

# Experience Moderating the Effect of Professional Scepticism and Red Flag on Auditor's Ability to Detect Fraud at Public Accountant Firm in Bali Province

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**Abstract:** This study aims to analyze and explain the effect of professional scepticism and red flags on the auditor's ability to detect fraud at a Public Accountant Firm in Bali Province with experience as a moderating variable. This study is a quantitative study using primary data obtained from the answers to questionnaires distributed to respondents and measured using a Likert scale. The population in this study are auditors who work at Public Accountant Firm in Bali Province which is registered in the IAPI directory 2021. The sampling method uses non-probability with the type of convenience sampling. Questionnaires were distributed to 80 auditors from 114 auditors who work at Public Accounting Firm in Bali Province, from the questionnaires distributed 75 (94%) were returned and could be processed. The data analysis technique used is a modelling technique with Partial Least Square (PLS) through the smartPLS v.3.2.9 application. The results of the study indicate that professional scepticism and red flag have a positive and significant effect on the auditor's ability to detect fraud at Public Accountant Firm in Bali Province. Experience does not moderate the effect of professional scepticism and red flag on the auditor's ability to detect fraud at a Public Accountant Firm in Bali Province.

**Keywords:** professional scepticism, red flag, experience, auditor's ability to detect fraud

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## Introduction

Fraud in accounting is an attempt to cover up the actual financial condition by making manipulations in the presentation of financial statements, intentional abuse of accounting principles and changes or falsification of records (Fadhilah, 2018). The auditor's ability to detect fraud is the auditor's ability to interpret the findings when carrying out their audit duties (Gizta, 2020). Phenomena related to the ability of auditors to detect fraud have emerged in recent years. The existence of accounting fraud cases is a symptom of failure in the world of auditing. The suspension of a public accountant's license that had occurred at KAP Gunarsa Bali Province which had violated the SPAP (Public Accountant Professional Standard) in the audit of the financial statements of Bali Hai Resort and Spa which had the potential to significantly affect the independent audit report (Aprilianti and Badera, 2021).

The number of parties who feel the loss from fraud is the basis and reason why this research is considered important. Several factors affect the auditor's ability to detect fraud, one of which is professional scepticism which is a critical attitude with questioning thoughts on audit evidence and the validity of the data obtained (ISA 200). The results of research by Arsendy et al. (2017) show that professional scepticism has a positive effect on the auditor's ability to detect fraud. This is different from the results of research conducted by Budianto (2017) which found that professional scepticism had a negative effect on the auditor's ability to detect fraud. A red flag is also one of the methods that can be used by an auditor in detecting fraud.

Red flags are an indication of something unusual and are signs that fraud has occurred (BPKP-RI, 2016). When there are signs of red flags, auditors are expected to focus more on these signs to be able to uncover evidence to immediately detect fraud that may occur so as not to have a sustainable impact on the company (Purwanti and Astika, 2017). The results of research conducted by Sari and Adnantara (2019), Gizta (2020), and Muzdalifah and Syamsu (2020) state that red flags have a positive and significant influence on the ability of auditors to detect fraud. This is different from the results of research conducted by Prakoso (2020) which states that red flags do not affect the auditor's ability to detect fraud.

Based on these factors found inconsistent research results, it is suspected that other factors can strengthen professional scepticism and red flags on the auditor's ability to detect fraud, namely experience.

Making the experience a moderating variable is to see the relationship between the independent variable and the dependent variable because someone who does work with qualified knowledge will give better results than someone who does not have sufficient knowledge of his duties (Andriyanti and Lastrini, 2019). If an auditor with a high level of experience can strengthen the auditor's ability to detect fraud, on the contrary, an auditor with a low level of experience will weaken the auditor's ability to detect fraud (Naya and Yanti, 2020).

The description of the search above shows that the auditor's ability to detect fraud is influenced by various factors. Based on the background of the problem that has been described, the formulation of the problem in this study are: 1) Does professional scepticism affect the auditor's ability to detect fraud at a Public Accounting Firm in Bali Province?, 2) Does red flag affect the auditor's ability to detect fraud in the province of Bali? Public Accounting Firms in Bali Province?, 3) Does experience moderate the effect of professional scepticism on auditors' ability to detect fraud at Public Accounting Firms in Bali Province?, 4) Does experience moderate the effect of red flags on auditors' ability to detect fraud at Public Accounting Firms in Bali Province?

## Literature Review

### 2.1 Theoretical Basis

#### 2.1.1 Agency Theory

The basic concept of agency theory is the relationship between agents and principals. In a relationship, the relationship does not always run harmoniously and by the company's goals. The existence of a conflict of interest between the agent and the principal in the management of the company causes problems in the agency relationship (Fadhila, 2018).

