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MÉMOIRE

PRESENTÉ

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"If I have seen further, it is by standing on the shoulders of giants."

Isaac Newton

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LIST OF ABBREVIATIONS AND ACRONYMS

AICPA	American Institute of Certified Professional Accountants
ACFE	Association of Certified Fraud Examiners
EG	Expectation Gap
EC	Enron Corporation
GAAS	Generally Accepted Audit Standards
HRC	HealthSouth Corporation
IFAC	International Federation of Accountants
IIA	Institute of Internal Auditors
LBI	Lehman Brothers Inc.
PCAOB	Public Companies Accounting Oversight Board
SEC	Security and Exchange Commission
SOX	Sarbanes-Oxley Act

RÉSUMÉ

Plusieurs études ont démontré l'existence de l'*expectation gap* (EG), défini comme une divergence d'opinion entre les attentes du public en ce qui concerne les rôles et responsabilités de l'auditeur et celles définies par la profession d'audit. Ce phénomène met un accent particulier sur la responsabilité de détection de fraude de l'auditeur externe. Ces études ont aussi démontré la constance du phénomène, malgré les amendements faits par la profession d'audit pour réduire les attentes du public par rapport aux questions de détection de la fraude aux états financiers. Toutefois, peu d'études se sont intéressées aux facteurs influençant la persistance de l'EG. L'objectif de cette étude est de faire ressortir les facteurs influençant la persistance de l'expectation gap. Pour ce faire, cette étude suppose que les facteurs qui influencent la persistance de l'EG sont les médias et les décisions juridiques de procès intentés contre les auditeurs.

En nous basant sur la théorie néo-institutionnelle et le modèle triangulaire de responsabilité, nous avons procédé à l'analyse de 82 documents aussi bien médiatiques que légaux en lien avec trois scandales financiers (Enron, HealthSouth et Lehman Brothers) survenus aux États-Unis entre 2001 et 2010.

Les résultats de nos analyses montrent que, comme le suppose Schlenker *et al.* (1994), afin de juger de la responsabilité de l'auditeur, les médias et la loi se focalisent sur l'implication directe de ce dernier par rapport à l'événement analysé. Ainsi, les actions (action ou inaction) de l'auditeur ainsi que le non-respect de ses obligations professionnelles le rendent responsable de l'incidence des fraudes selon les médias et la loi. Aussi, les acteurs s'attendent à ce que les normes et réglementations en audit reconnaissent une responsabilité de détection de fraude pour les auditeurs externes. Par conséquent, nos résultats suggèrent que, par leur perception et présentation des faits, les médias et le système légal ont une influence sur la persistance de l'EG. Cependant, nos conclusions montrent que les médias ont une plus grande influence que la loi sur la perception du public. En effet, les médias sont plus accessibles au public que les rapports de procédures judiciaires. En outre, l'impact des médias sur le monde corporatif a été maintes fois prouvé, aussi bien par leur grand pouvoir de dissuasion en ce qui concerne les problèmes de gouvernance d'entreprise (Dyck et al., 2008), que par leur rôle de supervision de la fraude corporative (Miller, 2006). Pour ces raisons, le

public serait souvent plus enclin à adopter les positions des médias qui sont comme un défenseur impartial de ses intérêts.

En définitive, nos conclusions indiquent que le phénomène de l'EG est toujours aussi proéminant. La question de la responsabilité de l'auditeur pour la détection des fraudes en est un facteur important. Il est donc peu probable que le phénomène régresse en raison de l'influence des médias et du système légal. En outre, si la profession d'audit n'adopte pas une nouvelle position sur la responsabilité de détection de la fraude aux états financiers en accord avec celle du public, elle restera confrontée à des doutes quant à sa légitimité.

Mots-clés : Expectation gap – Média – Jurisprudence – Détection de fraude – Responsabilité - Auditeur externe.

ABSTRACT

Several studies have highlighted the existence of the expectation gap (EG), defined as a difference of opinion between public expectations of the roles and responsibilities of the auditor and those defined by the audit profession. This phenomenon emphasizes the external auditor's responsibility to detect fraud. These studies have also demonstrated the consistency of the phenomenon, despite amendments made by the audit profession to reduce public expectations regarding issues of fraud detection in financial statements. However, few studies have addressed the factors influencing the persistence of the EG. The objective of this study is to highlight the factors influencing the persistence of the expectation gap. In this respect, this study assumes that the factors influencing the persistence of the EG are the media and legal decisions of lawsuits brought against auditors.

Based on neo-institutional theory and the triangular liability model, we analysed 82 media and legal documents related to three financial scandals (Enron, HealthSouth, and Lehman Brothers) that occurred in the US between 2001 and 2010.

The results of our analyses show that as Schlenker *et al.* (1994) concluded, to judge the responsibility of the auditor, the media and the law focus on the direct involvement of the auditor concerning the event being analysed. Thus, the actions (action or inaction) of the auditor as well as the failure to comply with professional obligations render the auditor responsible for the incidence of fraud according to the media and the law. Besides, stakeholders expect auditing standards and regulations to recognise the responsibility of external auditors to detect fraud. Therefore, our results suggest that through their perception and presentation of facts, the media and the law influence the persistence of the EG. However, our findings indicate that the media have a greater influence than the law on public perception. Indeed, the media are more accessible to the public than reports of court proceedings. Moreover, the impact of the media on the corporate world has been proven repeatedly, both by their great deterrence power concerning corporate governance issues (Dyck *et al.*, 2008), and their role as a watchdog of corporate fraud (Miller, 2006). For these reasons, the public would often be more inclined to embrace the media perspective as the latter seems to be an impartial advocate of the public's interests.

Overall, our findings indicate that the EG phenomenon is still prominent in modern years. The issue of the auditor's responsibility for fraud detection is a significant factor of the EG. Therefore, it is unlikely that the phenomenon will reduce due to the influence of the media and court decisions. Furthermore, it seems that unless the audit profession adopts a new stand on the responsibility for financial statements fraud detection in accord with the public expectation, it will remain confronted with doubts concerning its legitimacy.

Keywords: Expectation gap – Media – Legal – Fraud detection- Responsibility- Independent auditors.

INTRODUCTION

The corporate world has often been the scene of financial disrupts and scandals over the years. The economic crises and restraints of 2002 and 2008 are its best examples. The financial scandal of big companies, such as Enron and WorldCom, had disastrous consequences on the financial markets and the global economy. They are also followed by many controversies and debacles. The recurring controversy concerning accounting scandal is mostly related to independent auditor's responsibilities. The root of this controversy predates the financial crises of the years 2000. It was first introduced by Liggio in 1975 as the audit expectation gap (EG). Liggio (1975) defines this gap as the difference in expectation levels as to both the quality and standard of the accounting profession's performance and what it is expected to accomplish. Though this phenomenon has existed for a long period, the recent crises appeared to have reinforced the debate. Indeed, these scandals have raised the awareness of professional institutions and regulators about the importance of fraud detection and prevention in companies.

Fraud detection has remained a constant factor of the expectation gap over the years (Howard and Alleyne, 2005). For the accounting profession, fraud detection and prevention lie with the management team of the company. While, users of financial statements (investors, journalists, politicians, and others) expect auditors to detect and report significant fraud and irregularities within the company (Sikka *et al.*, 1998). Over the last two decades, the effort of the accounting profession to reconcile users' expectations to the audit profession have remained inefficient. On the contrary, the public expectation has strengthened according to the numerous prosecutions faced by auditors for failing to warn shareholders and other stakeholders of the precarious financial situation of the companies or for failing to detect the frauds that contributed to those failures (Dennis, 2010). In many prosecution cases, the financial statement fraud[1] may have gone undetected for years despite the audits these companies had undergone (for example Lehman Brothers, Enron). The users' position is easily justifiable when referring to the case of Lehmann Brothers, an American bank that filed for bankruptcy protection in 2008 despite an unqualified audit report by Ernst & Young for its previous year's accounts. Moreover, numerous studies have proven that even in recent times, the audit expectation gap still exists (Howard and Alleyne, 2005; Masoud, 2017; Porter *et al.*, 2012).

The historical background of the EG proved that there is a constant conflict between the public and the independent auditors, especially on the issue of fraud detection. The purpose of this study is to highlight the factors influencing the persistence of EG despite many regulations and provisions put in place by the audit profession to limit the external auditor's responsibility for the detection of fraud. This study supposes that the persistence of the EG is related to the influences of the media and the legal system. Accordingly, the research question for this study is as follows: How do the media and legal decisions affect users' perceptions of the external auditor's responsibility for detecting financial statement fraud?

The recent study of Cohen *et al.* (2017) has highlighted the impact of media bias as a factor in the persistence of the expectation gap. The media is an essential stakeholder in society as well as the primary source of information for the general public. As such,

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[1] Throughout this report, the concepts of "financial statement fraud" and "fraudulent financial reporting" are used as synonyms and are interchangeable within the study's context. Indeed, the independent auditors express their opinions on the company's financial statements based on their analysis of the financial informations reported in the statements. Thus, the financial statement fraud is a result of the fraudulent reporting scheme perpetrated by the fraudsters. However, the use of fraudulent financial reporting in our context excludes derivatives such as reporting channels and reporting systems which are the sole responsibility of the company's management.

an apparent bias in the relaying of information related to fraud reinforces the view that the auditor should assume greater responsibility for fraud detection (Cohen *et al.*, 2017). Indeed, according to recent newspaper content in the United Kingdom (UK), auditors should uncover fraud. According to The Guardian newspapers, as a result of the latest accounting scandals in the UK, auditors faced more scrutiny over audit quality (Jasper, 2019). Moreover, based on a recent government-commissioned report, the UK could be on the fast lane on making fraud detection an objective of financial audit (Browning, 2019). This study is positioned in the same dynamic as the one conducted by Cohen and his collaborators. Beyond the media aspect, the second assumption of the study on the persistence of EG is the legal factor. Indeed, the legal and judicial system is the last resort in determining responsibility or guilt when referring to the legal actions taken against auditors. The recent case of Livent *v* Deloitte & Touche is an example of the influence legal decision has on public perception. In this case, the auditor was found guilty of negligence by the Supreme Court of Canada (SCC) on December 20, 2017. According to CPA Canada, this decision by the SCC could have an impact on the future of the audit profession in Canada. These impacts focus on several key issues, including public expectations of stronger fraud regulation and possible changes to Canadian auditing standards to best meet revised auditing expectations (CPA, 2018).

As such, this study offers a better understanding of media and legal opinion on auditors' responsibility for fraud detection. More specifically, it proposes a conceptual framework for analyzing the concept of responsibility. Considering that responsibility is a more common concept in philosophy than in accounting sciences, it is essential to understand and assimilate the nuances of the concept.

The study is divided into five (5) chapters. The first chapter presents a financial statement fraud overview. First, it enables a better understanding of financial statement fraud by specifying its instigators as well as its cost for companies and financial markets. Next, it specifies the responsibilities of the audit committee, management, internal audit, and independent auditors for financial statements. Finally, the chapter ends with a summary presentation of the media and legal opinions on the responsibility of independent auditors for fraud detection.

The second chapter proposes a literature review for the study. The literature review makes uses of both the neo-institutional and the triangle model of responsibility theories to establish the theoretical framework of our study. Based on the components of the triangle model of responsibility, we defined the conceptual framework of the study.

Chapter three details the research methodology. This study is a qualitative study based on content analysis. For this study, the United States of America (US) was selected as the study context. Also, the period of the study is between the years 2001 and 2010. In this chapter, the population of the study and the case selection procedure is presented. The chapter ends with a thorough presentation of the data collection procedure as well as the data processing and analysis. The fourth chapter presents the research results and a brief summary of the findings of each case. Finally, the last chapter discusses the research findings and concludes the study.

CHAPTER I

FINANCIAL STATEMENT FRAUD OVERVIEW

The objective of this study is to examine the independent auditor's perceived responsibility for financial fraud detection. This objective relies on two ideas. The first is that financial statement fraud poses a huge risk to organizations and needs to be detected. The second idea presumes, rightly or wrongly, that independent auditors[2] may be perceived as responsible for that detection. The purpose here is to ascertain financial statement fraud, the sense of auditor's responsibility on that type of fraud, and the scope of responsibility third parties think the auditors may have.

This chapter begins with a definition of financial statement fraud. Although there is a consensus that fraud is an illegal act, it encompasses several other concepts that make its definition somehow subjective. The focus of this study is on financial statement fraud as it is the main concern of independent auditors. Then, we identify the reasons that make financial statement fraud a greater concern for organizations and auditors. Furthermore, we refer to the professional and institutional obligations of the auditors related to fraud, determining whether any of the latter assigns a fraud detection

[2] The terms "independent auditors" and "external auditors" are synonysms and are used interchangeably throughout this study.

responsibility to the auditors. Finally, we present the perspective of the media and the legal jurisdiction on the issue.

1.1 Financial statement fraud: definition and consequences on organizations

1.1.1 Definition of financial statement fraud

Fraud is not a modern or recent concept in the literature. When referring to the concept of fraud, concepts such as legal, institutional, and economic ethics are directly interrelated. As a result of these interrelations, defining fraud is a bit tricky. In legal terms, Fraud often involves deception and bad faith, it is characterized by breach of contract, and from a moral point of view, commercial and financial crises are related to transactions that violate law and ethics (Blanque, 2003). More specifically, the International Federation of Accountants (IFAC) in its International Standard on Auditing (ISA) 240 defines fraud as "an intentional act by one or more individuals among management, those charged with governance, employees, or others involving the use of deception to obtain an unfair or unlawful advantage." (IFAC, 2005). Albeit it seems difficult to define fraud clearly and concisely, two facets of fraud are consistent: the intentional use of deception and the unfair advantage gained by the fraudster.

The Association of Certified Fraud Examiners (ACFE) identifies three categories of corporative fraud. These categories are misappropriation of assets, corruption, and financial statements fraud. According to the ACFE, asset misappropriations are schemes in which the perpetrator steals or misuses an organization's resources. Bribery schemes involve the use of an employee's influence in business transactions in a manner that violates his or her duty to the employer in order to obtain an advantage for himself or herself or someone else. Financial statement fraud schemes are those involving the intentional misstatement or omission of material information in the organization's financial reports (ACFE, 2018).

Though the three types of fraud are of great concern for companies, this study focuses on financial statement fraud. Indeed, the independent auditor provides his/her reasonable assurance on the transparency and fairness of the financial statements. Further, financial statement frauds are the basis of the recurring financial scandals which brought to the forefront the expectation gap between auditors and the general public. For the purpose of this study, it is indispensable that we understand how financial statement frauds are committed, who commits them, and why they are committed. Rezaee (2010) listed various schemes through which people commit financial statement fraud. Some of these schemes are:

- Falsification, alteration, or manipulation of material financial records, supporting documents, or business transactions.

- Material intentional omissions or misrepresentations of events, transactions, accounts, or other significant information from which financial statements are prepared.

- Deliberate misapplication of accounting principles, policies, and procedures used to measure, recognize, report, and disclose economic events and business transactions.

- Intentional omissions of disclosures or presentation of inadequate disclosures regarding accounting principles and policies in addition to related financial amounts.

This type of fraud is mostly referred to as “management fraud”. Senior management, mid and lower-level employees, and organized criminals are the three main groups of people that commit financial statement fraud. Apart from the organized criminals, the other groups are part of the internal environment of the companies. They have direct links to the daily activities of the firm and the financial statement reporting process. Besides, according to *the Fraudulent Financial Reporting:1998-200* realeased by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in over 80% of the financial frauds investigated by the Security Exchange Commission (SEC), the CEO and/or CFO are implicated (Wells, 2005, p.274) . In these companies, the top managers usually have significant stock ownership and a powerful stake in the decision-making process. Their positions allow them to override existing internal controls and to influence subordinates to perpetrate the fraud (Beasley *et al.*, 2001). Moreover, management is responsible for the production of financial reports as well as the fair presentation, integrity, and quality of the financial reporting process (Rezaee, 2010). The top executives’ positions allow them to override existing internal controls and to influence subordinates to perpetrate the fraud. Consequently, such kind of fraud could nearly be impossible to perpetrate without the knowledge of the management.

Various reasons can explain why someone may engage himself or herself in fraudulent activities. Donald Cressey was the first to focus on embezzlement issues in the corporate world. He drew a hypothesis of the motivations of a fraudster. Cressey’s hypothesis is best known as the fraud triangle, which encompasses pressure (motive), opportunity, and rationalization (Wells, 2005). The starting point of all frauds is a motive, the fraudster must have a need or feel a pressure based on personal issues (Beasley *et al.*, 2001). In the case of fraudulent financial reporting, the motive can be classified into three categories: concealment of true business performance, preservation of personal status or control, and maintaining personal income or wealth (Wells, 2005). For example, for the purpose of a merger or acquisition, management may conceal the performance of the business to support the stock price. If managers receive bonus compensation based on performance, they may likely overstate business performance for personal gain.

The second element of the fraud triangle is opportunity. The opportunity to commit fraud is greater when the entity's controls are deficient in design and/or in operation (Beasley *et al.*, 2001). Nevertheless, it should not be forgotten that even when controls are designed accordingly, managers can override them and purposely influence subordinates in perpetrating fraud. Finally, the fraudsters can rationalize in convincing themselves that the fraud is for the greater benefit. Especially when the management representatives rationalize the appropriateness of a material misstatement. For instance, they may use complex accounting rules to create a temporary misstatement of financial statements, expected to be corrected later when operational results improve[3].

1.1.2 Cost of financial statement fraud

Over the last fifteen years, fraud cases have had the particularity not only of being recurring but also of reaching increasingly large amounts (Le Maux *et al.*, 2013). The *Global Economic Crime and Fraud Survey* conducted by PricewaterhouseCoopers (2018) indicates that 49% of global organizations reported having been victims of fraud and economic crime the previous year. The ACFE provides an estimate of total losses due to organizational fraud of over $3.6 billion for the year 2019. Among the 2504 cases recorded, 895 cases are accounted for in the USA and Canada (46% of cases) for an average loss of US$ 120,000 (ACFE, 2020). Specifically, the collapse of Enron has caused about $70 billion loss in market capitalization. Loss of market capitalization

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[3] The Public Company Accounting Oversight Board detailed in Auditing Standard 2401: Consideration of Fraud in a Financial Statement Audit, the characteristics of fraud and the unique way management have more ability to perprate fraudulent schemes.

resulting from the alleged financial statement fraud committed by Enron, WorldCom, Qwest, Tyco, and Global Crossing is estimated to be about $460 billion (Rezaee, 2010).

