



Fraud Detection Skill of External Auditors

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ABSTRACT

After Enron, auditors were required to detect fraud in financial statements. The new accountants do not care about the fraud phenomenon. These new, untrained accounting graduates face shrewd and manipulative fraud perpetrators. Lack of fraud detection skills has become a scathing criticism to accountants. This study aims to examine and provide empirical evidence about the effect of auditor competence, independence, professional skepticism on fraud detection skills. Another objective to test whether auditor experience could moderate that relationship. This is a quantitative research, with primary data obtained from CPA firms in Jakarta as the highest CPAs in Indonesia. Two hundred sets were sent, 192 exemplars were completed and processed with the MRA technique. The study results confirm that competence, independence, and Experience positively affect fraud detection skills. CPAs' Experience strengthens the positive influence of independence on fraud detection skills. Professional skepticism does not affect fraud detection skills. The information provides additional clues to management regarding fraud prevention policies in an organization. For example, giving rewards or awards can further encourage employees to be honest, responsible, and committed to their organization.

Keywords: *Competency; Independency; Professional Skepticism; Fraud Detection Skills, Audit Experience*

1. INTRODUCTION

Various cases of corporate fraudulent financial statements recently involved accountants. Financial statement fraud occurs when management intentionally misleads users of financial statements by manipulating financial statements in different ways outside the provisions of Financial Accounting Standards. The exceptional cases of Enron, WorldCom, Xerox in the US were revealed by Brooks (2006) as evidence of the failure of corporate management and auditors in carrying out their professional responsibilities. As a result, the public loses confidence in public companies and the accounting profession. In Indonesia, similar cases have also occurred, such as the YPPI (Indonesian Banking Development Foundation) case, the Bank Duta case (1990), the Bapindo case (1994), the PT. Kimia Farma (2001), Bank Lippo case (2002). PT. Garuda (2018). The auditors who participate as perpetrators of white-collar crimes are certainly experienced auditors and have held managerial positions and even partners. This accountant becomes a counselor to take advantage of gaps in financial standards and information asymmetry between corporations and stakeholders. Financial statement fraud schemes have become very sophisticated and challenging to prove their existence unless proven by themselves

through bankruptcy events, underpricing during the IPO, complaints from the public, employees, consumers, and parties who understand the presence of irregularities.

The Financial Report of Bapepam LK reveals that market manipulation is a case that dominates violations in the field of transactions and securities institutions. Violations by public companies/issuers often occur in affiliated transactions and material transactions, breaches of dual share orders and allotments, violations of changes in the use of funds from public offerings, and violations of presentation and disclosure in financial statements. Two significant cases that attracted public attention in 2011 were the case of allotment of shares in the IPO of PT Krakatau Steel Tbk by the Managing Underwriter and the investment case of PT. Askrindo in four Investment Managers / Broker-Dealers. Bapepam LK found that eight Managing Underwriters made mistakes in filling out the Shares Subscription and Purchase Form (FFPPS) and three Managing Underwriters who were not careful in carrying out their professional underwriting activities.

The Financial Services Authority (OJK) 2013 Financial Report mentions 36 cases of indicated violations in the capital market sector [1]. These violations include violations of the presentation of financial statements, material transactions and changes in

business activities, violations of the provisions of affiliate transactions and conflicts of interest in certain transactions, breaches of the rules for ordering and allotment of securities in the IPO, violations of internal control of securities companies, violations of investment management rules. As a capital market supervisor, in 2013, the OJK revoked the business licenses of 9 accountants. A total of 828 sanctions are administrative fines imposed on issuers, public companies, and capital market supporting professionals for late submission of reports. In addition, OJK stipulates 23 administrative sanctions for violations of capital market regulations.

The Enron case became the momentum for the accounting profession to improve the quality of its independence and competence. This case marks the failure of an audit conducted by a Public Accounting Firm (KAP), which was initially believed to be reliable and of high quality by the public. In response to the Enron incident, the American Congress issued Sarbanes Oxley, 2002, and required public accounting firms to detect fraud during the financial statement audit process. In Indonesia, the Minister of Finance of the Republic of Indonesia reorganized the public accounting profession through the Minister of Finance Decree No. 423/KMK.06/2002 concerning Public Accountant Services [2]. This concern arises as a form of concern for the sustainability of the public accounting profession as an independent, competent, and professional party.

