

The Effects of Red Flags and Auditor's Professional Skepticism on Auditor's Proficiency in Implementing Fraud Detection (A Case Study at Public Accounting Office in Makassar)

Andi Arifwangsa Adiningrat¹, Sitti Marhumi², Masrullah³, Andi Nur Fitrianti⁴

^{1,2,3,4}Faculty of Economics and Business Universitas Muhammadiyah Makassar
Indonesia

Corresponding author: andiariefky@unismuh.ac.id

ABSTRACT. The auditor's ability to deal with fraud that can occur in the audit is very important for the auditor, therefore, the auditor needs to measure the types of fraud that are experienced, as well as ways to detect fraud and its types. Methods that can be used to check for fraud include looking at signs, signals, or red flags of an action that is suspected of causing or potentially causing fraud. This study aimed to examine the effects of auditor's professional caution and skepticism on the auditor's ability to carry out fraud detection. The output target in this study was to produce publications in journal articles, as well as teaching materials in auditing practice courses and financial accounting. The research method was use primary data obtained by distributing questionnaires to auditor respondents at KAP in Makassar with incidental sampling techniques during this research. The research also used a qualitative analysis tool. The research results revealed that the use of red flag method in carrying out fraud detection by being vigilant when alerting of significant, complex and unusual transactions and an auditor had the competence and professional skills carefully in auditing financial statements.

Keywords: Auditing, Red Flags, Auditor Professional Skepticism, Fraud.

1. INTRODUCTION

A. Background

A number businesses experienced bankruptcy because of the economic consequences of supervision of inadequate employees and then increases the risk of fraud every day (Owojiri and). The use of technology in accounting and the difficulty of controlling fraud that arises from electronic media makes the risk of fraud in the company even higher (Ozkul and Pektekin, 2009).

Fraud and errors are very different, in which the difference is the underlying action, whether it was committed intentionally or not. If the act was done intentionally, then it is called fraud and if action was done unintentionally, then it is called by an error. If fraud of financial statements are a significant problem, the auditor as the responsible party must be able to detect fraudulent activity before it eventually develops into a very detrimental accounting scandal (Norbarani, 2012). Fraud is an act of detriment that is intentionally designed to deceive or mislead other parties and can result in material misstatement which is the subject of the audit (Arens and Loebecke, 2000; AICPA, 2002). To support the

auditor's ability to detect fraud that can occur in the audit, the auditor needs to understand fraud, its types, characteristics, and ways to detect it. Methods that can be used to detect fraud include looking at signs, signals or *red flags* of an action that is suspected of causing or potentially causing fraud.

An auditor in carrying out an audit assignment in the field should not only follow the audit procedures listed in the audit program, but must also be accompanied by professional skepticism. An auditor who is skeptical will not just accept the explanation from the client, but will ask questions to obtain reasons, evidence, and confirmation regarding the object in question. The Auditor's ability to detect fraud is a skill or expertise possessed by the auditor to find indications of fraud (Anggriawan, 2014).

B. Problem Statement

1. What is the effect of *red flags* on the auditor's ability to carry out fraud detection?
2. How is the effect of the auditor's professional skepticism on the auditor's ability to carry out radar detection?

C. *Research Urgency* The urgency of this research is to detect fraud, so that the auditor must have a in understanding fraud, its types, characteristics, and ways to detect it. This research aims to measure the auditor's ability to detect fraud at KAPs in Makassar using red flags and auditor professional skepticism. Thus, this research is expected to produce a publication in international or national journals and teaching materials.

D. *Problem Solution and Output Target*

TABLE 1. Problem Solution

No.	Problem	Solution	Outcome
1	Cheating is common	Implement the <i>red flag</i> method	Prevent and detect cheating by applying effect flags
2	Obstacles to obtain audit evidence, and confirmation of the object in question	An auditor must have professional skepticism in carrying out an audit engagement in the field.	An auditor's professional skepticism can detect.