Not only does fraud involve an enormous loss for companies, but it also jeopardizes the principle of their going concern. Most financial statement frauds remain undetected until companies file for bankruptcy. In that context, they are directly hurtful to investors and creditors who lose all or part of their investments if such fraud results in bankruptcy, near-collapse, a substantial decline in stock market prices, or delisting by stock exchanges regulators (Rezaee, 2010). In a social context, it is also devastating for employees, and pensioners, which lose their jobs and pensions in the process. Further, it affects adversely the nation's economic growth and prosperity. The economic results can be tremendous as the financial crisis of 2002 and 2008 in the United States have proven. Other costs of fraud include legal fees, increased insurance costs, loss of productivity, monthly costs, and negative effects on employee morale, customer goodwill, supplier confidence, and negative stock market reactions (Rezaee, 2010).

Undoubtedly, financial statement fraud is harmful in many ways, especially when related to public confidence. This fraud shatters public confidence on three legitimate bases. First, it undermines the quality and integrity of financial reporting. It is obvious that when a financial statement has been forged, its content is distrustful. Subsequently, it reduces the confidence of capital markets as well as market participants in the reliability of financial information (Rezaee, 2010). Finally, in terms of stakeholder interest, major public failures without audit warnings, such as Enron and WorldCom, have raised concerns about the guidance given to and by auditors (Rezaee, 2005). Their inability to detect the fraud have eroded public confidence in the integrity and objectivity of the auditing profession, especially auditors and majors auditing firms, for example, the case of Andersen relating to Enron and WorldCom frauds in 2002. As well as the case of Lehmann Brothers, an American bank that filed for bankruptcy in

2008 despite an unqualified audit report of its account for the previous year by Ernst & Young.

Upon the preceding, it is established that financial fraud is a serious concern for corporate firms. This kind of fraud is generally perpetrated by management. Although it is less common than other types of fraud, its costs are huge for the firm. Also, apart from its financial costs to the firm, it can erode public confidence in many ways. Thus, there is an evident need for effective fraud detection process for companies. In order to discuss fraud detection, we should first determine who are those responsible for fraud detection in the companies.

1.2 Corporate governance entities' responsibility for financial statement fraud

Regarding corporate fraud, the American regulatory system defines the roles and responsibilities of the various governance entities of the firm (SOX act, Auditing Standard). As related to management fraud, it highlights four essential actors: the audit committee, the management, the internal audit, and control, as well as the independent auditor. In the subsequent sections, we briefly outline the responsibilities of each of these actors in relation to financial statement fraud.

1.2.1 Audit committee oversight role

First, the audit committee serves as a mechanism of corporate governance. The committee oversees management, the independent auditor, and the internal auditor to protect the interests of shareholders (DeZoort, 1997). The adoption of the Sarbanes-Oxley Act (SOX) has expanded the focus on the audit committee -as the key monitors of the senior management for US public companies, especially the monitoring of the financial reporting process (Wilbanks *et al.*, 2017). Indeed, the act addressed matters such as the composition and the responsibilities of the committee. According to SOX, each member of a company's audit committee must also be a member of its board of directors. The audit committee members must be independent and at least one of the members must be a financial expert (Wells, 2005). The independence portrayed by the act specifies that members of the audit committee may not perform consulting or advisory services other than those performed within their role in the committee. The members may not receive any compensation apart from their service on the board of directors, the audit committee, or another committee of the board of directors (Wells, 2005).

Besides, since its adoption, SOX has incorporated direct policies of the committee's responsibility for financial reporting and its oversight of audit processes in U.S. public companies. As a matter of fact, to enhance the quality and transparency of financial reports, the act requires that the committee appoints, compensates, and oversees the works of the company's independent auditors (Wells, 2005). Furthermore, the committee has the responsibility to review the financial statements of the firms along with management and auditors (Keinath and Walo, 2004). Also, it is through the quarterly and annual financial statements that stakeholders are assured of the firm's financial condition and the management's operating performance. To ensure that these statements present that information, the audit committee must monitor the internal control processes. Regarding corporate fraud and abuse, establishing a whistleblowing structure in the company is a committee duty. The SOX act instructs the audit committee to implement various channels for receiving and dealing with anonymous complaints of internal and external parties about irregularities in the firm's accounting methods, internal controls, or auditing matters (Wells, 2005). Undoubtedly, tips are the more effective tools for fraud detection in an organization. For illustration, forty percent (43 %) of the fraud detected in the year 2019 was made through tips (ACFE, 2020).

Notwithstanding the requirements of the SOX act on the audit committee responsibilities, neither has the corporate fraud percentage declined, neither has the cost reduced. The subsequent frauds since 2002 and the major financial crisis of 2008 proved that. Over the years, the effectiveness of the audit committee oversight role has been considerably questioned in the literature. The recurring assumption is that the committee does not fulfill all responsibilities that may lead to the efficiency of its oversight role (Keinath and Walo, 2004). DeZoort *et al.* (2002) stated that audit committee effectiveness (ACE) has three inputs known as composition, authority, and resources. Also, diligence is the process needed to achieve ACE. The audit committee members must be willing to work together as needed to prepare, ask questions, and pursue answers when dealing with management, external auditors, internal auditors, and other relevant constituents for the best interest of stakeholders. However, in their assessment of ACE, Keinath and Walo (2004) reported that the audit committee assumes little or no authority in providing a whistleblowing structure, neither do they have authority in approving related-party transactions, or pre-approving audit and non-audit fees. Moreover, Beasley *et al.* (2009) determined that there is a lack of consensus on the committee audit oversight role of the financial reporting process. The authors stated that some members address accounting policies to ensure vigorous oversight, while others seem to do very little, playing rather a ceremonial role by simply depending on the auditors with minimal analysis of the issues. Yet, the committee interactions with the internal and external auditors have increased since SOX (Beasley *et al.*, 2009).

Altogether, it is certain that the audit committee as a governance mechanism has a responsibility for the financial reporting system. They must ensure that the financial statements presented to stakeholders are a truthful representation of the company's financial condition. However, the committee has a mere supervisory role and does not partake in the financial reporting process. Its responsibility is rather improving channel and means for detection than having a fraud detection responsibility in companies.

1.2.2 Management responsibilities

The management is the corporate entity for which there is no doubt when it comes to responsibility and accountability for the financial reporting process. In section 02 of the Auditing Statement (AS) 1001[4], The Public Company Accounting Oversight Board (PCAOB) clearly stated that "financial statements are the management responsibility". Furthermore, management is responsible for the adoption of sound accounting policies as well as establishing and maintaining internal control that will, among other things, initiate, record, process, and report transactions consistent with management's assertions embodied in the financial statements (PCAOB, 2017a). Following the adoption of SOX, the role and responsibility of the Chief Executive Officers (CEO) and Chief Financial Officers (CFO) have inevitably increased. As stated earlier, financial statement frauds are majorly perpetrated by the company's management as they have means and authority to override the company's internal control (Beasley *et al.*, 2001; Rezaee, 2010). Consequently, one of the notable requirements of the act is the personal certification of CEOs and CFOs of quarterly and annual SEC fillings. The certification requires the management to take responsibility for the company's financial statements and prevent them from delegating responsibilities to subordinates in order to escape responsibility when financial statements are proved fraudulent (Wells, 2005).

The certification obligation of the management lies within criminal and civil laws. For example, criminal certifications are found in section 906 of the act. They require that the periodic filling with the SEC must be submitted along with a signed statement of the CEO or CFO. The signed statement must certify that the report satisfies the SEC's periodic reporting requirements and that the information in the report fairly represents,

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[4] The Public Company Accounting Oversight Board (PCAOB) was established in 2002 by the SOX act. The board is responsible of overseeing public company audits. It must also set audit standards and investigate acts of noncompliance by auditors or audit firms.

in all material respects, the financial condition and operating performance of the company. Violation of the certification requirements may attract fines up to $5,000,000 and up to twenty years imprisonment when the violation is willfully made. On the other hand, civil certifications require the CEO and CFO to personally certify in their reports on six items. Among these elements, management must certify that they have personally reviewed the report. They must also certify that any material weaknesses in the control's and any fraud whether material or not that involves management or other employees who have a significant role in the company's internal controls have been disclosed to the auditors and audit committee (Wells, 2005).

In summary, the reliability of the financial reporting process and the implementation of sound internal control for financial statements are the responsibility of the management. Nevertheless, financial statement fraud is mainly committed by management. Agency theory justifies managerial fraudulent activities through the idea that there is a discrepancy between the interests of the managers and those of the shareholders. In this respect, managers cannot be expected to expose or detect frauds when they are fraudsters. Therefore, when referring to fraud detection, the entity people think of is often the auditor, whether internal or external.

1.2.3 Internal audit function

In the past few years, the need for good corporate governance for public companies has long been emphasized both by the public and the regulatory agencies. Without a doubt, the internal audit function of a company is a vital element of its corporate governance (Coram *et al.*, 2006). The various requirements of SOX, regarding either the audit committee or the management, incorporate the implementation and assessment of the company's internal control system. Moreover, the act requires that the external auditor attests of the effectiveness of the company's internal control over financial reporting (Reding, 2007). Besides, internal auditing is the second-best tool in fraud detection in companies. Indeed fifteen percent (15%) of the fraudulent reported cases in 2020 were detected through the internal audit function (ACFE, 2020). Also, it enhances the fraud detection process in organizations. It provides added value to the company by establishing processes to monitor the company's activities in order to prevent and detect irregularities (Drogalas *et al.*, 2017).

The Institute of Internal Auditors (IIA) defines internal auditing as “an independent, objective, assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes” (Coram *et al.*, 2006; Reding, 2007). Among the key components of its function, internal audit must evaluate and improve the effectiveness of risk management, control, and governance processes. And in the present corporate governance framework, the internal auditor assessment of fraud risk in public companies has expanded (DeZoort and Harrison, 2008). However, internal auditors have no stated responsibility to detect fraud. The International Standards for the Professional Practice of International Auditing (IPPF) in section 1210-A2 describes the internal auditor role related to fraud in organizations. The standard recommends that “internal auditors must have sufficient knowledge to evaluate the risk of fraud and how it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud” (IIA, 2017). Despite the limitation stated in the standard, DeZoort et Harrison (2008) found that internal auditors perceived fraud detection as highly relevant to their jobs. In that context, the auditors reported either moderate or higher level of responsibility for fraud detection depending on their sense of accountability. Yet internal auditors, especially in the US, perceive higher responsibility for cases of assets misappropriation than for financial statement frauds and corruption cases (DeZoort and Harrison, 2008).

Due to its role as a corporate governance mechanism, the internal audit function's effectiveness is often questioned. The latest regulations (SOX) has made emphasis on the necessity of internal audits and controls. Alongside this, the demand for internal audit services has considerably increased in the past 30 years (Reding, 2007). Many companies have invested considerable funds in implementing internal audit services. The concern here is the relation between the cost of the implementation of audit services and its benefits for the companies. In fact, despite its many advantages, the internal audit function is still hardly effective in the process of detecting financial statement fraud. Its 15% detection percentage remains relatively small compared to the 85% of frauds that goes undetected. .Apparently, internal audit services are more effective for fraud and irregularities detection when they are sourced (Coram *et al.*, 2006). Besides, in order to prevent and detect frauds, companies must create a positive internal audit environment, establish a strong internal audit system, and hire experienced and trusted people as internal auditors. The company must continuously train the audit staff to recognize and detect possible fraud by developing various prevention strategies (Drogalas *et al.*, 2017).

Although internal and external auditors provide financial reporting assurance services, the main difference between them is the audience. The internal auditor services are for the primary benefit of management and the board of directors. Whilst external auditors provide their financial reporting insurance for third parties. (Reding, 2007). The ability of the internal auditors to detect fraud is of lesser concern to a larger public. Consequently, external auditors are more criticized for corporate fraud issues.

1.2.4 Independent auditors' responsibilities

It is impracticable to address issues on financial reporting without mentioning the independent auditor. The independent auditor's social role places her or him as the ultimate safety base for third parties. As a matter of fact, the US securities laws assign to the independent auditors the role of certifying the financial accounts of all public companies (Wu *et al.*, 2002). Thus, when making financial decisions about a company, third parties rely on the auditor's independent certifications (Reding, 2007). Through the certification of the accounts and the financial statements, the auditors give their assurance that financial statements can be trusted and used for informed financial decisions. The auditor's attestations provide credibility to the financial information and therefore increase the users' confidence regarding the accuracy, completeness, and validity of the information upon which they base their decisions (Reding, 2007). However, the latest series of corporate financial failures revealed that public confidence was deeply eroded regarding the audit process. The public has developed some skepticism of the role of the independent auditor and its contribution to social welfare (Ardelean, 2013). Indeed, the public expected that the auditors detect financial statement fraud. Even though, the US GAAS has explicitly stated that auditors might not be able to detect all fraud even with all due care (Albrecht and Hoopes, 2014).

With the Enron scandal and the implication of Andersen, the SOX act has extensively addressed the independent auditor's responsibility, with regards to auditor independence. According to Wells (2005), the greatest concern that arises from the financial scandal was the consulting fees paid to auditors by public companies. In fact, there is a concern that the public accounting firms that received large amounts of consultation related fees could not be objective enough, and neither could they be professionally skeptical in conducting audits for those clients. In order to limit that issue, the SOX act prohibits accounting firms from performing services such as bookkeeping services, actuarial services, and internal audit outsourcing services on behalf of their clients. Besides, the accounting firm or the lead partner of the audit team must be rotated every five years. Likewise, considering that conflict of interest issues call into question the auditor's independence, it is unlawful for the accounting firm to audit the company if within the previous year the client's CEO, CFO, controller, or chief accounting officer worked for the accounting firm and participated in the company's audit (Wells, 2005). Along with those requirements, SOX assigns auditors (both internal and external) to report directly to the audit committee. The auditors must report all critical accounting policies and practices used. They must report on any alternative Generally Accepted Accounting Practices (GAAP) methods that were discussed with management, the ramifications of those alternative treatments, and the treatment preferred by the auditors. Also, any other material written communication between auditors and management must be reported to the committee.

The PCAOB explicitly defines the scope of responsibility of the auditors and management related to financial statements and the reporting process. In AS 2401 paragraph 5, it is stated that the auditor's interest specifically relates to acts that result in a material misstatement of the financial statements. Two types of misstatements are relevant to the auditor's consideration of fraud: misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets. Misstatements arising from fraudulent financial reporting are intentional misstatements or omissions of amounts or disclosures in financial statements designed to deceive financial statement users where the effect causes the financial statements not to be presented, in all material respects, in conformity with generally accepted accounting principles (PCAOB, 2017b).

Although regulations agencies limit its responsibility on the issue of fraud, the audit profession is aware that financial statement fraud could be harmful to its reputation. Indeed, even though auditors are primarily responsible to the company and its shareholders, they have been increasingly held responsible to government agencies, stock exchanges, and the investing public at large since the Enron scandal (Wu *et al.*, 2002). Considering those factors, the audit profession, through the statement of Auditing Standard (SAS) 99, requires independent auditors to obtain information to identify financial statement fraud risks, assess risks by considering the entity’s programs and controls, and respond to results of the assessment by modifying audit plans and programs (Rezaee, 2010). Amongst others, SAS No. 99 requires that auditors:

- Increase emphasis on professional skepticism by requiring members of the audit team to exchange ideas or brainstorm how frauds could occur.

- Discuss with management about its knowledge of fraud or suspected fraud, its awareness of any allegations of fraudulent financial reporting, its understanding about the risks of fraud in the entity, and the programs and controls it has established to mitigate specific fraud risk.

- Discuss with management about the nature and extent of monitoring of operating locations or business segments and whether and how it communicates to employees its views on business practices and ethical behavior.

- Perform unpredictable audit tests and respond to management override of controls (Rezaee, 2010).

In addition the International Audit Standards (ISA) 240 in its paragraph 10 specifies the auditors'objectives.

"10. The objectives of the auditor are:

1. *(a) To identify and assess the risks of material misstatement of the financial statement due to fraud;*
2. *(b) To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and*
3. *(c) To respond appropriately to fraud and suspected fraud indentified during the audit."*

Nonetheless, no matter how much auditors consider fraud risks, there is an infinite chance that they may not be able to detect fraud. Lack of independence as well as negligence can prevent independent auditors from detecting obvious fraudulent schemes in certain cases. However, fraud schemes that involve forgery, lying cannot reasonably be detected by the independent auditors (Albrecht and Hoopes, 2014). For Rezaee (2010), independent auditors can detect fraud and prevent further occurrence of the same type of fraud when they engage in forensic-type audit procedures. But independent auditors are not required to perform forensic auditing. Accordingly, Albrecht and Hoopes (2014) concluded that, the only way auditors can be expected to detect all frauds is when auditors perform fraud auditing. While financial audit only provides reasonable assurance that financial statements are prepared under applicable accounting standards, fraud audits are performed for the purpose of detecting and investigating suspicions or allegations of fraud. Also, financial audits focus on the overall financial reporting process whilst fraud audits investigate targeted frauds mostly focusing on suspicious accounts. Last but not the least, fraud auditors have greater exposure to fraud and have procedures designed for fraud detection, unlike financial auditors, who might work their entire career without being confronted to fraudulent schemes (Albrecht and Hoopes, 2014).

On the contrary, Wells (2004) supports the idea that unless the audit profession improved its current approach to fraud detection, there won't be any impact on the public expectation. He suggests that the audit profession must adopt new approaches to fraud deterrence and rely less on internal controls. The profession must comprehend fraud prevention processes. Also, a fraud specialist could be associated with public audit missions. Not only could the fraud analyst's presence dissuade people in engaging in fraudulent activities, but also he or she could identify the key risk areas that need much consideration in the audit process. This suggestion is in accordance with the conclusion of Albrecht and Hoopes (2014) who asserted that fraud auditing is the absolute approach to detect fraudulent activities in organizations.

1.3 Independent auditors’ responsibilities: media and legal perspective

Porter (1997) reviews the historical evolution of auditors' responsibility for detecting fraud over the centuries. His study reveals that there was an evolution of the auditor’s role and a reorientation of their responsibilities within three periods. In the first period, the pre-1920s, fraud detection was the primary objective of the audit missions. From the 1930s, the initial objective had changed and migrated to a simple audit. This migration was due to the increase in the size and volume of companies’ transactions. From that moment, it has become unlikely that the auditors would be able to examine all transactions made by the companies throughout the year. And latest was the 1960s period, where there was a complete dissociation between fraud detection and financial audit. At that point, the audit profession has reoriented its objectives. The auditor assesses the fairness of financial statements concerning the Generally Accepted Accounting Practices (GAAP) whereas any responsibility for fraud detection and prevention lies with management (Sikka, 1998).

Notwithstanding the limitations made to the independent auditor’s responsibility, fraud detection is still considered as a major audit objective by the public (Stirbu *et al.*, 2009). Government agencies, shareholders, and the public at large expect the auditor to detect corporate fraud (Wu *et al.*, 2002). This study focuses on two major parties influencing that expectation: the media and the legal jurisdiction. The media are an essential stakeholder in society as they appear to be the primary source of information for the general public. The power of the media on social and political issues has been established over the years. Indeed, the media and the press are considered as the fourth estate (Leray, 2008). Moreover, the media coverage of information related to financial fraud may reinforce the view that the auditor should assume greater responsibility for fraud detection (Cohen *et al.*, 2017). Apart from the press, the second party that is a great concern for the auditors is the law. Indeed, the responsibility or guilt of auditors is determined by judges and jurors, which rely on legal statutes. Their opinions, expectations, and approaches to each case are the basis of their decisions on legal actions taken against auditors in recent years.