The diversity of fraud detection capabilities in public accountants causes by several factors, including technical competence, skepticism, and other individual characteristics. Auditor's technical competence is formed from knowledge accumulation and Experience as an auditor as described in the Indonesian National Qualifications Framework (KKNI). KKNI contained in the Regulation of the Minister of Education and Culture of the Republic of Indonesia No. 73 of 2013, [3]. Accumulated knowledge gathered through formal education and certification, further professional education, seminars, symposia, workshops, debriefing from superiors, training relevant to the profession. This special education and training has proven to have a positive effect on auditor expertise based pervious research [4]–[6].

Practical Experience gained through auditing experience, Experience in detecting fraud, job tenure as an auditor shows the accumulated work experience of auditors. The Experience gained while working as an auditor demonstrates the diversity and complexity of audit assignments in various types of companies and industries. Junior auditors with less than two years of service have the task of evaluating internal controls, conducting substantive tests, confirming to their clients' customers, preparing audit reports, and other administrative work. The task characteristics for novice auditors are simple, repetitive tasks and do not require

complex analysis and considerations. The longer an auditor practices as an auditor, the complexity of the job, assignment, and type of industry is higher and requires comprehensive analytical power and knowledge to produce a quality audit [7], [8]. Experience is an essential factor that affects the auditor's ability to detect fraud. Experience will provide lessons on the types and varieties of fraud that have been found by auditors [9]. Experience shows the level of expertise of a professional. According to their competence, experts offer their best performance when the problem is specific.

Professional skepticism affects the ability of auditors to detect fraud. Auditing Standard 200 in SPAP [10] outlines the importance of an attitude of professional skepticism for an auditor in assessing audit evidence. In Yanti [4], Beasley explained that one of the causes of auditors not detecting fraud is the lack of knowledge and the low application of professional skepticism in carrying out audit tasks. Auditors who apply a high attitude of professional skepticism will develop additional information seeking when faced with fraud symptoms. The auditor's fraud alert will increase, expand evidence, delay judgment, modify audit planning and audit procedures until sufficient and accurate evidence obtains to ensure that the decisions taken are correct.

2. METHOD

The sample used in this study is external auditors working in Jakarta's public accounting firms. Questionnaires obtained data from CPA firms in Jakarta as the highest CPAs in Indonesia. Research respondents are auditors who work at CPA firm Purwantono, Suherman & Surja (Ernst & Young), Tjiendradjaja & Handoko Tomo (Mazars), Syarief Basir (Russell Bedford), Hadiwinata, Hidajat, Arsono, Ade Fatma & Partners (PKF), Ahmad, Rasyid, Hizbullaha & Jerry, CPA firm Doli, Bambang, Sulistyanto, Dadang & Ali. Of the 192 questionnaires sent, 163 were returned and processed.

Auditor competency has three leading indicators: personal auditors' quality, general knowledge, and special skills possessed by auditors, which were adapted from Sukriah et al.[11]. Three statement items represent individual quality indicators, general knowledge is described by four statement items, and three represent special skills. The statement items were modified based on Sukriah et al. [11]. Auditor independence has three leading indicators, the relationship between auditors and auditees, independence in carrying out work, and independence in reporting. Four statement items represent indicators of the relationship between auditors and auditees, indicators of independence in the implementation of work are represented by four statement items, and two statement items represent indicators of independence in reporting. The statement items were modified based on Sukriah et al. [11].

The professional skepticism variable in this study has six indicators used by Hurt et al.[12]. The six indicators are the attitude of questioning, weighing something, the curiosity of the auditor, interpersonal understanding, self-confidence, and self-determination. The audit experience is measured by audit job tenure.

Fraud detection ability is measured by eight indicators in general, which are used by Romadhoni [13]. These items include identifying indications of fraud, materiality level, types of fraud, adequate capabilities, audit standards, internal control system vigilance, careful assessment, and the auditor's role in planning fraud detection activities.

