



## Factors Affecting Auditor's Ability in Detecting Fraud through Professional Scepticism

Mohamad Rizal Aminudin, Dhini Suryandari ✉

Jurusan Akuntansi, Fakultas Ekonomi, Universitas Negeri Semarang, Indonesia

### Article History

Received September 2016  
Approved October 2016  
Published November 2016

#### Keywords:

Fraud Risk Assessment;  
Auditor Experience;  
Personality Type;  
Professional Skepticism;  
Auditor's Ability To Detect  
Fraud

### Abstrak

Tujuan penelitian ini adalah untuk menganalisis pengaruh fraud risk assessment, pengalaman auditor, dan tipe kepribadian terhadap kemampuan auditor dalam mendeteksi kecurangan dengan skeptisme profesional sebagai variabel intervening. Populasi dan sampel penelitian ini adalah auditor yang bekerja di Kantor Akuntan Publik Kota Semarang. Teknik pengambilan sampel menggunakan teknik convenience sampling. Sampel dalam penelitian ini yaitu 53 auditor. Pengumpulan data menggunakan kuesioner. Metode analisis data penelitian ini yaitu analisis regresi berganda dan uji sobel. Hasil penelitian ini menunjukkan bahwa fraud risk assessment berpengaruh positif dan signifikan terhadap kemampuan auditor dalam mendeteksi kecurangan. Pengalaman audit dan tipe kepribadian secara parsial tidak berpengaruh signifikan terhadap kemampuan auditor dalam mendeteksi kecurangan. Skeptisme profesional dapat memediasi pengaruh hubungan antara fraud risk assessment dan pengalaman auditor terhadap kemampuan auditor dalam mendeteksi kecurangan, sedangkan skeptisme profesional tidak dapat memediasi pengaruh hubungan antara tipe kepribadian terhadap kemampuan auditor dalam mendeteksi kecurangan.

### Abstract

This research aims to analyze the effect of fraud risk assessment, auditor's experience, and personality type to auditor's ability in detecting fraud through professional scepticism as an intervening variable. The population and sample of this study was all of auditors who worked on public accounting firms in Semarang City. The technique for taking the sample used convenience sampling. There were 53 auditors as the samples in this research. Data was collected by applying questionnaire method. Data analysis method of this study used multiple regression analysis and sobel test. The result showed that fraud risk assessment had a significant positive effect on auditor's ability in detecting fraud. Audit experience and personality type partially did not have significant effect on auditor's ability in detecting fraud. Professional scepticism could mediate the relation of influence between fraud risk assessment and auditor's experience on auditor's ability to detect fraud. whereas, professional scepticism could not mediate the relation of influence between personality type towards auditor's ability to detect fraud.

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✉ Correspondence Author:  
Gedung L2 Lantai 2 FE Unnes  
Kampus Sekaran, Gunungpati, Semarang, 50229  
E-mail: [dhini.surya@mail.unnes.ac.id](mailto:dhini.surya@mail.unnes.ac.id)

## INTRODUCTION

Financial statements are reports presented to decision makers regarding the financial position and results of company business during a specified period. Accountability for the preparation and presentation of the company's financial statements is performed by company management. However, the financial statements presented by company management do not close the possibility of misstatement. To ensure that financial statements are free from material misstatement either caused by errors or fraud, it requires service of a third party that is auditor to evaluate financial statements by auditing the financial statements (Adnyani et al, 2014). The factor that distinguishes between error and fraud is the act underlying, whether financial statement errors occur due to deliberate action or unintentional action. Deliberate actions are more difficult to be detected and controlled than unintentional actions.

The case of corruption in Regional Company of Animal Cutting House (RPH) and Animal Cut Cultivation (BHP) Penggaron Semarang City shows the failure of auditors in detecting fraud. This case occurred in 2008-2012 where one of the RPH and BHP employees committed misappropriation of cash funds and made fictitious reports. Darsono, who is a public accountant in 2008-2010, said that he did not find any irregularities in the financial statements he reviewed. Darsono conducted checks without checking the accounts and financial statements preparation only based on the statements from the Board of Directors of RPH Penggaron (suaramerdeka.com). The case above proves that the role of public accountants in conducting audits making public trust to the public accountants decreased. Therefore, auditors are required to maintain their competence and professional caution well including in detecting fraud. According to Anggriawan (2014) the ability to detect fraud is a skill or expertise possessed by the auditor to find symptoms of possible fraud.

