

The Effect of Professional Skepticism and Red Flags on Fraud Detection with Auditor Experience as a Moderating Variable

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Article Info	Abstract
<p><i>Keywords:</i></p> <ul style="list-style-type: none">○ Professional Skepticism;○ Red Flags;○ Fraud Detection;○ Auditor Experience;	<p>Purpose–This study aims to analyze the influence of professional skepticism, and red flags on fraud detection with auditor experience serving as a moderating variable. The research highlights the critical importance of adopting professional skepticism, identifying red flags, and leveraging auditor experience to enhance the effectiveness of fraud detection.</p> <p>Design/methodology/approach–The research uses quantitative methods with a correlational approach. This study uses a questionnaire distributed to KAP and students who have taken audit courses. A total of 39 questionnaires were distributed through social media platforms, containing 39 statements that respondents had to answer. Of these, 39 responses were received, which came from 5 regions. To analyze the data and obtain results, the study used PLS-SEM Version 3.0.</p> <p>Findings–This study examines the impact of professional skepticism and red flags on fraud detection, with auditor experience as a moderating variable. Data were collected from 39 auditors and students with audit experience and analyzed using Partial Least Square (PLS) with Moderated Regression Analysis. The results show that professional skepticism positively and significantly influences fraud detection, while red flags have a positive but significant effect. Additionally, auditor experience does not strengthen the relationship between professional skepticism, red flags, and fraud detection. The findings suggest the need for ongoing auditor training and a stronger emphasis on skepticism in audit practices.</p> <p>Research limitations/implication s–Lies in its focus understanding the relationship between professional skepticism and red flags on fraud detection, by considering the role of auditor experience as a moderating professional skepticism and identifying red flags in supporting the effectiveness on fraud detection, although the role of auditor experience as moderating does not provide significant results.</p>
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INTRODUCTION

The Public Accounting Firm (KAP) is an external auditor whose role is to assure interested parties that the financial statements prepared have met the applicable standards and reflect the actual condition of a business entity. The more departments or units that carry out their functions with existing procedures, the more a company develops. This condition forces company management to increase vigilance and conduct strict supervision of very activity carried out within the company.

Fraud is a deliberate act or act of using company resources improperly for personal gain to the detriment of the company concerned. If the act is done unintentionally, it is called a mistake, and if the act is done intentionally, it is called fraud. The association of Certified Fraud Examiner (ACFE, 2016) conducted research and found that fraud cases occur and the profile of fraud perpetrators is mostly at the age of 36-45 years. At the age the perpetrator occupies a position as middle

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management or manager level. The educational background of the corruptors is mostly at Bachelor and Master levels. Fraud occurs in employees with more than 10 years of service, this is because they are well acquainted with the conditions of the company so that they can easily commit fraud. (Masri et al., 2021)

According to a study conducted by (ACFE, 2016) in the book (Murdock, 2018) based on the results of a survey conducted by ACFE Indonesia, the most prevalent fraud in Indonesia is corruption. A total of 154 respondents to the Indonesia fraud survey or 67% chose corruption. This is different from the results of the Report of the Nations (2016) issued by ACFE which states that the most common type of fraud is found in the form of asset misappropriation. In the Indonesia fraud survey itself, asset misappropriation was chosen by 71 respondents or 31% of the total number of respondents. Overall, the data obtained was 29 valid data.

Fraud cases also existed in 2018, namely the case that befell PT Sunprima Nusantara Financing (PT. SNP Finance) which was audited by the Public Accounting Firm (KAP) Satrio Binf Eny and colleagues (Deloitte Indonesia). Where the Financial Service Authority (OJK) imposed administrative sanctions on them, the sanction was in the form of canceling license registration to AP and KAP who audited SNP financial statements. According the Head of the Center for Financial Professional Development (PPPK), there are several findings that were highlighted after not complying with the requirements of the Public Accountant Professional Standards Audit Standards in conducting a general audit of SNP Finance's financial statements. (<https://www.hukumonline.com>).

The auditor's experience has an effect on audit quality, the longer the auditor works, the more audits he will do and get be different from auditors who have experience. This will show the difference in determining and making mistakes. Experienced auditors are easy to detect errors, understand and know the causes of errors, and what decisions should be made to solve these problems. (Arnita et al., 2023). The result of this study are in line with research conducted by (Harahap & Tobing, 2020) which states that professional skepticism has a positive and significant effect on fraud detection, but is different from the result of research (Rafnes & Primasari, 2020) which states that skepticism has no effect on fraud detection.

