.
- Suppression or omission of the effects of transactions in records or documents.
- Registration of transactions without proof.
- Improper application of accounting policies.

It can be observed that fraud is a generic term, and embraces the multiple means that human intelligence can invent, with the aim of acquiring an advantage over another through false representations. It should be noted that no definite and invariable rule can be put forward as a general proposition defining fraud. The only limits that define it are the limits of human intelligence.

2.2 THE COMPONENTS OF FRAUD

It is important for independent auditors to understand people's motivational process for committing fraud, so that they can better assess the risk and help employers or clients to implement appropriate prevention and detection measures. In this respect there are two distinct but related theories as to why employees commit fraud. The first is based on the Hollinger and Clark (1983) study of more than 12,000 workers active in the labor market,

[6] Albrecht, S. and Zimbelman, M. (2016), *Fraud examination,* 4th, edition, Cengage Learning, Mason.

where it was found that around 90% were involved in some kind of work deviance, which included slow work behavior, abuse of sick time and others. Of this total, around a third of employees had actually stolen money or merchandise in the workplace.

The researchers concluded that the main reason why employees committed fraud had little to do with opportunity and much more to do with motivation. The more dissatisfied the worker, the more likely he or she was to engage in criminal behavior. One criminologist described the phenomenon as "*Wages in Kind*". The idea is that we all have a sense of our own worth, and if we believe we are not being treated fairly and adequately compensated, statistically we are at much greater risk of trying to balance the scales through fraud (Wells, 2001, p. 89).

The second theory that seeks to explain why employees commit fraud is related to financial pressures. In the 1940s, criminologist Donald R. Cressey interviewed 200 people imprisoned for corporate fraud, including convicted executives. He found that most of them committed fraud in order to meet their financial obligations. Cressey noted that two other factors had to be present for employees to commit fraud. They would have to perceive an opportunity to commit and conceal their crimes, and be able to rationalize their crimes as something other than criminal activity in order to find a moral justification for their actions (Wells, 2001).

These three factors enunciated by Cressey's theory, opportunity, incentive and rationalization, are commonly known as the fraud triangle. This framework has been formally adopted by the auditing profession as part of *Statement on Auditing Standards* (SAS) n.99, which states that these 3 conditions are generally present when fraud occurs. First, there is an incentive or pressure to commit fraud. Second, circumstances provide an opportunity for fraud to be perpetrated (e.g. weak controls or the ability of managers to circumvent controls). Finally, there is an attitude or rationalization to commit fraud (CHRIS *et al.,* 2007).

For Wolfe and Hermanson (2004, p. 38) the fraud triangle could be strengthened to improve fraud prevention and detection by considering a fourth element. In addition to incentive, opportunity and rationalization, the author also considered individual capacity: personal characteristics and skills that play an important role in the occurrence of fraud, even with the presence of the other three elements. For these authors, many frauds would not have occurred without the right person with the right skills, because the opportunity opens the way to the fraud, the incentive and rationalization lead the person towards it, however, if the person does not have the ability to recognize the open path as an opportunity and take advantage of the incentive and rationalization to not just once, but repeatedly perpetrate the

fraud, it runs the risk of not materializing. With the inclusion of this fourth element, these authors began to use the term "*The Fraud Diamond*", referring to the shape of a diamond.

2.3 A BRIEF HISTORY OF THE RELATIONSHIP BETWEEN AUDITING AND FRAUD

In its early days, fraud detection was considered one of the main objectives of independent auditing over time. Gupta and Ray (1992) note in the literature that the discovery of fraud in auditing was a central objective in both medieval and early modern times. Flesher, Previts, and Samson (2005), in their review of American auditing since colonial beginnings, describe an activity focused on the intention of detecting financial misconduct. Porter (1997) analyzes the historical evolution of auditors' responsibility for detecting fraud over the centuries. His study shows that there has been an evaluation of practices and a change in the auditing paradigm through a series of stages. Considering these aspects, the investigation of fraud by auditing can be divided into the following phases:

a) The pre-1920 phase, when fraud investigation was considered to be the primary task of auditing. At this time, the auditor was expected to have the necessary skills and knowledge to identify fraud in all circumstances. This idea can be seen in the article by Staub (1943, p. 91) with which the author won the first international accounting congress held in St. Louis, USA, in 1904. In this article, the author states that the objective of auditing should be firstly the detection of fraud, secondly the discovery of errors in the adoption of principles and only thirdly the accuracy of the accounts.

