



# Does Profiling Fraudsters Increase Auditor's Professional Skepticism?

## Empirical Evidence of the Narcissistic Profiles

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**Abstract.** Profiling the psychological characteristics of fraudsters including narcissism is perceived as an important factor for auditors especially with their responsibility for fraud detection. Such profiling should increase the auditor professional skepticism during brainstorming sessions. This study aims to investigate the influence of the psychological characteristics of fraudsters especially narcissism on auditor's professional skepticism. Our empirical study are based on data from auditors of public accounting firms and the Auditor Board of Indonesia (BPK) located in Semarang, Indonesia which involves 68 respondents. Data then was analyzed using linear regression. The result indicates that narcissism significantly increases the auditor's professional skepticism. The finding implies that during the brainstorming session, auditors should consider the psychological characteristics of clients beyond the procedural aspects of audit.

**Keywords:** Narcissism · Profiling · Professional skepticism · Fraudster

## 1 Introduction

A number of increasing frauds have led to the need for increasing roles of auditors in fraud risk assessment when conducting audit [1], and fraud detection [2]. One important aspect that should be considered by auditors in fraud detection is professional skepticism [3]. The International Standard on Auditing No 200.13.1 defines professional skepticism as “an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence”. In fact, one determinant of auditors' inability for fraud detection is the low level of auditor professional skepticism [4].

Professional skepticism issues have attracted a number of accounting scholars. However, most previous studies on auditor professional skepticism have been focused on auditor and client characteristics [3, 5–12] and external environmental characteristics [7, 13, 14]. It is not easy to find studies investigating how psychological profiling of fraudsters may increase the auditor's professional skepticism on fraud detection. It is believed that auditors should consider the importance of client psychological characteristics—beyond the quantitative materiality [15]. Profiling psychological characteristics of fraudsters (especially narcissism) may provide auditors with potential red flags that

eventually increase auditor professional skepticism on fraud detection. Narcissism can be identified as fraudulent risk factors. Hence, auditors should consider it as potential red flags of fraud. Indeed, narcissism reflects fraudulent behavior that should be considered by auditors [16].

This study is intended to investigate how profiling client psychological characteristics, especially narcissism may increase auditor professional skepticism on fraud detection. This study extends the existing findings and contributes the importance of including client psychological profiles as part of professional skepticism. Secondly, the findings may be used as a reference for formulating audit standards concerning brainstorming session before conducting audit.

## 2 Literature Review

### 2.1 Attribution Theory

Studying the relationship of profiling psychology of fraudsters to auditor professional skepticism on fraud detection cannot be separated from attribution theory. The theory enables us to explain how individuals construe events and how this recounts their judgment and performance [17]. In addition, how the previous success or failure influences subsequent expectations are dependent on whether the attribution is internal or external [18]. Internal attributes could be ability, effort, and skill whereas external attributes could be luck, task difficulty, and culture. In other words, "the level of future expected performance, in a particular task depends mainly on the particular causes to which prior success or failure in the same task is attributed" [19] The auditor's previous experience on psychological characteristics of fraudsters (especially narcissism) may help the auditor increase professional skepticism.

### 2.2 Hypothesis Development

Narcissism is concerned with disorder personal characteristics [20] consisting of "a persistent pattern of grandiosity, fantasies of unlimited power or importance, and the need for admiration or special treatment" [21]. Narcissism is perceived as two psychological factors that may influence auditor skepticism. Narcissism is risky factors of fraudulent behavior [22]. Even though narcissistic individuals (especially a leader) may contribute to the success of organizations [23], they are also involved in any questionable actions creating bias in organization performance [24]. Narcissistic leaders may endanger organizations as they are overconfident in their own performance and make risky decisions [25] that may lead to fraudulent behaviors. Moreover Hammersley insists that client narcissism in a certain situation can be used as a red flag of fraud because narcissism is closely related to frauds [26–28]. Clients with destructive narcissism can be included as fraudulent behavior [29] so that auditors should consider it during brainstorming sessions to increase their professional skepticism. Thus, this study proposes the following hypothesis.

H1: The more narcissistic the client psychological profiles, the higher the auditor professional skepticism on fraud detection.

### 3 Research Method

This study used primary data obtained through questionnaires distributed to auditors working at accounting firms and Audit Body of Indonesia Semarang. Samples were chosen based on purposive sampling with the following criteria: a) Auditors who have been working at accounting firms or government audit offices, b) Auditors who have worked for at least two years and have audited financial statements or who have conducted audits, and c) Auditors who work as senior auditors, junior auditors, managers and other positions.

Narcissism (NAR) is measured using 17 questions mainly adopted from a previous study [30] on the Likert scale of 1 to 5, from strongly disagree to strongly agree. The higher the score the higher the level of client narcissism. Meanwhile, measurement of the auditor Professional skepticism (SKE) adopts a model developed by previous researcher [31] with 16 questions on the Likert scale of 1 to 5, from strongly disagree to strongly agree. The high score shows a strong professional skepticism, and vice versa. This study also involves control variables consisting of auditor type (TYP), experience in fraud detection (EXP) and certification (CER). Auditor type is a dummy variable (auditors working at the Audit Board of Indonesia are scored 1, otherwise zero). Experience in fraud detection is a categorical variable concerning how many times they have detected frauds during their engagement (Score 1 = less than 5 times, Score 2 = 6–10 times, and Score 3 = more than 10 times). Finally, the last control variable is certification, a dummy variable (score 1 for those holding CPA or CFE or CFrA, otherwise scored 0). We then analyzed the data using multiple regression to estimate the predictors of auditor professional skepticism on fraud detection based on the following model:

$$SKE = \alpha + \beta_1 NAR + \beta_2 TYP + \beta_3 EXP + \beta_4 CER + \varepsilon \quad (1)$$

where SKE is Auditor Professional Skepticism whereas NAR shows Narcissistic profile. Moreover, TYP represents Auditor Type (control variable) and EXP is Auditor experience (control variable). Then, CER represents Auditor Certification (control variable). Finally,  $\alpha$  is Constanta, while  $\beta$  shows Regression coefficient and  $\varepsilon$  is error.

