

## DOES PROFESSIONAL SKEPTICISM CAN EFFECT TO FRAUD RISK ASSESSMENT, AUDIT EXPERIENCE, AND PROFESSIONAL ETHICS ?

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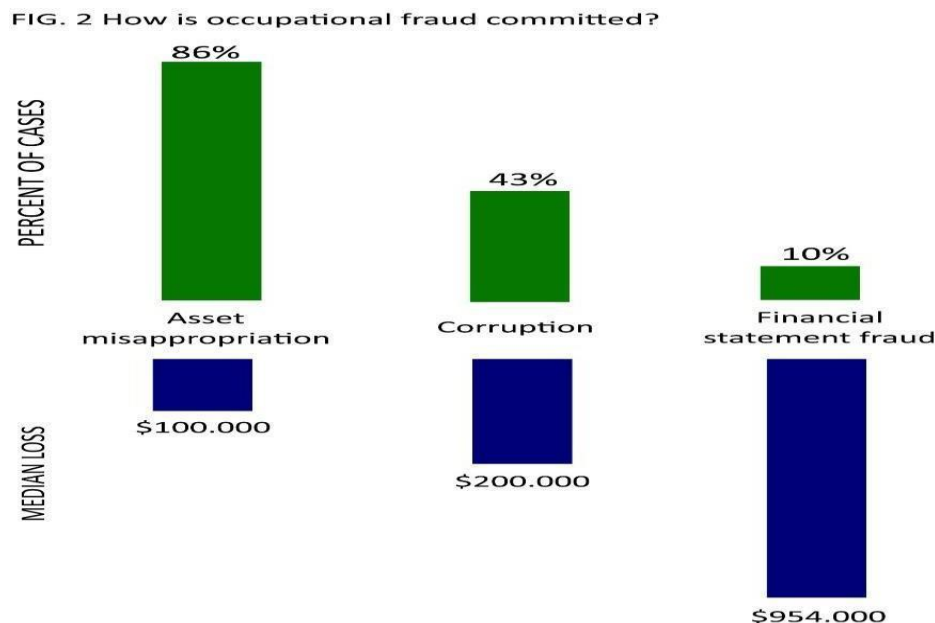
### INTRODUCTION

A state in the world economy and cases of fraud led to the economic crisis that occurred in the “United States”, “Europe” and “Asia” countries including “Indonesia”, causing a loss of public confidence in the work of public accountants. A public also considers that the public accounting profession cannot be fully trusted in providing an opinion on the company's financial statements. Many more auditor's external opinion about a company's financial statements cannot be a reference for stakeholders in making strategic policies of a company (Soedarjono, 2012).

A large loss will be suffered by a company because of the undetected act of intentional fraud. According to the Association of Certified Fraud Examiners (ACFE) in 2020, there were several cases of fraud in the Asia Pacific region, including Australia with 29 cases, China 33 cases, Hong Kong 11 cases, Indonesia 36 cases, Japan 8 cases, Laos 1 case, Macau 1 case, Malaysia 19 cases, Myanmar (Burma) 1 case, New Zealand 3 cases, Philippines 24 cases, Singapore 17 cases, South Korea 5 cases, Taiwan 2 cases, Thailand 6 cases, Vietnam 2 cases. In Indonesia, there are 36 cases of fraud and Indonesia ranks first out of 16 countries in the Asia Pacific region with a total of 198 cases.

The Association Certified Fraud Examiner (ACFE) in 2020 stated that some kinds of results from a survey of fraud such as 125 countries were 2,504 cases and caused a loss of US\$ 3.6 billion. A fraud had been occurred more than 14 months before it was detected and caused a monthly loss of US\$ 8,300 or 5% per year of revenue.

ACFE, 2020 also explained by a frequency occurrence on types of fraud and losses in the category about cases of asset fraud (misappropriation), corruption (corruption), and financial statement fraud, as shown below:



Source: ACFE 2020

**Figure 1. Frequency of Occurrence of Types of Fraud and Loss (median Loss)**

A first category was 86% asset fraud cases, these cases involved with an employee who steals or abuses the employer's organization but only causes a median loss of \$100,000 per case. Next, a second category, fraud in financial reporting had 10%, but causes the largest median loss of \$954,000. This fraud absolutely occurs where the perpetrator knowingly causes a material misstatement or omission in an organization's finances. A third category had been corruption in 43% of cases and causes a median loss of \$200,000 (ACFE, 2020).

In Indonesia, cases involving public accountants also occurred, including “PT. KAI”, “Bank Lippo”, “PT. Great River” and the “Broken Bank Operation” (BBO) case as well as other cases. The phenomenon of events in Indonesia related to accounting engineering in meeting company profits can be seen from a phenomenon recorded at the Financial Professional Development Center (P2PK).