b) The phase between 1920 and 1960 was characterized by a decline in the importance of the auditor's responsibility for detecting fraud. As a result, the company's responsibility for detecting fraud was left to managers and directors. The Auditor's responsibility was to certify the credibility of the financial statements. As a consequence, auditing procedures changed from a meticulous analysis of each transaction to the evaluation of internal control systems and transaction testing. This was in line with the socio-economic environment of the time, which was concerned with the information contained in company statements.

c) Between 1960 and 1980, the responsibility for detecting fraud began to be questioned again. A number of scandals arose which prompted the following reflection: if the auditors certify that the company's statements are reliable, they can also certify that there may be the possibility of fraud in this same company.

As a result, the auditor's responsibility for detecting fraud grew, and at the end of the 1980s a resolution was passed by the *Auditing Practices Committee* (1980), which stated in paraFigure 10: "the auditor should recognize and plan for the possibility of material

irregularities or fraud; if detected, it should be adequately disclosed." In 1987, the *Treadway Report* recommended several ways for the profession to improve the auditor's ability to detect fraud. The *Auditing Standards Board* implemented many of its recommendations in 1988, issuing nine new pronouncements such as SAS Nos. 53 a 61. These new pronouncements clarified and extended the auditor's responsibility for (1) detecting and reporting errors, irregularities (including fraud), and illegal acts (SAS Nos. 53 and 54) and (2) evaluating the structure of internal controls (SAS No. 55). (Matsumara, p.753, 1992).

Boynton *et al* (2005) argue that since the fall of Enron, auditing standards have been renewed to re-emphasize the responsibilities of auditors to detect fraud. Their assertion is based on *International Standard on Auditing* (ISA) 240 and 315. The latter deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements by understanding the entity and its environment, including the entity's internal control, while ISA-240 deals with the auditor's responsibilities to consider fraud in the audit of financial statements, leading auditors to be more active in looking for fraud in the course of an audit.

For fraud related to financial statements, there are already national and international regulations specifying aspects that must be observed by the auditor when detecting fraud. ISA-240 (IFAC, 2004), for example, in its article 8º , states that in addition to weaknesses in the design of accounting and internal control systems and non-compliance with identified internal controls, among the conditions or events that increase the risk of fraud and error are:

- Questions about the integrity or competence of the administration.
- Abnormal internal and external pressures.
- Abnormal transactions.
- Problems in obtaining sufficient and appropriate audit evidence.

The appendix to this standard details the conditions or events mentioned above. SAS No. 99 (AICPA, 2005) classifies 42 *red flags (*fraud risk factors) into 3 categories: 12 attitudes or rationalization (AR) red *flags*, 14 opportunity (OP) *red flags* and 16 incentive or pressure (IP) *red flags*. The 42 *red flags* in SAS No. 99 originated from the concept of the fraud triangle, which involves the interaction of 3 factors: incentive, opportunity and attitude. SAS No. 99 requires certified public accountants (CPAs) to use the 42 *red flags* when auditing financial statements in order to detect fraud in those statements (MOYES, 2008).

2.4 THE PURPOSE OF AUDITING FINANCIAL STATEMENTS

Point 3 of NBC TA 200 (R1), which deals with the general objectives of the independent auditor and the conduct of the audit, states that:

The objective of auditing is to increase the degree of confidence in the financial statements on the part of users . This is achieved by the auditor expressing an opinion on whether the financial statements have been prepared, in all material respects, in accordance with an applicable financial reporting framework. In the case of most general purpose conceptual frameworks, this opinion expresses whether the financial statements are fairly presented, in all material respects, in conformity with the financial reporting framework. An audit conducted in accordance with relevant auditing standards and ethical requirements enables the auditor to form this opinion.

