

# Hurtt's Professional Skepticism, Auditor Demographics, and Fraud Detection in the Indonesian Audit Environment

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## ABSTRACT

This study aims to examine the effect of auditors' skepticism using the Hurtt (2010) scale measurement and the demographic aspects of auditors in detecting fraud that is most appropriate to the current audit environment in Indonesia. The use of the questionnaire survey method with more data in the form of answers from respondents who are auditor practitioners who work at Public Accounting Firms in Indonesia. The analysis technique uses multiple regression with the number of respondents as many as 173 auditors. This study found that in Hurtt's (2010) scale measurement model, only knowledge seeking and self-determination variables have an effect on fraud detection. Meanwhile, questioning mind, suspension of judgment, interpersonal understanding, and self-confidence had no effect. This study also examines the disaggregation of the demographic aspects of auditor respondents, where the results show that the gender of the auditor and the size of the Public Accounting Firm have an effect on fraud detection. In contrast, the level of education has no effect.

**Keywords:** Auditing, Fraud Detection, Skeptical Judgements, Auditor Demographics, Hurtt Professional Skepticism Scale

## 1. INTRODUCTION

Fraud reduces the credibility of financial reporting [1], indicating that auditors have a low level of professional skepticism in detecting fraud. [2] found the low level of professional skepticism of auditors is one of the factors of audit failure.

[1], [2] shows the framework of skepticism does not affect fraud detection. [3] illustrates that accountants tend to have greater exposure to information emphasizing ethics, but [4] shows that skeptical judgments are needed. The collapse of Enron shows that detecting fraud with levels of professional skepticism tends to decrease [5]; [6]; [7]. The findings of this study underlie the selection of the auditor's demographic elements to see fraud detection.

## 2. LITERATURE REVIEW

Attribution theory states how people explain the causes of the behavior of others or themselves [8]. In general, fraud occurs in small companies to large companies, as well as in government agencies. [9] shows that the occurrence of fraud has a different impact on the organization but has the same goal. The high number of fraud cases indicates the auditor's weakness in detecting fraud [10]. The ability to detect

irregularities in financial statements is an essential element in fraud detection [11]. Lack of skepticism as a cause of audit failure, malpractice claims filed against auditors [12];[13];[14]. [15] shows that professional skepticism is a characteristic of a person. According to [16], the character of the person and his condition will shape the person's skepticism. However, [15] found that individual professional skepticism is a multidimensional characteristic consisting of six characteristics of professional skepticism. The professional skepticism framework developed by Hurtt provides a reliable method for assessing the level of professional skepticism, audit judgment, and even fraud detection.

Many accounting studies equate skepticism with suspicion, distrust, or doubt, all of which have some aspect of question construction for a comprehensive review of the professional skepticism literature, see [17]. The studies above align with [18], stating, "methodological doubt is the essence of methodological skepticism." [19] showed that different people have different abilities when suspending judgment. While [18] points out, "Skeptics don't take things for granted, they tend to be critical; to see the evidence. While (Johnson 1978) characterizes skeptics as people seeking knowledge, [18] suggests

that skepticism encourages a desire to investigate. Discreet practitioners will take all appropriate steps to dispel doubtful thoughts or unanswered questions" [20]. The persuasion efforts of others do not influence skeptical auditors. [21] show that confident auditors make efforts to persuade rather than accept what is presented. [20], suggests the auditor's assessment should be deferred until relevant audit evidence is found. This is because skeptical auditors usually need to see evidence before believing something [18].