2. LITERATURE REVIEW

A. Auditing

Auditing according to Konrath (2002: 5) is defined as a systematic process to objectively obtain and evaluate evidence regarding assertions about economic activities and events to ensure the degree of linkage between these assertions and predetermined criteria and communicate the results to the interests of parties. According to Sukrisno Agoes, definition of auditing is an examination that is carried out critically and systematically by an independent party, on financial reports that have been prepared by management along with accounting records and supporting evidence, with the aim of being able to provide an opinion on the fairness of the report for these finances.

From the above understanding, it can be concluded that auditing is an examination and evaluation carried out to obtain evidence of information to be able to provide opinion of fairness on financial statements.

B. Fraud

Fraud by Singleton (2006) is a general term and includes all the ways in which human intelligence is forced by a single individual to be able to create a way to get some benefits from others of misrepresentation. Uncertainty and invariable rules can be defined as a common problem in defining fraud, because it includes surprises, trickery, cunning and unfair means by which others are fraudulent. Only those defining boundaries are those that limit human honesty.

Everyone can commit fraud. Sometimes it is hard to believe, someone whom we consider to be honest, religious, educated, from a respected social environment, even from wealthy circles, turns out to be involved in a fraud case. How could this happen? Dennis Greer mentioned three key elements known as the fraud triangle that encourage a person or group of people to commit fraud, namely: pressure, opportunity, and reasons for justification. The first and third elements are more attached to the life conditions and mental/moral attitude of a person, while the second element is related to the internal control system in an organization or company; as for the triangle model, it can be seen as follows:



Fig 1. Factors of causing fraud

C. Red Flags

The term *red flags* has been used frequently in various audit literatures, its meaning is a red flag, a sign that something is not appropriate and needs attention. Tuana Kotta (2013) states that auditors and investigators use *red flags* as an indication of fraud or fraud in a financial report. *Red flags* can also be said to be a condition that is odd or different from normal conditions.

In other words, *red flags* are an indication of something unusual and requires further investigation. *Red flags* do not absolutely indicate whether a person is guilty or not, but they are warning signs that fraud is occurring or has occurred. *Red flags* are said to be an important as cited in SAS 99 - Consideration of Fraud in a *Financial Statement*. Audit states that the auditor was asked to specifically assess the risk of misstatement due to fraud and SAS 99 also provides for operating guidelines for auditors when assessing fraud a mid audit process.

D. Auditor's Professional Skepticism

The auditor's professional skepticism is an attitude in performing audit assignments. So, the first thing to discuss is human attitudes. Noviyanti (2008) defines attitude as "*a psychological tendency that is expressed by evaluating a particular entity with some degree of favor or disfavor*". This is not much different from other psychologists who also define attitude as a person's response which is the result of

an evaluation of the object they perceive, such as a certain person, object, idea, or situation.

E. Dissonance Theory

Cognitive dissonance theory refers to the inconsistency of two or more individual attitudes, or inconsistencies between behavior and attitudes. In this theory, the cognitive element is any knowledge, opinion, or anything that people believe about the environment, themselves or their behavior. According to Noviyanti (2008) this theory is able to help predict the tendency of individuals to change

attitudes and behavior in order to reduce dissonance that occurs. Cognitive dissonance theory in this study is used to explain the influence of interaction between auditors' professional skepticism and the factors that influence it on fraud detection. Cognitive dissonance theory in this study is also used to explain the effect of interaction between Red Flags and Auditor Professional Skepticism on Auditor's ability to detect fraud.

F. Conceptual Framework



Fig 2. Conceptual Framework of the Research

3. RESEARCH METHOD

A. Location and Time of Research

This research took place at the Public Accounting Firm in the Makassar and had been carried out for approximately 3 months from May to July 2020.

B. Instruments and Data Collection Techniques

The instruments and data collection techniques were carried out in two stages, namely observation and questionnaires.

1. Observation

The observation technique in this research was the initial stage of research by taking notes and direct observation to the research area, namely noting things related to research variables and other information related to the research.