It should be noted that at no point does it say that the objective of auditing is to prevent or detect accounting fraud, only to increase the degree of user confidence in the financial statements, which should be achieved through the audit opinion , by expressing an opinion on whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework.

However, point 5 of the same standard states that: "As a basis for the auditor's opinion, NBC TA requires the auditor to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error." At this point, the standard says that the auditor must obtain reasonable assurance that the financial statements are free from material misstatement, whether due to fraud or error. This level is achieved when the auditor obtains sufficient appropriate audit evidence to reduce audit risk (i.e. the risk that the auditor will express an inappropriate opinion when the financial statements contain a material misstatement) to an acceptably low level. However, reasonable assurance is not an absolute level of assurance because there are inherent limitations in an audit, which result from the fact that most of the audit evidence on which the auditor bases his findings and opinion is persuasive rather than conclusive.

Although NBC TA 200 (R1) states that the auditor must obtain reasonable assurance that the financial statements are free from material misstatement, whether due to fraud or error, point A47 of the same standard states that there are limitations inherent in the audit itself, which does not oblige and cannot reduce audit risk to zero, and therefore cannot obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. The inherent limitations of an audit stem from:

- nature of accounting information;
- the nature of the audit procedures; and
- the need for the audit to be conducted within a reasonable period of time and at a reasonable cost.

Later in the same standard, it is stated in point A54, that "due to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with auditing standards".

This back and forth of the standard, with this play on words, such as: relevant aspects, reasonable assurance, material misstatement, persuasive and non-conclusive opinion... at one point it is stated that the auditor's opinion must be free from material misstatement caused by fraud or error and at another point it is stated that there are limitations in the audit that may mean that the auditor cannot obtain absolute assurance that the statements are free from material misstatement due to fraud or error... In this play on words, it is possible to see that the audit is exempt from and not responsible for material misstatements in the financial statements due to fraud or error.

A subsequent discovery of a material misstatement of the financial statements, for example, resulting from fraud or error, does not in itself indicate a failure to conduct an audit in accordance with auditing standards. In fact, another standard that deals with the formation of the auditor's opinion, NBC TA 700 (2016), states that:

The main responsibility for preventing and detecting fraud lies with those responsible for the governance of the entity and its management. It is important that management, with the general supervision of those responsible for governance, emphasize fraud prevention, which can reduce the opportunities for fraud to occur, and fraud deterrence, which can persuade individuals not to perpetrate fraud because of the likelihood of detection and punishment. (...)

At this point the standard makes it clear that the responsibility for the prevention and detection of fraud lies with the company's management, but that, regardless of this, the auditor must have Professional Skepticism with a stance that includes a questioning mind and alertness to conditions that may indicate possible distortion due to error or fraud and a critical evaluation of audit evidence in the design of procedures to detect such distortion in order to obtain reasonable assurance, considering the potential for circumvention of controls by management, and recognizing the fact that audit procedures that are effective in detecting errors may not be effective in detecting fraud.

In 2021, the Auditing *Standards Committee of the Auditing section of the American Accounting Association (the Committee*), began discussing whether auditing standards related to fraud and going concern need to be updated to reflect the rapidly evolving external reporting landscape, however no actual update has yet been made. (2021)

3 RESEARCH METHOD

The methodological strategy of this research was designed with a view to finding answers to the questions raised and achieving the study's objective. The application of the method was exclusive to this work and met the research objective insofar as it contributed to an understanding of the role of the audit opinion as an instrument for reducing the risk of fraud in published financial statements, rather than as an instrument for detecting fraud. This is a descriptive study with a qualitative approach to analysis.