#### 2.1.2 Cognitive Dissonance Theory

Cognitive dissonance theory explains that humans like consistency, so humans will tend to take attitudes that are not contradictory to each other and avoid taking actions that are not to their attitudes. The relationship between cognitive dissonance theory and this research is to help explain the effect of the interaction between the influencing factors, namely professional skepticism and red flags seen from the work experience factor if there is cognitive dissonance in the auditor when detecting fraud (Gizta, 2020).

### 2.2 Research Hypothesis

#### 2.2.1 The Effect of Professional Skepticism on Auditor's Ability to Detect Fraud

As stated in SAP article 230 [9] professional scepticism is an element contained in the Third General Standard regarding the careful and thorough use of professional skills in the implementation of the auditor's work. In line with research conducted by Arsendy (2017), Larasati and Puspitasari (2019) say that the variable of professional scepticism has a positive effect on the auditor's ability to detect fraud. This is different from the results of research conducted by Budianto (2017) which found that professional scepticism had a negative effect on the auditor's ability to detect fraud. Based on the results of the analysis, the first hypothesis can be formulated as follows:

H<sub>1</sub> : Professional scepticism affects the auditor's ability to detect fraud

#### 2.2.2 The Effect of Red Flag on Auditor's Ability to Detect Fraud

An auditor needs to pay attention to the emergence of red flags or unusual circumstances when assessing the company's financial condition. The stronger an auditor is in recognizing red flags, the higher the auditor's ability to detect fraud. In line with research conducted by Purwanti and Astika (2017), Arsendy (2017) states that the red flag variable has a positive influence on the auditor's ability to detect fraud. In contrast to the results of research conducted by Prakoso (2020) which states that red flags do not affect the auditor's ability to detect fraud. Based on the results of the analysis, the second hypothesis can be formulated as follows:

H<sub>2</sub> : Red flag has a positive effect on the auditor's ability to detect fraud at the Public Accounting Firm in Bali Province.

#### 2.2.3 Experience Moderates the Effect of Professional Skepticism on Auditor's Ability to Detect Fraud

Experienced auditors will be able to improve their skills in detecting fraud, this is because experienced auditors have encountered many errors or cases of fraud in the financial statements they do (Prakosa, 2020).

An auditor who has a high attitude of scepticism and also has experience will be able to improve the auditor's ability to detect fraud, compared to an auditor who has experience but is not accompanied by an attitude of scepticism. Based on the results of the analysis, the third hypothesis can be formulated as follows:

H<sub>3</sub>: Experience can moderate the effect of professional scepticism on the auditor's ability to detect fraud at Public Accounting Firms in Bali Province.

#### 2.2.4 Experience Moderates the Effect of Red Flag's on Auditor's Ability to Detect Fraud

Experienced auditors will be able to improve their expertise in fraud detection. Despite having the same experience in auditing a financial report, not all auditors find cases of fraud when carrying out their duties. In this case, an auditor is required and needs to pay attention to the emergence of red flags which are a sign of fraud from an entity that must be prevented by the auditor when conducting an audit (Muzdalifah and Syamsu, 2020). With more experience during work, an auditor will be more careful and not make the same mistakes as in the past. Based on the results of the analysis, the fourth hypothesis can be formulated as follows:

H<sub>4</sub>: Experience can moderate the effect of red flags on the auditor's ability to detect fraud at Public Accounting Firms in Bali Province.

## Method

### 3.1 Types of research

The type of research used is quantitative associative, which aims to determine the relationship between two or more variables used.

### 3.2 Place and Time of Research

This research was conducted at the KAP of Bali Province which is registered in the IAPI 2021 directory. This research was carried out from January to August 2022.

### 3.3 Population and Research Sample

The population in this study were all auditors who worked at the KAP in the Province of Bali and were registered in the directory in 2021. The sampling method in this study uses a non-probability sample with the type of convenience sampling, namely the sampling is based on the availability of population elements and the ease of obtaining them.

### 3.4 Data Collection Techniques and Instruments

Collecting data in this study using a questionnaire distributed to respondents to answer. The questionnaire in this study used a likert scale in calculating the weight of the questionnaire results. The likert scale measurement in this study was measured by five answer options, namely: strongly disagree was given a value of 1, disagree was given a value of 2, disagree was given a value of 3, was given a value of 4, and strongly agree is given a score of 5.