1.3.1 Media perspective

The media are the first information access point of the public. Despite the sensationalist nature of the news content, the media generally play a crucial role as agents in the formation and reflection of public opinion (Cohen *et al.*, 2017) The role of the media is to collect, select, certify and repackage information (Dyck *et al.*, 2008). Many studies have established the "watchdog" role of the media in the organizational world. Indeed, the media seem to be taking on a leading role in supervising companies in several areas. In the US particularly, the intensive media coverage on an issue certainly increases the likelihood that a corporate governance violation will be reversed (Dyck *et al.*, 2008). Besides, the financial media often focus on analyzing companies to determine the existence of wrongdoing. The press plays an important role as a sentinel of accounting fraud. Indeed, beyond its contribution to understanding how accounting fraud is perpetrated, the media bring essential information to the public's attention (Miller, 2006). More surprisingly, several fraud cases were detected through the media's contribution. Dyck *et al.* (2010) reported that although media are not considered as a key player in the corporate governance mechanisms, they accounted for thirteen percent (13%) of detected frauds almost as much as the internal audit function which account for 15% of detected fraud.

Thus, the power of the media over public opinion is major. It is easy to realize this when you notice that they have the power to make and undo reputations in a few words. According to Dyck *et al.* (2008), media coverage is not only motivated by the intrinsic appeal of each news item, but also by the lobbying effort exerted by those interested in the published news. In this case, it is not only a mirror of reality but can have important effects on reality itself. The business press has played a key role in the investigative reporting that has exposed many of the financial frauds. As a result, the study of media coverage of fraud can shed light on the underlying public perspective (values and beliefs about fraud) (Cohen *et al.*, 2017).

Based on the clear interest of the media on organizational fraud, Cohen *et al.* (2017) examine the role of media bias in the persistence of the expectation gap. From their study, media bias seems to be a factor influencing the persistence of differences in expectations between users of financial statements and auditors. Thus, the public's perspective is shaped in part by the approach to media coverage. It is primarily based on expectations due to moral values related to corporate fraud, while the auditor works on the technical aspects. Reconciling the two positions seems unlikely, considering that most users' expectations seem unreasonable (Cohen *et al.*, 2017).

However, the media (press, television, internet, etc.) have a specific point of view (bias). Indeed, 4 times out of 10 on average, the content of press articles is biased (Gentzkow and Shapiro, 2006). Through the language used, the ideas expressed, or the arguments presented argue for or against the subject covered. This bias plays an essential role in the choice of stories that are broadcasted. The major financial scandals in the United States such as Enron, Tyco, WorldCom have received wide media coverage due to their economic impact and the financial implications they had. The media has an opportunity to exploit this ignorance by dramatizing media coverage of fraud news (Cohen *et al.*, 2017). Indeed, the information disseminated has an impact on the reader's view of the subject under discussion according to the reader's expectations (Gentzkow and Shapiro, 2006). The link between expectation gap and media seems apparent. The public's viewpoint, which is partly shaped by the media coverage approach, is based on general values related to corporate fraud, while the auditor works on the technical aspects of these cases (Cohen *et al.*, 2017).

1.3.2 Legal perspective

Also, after the numerous scandals of the 2000s and the establishment of the PCAOB, the auditors' responsibility for fraud seems to have increased. For Pearson (2010), the disputes between external auditors and investors over negligence are a direct consequence of that increased responsibility. For the first time, the fundamental obligations arising from auditing and accounting standards are set out. The audit profession cannot disassociate itself from the law, as some would like to do. Instead, the audit profession is likely to become more embedded in the law (Pearson, 2010). Indeed, the expectation gap is a significant contributor to the number and extent of prosecutions, which has increased in recent years. Audit firms are increasingly being cited in lawsuits involving savings and loan institutions, banks, government securities dealers, and other institutions (Frank *et al.*, 2001). The failure of both the courts to abolish the PCAOB and of Congress to obtain more liability protection means that many cases of litigation against auditors for negligence are likely to continue in the future (Pearson, 2010). Furthermore, legal action has a great impact on auditors. In order to reach a verdict, judges and jurors rely not only on the evidence presented by each party but more importantly on their understanding and perception of the element of conflict. In other words, the perception or expectation of what the auditors' responsibility is would play a decisive role in the verdict of trials. In this respect, Franck *et al.* (2001) analyse the expectation gap between auditors and jurors. The results of their study suggest that jurors perceive the auditor as a guarantor of the integrity of the financial statements and as an insurance policy against fraud and illegal acts, to the extent that they expect the auditor to actively seek out fraud. These views suggest that jurors could hold the auditor liable when a company goes bankrupt or fraud is discovered after an unqualified audit opinion has been issued. Jurors would therefore expect more from the audit profession than it could provide. This study shows that perceptions at the legal level are a definite concern for the audit profession. An opinion that appears to be supported by the recent Supreme Court of Canada's decision in the

Livent v Deloitte Touche trial. According to the Canadian Supreme Court, auditors have a legal responsibility to conduct a thorough study whenever there is something suspicious or unusual. Relying on management's explanations without further investigation will not protect auditors from legal risks. Rather, they must gather evidence and discharge their audit responsibilities. The Court also concluded that it is not possible to hide behind legal considerations every time there is fraud involving the management of the company.

In addition, court decisions are based on tort liability. It is based on the common law, which contains rules of laws formulated by the judgments of the superior courts. These judgments are of significance to the auditor because they may set out responsibilities other than those imposed by the laws governing the constitution of the principal entity (the company) or the contract between them. Most lawsuits brought against auditors are based on negligence or fraud. From a legal point of view, in order to establish a tort of negligence, the plaintiff must demonstrate that he or she is part of the group to which the auditor has a duty of responsibility (contractual relationship). The auditor must have breached this duty of responsibility during the engagement. Second, the plaintiff must prove the fallacy of the financial statements. Finally, the auditor's report must have been used for a decision for which the complainant would have suffered a financial loss. Similarly, the auditor may be convicted of fraud. Although very rare, the auditor may be colluding to defraud a group of users by expressing an opinion on the fairness of the financial statements knowing that the financial statements do not present a true and fair view of the financial position of the enterprise. This was the case in United States v Simon where the auditors received sentences up to and including imprisonment (Chevalier, 1991). The same argument was made by the Attorney General of New York, Andrew Cuomo, in his complaint against the accounting firm Ernst & Young LLP. According to Cuomo, the firm facilitated a "major accounting fraud" at Lehman Brothers Holdings Inc. For more than seven years prior to Lehman's bankruptcy in

2008, the investment bank engaged in Ernst & Young-approved transactions aimed at removing debt from its balance sheet to make it appear less leveraged.

In summary, financial statement fraud is a type of fraud majorly perpetrated by the managing team. Although financial statement fraud is one of the least common frauds, it has disastrous repercussions for both companies and financial markets (ACFE, 2020). In order to prevent the incidence of this fraud, various actors were invested with responsibility for the fairness of financial statements. These actors are essentially constituted of the audit committee, the management, and the auditors, both internal and external. However, it is noticed that in the event of a financial scandal, the external auditor is most often blamed and prosecuted because they are expected to detect fraudulent activities within public companies. The opinions and expectations of various social groups are a great concern for independent auditors. However, within these social groups, the stand of the media and the law on the auditor's responsibilities are significant for the audit profession as they can shape public opinion.

CHAPTER II

LITERATURE REVIEW

This section presents the literature review. The objective of this review is to present an overview of the literature on the auditors' responsibility for fraud detection. It starts by providing a theoretical framework that helps in understanding the concepts of accountability and responsibility. It specifically distinguishes between personal responsibility and perceived responsibility. Then, the conceptual framework of the study is presented. The conceptual framework describes the accountability pyramid. The accountability pyramid outlines the components of responsibility (prescriptions-events-identity). Finally, the framework defines the various links/associations between these components and their relation in determining the auditor's responsibility.

2.1 Theoretical framework

In order to examine the perceived responsibility of auditors for fraud detection, the study focused on two theoretical approaches. The first approach is the neo-institutional theory. This theory explains that organizations and actors are influenced by the constructs of their social environment. It provides an understanding of the public's perception relating to fraud detection despite the limitations provided by both regulators and the audit profession. It integrates the views based on legitimacy and regulatory changes. The second approach is provided by the triangle model of responsibility. The responsibility model provides an understanding of how responsibility is perceived or determined.

2.1.1 The neo-institutional theory

Financial fraud issues and the auditor expectation gap are phenomena highly debatable due to their links to social constructs. Institutions and professions are created and operated in societies governed by social norms and standards. According to Wiseman *et al.* (2014), the neo-institutional theory is a framework that helps in understanding social phenomena. The expectation gap and the recurring regulations amendments on auditors' scope of responsibilities can be comprehended within this framework. Indeed, the neo-institutional theory supports the ideology that organizations' actions and structures are shaped by institutions that uphold social values and norms (Dicko, 2019). The theory in this context refers to its sociological approach introduced by Powell and DiMaggio (1991).

The sociological approach of this theory often encompasses concepts such as legitimacy. Generally, legitimacy is the acknowledgment and the acceptance of a certain social order in which one evolves (Dicko, 2019). This order can be formal or informal because it is perceived as just, equitable, acceptable, and reasonable by individuals or groups in the same social environment. However, because of its implicit character, what seems legitimate for one may not be legitimate for others (Dicko, 2019). That is the reason why the expectation gap is an ongoing debate. The fraud detection responsibility seems a legitimate responsibility of the auditors for the public. While the external auditors on the contrary seem reject the legitimacy of that responsibility for the profession (Sikka, 1998).

Although the audit function rejects any responsibility towards fraud detection, many amendments were made on fraud consideration in the auditing standards. Many of those changes were made even before the adoption of the SOX act in 2002. Those amendments and changes seem to have impacted the perception of responsibility. First, there is no consensus among the auditors themselves, depending on their function within or outside the company. The significant illustration of this difference is demonstrated by DeZoort and Lee (1998). The purpose of their study was to determine whether the perception of the external auditor's responsibility for detecting fraud in audits of financial statements in the United States was higher in Statement of Auditing Standards (SAS) 82 than in the superseded SAS 53. SAS 82 'Consideration of Fraud in a Financial Statements Audit' represents a significant revision of the external auditor's responsibilities for fraud detection in the United States. Specifically, the new standard was developed to clarify, not increase, responsibilities beyond those that existed under the superseded SAS 53. The results of the study consistently demonstrated that the perception of the external auditor's responsibility for fraud detection was higher under SAS 82 than under SAS 53. Moreover, the results indicate that the perceptions of external auditors have increased more than those of internal auditors (DeZoort and Lee, 1998).

Similarly, the audit profession’s approach seems ambiguous on the fraud issue. Indeed, Statement on Auditing Standards (SAS) 99 states that: “the auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.”. Whereas other regulations restricted the auditor relating to the detection of fraud in the financial statements (e.g. ISA 240, AU 1001). The consideration of fraud in the audit process spurs questions on the actual stand of the auditing profession on fraud issues. The scope of duties of the auditors as defined by the profession excludes the instance of detecting fraud but auditors are required to evaluate fraud risk that may result in material misstatements to the financial. The task appear a bit trickery and could be substantially confusing for third parties. In fact, SAS99 (AU240) may strengthen public expectations as the standard requirements is perceived as a detection obligation. Several studies have shown that the public consistently expects auditors to detect fraud after the adoption of the standard in 2012 (Porter *et al.*, 2012; Ruhnke and Schmidt, 2014).

Moreover, Gold *et al.* (2012) examined whether the implementation of the revised ISA 700 'Forming an Opinion and Reporting on Financial Statements' has been able to reduce the existing gap. Overall, the ISA700's (detailed) explanations of the external auditor's responsibilities relative to management's responsibilities for fraud detection and prevention and the nature and extent of audit procedures do not favorably affect the expectation gap (Gold *et al.*, 2012). This observation may indicate that explanations should be more explicit and clearer, or even that user perceptions are not malleable with additional explanations in the auditor's report (Gold *et al.*, 2012).

Furthermore, the provisions made by regulators appear to reinforce the idea of the external auditor's accountability. Booker and Zhang (2018) examined the perception of commercial lenders after the amendment of Auditing Standard (AS) 3101 'unqualified opinion of the auditor'. The standard states that an auditor is in a position to express an unqualified opinion on financial statements when the auditor has conducted an audit in accordance with PCAOB standards and concludes that the financial statements, taken as a whole, are presented fairly, in all material respects, in accordance with the applicable financial reporting framework (PCAOB, 2017c). In this sense, the PCAOB suggests a new wording for this opinion in the AS3101 (revisited) with the insertion of the words "free from material misstatement due to error or fraud". The results of the survey suggest that participants are in favor of further explicit clarification of the audit report regarding fraud. They are therefore of the opinion that this clarification would require auditors to devote more effort and time to performing audit engagements in order to assess the risk of fraud in the financial statements. Specifically, the explicit clarification on fraud indicates that auditors have a responsibility to detect significant fraud in the financial statements and should devote time and effort to assessing the risks associated with it (Booker and Zhang, 2018).

It is interesting to note that the adoption of the SOX Act in 2002 only reinforced public expectations. Although this law does not stipulate any obligation for auditors to detect fraud, users expect auditors to detect fraud; and would prefer audit reports to include specific language on fraud (Foster *et al.*, 2010). After an evaluation of the format of the internal control report on users' perceptions, Foster *et al.* (2010) conclude that users expects audit to detect fraud and would prefer an internal control report that includes the auditor's fraud responsibility for fraud detection. Indeed, the PCAOB's audit report format contains a paragraph discussing the inherent limitations of audit procedures but does not specifically mention the auditor's responsibility for fraud detection. This would best meet user expectations and would be likely to increase the added value of audits (Foster *et al.*, 2010).

Ultimately, fraud is a great concern for both companies and auditors. Timely detection of fraud remains a challenge for companies but also for external auditors based on user perception. The profession could not acknowledge the detection responsibility because of the size of modern businesses and the specific characteristics of financial statement fraud. Even the regulatory agencies are also clear that the management is responsible for the fair presentation of financial statement in accordance with appliacable financial framework instead of auditors. Notwithstanding the standards and their wordings, the public’s expectations regarding the auditor's responsibility for fraud detection persist.

2.1.2 The notion of responsibility and the triangle model of responsibility (TMR)

The current debate on fraud detection, especially the auditors' related duties, lies on the concept of responsibility. According to Schlenker *et al.* (1994), responsibility is a fundamental concept that provides an understanding of how people evaluate, sanction, and control the conduct of each other. With the current regulations and the recurring financial failures, the public tends to increasingly blame the auditors. Numerous lawsuits have been made against the auditors over the years proving that regulatory changes undeniably increased auditors’ responsibilities (Pearson, 2010). It is therefore necessary to understand the concept of responsibility and the measures of its application for this study. Considering the study objectives, the triangle model of responsibility (TMR) designed by Schlenker *et al.* (1994) provides a relevant theoretical framework for understanding the concept. The triangle model of responsibility has been used and empirically tested in various disciplines, notably in testing the relation between work ethics and judgments of responsibility (Christopher and Schlenker, 2005), in examining the links between personal responsibility and self-directed learning (Kohns and Ponton, 2006) and more recently in the audit field by DeZoort and Harrison (2018). They used the TMR to assess the perception of auditors (internal and external) of their responsibility to detect fraud in companies. The results of the study showed that the perception of responsibility varies depending on the type of fraud and the type of auditor. Indeed, they recognize that external auditors feel a greater responsibility for detecting fraud in the financial statements while internal auditors feel the same degree of responsibility for all types of fraud. All the above-mentioned studies use the model to assess the actor's perception of his or her responsibility according to the context examined. In contrast to this approach, the current study uses the TMR model as an evaluative framework for third party perceived accountability. It thus examines perceived responsibility through opinions expressed in the media and case law.

For Schlenker *et al.* (1994), this concept derives from the social control exercised by companies to hold individuals accountable for their conduct and to punish violations of important regulations. In this sense, determining responsibility would come from the intrinsic factors of causality (imputation) and answerability (answerability). The Larousse dictionary defines causality as a link between cause and effect. This translates into the axiom that every phenomenon has a cause. Assimilated to the field of psychology, causality refers to the link between a person and an event or consequence. Whereas answerability refers to the positive or negative impact that an event would have on a given stakeholder. In this case, the actor does not cause any harm but is held responsible whether he has control over the event.

In the context of this study, accountability is appropriate for defining the role of the external auditor. Indeed, determining liability by causation would be misleading. The auditors are not involved in the management process of the companies or the preparation of the financial statements. Nevertheless, they are bound to the companies by their role as judges of the compliance of the statements of account. They are the guarantors of their opinions expressed concerning these accounts presented in the financial statements. Responsibility in this case is then seen as the ability to account for these actions to others. It emanates from obligations created by moral or legal codes, thus emphasizing moral or legal responsibility. The Enron-Andersen story ignited the issue of corporate accountability in the United States. The collapse of Enron has led to a very close examination of the practice of audit firms simultaneously providing consulting services to the corporation (Wu *et al.*, 2002). Thus, responsibility is often equated with duties arising from the social roles of the actors (Schlenker *et al.*, 1994). Based on this analogy, Schlenker *et al*. (1994) developed the triangle model of responsibility (TMR). According to this theory, responsibility is derived from the link between the three factors of prescriptions, events, and the identity of the actor. The authors, therefore, define responsibility as a psychological adhesive that connects an actor to an event and a relevant prescription.

Prescriptions are the rules or codes that govern people's conduct. They include, explicitly or implicitly, objectives, performance standards, and appropriate means to achieve those objectives. For Schlenker *et al.* (1994), the requirements provide criteria for what the actor should do in a situation. They can be used to guide and evaluate the actor's behaviour. Moreover, the nature of certain requirements makes them applicable to persons with one type of identity but not to persons with another type of identity. Relevant requirements for the external auditor include laws (Sarbanes-Oxley Act), auditing standards (ISA 240, ISA700, AU 1001), the rules of a company, and even moral codes of conduct. Based on the above, it is evident that from a requirements perspective, the external auditor has several types of responsibilities. Chevalier (1991) present three specific types in this sense: moral, professional, and legal responsibilities. The auditor's moral responsibilities arise from self-imposed conduct. As such, it has a moral duty to its clients and the public to provide the best possible service with competence, integrity, and objectivity. Professional responsibilities imply that the auditor has the responsibility to respect in his conduct the guidelines of the code of ethics, to follow in his mission the generally accepted auditing standards, and to adhere to the recommendations made by the various professional accounting bodies, particularly those to which he belongs. Finally, legal liabilities arise from legal or statutory provisions governing contracts as well as the law and court judgments on tort liability (Chevalier, 1991). They also point out that, due to the rapid changes in the society in which auditors work, their responsibilities have changed significantly in recent decades.