Another factor that determines fraud detection is the presence of red flags or signs or clues that indicate potential irregularities, problems, or detection. The results of research by (Zakaria et al., 2023) state that red flags have a positive and significant effect on fraud detection, the higher the auditor's awareness of red flags, the better the auditor's capacity to identify fraud. However, the results of this study are not in line with (Eriyanti, Widaryanti, 2022) which states that red flags have no effect on detecting fraud and are nor significant.

Another factor that can also determine fraud detection is the role of an auditor experience an auditor is, it will increase his ability to detect fraud. This research is in line with (Suganda et al., 2018) which states that there is a positive and significant influence between audit experience and detecting fraud, the same as the result of research (Polontalo et al., 2022) which states that the experience of auditors can have a positive influence and a significant effect on fraud detection which can be concluded that experienced auditors will easily detect indications of financial statement fraud. This experience can also increase the effectiveness in completing their work.

With these three factors; professional skepticism, red flags, and auditor experience, fraud detection will consider being a complex and diverse topic. This research on how factor effect fraud detection is essential to gain deeper insight into understanding is expected to help develop strategies to improve auditor's competence, so that they can detect fraud more accurately and efficiently in the future.

LITERATUR REVIEW

Fraud Detection

In the public sector, fraud detection is a critical aspect that supports transparency and accountability in effective management, the government can ensure that the allocation and use of public funds are carried out in accordance with applicable laws and regulations, avoiding harmful misuse and corruption. This effort is not only important to maintain integrity in government, but also to optimize the use of the budget in development projects that directly impact the welfare of the community. (Susanto, n.d.). related to this, the Fraud Triangle theory is a theory proposed by Donald R. Cressey after conducting research for his doctoral thesis in 1950. Cressey hypothesized the fraud triangle to explain the reasons why people commit fraud. Based on the research conducted, Cressey found that people commit fraud when they have financial problems that cannot be resolved together, know and believe that mindset from their concept as a person who is trusted to hold assets to their concept as a user of the assets entrusted to them. Cressey also added that many of these breaches of trust know that the actions they take are illegal, but they try to make them think that what they are doing is normal (Br Purba, 2020)

Professional Skepticism

Auditing standards require that audits be designed to provide reasonable assurance of detecting material errors and fraud in the financial statements. To achieve this, the audit should be planned and performed with professional skepticism in all aspects of the engagement, recognizing the possibility of material error and fraud in the financial statements. Misstatements from the auditor's prior experience with the integrity and honesty of the client's management and those responsible for governance. Therefore, professional skepticism is an attitude that includes a questioning mind, being alert to conditions that can indicate the possibility of misstatement due to fraud or error and critical assessment of audit evidence. (Arens et al., 2017). In this regard, this theory is related to the Agency Theory first coined by Jensen and Meckling in 1976. Jensen states that an agency relationship occurs when one or more people (principal) hire another person (agent) to provide a service and then delegate decision-making authority (Br Purba, 2020)

Red Flags

Red flags are conditions that are unusual or different from normal. In other words, red flags are clues or indications of something unusual and require further investigation. Although the emergence of red flags does not always indicate fraud. (Dalnial et al., 2014). related to this, the Fraud Triangle theory is a theory proposed by Donald R. Cressey after conducting research for his doctoral thesis in 1950. Cressey hypothesized the fraud triangle to explain the reasons why people commit fraud. Based on the research conducted, Cressey found that people commit fraud when they have financial problems that cannot be resolved together, know and believe that mindset from their concept as a person who is trusted to hold assets to their concept as a user of the assets entrusted to them. Cressey also added that many of these breaches of trust know that the actions they take are illegal, but they try to make them think that what they are doing is normal (Br Purba, 2020).

Auditor Experience

Experience is a learning process and an increase in potential development. A person's experience can be interpreted as a process that can lead a person to a higher pattern of behavior. Audit experience is the experience that an auditor has in conducting audits from the many different

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assignments that have been carried out and also the length of time the auditor has carried out his profession and can increase his knowledge about error detection. (Siregar, 2019). In this regard, this theory is related to the Agency Theory first coined by Jensen and Meckling in 1976. Jensen states that an agency relationship occurs when one or more people (principal) hire another person (agent) to provide a service and then delegate decision-making authority (Br Purba, 2020)

Hypothesis Development

Professional skepticism is needed for the audit process because it can affect the effectiveness and efficiency of the audit, lower skepticism will weaken audit performance, and if skepticism is higher it will strengthen audit performance to detect fraud. In line with that, (Harahap & Tobing, 2020) state that professional skepticism has a significant positive effect on fraud detection. Based on this statement, the following theories are put forward which can be a reference:

H₁: Professional Skepticism has a positive effect on Fraud Detection.