3. RESULT AND DISCUSSION

Most of the research respondents were male (55%), with a bachelor's degree (97%) and job tenure of 2 – 5

Table 1 Hypothesis Testing

Variables	Expected Sign	Coef	Sign
Constanta		0.531	
Competency	+	0.381	0.000*
Independency	+	0.349	0.000*
Professional Skepticism	+	0.093	0.012*
Competency*Experience	+	0.167	0.04*
Independency*Experience	+	0.007	0.924
Professional Skepticism*Experience	+	-0.008	0.008
Adjusted R Square		0.341	
Sign F Test			0.000

Dependent Variable: Fraud Detection Skill

Moderated Variable: Experience

*) Sign at 5%

The results of hypothesis testing in Table 1 show that Competence, Independence, has a positive effect on Fraud Detection Skill. Auditor experience is proven to strengthen the positive influence of competence on Fraud Detection skills. However, Professional Skepticism was not proven to affect Fraud Detection skills. Auditor experience is also not proven to moderate the positive influence of independence and Professional skepticism on Fraud Detection skills. A discussion of these findings is presented next.

3.2. Discussion

Auditor competency is the accumulation of knowledge and Experience gained from formal learning, auditing expertise certification education, training, seminars, and Experience while practicing as an auditor. Auditors' tenure increases their job experience and related knowledge, which is also a proxy for the functional level of the auditor at KAP. Experiences in auditing practices and fraud detection practices form technical expertise and hone intuition and sensitivity to report irregularities, risk factors, risk assessments, and sharpen intuition in reading these irregularities. This

years (94%). Auditor respondents include junior auditors (68%), senior auditors (24%), KAP Supervisors, and Audit Managers 4% each.

All indicators of each variable have an coefficient value above 0.5 and Cronbach's Alpha value above 0.6, means that all indicators are valid and reliable.

3.1. Results

The purpose of this study is to examine and provide empirical evidence about the effect of auditor competence, independence, professional skepticism on fraud detection ability. The next objective is whether auditor experience moderates the impact of auditor competence, independence, professional skepticism on fraud detection ability. Moderated Regression Analysis was used to test the hypothesis presented at Table 1.

competency also shows expertise from junior, senior, supervisor, manager, and partner auditors. The higher the level of competence shows the accumulation of knowledge, more comprehensive job experience in-depth multi-dimensional, and systematic and uses various methods and approaches in identifying problems, seeking evidence and information, and formulating decisions, both in the form of professional judgment and higher quality audio performance. A person with high technical competence has a better knowledge organization, provides a completer and more comprehensive, structured and systematic explanation due to the support of multi-disciplinary knowledge, a more complete and in-depth understanding of concepts and theories. This competency will help complete the fraud detection task under the complexity of the fraud scheme. A competent person will be able to complete jobs according to his competence. This competence establishes the auditor's sensitivity to consider and decide on three financial statement audit objectives, including financial transactions are appropriately recorded, account balances are accurate, and all relevant information is presented and disclosed in financial statements.

Audit experience strengthens the positive effect of competence on fraud detection skills. The diverse audit assignments and the various problems encountered to provide the auditor with knowledge and practice. The uniqueness of each client offers an opportunity for auditors to learn from a hands-on approach and create expertise from repeated practice. As the accumulation of knowledge and experience increases, so will its fraud detection capabilities. This technical competence is sufficient to find discrepancies, irregularities, and inconsistencies during the assignment and prompts a more intense search for evidence and information. Understanding task knowledge and relevant information will improve fraud detection performance by auditors.

In this study, junior and senior auditors dominated respondents with S1, PPAk, and S2 education levels, 2 to 5 years of service, showing a picture of auditors with relatively high technical competence. The accumulated knowledge and Experience of audit and fraud detection practices form knowledge that sharpens sensitivity to irregularities in financial statements. Likewise, with the fraud detection ability, the junior and senior auditor groups showed a higher response to the fraud detection ability statements than other auditor groups. A senior auditor has the task of planning, executing, and completing one or more audit engagements. Senior auditors also supervise junior accountants under them and review their work. The knowledge and Experience of senior auditors and supervisors are higher than that of junior auditors. This fact supports the empirical results that competence has a positive effect on the detection ability of external auditors. The more qualified the competence of an auditor, the higher the fraud detection performance. The results of this study confirm previous research [4]–[6].