Events are the units of action. The events and their consequences serve as the assessment of the actor behaviour. The elements of the unit depend on the purpose of the evaluation. Identity images refer to the roles, qualities, commitments, and claims of the actor. It is the components of the actor's identity that are relevant in the situational context (prescriptions and events). In this context, the events are the financial fraud. While the fraud itself is not related to the auditor, the failure in detecting the scheme is considered as an audit failure. The events of analysis are therefore related to auditor independence and due care. The actor is therefore liable to the extent that a well-defined set of prescriptions applies to a specific event (prescription-event link). The actor is perceived as being bound by the prescriptions by virtue of his identity (prescription-identity). The actor is linked to the event because of his control over the event (identity-event link). Consequently, the auditor's responsibility is engaged by his or her identity (account auditor), by the event (failure to detect fraud), and by the prescriptions (moral codes, legal precedents, and regulations). However, although liability is assessed by the links defined by the triangles, each of these links may vary in importance for the one assessing the liability.

TMR describes responsibility and accountability as two related but distinct constructs. Whilst responsibility indicates the actor connection to an event and the prescriptions regulating the event, accountability is about answering to an audience on the circumstances on such event. The actor application of prescribed standards in fulfilling its obligations, duties, expectations, and other burdens are scrutinized and sanctioned. Based on this distinction, Schlenker *et al.* (1994) provide the accountability pyramid which is a framework for judging the actor action based on a subsequent event. This pyramid demonstrates how an actor may be perceived accountable for a specific event. They note that when judging responsibility, people may prefer information that informs the actor's direct involvement (action or inaction) to general information about the link between prescriptions and events. For this, the link between prescription and actor as well as between actor and event are privileged. Moreover, the consequences of the event are an essential gauge from the judge's critical point of view. While consequences are not a standard measure of accountability, they may or may not invariably strengthen the link between other measures (Schlenker *et al.*, 1994).

2.2 Conceptual framework of the perception of auditors' responsibility

The theoretical framework of this research provides a sustained definition of responsibility as well as people's need for judgment and blame when horrendous events do happen. Accountability is a direct effect of responsibility; one is perceived responsible when he/she can be accountable for his/her transgressions or failures (Schlenker *et al.*, 1994) As defined by the authors, it is the reason why a parent can be held accountable for the action of the children because of the infant's inability to understand and comply with rules. Undoubtedly, the scandals and excitement around the subject show the systematic need for blame felt by stakeholders. Considering the components of the triangle of responsibility and the accountability pyramid, this study proposes a conceptual framework of the elements that establish the auditor's responsibility.

These elements are subdivided into four categories illustrated in Figure 2.1. The first category 'auditor-event' focuses on the three links between the auditor's social role and the event being analyzed, in this case fraud. Thus, it identifies the ideas or opinions that determine the auditor's responsibility through his role as auditor or guarantor of accounts. The second category, 'auditor-prescription', lists the audit evidence that defines responsibility for a defect or failure to comply with established requirements. The third category 'prescription-event' analysis allows the gap to be specified according to the type of opinion presented by the auditors or users on the subject.

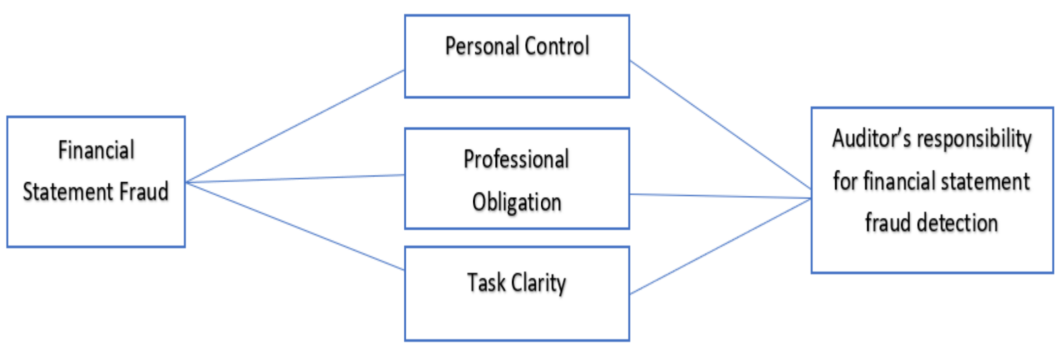

Figure 2.1: Conceptual Framework

2.2.1 Auditors- Event link (personal control)

According to the definition of Schlenker *et al.* (1994), the identity-event link is the extent to which the actor appears to be connected to the event. They specified that at the simplest level, actor connection to the event can be represented as a rudimentary categorization. The categorisation means that people can be held responsible for events simply because of their group membership. In this context, the auditor is the actor. The auditors are then held responsible based on their certification role. Indeed, the certification given by the auditor gives the assurance that the financial statement can be trusted. People trust the auditor's judgement on financial information. In line with the principle of categorisation, when people make financial decisions based on their trust in the auditor certification, the discovery of fraud shattered their trust in the auditors as well as their confidence in the financial market.

Although the categorisation method is used to relate the auditor to the event, the basis in judging his/her responsibility towards the event is the personal control he or she has over the occurrence of the event. From a societal perspective, personal control is the core element crucial in regulating one’s conduct. It is usually misguiding to sanction people for bringing about effects they could not alter or avoid. Consequently, through this link, people tend to assess whether the auditor aided or was involved in the fraudulent scheme. Or rather was the auditor negligent or blindsided based on other considerations. Indeed, Cohen et *al.* (2017) presented this relation as when people judged the auditor as having a deficiency in performance due to their unwillingness to address certain red flags, which could have genuinely helped in detecting a fraudulent scheme. For some, it makes perfect sense that the auditors could not be judged or questioned on matters or perspectives they could not avoid. However, the authors acknowledged that based on the newspapers’ content, it could be unfeasible for the auditor to embark on a fraud detection cruise. Indeed, the fact that the CEO or CFO of the firm tend to partake in a lavish lifestyle is not a valuable indication that there is something fishy happening in the company. Nevertheless, people tend to think that it should have led to more scrutiny of the auditor.

Furthermore, these various interrogations are not only used in assessing the auditor’s performance and attitude before the fraud is unveiled but also after the issue is on debacle and after the fraud is unveiled. Therefore, every move of the auditors is scrutinised and related in the news for the public to form an opinion, each with their perspective and expectation. Although the auditor is not required to detect fraud, an auditor that rushes into a settlement with the regulators or the investors might raise additional questions. Some people might view it as a sign of guilt. Obviously, the innocents do not pay for something they are not responsible for. Neither are they fired amid a big fuss.

Ultimately, Schenker *et al.* (1994) proposed that the personal control link increases in strength from this meager level as a direct function of perceptions of the extent to which the actor has (or had) personal control over the event. This linkage is strong when the actor is seen as intending to bring about a consequence and having the ability and freedom to do so. For this study, the link is strong when the auditor is presented in the document as aiding or participating in the scheme. For example, in a case where the auditor did recommend to write-off certain amounts as bad debt and ultimately those write-offs were part of a scheme to present the firm as more profitable and mislead investors. Also, when assertions are made that the auditor on the case willingly ignored important red flags or tips. In certain cases, tips are sent to external auditors by employees or external sources about the firms' transactions. In the case where the auditor ignored those tips or found them irrelevant and issue an unmodified opinion on the financial statements. Later, a fraudulent scheme is unveiled, and the auditor suffers the most judgements and questions. The link may be weaker when the event was unforeseeable, accidental, or uncontrollable. Not to be redundant, management fraud is difficult to detect especially when the management uses means to cover up the fraud. In some cases, with all due diligence, the auditors may be easily lured and mislead. Those events are then considered uncontrollable and unforeseeable by the auditors and cannot be used as means of sanctions. The link is weakest when the actor is merely associated with the event because of simple categorization.

2.2.2 Auditors- Prescriptions link (professional obligations)

The prescription-identity link refers to the extent to which the prescriptions are perceived as being applicable to the actor by virtue of the actor's characteristics, roles, and convictions (Schlenker *et al.*, 1994). According to that definition, the prescriptions that apply to the auditors are both professional and social. First, social obligations are the focus of auditors' conduct and ethics. As continuously stated, external auditors should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate a commitment to professionalism (AICPA, 2014). The AICPA code of conduct specified that a distinguishing mark of a profession is the acceptance of its responsibility to the public. Considering that this public is known to rely on the auditor to make a financial decision, the profession admits that auditors must always act for the public's best interest. The accounting profession's public is broad and consists of clients, credit grantors, governments, employers, investors, the business and financial community, and others who rely on the objectivity and integrity of auditors to maintain the orderly functioning of commerce. The public interest is defined as the collective well-being of the community of people and institutions that the profession serves. This link inclues ideas and opinions which present fraud detection as auditor responsibility based on the public's expectations .

The professional obligations of the auditor come essentially from the profession. The audit profession is largely self-regulated and is governed by a code of conduct which details on the roles and responsibilities of the auditor during an audit mission. Ultimately the characteristics of the auditors lie on their objectivity, independence, and due care. The AICPA code of professional conduct states that to be objective and independent, members should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services (AICPA, 2014). Consequently, the code provides that it is of utmost importance to the profession that the general public maintains confidence in the independence of auditors. Public confidence would be impaired by evidence that independence was lacking, and it might also be impaired by the existence of circumstances that reasonable people might believe likely to influence independence. To be independent, the auditor must be intellectually honest; to be recognized as independent, he must be free from any obligation to or interest in the client, its management, or its owners. Independent auditors should not only be independent in fact; they should avoid situations that may lead outsiders to doubt their independence. Applied to this study, auditors may be perceived responsible if their independence seemed impaired in the course of the audit mission. Auditor's independence may be impaired if, at the time of the audits, the auditor is viewed as having a close relationship with the management. For example, an auditor who has financial links or shared financial interests with the management of the audited company. On the same note, the objectivity of auditors could be perceived as impaired when their non-audit financial benefits exceed auditing fees. Would auditors risk the loss of the benefits and remain objective in their opinion?

On the other hand, while objectivity and independence focus on the auditors and their behaviour, the due care principle is mostly related to their work. The AICPA states that auditors should observe the profession’s technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member’s ability. The quest for excellence is said to be the essence of due care. Due care requires a member to discharge professional responsibilities with competence and diligence. It imposes the obligation to perform professional services to the best of the auditor’s ability, with concern for the best interest of those for whom the services are performed, and consistent with the profession’s responsibility to the public (AICPA, 2014). Under this section falls arguments pertaining to the perceived auditors’ responsibilities based on social, ethical and professional obligations.

Schlenker *et al.* (1994) provide the scope of the analysis of the link's strength. The link is considered strong if a set of prescriptions unambiguously applies to people with a set of attributes and the actor has those attributes. Then if the fraud could have been timely detected through a simple and careful audit, based on previous court conclusion, the auditor is viewed responsible. Contradictory to cases in which there is ambiguity or conflict about the prescriptions that are relevant to auditors (e.g., role conflict) or there is debate about whether the actor has the attributes that are pertinent to the prescriptions (e.g.: auditor experience or ability). In the latter circumstances, the link is considered weak.

2.2.3 Prescriptions- Event link (task clarity)

The core principle in assessing someone's responsibility or sanctioning the person is the clarity of the tasks the person is supposed to render. Logically one cannot be sanctioned for not performing tasks that were not required from him/her. According to Schlenker *et al.* (1994), the prescription-event link refers to the extent to which a clear and salient set of prescriptions is perceived to exist that should be applied to an event and should govern conduct (e.g., clear laws, moral codes, traditions, and shop rules). The concepts of moral and legal responsibility refer in part to the laws or rules that are applied in this link (Schlenker *et al.*, 1994). Whilst the first two components focus on the actor's incidence on the event and the prescriptions applicable to him/her, the prescription-event link concentrates on the prescription concerning the event itself. On the instance of fraud detection, no prescriptions relevant to the auditors specified an obligation for the auditors to detect fraud. Nor the auditing profession neither the regulatory agencies state that auditors should be detecting fraud. However, the auditor function is derived from principles such as ethics and moral conduct and diligence. The auditor's performance mostly relies on its judgement on fraud risks and the materiality of these risks to the financial information. Also, although it denies any fraud detection implication, the audit profession emphasises on the fact that auditors should be mindful of fraud risks and concentrate on exposing the effect of fraud to the best of their knowledge and judgment. The principle at stake here is one of materiality. The auditors should be mindful of the fraud in terms of its materiality to the financial information. This principle is based on the auditor's best judgment and renders it much unclear to ascertain. For instance, within the course of a financial audit, there were suspicious transactional amounts that seemed immaterial to the auditors at that time. They rendered their unqualified opinion for the audited financial statements. Unfortunately, not long after, there is a massive fraud that is detected, and the suspicious amounts constitutes a part of the scheme. At the time of detection, the auditor could be questioned about the transactions and be perceived negligent or not performant. Thus, the materiality principle can be tricky and sometimes be costly to the auditors.

Moreover, it is required that when the auditors do sense any kind of malpractice, they should whistle blow and report to the investors through the audit committee and even regulators when needed. The auditors are expected to exercise professional skepticism and due care. Although there is no obligation in detecting fraudulent activities, the auditors must report any suspicious case to the audit committee. They are also expected to investigate ambiguous accounts and misstatements deemed to be material to the fairness of the financial statements as a whole. They should be aware of fraudulent activities when there are red flags. Failure to do so may present the auditors as negligent or incompetent considering any undetected fraudulent schemes.

Furthermore, the US is a country with a judiciary system based on common law. Under common law, making a legal decision on cases, any principle or rule established in a previous legal case becomes either binding on or persuasive for the issue at hand. Even though fraudulent schemes are often unique and related to the industry, the case of the auditors can be decided based on the latest jurisprudence. Consequently, those decisions become relevant prescriptions to the event. Here falls any mention of previous accounting cases that are used to define or determine the guilt or innocence of the auditors.

Finally, this link is less used by people when they judge responsibility. Indeed, when judging someone's responsibility, people prefer information that describes the direct implication of the actor. The clarity of the task is much related to the prescriptions concerning the event as they exist and unambiguous on the event. Nonetheless, we retain this component as we find it interesting to assess whether the lack of regulation concerning fraud may be a concern to the audience. Is the public expectation on the auditor’s responsibility higher because of a lack of regulatory obligations that auditors should detect fraud? Or rather does the public prefer auditors to be lawfully bounded to detect fraud to be perceived more legitimate? Using this link, we may determine in which case the existence of prescriptions or not affects the public’s opinion and expectation of the audit profession.

CHAPTER III

RESEARCH METHODOLOGY

The objective of this study is to examine the perceived responsibility of auditors for fraud detection. The previous chapters demonstrate that there is a discrepancy between auditors and third parties’ views on fraud detection responsibility. The parties of interest in this study are the media and the law. The assumption is that these two stakeholders shape the population’s opinion. The underlying objective of the study is to highlight the influence of the media and case law on the persistence of the expectation gap. It is about highlighting the perception of the auditors' responsibility as reflected in the writings presented by these two stakeholders. This study also pursues objectives such as understanding the concept of responsibility, specifically perceived responsibility. Therefore, it takes a qualitative approach to comprehend the various aspects.

In this chapter, we describe the content analysis approach. Content analysis fulfills a dual purpose in our research design. It captures the preponderance of issues discussed by highlighting the core aspects of responsibility. It also allows us to assess the distinct trend captured in each of the documents. Thereafter, we justify the context and the data sampling of the study. The data collection processes are duly outlined. At last, we define the scope of data processing and analysis.

3.1 Research design: content analysis

Scientific research adopts/uses two methodological approaches: quantitative and qualitative approaches. For Fortin and Gagnon (2016), quantitative research involves inference from the rules of logic and the static measurement of facts. While the qualitative approach acknowledges the understanding of complex situations or the exploration of observable phenomena. This kind of approach helps understand the meaning of the social reality in which the action takes place. It thus makes use of empirical reasoning and aims for a broader understanding of phenomena (Fortin and Gagnon, 2016, p.31). This type of research has enjoyed tremendous success over the past two decades (Bailey, 2014). Qualitative research is indeed increasingly asserting itself within the managerial sciences community. For example, Garcia and Gluesing (2013) note that the number of publications of qualitative research articles in major management journals has increased over the past 30 years. Besides, it must be noted that the major American scientific journals have published more articles based on qualitative research in the last ten years than in the previous twenty.

Accounting and auditing literature have not been neglected from the recent success of qualitative research. As evidenced by Gendron (2009), numerous academic journals that have been traditionally dedicated to the publication of articles with the application of formal quantitative research have devoted more publication space to qualitative research in the recent years. From an in-depth literature review, the author concluded that qualitative research offers access to the empirical field. It provides an intense methodological sensitivity to ensure that the interpretation of data is as trustworthy as possible in qualitative terms. Qualitative research is a mix of careful theorizing and data collection coupled with theoretically informed interpretations of actor statements and experiences.

Qualitative research includes several techniques such as phenomenology, ethnography, content analysis, etc. The choice of either of these approaches relies on the research objectives. In respect to the objective of this study, the content analysis technique was chosen.

Berelson (1952) defines content analysis as "a research technique for the objective, systematic and quantitative description of the manifest content of the communication." In other words, the content analysis makes it possible to identify, quantify, and evaluate the ideas or subjects present in a set of documents. Content analysis started off in the US in the years 1900, it was primarily used for press analysis and its scientific basis was the quantitative measurability (Bardin, 2013). Over the years, this research approach has evolved. The qualitative content analysis goes beyond simple word counting and involves an intensive examination of language to classify large amounts of text into an effective number of categories that represent similar meanings (Weber, 1990). Undoubtedly, qualitative content analysis is a set of communication analysis techniques. It is not a tool, but a range of tools, or more precisely a tool marked by a great disparity in the forms that can be adjusted to a wide field of application: communication (Bardin, 2013). Content analysis allows the researcher to test theoretical issues to enhance understanding of the data. Through content analysis, it is possible to distill words into fewer content-related categories.

According to Hsieh and Shannon (2005), content analysis technique uses three approaches: conventional, summative, and directed approaches. The conventional approach is usually applied with study design which aimed to describe a phenomenon. Whereas studies using a summative approach begins by identifying and quantifying certain words or content in the text to understand the contextual use of the words or content. This quantification is an attempt not to infer meaning but rather to explore content usage. The directed approach may be distinguished from the others as a more deductive approach. Indeed, the purpose of a directed approach to content analysis is to conceptually validate or extend a theoretical framework or theory. Existing theory or research can help focus the research question. It can predict the variables of interest or the relationships between variables, thus helping to determine the preliminary coding scheme or inter-coding relationships.

