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The Effect of Professional Skepticism, Locus of Control and Independence on Auditors' Ability to Detect Fraud (Case Study at Bank ABC)

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Abstract

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This research aims to analyze the influence of professional skepticism, locus of control and independence on the auditor's ability to detect conditions. This research uses quantitative methods. Data was collected using questionnaire techniques. The respondents in this study were 40 people consisting of internal auditors at Bank ABC in Jakarta City. Three hypotheses were formulated and tested using regression analysis. The research results show that professional skepticism and independence have a significant effect on the auditor's ability to detect situations. Meanwhile, locus of control has no effect on the auditor's ability to detect fraud

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INTRODUCTION

According to (International Standard of Professional Practice of Internal Auditing 2120. A2), an internal audit must have an attitude in considering the risk of fraud in the business and respond appropriately by conducting an audit of the controls in that area, and the internal audit must evaluate the potential for fraud and how the organization manages the risk of fraud through risk assessment, and audit planning.

Internal auditors should use their expertise to analyze data sets to identify trends and patterns that might lead to fraud and misuse of funds. Therefore, the auditor's ability to detect fraud is very necessary. If the internal audit team lacks such expertise, the organization should consider recruiting or engaging resources with sufficient knowledge or expertise.

Collective proficiency in internal audit activities is the overall responsibility of the chief audit executive who must effectively manage the internal audit activity and its resources to achieve the internal audit plan and provide added value to the organization. (Standard of 2000).

The organization should have an adequate anti-fraud response plan, and

one that outlines key policies and investigative methodologies. The plan should explain the role of internal audit when there are allegations of fraud and control failures related to such fraud.

Auditing began in the Christian era. Records of audit activity in early Mesopotamia (around 3000 BC) were found by anthropologists, there was also audit activity in China, Greece, and ancient Rome back then. In Latin, the term 'auditor' is defined as a 'listening' because auditors in Rome listen to tax payments like farmers and provide public statements regarding the results of business activities and taxes to be paid (Hayes et al., 2017). The definition of Audit itself is a collection of evaluation evidence from facts with the aim of reporting and determining what is appropriate between standards and facts that have been regulated. Audit needs to be done for competent people (Arens et al., 2014:2).

In this sense, there are elements of control that must be possessed by an auditor such as the responsibility to carry out assignments and professionals with full integrity, maintain independence in facts and appearances, maintain objectivity in carrying out their professional responsibilities.

As society becomes more complex, it is more likely that decision makers will receive unreliable information. Some of the reasons are; The distance of information, the partisanship and motives of the provider, the vast amount of data, and the existence of complex exchange transactions.

In this study, researchers included one of the phenomena that occurred at Bank ABC. One of the fraud cases that occurred in 2019 was committed by an employee at one of the ABC Bank branches. The fraud occurred because employees borrowed some money from Bank ABC. The loan of money is known and approved by the head of the section, branch leaders and internal auditors in charge of the branch. And from the results of an internal examination conducted by Bank ABC, from the case showed that there had been fraud due to the closeness between Bank ABC employees at the branch. That is, through this case there has been a violation of the locus of control and independence in the implementation of audits at Bank ABC. So that Bank ABC followed up with the dismissal of the employee.

One of the next cases that can be considered that occurred at Bank ABC in 2022 is the case of taking money belonging to the bank by one of the senior frontliner employees at Bank ABC branch offices. Where the violation occurs as a result of not recalculating all the money in the branch office.

This is not in accordance with the company's procedures and regulations by internal auditors and authorized officials at branch offices. One of the factors that causes this to happen is because on the basis of trust and lack of criticism of internal auditors in carrying out their duties so that fraud can occur. And through this case, Bank ABC dismissed the employee and could not sanction the internal auditor because the party concerned had resigned before the case was known to Bank ABC.

This research is a development of research that has been carried out by (Purba & Nuryatno, 2019) The difference in this research lies in the variables used. The variables used in this study are professional skepticism, locus of control and independence taken from the study but there are several variables contained in the study that were not used in this study, namely emotional intelligence and time pressure. The variables of emosonal intelligence and time pressure are not used because they are not considered relevant to this study. The study (Purba & Nuryatno, 2019) used individuals working in public accounting firms working in DKI Jakarta as research objects, while this study used individuals working as

internal auditors at Bank ABC.