We used the audit opinions available on the website of the Securities and Exchange Commission (CVM) of the eight companies responsible for the biggest cases of accounting fraud in the last 13 years in the Brazilian financial market and which were reported after their audit opinions were released. The Nvivo® system, version 14, was used as it provides documentary analysis using textual analysis tools from reports, audio transcripts, images and other communication devices. This system made it possible to organize and analyze the data needed to carry out this study . In its structure, Nvivo® provides a data coding tool called Case. Cases are coding containers that represent units of observation, such as people, places, organizations or artefacts (Nvivo Guide, 2023). Cases help to bring together the information present in the Nodes (Codes), already stored as a result of the natural development of the research (reading the opinions and coding the Nodes).

In this case, this tool was essential for grouping together information in the opinions, which could be coded in two or more nodes simultaneously. It should be noted that individual coding is preserved. The *software allows for the* creation of a new coding process conditioned to the Nodes, called a Case, making it possible to perceive relationships between the Nodes, Pearson's correlation analysis, as well as mentions in the reports that point to the contextual similarity of the subject during the qualitative analysis. In this research, the Cases were created by the author as the companies were identified. The Nodes (codes) were created by the author with a view to being data collection mechanisms by the *software* capable of making it possible to meet the general objective of the research.

In addition, Nvivo® made it possible to calculate Pearson's correlation coefficient, which measures the relationship between variables (covariance) by standardizing the value identified in the sample data. According to Field (2009), a positive coefficient equal to 1 (one) indicates that the variables are perfectly positively correlated, so as one variable increases in the sample, the other correlated to it increases proportionally. A coefficient equal to -1 (minus one) indicates that the correlation is perfectly negative, i.e. inversely proportional, while 0 (zero) indicates no linear relationship between the variables studied. The Pearson

correlation coefficient for each Node (code) was calculated in order to confirm the level of correlation between the Nodes created in the study.

Finally, the *software* provides reports with the coded passages which generate the percentage coverage of each Node per report and per company. The percentage of coverage is a relative representation of the number of words found in the total sum of the selected passages, taking the total number of words in each opinion as the denominator. Considering that each section selected in the *software* was analyzed in detail in terms of its relation to the research objective and thus quantified in the percentage of coverage.

The analysis considered the audit opinions of the financial statements issued in the previous year that the fraud cases were reported, since in all cases the frauds had been occurring for several years. Only the main cases of fraud in the financial statements that have occurred in the Brazilian stock market in the last 13 years were considered, due to the fact that these companies are obliged to hire an independent auditor to issue an opinion on their financial statements.

4 DATA PRESENTATION AND ANALYSIS

4.1 THE MAIN CASES OF BRAZILIAN COMPANIES COMMITTING FRAUD IN THEIR ACCOUNTING STATEMENTS

In 2023, the Brazilian stock market was surprised by one of the biggest accounting frauds by a Brazilian company. However, this was just one of several other major cases of accounting fraud committed by Brazilian companies that have occurred on the Brazilian stock market over the last 13 years. Among the main cases, we list those that have been independently audited and issued an unqualified opinion on their financial statements. They are: **Banco Panamericano; JBS; Americanas; CVC; IRB Brasil; Via (formerly Via Varejo); OGX Petróleo - Brasil; Petrobrás.**

4.2 ANALYSIS OF THE AUDIT OPINIONS OF THE COMPANIES THAT DISCLOSED FRAUDULENT FINANCIAL STATEMENTS

In recent years, cases of fraud in the accounting statements of large companies with shares traded on the national and international financial markets have been reported in Brazil. These cases cause uncertainty for investors and external users of accounting information, as well as financial losses for the many minority shareholders of these companies. A common point in these cases is that all the companies involved have been independently audited over the last few years and have had their audit opinions published on the audited financial statements, along with the fraudulent financial statements.

In order to analyze the construction of opinions prior to the detection of accounting fraud in Brazil, the word cloud was built using Nvivo14® *software.* This tool allows us to see the nominal volume of the most frequent words in the opinions studied, as shown in Figure 1.