Previous studies show several factors that affect auditor's ability to detect fraud. According to Jaffar (2008) high fraud risk assessment has a positive and significant effect on the auditor's ability to detect fraud. Badriyah (2015) states that auditors' experience, personality types, and professional scepticism have a positive and significant effect on the auditor's ability to detect fraud. Attribution theory explains that the cause of one's behaviour can be determined from both internal and external factors. This theory explains auditors' ability in detecting fraud can be influenced or caused by internal factor namely fraud risk assessment as well as external factor that is auditors' experience.

Cognitive dissonance theory says that if dissonance occurs, one will try to reduce the dissonance to achieve consonance, which is done by changing the attitudes and behaviour. Auditor will experience cognitive dissonance if he has a high degree of trust to the client while the professional attitude of the auditor requires a professional scepticism attitude in the assessment of audit evidences. In this study, professional scepticism variable is used as intervening variable. This is due to the research using the concept of professional scepticism as an intervening variable on the auditor's ability to detect fraud is still relatively small and previous studies have suggested that professional scepticism greatly affects the auditor's ability to detect fraud seen from the factors that influence it

The existence of fraud risk assessment can assist the auditor in detecting fraud within the organization which usually associated with the company's financial statements. According to Carpenter (2013) when auditors feel sensitive to the risk of fraud they will better identify the frauds resulting in a high fraud risk assessment. This is supported by Jaffar et al., (2008) in his research which reveals that auditors who are given a high fraud risk assessment has a positive effect on the auditor's ability to detect fraud.

H1: Fraud risk assessment positively affects on auditor's ability to detect fraud

An experienced auditor should already have adequate expertise in carrying out his audit duties including in detecting fraud. Experienced auditors are assumed to be able to recognize red

flags that arise so as to be able to detect the fraud that occur. This is due to experience will form auditors' expertise both technically and psychologically. Anggriawan (2014) states in his research that auditors who have high flying hours and can find the existence of fraud then it is possible auditors are more accurate in detecting fraud. This is also supported by research of Nasution and Fitriany (2012) and Badriyah (2015) which show that auditor's experience has a positive effect on the auditor's ability to detect fraud.

H2: Auditor's experience positively affects on auditor's ability to detect fraud

Auditor's personality type becomes one of the factors that determine the attitudes owned by the auditor, including his ability to detect fraud. According to Noviyanti (2008) in accordance with Myers Briggs Type Indicator (MBTI) the auditor with personality type of ST (Sensing thinking) and NT (intuition thinking) tend to be logic and make decisions based on the facts when faced with fraud symptoms. This is supported by Badriyah (2015) in her research that an auditor with ST and NT personality type has an effect on his ability to detect fraud.

H3: Personality type positively affects on auditor's ability to detect fraud

Professional scepticism is an attitude that includes minds that are always questioning and critically evaluating audit evidence (SPAP: 2013, SA Section 230). Auditors should think critically in the collection and understanding of audit evidences. Without applying professional scepticism, the auditor will only find misstatements caused by mistakes and it is difficult to find misstatements caused by fraud, because these actions will usually be hidden by the perpetrators (Noviyanti, 2008). Nasution and Fitriany (2012) find a positive relationship between professional scepticism and the auditor's ability to detect fraud. This is also supported by research of Badriyah (2015) and Idawati and Gunawan (2015) which state that professional scepticism positively affects the auditor's ability to detect fraud.