2. Questionnaire

The questionnaire was a list of questions that aimed as a tool to collect data on research variables, namely by distributing a series of written questions to respondents. The calculation of the score was done by using a Likert scale technique with five alternative answers, namely: Strongly Agree (given a score of 5), Agree (given a score of 4), Disagree (given a score of 3), Disagree (given a score of 2), and Very Disagree (given a score of 1)

4. RESEARCH RESULTS AND DISCUSSION

The research was carried out for approximately two months starting from June-September 2020 in several Public Accounting Firms (KAP) in Makassar City by distributing questionnaires and interviews to respondents. After the data is collected then the data is processed using qualitative data analysis techniques (data reduction, data presentation and conclusion drawing). As for this

research, the respondent in K AP is an Auditor. Here's the name of the firm that made the respondent is

TABLE II. Responden

No.	Accountant Firm Name Public (KAP)	Number of Auditors Who Become Respondents
1	KAP Jacob Ratan and Partners	4 people
2	KAP Rusman Thoeng N.Com & Bap	3 people
3	KAP Thomas Blasius Widartoyo & R ekan	3 people
4	KAP Rustan	2 people
5	KAP S'Mannan, Ardiansyah & Partners	2 people
6	KAP Usman & Partners	4 people
	Total Respondents	18 people

Source: Data Processed. 2020

A. The Effect of Red Flags on The Auditor's Ability to Carry Out Fraud Detection

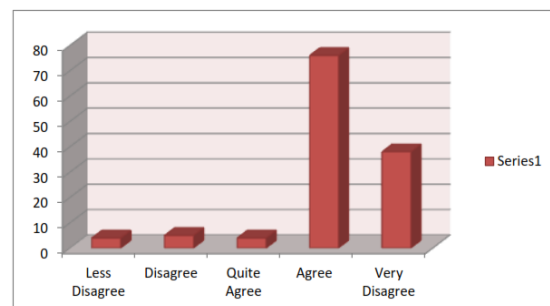


Fig 3. Grafik Metode Red Flags

From respondents more dominant say the use of methods of red flags that s ne auditors carry out detection of Raud by means of alert while aware of any significant transactions, complex and unusua

Based on the results of interviews with auditors at a KAP, it can be concluded that when the auditor conducts an audit, several stages are carried out, namely

1. *Audit planning*

The auditors must be ready in terms of accounting, finance and so on. In preparation for the audit requires a certain period of 3-5 months. The auditor

2. *Audit risk*

- The auditors are trying to detect some fraud.
- Signs of fraud occur, namely collusion □ □ data restrictions □ □ data storage.

B. *The Effect of Skeptis Professional Auditor on The Auditor's Abilitu to Carry Out Fraud Detection*

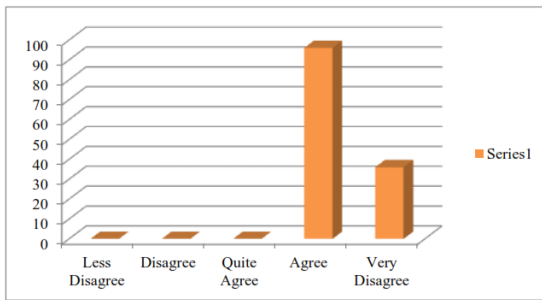


Figure 4. Auditor Professional Skepticism Graph

From the responses of respondents, it is more dominant to say that they agree that an auditor has careful professional competence and skills in auditing financial statements.

Based on the results of an interview with one of the KAPs in Makassar City, it is as follows:

" In conducting an audit, the auditor has a firm principle to reveal fraud by obtaining evidence from a working paper that he examines. In detecting fraud, an auditor is a more dominant method of applying an auditor's skepticism because auditor skepticism is an auditor's basis for fraud audit detection because it is a mindset that reminds auditors to be more aware of potential fraud occurring."