Accounting engineering was carried out to meet some needs of the company because of targets as much as possible. Eventually, any high profits must be met by a company sometimes cause companies to manipulate their financial statements. Some several cases about violations committed by public accountants in 2016-2019. Financial Professional Development Center (P2PK) examination and sanctions, such as Sherly Jakom and KAP Purwanto, Sungkoro and Surja (member of Ernst & Youn Global Limited/EY), Kasner Sirumpea and KAP Tanubrata, Sutanto, Fahmi, Bambang & Rekan (member of BDO International), KAP Amir Abadi Jusuf, Aryanto, Mawar & Rekan (Affiliates for RSM International), AP Marlina Merliana Syamsul and KAP Satrio; Bing, Eny & Partners (Affiliate for Deloitte Indonesia).

There are also cases of public accountants violating by accounting profession and causing sanctions to be given by the Ministry of Finance's Financial Professional Development Center (P2PK) in 2020. The sanctions for freezing public accountants are Public Accountant Darwin S. Meliala, Public Accountant Joachim Sulistya, Public Accountant Henry Susanto, Public Accountant Muchamad Ilham, Public Accountant Sahat, Public Accountant Hari Purnomo, Public Accountant Asmar Effandi Hasibuan, Public Accountant Didik Wahyudianto, Public Accountant Kasner Sirumapea, Public Accountant Indra Soesetiawan, Public Accountant I Gede Auditta, Public Accountant M. Lian Dalimunte, Public Accountant Armandias, Public Accountant Husin Shab, Public Accountant Abdulrahman Hasan, Public Accountant Amril Saputra, Public Accountant Sugeng Wirjaseputra, Public Accountant Indra Soetiawan, Public Accountant Chairul Marom, Accountant Public Abubakar Sidik.

According to Tuanakota (2011) assumed that some phenomena had occur by cases of violations committed in public accountants in Indonesia and in developed countries that cause doubts including any integrity, objectivity, and professional skepticism of public accountants. Whereas economic crisis in 1997/1998 was caused by an issuance of several versions of the financial statements. Financial statements for tax reports are different from financial reports for credit (Mulyani, 2007).

## **TEORITICAL FRAMEWORK**

### **Cognitive Dissonance Theory**

Many more auditors had a high level of trust in the client will reduce with level of professional skepticism, while the provision in high fraud risk assessment from the auditor's supervisor to the auditor. It will increase his professional skepticism, and vice versa. In quite contrast, a cognitive dissonance occurs when auditor has high trust in the client, but supervisor could give him a high fraud risk assessment.

Cognitive dissonance theory also helps to explain whether the auditor's professional skepticism had been affected or not by a low fraud risk assessment set by his superiors, even though the auditor actually has a low level of trust in the client.

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

Related to this research, a few skepticisms shown by the auditor, which was an attitude in handling a case or assignment from a given audit. In addition, a fraud risk assessment also affected that how they behave. In this theory, auditor ethics described about a social influence to so-called subjective norms. Third, in terms of problem control, this factor also related to the past and one's perception of how difficult. It was to carry out a behavior, for example audit experience in carrying out audit procedures in audit assignments (Arifuddin, 2020).

### **Professional Skepticism**

Professional skepticism was auditor's tendency to disapprove of management's assertions without corroborating evidence or a tendency to ask management to provide facts on their assertions with evidence (Louwers, 2011).

According to Basu (2008) stated that a professional skepticism should not become excessive suspicion or make the auditor completely skeptical. In this case, an auditor who has professional skepticism will apply his skepticism only to extent in carrying out his professional duties, without being completely skeptical. Therefore, an existence of professional skepticism in the auditor will result in the auditor asking more questions than the usual investigative ones. In conclude, analyzing answers critically and carefully comparing the results analysis with evidence obtained.

Professional skepticism had an element contained in the third General Standard regarding the careful. Thorough use of professional skills in the implementation for the auditor's work (due professional care), which was the most important component in the audit process.

Due professional care had the most influential factor in audit quality and its failure tends to be due to a lack of professional skepticism and due professional care. Therefore, professional skepticism and due professional care are fundamental principles in all actions taken by external auditors (Center for Audit Quality, 2010 and Kopp et al., 2003).

Any importance thing about auditor's professional skepticism had been shown in the form of audit action, because it can reduce the tendency of managers to commit fraud (Chen et al., 2009).

The International Standard on Auditing 200 (IAASB, 2009) emphasized with the importance of professional skepticism. It also stated that an auditor must plan and carry out by audit process. Based on professional skepticism by being aware of the possibility for material errors in the financial statements. In the working papers and from the standard procedures he adheres to, but this does not mean that the auditor only works to meet an existing standard procedure, especially when important evidence is found (Peurseem, 2010). This can assimilate that without the courage to argue about management's assertions, auditors will not be able to carry out their functions as fraud prevention and detection (Financial Reporting council, 2010). For this reason, an auditor must be able to increase appropriate professional skepticism.