### 3.5 Instrument Validity and Reliability

An instrument can be said to be valid if it can be used as a tool to measure what it is supposed to measure. Furthermore, the instrument can be said to be reliable if the instrument is used several times and still produces the same data in measuring the same object. Before being sent to the actual respondents, the questionnaire was tested on several respondents. These trials are known as pilot tests. The respondents used were 30 auditors who worked at KAP in Bali Province. The validity test technique in this study uses the Pearson correlation value with the criteria for a Pearson correlation and  $> 0.30$  for a sample of 30 respondents and a significance level of  $< 0.05$  and the reliability test in this study uses Cronbach's alpha with the one-shot criteria. Cronbach's alpha  $> 0.70$  in the Statistical Package for Social Science (IBM SPSS Statistics 26) for Windows.

### 3.6 Data Analysis Techniques

A technique used in this study is a descriptive statistical test which is used to provide information about the description of an object to be studied based on sample or population data, and an inferential statistical test which is used to test the hypothesis with Partial Least Square (PLS) via the SmartPLS 3.0 application.

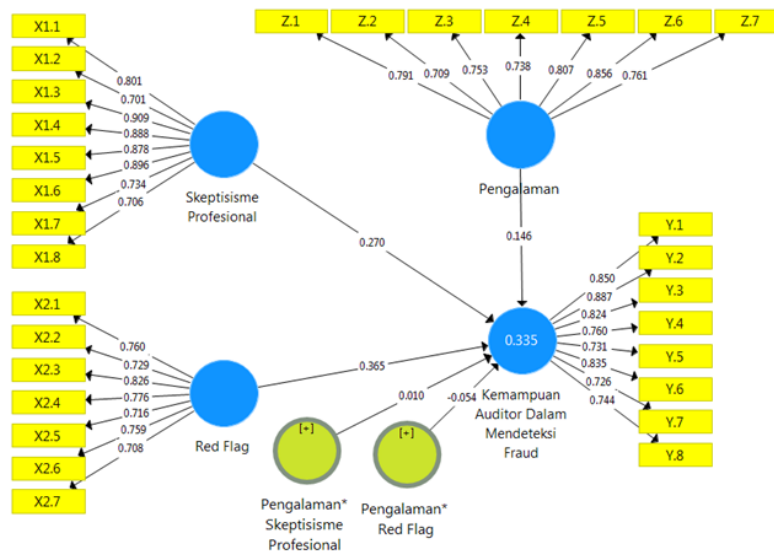
## Result and Discussion

### 4.1 Result

#### 4.1.1 Characteristics Respondents

The results begin with the presentation of the characteristics of the respondents. Based on the collected questionnaires, respondents in this study were dominated by female auditors with a percentage of 57.33%. For age is dominated by the age of <30 years with a percentage of 88.00%. 72.00% of respondents mostly have a bachelor's degree in education. From the answers to the questionnaire about the last position in the Public Accounting Firm 49.33% of respondents who filled out the questionnaire were senior auditors, and for work experience dominated by auditors who had 1-2 years of work experience with a percentage of 30.67%.

#### 4.1.2 Evaluation of the Measurement Model



Source: Data processed on smartPLS 3.2.9 (2022)

Figure 1. Algorithm Test

#### 4.1.2.1 Convergent Validity

All indicators in this study were declared to meet convergent validity in the good category because they met the criteria by having an outer loading value > 0.70 and an AVE (Average Variance Extracted) value > 0.05.

#### 4.1.2.2 Discriminant Validity

All constructs in this study have met discriminant validity because the output cross-loading shows the cross-loading value of each measured indicator is higher than the cross-loading value of the latent variable indicator and the AVE root value of each construct is greater than the correlation between constructs in the model.

#### 4.1.2.3 Reliability Test

All latent variables in this study have good reliability by the minimum value limit that has been required by having Cronbach's alpha value and composite reliability value > 0.70.

#### 4.1.3 Multicollinearity Test

The value of the professional scepticism variable on the auditor's ability to detect fraud is 1.141. The value of the red flag variable on the auditor's ability to detect fraud is 1.754. The value of the experience variable on the auditor's ability to detect fraud is 1.496. From each variable VIF < 5, it does not violate the multicollinearity assumption test.