Auditor independence has a positive effect on fraud detection skills. An Independent attitude is shown by working, thinking, and making decisions independently, free from any intervention other than excellently completing audit tasks. In SPAP SA section 220, the independent auditor can act and behave intellectually honestly. The auditor must be free from the burden or obligation of other third parties such as the client, management, or the owner of the auditor organization itself (paragraph 03). An independent auditor is not influenced by any party and maintains adherence to the profession and its institutional rules. The results of this study are consistent with Bachtiar et al.[14], Widyastuti and Pamudji [15]

Professional skepticism is proven to have a positive effect on fraud detection skills. Professional skepticism is an attitude that must be practiced during the audit process, especially on changes in current accounting standards. Applying IFRS in accounting practice and a fair value approach where subjective estimates and valuations open opportunities for financial statement

providers to create greater and looser discretion for management. Moreover, the limitation of audit time to a maximum of three consecutive years reinforces the importance of practicing professional skepticism for auditors. Professional skepticism must be increased if there are indications of significant misstatements in the financial statements, increase sensitivity in choosing the type and nature of documents to be tested, increase vigilance when it is felt that there are many obstacles and dubious risks of fraud.

Auditors must also be able to balance the practice of professional skepticism with time budgets and audited financial reporting deadlines. The exercise of low professional skepticism causes professional judgment to decline in quality; on the contrary, high professional skepticism increases the time budget and audit fees. Establishing the appropriate level of professional skepticism for each assignment is an issue worth discussing with the rest of the team. Glover and Prawit [16] explain that adequate supervision, mentoring, coaching, review, job inspection can improve the practice of professional skepticism. In addition, discussion brainstorming about potential fraud in audit team groups in a structured manner to discuss problems during the audit and formulate solutions can also increase professional skepticism. These practices can reduce cognitive biases that can arise during the audit assignment, thereby confusing the auditor's attention to fraud risk factors, even though the indications of fraud have been obvious but have not been convinced of fraud, thereby reducing the auditor's fraud detection ability.

Auditors with high skepticism will develop additional information seeking when faced with fraud symptoms. The task of fraud detection is a task of high complexity and requires the application of high skepticism. The auditor will apply his technical competence to identify transaction patterns of fraud risk factors, explore and analyze appropriate and accurate audit evidence with various strategies, information-seeking methods, and audit evidence. The auditor will also defer his professional judgment until sufficient and correct audit evidence has been obtained to base appropriate conclusions. Furthermore, the auditor will modify the audit plan and procedures to detect fraud if deemed necessary. The results of this study are consistent with those previous research's [4]–[6], [17]

Audit Experience does not moderate the influence of independence on fraud detection skills. An auditor who has had many experiences may not maintain his independence in carrying out his work. The attitude of the desire to stay away from the influence or intervention of any party depends on each individual personally, so that audit experience has not been able to affect the relationship between auditor independence and his ability to detect indications of fraud.

Audit experience does not moderate the effect of professional skepticism on fraud detection skills. This work experience weakens the attitude of skepticism, especially on repeated audit assignments in the same client. Many things are omitted from audit procedures and assume that not much information has changed from the last year's audit period. As a result, the potential for fraud may not be detected by the auditor. Therefore, OJK requires a change of auditors to maintain audit quality, auditors, and CPA firms.

4. CONCLUSION

The study results confirm that competence, independence, and professional skepticism positively affect fraud detection skills. Experience strengthens the positive influence of independence on fraud detection skills. Audit experience does not moderate independence and professional skepticism on fraud detection skills. The results of this study confirm that fraud detection skills can be improved through increasing competence, strengthening independence, strengthening professional skepticism, and audit tenure. The first limitation of this study is using a questionnaire as a data collection tool. The respondents' willingness, honesty, and sincerity in filling out the questionnaire are the keys to collecting accurate and reliable data. The number of statement items causes a reluctance to fill out the questionnaire completely. The deployment period coincides with the busy period of the auditors, so it is impossible to gather auditors in one area to be briefed and accompanied when filling in. Researchers have also carried out control procedures by eliminating questionnaires with uniform answers that are not considered respondents. Researchers have also carried out reminder procedures, re-calling to increase the response rate, and assistance when filling out auditors. Second, data collection was carried out in two time periods to lead to a response bias that the researcher did not anticipate. Third, the proportion of respondents based on gender and technical skill level is not balanced and would affect the results of statistical tests. Fourth, the respondents of this study came from seven CPA firms in Jakarta, so the results must be interpreted with caution. The following research topics developed from this research are grouped into research on fraud detection, research on auditor moral competence, auditor skills, and development of moral competency-based ethics teaching materials. The following research topics developed from this research are grouped into research on fraud detection, research on auditor moral competence, auditor skills, and development of moral competency-based ethics teaching materials.

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