Figure 1

Global cloud of the 1000 most frequent words with at least 5 letters



The results show the emphasis given by the auditors in the context under study, with the most frequent words found in the opinions in the center of Figure 1. As you move away from the center of the figure, the frequency is reduced and is limited by the criterion of 1,000 repetitions adopted by the author of the work. On the periphery of the figure you can see words such as fraud, risk, risks and distortion, thus revealing less emphasis given by the auditors. Table 1 shows the order of frequency of these words compared to the most used words.

Table 1

Number of words (clipping) from Figure 1

Order	Word	Counting	Weighted percentage (%)	Sum % Weighted
1	demonstrations	387	1,11	1,11
2	audit	286	0,82	1,93
3	accounting	245	0,70	2,63
4	bank	230	0,66	3,29
5	financial	214	0,61	3,90
6	administration	167	0,48	4,38
7	value	165	0,47	4,85

8	December	164	0,47	5,32
9	operations	161	0,46	5,78
10	total	153	0,44	6,22
35	risk	69	0,20	6,42
46	risks	57	0,16	6,58
92	fraud	38	0,11	6,69
95	distortion	37	0,11	6,80

Source: Research data, 2023.

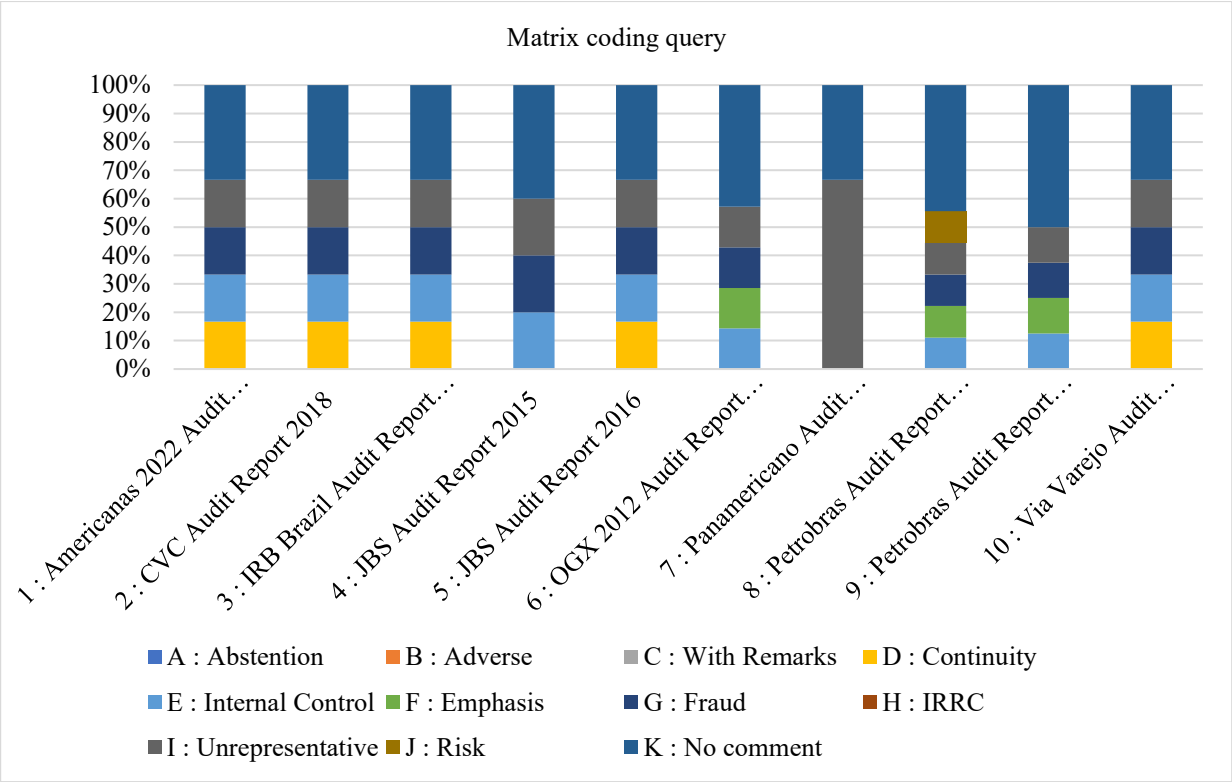
You can see the top 10 words in the ranking, their nominal quantity (count) as well as the weighted percentage in relation to the total number of words available in the sources (opinions). These numbers constitute the percentage of coverage calculated by Nvivo14® and reaffirm the low emphasis on terms such as risk (35th place), risks (46th), fraud (92nd) and distortion (95th). Part of these choices can be justified by the legal provisions in the NBCTAs relating to the audit opinion, which require a minimum number of paraFigures in the construction of an audit opinion. Naturally, the mandatory presentation of the focus of the audit work, scope, responsibilities, main audit matters, opinion, among other mandatory items, prevails. However, the NBCTAs do not exclude optional spaces through which the auditor can freely expose the results of his work in light of the planning carried out supported by adequate and sufficient evidence to support his opinion.