### 4 Findings and Discussion

Of the total 211 questionnaires distributed to respondents, 73 were returned and only 68 were further processed (the rest were not filled out completely) as shown in Table 1. The respondents consist of 36 auditors working in the Audit Board Office (ABO) and 32 auditors working in public accounting firms (PAF). Table 1 also shows that out of 68 respondents, most of them have certificates (67.65%). In terms of previous experience in fraud detection, it appears that all respondents have experience in fraud detection. Indeed, most respondents (58.90%) have detected fraud with a frequency of less than 5 times, 30.20% of respondents have detected frauds 6–10 times and the rest have detected fraud more than 10 times.

Table 2 indicates that the respondents found the existence of client narcissism profile during their audit engagement activities. Descriptive data shows that respondents' answers to the client's narcissistic behavior ranged between 62 and 85 with a relatively

**Table 1.** Descriptive statistics (control variables)

VAR	The Type of Auditors			Certification		
	PAF	ABO	Total	Certified	Non-Certified	Total
Freq.	32	36	68	46	22	68
Percent	47.10%	52.90%	100%	67.65%	32.35%	100%
No	Previous Experience in Fraud Detection		Auditor		Total	Percent
			PAF	ABO		
1	<5 times		19	19	38	56,90%
2	6–10 times		9	12	21	30,20%
3	>10 times		4	5	9	13,80%
<b>Total</b>			<b>32</b>	<b>36</b>	<b>68</b>	<b>1</b>

**Table 2.** Descriptive statistics (main variables)

Vari	N	Theoretical Renge	Actual Range	Median	Actual Mean	SD
NAR	68	17–85	62–85	51	70.00	4.87
SKE	68	16–80	53–68	48	64.80	2.71

high mean (70.00) exceeding the median (51.00). This implies that auditors believe that in carrying out their work, they often find narcissistic clients who have the potential to increase the risk of fraud in the organization. Meanwhile, in the context of professional skepticism, auditors who became respondents gave answers ranging from 53–68 with a relatively high Mean (64.80), which is higher than the Median (48). This indicates that most respondents believe that they have a high level of professional skepticism when they conduct brainstorming sessions.

Furthermore, the results of the hypothesis test, as depicted in Table 3, show that the narcissistic profile, the type of auditor, and previous experience in detecting fraud play important roles in increasing the auditor professional skepticism. However, certification does not affect the level of auditor professional skepticism.

The finding shows that profiling the psychological characteristics of fraudsters, in this case the client's narcissistic behavior, determines the auditor's ability to increase their professional skepticism. This insinuates that in the brainstorming session before the field assignment is carried out, the auditor team needs to look at the psychological characteristics of fraudsters based on previous experience in conducting audits. The higher the auditors' ability to assess the psychological profile of fraudsters, especially narcissism, the better their professional skepticism. In the context of attribution theory, especially internal attributes, it appears that the auditor's characteristics, especially the ability to assess the psychological character of fraudsters and their previous experience in detecting fraud, are important factors that should be considered in improving audit

**Table 3.** Result of hypothesis test: professional Skepticism (dependent)

Var	Coef.	T	P >  t
Con	49.710	17.26	0.000
NAR	0.114	2.73	0.008*
TYP	4.068	10.29	0.000*
EXP	0.725	2.48	0.016*
SERT	-0.014	-0.03	0.976

\*) significant at 5%

N = 68, F(4, 63) = 34.15, Prob > F = 0,000, R-Squared = 0.684, Adj R-Squared = 0.664

performance, especially in increasing professional skepticism. From the aspect of external attribution, the finding also shows that the workplace at which the auditors work (in this case the Audit Board Office)-represented by the auditor type- is an environmental variable that plays a role in increasing audit professional skepticism.

This finding is also in line with previous studies arguing that profiling the perpetrators tends to increase the auditor's professional skepticism. As auditor professional skepticism can increase through brainstorming sessions discussing potential frauds [32], auditors should consider the psychological red flags of fraudsters, especially narcissism [30]. Indeed, during the brainstorming session, auditors may collect information about client fraud risks [3, 33] including the client psychological characteristics concerning fraudulent behavior. Such brainstorming session eventually enables auditors to increase their professional skepticism on fraud detection.

## 5 Conclusion

This study aims at investigating the effect of profiling the psychological characteristics of fraudsters on auditor professional skepticism (especially narcissism) by including auditor types, previous experience in fraud detection, and professional certification as control variables. The findings show that profiling client's narcissism positively influences auditor professional skepticism. The auditor type and previous experience in fraud detection also positively affect the auditor professional skepticism.

This study extends the existing findings on professional skepticism and contributes to the auditor team on the importance of including client psychological profiles as part of brainstorming sessions so as to enable auditors to increase their professional skepticism. Secondly, the findings can be utilized as a reference to formulate audit standards concerning brainstorming sessions before conducting an audit. This study suffered from a limited number of respondents and only focused on narcissism as psychological characteristics. Future studies may implement more respondents and include other dark sides of psychological characteristics such as Machiavellianism and psychopathy.

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