C. *Deteksi Fraud*

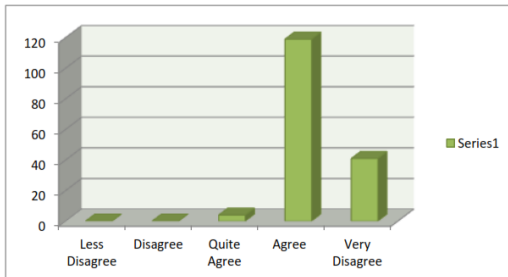


Figure 5. Skeptisisme Professional Auditor

From the responses of respondents, it was more dominant to say that in carrying out fraud detection that must be considered, namely:

- Before conducting an audit, the auditor must understand the client company's internal control structure.
- Auditors must use audit methods and procedures effectively
- Detecting fraud is quite difficult, especially fraud that involves material misstatement in the financial statements. Cheating is generally hidden and often through collusion. Usually, transaction supporting documents are omitted or not stored in company files.

TABLE III. Respondent Response Percentage Rate

Method	Percentage	Ket
Red Flags	82 %	Effective
Skeptisme Profesional Auditor	86%	Very Effective
Fraud Audit	85%	Very Effective

Source: Data Processed. 2020

Based on table III above, it is known that the effect of the red flags method is quite effective at 82%, while the effect of professional skepticism on auditors is very effective at 86%, and the implementation of fraud audit through the use of a very effective method is 85%.

An auditor using methods and audit procedures are effectively u o support k e cakapan auditor in me execute d eteksi fraud that may occur in the assignment of the audit, then a auditor able to see a signal or red flags of an act that is suspected in the detection kecurangan to gather evidence. After mengumpulkan b UKTI, then an auditor to have an attitude of professional skepticism audito r carefully audited financial statements and an auditor more dominant applying skepticism attitude dissatisfied with the evidence obtained so that an audit continu to look for more evidence.

The existence of Red Flags makes it easier for an auditor to detect fraud and can immediately take preventive action. This is supported by research conducted by Atina Eka Putri (2012) External Auditors' Perceptions of the Effectiveness of Red Flags for Fraud Detection of Financial Statements.

The higher the professional skepticism an auditor has, the higher the ability of an auditor to detect fraud. With the professional skepticism an auditor has in an audit assignment, it can make the ability to detect fraud better. This is supported by research conducted. by Suzy Noviyanti (2008) Auditor's Professional Skepticism in Detecting Fraud. Auditor's Professional Skepticism has a positive effect.

TABLE IV. Results Of Respondents' Responses Regarding Method Selection In Fraud Detection

Method	Number of Respondents	Ket
Red Flags	3	Effective Enough
Skeptisme Professional	15	Very Effective

Source: Data Processed. 2020

Based on the table, it is known that 3 respondents chose red flags and 15 respondents chose auditors' professional skepticism. There are various reasons for the results of an interview from one of the KAPs in Makassar City regarding the reasons for choosing this method are as follows:

"Skepticism is very dominant because it is the initial skepticism of fraud detection, while red flags are used in special projects. For example, a case which has long been suspected of irregularities "

While the opinion of one KAP is:

"The Auditor's Professional Skepticism is applied during the Audit Procedure by giving judgment to the auditor on the sensors that are indicated by fraud. "

Before examining financial statements, an auditor must pay attention to two steps that must be taken, namely the auditor must carry out an audit plan and the auditor must be able to assess the usual audit risks. Specifically, the auditor will assess the risks of material misstatement in order to obtain a *reasonable assurance* (Suartana, 2009). An auditor has the knowledge and insight to identify potential fraud easily by providing signs, signals or *red flags* that are suspected of being a risk in obtaining evidence. An auditor is always alert when aware of significant, complex and unusual transactions. Auditors see the potential for fraud due to a lack of internal supervision from the client company. This means that an auditor is required to be having to ahlian and kecakap early and plan and carry out pekerj aan using professional skepticism auditors more careful and thorough in m emeriksa a client's financial statements and an auditor must be able to prevent the occurrence of fraud audit.

