

## The Role Of Professional Skepticism In The Effect Between Fraud Risk Assessment, Audit Experience, And Professional Ethics On Fraudulent Financial Reporting Detection: A Conceptual Framework

Heni Suryanti, Gagaring Pagalung, Haliah, Hamid Habbe

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### Abstract

*Objectives: this research study has an aim such a concept between professional skepticism, fraud risk assessment, audit experience, professional ethics, through financial statement fraud detection.*

*Methodology/Techniques: A few of a data collection techniques are includes interviews, focus group discussions, observation, and also documentation in the case areas of research by Linear Structural Relationship (LISREL) with 5 Likert scale, and absolutely Structural Equation Model (SEM).*

*Types of research: A Conceptual Framework*

### Introduction

Indonesia is a developing country whose economy is highly dependent on the state of the world economy. The occurrence of a global economy can affect the economy in Indonesia. Indonesia's economy is vulnerable due to dependence on the global economy can put the Indonesian economy in a favorable or unfavorable situation. At a time when the global economic situation is experiencing turmoil, it can cause turmoil in the Indonesian economy and at that time it is needed in all good and right government and private institutions, as well as the professional role of public accountants who play an important role with financial reports (Sugema, 2013).

The state of the world economy and vulnerabilities led to the economic crisis that occurred in the countries of "United States", "Europe" and "Asia" including "Indonesia", causing public confidence in the work of public accountants. The public considers that the public accounting profession can be trusted in presenting company report opinions. Probably, an external auditor's opinion by the company's financial statements cannot be used with stakeholders to take a company's policy strategy (Soedarjono, 2012). Additionally, some misstatements in the financial statements can occur due to fraud. Many factors are differentiate between an error and an error are whether the wrongful act that is reported in the financial statements is an action taken or not taken. (IAPI 2014, SA 240 paragraph 2).

The 1997/1998 economic crisis occurred, there were several versions of the published financial statements. Financial statements for tax reports are different from financial reports for credit loans (Mulyani, 2007). At such times the role of public accountants is questioned. Public accountants are considered not to use professional skepticism and lead to the auditor's inability to detect fraudulent financial reporting.

According to the research by Habbe et al., (2014) and Pagalung et al., (2017) discussed that professional skepticism can also mediate the relationship between independent and dependent variable. Additionally, many results from Habbe et al., (2014) said that there is an indirect impact between ethics, independence, and experience through an audit quality with professional skepticism as a mediation.

The results of the research by Pagalung et al., (2017) assumed that there was an indirect impact between audit experience, trust and technology through an ability to detect fraudulent financial reporting with professional skepticism.

### TEORITICAL FRAMEWORK

#### Cognitive Dissonance Theory

According to researcher by Festinger, (1957) talked about cognitive dissonance that can occurred with cognitive elements that are relevant or related to each other. Another research by Novianti (2008) has been explained that some auditor's professional skepticism had a few attitude, because if there is any cognitive dissonance when detecting fraud occurs, exactly.

### **Theory Planned Behavior (TPB)**

Theory Planned Behavior (TPB) has been explained about many more individual's intention to behave determined by three factors such as a few attitudes through a behavior, subjective norms, and behavioral control perceptions.

### **Fraud Risk Assessment**

Fraud Risk Assessment is the identification of fraud risk in a corporate organization through a methodology (Vona, 2008). Fraud risk assessment is the most important part in fraud detection which aims to find material misstatements that often occur in fraud (Ramos, 2003).

### **Audit Experience**

Based on several definitions of audit experience above, it can be concluded that what is meant by audit experience is the length of time the auditor has worked, and the number of assignments carried out. Experience and knowledge are determinants in determining expertise (Ashton, 1991). Auditors who have a lot of experience will be able to produce various variations of assumptions (hypotheses) to be able to explain various audit findings (Libby & Frederick, 1990; Jeffrey, 1996; Tubbs, 1992; Davis, 1996).

### **Professional Ethics**

According to research by Airaksinen (2003) stated that there are reveals 3 types of definitions for professional ethics such as:

- 1) Professional Ethics is a values code and norms with govern practical decisions made by professionals
- 2) Professional Ethics is an ideal set about moral principles or values and also aims to explain things as best as possible where the given profession can work maximum.
- 3) Professional Ethics is like a critical philosophical discipline and probably such part of applied ethics.

### **Professional Skepticism**

Skepticism comes from the word skeptic, in the Big Indonesian Dictionary (Center for Languages, 2008) and the Oxford Dictionary (Hornby, 1980) which means an attitude of doubting, suspecting and not believing the truth of a thing, theory or statement.

