

# Fraud Detection

(From the public accountant perspective)

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**Abstract**—Fraud cases and financial statements manipulation have been increasing in the past five years, and surprisingly, even well-known public accounting firms in the world had been involved in several cases. Public were starting to have doubt about the audit quality, whereas the auditor profession's existence depended on public trust as a stakeholder of the profession. The purpose of this research was to examine the influence of audit experience, the ability to assess fraud risk, and professional skepticism on the success of external auditors in detecting fraud. The independent variables were audit experience, the ability to assess fraud risk, and professional skepticism, and the dependent variable in this research was the success of external auditor to detect fraud. The method used in this research was the analytical descriptive method using the survey approach. The survey has been applied to 92 auditors in Jakarta, Indonesia, as the respondents. Collecting data was conducted by questionnaire and the data was analyzed using path analysis. The results of the research show that audit experience, the ability to assess fraud risk, and professional skepticism significantly, both simultaneously and partially, influence on the success of external auditor to detect fraud.

**Keywords**—*fraud detection; audit experience; fraud risk; professional skepticism*

## I. INTRODUCTION

In the middle of 2017 public was shocked by the news of auditors' failure in detecting fraud that involving two renowned public accounting firms, the PricewaterhouseCoopers (PwC) and the Klynveld, Peat, Marwick, Goerdeler (KPMG), both members of the "Big Four". Both public accounting firms were subject to million pounds sanction due to their failure in carrying out their audit. Observers of public company financial statements even made a report stating that KPMG, Deloitte, and Grant Thornton had been carrying under qualified audit [1].

Fraud and financial statements cases involving external auditors had also happened in Indonesia. Until year 2016, fraud and financial statements manipulation in Indonesia were still quite high, proven by the result of Association of Certified Fraud Examiner (ACFE) research delivered in Report to the Nations in year 2016, revealing that during year 2016 there were 42 fraudulent cases in Indonesia, placing Indonesia as number two in the list of countries with the most fraudulent

cases in Asia Pacific, right after China, which had 64 fraudulent cases [2].

Independent auditors' role in financial statements was to give assurance to interested parties that the financial statements presented by the company management has been in accordance with the applicable accounting standards and reflected the real situation of the business entity. Independent auditors were also have roles in ensuring company's financial statements was fair and does not contain material misstatement, whether caused by error or fraud so that the financial statements can be used as a basis for decision making for interested parties. Fraud and financial statements manipulation had taken places in many countries, including Indonesia and even involving several reputable accountant public firms in the world, whereas the public accountant profession existence were heavily dependent on the public trust as the users of public accountant profession services. This decrease in public trust was reasonable, since there were many companies' financial statements containing misstatement received an unqualified opinion. The public trust need to be restored and it depended entirely to the professional practice performed by auditors [3].

Carpenter et al. research, quoted by Hafifah and Fitriany revealed that if auditors had been more skeptic, they would be able to assess the existence of fraud in the audit planning phase, that in the end will directing the auditor to improve their fraud detection in the next audit stages [4,5]. But the result was not in accordance with Lily and Rustiana research, showing that there was not any influence of professional skepticism toward fraud detection, this research also showed that professional skepticism had influence on the success of auditor in detecting fraud, especially for fraud in recording of assets [6].

Rio and Mahfud state that the experience that an auditor had will help the auditors in improving their knowledge concerning the cause and effect of error in certain transaction, so that they can improve their performance in detecting error and fraud done by company management [7]. But different result was shown by the research done by Ulfa Novita that said that audit experience didn't have influence on the success of external auditors in detecting fraud [8].

The ability to assess fraud risk had also influence the success of auditors in detecting fraud. Before compiling audit procedures, first auditor must make risk assessment to know

certain points where fraud was most likely to occur. Fraud should have been able to be detected if auditor had done the appropriate audit procedures, and if fraud still occurred, attention must be paid to his/her risk assessment [9].

Based on the background discussed previously, we want to examine the influence of audit experience, the ability to assess fraud risk, and professional skepticism on the success of external auditors in detecting fraud.

## II. FRAMEWORK AND HYPOTHESIS

The more often someone does the same work; he/she becomes more skilled and fast in completing the job. The more various jobs someone does, his/her working experience were becoming rich and extensive, enabling improvement in his/her performance [10]. Experience auditors had more extensive knowledge, were able to identify problem correctly, and were able to found out the cause and consequences of an error in certain transaction in every audit assignment.

