The Role of Accounting Knowledge in Supply Chain Risks Mitigation and Efficiency Improvement

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Abstract— Risk has penetrated in every aspect of life; no one can escape from it. It can disrupt not only the organization but whole system. It has become essential to mitigate the risks from each and every part of the system. Financial risks are considered more dangerous for the organization. This research aims to highlight the most important accounting knowledge that is forming the key of the auditing process, and how the auditors can modernize this knowledge. In order to access these objectives, the researcher conducted a telephone survey with 64 Jordanian auditors. The main results of this research revealed that; accounting knowledge is very important for the auditing process because it helps the auditor to discover any fraud in the financial transactions and statements, therefore modernizing the accounting knowledge becomes from the priorities of attention of the auditor and disclosure of financial statements that reflect validity and credibility increases stakeholder's satisfaction. According to these results, the researcher recommends that training courses that allow them to exchange their experiences, auditors should focus on manipulation through accruals and allowances and auditors should discuss their observations with the internal audit committee in the company. This study is conducted to only limit industry with few interviews only, to generalize the findings of this study, it is recommended to conduct the quantitative research with more respondents.

Keywords— *Transport facilities, Passenger Services, Customer Service*

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1. Introduction

The significance and mandatory of accountancy disclosure have increased on the light of the emergence of corporate governance rules, which imposed on the corporations the necessity of publishing their financial statements that accepted and signed by external auditors. Such measure reassures stakeholders that their interests with the company are protected by the audit procedures to some extent. The diversity of stakeholders leads to variance of their needs from this financial statement. When the user of the financial statements is a creditor of the company it is important to him to identify the company's ability to meet its obligations, but if he was an investor whether existing or potential, he cares in the company's ability to generate profits, and etc. and because any default in disclosing of sufficient accounting information may hurt the interests of many people, organizations and the government. This failure also results in legal sanctions against the violating company, such as stopping the circulation of its shares in the market, such sanctions may reach beyond that, such as imprisonment (all or some) members of the management and the auditor, and withdrawal the license from the external auditors. Bearing these responsibilities, requires a big deal of information, data and depth knowledge in how dealing with this information and data by the external auditor to satisfy the needs of several stakeholders through the financial statements. This research concerns in the role of updated accounting knowledge of external auditor in delivering the realistic financial statements to the different stakeholders.

1.1. Problem Statement and Questions

As long as, this research pertain the accounting knowledge updating of external auditors. It becomes critical to say that auditors with limited of modern accounting knowledge will face big challenges such as dealing with automated accounting systems, devoting the computer possibilities to get the useful financial data, known the methods of accounting fraud when using the computer in the client company, and many others. In this regard, [1] pointed out that auditors with surface knowledge will be missing the capabilities to audit the financial transactions and statement of clients who are using complex computer systems. Therefore, the problem of this research takes the following statement: "The external auditor should sustainably update his accounting knowledge to keep pace the international accounting developments." This problem will be discussed through answering the following question: 1- What are the latest accounting developments? 2- What are the tools used to update the accounting Knowledge of the auditor? 3- Do the Jordanian audit firms concerned about the modernization accounting knowledge of their auditors?

1.2. The significance of this study

The significance of this research lies in its objective to create linkage between three dimensions, accounting knowledge of the auditor, reporting and disclosure and the interests of stakeholders. In this regard [2] pointed out that when the audit team is knowledgeable. They can make links between the processes and the system.

2. Literature review

The concept of knowledge modernization: Knowledge management represents a wide field that includes updating the knowledge base by merging the new knowledge [3]. Merging new or incorporating new knowledge does not mean ignoring the existing knowledge but building the possible compatibility between new and existing knowledge, especially that knowledge is not something extinct, but it is something renewable [4]. In order to verify that the modernization of knowledge is under the banner of knowledge management, it becomes necessary to state a definition for both two concepts.

Ref. [6] defined knowledge management as a systematic management of an organization's knowledge as an asset for desired purposes such as creating value, meeting tactical and strategic requirements represented by assessment, sharing, refinement and creation of knowledge, while knowledge modernization means combining the new knowledge and the existing knowledge [6]. For example on accounting knowledge assume that the existing standards stipulate on, maintenance expenses if leading to increasing the useful life of the equipment should be recorded in the equipment account as a capital expense. The new instructions say that the amount of such expense should be $ 1000 and over. The accountant and the auditor must take this issue in the account.