The proposed hypothesis is as follows:

H1: questioning mind affects fraud detection

H2: search for knowledge has an effect on fraud detection

H3: suspension of judgment has an effect on fraud detection

H4: interpersonal understanding has an effect on fraud detection

H5: self-confidence has an effect on fraud detection

H6: self-determining has an effect on fraud detection

### 3. METHODOLOGY

This research uses causal hypothesis testing. This study aims to determine whether Hurt's model was able to show the level of professional skepticism in detecting fraud that 173 auditors working at affiliated and non-affiliated KAPs in Indonesia. The approach used in this research is a multiple regression approach with the quantitative method. The independent variables in this study are question mind, search knowledge, suspension of judgment, interpersonal understanding, self-confidence, self-determination, while the dependent variable is fraud detection. This study uses the Hurt model to see professional skepticism to see fraud detection, which is derived in 30 question items, namely, three questions for question mind, six questions for search knowledge, five questions for suspension of judgment, five questions for interpersonal understanding, 5 for self-confidence, six questions for self-determination, and six questions for fraud detection, with five Linkert scales.

Fraud detection in this study is the level of fraud detection by the auditor in the audit of financial statements that contain material misstatements caused by intentional factors by management. There are six indicators of intentional fraud by management in their efforts to fraudulent financial statements, namely the management was making a lot of adjusting entries the week before the external auditors arrived; there was a large adjustment to correct the inventory account after the year-end physical count; a manager comments about how often the petty cash is replenished; the auditors could not locate several invoices for purchase transactions; there was an unusual number of

receivables that were written off, and the management has a weak explanation for why expenses have almost doubled in the past year. Question mind is an opinion that always questions the correctness of the audit evidence taken to support the opinion. Search knowledge is the learning carried out by auditors in collecting audit evidence that shows the level of skepticism of the auditors in the audit process. Suspension of judgment is the suspension of a decision or conclusion by adding audit evidence or considering available information to make a decision in giving an opinion. Interpersonal understanding is the understanding of management's behavior in the process of obtaining audit evidence. Self-confidence is the confidence of the auditor in the process of taking audit evidence during the audit process. Self-determination is accepting all financial data without questioning supporting evidence to ensure that the financial statements are free from material misstatement.

Gender is determined by the gender of the auditor who provides assurance services proxied by a dummy of 1 for male auditors and 0 for female auditors. Education is the auditor's education level which is proxied with a value of 0 for Diploma education level; 1 for Bachelor's Degree; 2 for Masters; and 3 for Doctor. The size of the public accounting firm is KAP, where the auditor works in collaboration with affiliates of either a foreign public accounting firm or a foreign accounting organization, represented by a dummy of 1 for a foreign-affiliated public accounting firm and 0 not.

The analysis model in this study is as follows:

$$DF = \alpha_0 + \alpha_1QM_1 + \alpha_2SK_2 + \alpha_3SJ_3 + \alpha_4IU_4 + \alpha_5SC_5 + \alpha_6SD_6 + \alpha_7gender_7 + \alpha_8educ_8 + \alpha_9size\_KAP_9 + \varepsilon$$

Where:

DF: Fraud Detection; QM: Question Mind; SK:

Search Knowledge; SJ: Suspension of Judgment IU:

Interpersonal Understanding; SC: Self Confidence;

SD: Self Determine; Gender: gender of auditors;

Educ: auditor education level; size\_KAP: KAP size

### 4. RESULTS AND DISCUSSION

#### 4.1 The effect of question mind on fraud detection

Judging from the breakdown of testing all samples and testing disaggregation gender, education level, and KAP scale, questioning mind has no effect on fraud detection. This event is because auditors at KAP detect material misstatements and fraud in accordance with the Professional Standards of Public Accountants (SPAP) and Quality Control Standards (SPM), Financial Accounting Standards (SAK) applied by the client, past financial reporting issues, and management integrity. The application of SAK will affect the type of company risk. From the

respondent's data, there are 80 percent provided engagements in the industrial sector with SAK ETAP. Auditors who determine medium and high-risk levels have very high skepticism and high questioning mind, and the same thing is shown by [22]. This condition shows that when developing country auditors will set a very low level of fraud risk so that this condition distinguishes the question of mind applied in developed countries is higher because investor protection and capital market efficiency are very strong, reflecting more open information.