The ability to assess risk was an important thing to be done to detect fraud, even according to Sarbanes-Oxley, an external auditor must carry out a thorough analysis of the risks associated with the audit [9]. The aim of the ability to assess risk was to determine which part of the company was the most vulnerable part to contained material misstatement due to fraud [10].

Beasley, et al. research based on AAERs (Accounting and Auditing Releases), which was published in Securities and Exchange Commission (SEC) fraud investigation report, said that one of the areas of audit deficiency that causes auditors' failure to detect fraud was the low level of professional skepticism held by auditors [11]. According to the research, out of 81 fraud cases, 60% among them, around 49 cases, happened because auditors did not apply the appropriate level of professional skepticism and this was the third most common audit deficiencies.

In this research, researcher described a framework to analyze if there was influence of the audit experience, the ability to assess fraud risk, and auditors' professional skepticism simultaneously affected the success of the external auditor in detecting fraud.

### A. Theory of Planned Behavior

Theory of planned behavior was put forward by Ajzen [12]. This theory stated that the central factor of individual behavior was that behavior was influenced by the individual intention towards that behavior. The intention to behave was influenced by the attitude variable, subjective norm, and perceived behavioral control.

In theory of planned behavior, there were certain factors that influence someone to do certain actions, among them were attitude, subjective norm, and perceived behavioral control. In relation to this research, auditors who had the skepticism attitude would give response to information received through audit assignment carefully so that they could detect every fraud action. Auditors' action was also influence by the subjective norm. In this research, the subjective norm was the auditor assurance to follow directions in assessing company's fraud

risk, which was given to him by the head of the audit team to participate in fraud risk detection. Auditors' actions were also influenced by their perceived behavior control, which were influenced by past experience. Auditors with extensive audit experience would have more faith in every action and decision they took in doing their job which at the end would have a better competence in detecting fraud.

### B. Prosocial Organizational Behavior Theory

Prosocial organizational behavior as behavior/action done by a member of an organization toward individual, group, or organization aimed at improving that individual, group, or organization's welfare. In relation with this research, auditor did actions that in accordance with appropriate audit procedures to detect fraud in financial statements so that it will provide benefit for the users of the audited financial statements in making economy decisions. Auditor was also act so that every fraud action was not escaped of his observation during the audit assignment to maintain his own good name as an auditor and also public accountant profession, in which the existence of the profession depends heavily on public trust.

Fraud risk assessment was a process of estimating how much risk the auditor fails to detect the occurrences of fraud in management assertion [13]. The ability to assess risk was one of the things that needed to be done to detect fraud, even according to Sarbanes-Oxley, an external auditor must carry out a thorough analysis of the risk connecting to audit [9]. The purpose of the ability to assess fraud risk was to determine which parts of the company were most vulnerable to material misstatement due to fraud [10].

Based on theory, phenomenon, and previous result research, the hypothesis can be formulated as followed:

- H1: Audit experience, the ability to assess fraud, and professional skepticism influence the success of external auditors in detecting fraud.
- H2: The more audit experience, the high probability the success of external auditor in detecting fraud.
- H3: The higher the ability to assess fraud risk the higher the probability of the success of the external auditor in detecting fraud.
- H4: The higher the auditor's professional skepticism, the higher the level of success of the external auditor in detecting fraud.

## III. RESEARCH METHOD

The method used in this research was the analytical descriptive method using the survey approach, and we used path analysis to evaluate causal models. The research object were the audit experience, the ability to assess fraud risk, and the professional skepticism attitude on the success of external auditor in detecting fraud. The type of data used in this research was the primary data in type of questionnaire. The type of questionnaire used was closed questionnaire, which was a list of questions connected with the influence audit experience, the ability to assess fraud risks, and the professional skepticism attitude on the success of external

auditor in detecting fraud and with the possible answer available so respondent need only to choose one of the possible answers.

Variable audit experience, which means the experience of an auditor in audit fields, we used the length of time they had worked as auditor and the amount of assignment that has been handled as the indicators. For variable ability to assess fraud risk, we used audit team communication, question and answer with management or others, fraud risk factor, analytical procedure as the indicators. Variable professional skepticism used auditor's questioning mind, suspension of judgement, search of knowledge, interpersonal understanding, self-confidence, self-determination as the indicators. For the dependent variable, Auditor's Success in Detecting Fraud, we used the auditor's ability to detect the symptoms of fraud connected with the company's environment, and to detect fraud symptoms connected to financial records and accounting practice.