For this study which examines media and jurisprudence perception on auditor's responsibilities, the directed approach is used. With the deductive approach, the researcher uses existing theory or previous research to develop the initial coding scheme before beginning to analyze the data. Researchers using a directed approach can effectively extend or refine existing theory. As a matter of fact, the theoretical framework of the study is already determined through the application of the triangle model of responsibility. According to Weber (1990), the basic success of a content analysis depends largely on the coding process. The coding process in content analysis involves organizing large amounts of text into much smaller content categories. Categories are patterns or themes that are directly expressed in the text or derived from it through analysis. Then, the relationships between categories are identified. In coding, researchers using content analysis create or develop a coding scheme to guide coders in their decision making when analyzing content (Hsieh and Shannon, 2005). The basic coding process of this study is divided according to the components of the triangle model of responsibility: personal control, professional obligation, and task clarity. However, Hsieh and Shannon (2005) specified that the coding system is not rigid. Indeed, as the analysis proceeds, additional codes could be developed, and the initial coding system can be revised and refined.

3.2 Population and cases selection

For the purpose of this study, we chose the United States of America (US) as the context of research. So, the population of this study is essentially financial statement fraud cases in the US. We chose to conduct this research in the US for two reasons:

- The preponderance of fraud cases in the country: as per the 2018 report on occupational fraud, the ACFE determines that 46% (895 cases over 2504) of the fraud cases reported were found in the US (ACFE, 2018).

- The regulatory system: the US regulatory system is as per companies' law, judiciary system, accounting, and auditing regulations are well designed. With the adoption of SOX and the implementation of the PCAOB, it has drawn a clear scope of the role and responsibilities of each party on corporate fraud issues. Also, other countries worldwide use US regulations as the basis of their standard.

The period of our study is comprised between 2001 and 2010. There were many cases of fraudulent activities within this period. However, our study focuses on the high media coverage of the cases as well as the occurrence of legal prosecution of the external auditor. Consequently three (3) high profile cases were selected: Enron Inc, HealthSouth Inc, and Lehman Brothers. As a matter of fact, it is in the year 2002 that the Enron scandal led to the adoption of SOX. Right after, in 2003, the scandal of HealthSouth had put in test the regulatory adjustments of SOX. Last but not least was the Lehmann Brothers scandal in 2008. That case has seemingly cast doubt on the effectiveness of the SOX act. These cases not only bring to attention the scope of auditor's responsibilities but also all the regulatory changes or adjustments made after the financial crisis. These scandals have increased over the years the need for fraud detection and prevention. It has also increased the need for corporate and independent auditors's accountability for financial statements.

The auditing firm that were implicated in these cases, are Arthur Andersen LLP for the Enron Corporation and Ernst & Young LLP for HealthSouth Inc. and Lehman Brothers Inc.

We understand that these cases occurred more than a decade ago. However as said earlier, the legal dimension of these cases is an important component of our analysis. We observed that the legal decisions for these cases are much more recent, these decisions occurred for the latest in 2015 (New YORK *v.* Ernst &Young LLP). The judgement of Arthur Andersen LLP is the oldest case, yet it is frequently referenced in many subsequent decisions implicating auditors.

3.3 Data collection

Data collection remains the fundamental aspect of research. The process is executed according to the methodological approach of the research. In this study, we chose the content analysis approach so secondary data sources were used. As we said earlier, our study focuses on the media and the legal recourses (jurisprudence). The data collection process then spotlighted the same aspects. The media factor helps in situating the public's perception of the auditors' responsibility for detecting fraud. Newspaper articles seem relevant to us because they are the first point of information for the population. In many contexts, the link between media and organizational change has been established (Dyck *et al.*, 2008; Gentzkow and Shapiro, 2006; Miller, 2006). For example, studying media coverage of fraud can shed light on the underlying public perspective (values and beliefs about fraud) (Cohen *et al.*, 2017). Several studies then focused on the link between fraud and the press, as a monitor of fraud in companies (Dyck *et al.*, 2008) or their role concerning the persistence of the expectation gap (Cohen *et al.*, 2017). Secondly, the documents relating to the conclusion of court trials provide us with a second basis for analysis. Indeed, these decisions are taken in the light of conclusive and legally reliable facts. In contrast to the often-sensational media reports, the facts as presented in the legal context provide us with a clear framework of the auditor's responsibility in the event of fraud. A comparison of these articles with trial judgements provides us with a dual framework of analysis that could tone down the debate on the issue of liability.

The press articles were obtained from the Factiva database. Twenty-five (25) articles were selected for each case making a total of seventy-five (75) newspapers (Annex B). We proceeded to data collection for each case from the year of scandal to the year of court decisions (Enron in 2005, HealthSouth in 2006, and Lehman Brothers Inc. in 2010). Our media selection will focus on the publications of financial newspapers (mainly) at the time of the scandals. Thus, the financial press is more likely to undertake original analysis, whereas the non-financial media focus mainly on the retransmission of information as presented by other information intermediaries (analysts, auditors, and prosecutors) (Dyck *et al.*, 2008). For Enron, we began the search within the period of 2001-2005 with the keywords “Enron, fraud and auditors” with a restriction to the US region. That search yielded 4756 results. Andersen was the independent auditor in this case, so we restricted our search to that subject which yielded 529 results. Using convenience sampling, we selected 25 articles for our analysis. We proceeded to the same operation for the HealthSouth case but using HealthSouth instead of Enron, our search resulted in 942 press articles for the period of 2003-2006. The independent auditor in the HealthSouth case is Ernst & Young, restricted to that subject we had 47 press releases from which 25 articles were selected. As for the Lehman Brothers case, the search resulted in 2290 articles. The restriction to Ernst &Young yielded 148 results from which 25 were selected.

The legal data collection was carried out on the LexisNexis legal database for the documents related to the court decisions. Additional documents concerning Enron auditing team were collected on the SEC website. For the selection of legal documents, the process focused on lawsuits for which the auditors were the defendant. Claims by shareholders, investors, States as well as the Country against auditors were taken into consideration. Nevertheless, only the latest decision related to these cases were sampled (Annex C).

3.4 Data processing and analysis

Data processing and analysis were performed using the NVivo software. First, we developed a coding table according to the predefined links in the conceptual framework (Annex A). In that table we outlined the measuring criteria of each link, an extract of which is presented below:

Table 3.1 Responsibility links measures (excerpt of the coding table)

Codes	Measures
Personal control	Any content that portrays the auditors as responsible based on his performance, action, or inaction in detecting or disclose fraudulent activities. Any statement that presents the failure to detect fraud as a result of the auditor's action or inaction.
Professional obligation	Any content that portrays the auditors as responsible or not based on any social, moral, ethical, or professional conduct.
Task clarity	Any statement that presents the auditors responsible for fraud detection due to any legal or professional regulation. Take into consideration any statement that presents a lack of prescription as the cause of audit failure.

For clarity purposes, we proceeded to the analysis of media and legal documents separately. Also, each case was coded and analysed under each perspective independently. We debuted our analysis procedure by an exhaustive reading of the selected documents (both media and legal). Next, we created our predetermined analysis nodes: Personal control, professional obligation, and task clarity. The media documents of the cases were analysed first and the court documents after. About court decisions, as the regulatory frame of the auditors is subject to many changes, the court decisions have been ruled under different regulations. We analysed the documents according to the standards and regulations applicable at the time of each scandal. Each case was analysed accordingly, and the results are presented separately.

Next, a comparative analysis was performed to determine whether the external auditors' responsibilities concerning fraud are perceived in the same way in the legal and media spheres. For that, we proceeded to a second reading of each of the nodes for each case. According to each perspective, these nodes present determining components of the auditor's responsibility. When the same elements are found under each perspective, we concluded that both the media and law perceived auditors responsibility for fraud detection in the same manner. For instance, the close relationship between the auditor and the management is repeatedly mentioned by both the media and the law as a component of the auditor’s personal control over the fraud event. Therefore, we conclude that personal control is corroborated in the same measure by both parties. Indeed, in multiple cases of fraud, auditors have often been convicted and fined because of their inability to detect certain frauds. In a country such as the United States, where legal decisions (case law) represent a precedent for similar cases in the future, users would be likely to believe that the auditor has a greater responsibility for detecting fraud. Also, it seems relevant to analyse whether the legal evidence against the auditors is corroborated in the same measure as in the media.

At the end of these procedures, we were able to begin the analysis procedure. The data collection of the study was performed in April and May 2020. The results of our analysis are presented in the next chapter.

CHAPTER IV

RESEARCH FINDINGS

In this section, the results of the study analysis are presented. Consistently with our coding procedure, the elements of each case are discussed separately under each link (personal control, professional obligation and task clarity). First, we provide a brief presentation of the fraud cases. Next, we present a summary of the results of each case according to the auditor's personal control, professional obligation, and task clarity. Under each link, we present the media perspective first and the legal perspective second. Moreover, we present beneath each perspective, a table summary with examples extracted from the coded documents.

4.1 Cases presentation

4.1.1 Enron Corporation (EC)

The Enron scandal which stained and led to the closing of Andersen firm was brought upfront when the energy company filed for bankruptcy in 2001. Let's be reminded that Enron was founded in 1985 by the merging of two well-established natural gas companies, Houston Natural Gas and InterNorth. The company headquarters were in Houston (Texas). Before the unfortunate incident, the company was the leading firm in the energy industry in the country. From 1997 to its collapse in 2001, the firm's accounts were audited by Arthur Andersen LL, one of the big 5 leading accounting firms. After its bankruptcy announcement, the SEC launched an investigation of the Enron activities and accounts on October 17, 2001 (United States v. Andersen, 2004).

Enron was informed of the proceedings on the same day. In the weeks that followed, the Enron debacle escalated, ending with the company's filing for bankruptcy protection in December 2001. Within that period, Mr. Duncan, the leading partner on the Enron audit team, instructed members of his team to comply with a document destruction policy in effect at the auditing firm at the time. Accordingly, thousands of e-mail messages were deleted, and dozens of trunks full of Enron Corporation's documents were sent to the shredders. However, in early January, a congressional investigation of the Enron case was launched, and the Enron documents were requested for further analysis. Many of the documents were unfortunately destroyed. Andersen discovered that Mr. Duncan has improperly engaged in document destruction and fired him (United States v. Andersen, 2004). The firm also alerted the SEC, the Justice Department, and the Congressional committees investigating Enron. In testimony before Congress late in January, a senior Andersen official said all evidence pointed to the fact that Mr. Duncan was destroying records to keep them away from investigators (Eichenwald, 2002). Mr. Duncan pleaded guilty for the fraud charges and testified in court against Enron management on the issue of fraud. At the same time, a lawsuit was brought against Andersen for obstruction of justice. The firm was found guilty of the charges in March 2002 by the jury of the Southern District of Texas. Andersen operations were shut down and assets liquidated. However, Andersen had appealed the court decisions numerous times between 2002 and 2005. The firm was ultimately cleared of the charges of obstruction of justice on May 31, 2005, by the Supreme Court of the United States (Arthur Andersen LLP v. United States, 2005).

4.1.2 HealthSouth Corporation (HRC)

HealthSouth Corporation (HRC) is a Birmingham based company founded in 1984 by Richard Scrushy. HRC was the US largest provider of healthcare services. It operates over 1,800 different facilities throughout the United States and abroad. The company went public in 1986 and its shares were listed on the New York Stock Exchange

(NYSE). As of the year ended December 31, 2001, the total revenue of HRC was reported at $ 4 billion with a net income of $76 million.

The fraud unraveled at HRC by late 2002 when the SEC launched an investigation of the company accounts. The commission alleged that between 1999 and 2002 the company overstated its earnings by at least $1.4 billion. According to the SEC, the company implemented various schemes to meet or exceed market analyst's expectations. Such schemes included the recording of fictitious revenues, overstatement of assets value, improper disclosures, etc. Moreover, the SEC presented Scrushy as the mastermind behind the fraudulent schemes. The external auditor of HealthSouth was Ernst & Young LLP. The SEC records showed that the auditing firm was kept in the dark about HealthSouth's true record and accounts. The management team repeatedly submitted false documents and invoices to the auditing team to lure them on the true performance of the firm (Wade Tucker v. Ernst&Young LLP, 2014). However, HealthSouth investors by the means of Wade Tucker brought a shareholder-derivative action in August 2002 against Ernst & Young for negligence and fraud. The HealthSouth case was a long back and forth exchange of lawsuits between the company investors and the auditing firm. Fortunately for Ernst & Young, after a ten-year case, the auditing firm was cleared on all charges by the Supreme Court of Alabama in October 2014.

4.1.3 Lehman Brothers Holdings Inc.(LBI)

Lehman Brothers Inc. was the fourth largest investment bank in the US before its collapse in 2008. The company securities were listed on the NYSE. The investment bank scandal was in the scenario of the second financial crisis of the years 2000: the subprime mortgage crisis. The story begins in September 2008 when the bank filed for bankruptcy protection without any prior sign of financial distress. Immediately after the announcement, the company share price dropped drastically and the stock exchange plummeted. The issue soon became a nationwide concern and a court-appointed investigation was launched. About two years after the events, in March 2010, Mr. Anton Valukas, the court-appointed reporter reveals the hideous truth behind Lehman Brothers' bankruptcy. Indeed, the report indicated that the company used certain accounting gimmicks named Repo105 to conceal the entity's true performance. The Repo105 was a repurchase agreement that allowed the company to remove some of its securities from its balance sheets (Gorman, 2010). Through this procedure, the bank was able to erase about $50 billion of losses from its records. The peak of the scandal was the alleged involvement of Lehman's external auditor (Ernst & Young LLP) in the fraudulent scheme. According to the New York General Attorney, Mr. Cuomo, the auditor was aware of accounting gimmicks at Lehman and did nothing to sound the alarm (New York v. Ernst & Young LLP, 2010). After a five-year prosecution battle, Ernst & Young finally agreed on a settlement of $10M with the New York State on April 15, 2015 (« Press Realease », 2015). The 10M settlement came after a previous $99M settlement fee paid in October 2013 in an investor-class action lawsuit against Ernst & Young (Rapoport, 2013).

4.2 Results presentation

The results are presented based on the two aspects of the analysis: the media perspective and the legal perspective. For each aspect, the various links are presented, and the results of each case are reported accordingly through examples. At the end of each summary, we reference the table constituted of supporting examples from the analysed documents. The supporting examples are followed by the number of the coded articles referenced in Appendix B and C.

4.2.1 Personal control of the auditor

- Media perspective

Interestingly, the results showed that at an early stage of the scandal, the media mostly speculates on the occurrence of the fraud and the perceived auditor role in the occurrence of the fraud. Later, they mostly just report the cases based on court updates and decisions. This pattern was noticed in all the cases of our sample.

The results showed that the auditor personal control on the fraud and its occurrence is largely used as a point of ascertaining its responsibility for the fraud. In fact, this link is shown as the most used basis of describing the auditor as responsible. As we said in an early stage, the media content was mostly based on reporter perception and speculation on why and how the auditor could have missed the fraudulent activities. The media presented the actions of the auditor that had impaired its critical analysis as well as its inability or reluctance to act upon a certain event such as relying on whistleblowing information to further audit analysis of companies' accounts. However, for each case the approach was different. Indeed, in the Enron case, the subsequent events after the launched SEC investigation of Enron fraud were more relevant to the press in their analysis of auditor's control. Arthur Andersen LLP was charged with obstruction of justice as the leading audit team destroyed numerous Enron-related files amid the investigation. Also, the media outlined a close relation between Andersen and Enron, a relation is described as a factor of impaired judgement on Enron's audit. For example, the media noted various "alarming facts" including the fact that certain Enron financial team members were former Andersen's employees. The existence of non-audit related business transactions between the two entities appeared suspicious. Also, there was mention of golfing session and the holidays time spent between the members of the two firms wich depict them as more friendly than they should be (independence issues). For the media, Andersen was too close to Enron to have been skeptical enough in the audit of Enron's accounts. Moreover, the destruction of Enron files by the audit team seemed to prove that there were fishy businesses at Enron of which the auditors were aware (Table 4.1).

On the other hand, the media approach on the implication of Ernst & Young LLP in the HealthSouth fraud was slightly different. In fact, the various media analyses, as well as the numerous contributors, seemingly question how the auditing team missed the ongoing masterful fraud at the medical care company. HealthSouth executives obviously went a length ahead to mislead the audit team. The accounting information presented to the team was falsified and deliberately misleading. The information contained in the media presents the various ways in which the Ernst & Young team could have suspected that the situation was not as it should have been. The errors in some of the accounts seemed too big to not be tested by more exhaustive procedures. But then there was the lack of regular annual meetings of the audit committee. Various suspicious facts which should have intrigued the auditors and pushed them to investigate further. Besides, it also seems that part of the HealthSouth team is made up of former Ernst & Young employees. Many elements which, according to the press, prove that the auditor could have timely detected fraudulent activities at HealthSouth and avoided the huge loss to investors (Table 4.2).

For the Lehman Brothers Inc. case, from the beginning of the proceedings, the major involvement of the auditor in this fraud has been the subject of much press content. The media position from the beginning of the crisis was obviously the involvement of the auditor. The media content focused mostly on the impact of Ernst & Young in the establishment of the Repo 105. Not to be forgotten, the audit team did not only allow the bank to partake in the use of the repurchase system, but they also helped in getting the legal counsel that to approve the use of the Repo 105 deals from the United Kingdom (UK). It seems obvious that if Repo 105 was banned in the US, it was for a valid reason. The proceeding of Ernst & Young with the Linklaters legal counsel was a dirty trickery to deceive the investors. It seems also well envisioned that if only the auditing team did not allow the bank to cover up about a billion dollars of debt within the auditing mission, the Lehman Brothers' fraud would have been cut down quickly after its happening. Consequently, for many, Ernst & Young's team was not only being negligent in assessing Lehman's financial statements, but it was also ardently involved in the fraudulent subterfuge of the latter (Table 4.3.)