5. CONCLUSIONS AND SUGGESTIONS

5.1 Conclusion

- Use of total methods of *red flags* in implementing fraud detection by means of alert while aware of any significant transactions fikan, complex and unusual.
- Auditor has, competence and professional proficiency careful in the audited financial statements.

- In detecting fraud, an auditor is a more dominant method of applying an auditor's skepticism because auditor's skepticism is an auditor's basis for fraud audit detection because it is a mindset that reminds auditors to be more aware of potential fraud occurring.

5.2 Suggestion

- An auditor should diberikam specific training in the prevention and detection of fraud occurring with increasing competency in applying a method -Method in m elakukan an audit assignment.
- research by adding variables.

REFERENCES

- [1] ACFE, 2000. Fraud Examiners Manual. Third Edition.
- [2] Agoes, Sukrisno. 2004. Auditing (Pemeriksaan Akuntan) Oleh Kantor Akuntan Publik Jilid I. Lembaga Penerbit Fakultas Ekonomi Universitas Indonesia. Jakarta
- [3] _____, 2017. Auditing (Petunjuk Praktis Pemeriksaan Akuntan) Oleh Kantor Akuntan Publik Jilid I, cetakan keenam, Penerbit Salemba Empat. Jakarta
- [4] Amrizal, 2004. Pencegahan dan Pendeteksian Kecurangan Oleh Internal Auditor. Artikel by AMZ, Jakarta.
- [5] Andi Rustam, Andi Arifwanga A, Muh. Adil. 2018. Buku Ajar Auditing 1 Penerapan Jasa Audit. Penerbit Lembaga Perpustakaan dan Penerbitan Universitas Muhammadiyah Makassar.
- [6] Anggriawan, Eko. "Pengaruh Pengalaman Kerja, Skeptisme Profesional Dan Tekanan Waktu Terhadap Kemampuan Auditor Dalam Mendeteksi Fraud (Studi Empiris Pada Kantor Akuntan Publik Di Diy". Jurnal Nominal / Volume III Nomor 2 / Tahun 2014.
- [7] Arens, Alvin A., Randal J. Elder, Mark S. Beasley. 2010. *Auditing and Assurance Services and The Integrated Approach*. 13 edition, Pearson Education Inc, Upper Saddle River. New Jersey.
- [8] Anggriawan, Eko Ferry. 2014. Pengaruh Pengalaman Kerja, Skeptisme Profesional dan Tekanan Waktu Terhadap Kemampuan Auditor dalam Mendeteksi Fraud. Jurnal Nominal Vol.3 No.2, pp 102-113.
- [9] Ekaputri, Atina, 2012. External Auditors Perceptions of the Effectiveness of Red Flags to Detect Fraudulent Financial Reporting. Abstract. Universitas Islam Negeri Syarif Hidayatullah. Jakarta.