**Table 1**

Statistic description

Deskripsi Variabel	Obs	Mean/Proporsi	Nilai Min	Nilai Max
<b>Fraud Detection</b>	17 3	64.353 (16.831)	20	100
<b>Gender (a score of one indicates male and 0 female sex)</b>	17 3	0.509 (0.502)	0	1
<b>Education</b>	17 3	1.231 (0.475)	0	3
<b>Size KAP</b>	17 3	0.266 (0.443)	0	1
<b>Question Mind</b>	17 3	82.994 (11.553)	40	100
<b>Search Knowledge</b>	17 3	85.699 (11.095)	40	100
<b>Suspension of Judgement</b>	17 3	81.936 (11.076)	54	100
<b>Interpersonal understanding</b>	17 3	78.225 (15.014)	30	100
<b>Self confidence</b>	17 3	78.399 (10.843)	55	100
<b>Self determine</b>	17 3	44.289 (16.831)	22	100

**4.2 Effect of Search Knowledge on Fraud Detection**

Search knowledge shows a positive effect for testing all models of gender disaggregation, education level, and KAP size on fraud detection. This shows that the higher the learning process carried out by the auditor will increase the auditor's ability to detect fraud committed by management. The continuous learning process will increase the auditor's skepticism. Along with the experience and continuous learning process that increases the skepticism of the auditor, making it easier for the auditor to detect fraud, these findings strengthen the attribution theory, a similar thing was also found by [23]; [24]; [22].

**4.3 Effect of Suspension of Judgment on Fraud Detection**

Suspension of judgment has no effect on fraud detection. Prolonged suspension of decisions by auditors will have an impact on delays in submitting audited financial statements to the public because investors use financial statements to make investment decisions. Suspension of decisions is not an attribute of professional skepticism in Indonesia. The limited-time for submitting financial statements to the public shows that the application of the level of professional auditor skepticism in each country and the protection of different investors, as well as different levels of market efficiency, will have different impacts and effects. This finding is in line with studies from [25]; [26]; [27].

**4.4 Effect of Interpersonal Understanding on Fraud Detection**

Interpersonal understanding has no effect on fraud detection, both in terms of all disaggregation testing models. The data shows that respondents have a very high tendency to understand management behavior, but the auditor is not able to detect existing fraud. This condition shows the auditor does not understand the client's industry and business risks, so that it does not help detect fraud. The client's business and industry risk contribute greatly to auditors in detecting fraud committed by management. This result is also consistent with the study of [28].

**4.5 Effect of Self Confidence on Fraud Detection**

Self-confidence has no effect on fraud detection, both seen from all samples and disaggregation tests. Existing data shows that respondents have a very high level of self-confidence but are unable to detect existing fraud. This shows that high self-confidence without being accompanied by experience does not contribute to increasing auditor skepticism in detecting fraud committed by management. The results of this study strengthen the attribution theory, which shows that individual behavior will be influenced by himself and his surrounding environment.

**4.6 The impact of Self-determine on Fraud Detection**

The effect of self-determination tested by gender disaggregation has a positive effect on testing all samples and male auditors. This event shows that the higher the self-determination of male auditors, they are higher for detecting fraud, and this is in line with a study from [29]. Self-determination has a positive effect on fraud detection for disaggregation of education levels. When the auditor accepts all available evidence, it will make it easier for the auditor to find irregularities in the financial statements. This condition shows that the auditor accepts all the

evidence provided by management due to time constraints in conducting the audit. Self-determine, when tested with KAP size, shows a positive effect for all samples, as well as testing with KAP affiliates and non-affiliated shows a positive effect. This condition

shows that when the auditor accepts all data without questioning supporting evidence, it allows the auditor to detect fraud that exists because of the nature of skepticism possessed by the auditor.