This research can be a reference material for improvement and material development for other researchers who want to study in the same field. Making the researchers can further develop into material that may be even deeper about this research. This research is also expected to provide additional knowledge and knowledge and also provide a direct picture of the analysis of factors that affect the auditor's ability to detect fraud. As well as providing information that is easy to understand for readers and policy makers so that policy makers can determine what policies should be taken as an effort to improve things that can detect fraud..

LITERATURE REVIEW

Agency Theory

Agency theory was introduced by Jensen & Meckling (1976) which explained that there is a contractual relationship between the owner (principal) and agent (agent) to provide a service and give authority in decision making in a company. Agency relationship means control on the part of management.

Agency theory is closely related to variables in detecting fraud. One of the auditor's duties is auditor professionalism, locus of control, and independence can prove that the principal's trust is not perverted for the personal interests of the agent in detecting fraud from financial statements (Purba & Nuryatno, 2019).

Theory X and Y

According to McGregor, there are two views on individual types, namely theory X (negative) and theory Y (positive) (Purba & Nuryatno, 2019). If type X exists in an auditor, then when there is pressure for obedience and complex audit tasks will tend to make inappropriate judgments. This type of auditor cannot carry out his responsibilities as an auditor which results in audit objectives not being achieved properly. Theory Y is an alternative given by McGregor because there are weaknesses in the assumptions of theory X. The assumption of this theory states that people are not intrinsically lazy and trustworthy.

Basically, if type Y is owned by an auditor, the auditor can be responsible for his duties as an auditor. When carrying out audit duties, an auditor must meet auditing standards, where the standard states that the auditor must maintain his independence and responsibility, both personal, external and organizational interference (Purba & Nuryatno, 2019).

Auditor's Ability to Detect Fraud

(Indrawati et al., 2019) explained that in carrying out their duties to check client financial statements, auditors are required to carry out their responsibilities properly, especially when detecting fraud in client companies as stated in Audit Standard 200 and Audit Standard 240. Fraud is an act that is carried out intentionally and results in material misstatements in financial statements where these financial statements are the main subject in the auditing process (Wiguna & Hapsari, 2015).

Detecting fraud in financial statements is more difficult than detecting misstatements made accidentally, because fraud that actually occurs by employees or management will be hidden as best as possible (Indrawati et al., 2019).

Professional Skepticism

In Standard Auditing 200 or SA 200, it is explained that professional

skepticism is an attitude that includes a mind that is always questioning, alert to conditions that can indicate possible misstatements either caused by fraud or errors and an important assessment of audit evidence.

An auditor who has professional skepticism will not easily trust the explanation from the client related to audit evidence. Professional skepticism will be better able to analyze fraud in financial statements, allowing auditors to improve fraud detection capabilities in the next auditing process. the possibility of the ability to detect fraud is also getting higher (Prakoso, 2018)

Arens et al., (2014) explains that an indicator of skepticism is questioning mind, which is the disposition to investigate a number of things that are considered doubtful. In this case it means the auditor handles the audit with a mental outlook (trust but verification), an alert attitude, a critical assessment of the evidence that includes asking probing questions and attention to inconsistencies.

Locus of Control

According to Rotter (1996) in (Patten, 2005) Locus of Control (LOC) is a person's perspective on an event whether or not a person can control the events that occur to him. Greenhalgh and Rosenblatt (1984) in (Abdulloh, 2006) define locus of control as each individual employee's belief about his ability to influence all events related to himself and his work. The locus of control itself is divided into an internal locus of control and an external locus of control. Internal locus of control is the degree to which people expect reinforcement or the result of their behavior depends on their own behavior or personal characteristics, while external locus of control is the degree to which people expect that reinforcement or results do not arise from within the person, but from an opportunity.

If an auditor tends to have an internal locus of control so that he is confident in his ability to solve a problem, it will cause job satisfaction and is expected to improve the auditor's work performance. But if an auditor has a tendency to believe factors outside himself as determinants of success, it can be said that he has an external locus of control, this will actually reduce job satisfaction and result in decreased performance of the auditor.

Independence

The word independence is a translation of the word "independence" which comes from English. In the Oxford Advanced Learner's Dictionary of Current English there is an entry of the word "independence" which means "in a state of independence". The entry word "independent" means "not dependent on or controlled by (another person or thing); not basing oneself on others; act or think according to the will of the heart; free from the control of others (Azl lapazi, 2014) in (Simanjuntak & Hasan, 2015).