Table 4.1: Media examples on the auditor's personal control for EC

Codes	*Examples*
Personal Control (MP)	*[…]The critical piece of evidence, the jurors said, was an internal memorandum written in mid-October of last year by David B. Duncan, the lead partner on the Enron account. The draft of that memorandum portrayed a conversation Mr. Duncan had with Richard A. Causey, Enron's chief accounting officer, about a news release the energy company was planning to issue regarding its third-quarter earnings. That release characterized certain losses Enron was reporting as "nonrecurring;" at the time, several Andersen experts, including Mr. Duncan, had concluded that such a representation was misleading. […]In his conversation, Mr. Duncan told Mr. Causey that such misleading information issued by other companies in the past had resulted in actions by the S.E.C. His draft memorandum of that conversation dutifully chronicled that portion of the discussion. But, on review, Ms. Temple suggested that Mr. Duncan remove that portion of the memorandum from the final draft, and Mr. Duncan did so.* (1) *In a February 1999 report to the board, Andersen characterized accounting judgments made by Enron and approved by Andersen as high risk. Those judgments, the report said, involved unspecified complex finance transactions and income. A year later, as the Andersen partner David B. Duncan told Enron's audit committee that his firm would approve Enron's financial statements without qualification, the accounting firm also made observations that in retrospect should have looked ominous. Andersen's report to the board's audit committee said that close judgment calls on how to account for Enron's transactions with related parties, like the now-infamous LJM partnership, ran the risk of setting off close regulatory scrutiny. The minutes do not show that the accountants proposed that the board create a special committee to review the LJM transactions, as they had discussed doing at a meeting a week earlier in Andersen's Houston office, according to notes of the meeting.* (3)

Codes	*Examples*
Personal control (MP)	*Arthur Andersen LLP analysts determined during the fall that there was significantly "heightened risk of financial-statement fraud" at Enron Corp., a newly released document shows. That determination came from a test on the Houston energy company's financial statements described in an Oct. 9 e-mail sent by Mark Zajac, a risk-management employee in Chicago, to Andersen auditors on the Enron account. Michigan Rep. John Dingell, the senior Democrat on the House Energy and Commerce Committee, released the e-mail as the panel's investigations subcommittee opened hearings on Enron's collapse. At the hearing, which focused on document destruction at Andersen, firm executives acknowledged that they retained a law firm in early October in part because they feared being sued over Enron but waited another month before telling the Houston office to preserve Enron-related documents.* (4) *[…] Had Arthur Andersen LLP, Enron's accounting firm, done its job properly, Enron would not have gotten away with some of the bizarre schemes it used to finance its energy trading business. Just what was in the destroyed documents is not known. Nor is it clear what, if anything, was wrong with the audits of Enron that Mr. Duncan had supervised since 1997. But prosecutors assume that a person with nothing to hide does not destroy documents after an investigation has been disclosed. "The destruction of documents would indicate some intent to deceive," said Franklin B. Velie, a former federal prosecutor (…). "Where there's smoke there's fire, and where there is a lot of smoke, like the destruction of documents, there is a lot of fire. This is really beginning to look like a fraud scenario."* (8)

Table 4.2 Media examples on the auditor’s personal control for HRC

Code	*Examples*
Personal control (MP)	*The magnitude of the misstatements in HealthSouth's alleged accounting fraud, much of it in basic accounts such as cash and assets, could have been caught by substantive audit procedures, some accountants and other industry specialists say. "You have a $1.4 billion error - and it's the type that's not much more than additions to assets," said Lynn Turner, an accounting professor at Colorado State University and former chief accountant at the Securities and Exchange Commission. "If you can't find that size of an error, what's the point of having an audit? How can that instill investor confidence?". In the complaint filed by the SEC, the majority of the improper accounting had to do with capitalizing items as part of property plant and equipment, noted Dennis Beresford, an accounting professor at the University of Georgia Tull School of Accounting in Athens, Ga. "That's a big part of what happened at WorldCom, too. HealthSouth had $800 million spread over about 10 years. That's a fairly large number."* (26) *"While management may have misled the auditors, they do have standards established to guide their testing and evaluation," said Michael J. Corcoran, chief executive of Stamford, Con., based accounting firm HarborView Partners LLC. "Let's hope that E&Y's audit procedures are explained, and we learn why they did not detect this very significant overstatement. Only then can we understand root causes plaguing financial reporting." A handful of executives and others in charge of HealthSouth's books - including its most recent chief financial officer, William Owens, and former CFO Weston Smith - were former accountants at Ernst & Young LLP. "That might have given them a little bit more inside information," said Beresford, the accounting professor. "But most audits aren't deep, dark secrets."* (26) *"There were observable fraud-risk indicators that should have directed their attention to contractual allowances," says Douglas Carmichael, an accounting professor at Baruch College in New York. "It's a significant accounting estimate that's susceptible to management's override of controls."* (28)

Codes	Examples
Personal control (MP)	*Other fraud-risk indicators include "unusually rapid growth or profitability, especially compared with that of other companies in the same industry." That fits HealthSouth, which grew rapidly through acquisitions. Itzhak Sharav, an accounting professor at Columbia University in New York, notes that HealthSouth's 2000 pre-tax earnings more than doubled to $559 million, though its sales grew only 3%. Pre-tax earnings for 2001 were nearly twice 1999 levels, although sales rose just 8%. Spotting such seeming contradictions required "no more than a calculator," Mr. Sharav says, and "should have triggered a very extensive audit." Equally puzzling to many outsiders is how Ernst could have missed HealthSouth's cash overstatements, when standardized forms are widely used by auditors to verify bank balances with financial institutions. "I'm shocked that cash is manipulated and overstated because the darn stuff is so easy to count," Mr. Guy says.* (28) *Among the new allegations against Ernst &Young, the lawsuit describes an alleged 1994 conversation between an unidentified "senior executive of HealthSouth" and G. Marcus Neas, then lead partner on Ernst &Young's audit of HealthSouth's 1993 financial statements. According to the suit, Mr. Neas urged HealthSouth to employ the accounting firm's preferred method of accounting for $3 million of investment-banking fees on the grounds that "E&Y had looked the other way" on other entries that overstated the company's earnings by $27 million. "Don't question me on this; I turned my head on the $27 million," the suit quoted Mr. Neas as telling a HealthSouth executive. The complaint says the $27 million overstatement consisted of the same kinds of allegedly fraudulent entries that by early 2002 had inflated the company's earnings by billions.* (34) *Offering new insight into how a massive accounting fraud went undetected for years at HealthSouth Corp. (HLSH), an executive with its longtime outside auditor testified Wednesday his firm relied on a few people for information about the rehabilitation giant and didn't check some accounts. Ernst & Young got most of its financial data on HealthSouth from some of the same executives who have pleaded guilty in the scam, according to testimony by William Curtis Miller, a principal with the auditing firm. Also, he said, Ernst & Young did not audit a contractual adjustment account the government claims was used in a scheme to overstate HealthSouth's earnings by some $2.5 billion since 1997.* (32)

Table 4.3 Media examples on the auditor's personal control link the LBI

Code	*Examples*
Personal control (MP)	*Auditor Ernst and Young is even more firmly in the examiner's sights. He says it was "professionally negligent" in passing the Repo 105 arrangements, which will be music to the ears of the many creditors and shareholders itching to take class-action cases against anyone they might be able to blame for the firm's catastrophic bankruptcy. The examiner also reports that senior Lehman banker Matthew Lee sounded the alarm about "accounting improprieties" in the summer of 2008, referring specifically to $50bn of repo arrangements, but Ernst and Young "took virtually no action to investigate". Of course, Linklaters and Ernst and Young will say they were only following the rules, but auditors and lawyers are professionals and they gave Lehman's highly questionable practices a sheen of respectability.* (62) *Linklaters, one of the world's premier law firms, and Ernst & Young, the accountancy giant, were both criticized in an investigation that accused the latter of "professional malpractice". It has emerged that a whistleblower at Lehman, whose collapse in 2008 defined the credit crunch, repeatedly warned auditors about the use of accounting methods that removed debt from its balance sheet. Matthew Lee, a senior vice-president at the firm, sent a letter to managers on May 16, 2008, four months before the bank's collapse. He warned that the use of "Repo 105" transactions to conceal the parlous state of the company's balance sheet could be unethical. Ernst &Young, Lehman's auditor, investigated the claims and were advised by Mr. Lee less than a month later that Lehman used $50 billion of Repo 105 transactions temporarily to move bad loans — which it classes as assets — off their balance sheet, effectively concealing much of its debt. A series of lawsuits is expected after the report into the collapse accused the accountant of taking no action.* (56)

Code	*Examples*
Personal control (MP)	*ERNST & Young, Linklaters, and Lehman Brothers' London operations played key roles in the investment bank's attempts to mask $50bn (£33bn) of assets on its balance sheet in the run-up to its eventual implosion in September 2008. The two advisers are under fire for their knowledge of a series of complex transactions known officially within the bank as "Repo 105" but referred to by senior staff as "window dressing" and an "accounting gimmick". The pair's actions are questioned in court-appointed investigator Anton Valukas's exhaustive report into the bank's collapse, which also found that British bank Barclays received assets it should not have when later buying Lehman's US brokerage business.* (74) *…The report also finds that the bank had to use its European arm, based in London, to undertake the questionable accounting practices as they were not considered legal in the US. Repo 105, the unusual accounting device at the heart of Lehman's downfall, essentially allowed the bank to mask its borrowing at the end of each quarter, decreasing its apparent risk profile to the outside world. According to the report, the complicated ruse allowed Lehman to claim its assets were $38.6bn lower than they were at November 2007. By May 2008, Repo 105 was concealing $50.4bn. The auditor's role Ernst & Young knew about Repo 105 but did not keep a check on how much the bank was using the accounting trick. E&Y's lead Lehman partner, William Schlich, told Mr. Valukas his firm did not "approve" Repo 105 but "became comfortable with the policy for purposes of auditing financial statements". Mr. Valukas concluded that there was a potential case against E&Y for malpractice for alleged "failure to question and challenge improper disclosures" by Lehman and not acting when a Lehman whistleblower told Mr. Schlich about the $50bn of assets hidden from investors.* (67)

- Legal perspective

Unlike the media results, the results on personal control on the legal side were mitigated depending on the case. In the Enron case, for instance, the legal position is drawn from both the SEC decision on Mr. Duncan's (lead audit partner) approach to Enron's audit and Andersen trial for obstruction of justice. Arthur Andersen LLP was tried on charges of obstruction of justice rather than on a fraud basis. The preliminary jury concluded on the guilt of Andersen on the basis that the destruction of documents was corruptly indented to cover up some foul play. However, years later, the Supreme court reversed that judgement of the basis that the audit team did not obstruct justice as they did not knowingly destroy the documents. As presented by Andersen's lawyers, the audit team performed a routine procedure and the government inquiries though probable were not known at that time. On the other hand, the SEC determined that David Duncan was reckless in his audits in signing off the materially false and misleading Enron reports. The auditor was suspended from all practice as an accountant. While Duncan's implication in the Enron unfortunate events is confirmed, the court decision does not exempt Andersen's responsibility for the fraud, yet it did not confirm it (Table 4.4).

In the HealthSouth case, the auditor's personal control appeared very weak. Indeed, various facts proved that the management team was responsible for the fraud and deceived even the auditors. The auditors' actions did not in any case prove that they overlooked or aided the fraud risks in the company. The legal stand on this case is contrary to the media perspective which expected the auditors to have acted on "perceived fraud risks". As for this link, the results showed that the court viewed that personal control is imputed to the company rather than the auditor:

> *"After summarizing the evidence, the panel engaged in an analysis of Alabama law. First, the panel concluded that, under Alabama law, the misconduct and*

> *knowledge of HealthSouth Corporation's officers, directors, and employees who had engaged in the fraud must be imputed to HealthSouth. The panel reasoned that § 8-2-7, Ala. Code 1975, could be invoked to impute to HealthSouth the conduct of HealthSouth Corporation's officers, directors, and employees."* (Tucker v. Ernst & Young LLP, 2014)

Ernst & Young was not that lucky when the Lehman scandal surfaced some years after. The legal stand of this case was that the auditors' actions were essentially part of the fraudulent schemes that occurred at the bank. According to the lengthy prosecution by Mr. Cuomo, the New York General Attorney, the audit team did not only overlook the substances of the accounting transactions of the bank. It did also participate in the execution of the schemes that defrauded many investors, although there was no legal class action against the auditor (Table 4.6).

Table 4.4 Legal perspective on the auditor's personal control in the EC

Code	*Examples*
Personal control (LP)	*As Enron Corporation's financial difficulties became public, petitioner, Enron's auditor, instructed its employees to destroy documents pursuant to its document retention policy. Petitioner was indicted under 18 U.S.C. §§ 1512(b)(2)(A) and (B), which make it a crime to "knowingly . . . corruptly persuade another person . . . with intent to . . . cause" that person to "withhold" documents from, or "alter" documents for use in, an "official proceeding." The jury returned a guilty verdict, and the Fifth Circuit affirmed, holding that the District Court's jury instructions properly conveyed the meaning [****2] of "corruptly persuades" and "official proceeding" in § 1512(b); that the jury need not find any consciousness of wrongdoing in order to convict; and that there was no reversible error.* (76) *With Enron's move to energy trading and rapid growth came aggressive accounting, pushing Generally Accepted Accounting Principles to its advantage. Part of this picture included Enron's use of "special purpose entities," SPEs. These were "surrogate" companies whose purpose was to engage in business activity with no obligation to account for the activity on Enron's balance sheet. Four of these SPEs - called Raptors - play a large role in this story. They were created in 1999 and 2001, with the assistance of Andersen, largely capitalized with Enron stock. The Raptors engaged in transactions with "LJM," an entity run by Andrew Fastow, Enron's Chief Financial Officer. By late 2000 and early 2001, the traded price of Enron's stock was dropping and some of the Raptor's investments were also turning downward. Some of the SPEs were profitable and some were experiencing sharp losses. But aggregated they reflected a positive return to Enron. GAAP would not permit such an aggregation of the four [**5] entities and Andersen's Chicago office told David Duncan that it would not - that it was a "black and white" violation. That advice was ignored, and the losses were buried under the profits of the group in the public reporting for the first quarter 2001. The slide of Enron stock continued, dropping some 50% from January to August 2001.* (77)

Code	Examples
Personal Control (LP)	*Events showed that Duncan knowingly destructed Enron records. For example, on October 26, John Riley, another partner with petitioner, saw Duncan shredding documents and told him "this wouldn't be the best time in the world for you guys to be shredding a bunch of stuff." Brief for United States 9. On October 31, David Stulb, a forensics investigator for petitioner, met with Duncan. During the meeting, Duncan picked up a document with the words "smoking gun" written on it and began to destroy it, adding "we don't need this." Ibid. Stub cautioned Duncan on the need to maintain documents and later informed Temple that Duncan needed advice on the document retention policy. (*78) *An SEC letter to Enron quickly followed the releases of October 16. In the letter, the SEC advised that it had opened an informal investigation in August and an additional accounting letter would follow. Andersen received a copy of the letter on Friday, October 19. A Saturday morning conference of Andersen's Enron crisis group followed. While the meeting traversed a range of issues, Temple again reminded all "to make sure to follow the policy." The following Tuesday, October 23, Enron had a telephone conference with security analysts. At the same time, Duncan scheduled an "urgent" and "mandatory" meeting in Houston at which, following a lengthy discussion of technical accounting issues, he directed the engagement team to comply with Andersen's records retention [policy. On October 26, a senior partner at Andersen circulated an article from the New York Times discussing the SEC's response to Enron. In an email, he commented that "the problems are just beginning, and we will be in the cross-hairs. The marketplace is going to keep the pressure on this and it's going to force the SEC to be tough." Evidence that this prediction of SEC toughness was sound came quickly. On October 30, the SEC sent Enron a second letter requesting accounting documents - a letter signed by the two top enforcement division officials. Throughout this period Andersen's Houston office shredded documents. Government witnesses detailed the steady shredding and deletion of documents and the quantity of paper trucked away from the Houston office. Almost two tons of paper were shipped to Andersen's main office in Houston for shredding.* (77)

Table 4.5 Legal perspective on the auditor personal control in the LBI

Code	*Examples*
Personal control (LP)	*E&Y not only approved but consistently supported Lehman's Repo 105 policy, and advised Lehman that it could take advantage of a technical accounting rule, known as FAS 140, to treat these Repo 105 transactions, which in reality were short-term financings, as "sales," enabling Lehman to remove the securities from inventory on its financial statements until they were repurchased. As E&Y also knew, at no time did Lehman disclose, either in its financial statements or otherwise, that it was transferring tens of billions of dollars in fixed income securities to foreign banks, on a temporary basis, often at the very end of Lehman's fiscal quarters, with the obligation to quickly repurchase the securities. These Repo 105 transactions had no independent business purpose and were designed solely to enable Lehman to manage the company's financial balance sheet "metrics." In fact, a number of senior financial executives at Lehman warned management that the transactions were improper. Nevertheless, Lehman used the transactions aggressively, and issued financial statements, audited, reviewed, and approved by E&Y, that concealed the transactions and created a highly misleading picture of Lehman's true leverage*. (81) *Not only were the transactions concealed, but Lehman's financial statements affirmatively, and falsely, stated that the only securities subject to repurchase ("repo") agreements were "collateralized agreements and financings" (i.e., loans), even though, as E&Y well knew, Lehman was treating the transfer of tens of billions of dollars of securities in Repo 105 transactions as "sales," not "loans." Rather than expose this fraud as auditors must, E&Y expressly "approved" this practice in 2001, and, year after year thereafter, E&Y gave clean opinions on Lehman's financial statements even though the statements concealed the massive Repo 105 transactions. Lehman used the Linklaters' opinion repeatedly to engage in billions of dollars worth of highly questionable transactions without disclosing the truth in its financial statements. Lehman did so despite knowing – as E&Y knew – that the Linklaters letter placed limits on the use of Repo 105 transactions. In an October 3, 2002 e-mail to E&Y, for example, Smith attached her August 2001 "Rules of Road – Repo Recharacterizations (Repo 105)" memo that stated: "Linklaters has issued a True Sale opinion covering repo transactions documented under a GMRA agreement under English Law [...]"*. (81)

4.2.2 Professional obligation of the auditor

- Media perceptive

The results of our analysis show that the obligations of the auditors are also mostly presented in the media as a factor of the auditor's responsibility to detect fraud. The auditors have the obligation to be binded by profession rules and regulations. Similarly, they are also responsible to preserve the interest of the investing public. And any exception of these rules was invariably documented in the media to demonstrate the many ways in which the auditors failed to respect those obligations. Beginning with Andersen in the Enron case, the most recurring criteria was the outrageous audit and non-audit fees perceived by the auditor. Even though at the time, there were no restrictions on the fees payable to the auditors, the media was already virulent on the fact that auditors could not be bothered to preserve the public interest when paid so much for their service. Another factor, in the Enron case, was the internal audit activities performed by Anderson for the company. In the media’s opinion, Andersen could not make excuses of being uninformed of the company’s fraud risks while it was the one performing all the internal audit work. Also, Andersen failed to act on so many red flags that triggered outsiders’ attention. Interestingly, other similar fraud cases such as Waste Management was depicted by the press to prove that Andersen LLP was regularly in the midst of fraud scandal (Table 4.6).

Unfortunately for Ernst & Young, the HealthSouth case was the first one tried in the press after the passing of the SOX Act. Therefore, although this case was not of the stature of Enron, it had a certain media exposure. Unlike Enron, the management of HealthSouth deceived both investors and auditors. However, the results show that for the media, the auditors should not be easily fooled by management. The media content exposes all the red flags that the auditors overlooked, and which were considered as high fraud risks. Indeed, it appeared that the materiality concept of auditing should not be used as an excuse to not perform costly audit procedures. The charges of non-audit services were another issue for the media as well as whistleblowing attempts that were ignored by the auditors (Table 4.7).