**Table 2. Regression Results**

Variable	Dependent variabel: Detection fraud						
	(1)	2		3		4	
	all	male	female	S1	selain S1	afiliasi	nonafiliasi
<b>Constant</b>	7.944 (11.11)	20.70 (13.19)	4.672 (19.34)	3.897 (12.70)	40.38 (24.86)	-12.57 (23.86)	17.55 (12.54)
<b>gender</b>	4.522** (2.205)	omitted	omitted	6.867*** (2.589)	-3.172 (4.377)	13.84*** (4.943)	1.115 (2.431)
<b>Educ</b>	0.564 (2.347)	-3.031 (3.211)	4.668 (3.372)	omitted	-3.363 (4.332)	0.504 (4.731)	1.836 (2.848)
<b>size_kap</b>	- 12.51*** (2.529)	-5.569 (3.460)	- 18.78*** (3.662)	- 12.30*** (3.159)	- 15.00*** (5.109)	omitted	omitted
<b>sqm</b>	0.0287 (0.126)	0.122 (0.154)	-0.127 (0.213)	0.129 (0.160)	-0.0449 (0.212)	-0.0386 (0.244)	0.0668 (0.151)
<b>sk</b>	0.300** (0.137)	0.329 (0.200)	0.292 (0.189)	0.286* (0.171)	0.182 (0.263)	0.474* (0.268)	0.261 (0.162)
<b>sj</b>	0.0913 (0.143)	0.00414 (0.180)	0.180 (0.233)	0.0502 (0.175)	0.218 (0.264)	0.0431 (0.318)	0.0276 (0.165)
<b>iu</b>	0.0911 (0.0891)	-0.0333 (0.109)	0.200 (0.144)	0.138 (0.114)	-0.0623 (0.156)	0.0418 (0.174)	0.0954 (0.107)
<b>sc</b>	0.0377 (0.123)	0.0199 (0.162)	0.0592 (0.183)	-0.0380 (0.152)	0.0539 (0.228)	-0.0429 (0.269)	0.0285 (0.140)
<b>sd</b>	0.251*** (0.0688)	0.308*** (0.0810)	0.163 (0.122)	0.284*** (0.0851)	0.200 (0.124)	0.435** (0.166)	0.169** (0.0768)
<b>o.gender</b>	omitted	omitted	omitted	omitted	omitted	omitted	omitted
<b>Goodness of fit</b>							
<b>Observations</b>	173	88	85	128	45	46	127
<b>Prob &gt;F</b>	0.0000	0.0005	0.0000	0.0000	0.0366	0.0019	0.0169
<b>R-squared</b>	0.320	0.288	0.393	0.346	0.373	0.460	0.143
<b>Adj R-square</b>	0.2820	0.2156	0.3295	0.3020	0.2120	0.3437	0.0847

Standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

**4.7 Additional Testing**

Gender has a positive effect on fraud detection for all disaggregation models, as well as KAP size has a positive effect on fraud detection for all disaggregation

models, but education level has no effect on fraud detection for all disaggregation models. This event is when the auditor is pure as a practitioner, they do not need a higher level of education, and they will update

their knowledge through the fulfillment of a minimum of 40 credit points for continuous learning in one year, which includes financial accounting, auditing, and capital market regulations.

## 5. CONCLUSION

Question Mind, Suspension of Judgment, Interpersonal Understanding, and Self Confidence have no effect on the auditor's ability to detect fraud in the results of this study. The four characteristics of skepticism from the Hurtt model are not suitable for auditors in detecting fraud in the audit environment in Indonesia. Meanwhile, other characteristics of the Hurtt model skepticism, namely Search Knowledge and Self-determine, affect or are in accordance with the conditions of the audit environment in Indonesia because professional associations require KAP auditors to attend ongoing training and knowledge to improve their audit competence and become relevant to developments in standards and business. The auditor's search knowledge and self-determination characteristics are supported by the application of risk-based auditing standards that have been adopted into the Professional Standards of Public Accountants and have become the audit approach used by KAP auditors in Indonesia since 2013.

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