The independence of an auditor, in SA 220 in the Professional Standards of Public Accountants, in all engagements, is a mental attitude possessed. An auditor is required to be independent, which means an auditor will not be affected by anything, because the implementation of the work done is in the public interest. This independence will affect fraud detection. Because if the auditor is not independent and works only for the wishes of the client being audited then public trust will decrease. The independence of auditors is very important for the development of the public accounting profession because people believe in the work they do (Purba & Nuryatno, 2019).

Independence is needed by auditors to gain the trust of clients, especially users of financial statements. This can add credibility to the financial statements

presented by management. If the auditor is not independent, then the opinion given has no meaning. Auditors have an obligation to be honest with all parties such as managers, company owners, as well as to creditors and other parties who trust the work of an auditor. In providing an opinion, the auditor has the right to refuse to provide an opinion called a disclaimer.

An auditor who has an independent spirit will have a mentality that is not easily influenced, not controlled by anyone, and has an objective decision-making basis in identifying and expressing his opinion so as to create quality audit results.

Previous Research

Based on previous research by Purba & Nuryatno (2019), Prakoso, (2018), Bullah & Auliyah, (2015), and Putri et al., (2017) shows that from the results of a positive influence on professional skepticism, locus of control and independence there is an influence in detecting financial statement fraud. Based on the results of the tests that have been conducted, it was found that emotional intelligence strengthens the influence of professional independence on auditor ability to detect fraud. This is in line with (Indrawati et al., 2019) which states that partially the variable of professional skepticism and affects the auditor's ability to detect fraud.

However, different research results were shown by (Suryanto et al., 2017) and (Larasati & Puspitasari, 2019) and stated that fraud is very synonymous with dishonesty. Fraudulent behavior is usually deliberately carried out by company management who play an active role in the governance of a company, company employees or third parties who commit adverse actions. In this case, there are inconsistencies in the results between previous research resulting from the culture of the working environment and the environment that supports early behavior.

METHOD

Research Design

The design in this study uses a causal method with an associative hypothesis, where the causal method with an associative hypothesis is a research method used to determine the influence of one or more variables on certain variables that are causal.

(Sugiyono, 2013) said that causal research is research that aims to prove cause-and-effect relationships or relationships affect and influence. In quantitative / positivistic research, which is based on an assumption that a symptom can be classified, and the relationship of symptoms is causal (cause and effect), then researchers can conduct research by focusing on variables only.

In this study there are three independent variables, namely professional skepticism, locus of control and independence and one dependent variable, namely the auditor's ability to detect fraud.

Population and Research Sample

According to Margono (2004) in (Hardani et al., 2020) explained that population is the object of the entire study, whether humans, objects, animals, symptoms, plants, test scores, or events that are sources of data with certain characteristics in the study. The population of each study must be clearly stated, that is, by the size of the population and the scope of the study. The purpose of the population held is to allow us to determine the size on the part of the sample that should be selected from the part of the population to limit the effectiveness and area of generalization. In this study the authors took the population i.e., on

internal auditors working at Bank ABC. Where there are 76 internal auditors working at ABC bank.

Murgono (2004) in research (Hardani et al., 2020) argues that sampling technique is a method to obtain a representative sample by determining the size of the population and the actual sample, in paying attention to the characteristics with population distribution in order to obtain a representative sample with the number of samples the author obtained as many as 40 respondents.

Data Collection Techniques

The method in the data collected using computer questionnaires, using data collection techniques by being answered by respondents who provide a series of questions or questions in writing (Sugiyono, 2013) Written statements related to professional skepticism, locus of control and indency, on the auditor's ability to detect fraud will be given to the resource person concerned related to the object of research, namely the auditor.

Data Analysis Methods

The data analysis method is a method used to process data in research by simplifying data into a form that is easy to understand and interpret. To test the hypothesis in this study, classical assumption testing is first carried out to see whether it can be used in research, including normality tests, autocorrelation tests, multicholinerity tests and heteroscedasticity tests. The analysis in this study is using statistical techniques of multiple regression model (multiple regression). Multiple regression analysis is used to determine the effect of the independent variable on the dependent variable.

RESULTS AND DISCUSSION

Professional Skepticism of Auditors' Ability to Detect Fraud

The test results show that the Significance value or P value of professional skepticism has a positive and significant effect on the auditor's ability to detect fraud. Therefore. H0 which reads professional skepticism affects the auditor's ability to detect fraud is rejected and H1 is accepted. The results of this study explain that the more critical an auditor is in detecting fraud in an internal auditor, it affects to encourage an increase in the auditor's ability to detect fraud in the internal auditor. This is in line with the statement stated by (Purba & Nuryatno, 2019) which states that professional skepticism has a significant effect on the auditor's ability to detect fraud, but this is contrary (Suryanto et al., 2017) by stating that there is no influence of professional skepticism on the auditor's ability to detect fraud.