Auditors when faced with a red flag during an audit will try to find the cause and make conclusions about the red flags, red flags will help the next step to obtain initial evidence or detect fraud. Red flags are indications of fraud, but these red flags usually appear in every case of fraud that occurs (Yando & Purba, n.d.). Research conducted by (Zakaria et al., 2023) states that red flags increase the auditor's capacity to detect fraud. The greater the auditor's understanding of the red flags found, the more effective in identifying fraud. Based on this explanation, this study will formulate the following hypothesis:

H₂: Red Flags have a positive effect on Fraud Detection.

According to (Suganda et al., 2018) the more auditor experience will increase the auditor's ability to detect fraud. Conversely, if the auditor has little experience, it will reduce the auditor's ability to detect fraud. In line with (Polontalo et al., 2022), the higher the experience possessed by the auditor, the higher the auditor's competence in detecting indications of fraud. In this case, the explanation, the research takes a hypothesis, namely:

H₃: Auditor Experience strengthens Professional Skepticism on Fraud Detection

According to (Zakaria et al., 2023), auditors are able to carefully analyze these signals, although the appearance of red flags does not always indicate fraud. So that an auditor's self-perception plays an important role in concluding whether red flags lead to symptoms of fraud or just an error. In line with (Eriyanti, Widaryanti, 2022), namely Audit experience has a positive and significant effect on the auditor's ability to detect fraud. Thus, the study took a hypothesis, namely:

H₄: Auditor Experience strengthens Red Flags on Fraud Detection

RESEARCH METHOD

The unit of analysis used in this study is an individual with lecturers and practitioners who are members of the Public Accounting Firm (KAP) as the research subject and the object of this research, namely professional skepticism and red flags as independent variables on the dependent variable, namely fraud detection and auditor experience as moderating variables. dependent variable, namely fraud detection and auditor experience as a moderate variable.

Table 1. Research Objects

Type	Variable	Dimension	Source
Independent Variables	Professional Skepticism	<ol style="list-style-type: none"> 1. Audit evidence testing 2. Understanding audit evidence 3. Initiative for skepticism natation and Personal Test 	(Yanti, RYanti, R. T., & Herlin, 2019)
	Red flags	<ol style="list-style-type: none"> 1. Understanding Pressure Characteristics 2. Audit Information 3. Oversight 4. Unusual transactions 5. Information and Accounting Systems. 	(Widiyanti, 2023)
Dependent Variable	Fraud Detection	<ol style="list-style-type: none"> 1. Understanding SPI 2. Understanding the Characteristics of Fraud 3. Audit Environment 4. Understanding Audit Methods 5. Forms of Cheating 6. Documentation and Personal Test 	(Widiyanti, 2023)
Moderation Variables	Auditor Experience	<ol style="list-style-type: none"> 1. Work Ability 2. Length of Service as Auditor 	(Aqsha, 2022)

The data will be distributed to auditor at KAP and students who have taken audit courses, because auditors have practical experience that is relevant to the implementation of real audits, and because student who have taken audit courses even though they do not have practical experience, they already have basic knowledge about audit concepts, skepticism, red flags and fraud. The data analysis method used in this research is the Partial Least Square (PLS) method. PLS is a Structural Equation Modeling (SEM) solution method that is more suitable for this research than other SEM approaches. With the following equation, there are two test models: Model 1 is a new test:

$$SP = \beta_0 + \beta_1 SP + \beta_2 RF + \beta_3 SP * PA + \beta_4 RF * PA + \epsilon$$

RESULTS

Respondent Demographics

A total of 3 who work in Public Accounting Firms, and 36 students who have taken audit courses, were selected as samples in this study. With 9 male and 30 female respondents, the majority of respondents were between 20 and 29 years old. Of these, 39 people have a bachelor's degree. Some

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respondents who have been in their current positions for less than 1 year, their position levels include Junior Auditor.

The Hypothesis Test

Assuming that auditor experience is a moderator, this test uses moderation regression analysis. The claim is that for fraud detection, professional skepticism, and red flags. The test findings for models displayed in Table:

Table 2. T test results (Individual)

Variable	Prediction	Model 1	
		Original Sample (O)	P- Values
SP -> PKC	+	0,321	0,047
RF -> PKC	+	0,145	0,521
PA*SP -> PKC	+	0,022	0,909
PA*RF -> PKC	+	0,059	0,738
R-squared		0,473	
Adjusted R- squared		0,393	

Source: SmartPLS Data Processing Results

Caption: SPI = Professional Skepticism; RF = Red flags; PKC = Fraud Detection; PA = Auditor Experience

DISCUSSIONS

Skepticism professional have a positive and significant effect on fraud detection.