Population in this research was all auditors that worked in public accounting firms whereas the population target was all auditors that worked in public accounting firms in Jakarta. This research used the population target because of total public accounting firms in Indonesia that already has license from Ministry of Finance per 30 September 2017 were 400 public accounting firms, 227 public accounting firms or 56,75% were located in Jakarta. Besides that, public accountants in Indonesia who already had license from Menteri Keuangan per 30 September 2017 were 1.298 public accountants, and among them around 856 public accountants or 65,95% were in Jakarta [14].

From that data it was known that Jakarta was the area which has the most amounts of public accountant firms and public accountants, so it can be said that the sample target chosen in this research can reflect the population target. Based on that information out of 856 public accountants had their license from the minister of finance, there were three public accountants that had their license suspended so that the latest population that can be used for this research were 853 public accountants.

The sampling technique used in this research was purposive sampling, and the sample size in this research are 92 auditors in Jakarta with sufficient experience and were able to assess fraud risk and apply professional skepticism in order to succeed in detecting fraud.

#### IV. RESULT

Based on the result of the path equation  $Y = 0,208X_1 + 0,355X_2 + 0,256X_3 + \epsilon_1$ , we find that F-counted was bigger than F-table ( $12,2335 > 2,71$ ) so that  $H_0$  was rejected. So we can conclude that Audit Experience ( $X_1$ ), Ability Assessing Fraud Risk ( $X_2$ ), and Auditor Professional Skepticism ( $X_3$ ) simultaneously had significant influence on the Success of External Auditor in Detecting Fraud ( $Y$ ).

The partial testing showed results as followed:

- The audit experience ( $X_1$ ) variable had t-counted that was bigger than the t-table ( $2,286 > 1,987$ ) so that  $H_0$

was rejected. This meant that the Audit Experience variable had significant partial influence on the Success of External Auditor in Detecting Fraud variable.

- The ability to assess fraud risk ( $X_2$ ) variable had t-counted that was bigger than t-table ( $3,906 > 1,987$ ) so that  $H_0$  was rejected. This meant that the ability to assess Fraud Risk variable had positive partial influence on the Success of External Auditor in Detecting Fraud.
- The auditor professional skepticism ( $X_3$ ) variable had t-counted that was bigger than t-table ( $2,813 > 1,987$ ) so that  $H_0$  was rejected. This meant that the Auditor Professional Skepticism variable had positive partial influence on the Success of External Auditor in Detecting Fraud.

#### V. DISCUSSION

Based on the data analysis described before, Audit Experience, the Ability to Assess Fraud Risk, and the External Auditor Professional Skepticism had simultaneous significant influence on the Success of External Auditor in Detecting Fraud. This was shown by the F-counted that was bigger than F-table ( $12,355 > 2,71$ ). Because of that, auditor was expected to use their experience, improving their consideration concerning the assessment of fraud risk, and holding the professional skepticism in improving their success in detecting fraud in every audit assignment.

This research was in accordance with the previous research done by Hafifah and Fitriany that state that auditor that was not skeptical enough would not detect the possibility of fraud [5]. Next, Eko Anggriawan also stated that in detecting fraud, the auditor experience was important because with adequate experience auditor were used to facing something in an audit process and understand more about the symptom of fraud [15].

The size of influence contribution can be seen from the determinant coefficient (R-square) which was 29,60%, which meant that by using audit experience audit, the ability to assess fraud risk, and professional skepticism, the variation of the success of the auditor in detecting fraud in this research was 29,60%. While the rest ( $100\% - 29,60\% = 70,40\%$ ) explained by other factor, such as ethics [16], personality type [13], audit work environment [17], work load [5], time pressure [15].

Out of the three independent variables in this research, based on the research result showing that the ability to assess fraud risk variable ( $X_2$ ) had the biggest influence on the success of external auditor in detecting fraud compared to the other two independent variables, with coefficient value of 35,5%, next the professional skepticism variable ( $X_3$ ) with coefficient value of 25,6%, and the audit experience variable had the least influence with coefficient value of 20,8%.

##### A. *The Influence of Audit Experience on the Success of External Auditor in Detecting Fraud*

Based on the partial data analysis described before, it was obtained that t-counted was bigger than t-table ( $2,286 > 1,987$ ). This showed that audit experience variable had a significant positive on the success of external auditor in detecting fraud. In

other word, the more experience that the auditor had, it would improve the success of the external auditor in detecting fraud during assignment.