### **Fraud Risk Assessment**

Fraud had a misunderstanding to know the truth or hide material facts that are triggered by other people and act to their detriment. Fraud risk assessment was defined as an assessment of the potential for fraud that affected to an organization's ability to maintain operations and reputation, identify, and address the organization's vulnerabilities to internal and external fraud. Assessing fraud risk was useful for understanding where fraud can occur and what influences fraud can occur within the organization and allows informed decisions about what, how to identify, address and prioritize fraud risk.

Many benefits of a fraud risk assessment (FRA) are to improve communication and fraud awareness, find out who and what the organization's greatest risks are, encourage preventive action, develop methodologies for detecting, validating and investigating fraud, assessing internal fraud controls, complying with regulations and standards. This can achieve an effective FRA must be adapted to the organizational culture, encourage open and sustainable participation, be independent and authoritative, sponsored, collaborative especially management and auditors, independent and objective. It also required by working knowledge of business.

FRA can also access all levels of the organization, build trust through leadership, think the unthinkable, consider a value and risk of fraudulent activities and evolve with the business. Get started with FRA, put together the right team, identify technical data collection and analysis, get sponsors and approvals, educate employees, promote the process, make others feel comfortable participating. FRA said to be strategic that if it can find out how fraud exploits weaknesses in controls, how controls can be replaced or circumvented and how fraud can be hidden.

Benefit from FRA, improve fraud communication and awareness, be able to identify who and what the organization's greatest risks are, encourage preventive action, develop methodologies for detecting, validating and investigating fraud, assessing internal fraud controls and complying with regulations and standards.

The FRA framework had to identify potential fraud risks, incentives, pressures and opportunities, external factors, regulatory or legal violations, reputation and information technology as well as assessing possible occurs, assesses the significance and impact of fraud risk, identifies fraud prone positions and departments, understands possible fraud scenarios, evaluates the effectiveness of controls, determines residual risk, develops, and implements a fraud risk response.

### **Audit Experience**

According to Asih (2006) have been handled by auditor experience in auditing financial statements both in terms of length of time, number of assignments and types of companies. The most common reason for diagnosing a problem is the inability to make a correct guess.

According to Loehoer (2009) was assumed that any experience had a combined accumulation through dealing and interacting repeatedly with fellow objects, nature, circumstances, ideas, and sensing. Experience likely a learning process and an addition on a potential development of behavior both in terms of formal and non-formal. It can also be interpreted as a process of a person to a higher pattern of behavior (Knoers, 2014).

Experience, one of the keys to any successful of auditors in producing audits, which to rely on an auditor who has expertise that includes two elements, including knowledge and experience. In this case work experience has been seen as an important factor in predicting many auditor's performance on a quality of resulting audit. Experience will measure about a length of time or period of work that had been taken by a person in understanding the tasks of a job and has been carried out properly (Foster, 2013). Experience known about the length of time working in the field and specifically experience was measured by the time span that has been used for a job or task (Bowman & Bradley, 1997).

Based on the above definition, it can be concluded that experience can deepen or expand a person's ability to do a job, the more experienced a person is doing the same job, the more skilled and faster he will complete the job.

### **Professional Ethics**

Ethics come from the Greek. Ethics or 'Ethos' means "habits or character", is a branch of philosophy that studies values or qualities and moral judgments and includes analysis, concepts of right, wrong, good, bad and responsibility (Lawrence et al., 2005; K. Bertens, 2004; Barney & Griffin, 1992).

A profession of providing services to the community by a code of ethics, which had a set of moral principles to regulate professional behavior (Agoes, 2004). Generally, ethics as a teaching of moral considerations not written, but for a professional organization, ethical behavior was stated in written rules called codes of ethics. A code of ethics was created to serve as a rule of ethical action for members on the profession and aims to maintain reputation and public trust. Professional ethics had any characteristic of a profession that distinguishes a profession, which serves to regulate the behavior of its members (Muranto and Marini, 2003). A cultural environment in the community, a professional environment, an organizational environment, and experience can affected to professional ethics (Hunt & Vitell, 2006).

Profession was a work of a limited group of people who had any special skills obtained through training or other experience. People with professions can guide or give advice/advice or also serve others in their own field (Kanter, 2001). Profession was a noble job by doctors, accountants, lawyers and the like. This profession also called noble because people who hold professions like this do not solely use their expertise for the purpose of earning a living (money), but also have a social mission and work broadly for the community (Agus & Ardana (2009;123).

## CONCLUSION

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

Additionally, some definition by professional skepticism was audit evidence, that assessed from any critical results about value generated. Based on an attitude of curiosity (question mind) and alertness (alert) in circumstances, also indicated with a misstatement due to error or fraud.

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