This study shows that professional skepticism has a positive and significant effect on fraud detection fraud is accepted. Professional skepticism has an important role in fraud detection. This is in line with research (Harahap & Tobing, 2020) which provides results that Professional Skepticism has a significant effect on Fraud Detection. This this research is a very interesting topic to discuss. The higher the level of professional skepticism of an auditor, the greater his ability to detect fraud. So it can be concluded that auditors who have a high skepticism are not necessarily auditors who can detect fraud. Vice versa, auditors who have a low skepticism may not necessarily be able to detect fraud (Busnetty & Faisal, 2024).

Red flags have a positive and insignificant effect on fraud detection.

Based on the research results that the red flags variable has a positive and significant effect on fraud detection is rejected, because it is proven that the variable is positive but not significant. This research is not in line with (Zakaria et al., 2023) and (Narayana, 2020) which state that red flags have a strong beneficial effect on fraud detection, the higher the auditor's awareness of red flags, the better the auditor's capacity to identify fraud. However, this research is in line with (Eriyanti, Widaryanti, 2022) which states that red flags have no effect on the auditor's ability to detect fraud. The sense of awkwardness that auditors have, cannot affect the level of significance. This study shows that red flags have a positive and insignificant effect, which means that although red flags can provide early indications, their influence is not strong enough to directly improve fraud detection ability without the support of other factors such as auditor experience or effective internal control (Faisal et al., 2023).

Auditor experience cannot strengthen professional skepticism towards fraud detection.

In this study, the result that auditor experience can strengthen the relationship between professional skepticism and fraud detection is rejected, auditors' experience in detecting fraud is often considered a valuable asset, but in reality, this experience does not always strengthen their professional skepticism. Professional skepticism, which is a critical attitude that includes careful questioning and evaluation of audit evidence, is very important in the audit process to ensure the reliability of financial statements. However, auditors who rely too heavily on their experience can get caught up in confirmation bias, where they tend to look for information that supports their initial assumptions and ignore contrary evidence. This can reduce their ability to objectively assess the situation, especially in the context of detecting fraud, which is often hidden and complex. Thus, although auditor experience is a valuable asset, it does not automatically strengthen their professional skepticism towards fraud detection. It takes a combination of experience, proper training, and support from the organizational environment to improve the effectiveness of fraud detection.

Auditor experience does not affect red flags on fraud detection.

In this study, the result that auditor experience can strengthen the relationship between red flags and fraud detection is rejected. Auditors' experience in detecting fraud is often considered an important factor that can affect their ability to identify red flags. However, this experience does not always contribute to fraud detection. This suggests that auditors with more experience may be less alert to red flags, as they tend to be more confident in their abilities and may overlook indications that should be noticed. The insignificant impact of red flags on fraud detection may stem from limited auditor awareness or insufficient training in identifying red flags. Similarly, the lack of moderation by auditor experience suggests that experience alone does not improve fraud detection without ongoing professional development. Thus, research shows that such experience does not necessarily strengthen their ability to detect fraud. On the contrary, prolonged experience without updating knowledge and skills may lead to decreased sensitivity to red flags. Therefore, it is important for organizations to provide proper training and create a work culture that supports transparency and accountability so that auditors can carry out their duties effectively and be responsive to potential fraud (Faisal & Sari, 2018).

CONCLUSIONS

Based on the results of research on "The Effect of Professional Skepticism, and Red Flags on Fraud Detection with Auditor Experience as a Moderating Variable", the following conclusions are obtained: (1) Professional skepticism contributes significantly to fraud detection. Auditors with a high level of skepticism have a better ability to identify potential fraud. This suggests that a critical and analytical attitude is an important element in financial supervision (2) Red flags provide early indications, but their impact on fraud detection is limited. Warning signals are not always sufficient to improve auditor effectiveness, so a more structured approach to interpreting and acting on red flags is required. (3) Auditor experience does not always strengthen professional skepticism. Long work experience unsupported by current training and competency updates can reduce auditors' ability to be critical. Organizations should ensure auditors continue to improve their skills through continuous professional development programs. (4) the relationship between red flags and fraud detection is not strengthened by auditor experience. Experience that is not accompanied by adaptation to the latest methods or indications of fraud. Therefore, organizations need to prioritize a culture of

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learning and innovation, such as integrating analytic technologies and data-driven approaches to support the audit process.

Limitations

The conclusions of this study may not be applicable to other contexts that have different characteristics because this study is based on information from answering questionnaires conducted with KAP organizations and students who have completed auditing courses. The results are likely to reflect the specific characteristics of these groups due to this limitation. In addition, data collection was time-consuming as respondents faced time constraints, and institutional policies restricted full data disclosure, thus using only information that could be made public.

Suggestion

For future researchers, it is necessary to conduct further research, it is recommended, if you want to use moderating variables, namely auditor experience, it is used for the title as independent. In addition, it can use different research objects and use more varied respondent criteria.

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