Lehman Brothers on the other hand was a huge sensation in which the auditors Ernst & Young were highly criticized. The media mostly relied on the Lehman’s examiner (Mr. Anton Valukas) report. The report detailed the implementation of Repo 105 and Ernst & Young's contribution to its uses in the company. According to the media, not only did the auditors failed to determine that the Repo 105 transactions were lacking business purposes, but they also approved its use by the company. Also, they knew the procedure was illegal in the US so then found an alternative to make it possible for Lehman outside the US. The media content also showed that several warnings and complaints from Lehman executives were overlooked by the auditors. Therefore, in the media court, the auditors were as responsible as the management for the fraudulent procedures but also for their concealment (Table 4.8).

Table 4.6 Media examples on the auditor's professional obligation for EC

Code	*Examples*
Professional obligation (MP)	*In addition to acting as Enron Corp.'s outside auditor, Arthur Andersen LLP also performed internal-auditing services for Enron, raising further questions about the Big Five accounting firm's independence and the degree to which it may have been auditing its own work. That Andersen performed "double duty" work for the Houston-based energy concern likely will trigger greater regulatory scrutiny of Andersen's role as Enron's independent auditor than would ordinarily be the case after an audit failure, accounting and securities-law specialists say.* (18) *Mr. Zajac's analysis was based on a "financial statement fraud risk identification" test. Such tests are routine in auditing, but the Enron results weren't. Mr. Zajac wrote that a complete test was impossible because enough data about administrative expenses were lacking. But a test of the rest of Enron's financial statements triggered a "red alert: a heightened risk of financial fraud." Mr. Zajac's e-mail explained that such red alerts sometimes are false alarms but must be taken seriously because the risk of fraud is "significantly heightened."* (4) *Andersen spokesman David Tabolt said Enron outsourced its internal-audit department to Andersen around 1994 or 1995. He said Enron began conducting some of its own internal-audit functions in recent years. Enron, Andersen's second-largest U.S. client, paid $25 million for audit fees in 2000, according to Enron's proxy last year. Mr. Tabolt said that figure includes both internal and external audit fees, a point not explained in the proxy, though he declined to specify how much Andersen was paid for each. Additionally, Enron paid Andersen a further $27 million for other services, including tax and consulting work.* (18)

Code	*Examples*
Personal control (MP)	*The problems that Andersen spotted back in 1997 have been overshadowed by much larger flaws in Enron's bookkeeping, such as vast debts and losses ascribed to related partnerships that were improperly kept off the company's books. But the story of the $51 million shows how, time and again, potential warnings of financial disaster have gotten past the outside auditors responsible for scrutinizing Corporate America's books and protecting the investing public. (24)* *It made sense to look past the 1997 bottom line because Enron's income of $105 million that year reflected large "nonrecurring charges," Bernadino said. A report Enron filed with the SEC said Enron took a $463 million charge in 1997 for "contract restructuring." Berardino's testimony also showed the flexibility that auditors and corporate managers have brought to accounting decisions. Some companies book adjustments "in the year after the auditor identifies them," he said. Several accounting and auditing specialists interviewed for this story challenged Andersen's conclusion that the $51 million was not material. They said they were unaware of any basis in accounting principles or auditing standards to use normalized income the way Berardino described. "The whole logic seems fairly shaky to me," said Bala Dharan, professor of accounting at Rice University in Enron's home city, Houston. "By any stretch of logic, $51 million is a significant, material amount." (24)* *Douglas Carmichael, a professor of accountancy at the City University of New York's Baruch College and former auditing specialist at the American Institute of Certified Public Accountants, said, "It's very hard for me to see any real justification for not regarding that [$51 million] as material." If auditors judge materiality by such a "fuzzy, loose concept" as normalized income, "almost anything can become immaterial," said Baruch Lev, professor of accounting and finance at New York University's Stern School of Business.* (17)

Table 4.7 Media examples on the auditor's professional obligation for HRC

Code	*Examples*
Professional obligation (MP)	*HealthSouth Corp. (HLSH) directors Wednesday told a U.S. House panel in Washington that they weren't aware the company paid its outside accounting firm, Ernst & Young LLP (X.EYG), more to inspect toilets at its hospitals than to have the same firm audit its books. HealthSouth, the troubled Birmingham, Ala.-based hospital chain, paid Ernst & Young about $2.1 million in 2000 and 2001 for financial audit services, according to Rep. Cliff Stearns, R-Fla. At the same time, HealthSouth paid Ernst & Young about $2.6 million to conduct "pristine audits" to check the cleanliness of the firm's hospitals and rehabilitation centers. "By hundreds of thousands of dollars, Ernst & Young was charging more to check the magazine racks and the toilets than they were to do the audit," Stearns said during the House Energy and Commerce subcommittee hearing into the origins of HealthSouth's $2.7 billion accounting scandal.* (37) *Ms. Edwards, according to Mr. Vines's testimony, signed off on the entries, and he logged them. Mr. Vines also testified that he saw Ms. Edwards falsifying an invoice, which according to his testimony was a way to cover up the larger fraud involving the accounts. In December 2001, Mr. Vines said on the stand, Ernst was conducting a routine review of how HealthSouth depreciated its assets. As part of the review, Ernst asked about an asset on the company's balance sheet. The problem: There was no invoice showing that the asset, for a facility in Kansas, had been purchased. (The court papers don't specify what the asset actually was.) So, Mr. Vines testified, Ms. Edwards ordered Mr. Vines to pull an invoice for a different purchase, for a facility in Braintree, Mass., that roughly matched the asset's price. She then scanned the invoice into her computer and altered the shipping cost and other information to make it fit the asset that Ernst was asking about, according to Mr. Vines's testimony.* (47)

Code	*Examples*
Professional obligation (MP)	*As early as 1994, according to the lawsuit, Ernst & Young knew HealthSouth was overstating earnings. As the accounting firm concluded its audit of the company's 1993 financial statements, the lawsuit said, a partner overseeing the account told a senior executive of HealthSouth to agree to a particular accounting treatment because Ernst & Young had looked the other way on $27 million in overstated earnings. The testimony came after nearly three weeks of evidence presented by an attorney for Mr. Scrushy aimed at convincing Birmingham U.S. District Court Judge Inge Johnson that the alleged fraud was the work of rogue company executives who never informed Mr. Scrushy of what they were doing. Yesterday, Mr. Scrushy's lawyers asked this question: If a firm as prestigious as Ernst couldn't detect the fraud, how could their client have been expected to spot it?* (44) *The new standard, outlined last fall, puts a greater emphasis on professional skepticism. Audit teams, for instance, are encouraged to brainstorm how frauds could occur. Also, auditors should consider whether there's an incentive to commit fraud or an opportunity, such as in situations where a chief financial officer can override an internal control. If the auditor believes there's a high risk, they should tailor their audit procedures to respond to that risk. "One thing you have to do as an auditor, you have to think like a fraudster and that means understanding the components of fraud," said Landes.* (40)

Table 4.8 Media examples on the auditor's professional obligation for LBI

Code	*Examples*
Professional Obligation (MP)	*Lehman's examiner, Anton Valukas, found the repo transactions to be partly responsible for Lehman's demise and said Lehman may have "colorable claims" against Ernst & Young for failing to notice that the repos lacked a business purpose. Auditors are supposed to "look at the substance" of such transactions in addition to seeing whether they have actually complied with U.S. accounting rules, Turner said, noting that he has not seen anything that would prove to him that the Repo 105 transactions complied with U.S. Generally Accepted Accounting Principles.* (66) *"The basic duty and legal obligation of auditors is to ensure that the public companies they audit provide reliable and unbiased information about their operations to the investing public. If auditors issue opinions that are unreliable or provide cover for their clients by helping to hide material information, that harms the investing public, our economy, and our country," Attorney General Schneiderman said. "Auditors will be held accountable when they violate the law, just as they are supposed to hold the companies, they audit accountable."* (72) *As alleged by the Attorney General, Ernst & Young approved Lehman's accounting for the Repo 105 transactions and issued unqualified opinions certifying Lehman's financial statements, in spite of knowing that Lehman was not disclosing the existence or impact of the Repo 105s in its annual and quarterly consolidated financial statements, all of which Ernst & Young audited or reviewed. Ernst & Young also failed to object when Lehman allegedly misled analysts on its quarterly earnings calls regarding its leverage ratios and did not inform Lehman's Audit Committee about a highly-placed whistleblower's concerns about Lehman's use of Repo 105 transactions.* (72)

Code	*Examples*
Professional obligation (MP)	*While Mr. Vulakas found that Dick Fuld, Lehman's chief executive, and other senior executives may have been unwise and shown poor judgment in their attitude to risk, he concluded that their actions in this regard were not so "reckless and irrational" as to give rise to a breach of fiduciary duty. But his finding that they may have a case to answer on the Repo 105 transactions is expected to fuel litigation against the bank and its accountants. Most notably, the report concludes that Ernst &Young was wrong to agree to the bank's misleading accounts, knowing what it did about the Repo 105 transactions. "Colorable claims exist that Ernst & Young did not meet professional standards, both in investigating Lee's allegations and in connection with its audit and review of Lehman's financial statements," the examiner said.* (56) *Lehman was only able to obtain a stamp of approval in 2001 for Repo 105 from a U.K. based law firm that explicitly restricted the transactions to Lehman's U.K. affiliate, "subject to English law," and involving securities that were 'sited' in the United Kingdom," said Mr. Cuomo's complaint. By 2007, Lehman was transferring U.S. securities to its London affiliate to use in Repo 105 transactions, a transgression that Ernst & Young was aware of but didn't flag to the audit committee or to the firm, said the complaint. Nonetheless, Ernst & Young gave Lehman clean audits without any disclosures about Repo 105. The Attorney General is accurately portraying an auditor's duties as ensuring that a client's financial statements are not materially misleading, and his allegations if proved true, could create a significant problem for Ernst & Young," said Robert Willens, a New York tax consultant who advises investment banks and hedge funds. "He raises a lot of troubling issues."* (64)

- Legal perspective

The results showed that the auditor's professional obligation is a strong determinant of her/his responsibility for the fraudulent event. Although the three cases do not stand on the same basis to determine the auditor's obligation, it appeared that the failure to fulfill these obligations is deemed costly for the auditor. In the Enron case for example, though the audit firm was cleared of charges for obstruction of justice, the lead auditor was sanctioned by the SEC for fraud and negligence. This sanction demonstrated the auditor's responsibility for Enron's deceitful records (Table 4.9).

The HealthSouth case differed from that of Enron. The auditor has been proven to have performed to the best of their ability their duties. The management approach to this case rendered it impossible for the auditor to tackle any wrongdoings. However, had the auditors known or poorly performed these duties, the story would have been different. The perfect example is the case of Lehman Brothers which had the same auditor as HealthSouth Corp. For this accounting scandal, Ernst & Young was prosecuted and settled with the State of New York for its implication and negligence in the Lehman Brothers' wrongdoings. For the prosecution, Ernst& Young failed to act on financial executives' warnings, to comply with numerous GAAS principles concerning the audit, etc. (Table 4.10)

Table 4.9 Legal examples on the auditor's professional obligation for EC

Code	*Examples*
Professional obligation (LP)	*Andersen both audited Enron's publicly filed financial statements and provided internal audit and consulting services. By the late 1990s, Andersen's "engagement team" for its Enron account included more than 100 people, a significant number of which worked exclusively in Enron quarters in Houston, Texas. From 1997 through 2001 the engagement team's leader was David Duncan. He was in turn subject to certain managing partners and accounting experts in Andersen's Chicago office. Enron was a valued client producing 58 million dollars in revenue in 2000 for Andersen with projections of 100 million for the next year. Enron's Chief Accounting Officer and Treasurer throughout this period came to the employ of Enron from the accounting staff of Andersen, as did dozens of others. This was a close relationship. Indeed, the jury heard evidence that Andersen removed at Enron's request at least one accountant from his assignment with Enron after Enron disagreed with his accounting advice.* (77) *The fraudulent scheme was carried out through a variety of complex structured transactions, off-balance sheet financings, related party transactions, misleading disclosures, and a widespread abuse of GAAP. As the global engagement partner responsible for the Enron audits, Duncan was ultimately responsible for determining whether an unqualified opinion should be issued within the auditor's report. The complaint also alleged that for years 1998 through 2000, Duncan was reckless in not knowing, that the unqualified audit reports he signed on behalf of Andersen were materially false and misleading.* (78) *Meanwhile, Enron was facing an October 16 date for announcing its third-quarter results. That release had to disclose a \$ 1.01 billion charge to earnings and, to correct an accounting error, a \$ 1.2 billion reduction in shareholder equity. Enron's draft of the proposed release described the charge to earnings as "non-recurring." Andersen's Chicago personnel advised that this phrase was misleading, but Enron did not change it. With one exception, Andersen took no action when its advice was not followed: Temple suggested that Andersen's characterization of the draft release as misleading be deleted from the email exchanges.* (77)

Table 4.10: Legal examples on the auditor's professional obligation for LBI

Code	*Examples*
Professional Obligation (LP)	*These Repo 105 transactions had no independent business purpose and were designed solely to enable Lehman to manage the company's financial balance sheet "metrics." In fact, a number of senior financial executives at Lehman warned management that the transactions were improper. Nevertheless, Lehman used the transactions aggressively, and issued financial statements, audited, reviewed, and approved by E&Y, that concealed the transactions and created a highly misleading picture of Lehman's true leverage. Not only were the transactions concealed, but Lehman's financial statements affirmatively, and falsely, stated that the only securities subject to repurchase ("repo") agreements were "collateralized agreements and financings" (i.e., loans), even though, as E&Y well knew, Lehman was treating the transfer of tens of billions of dollars of securities in Repo 105 transactions as "sales," not "loans." Rather than expose this fraud as auditors must, E&Y expressly "approved" this practice in 2001, and, year after year thereafter, E&Y gave clean opinions on Lehman's financial statements even though the statements concealed the massive Repo 105 transactions.* (81) *"The basic duty and legal obligation of auditors is to ensure that the public companies they audit provide reliable and unbiased information about their operations to the investing public. If auditors issue opinions that are unreliable or provide cover for their clients by helping to hide material information, that harms the investing public, our economy, and our country," Attorney General Schneiderman said. "Auditors will be held accountable when they violate the law, just as they are supposed to hold the companies they audit accountable." Under the terms of the settlement, Ernst & Young will pay $10 million—most of which will go to investors, with the remaining settlement funds to be used to reimburse New York State for investigation and litigation costs.* (81)

Code	*Examples*
Professional obligation (LP)	*E&Y knew every significant aspect of Lehman's Repo 105 transactions and knew that the Lehman financial statements violated Generally Accepted Accounting Principles 3 ("GAAP"), which require that such statements (a) not be misleading, (b) fairly disclose the Company's financial position, and (c) not omit material information necessary to fairly present the financial position. As the public auditor for Lehman, E&Y had the absolute obligation to ensure that Lehman's financial statements complied with GAAP and did not mislead the public. Instead of fulfilling this obligation, E&Y gave a clean opinion each year, erroneously stating that Lehman's financial statements complied with GAAP. E&Y sat by silently while Lehman deceived the public by concealing the Repo 105 transactions and misrepresenting the Company's leverage. By doing so, E&Y directly facilitated a major accounting fraud and helped Lehman mislead the public as to its true financial condition. E&Y, which reaped over $150 million in fees from Lehman, must be held accountable for its role in this fraud.* (81) *E&Y was required to discuss with Lehman's Audit Committee the quality of Lehman's accounting principles as applied to financial reporting. (See AU § 380.11.) This would include moving $30-$50 billion temporarily off the balance sheets at quarter-end, including the use of American-based securities based on an overseas "True Sale" opinion that could not be obtained in the United States. AU § 380.11 states that auditors must discuss accounting policies, unusual transactions, the clarity and completeness of the financial statements, and unusual transactions with the audit committee. Contrary to that standard, E&Y never communicated anything about the Repo 105 transactions to Lehman's Audit Committee. E&Y's concerns regarding "reputational risk," as raised by Jain, the use of American-based securities, and the increasing volume of Repo 105 transactions, all raised issues that E&Y failed to bring to the Audit Committee. Further, E&Y failed to challenge public statements by Lehman's management concerning the reductions in leverage that E&Y knew had been accomplished largely by the use of Repo 105 transactions.* (81)

4.2.2 Task clarity

The clarity of the task expected from the auditor as for fraud detection seemed to be the trickiest for both media and legal authorities. The results (see Table 4.11) showed that this link was for lesser concern for the parties as there is no clear set of prescriptions related to the event of fraud detection. For the media, these cases were a reminder to the regulatory authorities of the need for new regulations on fraud. Indeed, the case of Enron demonstrates that auditors needed to be checked and audited themselves. The auditors need to appear more trustworthy and acknowledge that they have a greater obligation towards the investing public. With the HealthSouth case, the media seems to expect more from the auditors. But auditors cannot be expected to do much when all odds are against them. The Lehman Brothers case rather came along to strengthen the position that a clear set of rules were needed on the issue of fraud. In fact, the responsibilities of auditors on fraud issues remain too broad in the media view. The accounting profession's use of professional interpretation can be deceptive so speculations must cease, and a clearer line should be drawn on responsibilities on fraud issues.

On the other hand, legal authorities relied more on the obligations of the auditor as well as his or her control over the event. Their understanding seemed to be that the clarity of the tasks derives from professional obligations professional obligations of the auditor are the same as their defined prescriptions towards the events. By diligently performing their duties, auditors avoid a higher fraud risk than when they perform poorly.