2.1. Knowledge Categories:

Despite the modernity of the concept of knowledge management, Polanyi, who was the inventor of the term tacit knowledge, has categorized knowledge into two main categories [7].

2.1.1. Tacit Knowledge:

Tacit knowledge can be defined as skills stored inside the individual mind that is reflected in his working behavior. This kind of knowledge cannot be easily transferred to others whether it is technical knowledge or cognitive knowledge [8]. Some may think that tacit knowledge is equivalent to talent but [9] pointed out that tacit knowledge could be the Key factor to talent management.

2.1.2 Explicit Knowledge:

Explicit knowledge of a business organization is the information and data stored in the organization's files and records or can be stored in a computer database to become shared knowledge among the employees, in contrast of the tacit knowledge that is harder to share among employees. Ref. [10] Pointed out that explicit knowledge could be expressed and communicated easily through written documents such as statements, reports, charts etc.

The question arises now is how to build knowledge?

Knowledge produces from multiple generators such as data, information, capabilities, and attitudes. The behavioral side plays an important role in the knowledge-building journey. Ref. [11] Pointed out that the premeditated intention to share explicit knowledge has an equal impact on the behavior of sharing explicit knowledge, whether directly or indirectly, while, sharing tacit knowledge, the behavior is influenced directly greater than indirectly. Therefore, organizations that seek to achieve competitive advantage should observe the behavior of the employees in their work to identify their tacit or explicit knowledge. The information is original data processed and placed within a clear and specific framework and content to become a cornerstone of the decision-making process. Thus, the external auditor must have sufficient knowledge of the information on which the organization is based on its work and relations.

It is also necessary to follow any amendment or change that occurs in this information because some of these amendments constitute an incentive for fraud and accounting manipulation. For example, a law exempting manufacturing equipment from customs duties was issued as of 1/4, then this possible for the company to manage profits by recognizing purchases prior to 1/4. If the auditor does not update his / her knowledge of this aspect, the financial statements will be distorted. In this regard [12] Pointed out that auditors knowledge should exceed the direct relationships among the amounts shown in the financial statement, like the relationship between sales volume and net profit, to the indirect relationship like the relationship between the change in net sales and the change in advertising expenses through the comparison in a time series.

2.2 Quality of Accounting Disclosure

The literature has focused on the financial statement that is free from fraud and manipulation as the quality measure in accounting disclosure process [13, 14]. Other researchers stated that the commitment to the letters of Securities and Exchange Commission positively affect the accounting disclosure quality [15].

External audit aims to financial statements disclosure that reflects the actual financial position of the firm through financial statements that are valid and credible. And the auditing report must stipulate on this aspect in order to reassure all stakeholders and especially shareholders. Credibility and integrity of financial statements can be achieved when they are free from fraud and manipulation [16].

The importance of the detection of fraudulent financial statements increased recently after the financial scandals that resulted in the bankruptcy of giant companies such as Enron, Xerox, WorldCom and Arthur Andersen, etc. Some firms are practicing several ways and accounting procedures to distort their financial statements for different objectives. This is done through deceptive practices based on the exploitation of the flexibility in the international accounting standards. Fraud and manipulation of financial statements pertain to the understatement or overstatement of some items in the financial statements for certain objectives in favor of the firm's managers, like getting rewards, tax evasion, reduce dividends to shareholders, and getting financing from banks. Therefore, managers may manipulate inventories, reserves, and allowances; also, they may manipulate accruals in order to reduce the cost and increase the income, and many other practices [13].

In order to overcome such practices, the Auditing Standards Board issued the Statement on Auditing Standards (SAS) No. 240, Consideration of Fraud in a Financial Statement.

Moreover, States, professional Commissions, and Practitioners have realized the necessity of developing Scientific Principles for Practicing audit Profession in order to be as a guide for auditors. These trends led to issuing the international audit standards. Where the states have become required auditors to apply these standards, or, derived standards fit the environment.

Since this research revolves around updating of the auditor accounting knowledge to access disclosure quality especially in detecting fraud in the financial statements, the International Standard No. 240 is the most important of accounting knowledge for the purpose of this research, because this International Standard on Auditing (I S A) 240 stipulates on: “The auditor responsibilities relating to fraud in an audit of financial statements” therefore it is necessary to allocate a separate topic within this chapter to discuss the consequences of the commitment to this standard on the work of the independent auditor.