This result was consistent with Eko Anggriawan research that said that in detecting fraud, the auditor experience was very important because with sufficient experience auditor would got used of facing everything in an audit process and would understand more of the symptom of fraud [15]. So as with other research done by Hafifah and Fitriany [5] and Noviyani and Bandi [18] that said that audit experience had positive influence on the success of external auditor in detecting fraud.

The contribution of audit experience variable on the success of external auditor in detecting fraud was the least compared to other independent variables, which showed that audit experience was not the main factors that influence the success of external auditor in detecting fraud. This was possible because of the accountant profession that facing various new challenges such as many new standards that must be applied in accordance with the audit standard convergent International Standards on Auditing (ISA). Because of that, auditors, whether in junior, senior, or partner title with different experience was demanded to adjust with the professional challenge that they were going to face.

Auditors were expected to improve and use their experience well in order to not miss the fraud action happening during their audit assignment. The more experience the auditor had, the more they could produce many kind of presumption in explaining audit findings [10]

#### *B. The Influence of the Ability to Assess Risk on the Success of External Auditors in Detecting Fraud*

Based on the partial data analysis described before, the t-counted was bigger than t-table ( $3,906 > 1,987$ ). This showed that the auditor ability to assess fraud risk had significant positive influence on the success of external auditor in detecting fraud. In other word, the better the ability of auditors in considering fraud risk then it would improve the success of external auditor in detecting fraud during audit assignment. This result supported the result of the research by Anita Anggriany that said that the ability to assess fraud risk could influence the success of auditor in detecting fraud in a positive way [10].

This research showed that out of five indicators used in the ability to assess fraud risk variable, the fraud risk indicator had the lowest score compared to other indicators which was 77,26%. Because of that the auditor assigned in performing audit were expected to always consider the fraud risk assessment specially in assessing well the fraud risk factors which were opportunity, pressure and rationalization so that it can increase their success in detecting the occurrence of fraud.

#### *C. The Influence of Professional Skepticism on the Success of External Auditor in Detecting Fraud*

Based on the partial analytical result described before, the value of t-counted was bigger than the value of t-table ( $2,813 > 1,987$ ). This showed that auditor professional skepticism

variable had positive significant influence on the success of external auditors in detecting fraud. In other words, the better the professional skepticism that the auditors had, the bigger the success of external auditors in detecting fraud during an audit assignment. This result was in accordance with Eko Anggriawan research [15] and Fullerton and Durtschi [19] that said that auditors with high skepticism will improve their success in detecting fraud.

The result of this research showed that out of six indicators used in professional skepticism variable, only one indicator reached score 80% which was self-confidence indicator, while the other five indicators had only score around 70%. Because of that, the auditor assigned in doing the audit was expected to improve their professional skepticism in order to improve their success in detecting fraud.

## VI. CONCLUSION AND SUGGESTION

Based on the result of the data analysis and the discussion done previously, we concluded that audit experience, ability to assess fraud risk, and auditor professional skepticism simultaneously had influence on the success of external auditor in detecting fraud, audit experience had positive influence on the success of external auditor in detecting fraud, the ability to assess fraud risk had positive influence on the success of external auditor in detecting fraud, and auditor professional skepticism had positive influence on the success of external auditor in detecting fraud.

This research had some limitations, such as sample used in this research was limited to auditors who worked in public accounting firms only in Jakarta, and the spreading of questionnaire was done in December and January, where many of the auditors were doing their audit assignment and were not in the firms. Based on the policy of each accounting public firms, not many respondents can fill in the research questionnaire.

Based on the previous discussion and after concluding the result of the research, we intended to propose these suggestions, hoping that they will be useful input for the interested parties. For external auditors, especially in Jakarta were expected to improve and always used their experience well in every audit assignment, so that every fraud actions were not passed their observation. It was expected that the audit implementation process paid more attention to the assessment of fraud risk, by considering fraud risk factor such as the dispute between auditors and the entity audited regarding accounting problem; limited access to certain items, in order for the auditor's success in detecting fraud during fieldwork can improve. Auditors were suggested to improve their professional skepticism, and should have questioning attitude concerning the audit prove obtained, this attitude was needed so that when doing the examination, the success in detecting fraud will increase. The next research should develop research method such as direct interview with the respondents to collect qualified data. This research used questionnaire which made it difficult to confirm the truth in the information given.

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