- [10] Hendrik Manossoh. 2016. Faktor-Faktor Penyebab Terjadinya Fraud. *Jurnal EMBA* 487 Vol.4 No.1 Maret 2016, Hal. 484-495. IAPI. Standar Profesional Akuntan Publik.2016. Penerbit: Salemba Empat.
- [11] I Gusti Ayu Putu Della Sabrina Purwanti, Ida Bagus Putra Astika. 2017. Pengaruh Auditor's Profesional Skepticism, Red Flags, Beban kerja Pada Kemampuan Auditi. *E- Jurnal Akuntansi Vol 1 (2)*. Universitas Udayana.
- [12] Kartika Aisyah Rahman. 2015. Penggunaan Metode Red Flags Untuk Mendeteksi Kecurangan dalam Perusahaan Studi Terhadap ersepsi Eksternal dan Internal Auditor di Wilayah Jakarta dan Sekitarnya.(Skripsi). Jakarta: Universitas Islam Negeri Syarif Hidayatullah
- [13] Konrath, Laweey F. 2002. *Auditing Concepts and Applications*, A Risk-Analys is Approach, 5th Edition. West Publishing Company
- [14] Norbarani, Listiana, 2012. Pendeteksian Kecurangan Laporan Keuangan Dengan Analisis Fraud Triangle Yang Diadopsi Dalam SAS No.99.Skripsi. Universitas Diponegoro. Semarang
- [15] Noviyanti, Suzy, 2008. Skeptisme Profesional Auditor Dalam Mendeteksi Kecurangan. *Jurnal Akuntansi dan Keuangan Indonesia*, Vol. 5 No.1, Hal.102125.
- [16] Prasetyo, Sandi. 2015. Pengaruh Red Flags, Skeptisme Profesional Auditor, Kompetensi, Independensi, dan Profesionalisme Terhadap Kemampuan Auditor dalam Mendeteksi Kecurangan. *Jom FEKON*, Vol. 2, No. 1, pp. 2-10.
- [17] Singleton, T. W, Singleton, A. J, Bologna, G.J, dan Lindquist, R.J, 2006. *Fraud Auditing and Forensic Accounting (3rd Edition)*. John Wiley & Sons, Inc., Hoboken. New Jersey
- [18] Sitinjak, Johannes W. (2008). Pentingnya Mengenali Fraud Red Flags.
- [19] Suartana, I Wayan dan Kartana, I Wayan, 2009. Pengalaman Audit, Red Flags, Urutan Bukti. Simposium Nasional Akuntansi XI. Pontianak.
- [20] [20] Tedjasukma, Fanny Novian. 2012. Pentingnya Red Flag Bagi Auditor Independen untuk Mendeteksi Kecurangan dalam Laporan Keuangan. *Berkala Ilmiah Mahasiswa Akuntansi*, Vol. 1, No. 3, pp. 51.
- [21] Yusrianti, Hasni. 2015. Pengaruh Pengalaman Audit, Beban Kerja, Task Specific Knowledge Terhadap Pendeteksian Kecurangan Laporan Keuangan. *Jurnal Manajemen dan Bisnis Sriwijaya*, Vol. 13, No. 1, pp. 58-69.
- [22] Nasution, Hafifah dan Fitriany. 2012. Pengaruh Beban Kerja, Pengalaman Audit dan Tipe Kepribadian Terhadap Skeptisme Profesional dan Kemampuan Auditor dalam Mendeteksi Kecurangan. *Jurnal dan Prosiding SNA*, Vol. 15, pp 1-23.
- [23] Norbarani, Listiana. 2012. Pendeteksian Kecurangan Laporan Keuangan dengan Analisis Fraud Triangle yang diadopsi dalam SAS No.99. Skripsi. Fakultas Ekonomika dan Bisnis. Universitas Diponegoro: Semarang.
- [24] Novita, Ulfa. 2015. Pengaruh Pengalaman, Beban Kerja, dan Pelatihan Terhadap Skeptisme dan Kemampuan Auditor dalam Mendeteksi Kecurangan. *Jom FEKON*, Vol. 2, No. 1, pp. 2-11.
- [25] Sandy Prasetyo.2013. Pengaruh Red Flags, Skeptisme Profesional Auditor, Kompetensi, Independensi dan Profesionalisme Terhadap Kemampuan Auditor dalam Mendeteksi Kecurangan (Studi Empiris Pada KAP di Pekanbaru, Padang, Medan yang terdaftar di IAPI). *Jurnal Jom FEKON Vol. 2 No. 1* Februari 2015
- [26] Tuanakotta, Theodorus M. 2013. Mendeteksi Manipulasi Laporan Keuangan. Jakarta. Salemba Empat
- [27] Owojiri, Anthony A., Asaolu, T.O. 2009. *The Role of Forensic Accounting in Solving The Vexed Problem of Corporate World*. *European Journal of Scientific Research*, Vol. 29. No. 22, pp 183 – 187.
- [28] Paramita, Irma. 2014. Persepsi Auditor Internal dan Eksternal Mengenai Efektivitas Metode Pendeteksian dan Pencegahan Tindakan Kecurangan Keuangan. 3rd Economics & Business Research Festival, November 2014, pp 1260 - 1276
- [29]