2.3 International standard on Auditing:

This International standard on Auditing could be considered as a guideline for auditors because of its dealing with the auditor’s responsibilities relating to fraud in an audit of financial statements, and because it illustrates how to apply ISA No. 315 and ISA No. 3302 in relation to risks of material misstatement due to fraud. Also, this standard describes the characteristics of fraud through two main axes:

1- Misstatements in the financial statements can occur from either fraud or error. The Judging factor between fraud and error is whether the underlying action that results in the misstatements of financial statements is; intentional or unintentional [14]

2- Despite the great interest in fraud and manipulation by the laws, but for the purposes of International Auditing Standards, auditors are focusing on fraud that causes a material misstatement in the financial statements. The auditor attention goes to two types of misstatements; the first is misstatements resulting from fraudulent financial reporting, and second, misstatements resulting from misappropriation of assets. Although the auditor may doubt, or in rare cases may identify the occurrence of fraud, but he does not make legal determinants whether fraud has actually occurred, but he can take different steps such as the attempt to obtain additional evidence. One may ask about the auditor responsibility in detecting fraud in the financial statements, in such debate we must linkage between the objectives of auditing and auditor responsibilities [26].

Since the main objectives of the auditor are, identifying and assessing the risks of material misstatement of the financial statements due to fraud, and to obtain sufficient appropriate evidence regarding the assessed risks of material misstatements pertain to fraud, through designing and conducting proper responses, and to respond clearly to fraud or suspected fraud, which was found during the audit [21]. So, the auditor’s responsibilities can be identified in the following points, mandated by international standard No. 240:

1- Each auditor-performing audit in accordance with international auditing standards bears a responsibility to ensure that the financial statements audited by him are free from material misstatements, whether resulting from fraud or error [22]. In order to achieve this goal the related literature indicated that auditors may show more efforts in auditing process when they find any indicators in the financial statements as a red flag, [26] for example pointed out that using discernment analysis and legit regression methods are useful in this aspect, especially when the auditor compares some financial ratios (Total debt / Total assets; inventory/sales) with the previous years and the industry as a whole, in order to identify areas of fraud in the financial statements. Other authors [26] suggested that fraud can be detected through matching sales with the corresponding cost of goods sold for each transaction. Other studies have focused on the managers’ incentives to practice financial fraud, [27] pointed out that accruals can be manipulated for the benefit of managers who expect to gain rewards on the basis of final outputs of the financial period. Accordingly, they may tend to reduce costs through accruals manipulation, and recording some of the current expenses as capital expenses.

Therefore, the experienced auditor can investigate the legality of these accounting treatments using comparative analysis, and by reference to these processes documents.

2- Because fraud may involve sophisticated and carefully organized schemes designed to conceal practices such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor, such practices are more difficult to detect especially when accompanied by collusion. In such cases, the ability of the auditor to detect the fraud depends on factors related to the auditor’s qualifications, skills, experience, and the frequency and extent of manipulation.

3- Although the risk of not detecting fraud by the auditor, especially those of material misstatements committed by the management which are greater than fraud by employees, the auditor will try to obtain a reasonable assurance, then he became responsible for maintaining skepticism throughout the audit. This doubtful will lead the auditor to design Practical procedures to detect such misstatement. And in the currents researchers point of view designing these procedures requires that the auditor specializing in accounting and auditing has sufficient experience which enables him to discern the intention of fraud, by examining the accounting entries.

In order to perform these tasks, the external auditor should possess a lot of accounting knowledge. Firstly he must have good understanding of each one of generally accepted principles of accounting to be sure of application them by the client company, and that the company discloses its financial statements that were prepared according to these principles [23]. Especially that this important order enjoys the law strength, where for example the Jordanian tax law does not accept the financial statements if not prepared according to GAAP (article No. 33. A). and here one can observe the link between auditing and accounting knowledge [24]. And in response to the transformation of the majority of organizations from manual accounting systems to computer systems, auditors, whether internal or external must have full knowledge of dealing with these systems, because that accounting software became considered to be important for auditing profession. Auditors can get this new knowledge by training courses or by practical training through coordination with reputable audit firms [18]. Also, auditors should have a full knowledge to the use of Auditing, Microsoft office programs such as word, Excel, and power point, because auditors will use Microsoft word to prepare documents and reports, then to present these reports by using Microsoft power point, and to address some tables on the Microsoft Access. In addition to very well knowledge of accounting and financial reporting standards, financial statement analysis, financial accounting, Capital market board regulations, cost accounting and managerial accounting [19].