The emphasis paraFigure field is the space provided for this approach and is not limited by the standards in terms of maximum space for exposition without excluding the main audit matters field. In addition to this optional space, the standards also include the main audit issues paraFigure (mandatory), through which the auditors must explain the most relevant aspects detected during the work, as well as those that could jeopardize the continuity of the entity. If the opinions prior to the frauds detected in the cases under study had mentioned the possibilities of these frauds in these paraFigures, they would have been captured by the Nvivo14® calculation in the overall word count. As seen in Figure 1, the opinions did not use these tools to mention any possible evidence of the frauds subsequently exposed to the market.

Also in this context, 11 data collection codes were created using Nvivo14® to catalog the presence of words in the opinions and their respective frequencies. Based on this data, it was possible to carry out a qualitative analysis in order to understand the context in which the words were used and how they contributed to understanding the structure of the opinions. The words chosen for the author's convenience were: abstention; adverse; with reservations; continuity; internal control; emphasis; fraud; relevant uncertainty related to continuity (IRRC); unrepresentativeness; risk; and without reservations. The results of the qualitative analysis carried out by the *software* conducted by the author are shown in Figure 1.

Figure 2

Overall coding results



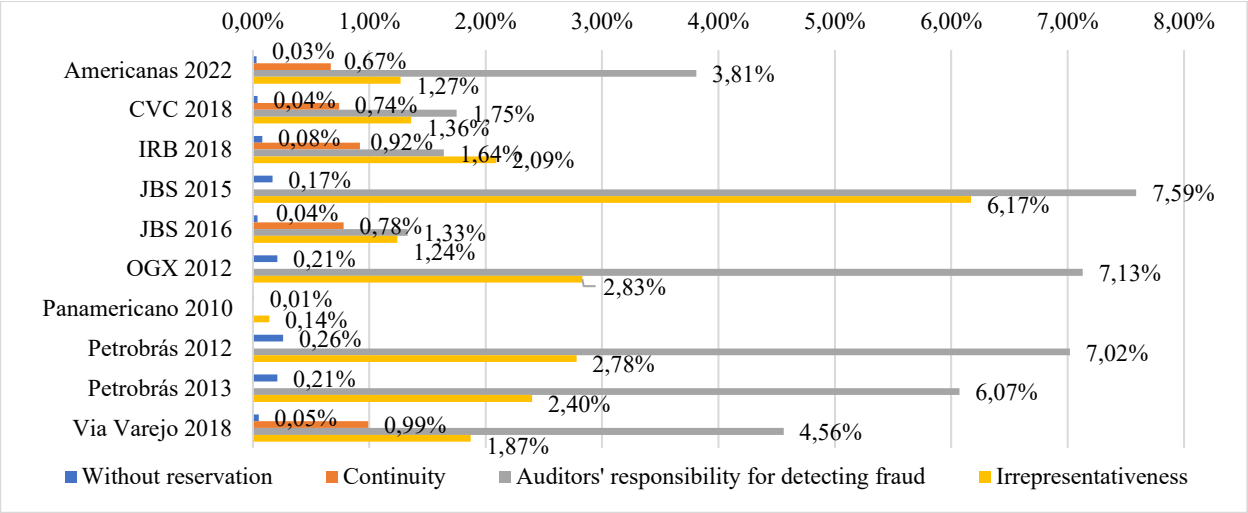
Source: Research data, 2023.