H4: Professional scepticism positively affects on auditor's ability to detect fraud

The existence of a fraud risk assessment can assist the auditor in detecting material misstatements resulting from the fraud from the company's management. In addition, the existence of fraud risk assessment will emphasize to the auditor to be more careful in responding a statement and information provided by the client as well as this fraud risk assessment is also intended to give motivation to the auditors who are on duty in the field so as to generate a high scepticism attitudes on audit evidences he checks. According to Ramsey (2005) and Noviyanti (2008) auditors who are given high fraud risk assessments will be more sceptic than auditors who are rated low risk. A sceptical auditor will not take for granted an explanation from the client offhand but will ask questions to obtain the reason, evidence, and object in question. If the auditor has a high scepticism then the auditor will improve his ability in detecting fraud.

H5: Fraud risk assessment positively affects on auditor's ability to detect fraud through professional scepticism

Experienced auditors should already have adequate expertise because of the complexity of the task and the timing of the audit they are working on. An auditor who has high flying hours will find it easier to detect fraud. In addition, experience owned by the auditors will make them more sceptic in carrying out their audit duties, including in detecting fraud. Nasution and Fitriany (2012) argue that auditor's experience has an effect on professional scepticism. A sceptical auditor will not take for granted an explanation from the client offhand but will ask questions to obtain the reason, evidence, and object in question. If the auditor has a high scepticism then the auditor will improve his ability to detect fraud.

H6: Auditor's experience positively affects on auditor's ability to detect fraud through professional scepticism.

According to Noviyanti (2008), auditors who have ST and NT personality types will tend to have high scepticism attitude because they always think logically and in making a decision always

based on existing facts. Moreover, auditors who have high scepticism will find it easier to detect fraud. This is due to sceptical auditors will be more critical on the validity of the evidence obtained and alert to contradictory audit evidence or raising questions regarding the reliability of a document. Therefore, the attitude of auditors who tend to be logic and sceptic and considering the facts that exist will affect their ability to detect the symptoms of fraud.\

H7: Personality Type positively affects on auditor's ability to detect fraud through professional skepticism

## **METHODS**

Type of this research was quantitative research. The data used in this study was primary data obtained directly through questionnaire. The population in this study were all auditors working on Public Accounting Firms (KAP) located in Semarang, which amounts to 17 KAP, with 259 population number of auditors. Sampling technique in this study was by using convenience sampling method. Data analyses in this study were descriptive analysis, path analysis, and sobel test by using program of IBM SPSS Statistic 21 and application of Sobel Test Calculator for the Significance of Mediation.

Fraud risk assessment is a methodology that aims to identify fraud risks that exist in an organization (Leonard, 2008: 40). This variable was measured by the instrument adopted from Mangiri's research (2015). The indicator model for this variable was a sample case which given likert scale 1 (no fraud indication) up to 5 (There is fraud indication). Auditor's experience is an experience that gained by auditors during carrying out their duties in auditing financial statements. The experience could be seen from the length of work and the number of tasks performed. This variable was measured by the instrument adopted from the research of Sukriah, et al (2009).

According to Allport personality is a dynamic organization and individual psychophysical system that determine the behaviour and thoughts of individuals typically (Sumadi, 2011). Type of personality in this study was measured by using Myers-Briggs Type Indicator developed by Mudrika (2011) and adopted by Nasution and Fitriany (2012). This variable was measured by using a nominal scale in which the auditor with ST (Sensing-Thinking) and NT (Intuition-Thinking) personality type was scored 1 and SF (Sensing-Feeling) and NF (Intuition-Feeling) personality type was scored 0.

Professional scepticism is an attitude that includes minds that are always questioning and critically evaluating audit evidence (SPAP: 2013, SA Section 230). Scepticism variable was measured by the indicator adopted from Suhendra's study (2014) with modification. Auditor's ability to detect fraud is a skill or expertise possessed by the auditor to find symptoms of possible fraud (Anggriawan, 2014). Indicators used in this variable consisted of fraud symptoms related to the corporate environment and financial records and accounting practices. This variable was measured by using instruments adopted from Nasution and Fitriany's study (2012) with modification.