3. Methodology

This qualitative research was conducted according to the descriptive approach. According [26] the interest of adopting the qualitative approach has been growing dramatically in the last few years because it has a critical relevance to the study of social relations. Other authors defined the qualitative research as an activity that introduces the observer (researcher) in the real world and involves practices and interpretations [27]. The implementation of qualitative research requires qualitative data collection through direct contact with the real lives of individuals, communities, and organizations, through several ways, such as observation, interviews or case studies [20].

In order to collect the needed data, the researcher has conducted phone survey with a number of auditors working in local auditing firms.

Data were collected by conducting a telephone survey of 64 auditors working in local audit firms and offices. The following questions were asked:

1- What are the methods used to update the accounting knowledge in your company?

2- What are the most important topics to be constantly updated?

3- What is the impact of this update on the quality of accounting disclosure?

The demographic characteristics of the respondents: Table No. 1 below shows the respondents distribution according to age variable.

4. Results and discussion

The demographic characteristics of the respondents:
Table No. 1 below shows the respondents distribution according to age variable.

Table 1: distribution according to age variable

Age	Frequency
Less than 30 years	17
30 – 35	9
36 – 40	12
41 – 45	16
46 and over	10
Total	64

Table No. 1 above shows that the majority of the respondents are from young age, which means that they have fresh knowledge.

Table 2: below shows the respondents distribution according to years of experience

Experience years	Frequency
Less than 3 years	7
3 – 7 years	22
8 – 13 years	29
14 years and more	6
Total	64

Table No. 2 above shows that the majority of the respondents are from experienced auditors (35), which indicates that these auditors have a full accounting knowledge that enables them to practice their tasks effectively in terms of reporting and disclosing of real financial statements.

Through the answers of the auditors to the questions, it became clear that: Accounting knowledge is essentially linked with auditing process. Auditors should work to modernize their accounting knowledge to keep pace with accounting developments. Accounting knowledge is updated in:

1- Issuing or modifying any of international standards of accounting, or auditing standards, such as the international standards no. 700, 701, where standard No. 701 states that important matters of the audit must be disclosed to the entities responsible for governance [25].

2- Follow up the standards issued by the Jordanian Association of Accountants and Auditors.

3- All of the auditors are commit to the Jordanian standards of accounting and audit.

Updating the accounting knowledge is done by training courses, conferences, and meetings to exchange experiences among the auditors. See the experiences of international auditing companies in the detection of cases of fraud and forgery in the financial statements, through reports and studies published either formally, or from deliberations in the means of social communication. All of these factors are used for the external auditors to present comprehensive auditing reports and disclosure of valid and real financial; statements.

The concluded results of this research are:

1- The accounting knowledge is very important for the auditing process because it helps the auditor to discover any fraud in the financial transactions and statements, there for modernizing the accounting knowledge becomes from the priorities of attention of the auditor.

2- Disclosure of financial statements that reflect validity and credibility increases stakeholder's satisfaction.

The following recommendations may help the auditors in performing their tasks:

1- Attend to training courses that allow them to exchange their experiences.

2- Auditors should focus on manipulation through accruals and allowances.

3- Auditors should discuss their observations with the internal audit committee in the company.

5. Conclusion

The supply chain has become an essential part of any organization. Any risk will appear that will ultimately disturb the whole system. Thus if any organization wants to grow, they must mitigate these risks. There are numerous approaches to deal with the risks. If a company has good accounting knowledge they can not only mitigate these risks but also improve the efficiency. This research aims to highlight the most important accounting knowledge that is forming the key of the auditing process, and how the auditors can modernize this knowledge. In order to access these objectives, the researcher conducted a telephone survey with 64 Jordanian auditors. The main results of this research were as follows: 1- The accounting knowledge is very important for the auditing process because it helps the auditor to discover any fraud in the financial transactions and statements, therefore modernizing the accounting knowledge becomes from the priorities of attention of the auditor. 2-Disclosure of financial statements that reflect validity and credibility increases stakeholder's satisfaction. According to these results, the researcher recommends the following: 1- Attend to training courses that allow them to exchange their experiences. 2- Auditors should focus on manipulation through accruals and allowances. 3- Auditors should discuss their observations with the internal audit committee in the company.

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