Figure 2 shows the absence of terms in the opinions under study, such as: abstention, adverse, with reservations and relevant uncertainty related to continuity. In addition, the logical presence of the term "unqualified" in all the other opinions (since none of them changed their opinion) is noteworthy. It should be noted that the auditors' unqualified opinion shows that, according to the work carried out on the companies audited, no evidence was found of material or widespread distortions capable of causing a change of opinion for the other situations available in the standard, namely: qualified or adverse. The abstention of opinion should be disregarded, as there was information found by the auditors during their work.

As a possibly aggravating situation in the context, we can see the higher incidence of the term "unqualified" (24 codes) compared to the other terms analyzed in the study, namely: unrepresentativeness (11 codes); internal control and fraud (both with 9 codes each); continuity (5 codes); emphasis (3 codes) and risk (1 code). It is well known that all the companies studied obtained unqualified opinions, thus explaining the numbers coded in the analysis, given the use of terms in opinions which would show relevant risks of fraud.

Figure 3

Percentage coverage of the terms coded in the opinions



Source: Research data, 2023.

Figure 3 shows the result of the coding in percentage coverage, thus denoting the number of texts used by the auditors relating to each of the terms. Figure 2 shows the intense reinforcement of the auditors' responsibility to detect fraud in the opinions studied. In addition to the mandatory legal aspect inherent in this item, it can be seen that the auditors gave relevance in this context by means of which it can be conveyed to the users of the information present in the opinions that the results present in the accounting statements analyzed were carefully analyzed from the perspective of fraud detection, given that the auditors assume responsibility in the meantime .

Unrepresentativeness appears next with the highest percentage of coverage in the opinions. This term was constructed in order to qualitatively measure the representativeness of the audited financial statements in relation to the reality of the audited entity's assets, insofar as it would appear with empty content if it were identified that the opinions did not represent the reality of the assets. It can be seen that the measured result demonstrates the auditors' reinforcement of the item that expresses the high quality of the statements analyzed, measured by their ability to perceive in them the reality of the entities' assets. Once again, the frauds discovered later contradict this condition presented in the opinions and lead us to develop a critical analysis of the contribution of the opinions to reducing fraud risk levels.

In addition, continuity was also perceived in the qualitative analysis as a textual lead to the user's perception that the facts identified in the opinions, whether in the main audit issues paraFigures or in any emphasis paraFigures, would not materially compromise the continuity of the companies. On this point, we note the absence of companies such as OGX and Panamericano, which in fact declared bankruptcy when the frauds were revealed.

However, the nominal amount of fraud in the other companies whose reports reveal the condition of non-commitment to continuity contradicts the essence of continuity, even if the companies have remained in the market, since the significant effects of fraud losses on their operations are reflected in actions such as dismissing employees, closing sales outlets, renegotiating contracts, entering into judicial reorganization proceedings, among other elements that undermine confidence in the continuity of the companies.

Although none of the opinions studied contained any reservations or adversity to the undeniable frauds that were subsequently identified, an additional analysis was carried out in the context of the opinion to see if there was any mention of the risk of fraud in any accounting account or asset contained in the audited financial statements. There was no mention of any content capable of indicating this possibility to the user of the information. Of particular note are the opinions given to OGX and Petrobrás, which mention the relationship between risk and fraud in the activities, but without any relevance to the operations and also without mentioning the possibility of fraud such as that which in fact occurred and was widely disclosed to society and assumed by the companies.