In practice, in the world of internal audit, professional skepticism is often prioritized by employees because of various reasons and interests from both management and employees, which makes someone who needs caution in doing professional skepticism.

An auditor who has professional skepticism will not easily trust the explanation from the client related to audit evidence. Professional skepticism will be better able to analyze fraud, allowing auditors to improve fraud detection capabilities in the next auditing process. the possibility of the ability to detect fraud is also getting higher (Prakoso, 2018).

Locus of Control on Auditors' Ability to Detect Fraud

The test results show that the Significance value or P value locus of

control does not have a significant effect on the locus of control in improving the auditor's ability to detect fraud. Therefore, H₀ which reads locus of control has no effect on the auditor's ability to detect fraud, is accepted and H₂ is rejected. The results of this study explain that the more effective the locus of control in an internal auditor, the less influential it is to encourage an increase in the auditor's ability to detect fraud in the office. However, this is contrary to (Purba & Nuryatno, 2019) by stating that there is an influence of locus of control on the auditor's ability to detect fraud.

The locus of control, based on its dimensions, according to Rotter (1954), consists of two forms, namely the internal locus of control, and the external locus of control. Because both dimensions of the locus of control are not met by the internal auditor at bank ABC, the locus of control does not affect the ability of an auditor to detect fraud.

Greenhalgh and Rosenblatt (1984) in (Abdulloh, 2006) define locus of control as each individual employee's belief about his ability to influence all events related to himself and his work. In this study, the locus of control did not affect the auditor's ability to detect fraud in internal auditors at ABC bank because it was likely because they did not have confidence that the assignment as an internal auditor did not affect their abilities, even though the respondents were able to detect fraud but respondents preferred not to do anything because respondents were not sure if something they did would affect themselves.

Independence of the Auditor's Ability to Detect Fraud

Test results show that the significance value or P value of independence has a positive and significant effect on the auditor's ability to detect fraud. Therefore, it can be concluded that the H₀ that reads Independence has no effect on the auditor's ability to detect fraud is rejected, and the H₃ is accepted. Which means that there is an influence and significant independence of auditors in improving the auditor's ability to detect fraud. The results of this study explain that the higher the independence possessed by an auditor in increasing the auditor's ability to detect fraud committed by the auditor because of this independence, an internal auditor, can freely find fraud from financial statements without being influenced by any party, thus increasing the auditor's ability to detect fraud.

Purba & Nuryatno (2019) stated that auditors who have more auditor independence will make the auditor's ability to detect fraud better than auditors who have less independence. This is contrary to (Larasati & Puspitasari, 2019) which states that independence does not affect the auditor's ability to detect fraud. In conditions in the field, auditors often encounter difficulties in maintaining an independent mental attitude. Circumstances that often interfere with the auditor's independent mental attitude.

CONCLUSION

Conclusion

Based on the discussion, the conclusion of this study is that there is a positive and significant influence of professional skepticism variables on the auditor's ability to detect fraud. The results of this study explain that the more effective the auditor's ability to detect fraud in an internal auditor, the effect on encouraging an increase in the auditor's ability to detect fraud in the internal auditor.

The locus of control does not affect the auditor's ability to detect fraud. The results of this study explain that the more effective the Locus of control in an

internal auditor, the less influential it is to encourage an increase in the auditor's ability to detect fraud.

Independence affects the auditor's ability to detect fraud. There is an influence and significant independence of auditors in improving the auditor's ability to detect fraud. The results of this study explain that the higher the independence possessed by an auditor in improving the auditor's ability to detect fraud committed by auditors. The conclusion presents a summary of the description of the results and discussion, referring to the research objectives. Based on these two things, new points of thought were developed which are the essence of the research findings.

Suggestion

Based on the results of the research conducted, suggestions can be given, which are expected to practitioners to be able to consider factors of independence and skepticism in improving the ability to detect fraud. Further researchers are expected to re-examine variables that have no effect in the scope of the author's research variables and add other variables that are thought to have an influence on the ability of internal auditors to detect fraud, such as professionalism, accountability, professional ethics, and so on. Policymakers are expected to consider independence and skepticism as parameters in assessing internal audit performance.

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