## RESULTS AND DISCUSSIONS

The result of descriptive statistics analysis of the research variables in summary as follows:

**Table 1.** Descriptive of the Research Variables

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
FRA	53	1	5	25,17	3,984
PA	53	1	5	34,45	2,945
SP	53	1	5	41,68	3,502
DK	53	1	5	35,45	7,775

From the result of validity test in this study known r count value of all variable question items was  $> 0.279$ . This indicated that questions items used to measure each variable were declared valid, where 5% significance level was met. From the result of reliability test in this study known reliability value of all variables was  $> 0.7$ . This indicated that the research instrument was reliable.

From the result of normality test known that Kolmogrov Smirnov significance value of all variables was  $> 0,05$ . Thus, it could be concluded that the research data was normally distributed. From the result of Multicollinearity testing, the values of variance inflation factor (VIF) were  $< 10$  and tolerance  $> 0, 10$ . Then, there was no symptom of multicollinearity in the regression model. From the result of heteroscedasticity testing known that independent variables did not have significant affect on dependent variable (Absolute Residual). Thus, it could be concluded that the regression model was free from symptom of heteroscedasticity.

Regression analysis in this study used path analysis. Based on the result of output data that was processed using SPSS obtained regression equation as follows:

$$- Z = 17,501 + 0,408 X1 + 0,343 X2 + 2,410 X3 + e1$$

$$- Y = -23,850 + 0,695 X1 + 0,280 X2 + 0,1598 X3 + 0,738 X4 + e2$$

**Table 2.** Result of t statistics test

Model	Unstandardized		Standardized	T	Sig.	Explanation
	Coefficients		Coefficients			
	B	Std. Error	Beta			
(Constant)	-23.850	11.610		-2.054	.045	
Fraud Risk Assessment	.695	.274	.356	2.535	.015	Ha was Accepted
<sup>1</sup> Auditor's Experience	.280	.341	.106	.821	.416	Ha was Rejected
Personality Type	1.598	2.577	.070	.620	.538	Ha was Rejected
Professional Scepticism	.738	.315	.332	2.346	.023	Ha was Accepted

Source: Primary data processed, 2016

Based on table 2, it could be concluded that only the variables of fraud risk assessment and professional scepticism had positive and significant effect with t-count  $> 1,674$  and significance below 0.05, whereas variables of auditor's experience and personality type did not have significant effect with t-count  $< 1,674$  and significance below 0.05.

**Table 3.** Summary of the Result of Sobel Test with Sobel Test Calculator for the Significance of Mediation application.

Hypothesis	Sobel Test Statistic	Probability	Explanation
FRA->SP->DK	1,98079379	0,02380720	Ha was Accepted
PA->SP->DK	1,65327271	0,04913769	Ha was Accepted
TK->SP->DK	1,58632903	0,05633235	Ha was Rejected

Source: Primary data processed, 2016

Table 3 described the result of Sobel test through Sobel Test Calculator for the Significance of Mediation application and it was known that only personality type variable that could not be mediated by professional scepticism variable in the relationship affected on auditor's ability to detect fraud. This was due to the probability value was  $0.056 > 0.05$ , so there was no effect of mediation.

Hypothesis one (H1) stated that fraud risk assessment had a positive effect on auditor's ability to detect fraud was accepted. This was in line with research conducted by Jaffar et al., (2008) which stated that high fraud risk assessment positively affected on auditor's ability to detect fraud. The auditor who performed a high fraud risk assessment was more capable of detecting fraud related to the company's financial statements than the auditor who performed a low fraud risk assessment or did not conduct a fraud risk assessment. Although the average respondents in this study were junior auditors, they were able to conduct fraud risk assessments when faced with a fraud allegation.

Hypothesis two (H2) stated that audit experience positively affected on auditor's ability to detect fraud was rejected. This was not in line with research conducted by Nasution and Fitriany (2012) and Badriyah (2015) which stated that auditor's experience had a positive and significant effect on auditor's ability to detect fraud. However, this study was in line with research conducted by Supriyanto (2015) which stated that audit experience did not significantly affect on auditor's ability to detect fraud. The reason for rejecting this hypothesis was suspected due to the majority of the respondents in this study was junior auditors with an average age of 21 -25 years, so they did not have a good enough experience in detecting fraud. Another reason was allegedly because the fraud frequency was rare and not all auditors have experienced fraud cases, so auditor's experience related to the fraud was not too much.