4.1.4 Evaluation of the Structural Model

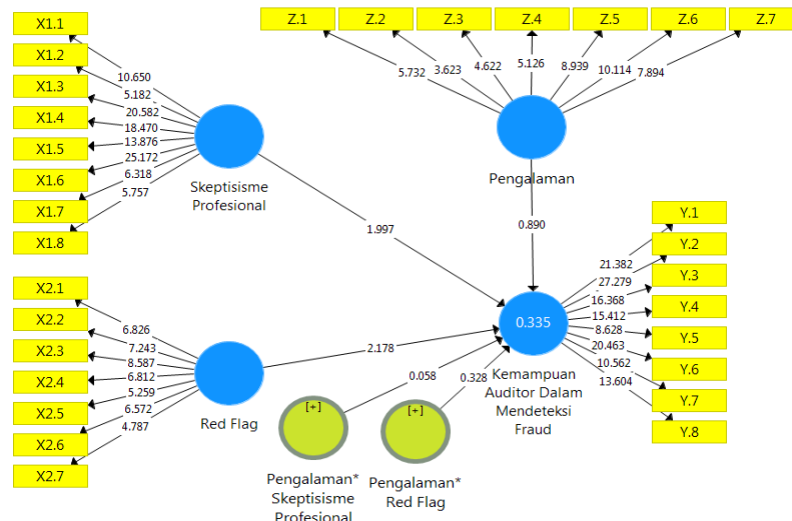
4.1.4.1 R-Square

The R-Square value in this study is 0.335 which indicates that the model is classified as "moderat" because it is in the range of 0.33-0.67. It can be seen that the variability of the construct of the auditor's ability to detect fraud is 0.335 or 33.5%, while 66.5% is explained by other variables outside the study.

4.1.4.2 F-Square

The value of the variable in this study has a small positive effect because it is in the range of 0.02 0.14 with an F-Square value of 0.096 professional scepticism, 0.114 red flags, and 0.021 experience. The value of the variable which is classified as small indicates that the ability of the exogenous variable in explaining the endogenous variable is relatively small.

4.1.5 Hypothesis Test



Source: Data processed on smartPLS 3.2.9 (2022)

Figure 2. Bootstrapping Result

Based on Figure 2, it is known that professional scepticism has a positive effect with a coefficient value of 0.270 and is significant with a statistical t value of 1.997 and a p-value of 0.046 on the auditor's ability to detect fraud. The red flag has a positive effect with a coefficient value of 0.365 and is significant with a statistical t value of 2.178 and a p-value of 0.030 on the auditor's ability to detect fraud. Experience is not able to moderate the effect of professional scepticism on the auditor's ability to detect fraud or it is not significant with a statistical t value of 0.058 and a p-value of 0.954. Experience is not able to moderate the effect of red flags on the auditor's ability to detect fraud or it is not significant with a statistical t value of 0.328 and a p-value of 0.743.

4.2 Discussion

Table 1. Result of hypothesis test

	Original Sample	T Statistics	P Values
Professional Scepticism -> Auditor's Ability to Detect Fraud	0,270	1,997	0,046
Red Flag -> Auditor's Ability to Detect Fraud	0,365	2,178	0,030
Experience -> Auditor's Ability to Detect Fraud	0,146	0,890	0,374
Experience*Professional Scepticism -> Auditor's Ability to Detect Fraud	0,010	0,058	0,954
Experience*Red Flag -> Auditor's Ability to Detect Fraud	-0,054	0,328	0,743

Source: Data processed on smartPLS 3.2.9 (2022)

#### 4.2.1 The Effect of Professional Skepticism on Auditor's Ability to Detect Fraud

This study shows that professional scepticism has a positive and significant effect on the auditor's ability to detect fraud. This shows that the higher the attitude of professional scepticism owned by the auditor, the higher the auditor's ability to detect fraud.

#### 4.2.2 The Effect of Red Flag on Auditor's Ability to Detect Fraud

This study shows that a red flag has a positive and significant effect on an auditor's ability to detect fraud. This indicates that the higher the red flag level found by the auditor in the audit assignment, the higher the auditor's ability to detect fraud.

#### 4.2.3 Experience Moderates the Effect of Professional Skepticism on Auditor's Ability to Detect Fraud

The inability of experience in moderating the effect of professional scepticism on the auditor's ability to detect fraud occurs because the variation in the level of experience in the sample of this study is dominated by a low level of experience, which is 70.67% with an experience range of 1-2 years, so it is not able to moderate the effect of professional scepticism on the auditor's ability to detect fraud.

#### 4.2.4 Experience Moderates the Effect of Red Flag on Auditor's Ability to Detect Fraud

The inability of experience in moderating the effect of professional scepticism on the auditor's ability to detect fraud occurs because the variation in the level of experience that is the sample of this study is dominated by a low experience level of 70.67% with a range of experience 1-2 years, so it is not able to moderate the effect of professional scepticism on the auditor's ability to detect fraud.

## Conclusion

Based on the results of the analysis and discussion, it can be concluded that: 1) Professional scepticism had a positive and significant effect on the auditor's ability to detect fraud at Public Accountant Firm in Bali Province. 2) Red flags have a positive and significant effect on the ability of auditors to detect fraud at Public Accountant firms in Bali Province. 3) Experience does not moderate the effect of professional scepticism on the auditor's ability to detect fraud at a Public Accountant Firm in Bali Province. 4) Experience does not moderate the effect of red flags on auditors' ability to detect fraud at Public Accountant Firm in Bali Province.

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