Table 4.11: Media’s examples on auditors’ task clarity

Code	*Examples*
Task clarity	*These lawsuits end up, the demise of Andersen as a result of the Enron scandal clearly paved the way for broad changes in the accounting world: the creation of regulatory agencies, greater willingness of auditors to stand up to clients, and paradoxically, a lot more business for accountants and lawyers.* *The Sarbanes-Oxley Act, approved by Congress months after Andersen's trial and intended to address a wave of corporate fraud, has led to considerable additional work for accounting and consulting firms, many of them well-populated with Andersen alumni. This is the result of a government effort to increase standards of corporate vigilance by defining a wider net of collaterally liable parties. Authorities have broadened their target to encompass those parties whose "deliberate indifference" has aided or abetted another party's accounting fraud, and such a move has been supported by a new framework of criminal and civil sanctions, most notably the use of deferred prosecution agreements that hold companies accountable for prior wrongdoing without exacting the ultimate Andersen-style punishment on their shareholders and employees.* *"The verdict sends a message out loud and clear to the accounting industry to get their priorities straight," said Samuel W. Buell, an assistant United States attorney who was one of the prosecutors. Andersen, Mr. Buell said, was working too hard to protect itself and Enron, its client, without enough attention to the interests of the investing public.*

Code	Examples
Task clarity	*The Lehman affair is the latest and most serious in a string of problems for Ernst in recent years. In one case, Ernst was too close to its clients, regulators said. The Securities and Exchange Commission suspended Ernst in 2004 from accepting new public-company audit clients for six months over auditor-independence issues. Ernst had been auditing business software firm PeopleSoft at the same time the firm's consulting arm profited from recommending PeopleSoft software to customers. Ernst agreed to pay $142.5 million to shareholders and bondholders at HealthSouth Corp. in settlements over that company's accounting scandal for overstating earnings. In 2005, Ernst also paid $100 million as part of a settlement about overstatement of online ad revenue at Time Warner Inc. Tuesday's civil-fraud lawsuit against Ernst, filed in a New York state court, alleged a broad pattern of negligence and complicity by the Big Four accounting firm.* *The Lehman disaster adds to a long list of Ernst & Young scandals. Among the lowlights, four former Ernst & Young executives received prison sentences this year for selling illegal tax shelters. Last December, the Securities and Exchange Commission fined Ernst & Young $8.5 million and censured six of its current and former partners for professional misconduct over their roles in approving fraudulent financial statements by Bally Total Fitness Holding Corp. Those partners, who neither admitted nor denied the accusations, included the head of Ernst & Young's national office, Randy Fletchall. He remains at the firm and now is vice chairman for quality and risk management, Perkins said.* *Last year, Ernst & Young agreed to pay $109 million to settle investor lawsuits over its audits for HealthSouth Corp., which disclosed a massive accounting fraud in 2003. In 2004, the SEC suspended Ernst & Young from accepting new audit clients for six months because it had entered a joint-marketing agreement with People-Soft Inc., an audit client, in violation of auditor independence rules. In 1999, Ernst & Young reached a $335 million settlement with investors over its audits for Cendant Corp. after an accounting fraud there.* (29)

4.3 Summary of case findings

Table 4.12 below presents a summary of the findings for each case concerning the responsibility links. According to our results, both the media and the law determine the auditor's responsibility based on personal control and professional obligation links. Whilst the task clarity link seems less relevant. The irrelevance of the task clarity link is comprehensible considering that no regulation acknowledges the detection of fraud as an objective of financial audit in the current context. Nonetheless, we note that the media and legal opinions agree on the conclusion that the auditor has a responsibility for fraud detection in two out of the three cases (Enron and Lehman Brothers). Their opinions diverge on the HealthSouth case. Here, the media expected the auditor to have put more effort to detect a blatant fraud. The law, on the contrary, maintains that Ernst & Young could not have detected the fraud because of management's shenanigans.

Table 4.12 Case summary of the auditor's responsibility links.

	Personal control	Professional obligation
Enron	• Media -Relation auditor and audited firm. -Performance of non-audit services. - Destruction of Enron records. -Impaired judgement due to huge audit fees. • Legal -Negligence. -Poor performance.	• Media -Failure to check on numerous red flags. - Lack of auditors' independence due to enormous audit fees. - Dual role of Andersen as internal and external auditor. • Legal -Auditor cover-up of fraud. - Unqualified audit opinion on Enron's misleading financial reports.

	Personal control	Professional obligation
HealthSouth	• Media -Negligence. -Poor performance. -Unwillingness to act on executives' complaints and tips. • Legal No auditor's personal control over the fraud event.	• Media -Reliance on the materiality principle to avoid checking suspicious accounts. -Lack of due diligence on the company fraud risks. • Legal Auditors did comply with their professional obligation.
Lehman Brothers	• Media -Auditors' approval of Repo 105 transactions. -Auditors' implications in the obtaining of legal approval in the UK. • Legal -Approval of Repo 105 transactions without checking their business purposes. -Approval of the removal of amount from accounting records. - Unqualified opinion on misleading financial statements.	• Media -Auditors knowingly helped implement transactions illegal in the US. - Failure to prove the business purpose of the Repo 105 transactions. • Legal -Failure to comply with the GAAS. -Failure to report the accounting issue to the audit committee.

CHAPTER V

SUMMARY AND DISCUSSION

In this section, we present a brief summary of our findings. This summary helps in answering our research question. Moreover, we also, elaborate the discussion on other relevant themes brought up during our analysis. It appeared that corporate scandals could also be related to regulatory failures and high governmental links. It is interesting to discuss these themes to understand how they are related to a higher or moderate perception on auditor responsibility.

5.1 Perception on independent auditor responsibilities for fraud detection

The first step of our analysis was to determine whether the auditor’s personal control is a determining factor in the perception of his or her responsibility for financial statement fraud detection. Our findings showed that both the media and the court decisions relied on the auditor’s personal control to determine responsibility. The cases of our sample show that personal control is an essential component for the assessment of the auditor’s responsibility. Personal control assessment is based on the auditor’s actions in enabling fraudulent activities rather than just a mere relationship due to its social role. The enabling actions majorly portrayed issues based on the auditor's performance. Undoubtedly, for the audience, when auditors failed to detect fraudulent activities due to their poor performance during the audit mission, they are as responsible as the management for the event of fraud within the corporation. The auditor's reluctance to act on major red flags of fraud risks as well as their unwillingness to perform further audit tests based on the materiality concept is often perceived as an indication of poor performance. Besides, a close relationship between the audit team and the auditee team is perceived as a great indication of the auditor's impaired judgement. As such, in public opinion, the auditor cannot claim ignorance when many factors leading to the uncovering of financial statement fraud have been overlooked by them. These findings are consistent with those of Chevalier (1991) and Dennis (2010) who indicate that numerous lawsuits have been brought against auditors based on negligence or poor performance.

Next, the auditor’s professional obligations are also substantially considered by both the media and the law in determining the auditor's responsibilities. The relationship between professional obligation and responsibility were also proven strong under each perspective. Based on social and professional constructs, the auditor has the obligation to protect the investing public’s interest (AICPA, 2014). Accordingly, in the instance that a particular fraud scheme failed to be detected because auditors fail to comply with those obligations, the auditor is perceived as highly responsible for the fraud event. Professional obligations such as a lack of independence towards the audited entity and failure to report fraud risks the company’s audit committee are a great concern for the auditors. Notwithstanding the higher social component of the auditor’s obligation exhibited in the media, both legal and media perspective acknowledge that a failure to comply with the prescribed obligations renders the auditors responsible for financial statement fraud controversy.

Our results are in accordance with the conclusions of Schlenker *et al.* (1994). Indeed, to determine the responsibility of the actors, the audience focuses on its direct link with the event, its action or inaction as well as the prescriptions that link it to the event. The link between prescriptions and events is rarely used. In this case, it has been very little emphasized by the courts in the decision-making process. Moreover, although acknowledging the almost non-existent and ambiguous nature of the prescriptions about fraud detection, the media have yet concluded that the auditors were guilty in the various cases studied. Furthermore, the recent lawsuits and settlement agreements on the HealthSouth and Lehman Brothers' cases proved that albeit the audit profession's approaches, auditors are liable entities in the event of fraud in the public opinion. In this regard, our findings are consistent with other studies that conclude that there still a strong difference in expectations on the independent auditor's duties and responsibilities (Dennis, 2010; DeZoort and Harrison, 2018; Porter *et al.*, 2012). Our findings are also consistent with the conclusions of Cohen *et al.* (2017) which underlines the influence of media bias as a factor of the persistence of the expectation gap. According to their conclusions, media coverage is generally biased. As such, the media coverage has an overemphasis on unreasonable expectations which tend to reinforce the view that the auditor should take more responsibility for detecting fraud.

Finally, our findings proved that the media and the court's decisions are a strong influence on the persistence of the expectation gap. However, we can conclude that the media may have a higher influence on the expectation gap than the court conclusions. Indeed, media content appears to be more accessible to the public than court briefs and documents. Also, the media has long ago established itself as a watchdog of the corporate world. It monitors and exposes the slightest suspicious misdeed. Also, the media often uses court decisions to justify its contents and positions. Besides, it has been proven that when there is an intense media coverage on an issue, it increases the probability that a corporate governance violation will be reversed (Dyck *et al*., 2008).

Undoubtedly, the expectations of third parties on the independent auditor's responsibilities for financial statement fraud detection are substantially different from those conveyed by the audit profession. Court decisions which concluded on the culpability for fraud cases convey the opinion that auditors could and will be held accountable for their actions if they fail in any manner to protect the public interest from fraud catastrophes. Apart from that, the media broadcasts the opinion of various actors in the business industry. Many of these actors' perception is that auditors should hold greater responsibility for fraud detection. This ideology is supported in the media through the display of numerous comments of members of the regulatory system as well as the accounting profession which perceived that auditors have too often failed in their watchdog role.

On the other hand, our findings indicatethat the audit profession's legitimacy will constantly be questioned unless it embraces the public's opinion on the issue of fraud detection. According to the public's opinion, the added-value of audit missions is that they determine the risk factors of the company to protect the stakeholders' interests. Fraud is a major risk factor for stakeholders as it jeopardises their interests and even the company's going concern principle. Thus, the various amendments to the audit regulations on fraud, although commendable, seem insufficient for the public. These findings are in accordance with the studies of Foster *et al.* (2010) and Booker and Zhang (2018) which determine that financial statements users prefer that audit regulations incorporate a fraud detection responsibility. These conclusions are supported by the neo-institutional theory that underlines the social order in which societies are established. The social order includes the setting of diverse rules to which the members of the same society are liable. These rules are essentially shaped by the conceptions and expectations of the majority of the society's members. Thus, in a society where media and legal pressures influence the perceptions of a major part of the society, the legitimacy of the audit profession could be at stake. Accordingly, the profession may then be forced to assume responsibilities it would rather ignore.

Table 5.1. presents a summary of the elements constituting the auditors' responsibility for fraud from both media and legal documents. Indeed, details such as negligence and poor performance are considered factors of the auditor's inability to detect the fraud due to his own control. While the lack of independence and failure to comply with

GAAS is a flagrant breach of professional obligation. The table ultimately presents the facts presented in the analysis that could influence the public's perception.

Table 5.1 Perceived auditors' responsibility for fraud detection.

	Personal control	Professional obligation	Influence on users' perceptions
Perceived auditors' responsibility	-Negligence -Poor performance -Close relationship auditor and audited company. -Destruction of accounting records. -Auditor's approval of suspicious accounting maneuvers. -Failure to act on tips and complaints about the company. -Performance of non-audit services.	-Failure to comply with GAAS. -Lack of independence. -Failure to report fraud risk to the audit committee. -Performance of non-audit services (internal audit, bookkeeping services, etc.).	-Court rulings against the auditors. -Settlement fees paid by the auditors. -Adoption of the SOX act. -Creation of the PCAOB. - Adoption of new fraud standards. -Repetitive prosecution of the auditors. -Enormous audit fees.

According to our observations, several factors contained in the analysed documents may influence the users' perception of the auditors' responsibilities. These factors include settlement agreements, court rulings against auditors, multiple lawsuits against auditors, etc. For example, when the auditor agrees to settle fraud claims by paying huge sums to stakeholders, the auditors then appear guilty and responsible for the fraudulent events that occurred in the companies. Based on the ideology, only the guilty parties are punished and whoever accepts to pay damages is bound to be blamed. Besides, the creation of the PCAOB after the Enron scandal proves that auditors needed to be supervised. The need for supervision indicates that auditors failed to comply with certain obligations. Hence, auditors are perceived as having a great deal of responsibility in the occurrence of the fraud.

5.2 Emerging Themes

This section of the discussion is mostly related to the event-prescription link of the responsibility model. Obviously, there is a lack of clarity in the prescriptions about fraud detection in the auditing regulatory system.

The recurring theme from our analysis is the perception of regulatory failure. Indeed, large media contents widely presented the recurrence of corporate scandals as a result of numerous regulatory failures. The media presented the audit regulatory system as a rather retroactive than a prospective system. The regulatory agencies are more or less perceived as firefighters. Indeed, it is after the Enron scandal and the collapse of Andersen in 2002 that the need for inspecting the audit profession was recognised by the authorities. From its creation to the early 2000s, the accounting profession had essentially been self-regulated. The authorities then rely greatly on the professional expertise of auditors and their underlying understanding of the auditing standards. However, the adoption of SOX and the creation of the PCAOB has not prevented the financial crisis of the year 2008. From the media perspective, the regulatory authorities' failure is related to the unwillingness to recognise fraud detection as a financial audit objective. Besides, from the media view the audit regulatory system is a nest of political links and powers in which the big accounting firms use their power to avoid their responsibility to the public. Consequently, the ambiguity on the fraud detection thematic seems to be beneficial to the auditors. This position is consistent with the findings of Malsch and Gendron (2011) which determined that there is a major regulatory gap in terms of accounting regulations. A regulatory gap where both the international firms and the global standard-setting bodies are not subject to global and strong regulatory oversight. There is no independent audit regulator to deal with the global scope of the big 4 auditing firms (PwC, Deloitte & Touche, Ernst & Young, and KPMG international). For Malsch and Gendron (2011), the big 4 are powerful, and it is easier for them to wave higher liability and reforms per their interests when the regulatory environment is less aligned with their ideologies. As such, it is implausible that highly efficient forms of regulatory power will be developed to oversee, control, and question the increasing expansion of professional service firms' jurisdiction.

CONCLUSION

Our study consists of analyzing the factors that influence the persistence of the audit expectation gap. Considering the fact that these factors could arise from the media and legal influences. The general public's opinion could be shaped through media content and court decisions on the occurrence of financial scandals. For this, we have selected three high-profile fraud cases (Enron, HealthSouth, and Lehman Brothers). We have then empirically collected the opinions of a large number of social groups through media content. We have also taken into consideration the juries' positions on the issue through the court decisions for each of these cases whether against or in favor of the independent auditors.

Moreover, we have reviewed different theories related to our topic, among which the neo-institutional theory. However, we relied essentially on the triangle model of responsibility (TMR) of Schlenker *et al.* (1994) to understand the process of determining responsibility. Our findings show that according to the media and the law, the auditor has a great responsibility for the detection of financial statement fraud. The auditor's responsibility for financial fraud detection comes essentially from the auditor's personal control and professional obligation. However, our findings demonstrate that there is a lack of task clarity on fraud detection for the auditors. Hence, the regulatory authorities are expected to adopt a clear stand on fraud detection responsibility for the independent auditors. These findings show that media and legal court decisions are factors that influence the persistence of the audit expectation gap.

The study has both academic and practical contributions. It contributes to the literature through the use of responsibility and accountability concepts for the understanding of third parties' perceptions of the auditor's responsibilities. From a conceptual point of view, this study proposes an innovative conceptual framework that integrates elements of neo-institutional theory and the triangle of responsibility to assess auditors' responsibility. However, the conceptual framework does not take into consideration perceptions related to the auditors' ethical decision-making process. According to Hazgui and Brivot (2020), when faced with a technical or ethical issue, auditors tend to rely on the advice of their peers in order to salvage the auditor client relationship rather than doing the right things. In this case, the company's CEO and CFO are considered as audit clients.

Moreover, though numerous researches have widely studied the phenomenon of expectation gap, very few of these studies have addressed the issue of its persistence. The study is the only one to analyze the influence of the media and the law on the persistence of the expectation gap. From a methodological point of view, this study proposes a framework for analyzing the different links of the triangle of responsibility for groups/parties other than the actor. Other studies using this theoretical model have majorly focused on the actor's perception of her/his responsibility. On a more practical basis, this study could enable this profession to reposition its objectives and procedures to best meet stakeholders' expectations.

This study uses a qualitative analysis approach. The first limitation of this study is the researcher's interpretation. However, to offset the influence of researcher bias, our coding instrument details the process followed and the analysis procedure is duly explained. This way we were able to maintain a consistent interpretation for all the cases. Another limitation related to qualitative research is the generalisation of results. Nonetheless, our research approach allowed for a more in-depth examination of each fraud case.

The relation between the media and corporate fraud has been widely discussed in the literature while few studies have considered the legal opinion on corporate fraud and auditors' responsibilities. Future researches could address the issue of the perception of the jurors involved in court decisions on the responsibility of auditors for fraud detection. This type of research could be done through surveys to generalize the results. Besides, based on the findings of Hazgui and Brivot (2020), other researches could address the issue of users' perceptions of the peer learning mechanisms among auditors, especially the process of ethical decision-making in an instance of financial fraud.

APPENDIX A

CODING TABLE

Codes	*Definitions*	*Measure*	*Examples*
Personal control	*This link refers to the extent to which the actor appears to be connected to the event. As where auditors are held responsible for events because of its social role*	*Any content that portrays the auditors as responsible based on his performance, action, or inaction in detecting or disclose fraudulent activities. Any statement that presents the failure to detect fraud as a result of the auditor's action or inaction.*	*Every time that Enron concocted a new financing mechanism, Andersen's accountants signed off on it. Enron's revenues soared from $14 billion in 1991 to $100 billion in October 2001. The public, assured by the imprimatur of one of the world's Big Five public accounting firms, bid Enron shares up to $90 in August 2000.*
Professional obligation	*Any statement that deemed the auditors responsible for fraud detection as a result of a social, professional, moral, and ethical obligation.*	*Any content that portrays the auditors as responsible or not based on any social, moral, ethical, or social regulation*	*Until last week, when it fired Ernst, HealthSouth had been the largest audit client of the accounting firm's Birmingham office, measured by HealthSouth's annual revenue and audit fees. For 2001, HealthSouth paid Ernst $3.7 million, including $1.2 million for its financial-statement audit and $2.5 million for other services.*

Codes	*Definitions*	*Measure*	*Examples*
Task clarity	*This link refers to the extent to which a clear and salient set of prescriptions is perceived to exist that should be applied to an event and should govern conduct (e.g., clear laws, moral codes, traditions, and shop rules).*	*Any statement that presents the auditors responsible for fraud detection due to any legal or professional regulation. Take into consideration any statement that presents a lack of prescription as the cause of audit failure*	*'The verdict sends a message out loud and clear to the accounting industry to get their priorities straight," said Samuel W. Buell, an assistant United States attorney who was one of the prosecutors. Andersen, Mr. Buell said, was working too hard to protect itself and Enron, its client, without enough attention to the interests of the investing public.*

APPENDIX B

LIST OF SELECTED MEDIA DOCUMENTS

All the media articles were retrieved from https://global-factivacom.proxy.bibliotheques.uqam.ca

1. Eichenwald, Kurt. (2002, June 16). Andersen Guilty in Effort to Block Inquiry on Enron. The New York Times[Business], Page 1, Column 5.

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APPENDIX C

LIST OF SELECTED LEGAL DOCUMENTS

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80. Wade Tucker v. Ernst & Young LLP, 1121048 (CV-02-5212); (2014).

81. New York v. Ernst & Young LLP, Complaint- Preliminary statement (2010).

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