In the context of the opinions, the relationship between terms such as risk, fraud and internal control is addressed. This relationship can be measured using Pearson's correlation coefficient and is shown in Table 2. However, through qualitative analysis it was possible to see that this relationship does not lead the user to interpret the existence of fraud such as that revealed later. A fact that ratifies this perception is the unqualified opinion, given that if fraud were expressed by the auditors in the opinion, the opinion would necessarily be changed to qualified or even adverse.

Table 2

Pearson's correlation coefficient

Code A	Code B	Pearson's correlation coefficient
Codes\\Risk	Codes\\Internal Control	0,875805
Codes\\Risk	Codes\\Fraud	0,641555
Codes\\Fraud	Codes\\Internal Control	0,634802

Source: Research data, 2023.

This coefficient measures the direction of reference between the contents coded in the codes whose relationship is measured, as shown in Table 2. All the other codes were tested using Pearson's correlation, but did not obtain sufficient strength (<0.6 or >-0.6) to enable analysis with the available data.

With regard to the positive correlation, it was found that the opinions refer to the auditors' responsibility to mention in their opinion the possibility of fraud risk if identified, to

the conceptual aspect that the possible existence of fraud can be linked to internal control, as well as the important role of internal controls in fraud prevention. In all the opinions, no mention was made of the existence of flaws in the entity's internal controls. On the contrary, the auditors ratified the quality of the audited companies' internal controls when carrying out their work.

Given this reality, it is worth reflecting on the effective contribution of audit opinions in reducing the risk of accounting fraud. A priori, the independent auditor's work involves reducing the risk of this occurring insofar as, as part of his work, he carries out tests in order to verify the correct application of control procedures with a view to issuing an opinion on the quality of the procedures used as well as the ability of the financial statements to reflect the reality of the entity's assets.

The opinion data found in this study calls into question the quality of the opinion issued in the independent auditor's work process, since all the companies that had cases of fraud underwent an independent audit over the last few years prior to the disclosure of the fraud and their respective audit opinions on the audited financial statements. The focus of the study in this article reinforces the fact that independent auditing, as well as the issuing of an unqualified opinion, should not be taken as an instrument for preventing or detecting accounting fraud by external users of accounting information, but only as an instrument for reducing the risks of its occurrence.

5 FINAL CONSIDERATIONS

The general objective of the study was to contribute to an understanding of the role of the audit opinion as an instrument for reducing the risk of fraud in published financial statements, rather than as an instrument for detecting fraud. It is possible to see that, for the sample under study, the existence of unqualified opinions as well as the possible existence of an emphasis paraFigure (when the opinion is not qualified) and the respective existence of a specific field for dealing with the main audit issues was not enough to guarantee the absence of material distortions in all the cases studied. It is worth reflecting on the fulfillment of the independent audit objective set out in NBCTA200(R1) when issuing the opinions studied, which is to increase the degree of confidence in the financial statements on the part of users.

It is also clear that the procedures used by the auditors described in their opinions are in accordance with the NBCTAs in force in Brazil at the time the opinions were issued up until the end of this study, disassociating the results of this research from any kind of accusation against the audit professionals involved in the opinions studied. We therefore turn to a critical

analysis of the NBCTAs, which make it possible to issue opinions whose technical construction did not provide sufficient support to sustain an opinion capable of confirming the absence of relevant fraud in the cases studied.

The reality described in this study must not be repeated. World-famous cases of fraud, as well as national cases, have had their audit opinions issued without reservations, without any information being passed on to the market, even in the face of the significant volume of funds embezzled in fraudulent schemes hidden in the financial statements. It encourages discussion of possible ways of tackling this reality, the solutions to which must emerge not only from the regulatory bodies, but also from the accounting profession, companies and academia.

Research limitations include the number of opinions studied and the choice of analysis method. For future research, we suggest broadening the base to include international cases, conducting interviews with auditors involved in the situations of the companies studied, as well as analyzing a sample of users with regard to the possible difference in expectations between the work expected of the auditor and what they actually do in their opinions.

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