Hypothesis three (H3) which stated that personality type positively affected on auditor's ability to detect fraud was rejected. The result of this study was not in line with research conducted by Badriyah (2015) which stated personality type had a positive and significant effect on auditor's ability to detect fraud. However, this study was in line with research conducted by Nasution and Fitriany (2012) and Supriyanto (2015) which stated that personality type did not have significant effect on auditor's ability to detect fraud. This indicated that both auditors were included in ST (Sensing and Thinking) and NT (Intuition and Thinking) and SF (Sensing and Feeling) and NF (Intuition and Feeling) categories, the auditors were able to detect fraud. Although the average respondents in this study had ST and NT personality types, they preferred to focus their professionalism on the job regardless of their personality type.

Hypothesis four (H4) stated that professional scepticism positively affected on auditor's ability to detect fraud was accepted. This was in line with research conducted by Nasution and Fitriany (2012), and Badriyah (2015) which stated that professional scepticism had a positive and significant effect on auditor's ability to detect fraud. An auditor who had a high professional scepticism attitude would make them to always seek more information than the auditors who had a low attitude of professional scepticism. This showed that the more information the auditor had, the auditor was better able to detect fraud.

Hypothesis five (H5) stated that fraud risk assessment had a positive effect on auditor's ability to detect fraud through professional scepticism was accepted. Auditors who set fraud risk

assessments before conducting audits in the field then audit procedures made would tend to be more detailed, thus encouraging auditors to be sceptic. A sceptical auditor would not take for granted an explanation from the client offhand but would ask questions to obtain the reason, evidence, and object in question. If the auditor had a high scepticism then the auditor would improve his to detect fraud. Although the average respondents in this study were junior auditors, they were able to conduct fraud risk assessment and maintain their scepticism.

Hypothesis six (H6) stated that audit experience had a positive effect on auditor's ability to detect fraud through professional scepticism was accepted. Auditor's experience would make them more sceptic in carrying out their audit tasks including in detecting fraud. A sceptical auditor would not take for granted an explanation from the client offhand but would ask questions to obtain the reason, evidence, and object in question. If the auditor had a high scepticism then the auditor would improve his ability in detecting fraud.

Hypothesis seven (H7) stated that personality type positively affected on auditor's ability to detect fraud through professional scepticism was rejected. This was due to both auditors with ST and NT and SF and NF personality types could maintain scepticism in performing their audit duties. Based on the result of questionnaires distributed, 50% of auditors had a combination of ESTJ (Extrovert, Sensing, Thinking, Judging) personality type where this personality type tended to think that SOP were helpful, so the majority of auditors in this study performed their audit tasks in accordance with existing audit procedures without considering the type of personality they had. It showed that the auditors put forward their professional attitude by following the code of ethics and procedures in carrying out their audit duties, so the personality type did not have effect on their scepticism in detecting fraud.

## CONCLUSION

Based on the analysis and discussion, it can be concluded that fraud risk assessment had a positive and significant effect on the auditor's ability to detect fraud. Auditor's experience and personality type partially did not significantly affect on the auditor's ability to detect fraud. Professional scepticism is able to mediate the effect of the relationship between fraud risk assessment and auditor's experience on the auditor's ability to detect fraud, while professional scepticism is not able to mediate the effect of the relationship between personality type on the auditor's ability to detect fraud.

Based on descriptive analysis, there are still auditors who are categorized as less sceptic and less good and not good in conducting fraud risk assessment. Therefore, the recommendation for the auditors is to improve their scepticism and increase the fraud risk assessment when faced with fraud symptoms. This research is conducted simultaneously with auditors' busy time in the field. So the research data obtained is not too much. Recommendations for further research are more attention to research time, as much as possible when auditors are not in busy times.

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