According to Center for Audit Quality (2010) and Kopp et al., (2003) assumed that a professional care is the most impact factor between audit quality and failure tends to be a lack of professional skepticism and a bit professional care. Therefore, professional skepticism and professional care are fundamental principles in all actions taken by external auditors.

### **Fraudulent Financial Reporting**

Where as, some concept about detecting fraudulent financial reporting in this study has been used with a variable measurement instrument and developed by Hegazy et al., (2010), Albert (2006) and based on the development and association of Certified Fraud Examiner (2014), are consists for 5 (five) dimensions such as dimension revenue recognition, time difference dimension, concealed liabilities and expenses dimension, imprecise disclosure dimension, and inappropriate asset valuation dimension.

From many results about a number of empirical studies above, it also further strengthens with the suspicion in the impact between several variables such as professional skepticism as mediation, fraud risk assessment, audit experience, professional ethics, and fraud detection in financial statements (fraudulent financial reporting).

## METHODOLOGY

This research aims to examine professional skepticism as a mediator for an impact between fraud risk assessment, audit experience, and professional ethics, through the detection of fraudulent financial reporting. An independent variable of fraud risk assessment (X1) with indicators, such as (1) understanding of the client's business, (2) consideration of communication between an audit team for three fraud conditions, (3) consideration of the response of management or other parties to the three fraud conditions, (4) consideration about risk of fraud against with three fraud conditions, (5) consideration for the results of analytical procedures by three fraud conditions, (6) consideration of other information on the three fraud conditions.

An independent variable is audit experience (X2) with indicators including time period and number of assignments.

Whereas, an independent variable of professional ethics (X3) with indicators such as (1) responsibility, (2) public interest, (3) integrity, (4) objectivity, (5) compensation, (6) confidentiality, (7) professional behavior.

For another variable such dependent can mediating professional skepticism (Y1) with many more indicators such as (1) questioning (question mind), (2) suspension of judgment, (3) search for knowledge.

The dependent variable (Y2) also detects from fraudulent financial reporting with indicators, such as (1) proper revenue recognition, (2) times difference, (3) not disclosing debt and expenses properly, (4) inappropriate disclosure and (5) improper asset valuation.

Information :

X1 = Fraud Risk assessment

X2 = Auditor Experience

X3 = Professional Ethics

Y1 = Professional Skepticism

Y2 = Fraudulent Financial Reporting Detection

## Hypothesis

### **The Impact Between Fraud Risk Assessment Through Professional Skepticism**

According to Novianti, (2008), Messier et al., (2008), and Arens et al., (2012) have been discussed that a fraud risk assessment is a professional requirement for auditors who are assigned with a task of examining audits by a high level of fraud risk. Fraud risk assessment is an assessment of fraud in management's assertion shown that the magnitude for many more auditor's failure to detect fraud.

H1: Fraud risk assessment has a positive impact to professional skepticism

### **The Impact Between Audit Experience Through Professional Skepticism**

Based on research by Siegel & Marconi (1989) said that audit experience is the auditor's experience in auditing financial statements, both in terms of the length of time and the number in assignments handled. A person's attitude is shaped by personal experience factors. Audit knowledge can increase with the increasing number of auditors who have long experience and assignments and are increasingly able to produce various kinds of allegations in explaining audit findings.

H2: Audit experience has a positive impact to professional skepticism

### **The Impact Between Professional Ethics Through Professional Skepticism**

Public accountants are greatly helped by an existence of professional ethics in determining what to do when a problem occurs (Ravikumar, 2014). This research study might be covered with measures for professional ethics based on integrity, objectivity, competence as well as an attitude of professional care and prudence, confidentiality, and professional behavior. Based on demographic factors, a professional ethics research has been analyzed, exactly.

H3 : Professional ethics has a positive impact to skepticism professional

### **The Impact to Fraud Risk Assessment on the Auditor's Ability to Fraudulent Financial Reporting Detection, and Professional Skepticism**

Another reporting from SA 315, SPAP (2013) about analytical procedures with carried out by auditors who have experienced by a fraud risk assessments can be more effective and can contribute to the auditor profession. Eventually, an effort to improve the capability and implementation of fraud detection in financial reporting.

H4: Fraud risk assessment has a positive effect on the ability to detect fraudulent financial reporting through professional skepticism

### **The Impact Between Audit Experience and Auditor's Ability to Fraudulent Financial Reporting Detection through professional skepticism**

This experience a quite increase and gained by the auditors and an increase in training programs. It was provide with some material on errors that may arise during an audit will make the auditors become more aware of the types of errors that may occur in the field and other matters related to these errors, such the department where any error occurred and an attention it pays to a violation of control objectives if something goes wrong (Noviyani & Bandi: 2002).

H5: Audit experience has a positive effect on the detection of fraudulent financial reporting through professional skepticism

### **The Impact Between Professional Ethics and the Auditor's Ability to Fraudulent Financial Reporting Detection through Professional Skepticism**

Al Momani & Obeidat (2013) revealed that as a result of the failure of several large companies, public trust in public accountants decreased, because public accountants were responsible for these errors and fraud. In addition, users of the public accounting profession believe that fraud has led to the collapse of several large companies involving public accountants because they ignore professional ethics, even though they have a high level of competence.

H6: Professional ethics have a positive effect on detection fraudulent financial reporting through professional skepticism

### **The Impact Between Professional Skepticism and the Auditor's Ability to Fraudulent Financial Reporting Detection**

Fraud detection encourages auditors to look for appropriate and relevant evidence. Fullerton & Durtschi (2004) stated that if there is fraud in carrying out audit procedures, the auditor with high skepticism will increase the detection of fraud by seeking as much additional information as possible.

The concept of detecting fraudulent financial reporting uses a variable measurement instrument developed by Hegazy et al., (2010), Albrecht (2006), Schillit (2002). Mulford & Comiskey (2002) and based on the development of the Association of Certified Fraud Examiner (2014) which consists of 5 (five) dimensions as follows: dimension (1) revenue recognition, dimension (2) time difference (timing defereneces), dimension (3) not disclosing debts and expenses properly (concealed liabilities and expenses), dimension (4) imprecise disclosure, dimension (5) improper asset valuation

H7: Professional skepticism has a positive effect on the detection of fraudulent financial reporting

### **Research Location and Time**

This research has been conducted in Jakarta according to 5 (five) variables with subjects for all public accountants. In case that some members in the Capital Market Accountants Forum (FAPM) might be registered in the Indonesian capital market. In quite contrast, a population is KAP and AP in Indonesia also registered in the IAPI Directory in 2021 totaling 4,639 people. Naturally, any selected sample is a public accountant registered with the OJK, who as a member for the Financial Services Sector Accountants Forum (FASJK) in the capital market sector or the Capital Market Accountant Forum. (FAPM) in Indonesia amounted by 686 people.

### **Population, Sample Selection Techniques and Units of Analysis**

The sampling technique based on Hair et al., (2010:661) suggested that a sample size of 100 to 400 in the maximum likelihood estimation (MLE) estimation technique used in this study. Furthermore, Imam Ghozali (2014:36) also has been emphasized that give any recommended by a sample size for using the MLE estimation is 100-200 with a simple random sampling technique.

Based on research by Sakaran & Bougie, 2013:399, absolutely assumed that a unit of analysis is a few level in aggregation by data collection during data analysis. The unit of analysis is a Public Accountant who is a member of the Capital Market Accountants Forum (FAPM) registered in the Indonesian capital market in 2021. Additionally, it could be detect a few fraudulent financial reporting that occurs in Public Accountants as a supporting profession for the capital market in Indonesia.

### **Method of Collecting Data**

The method of data collection was through a questionnaire media. The process of distributing questionnaires sending by google form to respondents including observations, interviews, and distributing questionnaires.

### **Data Analysis Method**

Data analysis in this study was carried out with two types of analysis to obtain results in accordance with the research objectives, such as:

- a. Description analysis to explain the characteristics of the variables studied to support problem solving to get suggestions operationally
- b. Analysis through structural equation modeling (Structural Equation Model-SEM based on linear Structural Relationship (LISREL) in order to be able to answer the problem formulation and answer the hypothesis.

### **CONCLUSION**

Some researchers use red flags sourced from the SAS 99 audit standard (AICPA, 2002) to detect fraudulent financial reporting (Smit et al., 2005; Moyes et al., 2009, Hegacy et al., 2010). SPAP SA 240 (IAPI, 2013) has 41 red flags to detect fraudulent financial reporting which are classified on: (1) incentives/pressure 14 red flags; (2) chance with 15 red flags; and (3) rationalization/attitude with 12 red flags. SAS 99 (AICPA, 2002) and SPAP, SA 240 (IAPI, 2013) provides a list of red flags related to fraud risk factors such as incentives/pressures, opportunities and rationalizations but these red flags are too general and do not specifically relate to fraudulent financial reporting (Hegazy et al., 2010)

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#### **Author Information**

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##### **Heni Suryanti**

Universitas Nasional, Jakarta, Indonesia.

##### **Gagaring Pagalung**

Faculty of Economics and Business, Hasanuddin University, Makassar, Indonesia.

##### **Haliah**

Faculty of Economics and Business, Hasanuddin University, Makassar, Indonesia.

##### **Hamid Habbe**

Faculty of Economics and Business, Hasanuddin University, Makassar, Indonesia.

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